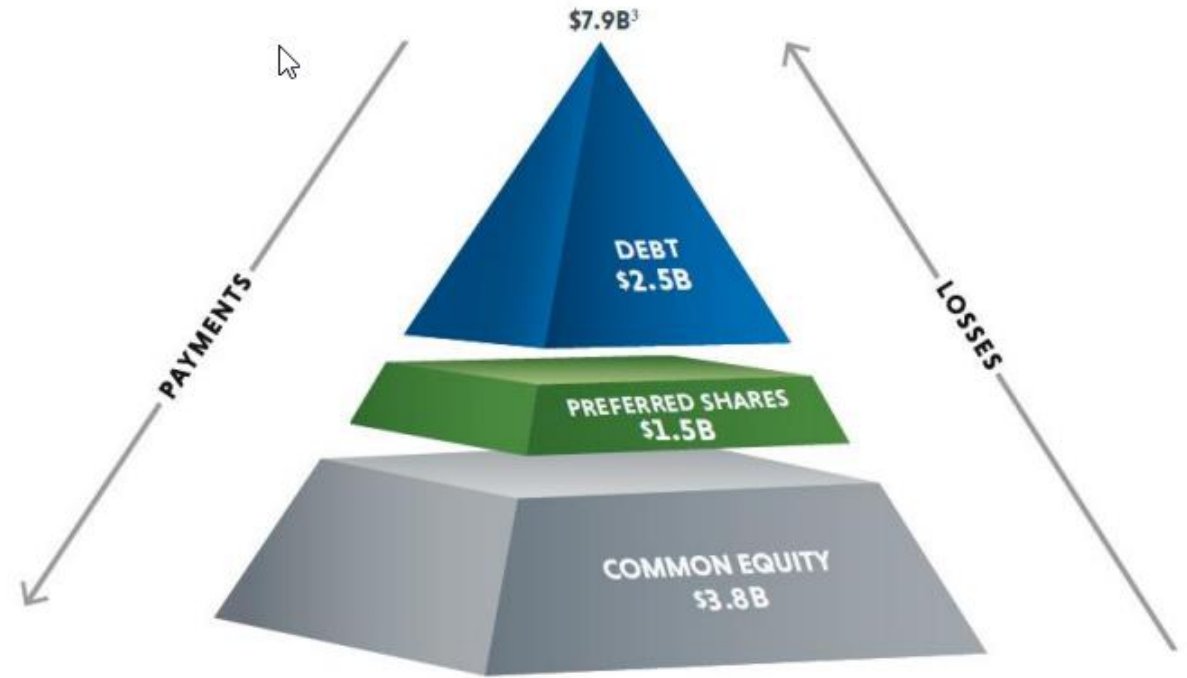




New Active **Short** Prospect Capital Corp. (PSEC)

Another Prospect – A REIT Hiding in a
BDC “Triangle”

November 29, 2023



Source: <https://pcsalts.com/wp-content/uploads/2023/11/PSEC-Client-Presentation-September.pdf>

PROSPECT CAPITAL

HEDGEYE REITs

ROB SIMONE, CFA

Managing Director

rsimone@hedgeye.com

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Please submit questions* to
qa@hedgeye.com

*Answered at the end of the call



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1 OVERVIEW OF PROSPECT CAPITAL CORP.

Another case of potentially **uneconomic arrangements** accruing to the benefit of insiders? We think **PSEC cannot sustain itself in its current form without continued access to cheap outside capital.**

➤ Hedgeye's Takeaways:

- When marked-to-market properly, **NPRC likely has no equity value and should be written down.** The relationship appears “circular” to us.
- PSEC's **common distribution is very likely unsustainable.** Optional preferred conversions make it worse.
- A credible case can be made that **PSEC's true “NAV” could be >50% lower,** just from appropriately valuing several large positions.
- The **only “winner” here appears to be the external manager.**
- **PSEC's non-traded convertible preferred stock** is being used to fund cash flow shortfalls and carries unique risks.
- **PSEC is a deep rabbit hole,** so Hedgeye will address the larger investments one-by-one and simplify the situation as best as possible.
- **Prospect Capital Corporation (“PSEC”)** is an externally-managed Business Development Company (“BDC”) with ~\$7.9 of total assets at PSEC's “fair values.”
- Founded by **Chairman and CEO John Barry** in 2004.
 - In our view more or less the “Barry Family Office,” but publicly-traded and utilizing “OPM.” Several family members in the organization.
 - Barry owns and controls **Prospect Capital Management, L.P. (“PCM”)**, which is the external investment adviser and earns base management + incentive fees from PSEC. More on that later.
 - Barry owns ~27% of the common shares + takes a portion of distributions as newly-issued shares via the company's DRIP program.
- **PSEC was late on filing the last two 10-K reports** and [just changed the auditor](#) from BDO USA, P.C. (auditor since 2005) to Deloitte & Touche LLP on 9.28.23.
- 128 investments spread across >35 industry sectors, the largest and most important being **National Property REIT Corp. (“NPRC”)**, which is 100% owned and controlled by PSEC.
 - NPRC accounts for ~20% of PSEC's total assets, ~43% of net assets, and a larger share (>50%) of PSEC's cash Net Investment Income (“NII”).
 - NPRC is the reason Hedgeye took a look at PSEC.

PSEC | ADDRESSING PSEC PIECE-BY-PIECE

PSEC has several important larger positions, and overall PSEC's portfolio is very concentrated in the top-10 by size. Hedgeye plans to focus initially on the highlighted positions, starting with NPRC here.

(\$ Amounts in 000s)

#	Company	Description	Control?	Owner / Sponsor	1Q24			Cumulative on FV		
					PSEC's Cost	PSEC's FV	Implied Mark	FV	% of Total	% of NAV
1	NPRC	Private REIT	Yes	PSEC	1,013,409	1,629,742	161	1,629,742	21.1%	43.1%
2	First Tower Finance Co.	Subprime Consumer Lender	Yes	PSEC	432,660	615,592	142	2,245,334	29.0%	59.4%
3	InterDent, Inc.	Dental Services	Yes	PSEC / HIG	343,852	458,180	133	2,703,514	34.9%	71.5%
4	Town & Country Holdings	Textiles Distributor	No / Yes	HIG	196,060	243,707	124	2,947,221	38.1%	78.0%
5	Valley Electric	Construction & Engineering	Yes	PSEC	91,148	189,492	208	3,136,713	40.5%	83.0%
6	DRI Holdings, Inc.	Commercial Services & Supplies	No		177,750	178,240	100	3,314,953	42.8%	87.7%
7	Broder Bros	Apparel Wholesale	No	Littlejohn	158,530	158,530	100	3,473,483	44.9%	91.9%
8	PeopleConnect Holdings	Interactive Media & Services	No		153,131	153,131	100	3,626,614	46.9%	95.9%
9	ViaPath Technologies	Prison Phones / IT	No	American Securities	131,438	131,988	100	3,758,602	48.6%	99.4%
10	Magnate Worldwide	Supply Chain Management	No	Littlejohn	126,371	126,394	100	3,884,996	50.2%	102.8%
Subtotal: Top-10					2,824,349	3,884,996	138	3,884,996	50.2%	102.8%
11	Credit.com Holdings / PGX	"Diversified Consumer Services"			79,301	90,913	115	3,975,909	51.4%	105.2%
(+) Other Investments					4,710,203	3,760,908	80	7,736,817	100.0%	204.6%
Total Portfolio					7,613,853	7,736,817	102	7,736,817	100.0%	204.6%

1 Lending to Companies

Directly-originated loans to companies, including companies which are controlled by private equity sponsors. Debt can take the form of first lien (1L), second lien (2L), unitranche or unsecured loans. Typically equity subordinate to PSEC's position. Historically 40-60% of PSEC's portfolio.

2 Lending + Purchasing Controlling Equity Positions in Companies

Purchasing senior and secured yield-producing debt and controlling equity positions in operating companies across various industries. Historically 15-25% of PSEC's portfolio

3 Controlling Equity Position + Lending to NPRC

Investments in various classes of developed and occupied real estate properties that generate current yields, including multi-family and student housing. Seeks to identify stabilized properties that have historically significant occupancy rates and recurring cash flow generation. Historically 10-20% of portfolio.

4 Structured Credit

Investments in structured credit, often taking a significant position in subordinated structured notes (equity) and rated secured structured notes (debt). No direct exposure to real estate, mortgages, or consumer-based credit assets. Historically 10-20% of portfolio.

[1] Control Investments

- Ability or power to exercise a controlling influence over the management or policies of a company.
- Control is generally deemed to exist when a company or individual **possesses a beneficial ownership of more than 25% of the voting securities of an investee company.**
- **PSEC owns 100% of NPRC's common equity + a significant portion of the sizeable debt stack.**

[2] Affiliate Investments

- Under the 1940 Act (defined later in this deck), "Affiliate Investments" are defined by a lesser degree of influence.
- Deemed to exist through owning, controlling, or holding with power to vote, **5% or more of the outstanding voting securities of another person.**

[3] Non-Control/Affiliate

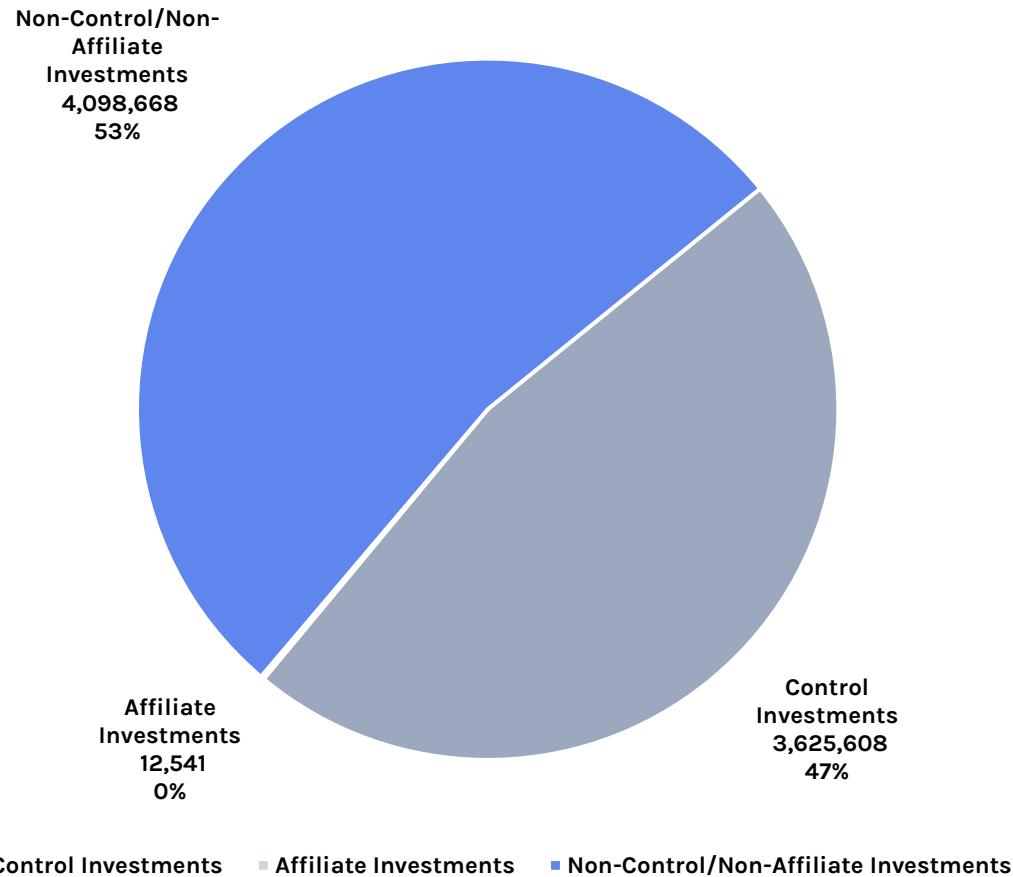
- All other investments that are neither Control Investments nor Affiliate Investments.

PSEC | INVESTMENT COMPOSITION BY CONTROL DESIGNATION & TYPE

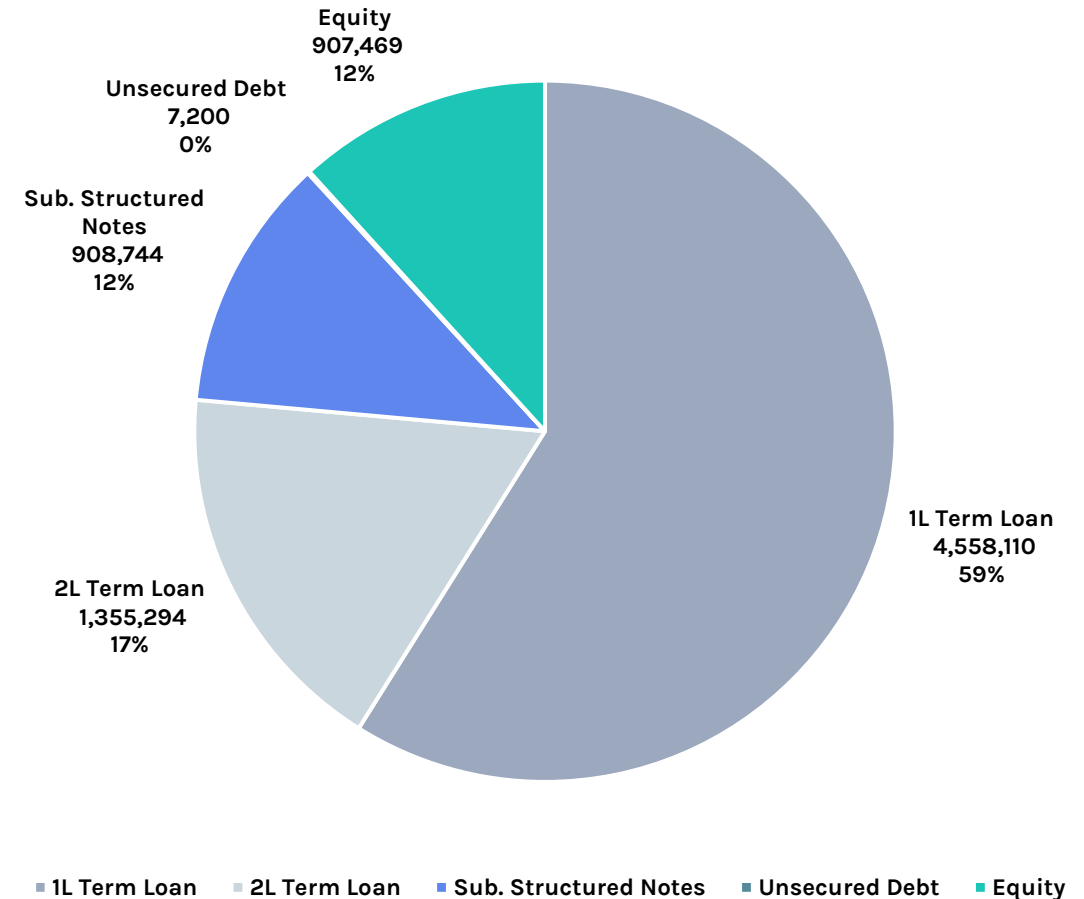
NPRC = Nearly Half of PSEC's "Control Investments"

