



# TPG Specialty Lending, Inc.

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Wells Fargo Middle Market Opportunities Forum

December 7, 2016

# Disclaimer and Forward-Looking Statement

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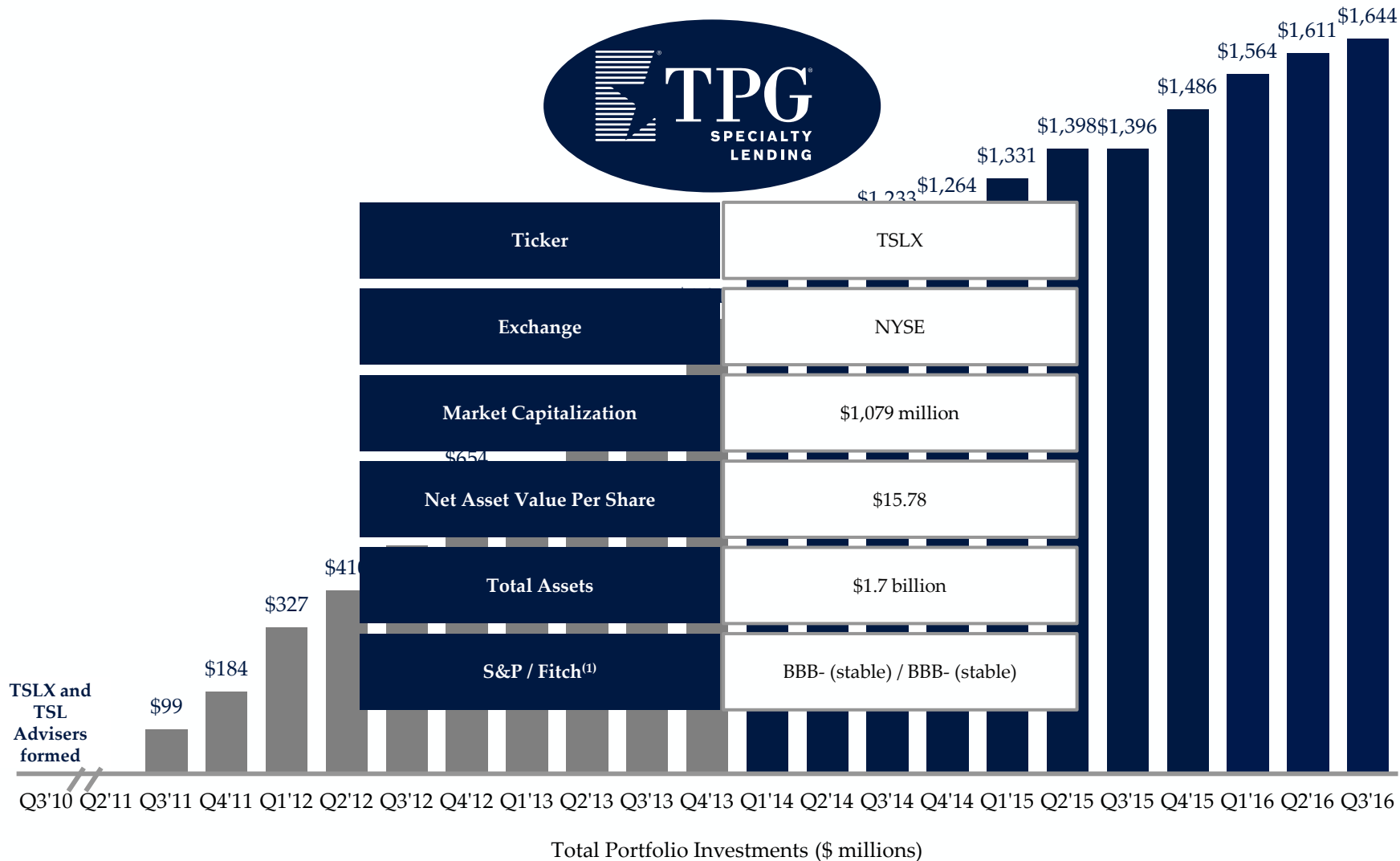
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# Overview

Specialty finance company focused on lending to middle-market companies



Note: Market capitalization and financial data as of 09/30/2016  
 (1) S&P rating affirmed on 03/31/2016 and Fitch rating affirmed on 03/09/2016

# Competitive Advantages

## Leading Platform and Proprietary Deal Flow

- ▶ 29 dedicated professionals as of Nov 2016
- ▶ Leverage resources of TPG and TSSP
- ▶ 87% of investments are directly originated
- ▶ SEC Exemptive Relief for co-investments

## Experienced Management Team

- ▶ 8 senior team members with over 170 years of collective experience as commercial dealmakers and risk managers
- ▶ Gross unlevered IRR of 15.6% on fully exited investments totaling over \$1.5 bn of cash invested



## Disciplined Investment / Underwriting Process

- ▶ Focus on risk-adjusted returns, not absolute return
- ▶ Strong documentation with effective voting control on 73% of debt investments
- ▶ Robust and active management of investments

## Shareholder Alignment

- ▶ 10b5-1 stock repurchase plan in place since IPO
- ▶ TSL Advisers, our directors and executive officers own approximately 5.0% of TSLX common stock outstanding

## Senior, Floating Portfolio w/ Strong Yields

- ▶ 52 companies with a weighted average total yield of 10.3% at amortized cost<sup>(1)</sup>
- ▶ Embedded inflation and reinvestment protection
- ▶ 94% first lien, 98% secured, 98% floating rate<sup>(2)</sup>
- ▶ 86% of debt investments have call protection

<sup>1</sup> Total yield on investments is calculated based on the interest rate and the accretion of original issue discount ("OID"), exclusive of investments on non-accrual status

<sup>2</sup> Includes one fixed rate investment for which we entered into an interest rate swap agreement to swap to a floating rate

Note: As of 09/30/2016, unless otherwise noted

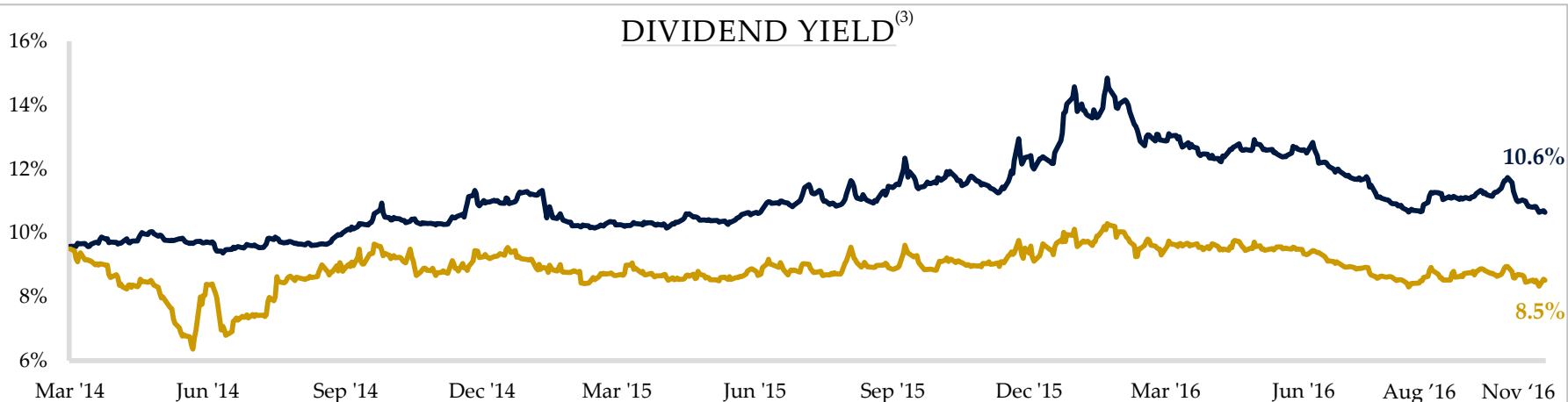
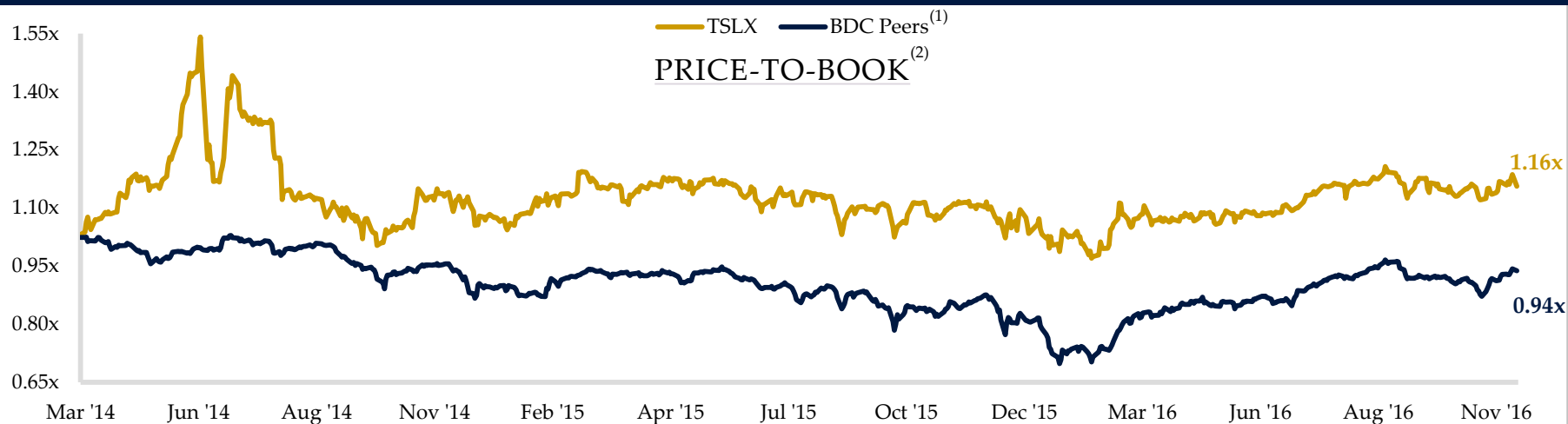
## I. BDC Sector Observations

