



COMPANY UPDATE / ESTIMATES CHANGE/ PRICE TARGET CHANGE/ RATING CHANGE

Key Metrics

TCAP - NASDAQ (as of 08/03/17)	\$15.29
Price Target	\$15.50
52-Week Range	\$20.35-\$15.17
Shares Outstanding (mm)	47.7
Market Cap. (\$mm)	\$729
3-Mo. Average Daily Volume (000)	259.1
Institutional Ownership	31.8%
Debt / Equity	68.5%
Return on Common Equity	5.1%
Net Asset Value per Share	\$15.33
Price/Net Asset Value per Share	99.7%
Dividend Yield	11.8%
Price/LTM Earnings	20.1x

Net Investment Income Per Share

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.29	\$0.42 A	\$0.42 A	\$0.46	\$0.42
2Q	\$0.49	\$0.41	\$0.41 A	\$0.46	\$0.41
3Q	\$0.42	\$0.44	\$0.42	\$0.48	\$0.42
4Q	\$0.42	\$0.46	\$0.43	\$0.46	\$0.40
Year	\$1.61	\$1.72	\$1.67	\$1.87	\$1.66
P/Nil	9.5x		9.1x		9.2x

Net Asset Value per Share

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$15.02	\$15.29 A	\$15.29 A	\$15.28	\$14.80
2Q	\$14.82	\$15.26	\$14.83 A	\$15.30	\$14.80
3Q	\$15.33	\$15.25	\$14.77	\$15.34	\$14.82
4Q	\$15.13	\$15.27	\$14.79	\$15.80	\$14.93

Company Description: Triangle Capital Corporation is a business development company focusing on the lower middle market. The company typically makes debt and equity investments of \$5 million - \$50 million per transaction in established companies with annual revenues between \$20 million and \$300 million and EBITDA between \$3 million and \$75 million. Its investment objective is to seek attractive returns by generating current income from debt investments and capital appreciation from equity-related investments.

Triangle Capital Corporation

TCAP -- NASDAQ – Neutral – 3

Disappointing Quarter; Possible Dividend Cut – Downgrading to Neutral

- **Earnings Update:** TCAP reported 2Q17 net investment income of \$0.41 per share, which was a penny below our estimate and the Street consensus.
- **Operating Highlights:** Total investment income increased 3.4% linked-quarter (LQ) to \$31.2 million as a 7.4% rise in interest & dividends on investments was partially offset by a 47.0% decrease in noninterest income, which tends to fluctuate. We had projected total investment income of \$32.4 million.

Net investment income rose \$1.5 million to \$19.4 million LQ driven by the lift in investment income and a \$0.2 million decline in operating expenses to \$11.9 million.

The company incurred unrealized losses of \$26.2 million during the quarter, which were partially offset by \$5.2 million of unrealized gains.

Net asset value (NAV) per share slipped \$0.46 sequentially to \$14.83 due to the unrealized losses.

The unrealized losses also triggered negative EPS of \$0.04.

TCAP continues to make progress in its transition from mezzanine investments to more senior oriented instruments. While these investments afford more credit protection, they carry lower yields. As a result of the resulting yield compression as this transition continues, management forewarned of a possible dividend cut. We are projecting a \$0.07 reduction in the quarterly dividend to \$0.38 in 4Q17.

- **Estimates & Valuation:** We are cutting our 2017 and 2018 net investment income per share estimates to \$1.67 and \$1.66 from \$1.72 and \$1.87, respectively. We are trimming our price target by \$3.50 to \$15.50. With the reduction in our price target and considerable uncertainties regarding credit quality, yield compression and dividends, we are reducing our rating to Neutral from Buy.