Primarily 1L + 2L Term Loans

PSEC 1Q24 Total Investments by Control Designation at PSEC's FV



PSEC 1Q24 Total Investments by Investment Type at PSEC's FV

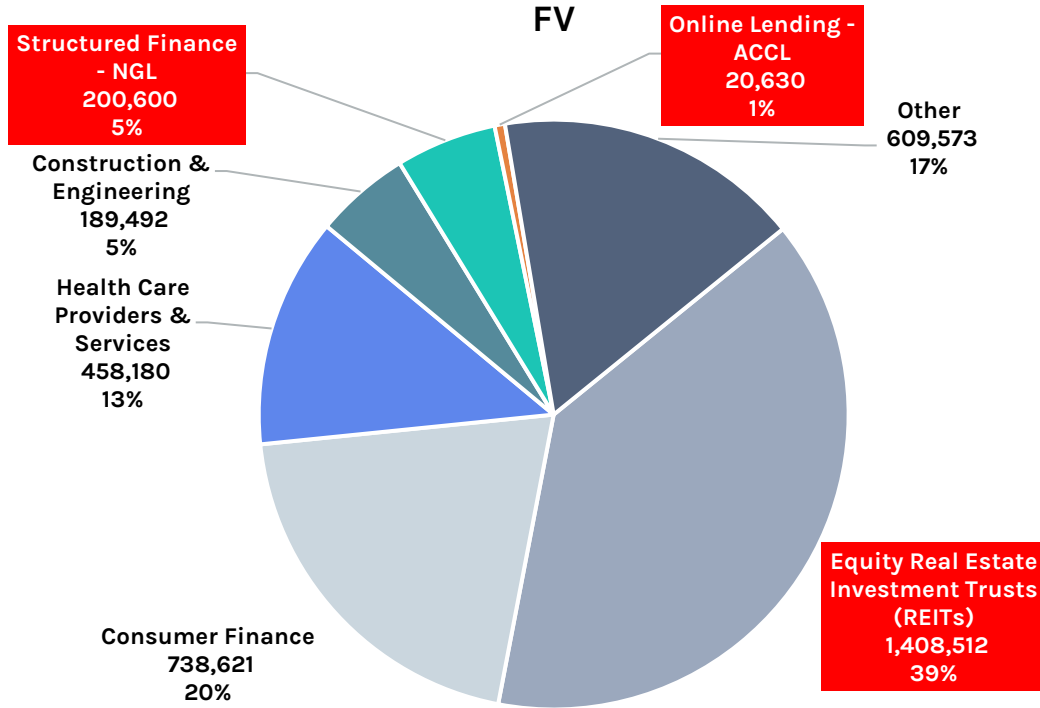


PSEC | CONTROL INVESTMENTS BY INDUSTRY & TYPE

NPRC = REITS + NGL + ACCL = ~45% of the Bucket

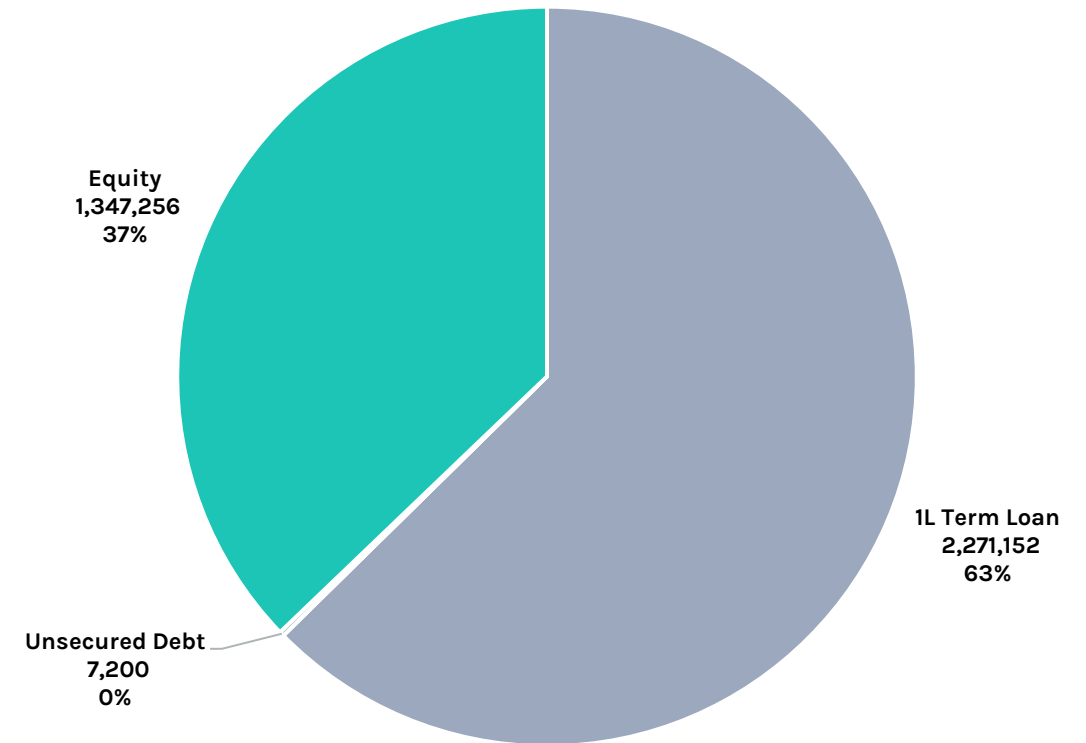
Majority of NPRC Consists of 1L TLs (~\$1 billion)

PSEC 1Q24 Control Investments by Industry at PSEC's FV



- Equity Real Estate Investment Trusts (REITs)
- Consumer Finance
- Health Care Providers & Services
- Construction & Engineering
- Structured Finance - NGL
- Online Lending - ACCL
- Other

PSEC 1Q24 Control Investments by Type at PSEC's FV



- 1L Term Loan
- 2L Term Loan
- Sub. Structured Notes
- Unsecured Debt
- Equity

PSEC | MEASURING DISTRIBUTION COVERAGE

PSEC is essentially a yield vehicle for common holders. Whereas REITs typically use “AFFO” to measure dividend coverage, PSEC and other BDCs measure coverage using Net Investment Income (“NII”). There are potential pitfalls in PSEC’s case.

PSEC’s NII Calculation:

Interest Income

(+) Dividend Income

(+) Other Income

(-) Base Management Fees

(-) Income Incentive Fees

(-) Interest Expense on PSEC Debt

(-) Overhead Allocation

(-) Audit, Compliance & Tax Fees

(-) Directors’ Fees

(-) Other G&A Expenses

= Reported NII

Notes:

← Includes non-cash PIK interest, akin to SL Rent or FAS-141 in REITs

← Includes structuring fees from NPRC TL amendments, funded from TL draws ⁽¹⁾

← Paid to PSEC, based on 2% of assets

← Paid to PSEC, receives benefit of PIK interest + structuring fees from NPRC ⁽¹⁾

← **Not a cash-based metric, excludes PIK interest + working capital adjustments**

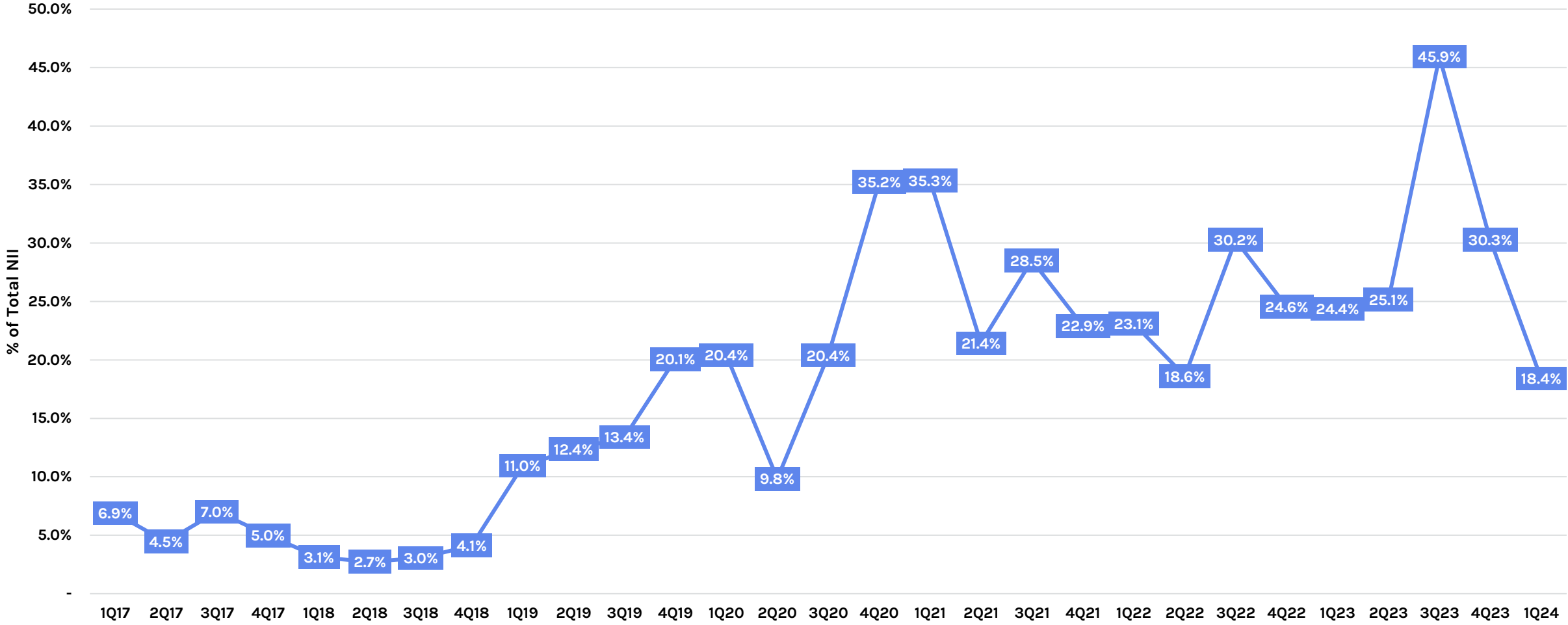
Notes:

(1) For example, in 1Q24 PSEC and NPRC amended their TLA, TLD and TLE agreements. The maturities were extended but the interest rates paid to PSEC were reduced = lower CF to PSEC. PSEC booked a ~\$12 million structuring fee funded from TL draws.

PSEC | CONTRIBUTION FROM PIK INTEREST VOLATILE, BUT HAS BEEN INCREASING OVER TIME

Shares similar traits with MPW → generates non-cash taxable income that must be paid out as distributions. PSEC cannot pay common or preferred distributions with PIK interest income.

PSEC Historical PIK Interest % of NII



PSEC | PSEC REPRESENTS ~139% COMMON DISTRIBUTION COVERAGE BASED ON REPORTED NII

Prospect Capital Announces September 2023 Financial Results and Declares Steady Monthly Dividends through January 2024 of \$0.06 Per Common Share

11/08/2023

NEW YORK, Nov. 08, 2023 (GLOBE NEWSWIRE) -- Prospect Capital Corporation (NASDAQ: PSEC) ("Prospect", "our", or "we") today announced financial results for our fiscal quarter ended September 30, 2023.

FINANCIAL RESULTS

<i>All amounts in \$000's except per share amounts (on weighted average basis for period numbers)</i>	Quarter Ended	Quarter Ended	Quarter Ended
	September 30, 2023	June 30, 2023	September 30, 2022
Net Investment Income ("NII")	\$125,612	\$112,779	\$99,266
Basic NII per Common Share ⁽¹⁾	\$0.25	\$0.23	\$0.22
Interest as % of Total Investment Income	85.7%	89.1%	86.0%
Basic NII Coverage of Distributions to Common Shareholders	139%	128%	122%
Annualized Basic NII Return on Common NAV	10.8%	10.0%	8.8%

PSEC | HEDGEYE'S METHODOLOGY FOR MEASURING COMMON DISTRIBUTION COVERAGE

We give effect to PIK interest + other working capital changes + preferred distributions which rank senior to common distributions. The “true” coverage is much tighter and has frequently been <1x.

Hedgeye's Calculation:

Notes:

Reported NII

(-) PIK Interest

(-) Amortization of Debt Discounts

(+) Accretion of OID

(-) Amortization of Deferred Financing Costs

(-) Non-Cash Structuring Fees

= Adjusted Total NII

(-) Calculated Preferred Distributions

= Adjusted NII to Common

(/) Calculated Common Distributions

= Hedgeye-Adjusted Common Coverage

← Available to “cover” common + preferred distributions

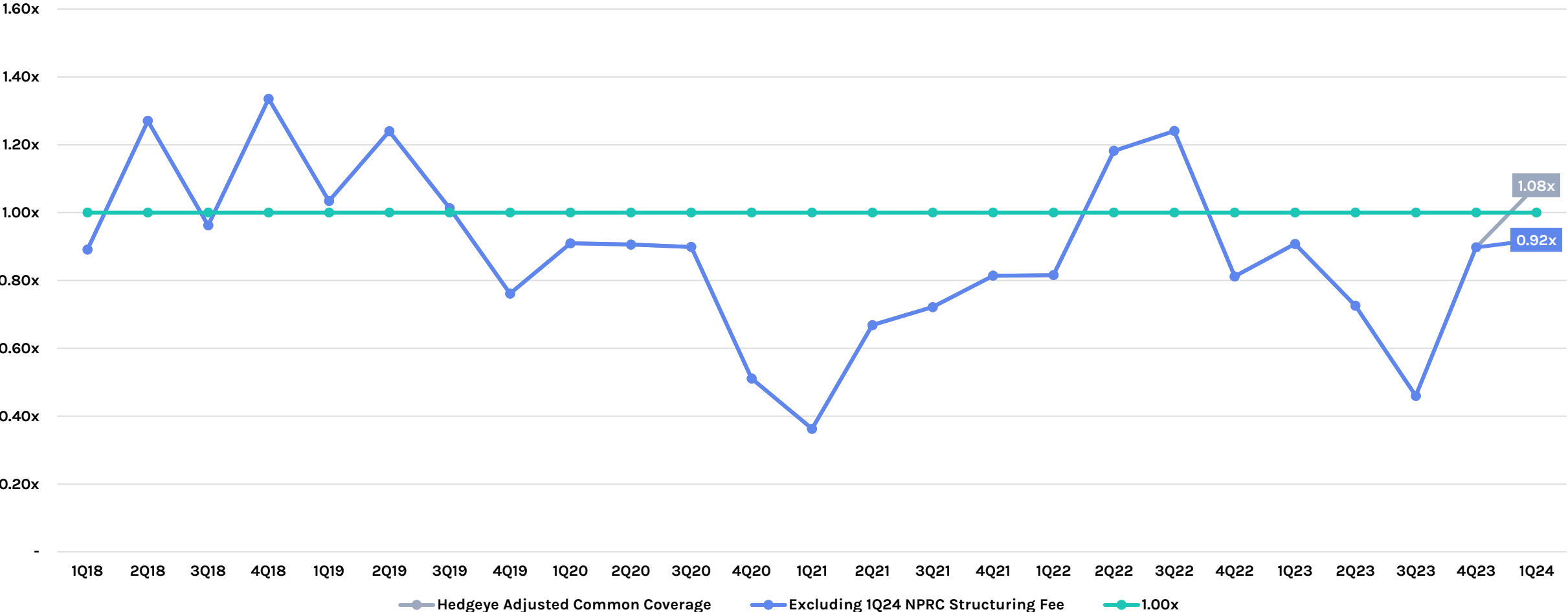
← Currently ~\$23.6 million per quarter, based on 1Q24 outstanding shares

← We include cash + DRIP; DRIP results in dilution + higher future payouts

PSEC | HISTORICAL ADJUSTED COMMON DISTRIBUTION COVERAGE

“True” coverage frequently below 1.0x. We estimate ~0.92x for 1Q24 when excluding the ~\$12 million structuring fee “earned” by PSEC from renegotiating NPRC’s TL agreements.

Hedgeye-Adjusted Common Distribution Coverage



PCM serves as Investment Advisor to and manages the day-to-day operations of PSEC. Hedgeye estimates that PCM has earned ~\$800 million of cash fees since the beginning of 2020, vs. ~\$2.7 million of total investment income (~30% yield).

- **Base Management Fee** = 2.00% of total assets, payable quarterly in arrears, and calculated based on the average value of PSEC's gross assets at the end of the two most recent calendar quarters.
 - **Actual recorded in 1Q24:** \$39,289.
 - **Hedgeye calculation:** $2.00\% \times ((7,853,828 + 7,861,666) / 2) / 4 = \$39,289 \rightarrow$ checks out mathematically
 - **Potential perverse incentives:**
 - “Scale” metric that incentivizes management to become “asset aggregators,” i.e. raise as much gross capital as possible (such as non-traded convertible preferred) and buy/lend against anything at the highest price.
 - Moreover, potentially incentivizes management to avoid PSEC write-downs + “amend and extend” to keep recurring fee streams flowing into PCM.
 - As it relates to NPRC, incentivizes management to extend additional TL draws using externally-sourced capital to fund cash flow deficits and earn fees from that deployed debt capital. As opposed to restructuring NPRC's capital structure to a lower-levered and more sustainable form.
- **Incentive Fee (Two Parts):**
 - **Income Incentive Fee (Part 1):** Calculated and payable quarterly in arrears based on **pre-incentive fee net investment income** for the prior calendar quarter.
 - **Pre-Incentive Fee Net Investment Income (“PIFNII”)** = Interest Income + Dividend Income + Other Income (such as structuring fees and other fees received from portfolio companies) - Operating Expenses - Base Management Fee to PCM - Expenses Payable Under the Administration Agreement - Interest Expense - Dividends on Outstanding Preferred Stock.
 - **PIFNII includes PIK income** + other accrued income not yet received in cash by PSEC.
 - **PIFNII expressed as a rate of return** on the value of net assets at the end of the immediately preceding calendar quarter, **compared to a “hurdle rate” of 1.75% per quarter or 7.00% annualized.**
 - 100% of PIFNII between 7.00% and 8.75% annualized in any calendar quarter, and
 - 20% of PIFNII above 8.75% in any calendar quarter.

PSEC | OVERVIEW OF INVESTMENT ADVISORY AGREEMENT (CONT'D)

➤ Incentive Fee (Two Parts):

- **Capital Gains Incentive Fee (Part 2):** Determined and payable in arrears as of the end of each calendar year, or upon termination of the advisory agreement.
 - Equals 20.0% of aggregate realized capital gains for the calendar year, if any, and calculated net of all realized capital losses and unrealized depreciation at the end of such year.
 - At the end of the applicable calendar year, the amount of capital gains that serves as the basis for the calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis, and then reducing this amount by the aggregate unrealized capital depreciation.
 - **If this number is positive, then the capital gains incentive fee payable is equal to 20.0% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.**
- No capital gains incentive fees were recorded in 1Q24 ending 9.30.23.
- PSEC recorded an income incentive fee of \$25,617 for 1Q24 ending 9.30.23.
- **This figure received the benefit of (1) PIK interest** earned by PSEC and included in interest income, and **(2) ~\$15 million in total structuring fees earned from NPRC** by PSEC and included in “Other Income.” The structuring fee was generated primarily as a result of PSEC renegotiating its TL agreements with NPRC, and funded from net term loan draws from PSEC.
- **In Hedgeye’s view, these mechanisms artificially boost PSEC’s PIFNII and, as a result, PSEC’s income incentive fees paid to PCM.** The PIK interest and structuring fee components, in particular, appear to benefit no one but the external manager, **to the detriment of PSEC’s common shareholders.** We view this as an example of potential self-dealing.

