



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

Key Metrics

TCAP - NASDAQ (as of 06/23/17)	\$17.73
Price Target	\$19.00
52-Week Range	\$20.60-\$16.40
Shares Outstanding (mm)	47.7
Market Cap. (\$mm)	\$845
3-Mo. Average Daily Volume (000)	241.2
Institutional Ownership	31.0%
Debt / Equity	68.5%
Return on Common Equity	5.1%
Net Asset Value per Share	\$15.33
Price/Net Asset Value per Share	115.7%
Dividend Yield	10.2%
Price/LTM Earnings	23.3x

Net Investment Income Per Share

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.29	\$0.42	\$0.42 A	\$0.47	\$0.46
2Q	\$0.49	\$0.40	\$0.41	\$0.47	\$0.46
3Q	\$0.42	\$0.44	\$0.44	\$0.49	\$0.48
4Q	\$0.42	\$0.47	\$0.46	\$0.51	\$0.46
Year	\$1.61	\$1.74	\$1.72	\$1.94	\$1.87
P/Nil	11.0x		10.3x		9.5x

Net Asset Value per Share

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$15.02	\$15.61	\$ 15.29 A	\$15.70	\$15.28
2Q	\$14.82	\$15.65	\$ 15.26	\$15.73	\$15.30
3Q	\$15.33	\$15.65	\$ 15.25	\$15.78	\$15.34
4Q	\$15.13	\$15.67	\$ 15.27	\$15.84	\$15.80

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 - \$35 million per transaction in established companies with annual revenues between \$20 million and \$200 million and EBITDA between \$3 million and \$35 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 – Buy – 3

Key Takeaways from Annual Analyst & Investor Meeting; Upgrading to Buy

- TCAP held its annual investor and investor meeting last week. Key takeaways from the meeting are provided below.
- Triangle restructured its investment committee in 2016. The previous committee was chaired by TCAP's CEO and investments were approved by a simple majority vote. Investments are now approved by the chief origination officer (COO), chief administrative officer (CAO) and chief credit officer (CCO).
- The investment committee now operates with cross-functional veto rights. The COO has veto rights on new investments, while the CAO has veto rights on 100% of documentation issues and the CCO has veto rights on 100% of post-closing decisions and any investments proposed by the COO.
- Importantly, the restructuring of the investment process incorporates increased individual ownership and accountability.
- Over \$420 million in new investments have been produced under the new structure with no nonaccruals to date.
- Investment criteria include 1) established operations with positive cash flows (no start-ups or distressed situations), 2) a seasoned management team with relevant industry and/or company experience and meaningful equity stakes, 3) a strong competitive position with barriers to entry, unique competitive advantages and growth opportunities, 4) diversified customer and supplier bases and 5) a substantial capital base with a meaningful equity cushion beyond TCAP's invested capital.

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

OTHER KEY TAKEAWAYS

- Approximately 73% of TCAP's portfolio management teams have a 10% or more ownership position in the companies they serve.
- Triangle Capital has seen meaningful shifts in its investment portfolio in recent years. For example, the number of companies with EBITDA of more than \$30 million has increased to over 31% at March 31, 2017 from less than 12% at year-end 2014. This should be beneficial to TCAP given that larger companies tend to have more stable credit profiles.
- Additionally, the amount of investments secured by first and second lien positions have increased to 47.2% at March 31, 2017 from 17.2% at year-end 2014.
- TCAP continues to focus on maintaining a meaningful exposure to equity investments to provide upside potential on gains upon exit. At March 31, equity investments comprised 13.6% of total investments.
- Investment structures are generally structured such that equity components on a percentage basis are generally greater for smaller companies. This tends to enhance realized gains given that exit multiples tend to rise as these companies grow in size.
- TCAP has generated an unlevered IRR on full exits of 18.5% since its February 2007 IPO.
- Total investments were diversified across 93 companies and 31 industries throughout the U.S. and Canada at March 31, 2017.
- Oil & gas investments accounted for 1.6% of total investments at the end of Q1. Accordingly, the company's exposure to any issues associated with the recent decline in energy prices is limited.
- TCAP's top ten investments account for 28% of total investment versus an industry average of ~40%.
- The amount of variable rate debt investments have increased to 40.4% at the end of Q1 from 9.8% at year-end 2014. With this shift, a 200 bp increase in interest rates would boost annual investment income by \$8.4 million or \$0.18 per share.

ESTIMATES & VALUATION

- We are far more comfortable with Triangle Capital's prospects after listening to management's presentation, particularly with regard to realized and unrealized losses. TCAP realized net losses 11 out of the past 13 quarters and related concerns were largely the basis for our Neutral rating. Given the performance of investments originated after the restructuring of the company's investment committee, we are more confident that such losses will be stemmed absent a meaningful downturn in the economy.
- We are revising our 2017 and 2018 net investment income per share estimates to \$1.72 and \$1.87 from \$1.75 and \$1.88, respectively.
- The 7.1% QTD pullback in TCAP's share price has allowed for a more compelling valuation (116% of net asset value versus its 5-year average of 150%) and an enhanced dividend yield of 10.2% versus the median yield of 9.3% for other small-cap BDCs (peers).
- We are establishing a 12-month price target of \$19 by discounting TCAP's annualized dividend of \$1.80 by the 9.3% peer dividend yield.
- With our price target suggesting a total return of 17.3%, we increasing our rating to Buy from Neutral.