Note Important Disclosures on pages 5-6
Note Analyst Certification on page 6

OTHER KEY TAKEAWAYS

- The weighted average yield of debt investments was 11.4% at June 30, 2017. Management noted the yield will likely trend downward to 10.5%-11.0% over the next 12 months.
- Five portfolio companies were on full nonaccrual status at quarter-end with an aggregate cost basis of \$67.5 million, which comprised 5.4% of the total cost of TCAP's portfolio. This compares to \$50.5 million and 4.2% at March 31, 2017. One company was added to nonaccruals, while another was charged-off.
- In addition, TCAP had debt investments in two companies that were on nonaccrual status only with respect to payment-in-kind interest. The cost of these debt investments was \$26.6 million (up from \$17.7 million at March 31, 2017) or 2.1% of the total cost of TCAP's portfolio.
- Triangle has several investments with fair values substantially below their cost bases. We believe some of these investments could be placed on nonaccrual status in coming quarters.
- TCAP has realized net realized and unrealized losses 13 out of the last 15 quarters.
- Triangle restructured its investment approval and underwriting processes in early 2016. The quality of investments made under the new structure remains strong with no nonaccruals to date. However, we have heightened concerns regarding the quality of its legacy portfolio given the severity of the unrealized losses recognized in Q2.
- New investments originated during the quarter of \$89.5 million were up \$25.8 million YOY and in line with expectations.
- The company made two new investments subsequent to quarter-end totaling \$21 million.
- In May 1, 2017, the company amended its senior secured credit facility to include an increase in commitments to \$435 million from \$300 million and an extension in the maturity by two years to April 30, 2022. The credit line was further increased in July to \$465 million. Outstanding borrowings under the credit facility were \$125 million at June 30, 2017.
- Not including \$245.9 million of SBA-guaranteed debt, which is excluded from the asset coverage requirement for BDCs, the debt-to-equity ratio was 0.41X at quarter-end.
- Our price target is based on the blended values derived by discounting our estimated future annualized dividend of \$1.52 by 9% and the application of TCAP's intraday NAV multiple of 98% to our forward NAV estimate.

SUITABILITY

Our suitability rating on TCAP is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity, trading volume and diversity of revenues.

RISKS AND CONSIDERATIONS

Triangle Capital is exposed to various risks including:

- **Economic Risk** – A widespread economic downturn could weaken the credit quality of TCAP's portfolio companies which could lead to higher than expected write downs and limit future growth opportunities in the small and medium sized companies TCAP invests in.

- **Interest Rate Risk** – Under a rising rate environment, TCAP’s strong dividend yield may lose appeal and lead to lower demand for the stock.
- **Investment Criteria Risk** - Failure to invest in securities that will support the dividend and future growth of TCAP could eventually lead to dividend cuts.
- **Sector Rotation** – The share price of the company’s common stock may be vulnerable to any sector rotation that might occur.

GLOSSARY

Regulated Investment Company (RIC): As regarded by the Internal Revenue Service. By following a few requirements, the most important of which is paying out at least 90% of taxable income (ordinary income plus short-term capital gains), the company does not pay federal income tax. This *avoids double taxation*. A typical company distributes common dividends out of net income (after-tax). Taxes are paid again by the shareholder upon receipt of a dividend. Sometimes a RIC will report income taxes paid. Any amount of taxable income greater than 90% but less than 98% not paid to shareholders is subject to a 4% excise tax and a 35% rate on any taxable income retained. There may be some instances where it is in the RIC’s best interest to retain income in spite of paying the taxes.

Business Development Company (BDC): Structure provided in the Investment Company Act of 1940. Basic requirements: 1) Qualifying assets – 70% of total assets must be small private U.S. companies. 2) Asset coverage – assets must cover the company’s borrowings by at least 200% or debt to equity cannot exceed 1. 3) Significant managerial assistance – BDCs must offer to provide guidance to its portfolio companies.

Non-Diversified Company: May have investments exceeding 5% of total assets or an equity interest in a company exceeding 10%.