PSEC | ROUGHLY ~30% OF PSEC'S 1Q24 CASH INCENTIVE FEE DERIVED FROM NON-CASH INCOME

To illustrate the point, we calculated PSEC's 1Q24 Income Incentive Fee including and excluding PIK interest + structuring fees from NPRC. Neither of these income items result in cash flow available for common holders. **They do, however, benefit the external manager.**

(\$ in 000s, Except per Share Data)

Income Incentive Fee Calculation

	1Q24
Cash Interest Income	179,344
(+) PIK Interest	23,103
(+) Dividend Income	3,059
(+) Other Income excl. NPRC Structuring Fees	15,263
(+) NPRC Structuring Fees ⁽¹⁾	15,476
(-) Base Management Fees	(39,289)
(-) Interest & Credit Facility Expenses	(40,593)
(-) Allocation of Overhead from Prospect Administration	(2,113)
(-) Audit, Compliance and Tax-Related Fees	(1,017)
(-) Directors' Fees	(135)
(-) Other G&A Expenses	(1,869)
(-) Preferred Stock Dividend	(23,151)
Hedgeye-Calculated PIFNII (A) ⁽²⁾	128,078
(/) Prior Quarter Reported Net Assets (B)	3,732,665
Annualized Return (C) = ((A / B) x 4)	13.73%

Incentive Fee Calc - Part 1

Tier 1	100.0%	16,330
Hurdle - Min	7.00%	
Hurdle - Max	8.75%	
Tier 2	20.0%	9,285
Hurdle - Min	8.75%	
Calculated Income Incentive Fee		25,616
Actual		25,617
Check		(1)

Notes:

(1) In 1Q24 PSEC earned a ~\$11.8 million structuring fee from the renegotiation of NPRC's TL agreements. The net TL draw in the quarter was ~\$50 million.

(2) See prior slides for definition of PIFNII.

Income Incentive Fee Calculation - excl. PIK + NPRC Structuring

	1Q24
Cash Interest Income	179,344
(+) PIK Interest	-
(+) Dividend Income	3,059
(+) Other Income excl. NPRC Structuring Fees	15,263
(+) NPRC Structuring Fees (1)	-
(-) Base Management Fees	(39,289)
(-) Interest & Credit Facility Expenses	(40,593)
(-) Allocation of Overhead from Prospect Administration	(2,113)
(-) Audit, Compliance and Tax-Related Fees	(1,017)
(-) Directors' Fees	(135)
(-) Other G&A Expenses	(1,869)
(-) Preferred Stock Dividend	(23,151)
Hedgeye-Calculated PIFNII (A) (2)	89,499
(/) Prior Quarter Reported Net Assets (B)	3,732,665
Annualized Return (C) = ((A / B) x 4)	9.59%

Incentive Fee Calc - Part 1

Tier 1	100.0%	16,330
Hurdle - Min	7.00%	
Hurdle - Max	8.75%	
Tier 2	20.0%	1,569
Hurdle - Min	8.75%	
Calculated Income Incentive Fee		17,900
Actual		25,617
Income Fees Attributable to PIK + NPRC Structuring		7,717
% of Total		30.1%

PSEC | HEDGEYE IS NOT THE FIRST TO RAISE THESE CONCERNS

“Some analysts have accused Prospect of charging what they say are **conspicuously high fees**, even as investor returns have faltered.” – NYT, *Obscure Corner of Wall St. Draws Skepticism From Investors*, 12.24.15

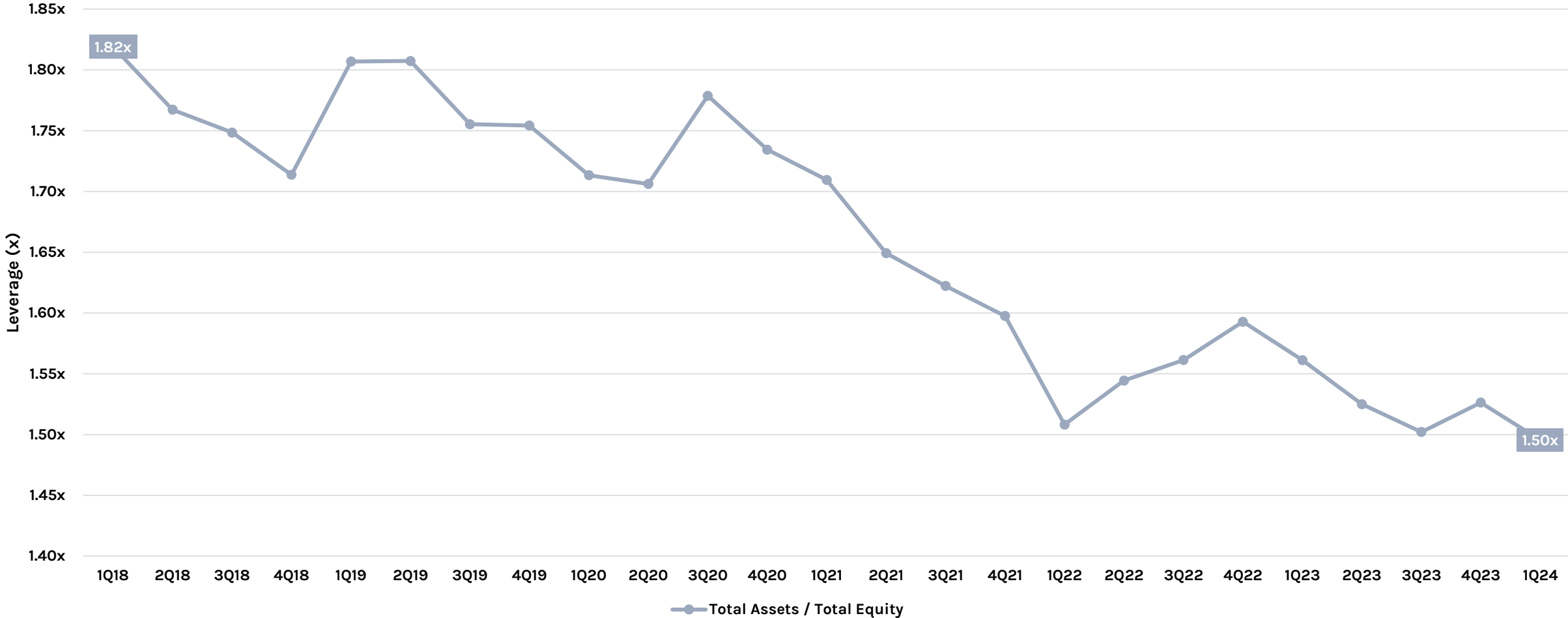
“Some analysts have also objected to various **tactics they say allow Prospect to inflate income**, increasing incentive fees due to its manager. For example, Prospect charges above-market interest rates to some companies it controls and **receives some of the interest in noncash debt securities that count toward current incentive fees** – leaving shareholders at risk of nonpayment.” – NYT, *Obscure Corner of Wall St. Draws Skepticism From Investors*, 12.24.15

“In an August (2015) call with a Prospect staff banker who questioned imposing such high rates on the companies, **Mr. Barry** described the interest payments as **“a brand new road freshly paved to have net investment income come in to Prospect,”** according to a record of the call. – NYT, *Obscure Corner of Wall St. Draws Skepticism From Investors*, 12.24.15

PSEC | TOTAL VS. “COMMON” LEVERAGE

PSEC classifies the outstanding preferred stock as “temporary equity,” in the process showing leverage below the statutory 2:1 maximum for BDCs. Moreover, doing so optically presents a secular decline in total leverage.

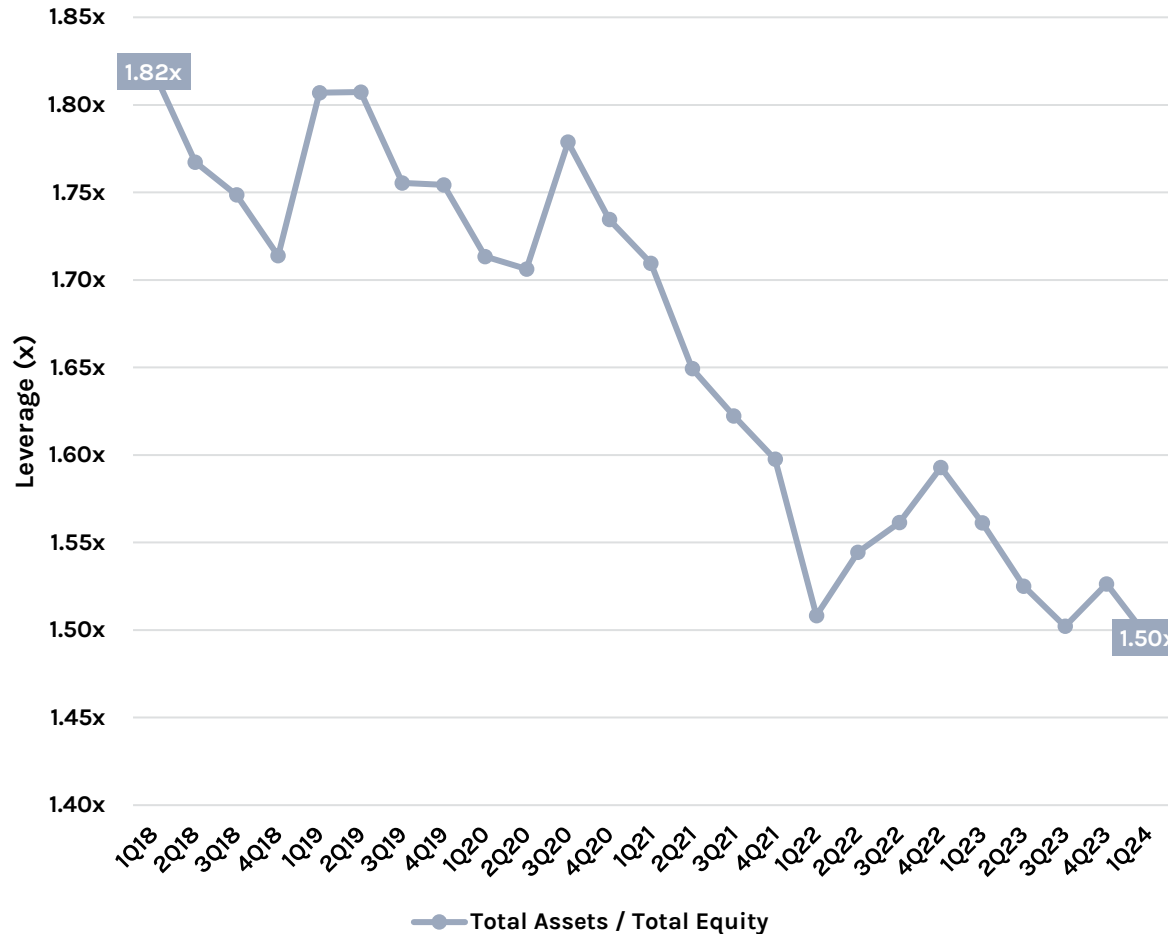
PSEC Historical Total Assets / Total Equity



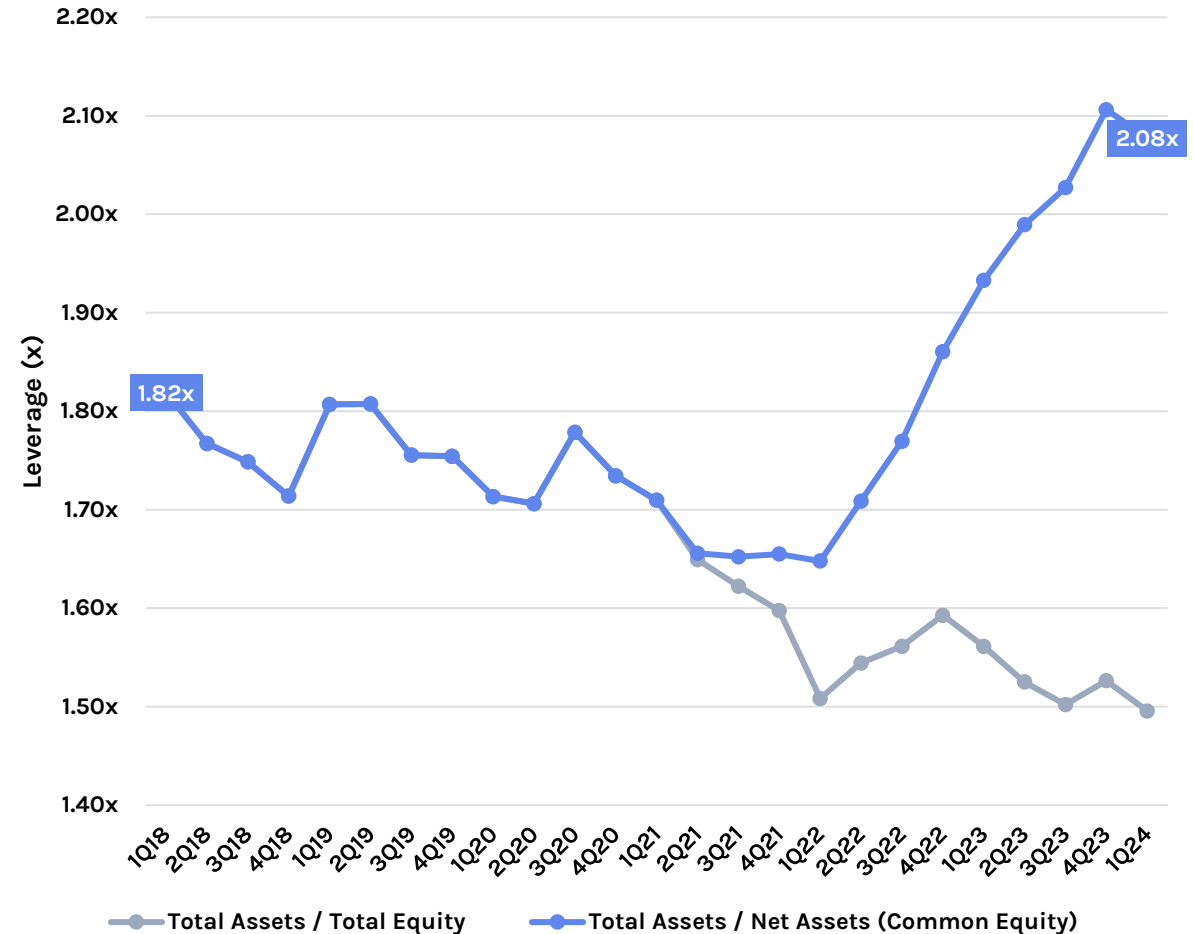
PSEC | IN REALITY, THE LEVERAGE TO THE COMMON HAS INCREASED MASSIVELY

Treatment of the preferred in leverage calcs is somewhat of an open question. Economically and as a practical matter, however, PSEC has been leveraging up the common via convertible preferred issuance since late-2020.

PSEC Historical Total Assets / Total Equity



PSEC Historical Total Assets / Total Equity



[2] NATIONAL PROPERTY REIT CORP. (“NPRC”)

NPRC | OVERVIEW OF NATIONAL PROPERTY REIT CORP. (“NPRC”)

PSEC uniquely has a ~\$4bn (at cost) private REIT as its largest and most important investment position at ~21% of gross assets and ~43% of net assets (both using PSEC’s marks) as of 1Q24 ended 9.30.23.

- **Private REIT 100% owned by PSEC** and accounted for as a Control Investment. This is by far PSEC’s most important investment, hence why we are starting here. We estimate it accounts for >50% of PSEC’s “cash flow” before distributions.
- In addition to owning 100% of NPRC’s common stock **PSEC has made ~\$1 billion of term loan investments into the entity**. PSEC’s total exposure to NPRC at cost is ~\$1 billion, and PSEC carries its investments at ~\$1.6 billion.
- NPRC invests primarily in **cash-flowing Class B/C multifamily assets** in secondary and tertiary submarkets **targeting current yields**. Also invests in select student housing, senior living, commercial and industrial assets.
- NPRC uses a **significant amount of secured property-level mortgage debt** in making acquisitions. We estimate >80% average LTVs on cost = very highly-levered entity.
- NPRC has also curiously made relatively small investments in small-balance consumer whole loans via its American Consumer Lending Limited (“ACLL”) subsidiary, and structured credit investments in rated secured structured notes (“RSSN”) via its National General Lending Limited (“NGL”) subsidiary. While small, we believe the only reason these debt investments are in the REIT are to hide/mitigate losses elsewhere in PSEC’s portfolio.