## II. TSLX Principles and Investment Strategy

## III. Our “Watch Outs”

# BDC Sector Observations

## Commonly Used BDC Metrics



<sup>1</sup> BDC Peers consist of 17 externally managed BDCs in the S&P BDC Index with total assets greater than \$600 million as of 9/30/2016

<sup>2</sup> Reflects trading price as a multiple of book value per share

<sup>3</sup> Reflects the most recent dividend per share, annualized and expressed as a percentage of trading price per share

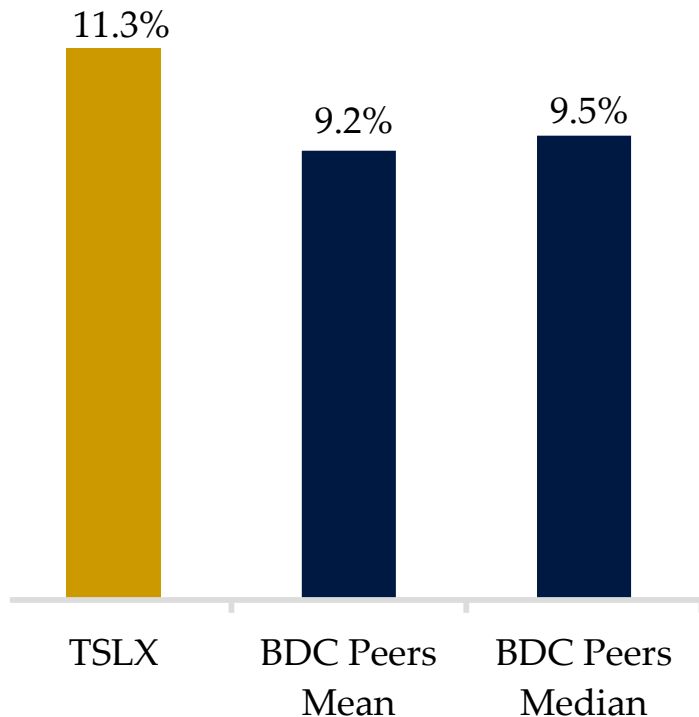
Source: SNL, data as of 11/29/2016

Price-to-book and dividend yield can be misguided metrics for “value”

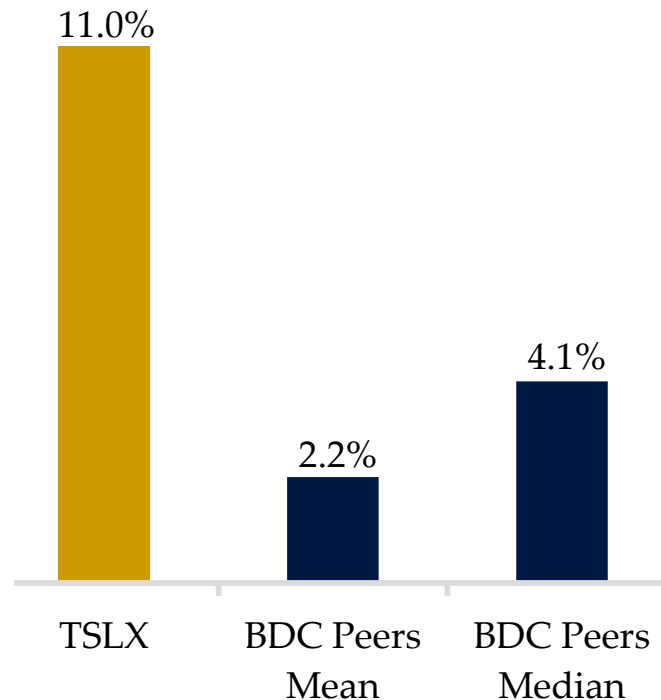
# BDC Sector Observations

## More Meaningful BDC Metrics

1-YEAR RETURN ON EQUITY (NII/SHARE)<sup>(1)</sup>



1-YEAR NAV GROWTH PLUS DIVIDENDS<sup>(2)</sup>



Note: BDC Peers consist of 17 externally managed BDCs in the S&P BDC Index with total assets greater than \$600 million as of 9/30/2016

(1) Calculated as LTM 9/30/2016, or latest LTM period available, cumulative net investment income per share divided by beginning NAV per share at 9/30/15

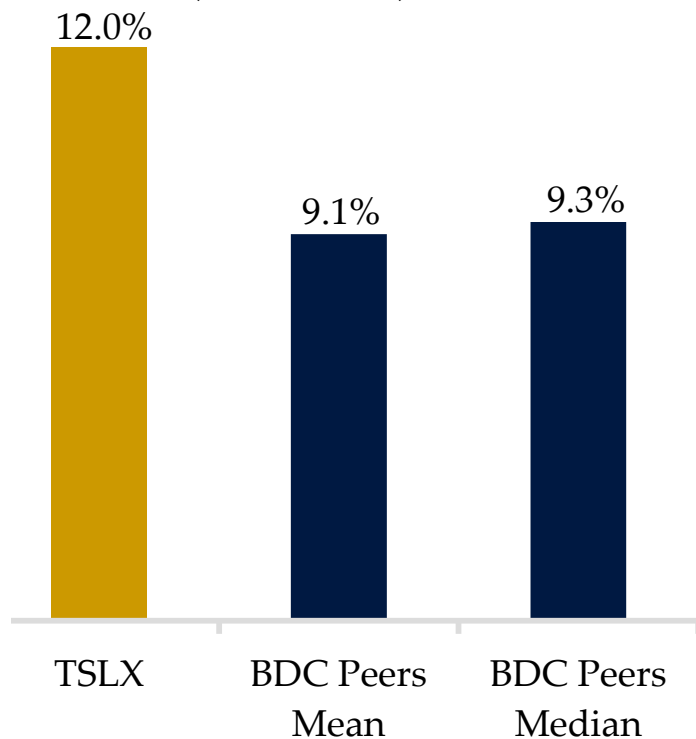
(2) Calculated as net asset value per share growth from 9/30/2015 to 9/30/2016, or latest LTM period available, plus cumulative dividends per share over that period

Source: SNL

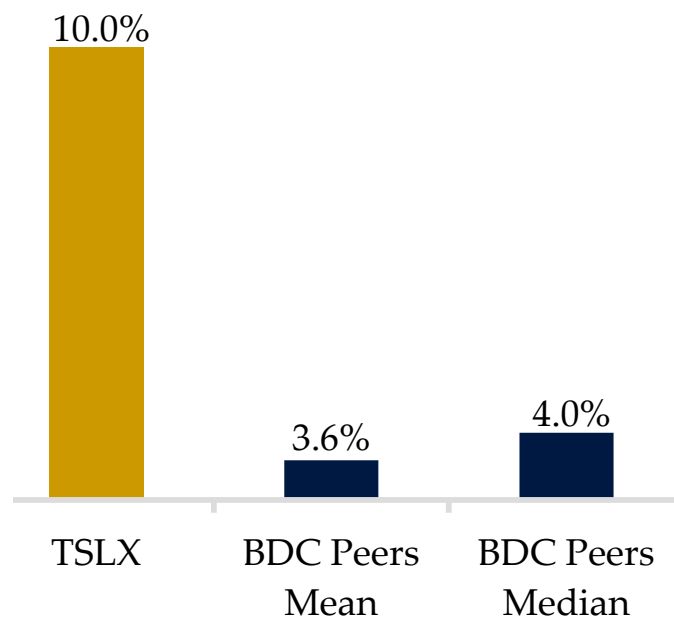
We believe NAV growth plus dividends is a more meaningful measure of value creation for shareholders

## More Meaningful BDC Metrics

SINCE TSLX IPO RETURN ON EQUITY  
(NII/SHARE)<sup>(1)</sup>



SINCE TSLX IPO NAV GROWTH PLUS  
DIVIDENDS<sup>(2)</sup>



Note: BDC Peers consist of 17 externally managed BDCs in the S&P BDC Index with total assets greater than \$600 million as of 9/30/2016

(1) Calculated as cumulative net investment income per share from 3/31/2014 to 9/30/2016, or latest period available, divided by beginning NAV per share at 3/31/2014, adjusted for annual basis

(2) Calculated as net asset value per share growth from 3/31/2014 to 9/30/2016, or latest period available, plus cumulative dividends per share over that period, adjusted for annual basis

