



## 10 Critical Factors in Evaluating Non-Traded Preferred Stock Offerings

### 1. WHAT IS THE BUFFER AND HOW DOES IT POTENTIALLY MITIGATE LOSS?

The common stock/equity of the company can serve as a buffer to the preferred shareholders. As of 6/30/2024, Prospect Capital had almost \$3.7 billion of book value equity with a market cap of approximately \$2.3 billion<sup>1</sup>. Since the preferred shareholder sits senior to the common shareholders on the capital stack, the full \$3.7B, and in turn the \$2.3B market cap, sit between your investors and first dollar loss. Additionally, preferred shareholders must receive 100% of their dividend prior to the common shareholders getting paid any of their dividend.

### 2. WHAT IS THE DIVIDEND COVERAGE OF THE PREFERRED?<sup>2</sup>

The dividend coverage of the preferred can highlight the ability of the Sponsor to pay the stated dividend. The calculation is made by dividing net investment income for the quarter ended 6/30/2024 by one quarter of preferred dividends, based on the amount of preferred stock outstanding as of 6/30/2024. As of 6/30/2024, the Prospect Capital Preferred stock is covering the preferred dividend by 3.9x.

### 3. WHAT IS THE LIQUIDITY OF THE OFFERING?<sup>3</sup>

Prospect Capital offers two share classes that are redeemable 100% in cash. The M4 share class is subject to a 180 day dividend recapture in the first year and a 90 day dividend recapture in the second year. The A4 share class is subject to a 5-year declining redemption fee (10%,10%,10%,8%,5%,0%). Redemptions are processed monthly with settlement up to two months later. Redemptions are capped at 2% monthly, 5% quarterly and 20% annually and the redemption policy cannot be changed by neither the management team or the board of directors. Additionally, there is a Death Put, so if an investor passes away there is no penalty to redeem and they are not subject to the redemption caps.<sup>4</sup>

### 4. WHAT ARE YOUR INVESTORS OPTIONS IF THERE WAS A LISTING?

With Prospect Capital's Preferred Stock, your investors have options. A4/M4 Preferred Stock cannot be listed without shareholder approval through a vote. Any listing of these shares requires the approval of the holders of Series A4 Shares or Series M4 Shares, who will vote as a separate class. For such a vote, the quorum required is 33 1/3% of the outstanding Series A4 Shares or Series M4 Shares, unless the Board specifies a higher quorum by resolution.

**5. DOES YOUR PREFERRED HAVE A CALL OPTION IN PLACE WHERE THE SPONSOR CAN FORCE YOU INTO A PUBLICLY TRADED STOCK AND IF THEY CAN DOES THE VOLUME SUPPORT THEIR CALL OPTION?**

Prospect Capital A4/M4 does not have an issuer optional conversion feature.

**6. HOW LONG HAS THE SPONSOR BEEN IN BUSINESS AND ARE THEIR INTERESTS ALIGNED?**

Who you do business with is everything. Prospect Capital Corporation (“PSEC”) has been publicly traded since 2004. The management company was founded in 1988 and has had essentially the same management team for 23+ years. Yes, Prospect Capital’s management team has their interests aligned with shareholders. With the largest insider ownership in the industry, Prospect Capital’s management team owns 26% of the common stock outstanding.<sup>1</sup>

**7. DO YOUR PREFERRED SHARES HAVE TRANSPARENCY?**

Transparency is important when evaluating investments as it gives investors insight into the financial health and stability of the organization. Prospect Capital offers a non-listed preferred stock in a publicly traded company on the Nasdaq under the ticker PSEC and is subject to the reporting requirements of both the Nasdaq and the SEC. Additionally, Prospect Capital has corporate investment grade ratings from S&P, Moody’s, Egan-Jones, Kroll and DRBS.<sup>5</sup>

**8. WHY IS IT IMPORTANT TO BE AN INVESTMENT GRADE RATED COMPANY?<sup>5</sup>**

Investment grade companies are systematically reviewed by teams of analysts from organizations like Moody’s and S&P. These analysts analyze the risk within an organization and give investors information surrounding the company’s creditworthiness and bankruptcy risk. According to S&P; the cumulative default rate for a company issuing debt in the first 15 years is only 3.3 % for investment grade rated companies vs 25.6% for non-investment grade. Essentially non-investment grade companies default 16 times more often than investment grade organizations.

Prospect Capital as an issuer is rated BBB (low) by DBRS, BBB by Egan Jones, BBB- by Kroll, Baa3 by Moody’s and BBB- by S&P. The Series A4/M4 Preferred Stock is rated BBB- by Egan Jones and not rated by S&P.

**9. WHAT IS THE LEVERAGE OF THE COMPANY?<sup>6</sup>**

The total loan-to-value leverage of the company, which include the preferred shares, is 53.3%.

**10. WHAT TYPE OF ASSETS DOES THE SPONSOR PURCHASE, AND IS THE PORTFOLIO DIVERSIFIED?**

Prospect Capital runs a highly diversified business, with investments held across 45 different industries. The majority of their assets consists of senior secured loans, but they also own real estate, CLO’s and invest in companies through middle market buy-outs.