NPRC | HEDGEYE'S HIGH-LEVEL TAKEAWAYS

The current arrangement between PSEC & NPRC appears **completely unsustainable and uneconomic to PSEC common, absent a continuous source of external capital.** It appears to us to only benefit PCM as external manager.

- **NPRC is hopelessly over-levered and has not been covering its interest + “residual profit interest” obligations to PSEC** with internally-generated cash flow, both before and after capex, **for several years** through to 1Q24.
- We estimate a **~\$154 million aggregate cash flow deficit over 2020-2022 before NPRC’s capex spend**, and **~\$366 million after capex**. This definitionally means NPRC relies on external capital to operate.
- Meanwhile PSEC has extended net TL draws to NPRC in 12 of the past 15 quarters aggregating a net ~\$430 million (~\$1.1 billion gross less ~\$690 million of repayments). PSEC invested an additional ~\$25 million of net equity into NPRC.
- Of this ~\$455 million of incremental net capital from PSEC, just ~\$345 million was allocated to acquisitions and other new investments over that time. An incremental ~\$40 million came in to NPRC from mortgage financings, over and above the initial purchase price. **This leaves ~\$150 million funded by PSEC for NPRC’s capex, net working capital, structuring fees and other uses to partially offset the above cash flow shortfalls.**
- **The burn appears to be worsening** – YTD in calendar 2023 NPRC has purchased zero new investments, yet PSEC funded ~\$118.5 million of net new TL draws to NPRC vs. ~\$139 million of recorded investment income back to PSEC.
- If cash is fungible, **a credible case can be made that a significant portion of PSEC’s “earnings” from NPRC are supported by PSEC itself.** This increases incentive fees paid by PSEC to PCM as external manager. It also increases PSEC’s leverage.
- Amplifying the issue, essentially none of PSEC’s significant PIK interest income has come from NPRC = more exposed!
- ~\$250 million of near-term mortgage debt maturities in 2024 are a material headwind and potential catalyst for NPRC.
- **PSEC’s marks for NPRC are highly suspect, in our view.** This supports higher base management fees paid to PCM.
- Many of NPRC’s properties are low on the “quality spectrum” and not what REIT investors would consider to be “REIT-able” assets.

NPRC | NPRC AUDITED FINANCIALS AVAILABLE

In addition to the information provided in the body of PSEC’s SEC disclosures, PSEC attaches NPRC’s audited financials statements to the 10-K each year. At least we don’t have to fight PSEC for them, like someone else we know...

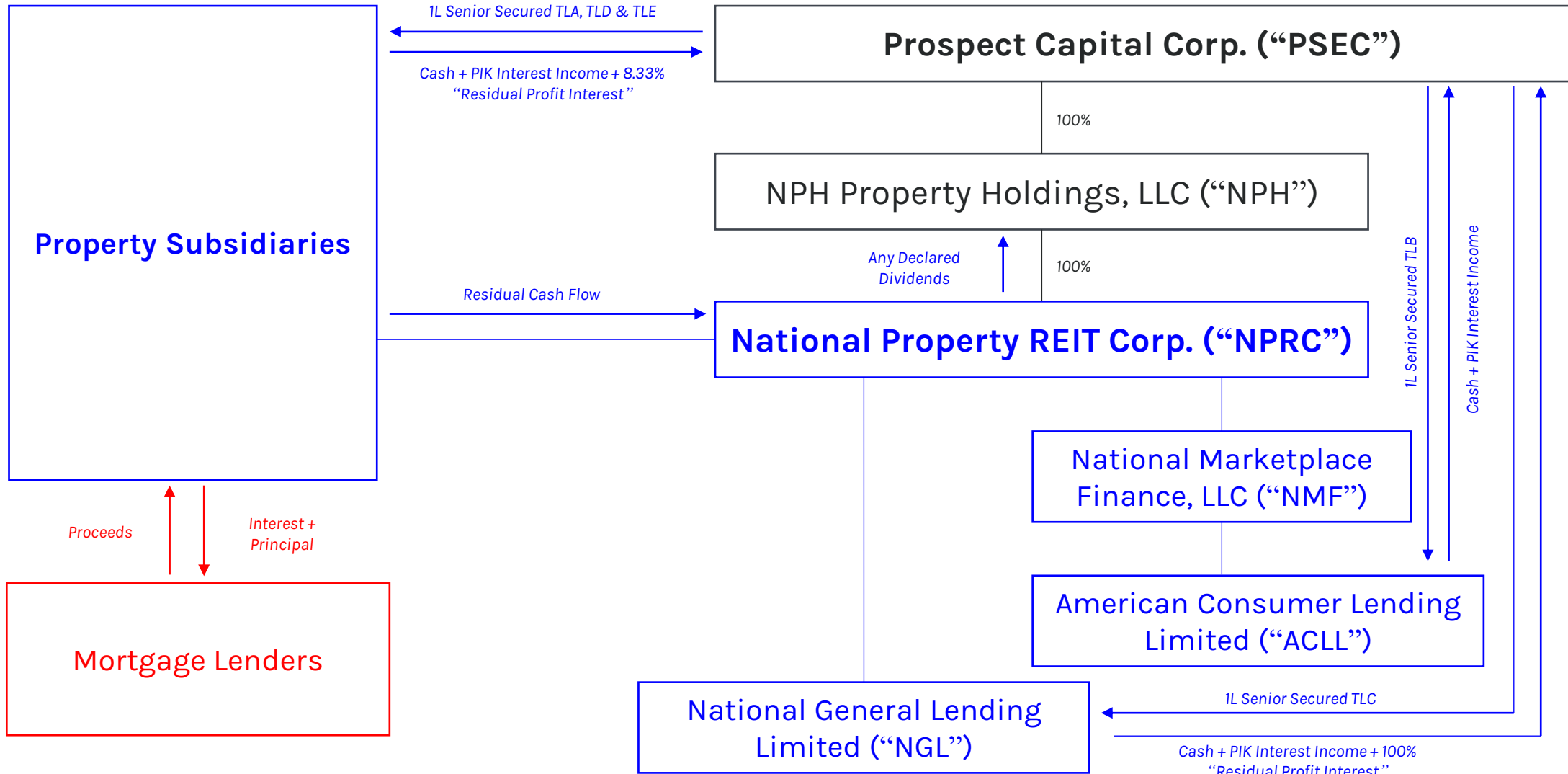
- 21 Subsidiaries of the Registrant (included in the notes to the consolidated financial statements contained in this annual report)

- 22.1 [Proxy Statement\(354\)](#)
- 22.2 [Published report regarding matters submitted to vote of security holders\(355\)](#)
- 23.1 [Consent of BDO USA, P.C., Certified Public Accountants of Prospect Capital Corporation*](#)
- 23.2 [Consent of CohnReznick LLP, Certified Public Accountants of National Property REIT Corp.*](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as amended*](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as amended*](#)
- 32.1 [Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)*](#)
- 32.2 [Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)*](#)
- 99.1 [Audited Combined Consolidated Financial Statements of National Property REIT Corp. for the years ended December 31, 2022 and 2021*](#)
- 99.2 [Audited Combined Consolidated Financial Statements of National Property REIT Corp. for the years ended December 31, 2021 and 2020*](#)



NPRC | HEDGEYE'S INTERPRETATION OF NPRC STRUCTURE

Ultimately PSEC's cash flow participation is (1) cash interest income from the TLA's + (2) "residual profit interests" under the TL agreements + (3) structuring fees. No dividends paid since 2019.



NPRC | SUMMARY OF PSEC'S INVESTMENTS INTO NPRC

PSEC owns 100% of NPRC's capital structure outside of the secured mortgage debt + NGL repo facility.

(\$ Amounts in 000s)

Investment in NPRC	Contractual Interest Rate	1Q24 Effective Rate	Legal Maturity Date	Principal / Amortized Cost	PSEC's Fair Value	% of PSEC Gross Assets	% of PSEC Net Assets	Notes
1L Term Loan A (TLA)	3-Month SOFR + 25bps 3.75% SOFR Floor + 2.00% PIK (paid in cash as of 9.30)	4.51%	3/31/2026	579,462	579,462	7.4%	15.3%	(1)
1L Term Loan B (TLB)	3-Month SOFR + 200bps 3.00% SOFR Floor	7.65%	3/31/2026	20,630	20,630	0.3%	0.5%	(1)
1L Term Loan C (TLC)	3-Month SOFR + 1,000bps 1.00% SOFR Floor + 2.25% PIK (paid in cash as of 9.30)	15.65%	3/31/2026	200,600	200,600	2.6%	5.3%	(1)
1L Term Loan D (TLD)	3-Month SOFR + 25bps 3.75% SOFR Floor + 2.00% PIK (paid in cash as of 9.30)	4.51%	3/31/2026	183,425	183,425	2.3%	4.9%	(1)
1L Term Loan E (TLE)	3-Month SOFR + 150bps 5.50% SOFR Floor + 7.00% PIK	7.26%	3/31/2026	13,862	13,862	0.2%	0.4%	(1)
Residual Profit Interest					49,537	0.6%	1.3%	(2)(3)
Common Equity - Real Estate				15,430	544,907	6.9%	14.4%	(2)(3)
Common Equity - ACCL Consumer Loans					1,208	0.0%	0.0%	(1)(4)
Common Equity - NGL RSSN					36,111	0.5%	1.0%	(1)(5)
Total / Wtd. Average				1,013,409	1,629,742	20.8%	43.1%	

Notes:

- (1) Valued at par by PSEC using the "enterprise value waterfall" approach.
- (2) Residual equity values determined by PSEC using a DCF approach.
- (3) Inputs are internal projections + a terminal cap rate methodology.
- (4) Inputs are loss-adjusted discount rates + projected loss rates.
- (5) Inputs are loss-adjusted discount rates.

NPRC | OBSERVATION: PSEC EXTENDED THE TLA/D/E AT LOWER RATES AHEAD OF THE 12.31.23 MATURITY

10-K Filed for 6.30.23

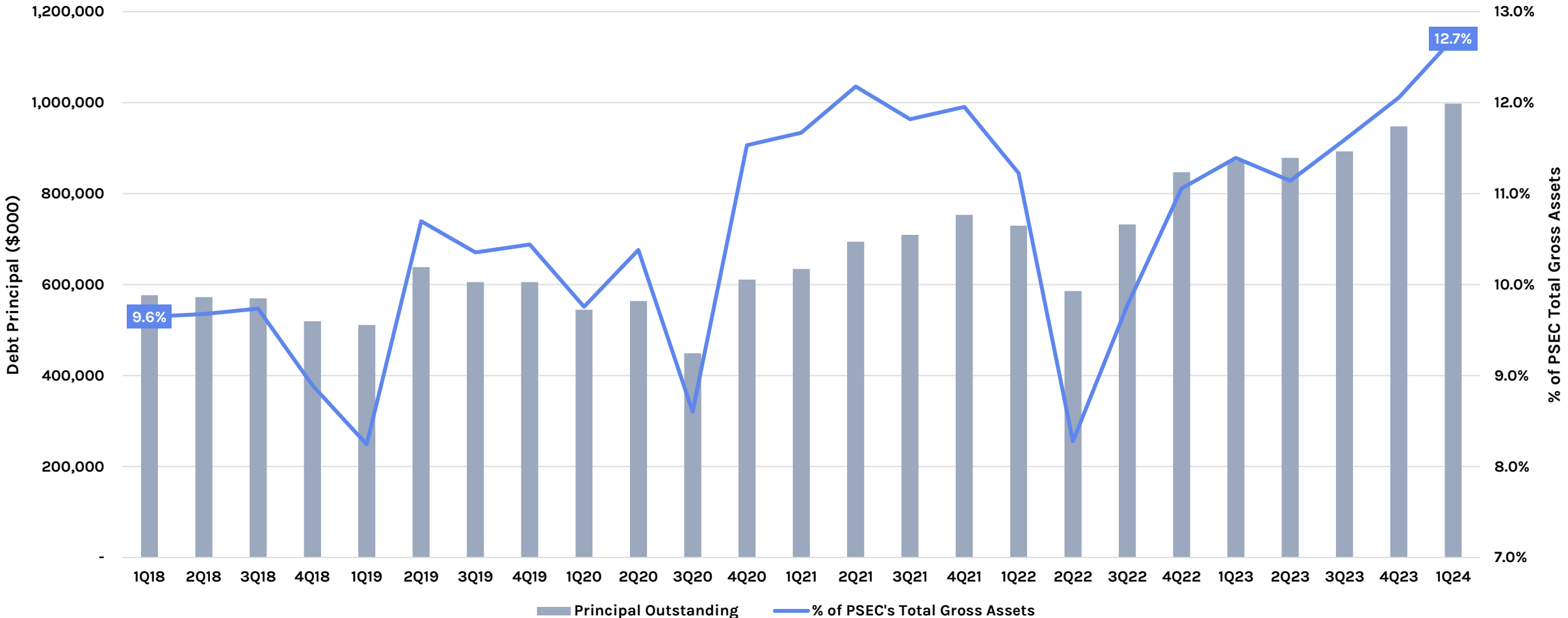
10-Q Filed for 9.30.23 – Akin to “Operator Support?”

Portfolio Company	Industry	Investments(1)(37)	Acquisition Date(44)	Coupon/Yield	Floor
Control Investments (greater than 25.00% voting control)(40)					
National Property REIT Corp. (26)	Equity Real Estate Investment Trusts (REITs) / Online Lending / Structured Finance	First Lien Term Loan A	12/31/2018	6.94% (3M SOFR+ 1.44%) plus 3.53% PIK	3.00
		First Lien Term Loan B	12/31/2018	7.50% (3M SOFR+ 2.00%) plus 5.50% PIK	3.00
		First Lien Term Loan C	10/31/2019	15.50%(3M SOFR+ 10.00%) plus 2.25% PIK	1.00
		First Lien Term Loan D	6/19/2020	6.00% (3M SOFR+ 0.50%) plus 2.50% PIK	3.00
		First Lien Term Loan E	11/14/2022	7.50% (3M SOFR + 2.00%) plus 7.00% PIK	5.00
		Residual Profit Interest	12/31/2018		—
		Common Stock (3,350,519 shares)	12/31/2013		—

Portfolio Company	Industry	Investments(1)(37)	Acquisition Date(44)	Coupon/Yield	Floor
Control Investments (greater than 25.00% voting control)(40)					
National Property REIT Corp. (26)	Equity Real Estate Investment Trusts (REITs) / Online Lending / Structured Finance	First Lien Term Loan A	12/31/2018	4.51% (3M SOFR+ 0.25%) plus 2.00% PIK	3.75
		First Lien Term Loan B	12/31/2018	7.65% (3M SOFR+ 2.00%)	3.00
		First Lien Term Loan C	10/31/2019	15.65%(3M SOFR+ 10.00%) plus 2.25% PIK	1.00
		First Lien Term Loan D	6/19/2020	4.51% (3M SOFR+ 0.25%) plus 2.00% PIK	3.75
		First Lien Term Loan E	11/14/2022	7.26% (3M SOFR + 1.50%) plus 7.00% PIK	5.50
		Residual Profit Interest	12/31/2018		—
Common Stock (3,350,519 shares)	12/31/2013		—		

NPRC | TL DEBT EXPOSURE INCREASING BOTH ABSOLUTE AND RELATIVE

Historical PSEC TL Debt Principal Outstanding to NPRC



PSEC | “RESIDUAL PROFIT INTEREST” IS SOMEWHAT OPAQUE

Residual Profit Interest = “...residual profit earned during the applicable period. The Company (NPRC) determines the residual profit as **all gross receipts from operations received by the Company less the sum of operating expenses, interest expense, structuring fees, M&A fees, and cost basis in connection to the sale of any real estate property during the applicable period.**”

Cash interest and Residual Profit are **payable in cash quarterly**, PIK interest due quarterly is added to the outstanding principal balance of the loan or paid in cash, in whole or in part, at the option of the Company.” – **page 33 of NPRC’s 2022 Audited Financial Statements found [HERE](#)**

PSEC | NPRC DISCLOSES ALL CASH INTEREST PAYMENTS IN THE FOOTNOTES

NPRC has elected to pay the PIK component of interest to PSEC in cash over the last few years.

For the year ended December 31, 2021, the Company incurred \$36,687,547, \$22,573,362, and \$38,849,306 of cash interest, PIK interest, and Residual Profit Interest, respectively. For the year ended December 31, 2021, a total of \$22,565,566 of PIK interest was paid in cash on the senior secured term loans. As of December 31, 2021, \$34,100 of cash interest and \$7,796 of PIK interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

For the year ended December 31, 2020, the Company incurred \$35,976,779, \$22,450,603, and \$36,233,499 of cash interest, PIK interest, and Residual Profit Interest, respectively. For the year ended December 31, 2020, a total of \$22,444,278 of PIK interest was paid in cash on the senior secured term loans. As of December 31, 2020, \$30,922 of cash interest and \$6,325 of PIK interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

NPRC | PSEC'S QUARTERLY REPORTING ON NPRC

➤ PSEC gives us:

- Total interest income paid from NPRC to PSEC,
- The PIK component of that interest income, of which there is essentially none,
- Structuring fees from deals, including amendments to PSEC's TLs, paid to PSEC,
- The residual profit interests, and
- Net movements in investment balances.