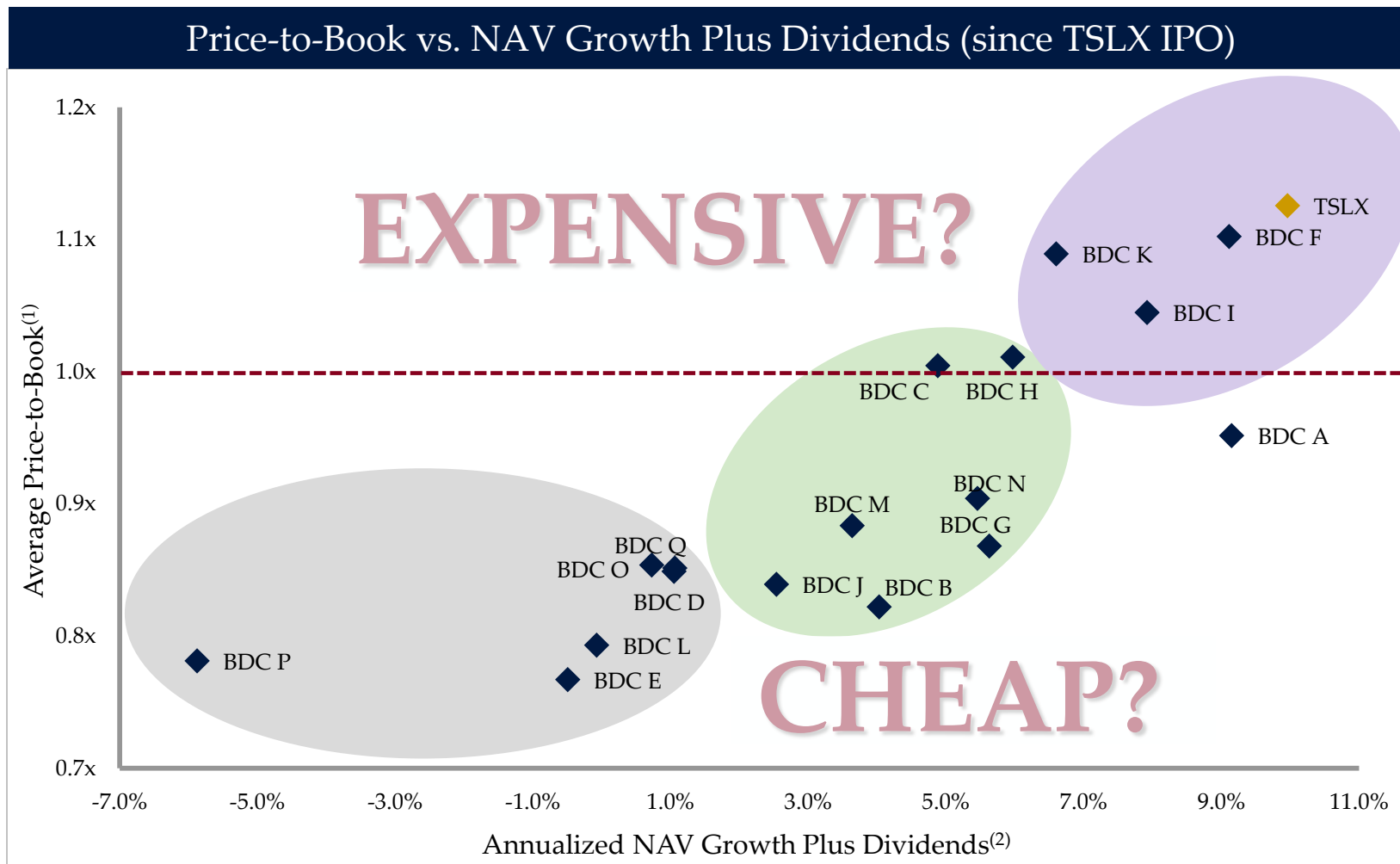
Source: SNL

We believe NAV growth plus dividends is a more meaningful measure of value creation for shareholders





# BDC Sector Observations



Note: BDC Peers consist of 17 externally managed BDCs in the S&P BDC Index with total assets greater than \$600 million as of 9/30/2016

(1) Calculated as average daily price per share divided by last reported book value per share from 3/21/2014 to 11/29/2016

(2) Calculated as net asset value per share growth from 3/31/2014 to 9/30/2016, or latest period available, plus cumulative dividends per share over that period, adjusted for annual basis

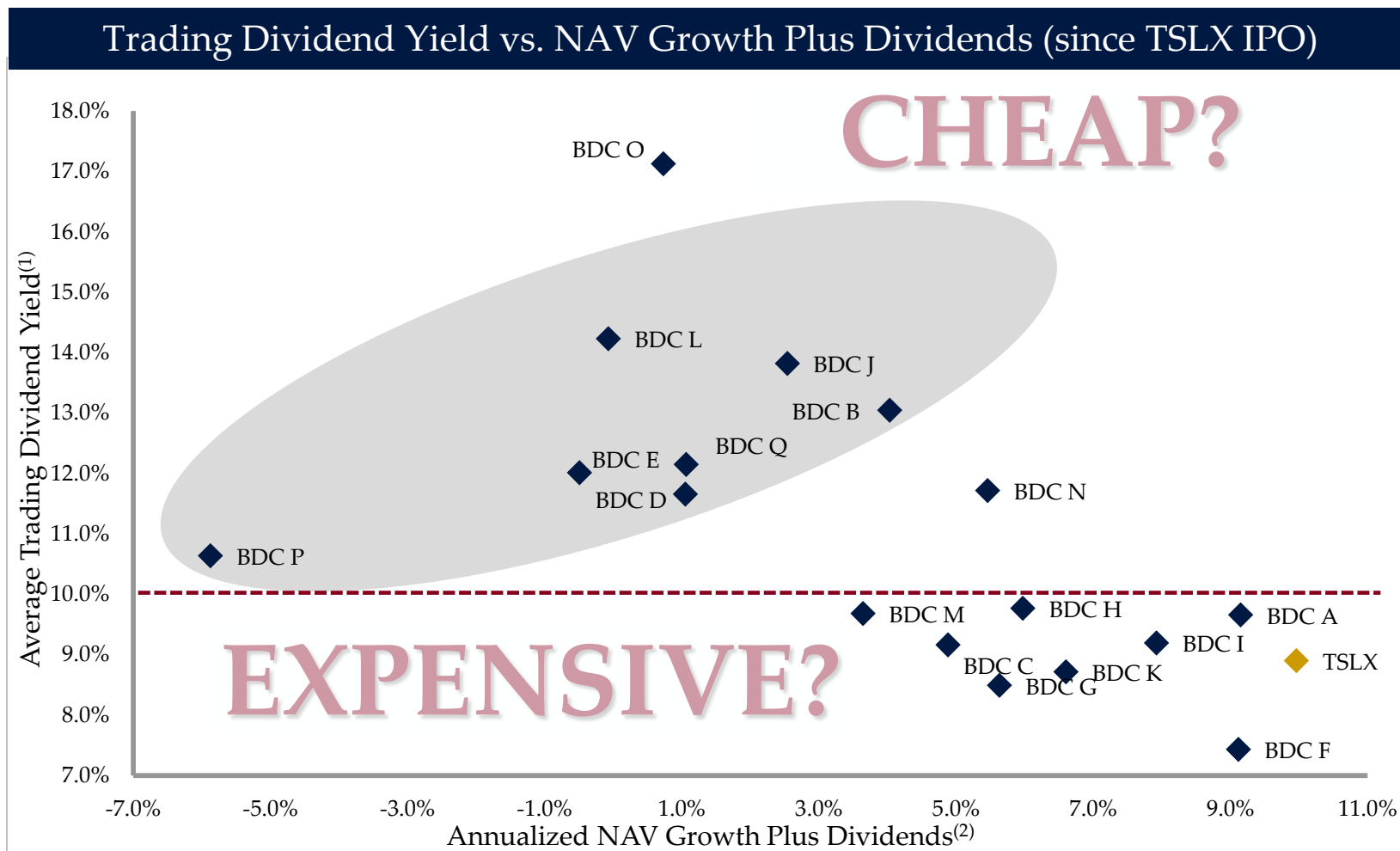
Source: SNL



The market is generally efficient at pricing a manager's ability to earn its cost of capital



# BDC Sector Observations



Note: BDC Peers consist of 17 externally managed BDCs in the S&P BDC Index with total assets greater than \$600 million as of 9/30/2016  
 (1) Calculated as average daily dividend yield (based on trading price) from 3/21/2014 to 11/29/2016  
 (2) Calculated as net asset value per share growth from 3/31/2014 to 9/30/2016, or latest period available, plus cumulative dividends per share over that period, adjusted for annual basis  
 Source: SNL



The market is generally efficient at pricing a manager's ability to earn its cost of capital

I. BDC Sector Observations

II. TSLX Principles and Investment Strategy

III. Our “Watch Outs”

# TSLX Principles and Investment Strategy

1 Differentiated Platform Expertise and Capabilities



2 Capital Allocation

Private Equity<sup>(1)</sup>  
\$50.0B

Real Estate  
\$4.6B

Public Equity  
\$1.5B



3 Dividend Policy

4 Asset Selection / NAV Protection

Note: TPG, Private Equity, Real Estate, Public Equity and TSSP data are as of 09/30/2016, latest available  
(1) Includes TPG Capital, Asia, Growth, Biotech and TCCP/ART funds

TSLX leverages the expertise and networks of TPG and TSSP and is the “first stop” channel for directly originated U.S. middle market credit opportunities within the platform

# TSLX Principles and Investment Strategy

1

Differentiated Platform Expertise and Capabilities



2

Capital Allocation

3

Dividend Policy

4

Asset Selection / NAV Protection

## Benefits of TPG/TSSP Scale

- ✓ Ability to originate **larger commitments** and enhance TSLX shareholder economics through fees
- ✓ Leverage the platform's expansive **sector expertise** and relationships
- ✓ Expansion into **new verticals / investment themes**
- ✓ Access to debt sources and **reduced cost of capital**



## TSLX Strengths

- ✓ \$1.6 billion portfolio at fair value
- ✓ Prudent investment framework **focused on ROE**, not growth
- ✓ **Highly selective** investment process
- ✓ Limited capital deployment pressures across market cycles, resulting in **stable portfolio yields**

### TSLX shareholders have the best of both worlds:

- Our cost of debt is ~100 bps lower than BDC Peers (~100 bps of cost of debt savings result in ~100 bps of ROE benefit)<sup>(1)</sup>
- Our syndication fees contribute ~40 bps to ROE<sup>(2)</sup>

**~140 bps of ROE benefit to TSLX shareholders**

Note: BDC Peers consist of 17 externally managed BDCs in the S&P BDC Index with total assets greater than \$600 million as of 9/30/2016

1 Cost of debt is calculated as the latest reported trailing twelve months total interest expense divided by average debt balance over that period

2 Figures calculated based on trailing twelve months 9/30/2016 financials

# TSLX Principles and Investment Strategy

1

Differentiated Platform Expertise and Capabilities



2

Capital Allocation

3

Dividend Policy

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Asset Selection / NAV Protection

## Representative Investments

Software and/or Recurring Revenue

FRONTLINE<sup>®</sup>  
• TECHNOLOGIES •

idera<sup>®</sup>

matrixcare  
Superior Care. Better Outcomes.

Qlik Q<sup>®</sup>

ABL Retail

AÉROPOSTALE  
sears

DESTINATION  
MATERNITY.

SPORTS  
AUTHORITY.

