

**PROSPECT CAPITAL**  
CONVERTIBLE PREFERRED  
STOCK



SEPTEMBER  
23

# Prospect Capital Management Overview

Since 1988, Prospect Capital Management has invested in **private debt and private equity** investments across the United States, diversified across industries, companies, and investment strategies.

Prospect Capital Management is the investment adviser to Prospect Capital Corporation (NASDAQ: PSEC), one of the largest business development companies in the industry. Prospect Capital has \$7.9B of total assets.<sup>1</sup> Prospect Capital targets current income and long-term capital appreciation and, since 2004, \$20.4B has been invested in a diverse portfolio of investments with a focus on middle market lending.<sup>1</sup>

## PROSPECT CAPITAL CORPORATION HIGHLIGHTS

▶ **27% COMMON STOCK OWNED BY MANAGEMENT AND EMPLOYEES**

▶ **LARGEST INSIDER OWNERSHIP IN THE INDUSTRY**

▶ **CONSISTENT SENIOR LEADERSHIP - 23-YEAR TENURE TOGETHER**

▶ **Focused on Senior and Secured Loans**

▶ **\$3.8 billion of common equity supports the preferred stock**

### CORPORATE CREDIT INVESTMENT GRADE RATINGS<sup>5</sup>

**MORNINGSTAR DBRS BBB (low)**

**Egan-Jones Ratings Company BBB**

**KBRA Kroll Bond Rating Agency BBB-**

**MOODY'S Baa3**

**S&P Global BBB-**

THE PREFERRED STOCK IS RATED BBB- BY EGAN-JONES AND BB BY S&P<sup>5</sup>

## PROSPECT CAPITAL MANAGEMENT

### JOHN BARRY

Chairman of the Board, CEO and Co-Founder

John Barry is Chairman and Chief Executive Officer of Prospect Capital Corporation (PSEC) and of Prospect Capital Management (PCM). John is Chairman of PCM's Investment Committee and has been an officer of PCM (and predecessors) since 1990.



### GRIER ELIASEK

President, COO, Board Director and Co-Founder

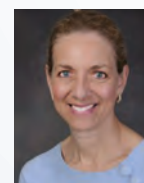
Grier Eliasek is President, Chief Operating Officer, a Board Director and Co-Founder of Prospect Capital Corporation, Chief Executive Officer of Priority Income Fund, Inc., and a Managing Director of PCM and Prospect Administration. Grier has served on the boards of directors of public and private companies.



### DARIA BECKER

Head of Administration

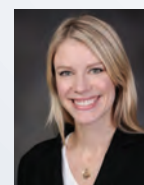
Daria Becker is Head of Administration and has over 35 years of financial and investment experience. She joined PCM in 1998. Daria oversees PCM's operations and finances.



### KRISTIN VAN DASK

Chief Financial Officer

Kristin Van Dask is the Chief Financial Officer, Treasurer, Secretary, and Chief Compliance Officer of Prospect Capital Corporation and has over 20 years of experience in finance, accounting, and financial reporting, including with business development company, closed-end fund, securitization, corporate, private partnership, and other structures.



### LOW CORRELATION STRATEGIES

intended to reduce risk and volatility

### HIGHLY SELECTIVE

<2% of initially screened investments advancing to closing

### LEVERAGE LIMITS

per 1940 Act asset coverage requirement of 150%<sup>2</sup>

### DIVERSIFICATION

128 investments and exposure to 36 industries<sup>1</sup>.

# Diverse Portfolio of Investments by Investment Strategy

## MIDDLE MARKET LENDING

**53%**  
OF PORTFOLIO<sup>1</sup>

This strategy invests in senior and secured loans to U.S. middle-market companies that need capital to grow, employ more people and bring products and services to market. Middle Market Lending by Prospect Capital and its BDC peers provides substantial benefits to the American economy, providing an alternative source of capital (from banks) for small and medium-sized companies. The rise of Middle Market Lending by BDCs is a direct result of Congress amending the Investment Company Act of 1940 in 1980 so that private capital could be raised more efficiently from retail and institutional investors and facilitate the vast middle market loan market. BDCs' investments are subject to public disclosure and transparency.

Middle Market Lending provides  
**SUBSTANTIAL BENEFITS** to the American economy.