➤ PSEC no longer describes the discreet uses of that capital, such as individual real estate deals, in each quarterly filing.

➤ Implications:

- NPRC current on TL cash payments
→ cash interest income to PSEC up
→ incentive fees higher + supports PSEC distributions to common.
- **PCM incentive fee receives benefit regardless of whether interest paid in cash or PIK.**

PROSPECT CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(in thousands, except share and per share data)

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, NPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of NPRC.

NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the "JV"). Additionally, through its wholly owned subsidiaries, NPRC invests in online consumer loans and rated secured structured notes ("RSSN").

	Three Months Ended	
	September 30, 2023	September 30, 2022
Interest Income	\$ 29,239	\$ 20,272
Other Income		
Structuring Fee	\$ 15,476	\$ —
Royalty, net profit and revenue interests	13,996	20,665
Total Other Income	\$ 29,472	\$ 20,665
Managerial Assistance (1)	\$ 525	\$ 525
Reimbursement of Legal, Tax, etc.(2)	3	506

(1) No income recognized by Prospect. MA payments were paid from NPRC to Prospect and subsequently remitted to PA.

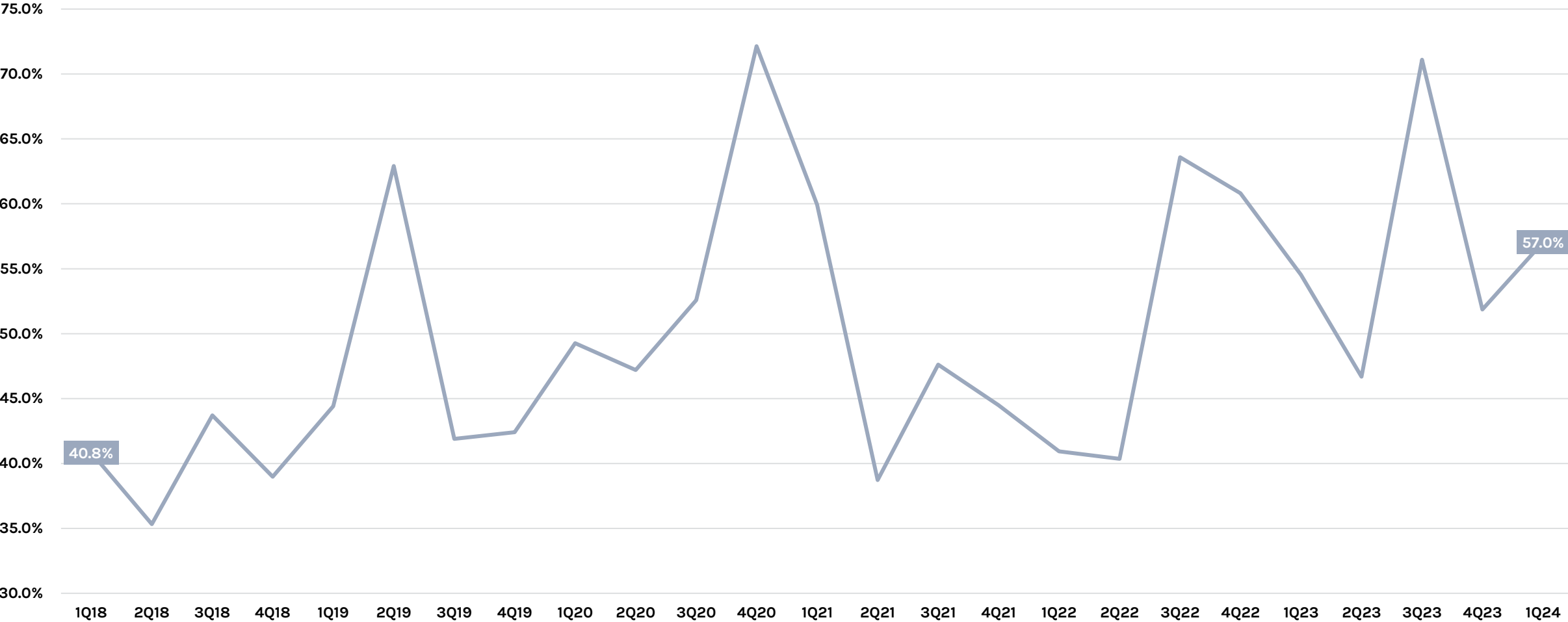
(2) Paid from NPRC to PA as reimbursement for legal, tax, and portfolio level accounting services provided directly to NPRC (No direct income recognized by Prospect, but we were given a credit for these payments as a reduction to the administrative services payable by Prospect to PA).

	Three Months Ended	
	September 30, 2023	September 30, 2022
Additions	\$ 63,305	\$ 77,600
Interest Income Capitalized as PIK	241	—
Repayment of Loan Receivable	13,450	48,500
Return of Capital	—	4,000

NPRC | PSEC MORE RELIANT ON “CASH FLOW” FROM NPRC

Essentially all of PSEC’s PIK income is generated outside of NPRC. This means PSEC’s “cash flow” and distributions are more dependent upon investment income from NPRC. We estimate NPRC accounts for >50% of PSEC’s NII. But is that really “true” cash flow?

NPRC Total Investment Income as % of PSEC Total Cash NII



NPRC | BUT NPRC IS HOPELESSLY OVER-LEVERED + **NOT** COVERING CASH INTEREST COSTS

(\$ in 000s, Except per Share Data)

NPRC FCF Calculation	2019A	2020A	2021A	2022A	20-22A "Burn"
Operating Income	42,892	55,461	35,234	53,407	
(+) D&A	105,515	90,562	116,017	120,495	
EBITDA	148,408	146,023	151,252	173,903	
(-) Non-PSEC Cash Interest	(109,656)	(81,738)	(100,660)	(94,159)	
(-) Taxes	309	(296)	(7)	(11)	
(-) Changes in NWC	2,277	(2,513)	548	4,831	
(-) Other	73	(813)	(1,076)	(1,152)	
Pre-PSEC OCF ⁽¹⁾	41,412	60,663	50,057	83,412	
(-) Cash Interest - PSEC TLs	(68,304)	(58,421)	(59,253)	(74,210)	
(-) Residual Profit Interest - PSEC	(27,066)	(36,233)	(38,849)	(81,118)	
FCF Before Capex	(53,959)	(33,991)	(48,046)	(71,916)	(153,953)
(-) Capital Expenditures	(46,221)	(41,490)	(49,465)	(55,039)	
(-) Additions to Lease Intangibles	(25,424)	(11,817)	(34,394)	(19,877)	
FCF After Capex	(125,603)	(87,298)	(131,905)	(146,832)	(366,035)

Coverage Ratios:

EBITDA / Total Cash Interest	0.72x	0.83x	0.76x	0.70x
Pre-PSEC OCF / PSEC Cash Interest	0.43x	0.64x	0.51x	0.54x
Pre-PSEC FCF / PSEC Cash Interest	-0.32x	0.08x	-0.34x	0.05x

NPRC Leverage Calculation

Debt:					
NGL Repo Facility	41,603	80,000	110,050	196,118	
(+) Secured Mortgage Debt	1,588,579	1,763,176	1,923,162	2,197,284	
(+) PSEC Term Loans	563,981	694,229	585,775	879,004	
Total Debt	2,194,164	2,537,405	2,618,987	3,272,407	
(-) Cash & Cash Equivalents	(136,550)	(36,241)	(45,489)	(35,212)	
(-) Restricted Cash	(35,149)	(42,189)	(39,317)	(37,869)	
Net Debt	2,022,464	2,458,975	2,534,181	3,199,325	

Leverage Ratio:

Pre-PSEC Debt / EBITDA	11.0x	12.6x	13.4x	13.8x
Total Debt / EBITDA	14.8x	17.4x	17.3x	18.8x
Net Debt / EBITDA	13.6x	16.8x	16.8x	18.4x

Notes:

(1) Secured mortgage interest obligation paid before PSEC TL interest.

- To us this looks like the output of the “asset aggregator” problem.
- **NPRC is hopelessly over-levered** both including and excluding PSEC’s TLs.
- Using 2022A numbers, NPRC was **levered just under ~14x through the mortgages**.
- **Total net debt-to-EBITDA was ~18.4x as of 2022A**. PSEC’s recent filings [HERE](#) indicate an incremental ~\$43 million drawn on PSEC’s TLA post-1Q24.
- Additionally, NPRC does not cover its total cash interest costs with any logical cash flow metric.
- The cash flow coverage to PSEC’s interest, both pre- and post-capex, is outright scary and points to recurring internal cash burn.
- **We estimate ~\$154 million of internal cash burn before capex, and ~\$366 after capex over 2020-2022.**
- This must be funded with external capital, which in this case has come (at least in part) from PSEC itself.

NPRC | SOURCES & USES TO NPRC

Essentially no new investments made since 4Q22 (ending 6.30.22), yet ~\$276 million gross and \$150 million net funded from PSEC to NPRC. ~\$150 million roughly equals most recent annual cash burn for calendar 2022A (see previous slide).

(\$ in 000s, Except per Share Data)

Quarter	Ending Date	Sources of Funds					Uses of Gross Funding				% of Gross Funding Toward Other Than New Investments ⁽²⁾
		TL Draws (+)	TL Repayments (-)	New Equity Funding (+)	Return of Capital (-)	Net New PSEC Funding	Purchase of New Investments	Fees to PSEC	Return of Capital to PSEC ⁽¹⁾	Capex / WC / Other	
1Q20	9/30/2019	-	(60,683)	-	-	(60,683)	-	-	-	-	-
2Q20	12/31/2019	51,428	(32,317)	12,857	-	31,968	50,237	2,744	-	11,304	21.85%
3Q20	3/31/2020	26,931	(142,019)	6,733	-	(108,355)	-	33,664	-	-	100.00%
4Q20	6/30/2020	203,575	(41,260)	210	(183,425)	(20,900)	210	-	183,425	20,150	99.90%
1Q21	9/30/2020	38,746	(15,329)	-	-	23,417	-	-	-	38,746	100.00%
2Q21	12/31/2020	83,024	(23,421)	-	-	59,603	81,591	1,433	-	-	1.73%
3Q21	3/31/2021	46,083	(30,600)	-	-	15,483	28,507	904	-	16,672	38.14%
4Q21	6/30/2021	57,889	(14,100)	-	-	43,789	29,500	839	-	27,550	49.04%
1Q22	9/30/2021	9,890	(33,900)	-	-	(24,010)	-	-	-	9,890	100.00%
2Q22	12/31/2021	102,266	(245,982)	3,200	-	(140,516)	99,279	1,222	-	4,965	5.87%
3Q22	3/31/2022	156,391	(10,000)	8,420	-	154,811	60,928	1,593	-	102,290	63.03%
4Q22	6/30/2022	126,700	(11,500)	4,000	-	119,200	35,074	833	-	94,793	73.16%
1Q23	9/30/2022	74,000	(48,500)	3,600	(4,000)	25,100	-	-	-	77,600	100.00%
2Q23	12/31/2022	30,490	(24,352)	-	-	6,138	11,834	261	-	18,395	61.19%
3Q23	3/31/2023	27,832	(14,000)	-	-	13,832	-	-	-	27,832	100.00%
4Q23	6/30/2023	77,313	(22,500)	-	-	54,813	-	-	-	77,313	100.00%
1Q24	9/30/2023	63,305	(13,450)	-	-	49,855	-	15,476	-	47,829	100.00%

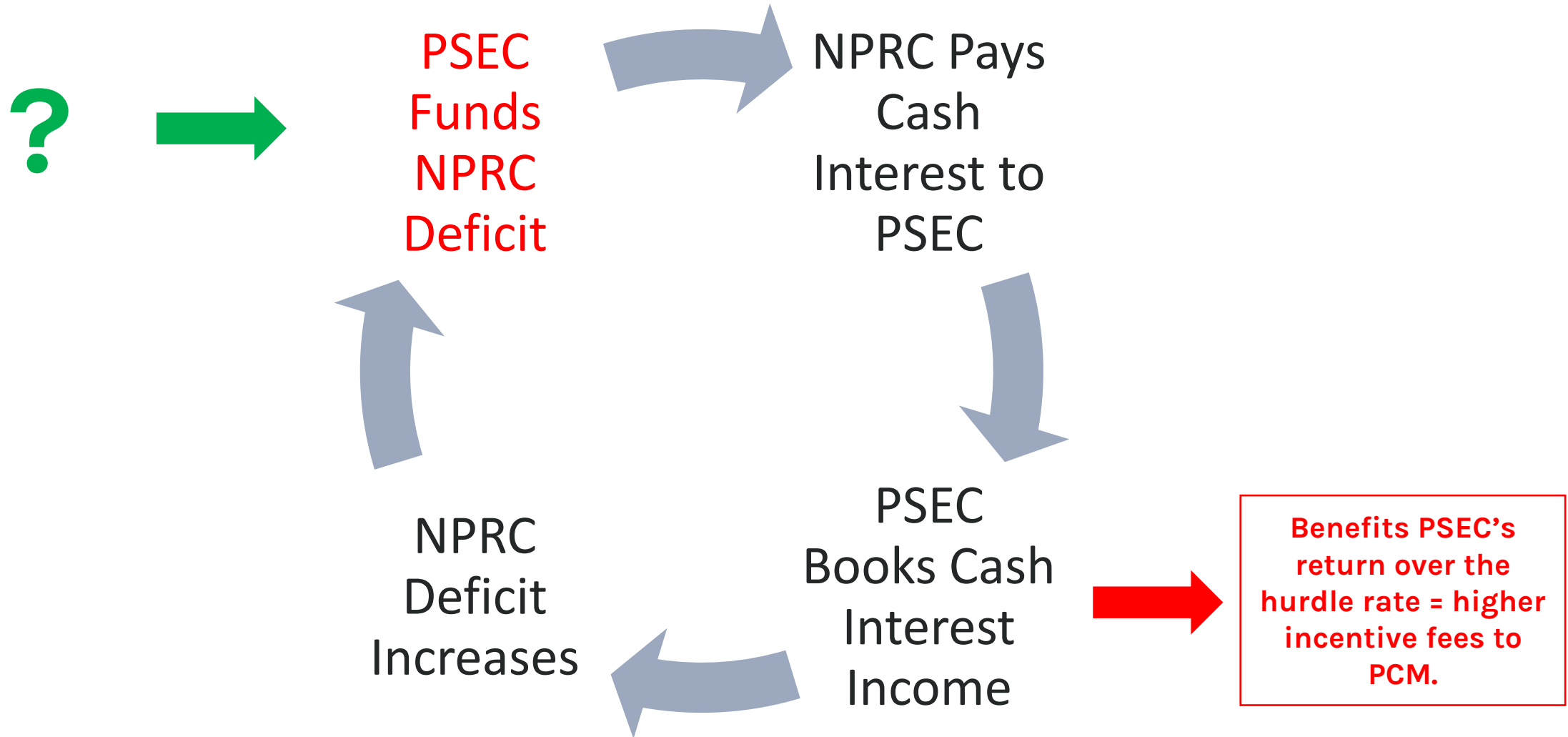
Notes:

(1) ~\$183.4 million return of capital in 4Q20 funded from PSEC TL draw.

(2) Based on PSEC's stated use of proceeds from quarterly filings.

NPRC | WHAT IS REALLY HAPPENING HERE?

Hedgeye's Interpretation: Each time the "NPRC wheel" spins, a portion of the cash income incentive fee is "earned" by and paid to PCM out of PSEC. NPRC cash burn and leverage both increase each time. But where does PSEC's cash come from to make that funding?