	TRIANGLE CAPITAL CORPORATION										TCAP-NEUTRAL			
	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17E	4Q17E	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
Statement of Operations:														
Investment Income:	24,585	25,588	25,262	29,511	27,772	29,841	31,255	32,156	108,217	104,946	121,024	129,774	15.3%	7.2%
Interest & Dividends	37	56	135	121	101	144	138	132	225	348	515	682	54.7%	48.0%
Noninterest Income	2,034	2,779	2,015	2,318	2,150	2,150	2,150	2,150	12,845	8,368	7,547	9,400	-34.7%	-6.4%
Total Investment Income	26,656	28,422	27,412	31,190	30,190	31,214	33,543	34,439	121,287	113,680	129,386	139,856	-6.3%	13.8%
Expenses:														
Interest & Other Financing Fees	6,519	6,765	6,758	6,679	6,910	7,114	7,250	7,400	26,754	26,721	28,675	31,956	-0.1%	7.3%
General & Administrative Expenses	10,539	5,318	4,823	7,402	5,461	4,749	6,222	6,457	22,904	28,082	22,890	26,405	22.6%	-18.5%
Total Expenses	17,058	12,083	11,581	14,081	12,371	11,863	13,473	13,857	49,658	54,803	51,564	58,361	10.4%	-5.9%
Net Investment Income	9,598	16,339	15,831	17,109	17,819	19,351	20,071	20,581	71,629	58,877	77,922	81,495	-17.8%	32.2%
Realized & Unrealized Gains (Losses):														
Net Net Realized Gain/(Loss) on Sale	586	3,937	(11,211)	8,673	(13,319)	5,169	-	-	(27,489)	1,985	(8,150)	-	-107.2%	-510.6%
Net Unrealized (Depreciation) / Appreciation	2,232	(13,589)	3,224	(18,037)	2,683	(26,244)	-	-	5,496	(26,170)	(23,551)	-	-576.2%	-10.0%
Net Gains/(Losses)	2,818	(9,652)	(7,987)	(9,364)	(10,626)	(21,075)	-	-	(21,993)	(24,185)	(31,701)	-	10.0%	31.1%
Benefit (Provision) for Taxes	11	-	36	(482)	-	(304)	-	-	(384)	(435)	-	-	13.3%	-100.0%
Loss on Extinguishment of Debt	-	-	-	-	-	-	-	-	(1,394)	-	-	-	-100.0%	NA
Net Dec./Inc. in Net Assets from Operations	12,427	6,687	7,880	7,262	7,193	(2,028)	20,581	20,581	47,888	34,256	46,121	81,495	-28.4%	34.6%
Balance Sheet:														
Assets:														
Total Investments at Cost	967,401	970,953	987,330	1,096,932	1,190,845	1,252,283	1,339,669	1,392,685	1,007,349	1,096,932	1,392,685	1,588,707	8.9%	27.0%
Unrealized (Depreciation) / Appreciation	(27,425)	(40,130)	(39,598)	(59,025)	(57,636)	(62,970)	(62,970)	(62,970)	(30,072)	(59,025)	(82,970)	(82,970)	96.3%	40.6%
Total Investments at Fair Value	939,976	930,823	947,732	1,037,907	1,133,209	1,189,313	1,256,699	1,309,715	977,277	1,037,907	1,309,715	1,505,737	6.2%	26.2%
Cash & Cash Equivalents	64,163	124,930	168,337	107,088	90,603	65,000	60,000	60,000	52,615	107,088	60,000	60,000	103.5%	-44.0%
Other Assets	12,029	14,542	11,676	14,655	10,451	16,558	16,558	16,558	9,425	14,655	16,558	16,558	55.5%	13.0%
Total Assets	1,016,168	1,070,295	1,127,745	1,159,651	1,234,263	1,250,871	1,333,256	1,386,273	1,039,317	1,159,651	1,386,273	1,582,295	11.6%	19.5%
Liabilities & Shareholders' Equity:														
Borrowings Under Credit Facility	128,109	152,070	91,428	127,012	91,090	125,315	125,303	157,654	131,257	127,012	157,654	203,718	-3.2%	24.1%
Notes	162,292	162,444	162,589	162,755	162,915	163,077	163,077	163,077	162,142	162,755	163,077	163,077	0.4%	0.2%
SBA-Guaranteed Debentures	213,070	244,938	245,163	245,389	245,619	245,851	245,704	245,389	220,649	245,389	245,851	245,851	11.2%	41.8%
Total Borrowings	503,471	559,452	499,190	535,156	499,624	534,243	534,882	534,882	514,048	535,156	534,882	534,882	4.1%	25.0%
Other Liabilities	8,349	8,349	9,200	13,339	5,432	8,683	8,683	8,683	16,902	13,339	8,683	8,683	-21.1%	-34.9%