Financing Pharma Royalty Streams

NEKTAR<sup>®</sup>

Ironwood



Defensive themes consistent with our late-cycle minded approach



# TSLX Principles and Investment Strategy

1

Differentiated Platform Expertise and Capabilities

2

Capital Allocation

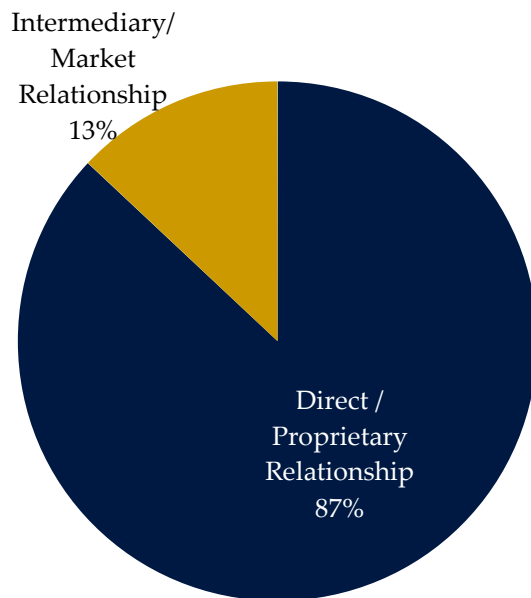
3

Dividend Policy

4

Asset Selection / NAV Protection

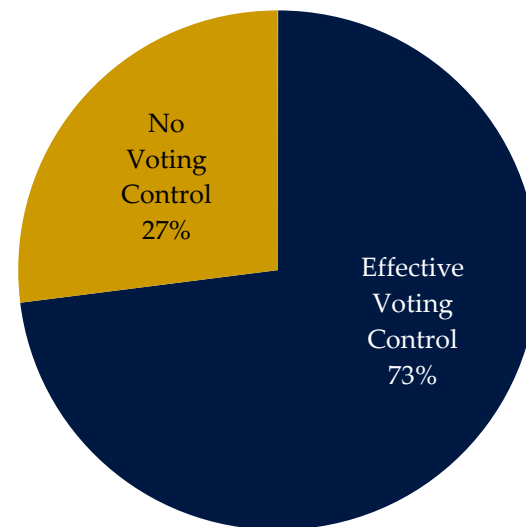
## Sourcing



*Note: By fair value of investments as of 9/30/2016*

87% sourced away from Wall Street

## Voting Control



Effective voting control in 73% of portfolio debt investments

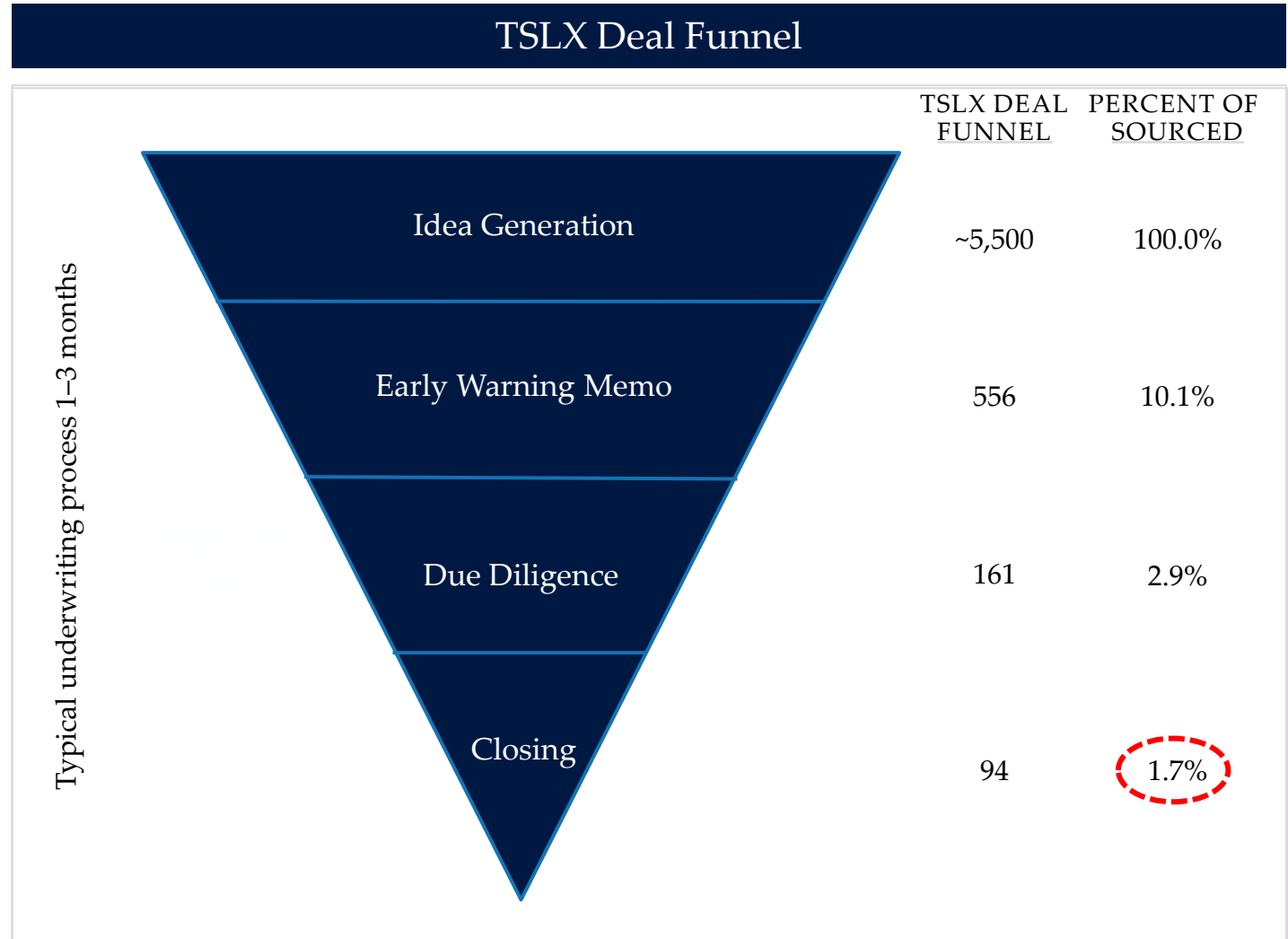
# TSLX Principles and Investment Strategy

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Our direct sourcing model is a differentiator;  
highly selective investment process

# TSLX Principles and Investment Strategy

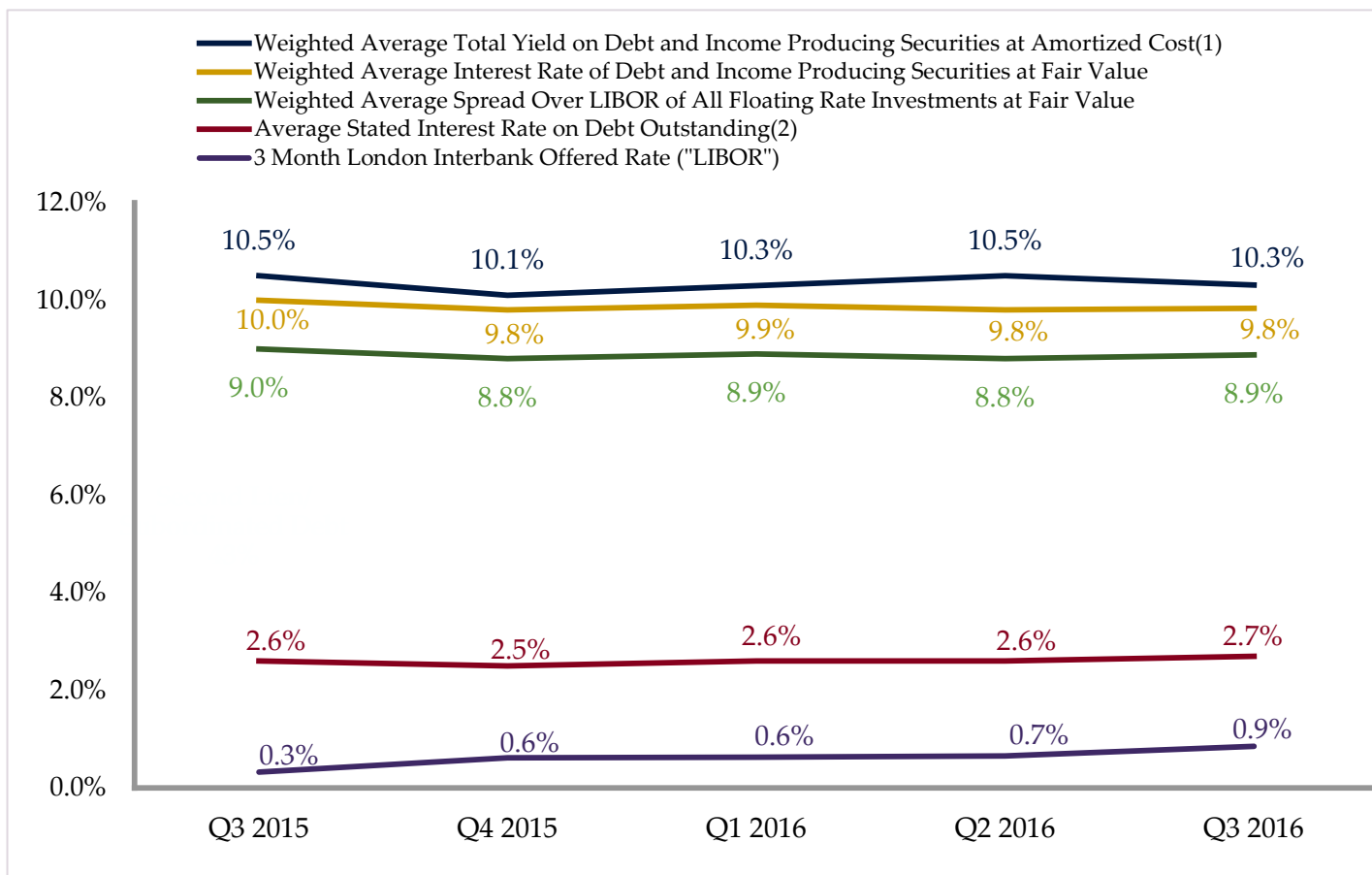
1 Differentiated Platform Expertise and Capabilities

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## Net Interest Margin



(1) Total yield on investments is calculated based on the interest rate and the accretion of OID, exclusive of investments on non-accrual status

(2) Interest rate on debt outstanding includes the swap-adjusted interest expense related to our Convertible Notes

Net interest margin has been stable...the benefit of direct originations

# TSLX Principles and Investment Strategy

1 Differentiated Platform Expertise and Capabilities

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## Equity Raise Discipline

Canceled pre-IPO capital commitments	\$900m / \$1.6bn of potential fee paying assets
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% of days closing above book value	98%
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% of days closing above 103% of book value	95%
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Potential to raise equity <sup>(1)</sup>	680 trading days
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Equity raised since IPO	Once
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Note: As of 11/29/2016  
 1 Reflects trading days that TSLX closed above 103% of book value