PROSPECT CAPITAL CORPORATION HAS INVESTED

▶ **\$14.4B** ACROSS **333**  
MIDDLE MARKET LOANS<sup>1</sup>

THERE ARE CURRENTLY

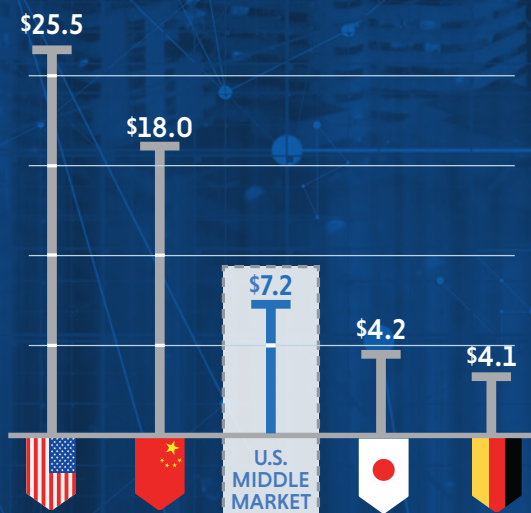
▶ **82** MIDDLE MARKET LENDING  
PORTFOLIO COMPANIES<sup>1</sup>

### COMPANIES IN OUR PORTFOLIO INCLUDE:



The U.S. middle market economy is vast and is comprised of about  
**200,000 BUSINESSES** that make up roughly **33%** of **PRIVATE GDP**

### LEADING WORLD ECONOMIES (\$TN)



### CORPORATE TERM LOAN MARKET SHARE



Source: National Center for the Middle Market, US Bureau of Economic Analysis, and The World Bank as of December 31, 2022.

Note: Financial data as of December 31, 2022  
Source: S&P Capital IQ

► MIDDLE-MARKET LENDING/BUYOUTS

**18%**  
 OF PORTFOLIO<sup>1</sup>

This strategy is comprised of senior and secured loans plus control private equity to U.S. middle-market companies. This differentiated investment strategy generates current income (primarily from interest payments), as well as potential capital appreciation from the equity investment and any growth in business value. Prospect Capital controls each portfolio company's board and leverages its relationships with operating executives to provide further oversight and advice on important operating and strategic decisions. Prospect Capital has invested \$1.6 billion across 16 separate middle-market lending / buyout investments.<sup>1</sup>

► SUBORDINATED STRUCTURED NOTES

**8%**  
 OF PORTFOLIO<sup>1</sup>

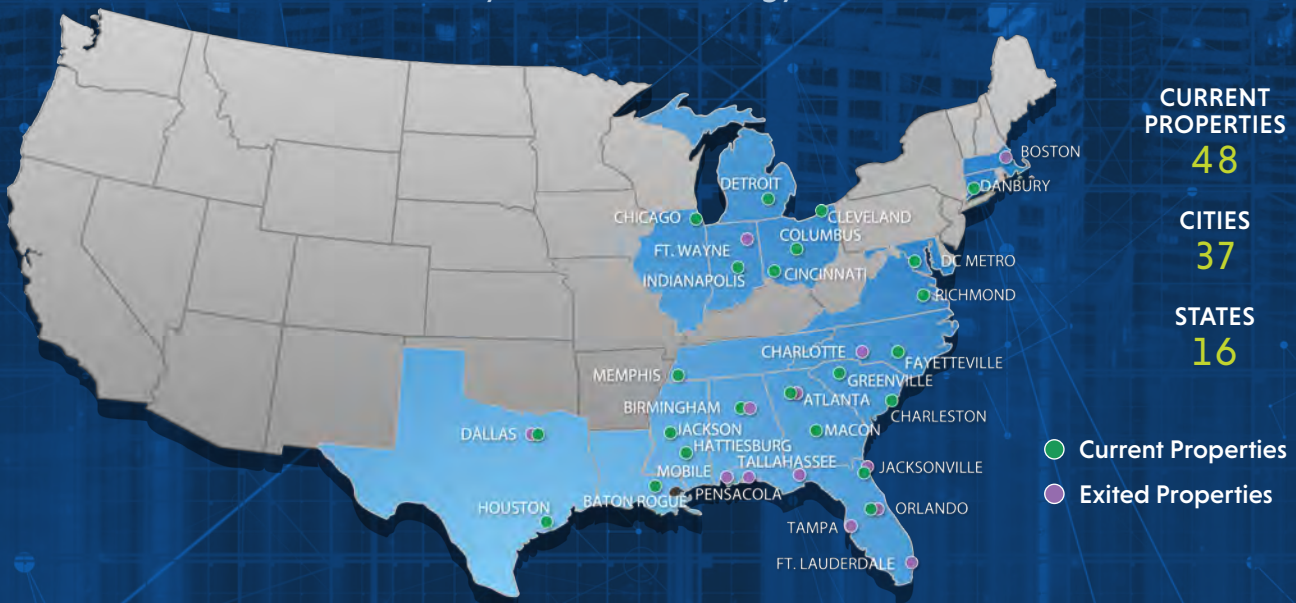
This strategy invests in diversified pools of senior and secured loans to large U.S. companies, which loans primarily have a first lien on corporate assets of the borrower. Prospect Capital is a market-leading investor in the equity of Collateralized Loan Obligations. Prospect Capital has developed proprietary selection analytics to identify and evaluate top-performing management teams in this sector, which has been validated by consistent below market default rates. Prospect Capital has invested \$1.7 billion across 48 separate investments in this strategy.<sup>1</sup>