NPRC | CURRENT PROPERTY LIST & INFORMATION

(\$ Amounts in 000s)

#	Property Name	Acquisition Date	NPRC Own. %	Current Occ. % ⁽¹⁾	Asset Type /		Purchase Price	Mortgage	Maturity Date	LTC %
					Subsector	Location		Debt Outstanding		
1	Filet of Chicken	10/24/2012	100.0%		Industrial	Forest Park, GA	7,400	-	-	-
2	Arlington Park Marietta, LLC	5/8/2013	93.3%		Multifamily	Marietta, GA	14,850	13,462	11/1/2030	90.7%
3	Taco Bell, OK	6/4/2014	100.0%		Commercial	Yukon, OK	1,719	-	-	-
4	Taco Bell, MO	6/4/2014	100.0%		Commercial	Marshall, MO	1,405	-	-	-
5	Abbie Lakes OH Partners, LLC	9/30/2014	79.1%	92.9%	Multifamily	Canal Winchester, OH	12,600	14,741	10/1/2024	117.0%
6	Kengary Way OH Partners, LLC	9/30/2014	79.1%	92.0%	Multifamily	Reynoldsburg, OH	11,500	14,904	10/1/2024	129.6%
7	Lakeview Trail OH Partners, LLC	9/30/2014	79.1%	91.4%	Multifamily	Canal Winchester, OH	26,500	28,429	10/1/2024	107.3%
8	Lakepoint OH Partners, LLC	9/30/2014	79.1%	91.4%	Multifamily	Pickerington, OH	11,000	16,180	10/1/2024	147.1%
9	Sunbury OH Partners, LLC	9/30/2014	79.1%	91.2%	Multifamily	Columbus, OH	13,000	16,409	10/1/2024	126.2%
10	Heatherbridge OH Partners, LLC	9/30/2014	79.1%	91.1%	Multifamily	Blacklick, OH	18,416	23,434	10/1/2024	127.2%
11	Jefferson Chase OH Partners, LLC	9/30/2014	79.1%	91.7%	Multifamily	Blacklick, OH	13,551	18,262	10/1/2024	134.8%
12	Goldenstrand OH Partners, LLC	10/29/2014	79.1%	91.3%	Multifamily	Hilliard, OH	7,810	11,126	10/1/2024	142.5%
13	SSIL I, LLC	11/5/2015	80.0%	94.5%	Student Housing	Aurora, IL	34,500	24,795	12/1/2025	71.9%
14	Vesper Tuscaloosa, LLC	9/28/2016	67.0%	100.0%	Student Housing	Tuscaloosa, AL	54,500	41,670	10/1/2026	76.5%
15	Vesper Iowa City, LLC	9/28/2016	67.0%	91.5%	Student Housing	Iowa City, IA	32,750	24,029	10/1/2026	73.4%
16	Vesper Corpus Christi, LLC	9/28/2016	67.0%	96.2%	Student Housing	Corpus Christi, TX	14,250	10,454	10/1/2026	73.4%
17	Vesper Campus Quarters, LLC	9/28/2016	67.0%	97.2%	Student Housing	Corpus Christi, TX	18,350	13,721	10/1/2026	74.8%
18	Vesper College Station, LLC	9/28/2016	67.0%	99.7%	Student Housing	College Station, TX	41,500	31,031	10/1/2026	74.8%
19	Vesper Kennesaw, LLC	9/28/2016	67.0%		Student Housing	Kennesaw, GA	57,900	49,420	10/1/2026	85.4%
20	Vesper Statesboro, LLC	9/28/2016	67.0%	100.0%	Student Housing	Statesboro, GA	7,500	7,480	1/1/2029	99.7%
21	Vesper Manhattan KS, LLC	9/28/2016	67.0%	83.8%	Student Housing	Manhattan, KS	23,250	14,679	7/1/2030	63.1%
22	9220 Old Lantern Way, LLC	1/30/2017	92.5%		Multifamily	Laurel, MD	187,250	153,580	2/1/2029	82.0%
23	7915 Baymeadows Circle Owner, LLC	10/31/2017	92.5%		Multifamily	Jacksonville, FL	95,700	89,610	11/1/2027	93.6%
24	8025 Baymeadows Circle Owner, LLC	10/31/2017	92.5%		Multifamily	Jacksonville, FL	15,300	15,590	11/1/2027	101.9%
25	23275 Riverside Drive Owner, LLC	11/8/2017	92.5%		Multifamily	Southfield, MI	52,000	54,320	12/1/2029	104.5%
26	23741 Pond Road Owner, LLC	11/8/2017	92.5%		Multifamily	Southfield, MI	16,500	18,811	12/1/2029	114.0%
27	150 Steeplechase Way Owner, LLC	1/10/2018	92.5%		Multifamily	Largo, MD	44,500	36,307	2/1/2028	81.6%
28	Olentangy Commons Owner LLC	6/1/2018	92.5%		Multifamily	Columbus, OH	113,000	92,876	6/1/2030	82.2%
29	Villages of Wildwood Holdings LLC	7/20/2018	92.5%		Multifamily	Fairfield, OH	46,500	58,393	8/1/2030	125.6%
30	Falling Creek Holdings LLC	8/8/2018	90.0%	95.1%	Multifamily	Richmond, VA	25,000	25,374	9/1/2030	101.5%
31	Crown Pointe Passthrough LLC	8/30/2018	80.0%		Multifamily	Danbury, CT	108,500	89,400	9/1/2030	82.4%
32	Lorring Owner LLC	10/30/2018	80.0%		Multifamily	Forestville, MD	58,521	47,680	11/1/2030	81.5%
33	Hamptons Apartments Owner, LLC	1/9/2019	92.5%		Multifamily	Beachwood, OH	96,500	79,104	2/1/2031	82.0%

NPRC | CURRENT PROPERTY LIST & INFORMATION (CONT'D)

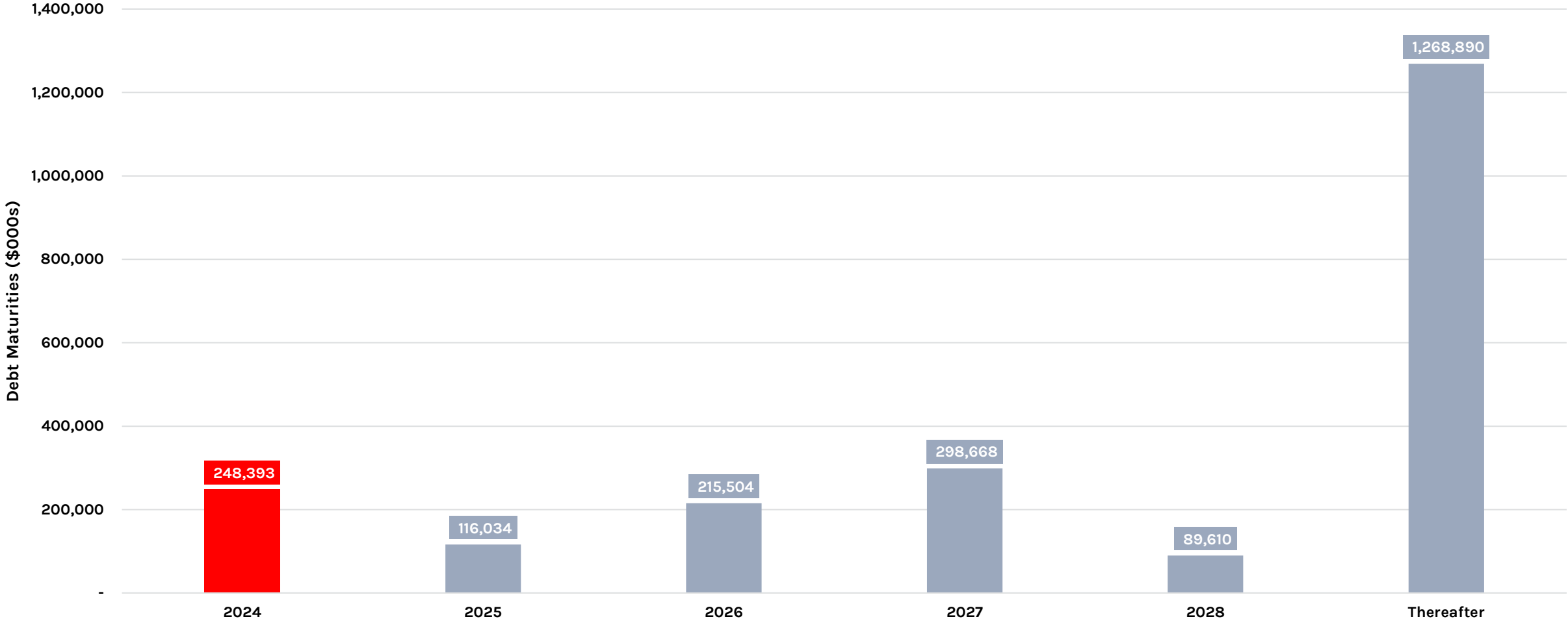
(\$ Amounts in 000s)

#	Property Name	Acquisition Date	NPRC Own. %	Current Occ. % ⁽¹⁾	Asset Type / Subsector	Location	Purchase Price	Mortgage	Maturity Date	LTC %
								Debt Outstanding		
34	5224 Long Road Holdings, LLC	6/28/2019	92.5%		Multifamily	Orlando, FL	26,500	21,200	7/1/2031	80.0%
35	Druid Hills Holdings LLC	7/30/2019	96.3%		Multifamily	Atlanta, GA	96,000	79,104	8/1/2046	82.4%
36	Bel Canto NPRC Parcstone LLC	10/15/2019	88.0%		Multifamily	Fayetteville, NC	45,000	42,793	11/1/2029	95.1%
37	Bel Canto NPRC Stone Ridge LLC	10/15/2019	88.0%		Multifamily	Fayetteville, NC	21,900	21,545	11/1/2029	98.4%
38	Sterling Place Holdings LLC	10/28/2019	92.5%		Multifamily	Columbus, OH	41,500	34,196	11/1/2031	82.4%
39	SPCP Hampton LLC	11/2/2020	80.0%		Multifamily	Dallas, TX	36,000	38,843	11/1/2032	107.9%
40	Palmetto Creek Holdings LLC	11/10/2020	90.0%		Multifamily	North Charleston, SC	33,182	25,865	9/1/2030	77.9%
41	Valora at Homewood Holdings LLC	11/19/2020	90.0%	57.9%	Multifamily	Homewood, AL	81,250	63,844	8/1/2030	78.6%
42	NPRC Fairburn LLC	12/14/2020	100.0%		Multifamily	Fairburn, GA	52,140	43,900	10/1/2026	84.2%
43	NPRC Grayson LLC	12/14/2020	100.0%		Multifamily	Grayson, GA	47,860	40,500	10/1/2026	84.6%
44	NPRC Taylors LLC	1/27/2021	100.0%	83.9%	Multifamily	Taylors, SC	18,762	14,075	2/1/2031	75.0%
45	Parkside at Laurel West Owner LLC	2/26/2021	96.3%	88.5%	Multifamily	Spartanburg, SC	57,005	42,025	3/1/2031	73.7%
46	Willows at North End Owner LLC	2/26/2021	96.3%	92.2%	Multifamily	Spartanburg, SC	23,255	19,000	3/1/2031	81.7%
47	SPCP Edge CL Owner LLC	3/12/2021	80.0%		Multifamily	Webster, TX	34,000	25,496	4/1/2033	75.0%
48	Jackson Pear Orchard LLC	6/28/2021	80.0%		Multifamily	Ridgeland, MS	50,900	42,975	7/1/2033	84.4%
49	Jackson Lakeshore Landing LLC	6/28/2021	80.0%		Multifamily	Ridgeland, MS	22,600	17,955	7/1/2033	79.4%
50	Jackson Reflection Pointe LLC	6/28/2021	80.0%		Multifamily	Flowood, MS	45,100	33,203	7/1/2033	73.6%
51	Jackson Crosswinds LLC	6/28/2021	80.0%		Multifamily	Pearl, MS	41,400	38,601	7/1/2033	93.2%
52	Elliot Apartments Norcross, LLC	11/30/2021	90.0%		Multifamily	Norcross, GA	128,000	104,908	12/1/2024	82.0%
53	Orlando 442 Owner, LLC (West Vue Apartments)	12/30/2021	90.0%	90.7%	Multifamily	Orlando, FL	97,500	73,000	1/1/2025	74.9%
54	NPRC Wolfchase LLC	3/18/2022	100.0%		Multifamily	Memphis, TN	82,100	60,000	4/1/2027	73.1%
55	NPRC Twin Oaks LLC	3/18/2022	100.0%		Multifamily	Hattiesburg, MS	44,850	35,032	4/1/2027	78.1%
56	NPRC Lancaster LLC	3/18/2022	100.0%		Multifamily	Birmingham, AL	37,550	29,042	4/1/2027	77.3%
57	NPRC Rutland LLC	3/18/2022	100.0%		Multifamily	Macon, GA	29,750	23,182	4/1/2027	77.9%
58	Southport Owner LLC (Southport Crossing)	3/29/2022	92.5%		Multifamily	Indianapolis, IN	48,100	36,075	4/1/2032	75.0%
59	TP Cheyenne, LLC	5/26/2022	90.0%		Senior Living	Cheyenne, WY	27,500	17,656	6/1/2032	64.2%
60	TP Pueblo, LLC	5/26/2022	90.0%		Senior Living	Pueblo, CO	31,500	20,166	6/1/2032	64.0%
61	TP Stillwater, LLC	5/26/2022	90.0%		Senior Living	Stillwater, OK	26,100	15,328	6/1/2032	58.7%
62	TP Kokomo, LLC	5/26/2022	90.0%		Senior Living	Kokomo, IN	20,500	12,753	6/1/2032	62.2%
63	Terraces at Perkins Rowe JV LLC	11/14/2022				Baton Rouge, LA	41,400	29,566		71.4%
Total / Wtd. Average							2,672,726	2,237,099		83.7%

NPRC | NPRC MORTGAGE DEBT MATURITY SCHEDULE

Of the ~\$2.2 billion secured mortgage debt outstanding at NPRC, there is approximately ~\$250 million (~10%) maturing in 2024 at a roughly ~5% weighted average interest cost. **Potential catalyst to accelerate cash burn upon refinancing?**

NPRC Mortgage Debt Maturity Profile



NPRC | PROPERTY TYPE BREAKDOWN & VINTAGE OF ACQUISITION

Nearly half of NPRC's gross capital was deployed post-COVID over 2020-2022 at a blended ~78% loan-to-value on NPRC's cost through the mortgages. PSEC appears to have provided ~100% of the "equity" financing for the 2020-2022 transactions via TL draws = **effective 100% debt financing**.

(\$ Amounts in 000s)

Asset Type	# of Properties	Aggregate Purchase Price	Mortgage Debt Outstanding	LTC %
Multifamily	47	2,272,102	1,953,917	86.0%
Student Housing	9	284,500	217,279	76.4%
Senior Living	4	105,600	65,903	62.4%
Commercial	2	3,124	-	-
Industrial	1	7,400	-	-
Total / Wtd. Average	63	2,672,726	2,237,099	83.7%

(\$ Amounts in 000s)

Acquisition Year	# of Properties	Aggregate Purchase Price	Mortgage Debt Outstanding	LTC %
2020	5	250,432	212,952	85.0%
2021	10	518,522	411,238	79.3%
2022	10	389,350	278,800	71.6%
Total / Wtd. Average	25	1,158,304	902,990	78.0%

% of Total 43.3%

NPRC | ILLUSTRATIVE SOURCES & USES ON 2020-2022 ACQUISITIONS

Math implies (1) effectively 100% debt financed + (2) PSEC put up ~\$39 million of additional capital upfront to fund closing costs, but also capex and/or working capital post-close.

(\$ Amounts in 000s)

Acquisition Year	# of Properties	Aggregate Purchase Price	Mortgage Debt Outstanding	LTC %
2020	5	250,432	212,952	85.0%
2021	10	518,522	411,238	79.3%
2022	10	389,350	278,800	71.6%
Total / Wtd. Average	25	1,158,304	902,990	78.0%
	% of Total	43.3%		

(\$ Amounts in 000s)

Illustrative Sources of Funds: 2020-2022 Transactions			
	\$	% of Total	Notes
Mortgage Debt ⁽¹⁾	902,990	75.4%	- Amounts outstanding per PSEC 1Q24 10-Q.
TL Draws	294,349	24.6%	- Listed in PSEC financials as used for RE acquisitions.
Total Sources	1,197,339	100.0%	

Illustrative Uses of Funds			
	\$	% of Total	Notes
Aggregate Purchase Price	1,158,304	96.7%	
Assumed Fees / Capex / WC	39,035	3.3%	- Additional upfront funding by PSEC above stated purchase price.
Total Sources	1,197,339	100.0%	

Notes:

(1) For simplicity does not give effect to cumulative amortization.

PSEC | VALORA ACQUIRED IN LATE-2020

Repairs/renovation underway which has impacted occupancy with DSCR <1x as of October 2023. Construction expected to be completed in mid-2024, but ~1,700 new units expected to deliver in Birmingham during 2024.