Discipline in accessing equity capital markets reflective of shareholder alignment

# TSLX Principles and Investment Strategy

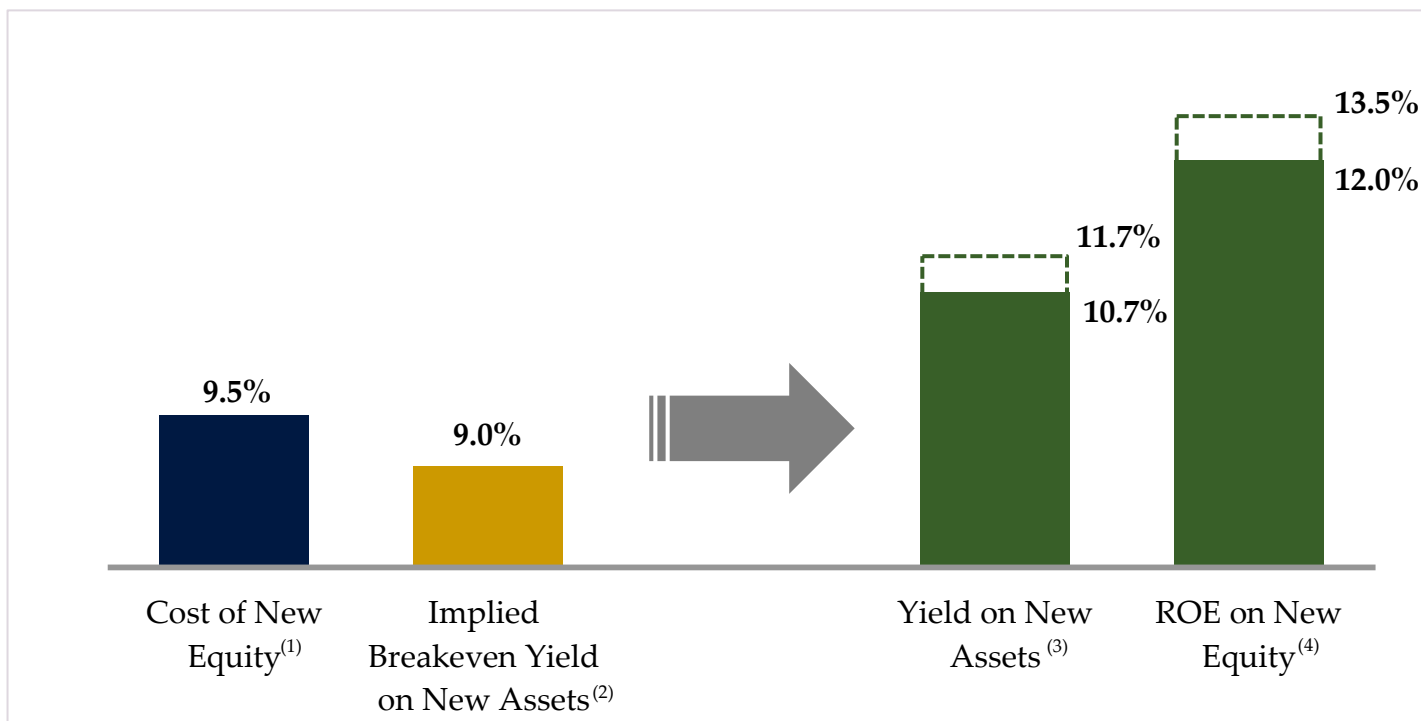
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## Equity Raise Discipline (March 2016)



1 Reflects latest quarter dividend, annualized and expressed as a percentage of offering price per share adjusted for offering fees and expenses  
 2 Average all-in yield required on new assets in order to achieve 9.5% ROE based on our target leverage ratio and cost and operating structure  
 3 Range's lower bound reflects average all-in yield achieved on new assets and range's upper bound reflects potential yield achieved through prepayment fees, syndication fees and other income  
 4 Implied ROE based on our target leverage ratio and cost and operating structure

“ TSLX: A Potential BDC First, NOI Beat Post 1Q Equity Raise ”

– Wells Fargo, August 16, 2016

# TSLX Principles and Investment Strategy

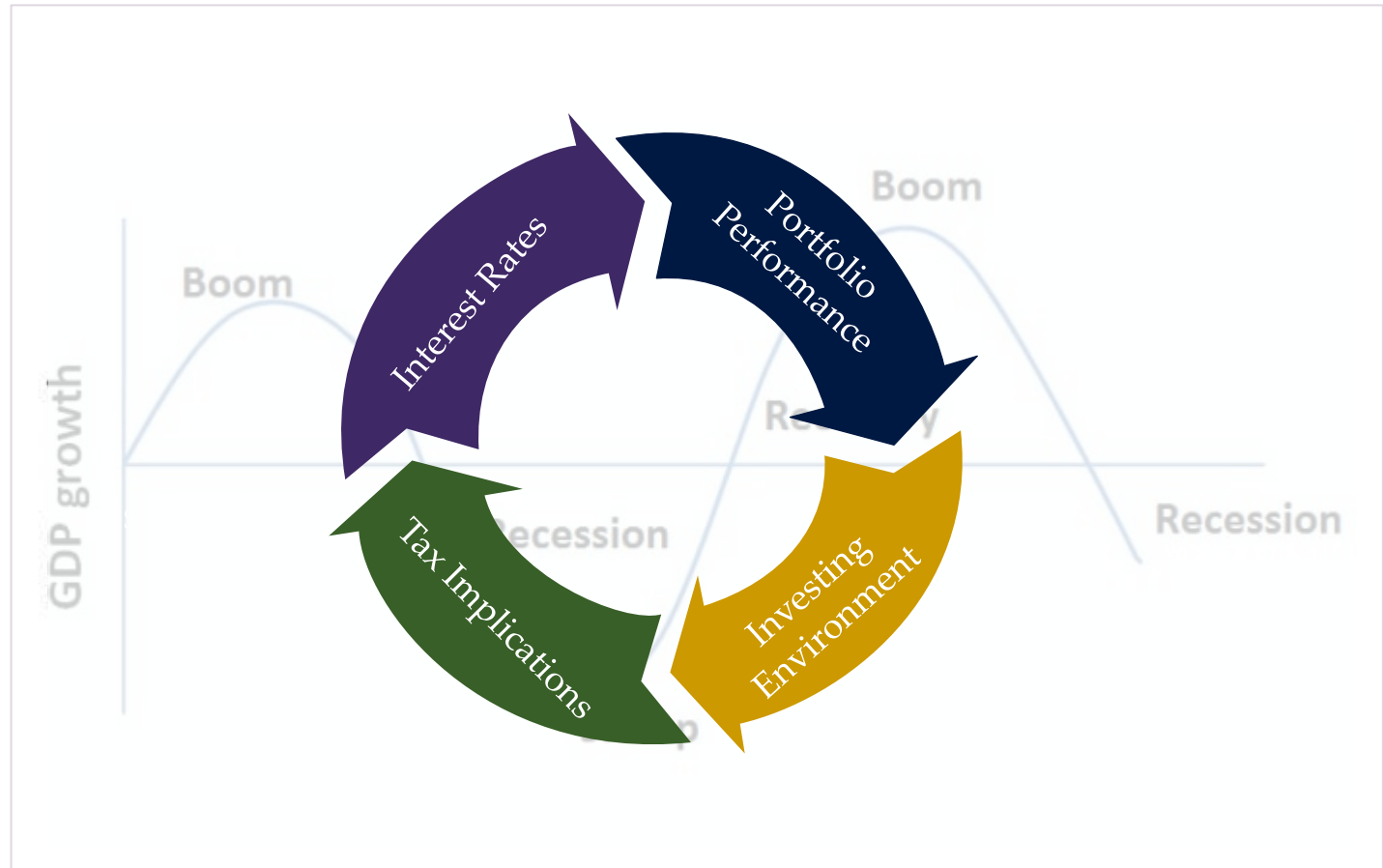
1 Differentiated Platform Expertise and Capabilities

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## Dividend Level Considerations



Multi-faceted approach to dividend policy  
Dividend level reflects earnings power of business across an economic cycle

# TSLX Principles and Investment Strategy

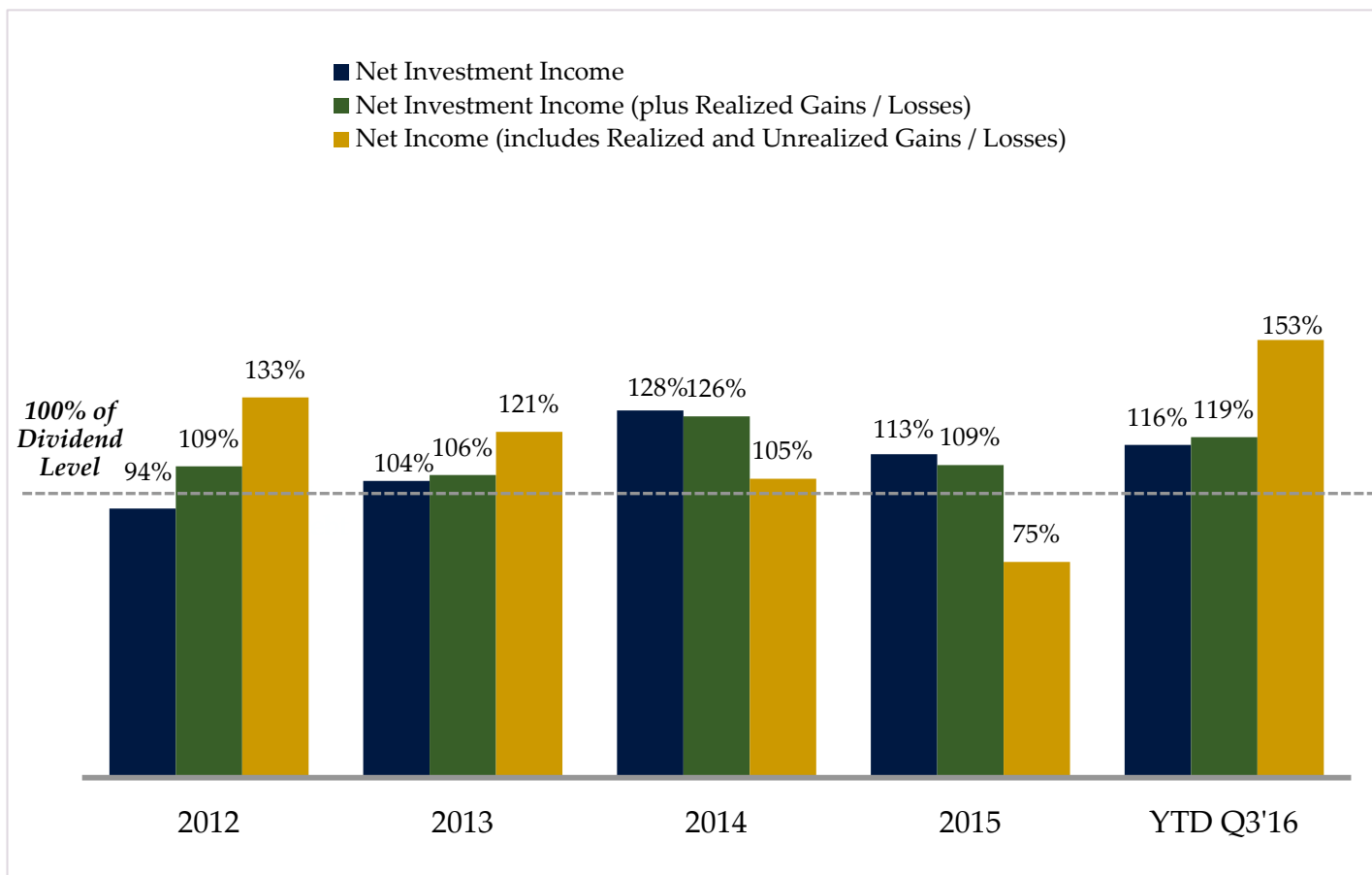
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## Dividend Coverage