► REAL ESTATE

**18%**  
 OF PORTFOLIO<sup>1</sup>

This strategy, through Prospect Capital's wholly-owned portfolio company National Property REIT Corp (NPRC), invests in fully developed Class B multifamily residential properties with value-add potential in secondary and tertiary markets. NPRC's investment objective is to generate high current income with potential capital appreciation, resulting in strong risk-adjusted returns. This strategy focuses on growing property-level earnings in an amount greater than market averages by adding value through post-closing capital spending on unit interiors and property amenities, as well as targeting operating expense efficiencies. NPRC has invested in 81 multifamily properties totaling 31,404 units and with an aggregate property value at investment of \$3.4 billion, of which 33 properties have been sold at a profit.<sup>1</sup>

Diversification with Multifamily Value-Add Strategy



► OTHER

**3%**  
 OF PORTFOLIO<sup>1</sup>

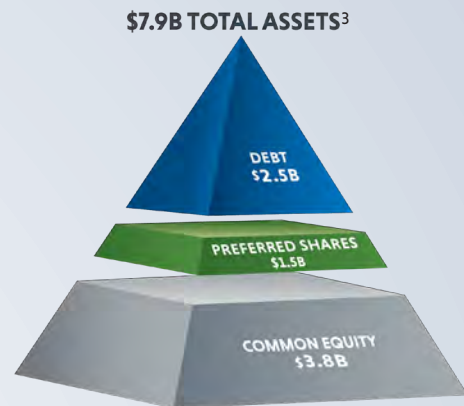
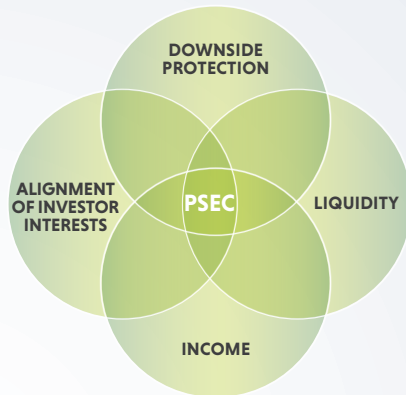
This strategy is comprised primarily of diverse pools of fixed income investments.

## Benefits of Prospect Capital Preferred Stock

52.5% Loan-to-Asset-Value Leverage<sup>1</sup>

There is a **\$3.8B** buffer of common equity subordinate to the Preferred Shareholders<sup>1</sup>

Aligned Interests – management and employees own **27%** of Prospect Capital's common equity<sup>1</sup>



### SENIOR POSITION

Preferred shareholders must receive **100%** of their dividend payments prior to the common shareholders getting paid any of their dividend payments

### DEFENSIVE BY DESIGN

Per 1940 Act - leverage is limited to **150%** asset coverage<sup>2</sup>

## Prospect Capital Convertible Preferred Stock

### OFFERING SIZE

\$1.8 Billion

### CAPITAL PRESERVATION

Stable Stated Value

\$25 per share

### MINIMUM INVESTMENT

\$5,000

### INVESTOR FOCUSED FEE STRUCTURE

- The fees and load are paid by the company
- Client account statements expected to reflect \$25.00 Stated Value

