



Navigating Private Credit Disruption

Capitala's Differentiation in the Lower Middle-Market

Capitala Group

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Overview

As headlines would indicate, private credit is facing heightened scrutiny. Redemption freezes enacted by some of the industry's prominent fund managers, accelerating payment-in-kind ("PIK") interest, and AI's disruption of software borrowers have brought risk concerns to the forefront.

While many of the challenges cited are valid, they largely spotlight parts of the market outside of Capitala's core strategy. These risks have been associated with software-heavy portfolios, aggressive deal terms and structures, and retail funds with structural liquidity mismatches. For more than 25 years and across approximately 300 investments, Capitala has provided capital solutions to the lower middle-market ("LMM") with a diversified and disciplined investment approach.

Executive Summary

- Private credit has been under a microscope recently, and in many cases, rightfully so. Recent factors have included
 - ❖ Overexposure to industries facing significant AI disruption
 - ❖ Aggressive deal structures with a lack of lender protections
 - ❖ Investment products with vulnerabilities stemming from liquidity misalignments
- Capitala's underlying strategy has been, and continues to be, fundamentally different from up-market lending strategies that are garnering headline attention.
- The lower middle-market represents a vast and fragmented opportunity set where investors with established sourcing channels, structuring expertise, and long-standing relationships can differentiate themselves through unique deal flow and flexible capital solutions.

What's Driving Private Credit Headlines – Broader Market Dynamics

- Software now represents roughly 25% of private credit exposures, as AI pressures legacy SaaS model.
- The software boom of the last several years resulted in aggressive deal structures put forth by many middle-market credit managers, upper middle-market credit managers, and business development companies ("BDC").
 - Higher leverage multiples
 - Leveraging annual recurring revenue rather than EBITDA
 - Covenant-lite transactions
 - PIK toggles for cash preservation
- Reinforced concerns about a mismatch between illiquid loans and semi-liquid fund structures. Multiple major non-traded BDCs curbed redemptions after withdrawal requests spiked.

Why Capitala's Position in the LMM is Different

Capitala's strategy – providing flexible capital solutions to LMM businesses – follows a fundamentally distinct set of dynamics than that of large-cap credit managers.

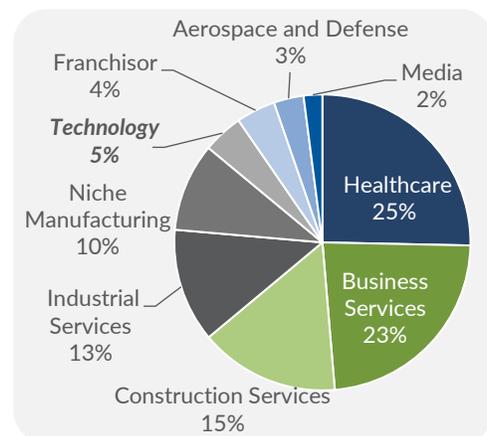
① Portfolio Diversification

Targeted hold size per asset is approximately 2% of committed capital, supporting portfolio diversification and limiting exposure to any single investment.

② Broad Industry Exposure (and Exclusion) ⁽¹⁾

Example industries include Aerospace and Defense, Business Services, Construction Services, Healthcare, Industrial Services, Niche Manufacturing, and Technology, with Technology comprising less than 5% of the current fund's deployed dollars.

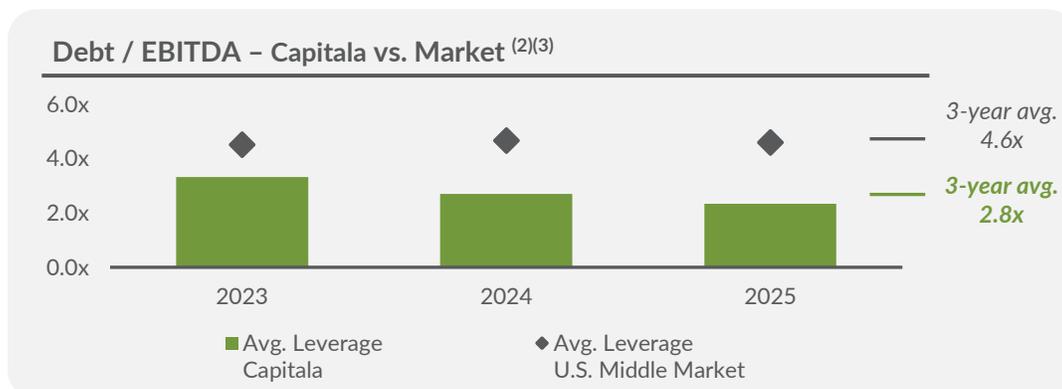
Of equal importance is avoidance of industries in which we don't see value for our strategy – Capitala tends to avoid Energy, cyclical industries such as Retail or Restaurants, and does not invest in Real Estate.