Consistently earned dividend for nearly 5 years

# TSLX Principles and Investment Strategy

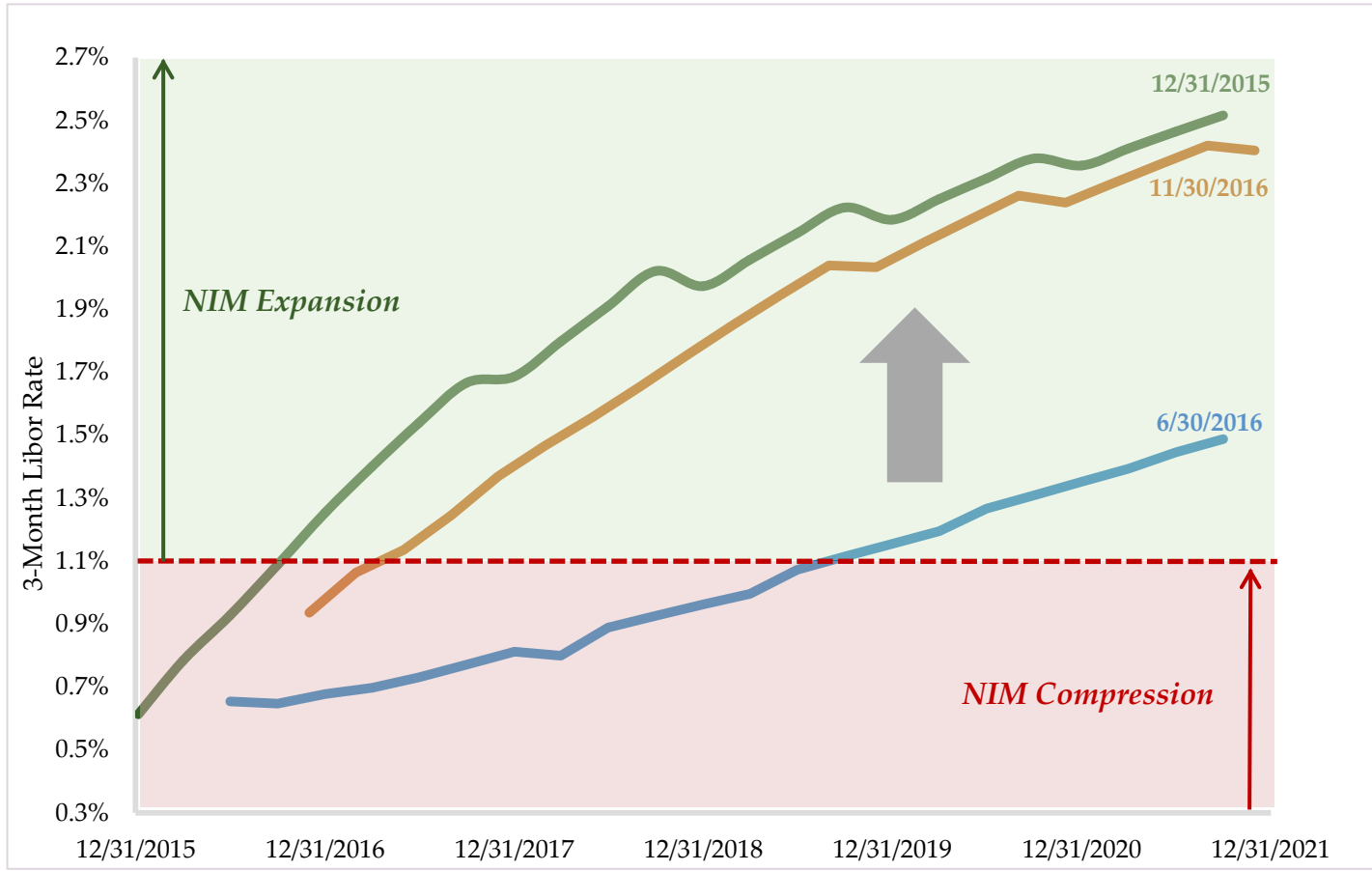
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## 3-Month Forward LIBOR Curve



Assuming our balance sheet as of 9/30/2016 were to remain constant and we took no actions to alter our existing interest rate sensitivity, we expect the EPS impact of the forward LIBOR curve (as of 11/30/2016) to be \$0.03/share and \$0.11/share for 2017 and 2018, respectively



# TSLX Principles and Investment Strategy

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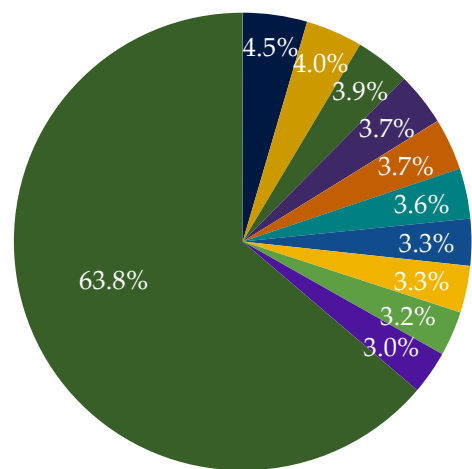
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## Top 10 Borrower Diversification

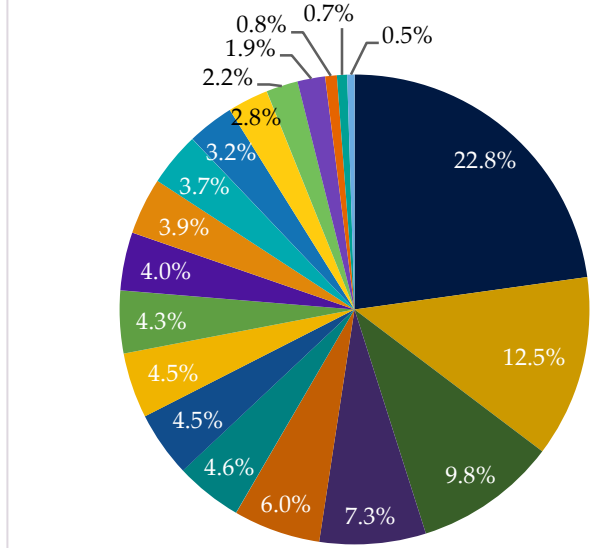
- Nektar Therapeutics
- Insurity Inc.
- My Alarm Center, LLC
- AFS Technologies
- Idera, Inc.
- Actian Corporation
- Frontline Technologies Group LLC
- Saba Software
- Highwinds Capital, Inc.
- Helix Health
- Rest of Portfolio (42 Borrowers)



Note: By fair value of investments as of 9/30/2016

## Industry Diversification

- Business services
- Financial services
- Education
- Pharmaceuticals
- Manufacturing
- Human resource support services
- Internet services
- Office products
- Transportation
- Other
- Healthcare
- Retail and consumer products
- Hotel, gaming, and leisure
- Electronics
- Insurance
- Beverage, food, and tobacco
- Oil, gas and consumable fuels
- Automotive
- Chemicals