Total Liabilities	511,820	572,044	508,390	548,494	505,056	542,926	543,565	543,565	530,950	548,494	543,565	543,565	3.3%	23.5%
Shareholders' Equity (Net Assets)	504,348	498,251	619,355	611,156	729,207	707,945	706,489	708,859	508,367	611,156	708,859	888,817	20.2%	16.0%
Total Liabilities & Shareholders' Equity	1,016,168	1,070,295	1,127,745	1,159,651	1,234,263	1,250,871	1,333,256	1,386,273	1,039,317	1,159,651	1,386,273	1,582,295	11.6%	19.5%
Share & Per Share Data:														
Net Investment Income Per Share	0.29	0.49	0.42	0.42	0.42	0.41	0.42	0.43	2.16	1.62	1.67	1.66	-24.8%	3.2%
Earnings Per Share	0.37	0.20	0.21	0.18	0.17	-0.04	0.42	0.43	1.44	0.94	0.98	1.66	6.5%	-11.3%
Regular Dividends	0.54	0.45	0.45	0.45	0.45	0.45	0.45	0.38	2.16	1.89	1.73	1.52	-12.5%	-8.5%
Supplemental Dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20	0.00	0.00	0.00	-100.0%	NA
Payout Rate - Net Investment Income	188.4%	92.5%	108.3%	106.3%	107.9%	111.0%	107.2%	88.4%	109.5%	116.7%	103.5%	91.8%	6.5%	-11.3%
Net Asset Value Per Share	15.02	14.82	15.33	15.13	15.29	14.83	14.77	14.79	15.23	15.13	14.79	14.93	-0.7%	0.9%
Common Shares Outstanding (000)	33,576	33,630	33,630	40,405	40,401	47,681	47,836	47,926	33,375	40,401	47,926	57,519	21.1%	18.6%
Average Diluted Shares (000)	33,480	33,585	33,585	40,403	42,743	47,746	47,791	47,881	33,234	36,405	46,528	49,260	9.5%	27.8%
Performance Ratios:														
Yield on Investments @ Cost	10.01%	10.62%	10.26%	11.27%	9.85%	9.80%	9.57%	9.34%	11.41%	10.54%	9.64%	8.99%	-87	-87
Yield on Total Earning Assets @ Cost	9.47%	9.70%	8.97%	9.99%	9.10%	9.26%	9.17%	8.98%	10.47%	9.53%	9.13%	8.67%	-94	-41
Interest Expense / Avg. Borrowings	5.15%	5.08%	5.14%	5.42%	5.52%	4.99%	4.56%	4.56%	5.61%	5.12%	5.12%	4.88%	0	1316
Total Expenses / Total Investment Income	63.99%	42.51%	42.25%	45.15%	40.98%	38.01%	40.17%	40.24%	40.94%	48.21%	39.85%	40.89%	727	-836
Total Expenses / Assets	6.71%	4.52%	4.11%	4.68%	4.01%	3.79%	4.04%	4.00%	4.76%	4.73%	3.72%	4.06%	-5	-101
FFC/Avg. Ratio	18.90%	18.71%	17.59%	18.92%	18.09%	18.60%	18.55%	18.75%	18.88%	18.55%	17.69%	18.88%	-34	-85
SCA/Avg. Investments @ Cost	4.42%	2.29%	2.04%	2.97%	2.04%	1.65%	2.04%	2.00%	2.50%	2.94%	1.93%	1.94%	43	-100
Return on Assets	1.22%	0.62%	0.70%	0.63%	0.98%	6.00%	6.09%	6.11%	4.60%	5.08%	5.61%	5.15%	47	54
Return on Common Equity	2.46%	1.34%	1.27%	1.19%	4.90%	3.21%	4.82%	6.61%	9.41%	5.61%	6.51%	9.49%	-381	90
Balance Sheet Ratios:														
Assets/Equity	2.01x	2.15x	1.82x	1.90x	1.69x	1.77x	1.88x	1.96x	2.04x	1.90x	1.96x	1.84x	-15	6
Total Debt to Equity	99.83%	112.28%	80.60%	87.56%	68.52%	75.46%	87.49%	94.34%	1.01x	0.88x	0.94x	0.76x	-14	-11
Total Debt to Equity Ex SBA Debt	57.58%	63.12%	41.01%	34.83%	40.74%	40.82%	45.25%	45.25%	0.58x	0.47x	0.48x	0.76x	-10	31

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons has participated in a selling group for an offering of securities of Triangle Capital Corporation in the past 12 months.

Hilliard Lyons has received investment banking compensation from Triangle Capital Corporation in the past 12 months.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Triangle Capital Corporation in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from Triangle Capital Corporation in the coming 3 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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