### CONTRACTUAL INCOME<sup>9</sup>

6.5% Cumulative Annualized Dividend

Intended to be paid monthly

### DIVIDEND REINVESTMENT PLAN

May reinvest dividends at a 5% discount<sup>4</sup>

### TRANSPARENCY

- Prospect Capital's common stock is publicly traded (NASDAQ: PSEC)
- 5 Corporate Investment Grade Ratings<sup>5</sup>

### INVESTOR RIGHTS

- Preferred shareholders always elect 2 board members
- Voting rights equal to the common shareholder on other matters
- If dividend accumulates for 2 years, the preferred shareholders elect a majority of the board

### ACCESS TO CAPITAL<sup>6 & 7</sup>

Liquidity from Day 1

- Conversion deadlines are on or about the 15th and final business day of the month

Death Put<sup>8</sup>

(0% Conversion Fee)

“ We are proud of our long history of providing important capital to U.S. middle market businesses while delivering to our SHAREHOLDERS CONSISTENT RETURNS. ”

JOHN BARRY - Chairman of the Board, CEO and Co-Founder

Past performance is neither indicative nor a guarantee of future results. The stated dividend rate on issuances of the Series A1, M1 and M2 Preferred Stock is 5.5%.

- As of September 30, 2023. Loan-to-asset value leverage calculated as (Principal Debt Outstanding + Total Preferred Outstanding) / Total Assets.
- Our “asset coverage” requirement (as defined under the 1940 Act) is limited to 150% (approximately a 2:1 debt to equity ratio).
- As of September 30, 2023. Based on balance sheet amounts.
- As of July 19, 2023, the number of shares credited to investor accounts will be determined by dividing the total dollar amount of the distribution payable to stock holders by \$23.75. Available at Computershare and select participating custodians.
- Ratings current as of November 7, 2023. A credit rating is not a recommendation to buy, sell, or hold securities and is subject to revision or withdrawal at any time and without notice by the assigning agency. Each rating should be evaluated independently of any other rating, and investors should conduct thorough due diligence before investing. Moody’s investment-grade credit ratings range from Aaa to Baa, and its high-yield credit ratings range from Ba to C. For S&P, Egan-Jones, Kroll, and DBRS, investment-grade credit ratings range from AAA to BBB, while high-yield credit ratings range from BB to C. High-yield is another name for non-investment-grade or junk bonds.
- The issuer determines the conversion settlement amount prior to the next holder conversion deadline, which deadline typically occurs twice per month.
- Series A shares are subject to a 5-year declining conversion fee (9%, 8%, 7%, 6%, 5%) as a percentage of the \$25.00 per share stated value of the Preferred Stock. Series M shares have a 90-day dividend recapture provision in year 1 with zero fee thereafter. Prospect Capital may request that an investor purchasing Series M shares enter into an agreement pursuant to which such investor agrees not to convert such purchased Series M shares for an agreed period of time. Prospect Capital must complete the conversion request prior to the next conversion date and there are two conversion dates per month. Right of holder to convert Preferred Stock terminates upon listing of such Preferred Stock. Liquidity of Prospect Capital common stock on NASDAQ is not guaranteed.
- We will have a discretionary right to limit the aggregate liquidation preference of Preferred Stock subject to redemption following the death of a holder that may be exercised in any calendar year to an amount equal to the greater of \$10 million or 5% of all Preferred Stock outstanding as of the end of the most recent calendar year. Accordingly, no assurance can be given that exercise of a redemption following the death of a holder for the desired amount will be permitted in any single calendar year. Redemption terminates upon listing of Preferred Stock.
- Any return of principal and dividends is subject to the credit risk of the issuer and terms of the offering documents.