Diversity across borrower and industry concentrations

# TSLX Principles and Investment Strategy

1 Differentiated Platform Expertise and Capabilities

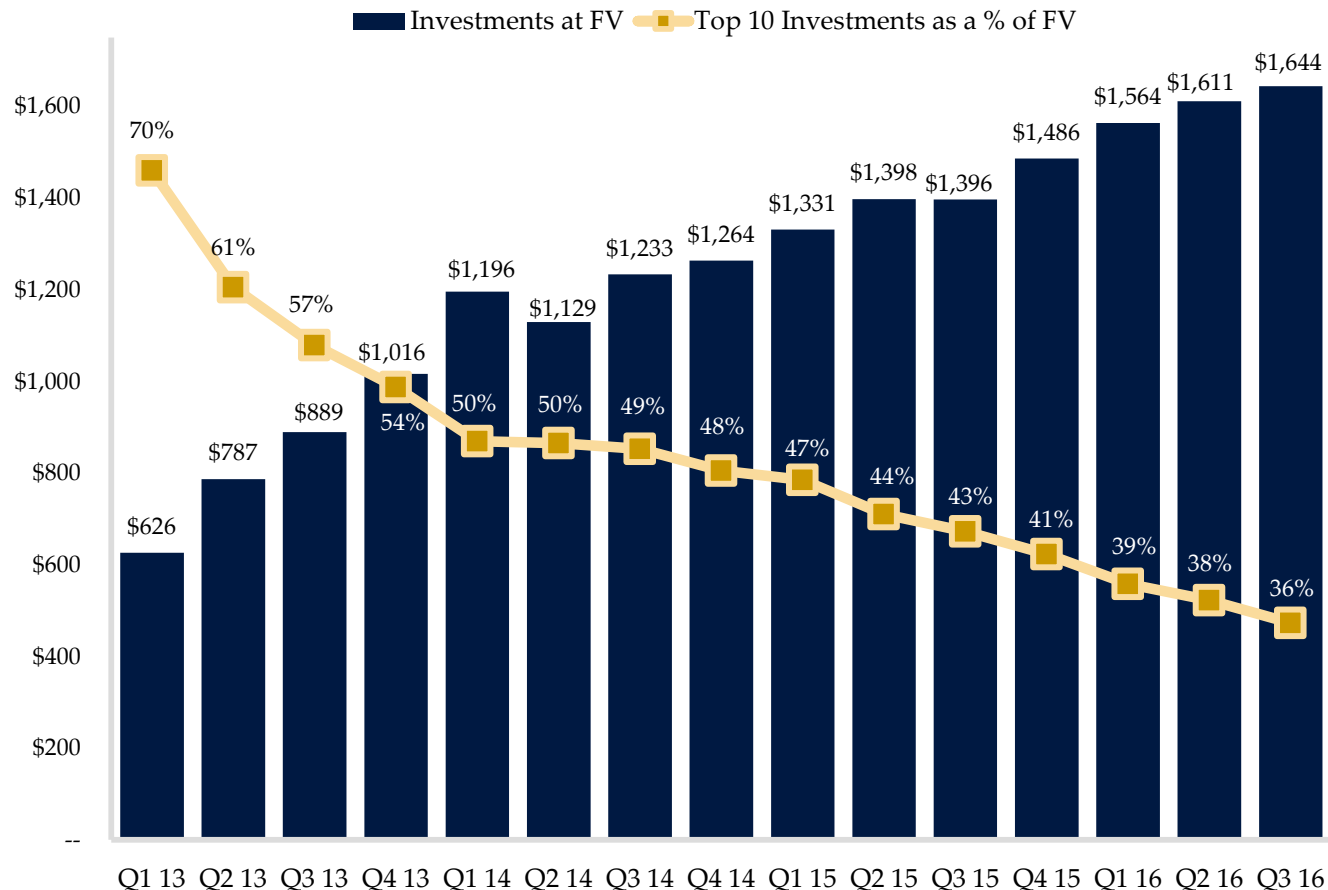
2 Capital Allocation

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## Portfolio Diversification

(\$ in millions by fair value)



Continued diversification of exposure across borrowers

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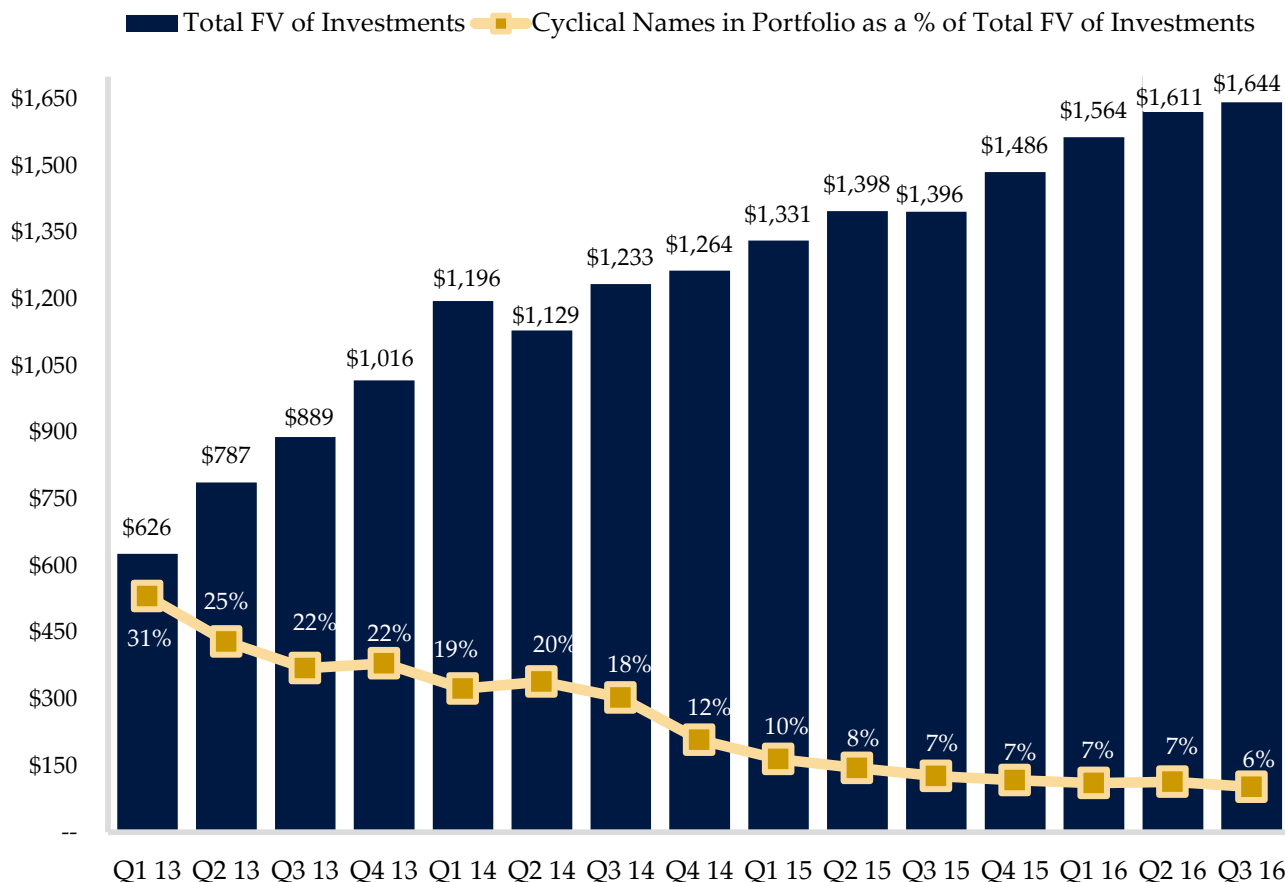
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## Reducing Cyclical Exposure

(\$ in millions by fair value)



Notes: Cyclical names include certain portfolio companies in the following industries: automotive; beverage, food, and tobacco; capital equipment; construction and building; containers and packaging; hotel, gaming, and leisure; manufacturing; metals and mining, which TSLX believes are subject to business cycle volatility. Excludes energy-related portfolio companies and asset-backed loan portfolio companies

Late cycle-minded sector selection

# TSLX Principles and Investment Strategy

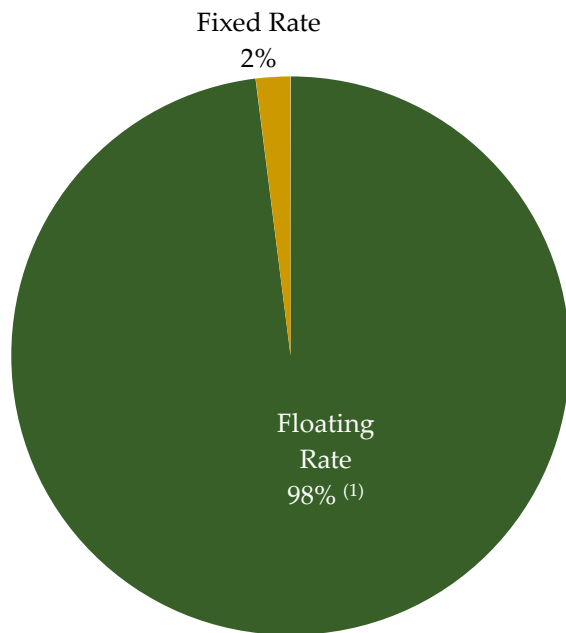
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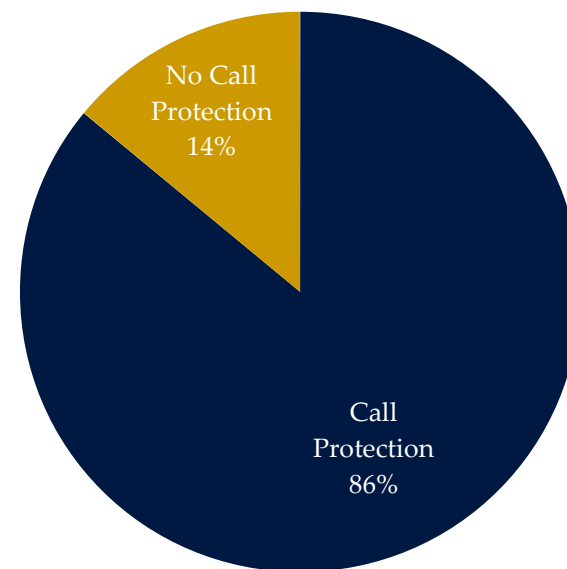
3 Dividend Policy

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## Yield Protection



## Call Protection



Note: By fair value of investments as of 9/30/16  
(1) Includes one fixed rate investment for which we entered into an interest rate swap agreement to swap to a floating rate