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-BUY				
	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17E	3Q17E	4Q17E	FY 2015A	FY 2016A	FY 2017E	FY 2018 E	FY 2016 A	FY 2017E	FY 2018 E
\$ Thousands, Except for Per Share Data															
Statement of Operations															
Investment Income:	24,565	25,588	25,262	29,511	27,772	30,108	32,045	33,601	108,217	104,946	123,525	140,250	-3.0%	17.7%	13.5%
Interest & Dividends	37	55	135	121	101	147	151	151	225	348	550	781	54.7%	57.9%	42.2%
Other Interest	2,034	2,779	2,015	1,558	2,318	2,150	2,150	2,150	12,845	8,388	8,768	9,400	-34.7%	4.6%	7.2%
Noninterest Income	26,656	28,422	27,412	31,190	30,190	32,405	34,345	35,902	121,287	113,660	132,842	150,431	-6.3%	16.9%	13.2%
Expenses:															
Interest & Other Financing Fees	6,519	6,765	6,758	6,679	6,910	6,880	6,947	7,149	26,754	26,721	27,885	30,331	-0.1%	4.4%	8.8%
General & Administrative Expenses	10,539	5,318	4,823	7,402	5,461	6,027	6,371	6,732	22,904	28,082	24,591	28,402	22.6%	-12.4%	15.5%
Total Expenses	17,058	12,083	11,581	14,081	12,371	12,907	13,318	13,880	49,658	54,803	52,476	58,733	10.4%	-4.2%	11.9%
Net Investment Income	9,598	16,339	15,831	17,109	17,819	19,497	21,028	22,021	71,629	58,877	80,366	91,698	-17.8%	36.5%	14.1%
Realized & Unrealized Gains (Losses):															
Total Net Realized Gain/(Loss) on Sale	586	3,937	(11,211)	8,673	(13,319)	-	-	-	(27,489)	1,985	(2,631)	-	-107.2%	-771.0%	-100.0%
Net Unrealized (Depreciation) / Appreciation	2,232	(13,589)	3,224	(18,037)	2,693	-	-	-	5,496	(26,170)	2,693	-	-576.2%	-110.3%	-100.0%
Net Gains/(Losses)	2,818	(9,652)	(7,987)	(9,364)	(10,626)	-	-	-	(21,993)	(24,185)	(10,626)	-	-10.0%	-56.1%	-100.0%
Benefit (Provision) for Taxes	11	-	36	(482)	-	-	-	-	(384)	(435)	-	-	-13.3%	-100.0%	NA
Loss on Extinguishment of Debt	-	-	-	-	-	-	-	-	(1,394)	-	-	-	-100.0%	NA	NA
Net Dec. Inc. in Net Assets from Operations	12,427	6,687	7,880	7,262	7,193	19,497	21,028	22,021	47,858	34,256	69,740	91,698	-28.4%	103.6%	31.5%
Balance Sheet:															
Assets:															
Total Investments at Cost	967,401	970,953	987,330	1,096,932	1,190,845	1,212,371	1,317,660	1,361,894	1,007,349	1,096,932	1,361,894	1,525,268	8.9%	24.2%	12.0%
Unrealized (Depreciation) / Appreciation	(27,425)	(40,130)	(39,598)	(59,025)	(57,636)	(57,636)	(57,636)	(57,636)	(30,072)	(59,025)	(57,636)	(57,636)	96.3%	-2.4%	0.0%
Total Investments at Fair Value	939,976	930,823	947,732	1,037,907	1,133,209	1,154,735	1,260,024	1,304,258	977,277	1,037,907	1,304,258	1,467,632	6.2%	25.7%	12.5%
Cash & Cash Equivalents	64,163	124,930	168,337	107,088	90,603	70,000	70,000	70,000	52,615	107,088	70,000	70,000	103.5%	-34.6%	0.0%
Other Assets	12,029	14,542	11,676	10,451	10,451	10,451	10,451	10,451	9,425	14,655	10,451	10,451	55.5%	-28.7%	0.0%
Total Assets	1,016,168	1,070,295	1,127,745	1,197,745	1,234,263	1,235,186	1,340,475	1,384,710	1,039,317	1,159,651	1,384,710	1,548,083	11.6%	19.4%	11.8%
Liabilities & Shareholders' Equity:															
Borrowings Under Credit Facility	128,109	152,070	91,428	127,012	91,090	92,393	94,178	136,325	131,257	127,012	136,325	147,977	-3.2%	7.3%	8.5%
Notes	162,292	162,444	162,599	162,755	162,915	162,915	162,915	162,915	162,142	162,755	162,915	162,915	0.4%	0.1%	0.0%
SBA-Guaranteed Debentures	213,070	244,938	245,163	245,389	245,619	245,619	245,619	245,619	220,649	245,389	245,619	245,619	11.2%	41.8%	0.0%