③ Conservative Deal Structuring

Low Leverage

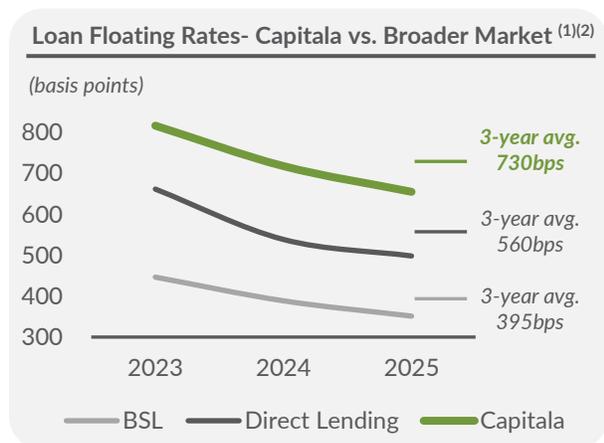
Large-cap leveraged buyouts often seek leverage up to 6-7x EBITDA. U.S. middle-market average leverage was nearly 5x over the last three years. Capitala averaged an entry debt-to-EBITDA ratio of 2.8x over the same period, 39% lower than the broader middle-market average.



Covenant Packages

Capitala averages three financial covenants per investment. Covenants are set to levels that enable active portfolio monitoring and facilitates visibility into borrower performance.

④ Flexible Capital Solutions



Loan Pricing and Floating Rate Spreads

Average cash yield on first lien and unitranche debt investments within the current fund of approximately 12%, or an average spread of approximately 730 basis points over the last three years.

Spread premium reflects a focus on less intermediated opportunities and sponsor-agnostic origination channels, which tend to command higher pricing than highly competitive sponsor-driven markets.

Results in higher yield and income generation without relying on additional leverage or lower credit quality.

Significant Minority Equity Stakes

Capitala invests equity alongside its loans, with 14% average equity ownership per asset in the current fund, aligning incentives with management teams and creating potential return upside.

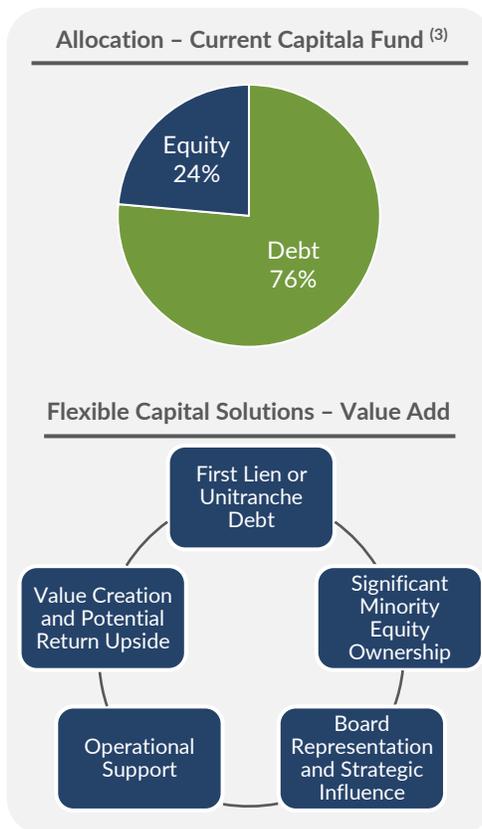
Equity represents approximately one-quarter of the underlying asset allocation, by dollars deployed.

By contrast, most traditional direct lenders and BDCs maintain minimal equity exposure, with equity typically representing less than 5% of portfolio fair value.

Active Hands-On Approach

Active portfolio management and portfolio company monitoring, including board representation, strategic involvement, and operational engagement.

Differentiates Capitala as a strategic partner, not a passive lender, which can be beneficial for downside credit risk and for enhancing long-term value creation.



“Capitala works with management teams, business owners, independent and financial sponsors to provide flexible credit and equity solutions for long-term growth. We individually tailor each investment to the needs of the client to best support their goals and to add value to their business.”