915 Valley Ridge Dr - Valora at Homewood



Homewood, Alabama - Homewood Neighborhood



PROPERTY

No. of Units:	722
Stories:	3
Avg. Unit Size:	1,062 SF
Type:	Apartments - All
Rent Type:	Market
Year Built:	1969 Renov May 2019
Parking:	1200 Spaces; 1.7 per...
Distance to Transit:	-

PROPERTY MANAGER

Asset Living - Valora at Homewood

OWNER

Prospect Capital Corporation

Brick Lane

Purchased Nov 2020

\$82,000,000 (\$113,573/Unit)

ASKING RENTS PER UNIT/SF

Current:	\$1,085	\$1.02 /SF
Last Quarter:	\$1,084	\$1.02 /SF
Year Ago:	\$1,068	\$1.01 /SF
Competitors:	\$1,152	\$1.19 /SF
Submarket:	\$1,240	\$1.30 /SF

VACANCY

Current:	42.1%	304 Units
Last Quarter:	42.0%	303 Units
Year Ago:	18.4%	133 Units
Competitors:	13.6%	509 Units
Submarket:	13.7%	980 Units

12 MONTH ABSORPTION

Current:	(222) Units
Competitor Total:	71 Units
Competitor Avg:	4.5 Units
Submarket Total:	(84) Units
Submarket Avg:	(1.2) Units

PSEC | CHIMNEYS ACQUIRED EARLY-2021

4990 Old Spartanburg Rd - Chimneys of Greenville



Taylors, SC 29687 - Greer Submarket



BUILDING

Type	3 Star Garden Apartments
Year Built	1981
Units	168
GBA	148,480 SF
Stories	2
Metering	Individually Metered
Construction	Wood Frame
Rent Type	Market
Market Segment	All

LAND

Land Acres	11.90 AC
Zoning	R12
Parcels	0538.13-01-001.01

PSEC | WILLOWS ACQUIRED EARLY-2021

425 Willowdale Dr - The Willows

Spartanburg, SC 29303 - Hilltop Submarket



BUILDING

Type	4 Star Garden Apartments
Year Built	1996
Year Renov	2016
Units	206
GBA	254,630 SF
Stories	3
Metering	Individually Metered
Construction	Wood Frame
Rent Type	Market
Market Segment	All

LAND

Land Acres	16.99 AC
Parcels	6-13-03-001.00

PSEC | FALLING CREEK ACQUIRED AUGUST 2018

2530 Marina Dr - Falling Creek

Richmond, VA 23234 - Chesterfield County Submarket



BUILDING

Type	2 Star Garden Apartments
Year Built	1964
Year Renov	2017
Units	348
GBA	257,956 SF
Stories	2
Metering	Individually Metered
Construction	Masonry
Rent Type	Market
Market Segment	All

LAND

Land Acres	15.43 AC
Zoning	RMF
Parcels	791-68-47-48-400-000

NPRC | PSEC CHANGED ITS VALUATION METHODOLOGY FOR NPRC BEGINNING 2Q23

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of September 30, 2022 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input			Weighted Average (5)
			Input	Range		
First Lien Debt	\$ 1,839,417	Discounted cash flow (Yield analysis)	Market yield	9.0% to 25.8%		13.3%
First Lien Debt	481,583	Enterprise value waterfall (Market approach)	EBITDA multiple	5.8x to 10.3x		8.8x
First Lien Debt	172,571	Enterprise value waterfall (Market approach)	Revenue multiple	0.5x to 1.5x		1.0x
First Lien Debt	54,797	Enterprise value waterfall (Discounted cash flow)	Discount rate	7.5% to 9.5%		8.5%
First Lien Debt (1)	25,058	Enterprise value waterfall	Loss-adjusted discount rate	6.2% to 10.5%		8.3%
First Lien Debt (2)	194,511	Enterprise value waterfall	Projected loss rates	—% to 0.8%		—%
First Lien Debt	433,259	Enterprise value waterfall (Market approach)	Discount rate (3)	10.7% to 17.1%		12.8%
First Lien Debt	433,259	Enterprise value waterfall (Market approach)	Tangible book value multiple	1.7x to 2.1x		1.9x
First Lien Debt	20,782	Enterprise value waterfall (Market approach)	Earnings multiple	5.5x to 8.0x		6.9x
First Lien Debt	20,782	Enterprise value waterfall (Market approach)	Tangible book value multiple	1.0x to 1.5x		1.3x
First Lien Debt	651,586	Enterprise value waterfall (NAV analysis)	Capitalization rate	3.6% to 7.5%		4.8%
Second Lien Debt	1,421,133	Discounted cash flow (Yield analysis)	Market yield	10.9% to 29.0%		14.7%
Second Lien Debt	14,075	Enterprise value waterfall (Market approach)	Revenue multiple	1.0x to 1.5x		1.3x
Second Lien Debt	6,076	Asset recovery analysis	Recoverable amount	n/a		n/a
Unsecured Debt	7,200	Enterprise value waterfall (Market approach)	EBITDA multiple	5.8x to 6.8x		6.3x
Subordinated Structured Notes	695,292	Discounted cash flow	Discount rate (3)	2.5% to 31.6%		21.6%
Preferred Equity	25,927	Enterprise value waterfall (Market approach)	Revenue multiple	0.6x to 1.5x		1.0x
Preferred Equity	5,418	Enterprise value waterfall (Market approach)	EBITDA multiple	7.5x to 9.5x		8.6x
Preferred Equity	7,225	Enterprise value waterfall (Discounted cash flow)	Discount rate	7.5% to 9.5%		8.5%
Common Equity/Interests/Warrants	426,796	Enterprise value waterfall (Market approach)	EBITDA multiple	4.0x to 10.3x		8.3x
Common Equity/Interests/Warrants	87	Enterprise value waterfall (Market approach)	Revenue multiple	0.3x to 1.5x		0.4x
Common Equity/Interests/Warrants (1)	2,053	Enterprise value waterfall	Loss-adjusted discount rate	6.2% to 10.5%		8.3%
Common Equity/Interests/Warrants (2)	30,723	Enterprise value waterfall	Projected loss rates	—% to 0.8%		—%
Common Equity/Interests/Warrants (4)	60,697	Enterprise value waterfall (NAV analysis)	Discount rate (3)	10.7% to 17.1%		12.8%
Common Equity/Interests/Warrants	239,480	Enterprise value waterfall (Market approach)	Capitalization Rate	3.6% to 7.5%		4.8%
Common Equity/Interests/Warrants	239,480	Enterprise value waterfall (Market approach)	Tangible book value multiple	1.7x to 2.1x		1.9x
Common Equity/Interests/Warrants	239,480	Enterprise value waterfall (Market approach)	Earnings multiple	5.5x to 8.0x		7.0x
Common Equity/Interests/Warrants	28,569	Enterprise value waterfall (Market approach)	Tangible book value multiple	1.0x to 1.5x		1.3x
Common Equity/Interests/Warrants	667,671	Enterprise value waterfall (NAV analysis)	Capitalization rate	3.6% to 7.5%		4.8%

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of December 31, 2022 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input			Weighted Average (5)
			Input	Range		
Common Equity/Interests/Warrants	253,049	Enterprise value waterfall (Market approach)	Tangible book value multiple	1.8x to 2.4x		2.1x
Common Equity/Interests/Warrants	253,049	Enterprise value waterfall (Market approach)	Earnings multiple	6.3x to 8.8x		7.7x
Common Equity/Interests/Warrants	26,878	Enterprise value waterfall (Market approach)	Tangible book value multiple	1.0x to 1.5x		1.3x
Common Equity/Interests/Warrants	628,310	Discounted cash flow	Discount rate	6.3% to 9.8%		7.0%
Common Equity/Interests/Warrants	628,310	Discounted cash flow	Terminal capitalization rate	5.0% to 8.3%		5.8%

During the six months ended December 31, 2022, the valuation methodology for National Property REIT Corp. (“NPRC”) for the real estate portfolio changed from the direct capitalization method to the discounted cash flow method, due to a reduction in collaborative capitalization rate market data. Our investment in NPRC for the real estate portfolio was valued at \$1,376,006 as of December 31, 2022, a premium of \$705,252 from its amortized cost, compared to the \$752,541 unrealized appreciation recorded at June 30, 2022.

NPRC | THIS LOOKS LIKE “CHERRY PICKING” TO US

In its 1Q24 10-Q filing, PSEC admitted (1) “as they deem relevant,” and (2) that it relies on “publicly available financial ratios of peer companies” for non-CLO investments. Last time we checked, there are plenty of publicly-traded MF REITs (NXRT, for example).

PROSPECT CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(in thousands, except share and per share data)

identical or comparable assets or liabilities. Under the EV technique, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market (multiples) valuation approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent merger and acquisitions transactions, and/or a discounted cash flow technique. The net asset value technique, an income approach, is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The asset recovery technique is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow technique converts future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The fair value measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, **additional factors that we consider in valuing our investments may include, as we deem relevant:** security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; **publicly available financial ratios of peer companies;** the principal market; and enterprise values, among other factors.

NPRC | PSEC'S IMPLIED VALUATION FOR THE REAL ESTATE

(\$ in 000s, Except per Share Data)

NPRC's Implied Value of Owned Real Estate - PSEC's Marks	1Q24
Equity "Fair Values:"	
American Consumer Lending Limited ("ACLL") ⁽¹⁾	1,208
(+) National General Lending Limited ("NGL") ⁽²⁾	36,111
(+) Common Equity	544,907
Total Equity	582,226
Debt:	
NGL Repo Facility ⁽³⁾	196,118
(+) Secured Mortgage Debt ⁽³⁾	2,197,284
(+) Senior Secured Term Loans ⁽⁴⁾	997,979
Total Debt	3,391,381
Total Market Cap	3,973,607
(-) Cash & Cash Equivalents	(35,212)
(-) Restricted Cash	(37,869)
Enterprise Value	3,900,526
(-) Accounts Receivable, Net	(22,574)
(-) Interest Receivable	(8)
(-) Due from LendingClub Corp.	(21)
(-) Due from Affiliates	(1,054)
(-) Preferred Equity Investments	(13,074)
(-) Prepaid Expenses & Other Assets	(11,468)
(-) CLOs at Fair Value ⁽⁵⁾	(422,844)
(-) Unsecured Consumer Loans at Fair Value ⁽⁵⁾	(125)
(-) Residual Interests in Securitizations at Fair Value ⁽⁵⁾	(3,592)
(-) Corporate Bonds at Fair Value ⁽⁵⁾	(16,733)
(+) Accounts Payable & Accrued Expenses	42,764
(+) Security Deposits	6,595
(+) Due to Affiliates	11,175
(+) Prepaid Rent & Other Liabilities	8,332
Implied Value of Operating Real Estate (A)	3,477,900

NPRC Implied Valuation - PSEC's Marks	1Q24
Total Income	104,139
(-) Operating Expenses	(54,490)
EBITDA	49,649
(x) Annualization Factor	4
Annualized EBITDA ⁽⁶⁾	198,596
(-) Est. Ann. Interest Income	(39,717)
(+) 2022A Management Fees ⁽⁷⁾	13,710
(+) 2022A G&A Expenses ⁽⁷⁾	28,744
Annualized Property NOI	201,333
(-) 2022A G&A Expenses	(28,744)
(-) Capex	(74,916)
NOI - G&A - Capex	126,417

Valuation Multiples:

Implied EV/EBITDA Multiple	19.6x
Implied Nominal Cap Rate ⁽⁸⁾	5.79%
Implied Net Effective Cash Cap Rate ⁽⁹⁾	3.63%

Notes:

- (1) Wholly-Owned subsidiary of NPRC that holds online consumer loans.
- (2) Wholly-Owned subsidiary of NPRC that holds rated secured structured notes ("RSSN").
- (3) Uses ending balances as of 12.31.22.
- (4) PSEC TL principal outstanding to NPRC as of fiscal 1Q24.
- (5) Balances disclosed in PSEC's 1Q24 10-Q filing.
- (6) Assumes 1Q24 annualized results for the purposes of this analysis.
- (7) 1Q24 amounts not disclosed, so analysis applies annual amounts from NPRC's 2022A results.
- (8) Property NOI on a cash basis / Value of Operating Real Estate.
- (9) Same as #8 above, but giving additional effect to cash overhead and capex costs.

- First, there are plenty of single-asset and public comps available.
- Second, PSEC has carried NPRC above a ~6% cap before using the direct capitalization method. They just did so with NPRC at lower leverage.
- **We estimate that PSEC is carrying NPRC on its books at an implied ~5.8% nominal cash cap rate before overhead and capex, based on the "fair values" of PSEC's equity positions.**
- \$582.2 million = ~\$1.40/share of PSEC NAV.
- Again, this entity contains primarily lower-quality Class B/C multifamily assets in secondary/tertiary submarkets.
- **We estimate that externally-managed NXRT, which is perhaps the closest public comp to NPRC, is currently trading at a comparable ~7-7.5% implied nominal cash cap rate.**

NPRC | HEDGEYE'S FAIR VALUE FOR NPRC VS. PSEC's

We estimate ~50% Impairment Based on Mkt. Value

(\$ in 000s, Except per Share Data)

NPRC Implied Valuation - Range of Cap Rate

	Valuation Ranges		
	Low	Mid	High
Annualized Property NOI	201,333	201,333	201,333
(/) Applied Cap Rate	8.00%	7.50%	7.00%
Implied Value of Operating Real Estate	2,516,658	2,684,436	2,876,181
Implied Net Effective Cash Cap Rate	5.02%	4.71%	4.40%
(+) Other Assets	491,492	491,492	491,492
(+) Cash & Restricted Cash	73,082	73,082	73,082
(-) Other Liabilities	(68,866)	(68,866)	(68,866)
Value to Waterfall	3,012,366	3,180,143	3,371,888
(-) NGL Repo Facility	(196,118)	(196,118)	(196,118)
(-) Secured Mortgage Debt	(2,197,284)	(2,197,284)	(2,197,284)
(-) PSEC TL Recovery	(618,963)	(786,740)	(978,486)
Residual Value to Equity	-	-	-

Implied FV of PSEC Position	618,963	786,740	978,486
Implied PSEC Write-Down	1,010,779	843,002	651,256
Total Common Shares O/S	408,619	408,619	408,619
Implied Impairment / Share	2.47	2.06	1.59
% of Current Reported NAV	26.7%	22.3%	17.2%
Implied TL Recovery %	59.1%	75.1%	93.4%

Potential Impacts to PSEC's Leverage from NPRC

(\$ in 000s, Except per Share Data)

Illustrative Impact on Leverage

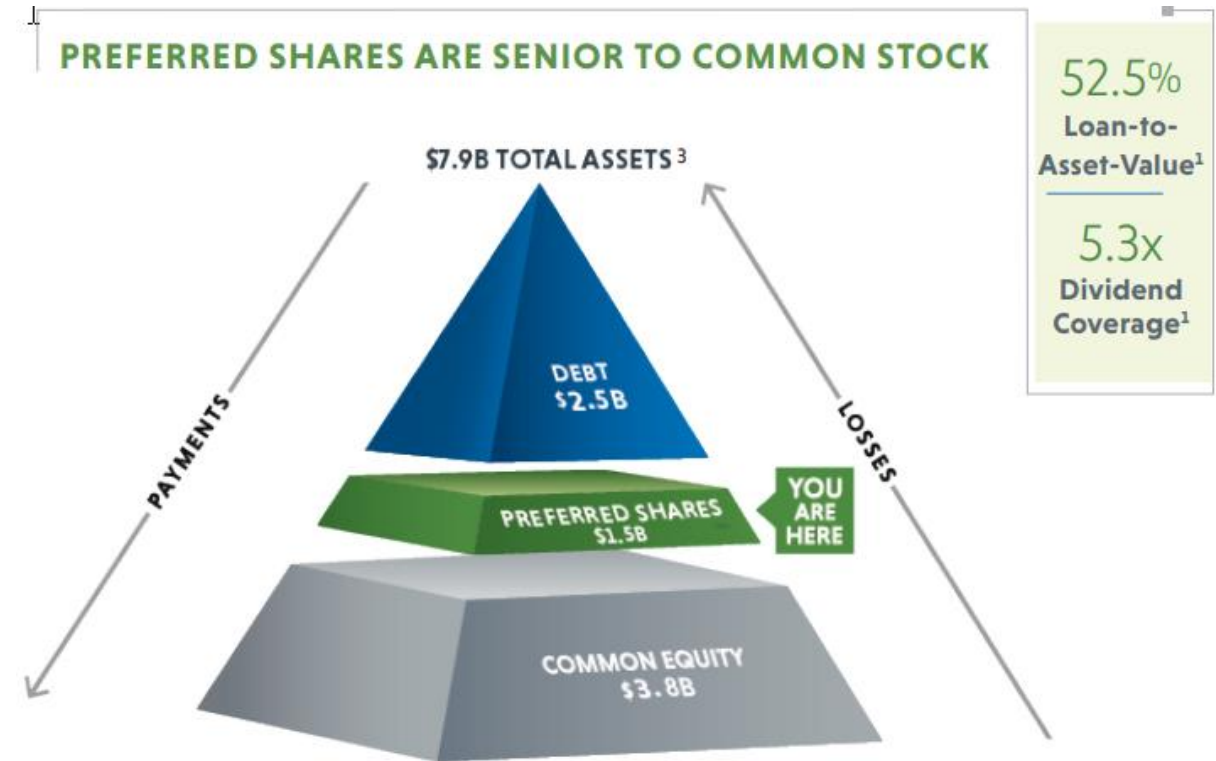
Current Reported Total Assets	7,853,828
(-) Midpoint NPRC Write-Down	(843,002)
Adj. Total Assets	7,010,826
Current Total Equity (incl. Preferred)	5,251,113
(-) Midpoint NPRC Write-Down	(843,002)
Adj. Total Equity	4,408,111
Current Total Assets / Total Equity	1.50x
Adj. Total Assets / Total Equity	1.59x
Current Common Equity (excl. Preferred)	3,780,866
(-) Midpoint NPRC Write-Down	(843,002)
Adj. Common Equity	2,937,864
Current Total Assets / Total Common Equity	2.08x
Adj. Total Assets / Common Equity	2.39x

[3] PSEC'S NON-TRADED CONVERTIBLE PREFERRED STOCK

PFD | BACKGROUND ON THE NON-TRADED PREFERRED STOCK

There is something poetic about using a triangle to describe this fundraising mechanism.