Mitigation of non-credit (interest rate and reinvestment) risks

# TSLX Principles and Investment Strategy

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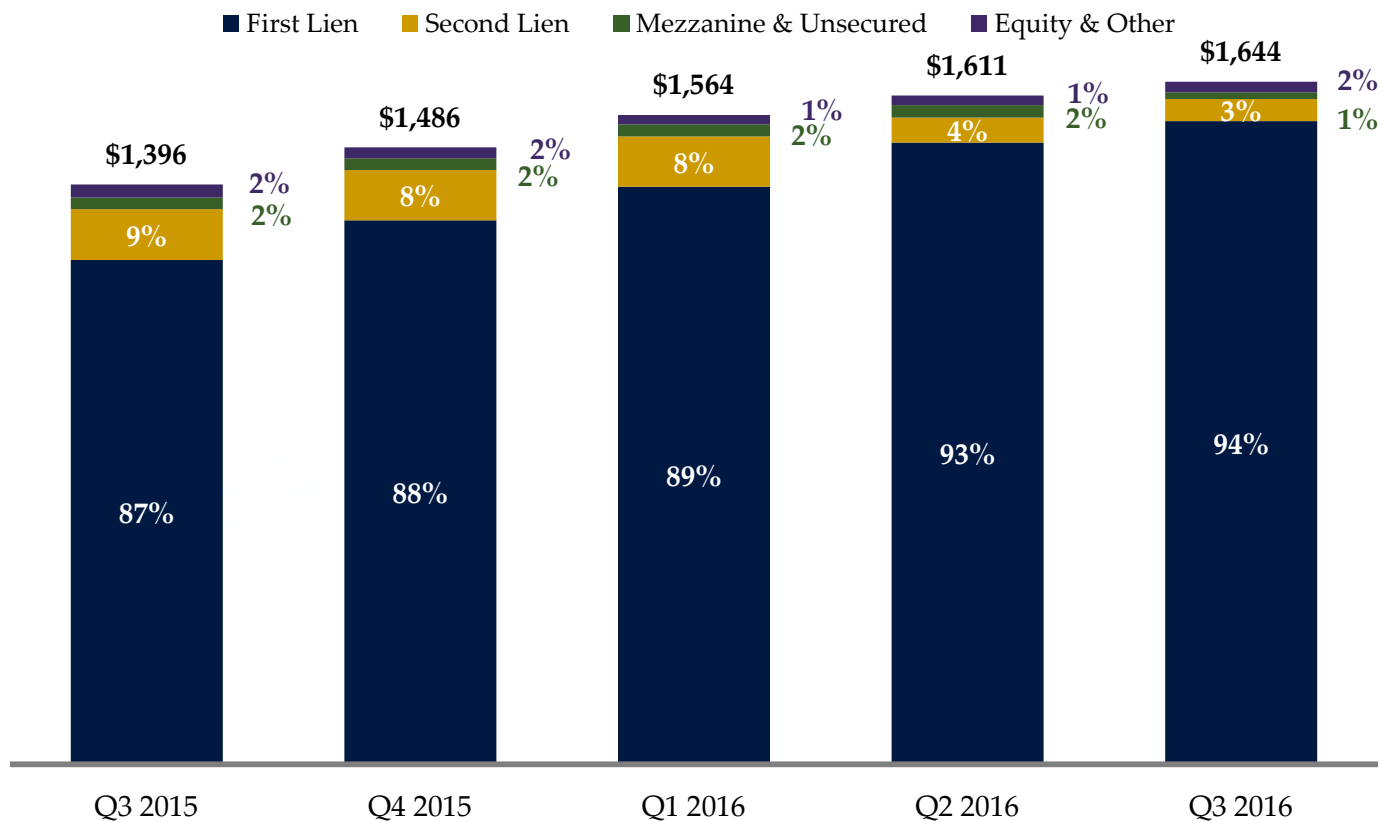
2 Capital Allocation

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## Capital Structure

(\$ in millions by fair value)



Note: By fair value of investments as of 9/30/2016

Late cycle-minded capital structure selection

# TSLX Principles and Investment Strategy

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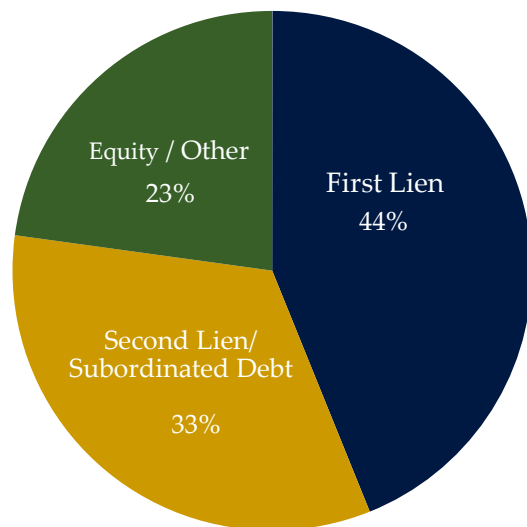
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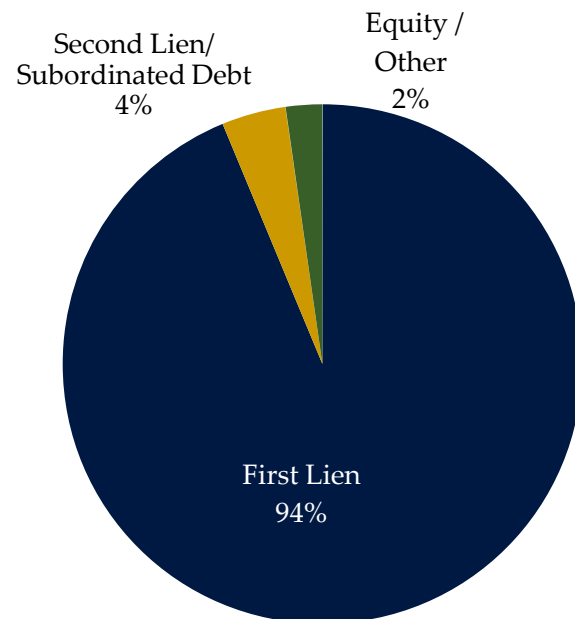
## Relative Value

LARGE CAP BDC COMPOSITE<sup>1,2</sup>



Yield at Amortized Cost<sup>3</sup>:  
**10.6%**

TSLX PORTFOLIO



Yield at Amortized Cost:  
**10.3%**

(1) Excludes investments on non-accrual status  
 (2) BDC Composite consists of ARCC, AINV, FSC, GBDC, PSEC, SLRC, MAIN, TCPC, GSBD, FSIC  
 (3) SLRC and GBDC yield at fair value  
 Note: Weighted average based on portfolio FV; as of 9/30/16 or latest available  
 Senior debt was split evenly between first and second lien (FSC, GBDC, SLRC, TCPC)  
 For ARCC, SSLP is considered CLO equity  
 Numbers may not sum to 100% due to rounding  
 Source: Company reports, SNL Financial

Note: As of 9/30/2016

TSLX generates strong unlevered returns on a substantially more senior portfolio than the average BDC manager

# TSLX Principles and Investment Strategy

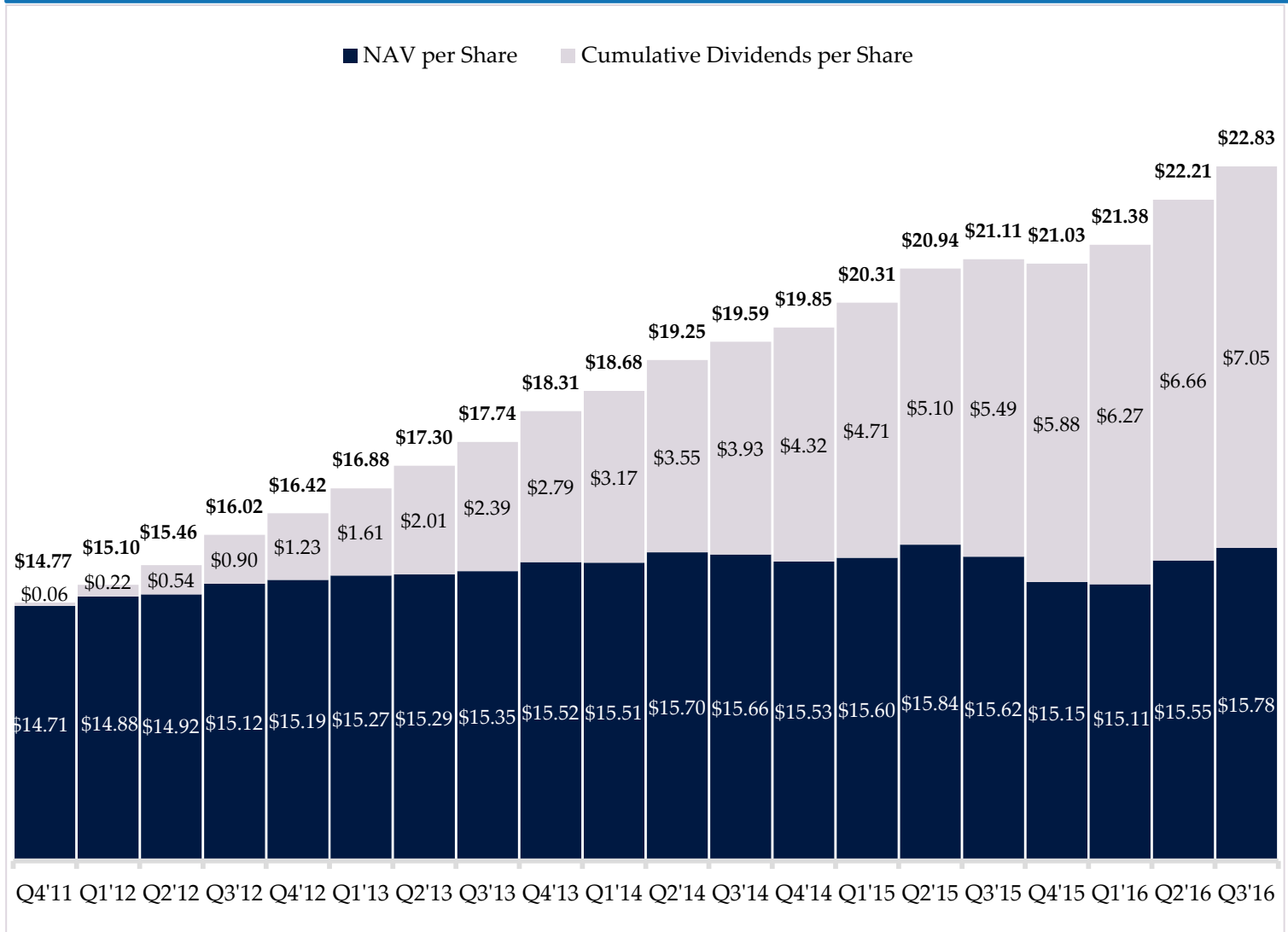
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## Book Value per Share and Dividends Paid



I. BDC Sector Observations

II. TSLX Principles and Investment Strategy

III. Our “Watch Outs”



# Our “Watch Outs”

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U.S. interest rate shock



Trade wars / protectionism



Geopolitical tension and unrest



Brexit / Euro area exits



China slowdown



We plan to remain cautious and late-cycle minded for the period ahead

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# Contact Us:

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