### Important Risk Factors to Consider

An investment in Prospect Capital Preferred Stock involves certain risks, including the risk of a substantial loss of investment. You should carefully consider the information set forth in the “Risk Factors” section of the prospectus supplement and the prospectus for a discussion of material risk factors relevant to an investment in Prospect Capital Preferred Stock, including but not limited to the following:

- The Preferred Stock will be subject to a risk of early redemptions or conversion at our option and holders may not be able to reinvest their funds.
- Holdes of the Preferred Stock will bear dividend risk. We may be unable to pay dividends on the Preferred Stock under some circumstances. In addition, the terms of any future indebtedness we may incur could preclude the payment of dividends in respect of equity securities, including the Preferred Stock, under certain conditions.
- There is limited liquidity and no public trading market for the PSEC Preferred Stock and there is no guarantee that the Preferred Stock will be listed on a national securities exchange.
- The Preferred Stock pays dividends at a fixed rate. The market values of fixed income investments tend to vary inversely with changes in market yields. The market yields on securities comparable to the Preferred Stock may increase, which would likely result in a decline in the market value of the Preferred Stock if it were to be traded on a national securities exchange. Additionally, if interest rates rise, securities comparable to the Preferred Stock may pay higher dividend rates and holders of the Preferred Stock, if it were listed on a national securities exchange, may not be able to sell the Preferred Stock at the Stated Value on a national securities exchange and reinvest the proceeds at market rates. The Company may be subject to a greater risk of rising interest rates due to the current period of rising interest rates and high inflation. The Federal Reserve has aggressively begun to raise interest rates, which is likely to drive down the prices of income or dividend-paying securities. The risk that interest rates may continue to rise is pronounced.
- We will have a discretionary right to limit the aggregate Liquidation Preference of Preferred Stock subject to redemption following the death of a holder that may be exercised in any calendar year to an amount equal to the greater of \$10 million or 5% of all Preferred Stock outstanding as of the end of the most recent calendar year. Accordingly, no assurance can be given that exercise of a redemption following the death of a holder for the desired amount will be permitted in any single calendar year.
- Preferred Stock is currently rated BBB- by Egan-Jones Ratings Company and BB by S&P. The credit ratings that have been issued on the Preferred Stock could be reduced or withdrawn while an investor holds Preferred Stock. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Preferred Stock following a listing. In addition, a credit rating does not eliminate or mitigate the risks of investing in the Preferred Stock.
- Senior securities, including debt and preferred stock, expose us to additional risks, including the typical risks associated with leverage and could adversely affect our business, financial condition and results of operations.
- There is no cap on the number of shares of common stock that can be issued upon the conversion of shares of Preferred Stock. The conversion of the Preferred Stock into shares of common stock could cause the price of common stock to decline significantly.
- Our obligations to pay dividends or make distributions and, upon liquidation of us, liquidation payments in respect of the Preferred Stock is subordinate to our obligations to make any principal and interest payments due and owing with respect to our outstanding debt.
- In the event we do not generate a total return from dividends and interest received and net realized capital gains in an amount at least equal to our distributions for a given year, we may return capital as part of its distribution. This would decrease the asset coverage per share with respect to the Preferred Stock, which could adversely affect their liquidity or market prices.
- The price of our common stock may fluctuate significantly during calculation and settlement of a holder conversion, and this may make it difficult for you to resell the Preferred Stock or common stock issuable upon conversion of the Preferred Stock when you want or at prices you find attractive.

**Summary of fees and expenses:** We will be subject to the following fees and expenses as part of the offering: selling commissions, dealer manager fees, and other offering expenses. Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus supplement and the accompanying prospectus contain this and other relevant information. Investors should read the prospectus supplement and accompanying prospectus carefully before investing. Investors may obtain the prospectus supplement and accompanying prospectus from your sales representative or Preferred Capital Securities at (855) 330-6594.

**FOR MORE OFFERING INFORMATION PLEASE CONTACT YOUR FINANCIAL ADVISOR**

These and other risks may impact the company’s financial condition, operating results, returns to its investors, and ability to make distributions as stated in the company’s prospectus.

This material contains forward-looking statements relating to the business and financial outlook of Prospect Capital Corporation, that are based on the company’s current expectations, estimates, forecasts, and projections, and are not guarantees of future performance. Actual results may differ materially from those expressed in these forward-looking statements, and you should not place undue reliance on any such statements. A number of important factors could cause actual results to differ materially from the forward-looking statements contained in this material. Such factors include those listed above, and those described in the “Risk Factors” section of the company’s prospectus. Forward-looking statements in this material speak only as of the date on which such statements were made, and the company undertakes no obligation to update or revise any such statements whether as a result of new information, future events or otherwise.

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