Past performance is neither indicative nor a guarantee of future results.

- As of 6/30/2024.
- The dividend is not guaranteed and is intended to be paid monthly as authorized by board of directors. Dividend coverage ratio is net investment income for the quarter ended 6/30/2024 divided by one quarter of preferred dividends, based on the amount of preferred stock outstanding as of 6/30/2024. Includes coverage of \$131M of Series A shares with a 5.35% dividend rate, \$772M of Series A1, A2, and M1 shares with 5.50% dividend rate, \$704M of Series A3 and M3 shares with a 6.50% dividend rate, and \$46M of Series A4 and M4 shares with a floating dividend rate.
- Redemptions are permitted once per month with settlement up to two months later and are subject to limitations of i) 2% per month of the outstanding Series A4 Shares and Series M4 Shares, in aggregate, as of the end of the most recent fiscal quarter, ii) 5% per quarter of the outstanding Series A4 Shares and Series M4 Shares, in aggregate, as of the end of the most recent fiscal quarter, and iii) 20% per annual redemption period (the then current fiscal quarter and the three fiscal quarters immediately preceding the then current fiscal quarter) of the outstanding Series A4 Shares and Series M4 Shares, in aggregate, as of the end of the most recent fiscal quarter, and that such capacity limitations are applied on an aggregated basis with redemptions following the death of a holder (whether of Series A4 or M4) as described in the prospectus supplement. Redemption capacity will be allocated on a pro rata basis based on the number of Series A4 Shares and Series M4 Shares submitted in the event that a redemption is oversubscribed. Right of holders to redeem Preferred Stock terminates upon listing of such Preferred Stock.
- 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..
- Ratings current as of 8/28/2024. 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.
- As of 6/30/2024. Our "asset coverage" requirement (as defined under the 1940 Act) is limited to 150% (approximately a 2:1 debt to equity ratio). Loan-to-asset value leverage calculated as (Principal Debt Outstanding + Total Preferred Outstanding) / Total Assets.

## 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 redemption at our option and holders may not be able to reinvest their funds.
- Holders 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 A1/A3 Shares and M1/M2/M3 Shares pay dividends at fixed rates and the Series A4 Shares and Series M4 Shares pay dividends at floating rates (subject to a minimum total dividend rate and a maximum total dividend 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 raised interest rates in recent years, which is likely to drive down the prices of income or dividend-paying securities. There is a risk that interest rates may continue to rise.
- 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.
- Series A1, A3, M1, and M3 shares of Preferred Stock are currently rated BBB- by Egan-Jones and BB by S&P. Series A4 and M4 shares of Preferred Stock are rated BBB- by Egan-Jones and not rated by S&P. A credit rating that has been issued on the Preferred Stock could be reduced or withdrawn while an investor holds such Preferred Stock. A reduction or withdrawal of the credit ratings would likely have an adverse effect on the market value of the relevant series of Preferred Stock. 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.
- 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 dividends for a given year, we may return capital as part of our dividends. This would decrease the asset coverage per shares with respect to the Preferred Stock, which could adversely affect their liquidity or market prices.
- Unlike the Series A1/A3 Shares and the Series M1/M2/M3 Shares, the Series A4 Shares and Series M4 Shares do not have a Holder Optional Conversion feature.
- Floating rate securities have risks that conventional fixed rate securities do not.
- Redemption of the Series A4 Shares and Series M4 Shares at the Holder's Option is limited. The aggregate amount of Holder Optional Redemptions by the holders of the Series A4 Shares and Series M4 Shares will be subject to redemption limits.

**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.**

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.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED ANY OFFERING OF PROSPECT CAPITAL CORPORATION. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED HEREIN. AN OFFERING IS MADE ONLY BY THE PROSPECTUS. THIS MATERIAL MUST BE PRECEDED OR ACCOMPANIED BY A PROSPECTUS. YOU SHOULD READ THE PROSPECTUS IN ORDER TO UNDERSTAND FULLY ALL OF THE IMPLICATIONS AND RISKS OF THE OFFERING OF SECURITIES TO WHICH IT RELATES. AN INVESTMENT IN PSEC PREFERRED STOCK SHOULD BE MADE ONLY AFTER CAREFUL REVIEW OF THE PROSPECTUS. ALL INFORMATION CONTAINED IN THIS MATERIAL IS QUALIFIED IN ITS ENTIRETY BY THE TERMS OF THE PROSPECTUS. THE ACHIEVEMENT OF ANY GOALS IS NOT GUARANTEED.



**Preferred Capital Securities, LLC**  
(Member FINRA/SIPC) is the  
Dealer Manager for Prospect  
Capital Convertible Preferred  
Stock A and Stock M  
3290 Northside Parkway, NW  
Suite 800, Atlanta, GA 30327  
Sales Desk: 855.330.6594  
10-Critical-Questions-PSEC