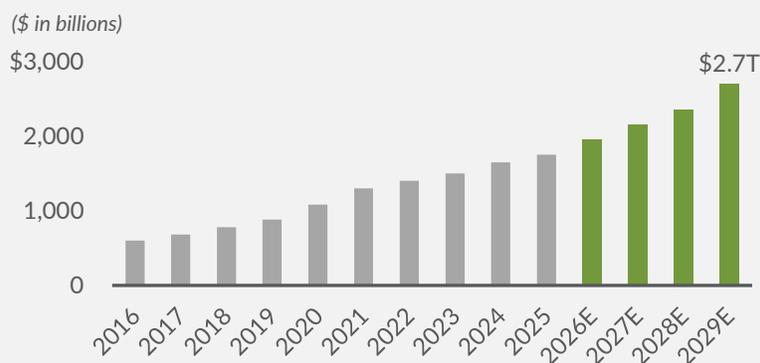
– Joe Alala III
 Founder & CEO of Capitala Group

Where We See Opportunity

Under-Banked Market

Banks have, in large part, retreated from lending to the lower and middle-markets over the past two decades. As a result, non-bank lenders have gained historic size and share, with non-banks owning 61% of commercial (ex-CRE) credit outstanding, as of Q3 2025. Concurrently, Capitala has developed deep relationships across the banking universe, with approximately 100 banks on platform that provide unique deal flow and co-invest in opportunities from their commercial and industrial groups. ⁽¹⁾

Private Credit expected to grow by over \$1T within 5 years



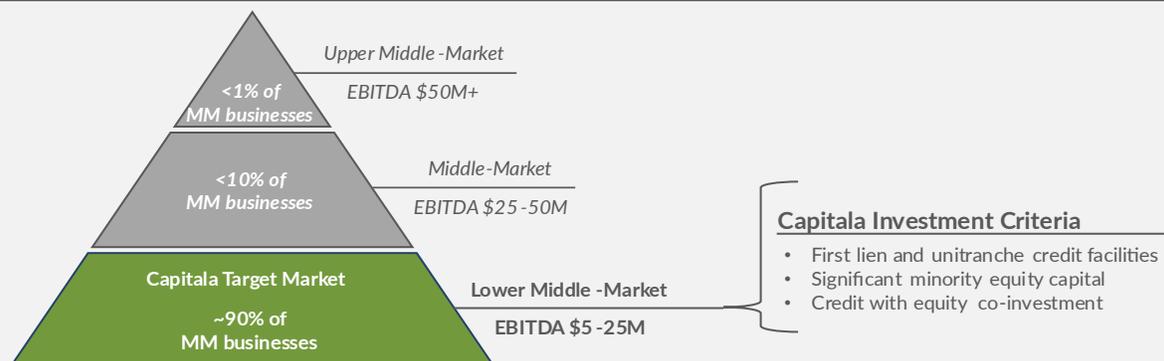
Independent Sponsors (“ISP”)

ISPs are now responsible for more than 25% of LMM deals. Over the past twenty-plus years, Capitala has partnered with independent sponsors on transactions totaling more than \$1 billion. We believe this segment has long been overlooked yet immensely valuable, and it remains a core focus of our efforts.

Continued Focus on the Lower Middle-Market

Capitala has maintained a focus on the U.S. LMM for more than 25 years and remains squarely in this market today. More than 90% of U.S. middle-market companies fall within the LMM, creating a broad and fragmented universe of businesses where flexible capital solutions providers can play a critical role.

U.S. Middle-Market Landscape



Note

All data is reflective of December 31, 2025, unless specified otherwise.

Endnotes

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1. Industry percentages cited, including pie chart graphic, reflect data from the current fund as of February 28, 2026.
2. Market data is as of September 30, 2025.
3. Capitala data reflects platform investments completed in 2023, 2024, and 2025. 2025 includes one investment that closed on the first business day of 2026.

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1. Market data is as of September 30, 2025.
2. Capitala spreads reflect the last-out unitranche rate where applicable to Capitala's holding. Capitala data reflects platform investments completed in 2023, 2024, and 2025. 2025 includes one investment that closed on the first business day of 2026.
3. Data as of February 28, 2026, based on dollars deployed.

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1. "On platform" includes bank limited partners, banks engaged to raise capital, and banks with which Capitala has exchanged deal flow.

Data Sources

24/7 Wall St., Axial, Bloomberg, Capstone Partners, CGPH Banque d'Affaires, Cliffwater LLC via Swedroe, CNBC, Factset, Fed Flow of Funds, FinancialContent, FRB, Hogan Lovells, JP Morgan, Kaitlinn Thatcher, KBW Research, McGuireWoods LLP, Morningstar, Motley Fool, Muzinich & Co., PitchBook / PitchBook LCD, Preqin, Prime Buchholz, Public SEC Company Filings, Raymond James, S&P Global Market Intelligence, SaaStr, TCW, TPG, UBS, Vanguard, Within Intelligence, Yahoo Finance



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