- Between the PIK interest component of PSEC's investments + little or no "true" net cash investment income from NPRC to fund the distribution, **PSEC had to bring in new capital to fund deficits.**
- Beginning in late-2020 they found a new source → began issuing several series of non-traded convertible preferred stock through [Preferred Capital Securities](#) + [InspereX](#).
- The pitch was (1) monthly distributions, (2) an attractive coupon at the time, (3) convertible to PSEC common at the 5-day trailing VWAP (so no NAV risk), (4) DRIP at a 5% discount, (5) "stable value," (6) downside protection/lower risk and (7) regulatory leverage limitations.
- Resonated with the RIA community.
- PSEC has now raised ~\$1.4 billion of new capital via this program.
- PSEC writing investors a "put" with monthly premiums.
- **Hedgeye DOES NOT believe that fiduciaries should allocate client capital to any series of PSEC non-traded preferred stock.**



PFD | ~\$1.5 BILLION ADDED TO BALANCE SHEET IN ~3 YEARS

HEDGEYE

Over that time PSEC has paid ~\$815 million of distributions + funded ~\$400 million net to NPRC. All other sources of PSEC capital have netted to ~\$255 million.

Item 1. Financial Statements

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share and per share data)

	September 30, 2020 (Unaudited)	June 30, 2020 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$2,321,471 and \$2,286,725, respectively)	\$ 2,307,572	\$ 2,259,292
Affiliate investments (amortized cost of \$171,649 and \$163,484, respectively)	262,175	187,537
Non-control/non-affiliate investments (amortized cost of \$3,335,811 and \$3,332,509, respectively)	2,816,638	2,785,499
Total investments at fair value (amortized cost of \$5,828,931 and \$5,782,718, respectively)	5,386,385	5,232,328
Cash	28,303	44,561
Receivables for:		
Interest, net	11,011	11,712
Other	938	106
Deferred financing costs on Revolving Credit Facility (Note 4)	8,596	9,145
Due from broker	1,892	1,063
Prepaid expenses	907	1,248
Due from Affiliate (Note 13)	38	—
Total Assets	5,438,070	5,300,163
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	250,993	237,536
Public Notes (less unamortized discount and debt issuance costs of \$11,011 and \$11,613, respectively) (Notes 6 and 8)	782,708	782,106
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$12,959 and \$12,802, respectively) (Notes 7 and 8)	705,362	667,427
Convertible Notes (less unamortized debt issuance costs of \$7,899 and \$8,892, respectively) (Notes 5 and 8)	422,171	450,598
Due to Prospect Capital Management (Note 13)	41,232	42,481
Interest payable	17,374	29,066
Dividends payable	22,727	22,412
Accrued expenses	5,654	3,648
Due to Prospect Administration (Note 13)	8,164	7,000
Due to broker	—	1
Other liabilities	658	2,027
Total Liabilities	2,257,043	2,244,302
Commitments and Contingencies (Note 3)		
Net Assets	\$ 3,181,027	\$ 3,055,861
Components of Net Assets		
Common stock, par value \$0.001 per share (1,880,000,000 common shares authorized; 378,776,958 and 373,538,499 issued and outstanding, respectively) (Note 9)	\$ 379	\$ 374
Paid-in capital in excess of par (Note 9)	4,096,150	4,070,874
Total distributable loss	(915,502)	(1,015,387)
Net Assets	\$ 3,181,027	\$ 3,055,861

PROSPECT CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share and per share data)

	September 30, 2023 (Unaudited)	June 30, 2023 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$3,060,201 and \$2,988,496, respectively)	\$ 3,625,608	\$ 3,571,697
Affiliate investments (amortized cost of \$10,162 and \$8,855, respectively)	12,541	10,397
Non-control/non-affiliate investments (amortized cost of \$4,543,490 and \$4,803,245, respectively)	4,098,668	4,142,837
Total investments at fair value (amortized cost of \$7,613,853 and \$7,800,596, respectively)(Note 3)	7,736,817	7,724,931
Cash and cash equivalents (restricted cash of \$4,575 and \$5,074, respectively)	68,907	95,646
Receivables for:		
Interest, net	30,796	22,701
Other	1,057	1,051
Deferred financing costs on Revolving Credit Facility (Note 4)	14,906	15,569
Due from broker	435	617
Prepaid expenses	893	1,149
Due from Affiliate (Note 13)	17	2
Total Assets	7,853,828	7,861,666
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	915,021	1,014,703
Public Notes (less unamortized discount and debt issuance costs of \$15,929 and \$17,103, respectively) (Notes 6 and 8)	1,065,311	1,064,137
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$6,510 and \$6,688, respectively) (Notes 7 and 8)	352,324	351,417
Convertible Notes (less unamortized debt issuance costs of \$1,350 and \$1,577, respectively) (Notes 5 and 8)	154,818	154,591
Due to Prospect Capital Management (Note 13)	64,906	61,651
Dividends payable	24,798	31,033
Interest payable	20,303	22,684
Accrued expenses	3,590	4,926
Due to Prospect Administration (Note 13)	1,521	4,066
Due to broker	16	94
Due to Affiliate (Note 13)	—	161
Other liabilities	107	1,524
Total Liabilities	2,602,715	2,710,987
Commitments and Contingencies (Note 3 and Note 15)		
Preferred Stock, par value \$0.001 per share (447,900,000 and 447,900,000 shares of preferred stock authorized, with 72,000,000 and 72,000,000 as Series A1, 72,000,000 and 72,000,000 as Series M1, 72,000,000 and 72,000,000 as Series M2, 20,000,000 and 20,000,000 as Series AA1, 20,000,000 and 20,000,000 as Series MM1, 1,000,000 and 1,000,000 as Series A2, 6,900,000 and 6,900,000 as Series A, 72,000,000 and 72,000,000 as Series A3, 72,000,000 and 72,000,000 as Series M3, 20,000,000 and 20,000,000 as Series AA2, and 20,000,000 and 20,000,000 as Series MM2, each as of September 30, 2023 and June 30, 2023; 30,780,669 and 30,965,138 Series A1 shares issued and outstanding; 3,155,352 and 3,681,591 Series M1 shares issued and outstanding; 0 and 0 Series M2 shares issued and outstanding; 0 and 0 Series AA1 shares issued and outstanding; 0 and 0 Series MM1 shares issued and outstanding; 164,000 and 164,000 Series A2 shares issued and outstanding; 5,900,345 and 5,962,654 Series A shares issued and outstanding; 21,611,105 and 18,829,837 Series A3 shares issued and outstanding; 2,882,254 and 2,498,788 Series M3 shares issued and outstanding; 0 and 0 Series AA2 shares issued and outstanding; and 0 and 0 Series MM2 shares issued and outstanding as of September 30, 2023 and June 30, 2023, respectively) at carrying value plus cumulative accrued and unpaid dividends (Note 9)	1,470,247	1,418,014

PFD | CURRENT PROSPECTUS AND SERIES OFFERED / OUTSTANDING

Filed Pursuant to Rule 424(b)(3)
File No. 333-269714

PROSPECT CAPITAL

PROSPECT CAPITAL CORPORATION

Maximum of 10,000,000 Shares
Up to \$250,000,000 Aggregate Liquidation Preference

- 5.50% Series A1 Preferred Stock (the “Series A1 Shares”)
- 6.50% Series A3 Preferred Stock (the “Series A3 Shares,” and together with the Series A1 Shares, the “A Shares”)
- 5.50% Series M1 Preferred Stock (the “Series M1 Shares”)
- 5.50% Series M2 Preferred Stock (the “Series M2 Shares”)
- 6.50% Series M3 Preferred Stock (the “Series M3 Shares”, and together with the Series M1 Shares and Series M2 Shares, the “M Shares”)

SUPPLEMENT NO. 1 TO PROSPECTUS SUPPLEMENT DATED FEBRUARY 10, 2023
THE DATE OF THIS SUPPLEMENT IS JULY 19, 2023

PFD | NO MENTION OF PIK COMPONENT OF NII IN MARKETING DOCUMENTS

- ▶ **Preferred stockholders paid** before common stockholders⁽¹⁾
- ▶ **6.5% fixed cumulative** annual distribution – paid monthly⁽²⁾
- ▶ **Positioned** for well-covered dividend payments

Run Rate Preferred Dividend Coverage September 2023 Quarter ⁽³⁾ (\$ 000)	
Net Investment Income	\$125,612
Dividend Amount (Run Rate at Quarter End)	\$23,645
Preferred Dividend Coverage	5.3x

(1) Preferred shareholders are junior, however, to \$2.5 billion in debt, which is paid before preferred shareholders.

(2) Dividends are intended to be paid monthly as authorized by the Board of Directors. The stated dividend rate on issuances of the Series A1, A2 and M1 is 5.5%.

(3) Net Investment Income for the quarter ended September 30, 2023 rounded. Assumes the preferred investment does not produce incremental revenue; see "Disclaimers" slide herein for further information. Includes coverage of \$148 million Series A Preferred shares with 5.35% dividend rate and \$853M of Series A1, A2, and M1 with 5.5% dividend rate.

➤ **Holder Optional Conversion:**

- Settled in common shares of PSEC at (Par value - Cash portion of settlement, if any) / 5-day VWAP of the common.
- No cash settlement portion until 5-year anniversary of the share issuance date.

➤ **Issuer Optional Conversion:**

- Same settlement mechanism.
- PSEC will not exercise the option until the second anniversary of the issuance of the share.
- PSEC "...may be forced to redeem or convert some or all of the outstanding shares of Preferred Stock to meet tax and regulatory asset coverage requirements."
- "We will not, however, exercise an Issuer Optional Conversion with respect to a share of Preferred Stock for so long as our 5.35% Series A Fixed Rate Cumulative Perpetual Preferred Stock is outstanding." PSEC launched a \$16/share tender for the publicly-traded Series A [HERE](#).

➤ **Leverage question** → Hedgeye is exploring further. Potential risk of conversion to meet statutory leverage requirements.

➤ **Potential Common Dilution:**

- Holder conversions have been accelerating. ~3 million new common shares were issued in 1Q24 upon conversion, following ~3.4 million shares for all of PSEC's fiscal 2023A.
- At current prices ~240 million common shares could be issued upon conversion of all the non-traded preferred stock, assuming a ~7% average conversion fee.
- **Hypothetical Scenario:** Catastrophic portfolio issue → drop in PSEC cash flow to pay distributions → issuer optional conversion to common to reduce preferred distributions → common dilution → resized lower common dividend.

[4] BDC PRIMER

History of regulatory developments for BDCs, which are essentially “hybrid” investment and operating companies.

- BDCs were created by the **Small Business Investment Incentive Act** of 1980, which amended the **Investment Company Act of 1940 (“1940 Act”)**.
- Stated objective **was to encourage the creation of public vehicles that could invest in private companies**, thereby increasing the amount of capital flowing to small but growing businesses.
 - BDCs were envisioned as publicly-traded closed-end funds that would be required to invest at least 70% of their capital via long-term equity and debt investments in private or thinly-traded companies.
 - Intended to increase the amount of money flowing to small businesses by allowing anyone to purchase shares in the open market.
- Later provided **Regulated Investment Company (“RIC”) tax** status in 1990.
 - Flow-through tax treatment.
 - Provided small companies with access to new source of capital.
 - Enabled private equity funds to access the public capital markets.
 - Enabled retail investors to invest long-term in private U.S. businesses, participating in the upside of pre-IPO investing with complete liquidity and enhanced transparency via public reporting.
 - Required diversification to comply with RIC tax requirements.
- Prior to 2003 the largest BDCs were internally-managed, but rapid growth since 2004 has **shifted that focus to the externally-managed BDC model (as is the case with PSEC)**.
 - Base management fee + carried interest fee structures.
- BDCs can be **Traded, Private** and sold through private placements/utilizing a capital call structure, or **Non-Traded** and sold through continuous offerings.

The following must be disclosed in any BDCs filings made with the SEC:

- The firm's valuation policies.
- Disclosure of "Fair Value" and "Level 3" investments.
 - Level 3 refers to situations where there are unobservable valuation inputs for the financial instruments, and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information available and may require significant management judgment or estimation.
 - Majority of BDCs classify debt and equity investments as Level 3 instruments.
- Breakdown of Control Investments (such as NPRC for PSEC) vs. Investments in Affiliates vs. Investments in Non-Affiliates.
- Schedule of investments requiring disclosure of:
 - Name of each portfolio investment,
 - Details of each, such as interest rate, maturity date, extension options, etc.,
 - Non-income producing investments, and
 - Assets held in securitized vehicles, among other things.
- Geographic and industry concentration.
- Regulation G reconciliation of any non-GAAP financial measures.

BDCS | “BAD” BDC ASSETS

Similar to REITs, there are limitations on “bad” vs. “good” BDC assets.

- BDCs are required to invest at least 70% of their total assets in “good” BDC assets.
- “Eligible Portfolio Company” defined by Section 2(a)(46) of the Investment Company Act:
 - U.S. issuers that are neither:
 - An investment company as defined in Section 3 (other than a wholly-owned SBIC), nor
 - A company which would be an investment company except for the exclusion from the definition of investment company in Section 3(c), and
 - Do not have any class of securities listed on a national securities exchange, or
 - Have a class of securities listed on a national securities exchange, but have an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million.
 - **Hedgeye Note:** Under this limitation it is not clear to Hedgeye how NPRC meets the requirements of a “good” BDC asset, given the publicly-traded 5.35% Series A preferred stock currently outstanding.
- BDCs have generally had flexibility to invest in “bad” assets outside of the 70% basket – the SEC staff has never considered whether utilizing a dedicated strategy, such as investing in foreign companies or other publicly-traded companies, might run afoul of the intent of Section 55(a) of the Investment Company Act.
- A BDC may not invest:
 - In more than 3% of the outstanding voting stock of an investment company,
 - More than 5% of the value of its total assets in an investment company, or
 - More than an aggregate of 10% of its total assets in investment companies.

BDCS | OTHER 1940 ACT REQUIREMENTS & IMPORTANT LIMITATIONS

- BDCs must have a majority of independent directors as defined under Section 2(a)(19).
- BDCs must maintain a bond issued by a reputable fidelity insurance company, in an amount prescribed by the 1940 Act, to protect the BDC against larceny and embezzlement. Each officer and employee with access to funds must be covered.
- Neither a public nor private investment fund may own more than 3% of the outstanding voting stock of a BDC.
- BDCs must make available significant managerial assistance to portfolio companies.
- BDCs must appoint a Chief Compliance Officer (Jonathan J. Li at PSEC), and must maintain a compliance program compliant with Rule 38a-1 of the 1940 Act.
- Subject to regular examinations by the SEC.
- BDCs not permitted to sell shares below Net Asset Value (“NAV”) without shareholder approval, which must be obtained annually.
- BDCs may seek to receive an SEC order granting exemptive relief permitting, among other things:
 - Co-investment among affiliates, ← Hedgeye’s understanding is that PSEC has done so here
 - Exclusion of leverage from the asset coverage calculation for debt held by an SBIC subsidiary,
 - Issuance of restricted stock to officers/employees,
 - Issuance of stock options to independent directors.

- On 3.23.18 Congress passed the **Small Business Credit Availability Act (“SBCAA”)** which, among other things, **allowed BDCs to increase their leverage ratios**. The SEC adopted rule amendments which became effective on 8.1.20.
- The legislation **reduced the minimum asset coverage ratio from 200% to 150%**, i.e. **increased allowable leverage** (as measured by Total Assets/Total Equity) **from 2.0x to ~3.0x**.
 - Must be approved by either the BDC’s BoD or by stockholders.
 - BoD approval requires a 1-year waiting period before the change becomes effective.
 - Upon shareholder approval the increase becomes effective the following day.

- A BDC may elect to be **taxed as a “regulated investment company,” or RIC**, under Subchapter M of the Internal Revenue Code.
- **When taxed as a RIC:**
 - Allows “pass through” tax treatment for income and capital gains that are distributed to shareholders.
 - Must distribute at least 90% of its investment income to shareholders annually, and 98% to avoid excise tax.
 - May retain, distribute or “deem distribute” capital gains.
 - 90% of annual gross income must be “good” RIC income in the form of interest, dividends, gains and some type of fees (such as structuring fees earned by PSEC from NPRC TL restructurings).
 - **Requires quarterly diversification tests:**
 - At least 50% of total assets must be invested in cash, government securities, RIC securities and “other” securities, which cannot be more than 5% of a RIC’s total assets OR more than 10% of an issuer’s voting stock,
 - **No more than 25% of the RIC’s assets may be invested in any one issuer** (or in similar businesses if the RIC controls), and
 - No more than 25% of the RIC’s total assets may be invested in Qualified Publicly Traded Partnerships (“QPTPs”).
- Non-U.S. investors are subject to (1) U.S. income tax income that is effectively connected with a U.S. trade or business (ECI), and (2) withholding tax on dividends and interest other than portfolio interest.
- No withholding tax on interest-related dividends, short-term capital gain dividends, or longterm capital dividends.

For more information, contact us at:

sales@hedgeye.com

(203) 562-6500