Total Borrowings	503,471	559,452	499,190	535,156	499,624	500,927	605,093	647,240	514,048	535,156	647,240	658,892	4.1%	20.9%	1.8%
Other Liabilities	8,349	12,592	9,200	13,339	5,432	5,432	5,432	5,432	16,902	13,339	5,432	5,432	-21.1%	-59.3%	0.0%
Total Liabilities	511,820	572,044	508,390	548,494	505,056	506,359	610,525	652,672	530,950	548,494	652,672	664,324	3.3%	19.0%	1.8%
Shareholders' Equity (Net Assets)	504,348	498,251	619,355	611,156	729,207	728,827	729,950	732,038	508,367	611,156	732,038	883,759	20.2%	19.8%	20.7%
Total Liabilities & Shareholders' Equity	1,016,168	1,070,295	1,127,745	1,197,745	1,234,263	1,235,186	1,340,475	1,384,710	1,039,317	1,159,651	1,384,710	1,548,083	11.6%	19.4%	11.8%
Share & Per Share Data:															
Common Shares Outstanding (000)	33,576	33,630	40,405	40,401	47,681	47,771	47,861	47,951	33,375	40,401	47,951	55,832	21.1%	18.7%	16.6%
Average Diluted Shares (000)	33,480	33,585	38,115	40,403	42,743	47,726	47,816	47,906	33,234	36,405	46,548	49,084	9.5%	27.9%	5.4%
Regular Dividends	0.54	0.46	0.45	0.45	0.45	0.45	0.45	0.45	2.16	1.89	1.80	1.80	-12.5%	-4.8%	0.0%
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	NA
Payout Ratio	188.4%	92.5%	108.3%	106.3%	107.9%	110.2%	102.3%	97.9%	109.5%	116.7%	104.4%	96.3%	6.5%	-10.6%	-7.7%
Net Investment Income Per Share	0.29	0.49	0.42	0.42	0.42	0.41	0.44	0.46	2.16	1.62	1.72	1.87	-24.8%	6.5%	8.3%
Earnings Per Share	0.37	0.20	0.21	0.18	0.17	0.41	0.44	0.46	1.44	0.94	1.50	1.87	6.5%	-10.6%	-7.7%
Net Asset Value Per Share	15.02	14.82	15.33	15.13	15.29	15.26	15.25	15.27	15.23	15.13	15.27	15.80	-0.7%	0.9%	3.5%
Performance Ratios:															
Yield on Investments @ Cost	10.01%	10.62%	10.26%	11.27%	9.85%	10.05%	10.05%	9.95%	11.41%	10.54%	9.97%	10.04%	-87	-57	-57
Yield on Total Earning Assets @ Cost	9.47%	9.70%	8.97%	9.99%	9.10%	9.47%	9.57%	9.50%	10.47%	9.53%	9.41%	9.61%	-94	-13	21
Interest Expense / Avg. Borrowings	5.15%	5.12%	5.08%	5.14%	5.42%	4.98%	4.98%	4.53%	5.61%	5.12%	5.11%	18.39%	-48	-1	1327
Total Expenses / Total Investment Income	63.99%	42.51%	42.25%	45.15%	40.98%	39.83%	36.78%	36.66%	40.94%	48.21%	39.50%	38.82%	727	-871	-69
Total Expenses / Assets	6.71%	4.52%	4.11%	4.86%	4.01%	4.16%	3.97%	4.01%	4.78%	4.73%	3.79%	4.13%	-5	-94	34
Efficiency Ratio	18.90%	18.71%	17.59%	18.92%	18.09%	18.60%	18.55%	18.75%	18.89%	18.55%	18.51%	18.88%	-34	-3	37
SGA/Avg. Investments @ Cost	4.42%	2.29%	2.04%	2.97%	2.11%	2.09%	2.09%	2.08%	2.50%	2.94%	2.08%	2.12%	43	-86	4
Return on Assets	1.22%	0.62%	0.70%	0.63%	0.98%	6.03%	6.19%	6.32%	4.60%	5.08%	5.80%	5.92%	47	73	12
Return on Common Equity	2.46%	1.34%	1.27%	1.19%	4.90%	6.56%	8.04%	9.87%	9.41%	5.61%	9.53%	10.38%	-381	392	85
Balance Sheet Ratios:															
Assets/Equity	2.01x	2.15x	1.82x	1.90x	1.69x	1.69x	1.84x	1.89x	2.04x	1.90x	1.89x	1.75x	-15	-1	-14
Total Debt to Equity	99.83%	112.28%	80.60%	87.56%	68.52%	68.73%	82.90%	86.42%	1.01x	0.88x	0.88x	0.75x	-14	1	-14
Total Debt to Equity Ex SBA Debt	57.58%	63.12%	41.01%	47.41%	34.83%	35.03%	35.22%	40.88%	0.58x	0.47x	0.41x	0.67x	-10	-7	-7

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.

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	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 2017

Other Disclosures

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