ARES CAPITAL CORPORATION

# Wells Fargo Securities Middle Market Opportunities Forum

December 2016

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# Company Overview

# ARCC is a Preeminent Direct Lending Franchise

- LARGEST BUSINESS DEVELOPMENT COMPANY ("BDC") BY MARKET CAPITALIZATION & TOTAL ASSETS[1]
- EXTERNALLY MANAGED BY A LEADING GLOBAL ALTERNATIVE ASSET MANAGER
- EXPERIENCED TEAM WITH LONG HISTORY IN THE MIDDLE MARKET
- STRONG DIRECT ORIGINATION FOCUS

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- STRONG HISTORICAL PERFORMANCE AND CONSERVATIVE DIVIDEND POLICY
- ASSET SENSITIVE BALANCE SHEET WITH LOW FUNDING RISK
- SCALED BDC ALLOWS FOR LIQUIDITY IN OUR NOTES AND SHARES
- 12% ANNUALIZED RETURN TO SHAREHOLDERS SINCE INCEPTION[2]

**ARCC's scale, tenured management team, disciplined investment culture, and pro-active portfolio management have resulted in strong results**

Note: All data as of September 30, 2016 unless otherwise stated. There can be no assurance that dividends will continue to be paid at historic levels or at all. Past performance is not indicative of future results. See Endnotes on slides 30-31 for additional important information.

# Strong External Manager

- **Ares Management, L.P. (NYSE: ARES) is a leading global alternative asset manager with approximately $97 billion of assets under management ("AUM")***
  - Since Ares' inception in 1997, we have adhered to a disciplined investment philosophy that focuses on delivering compelling risk-adjusted investment returns throughout market cycles
- **We have three distinct but complementary investment groups that can invest across the capital structure**
  - We believe that each group is a market leader with a demonstrated and consistent investment track record

| | Credit | Private Equity | Real Estate |
|---|---|---|---|
| | *A leading participant in the non-investment grade corporate credit markets* | *One of the most consistent private equity managers in the U.S. with a growing international presence* | *A leading participant in the real estate private equity markets and a growing direct lender* |
| Assets Under Management | $62.0 billion | $24.9 billion | $10.4 billion |
| Strategies | High Yield Bonds/Syndicated Loans<br>Structured Credit<br>Direct Lending | Corporate Private Equity<br>U.S. Power & Energy Infrastructure<br>Special Situations | Real Estate Debt<br>Real Estate Private Equity |

* As of September 30, 2016, AUM amounts include capital available to vehicles managed or co-managed by Ares, including funds managed by IHAM, a wholly owned portfolio company of ARCC and a registered investment adviser.

# Evolution of U.S. Direct Lending

## We believe the middle market has transitioned into an institutional market with few scaled providers

- Historically, banks were meaningful underwriters / lenders to middle market companies
- More recently, bank consolidation coupled with stringent banking regulations have significantly curtailed bank underwriting, with non-bank lenders filling the void
  - Today, banks are typically focused on fees (advisory, syndication, etc.) and have little desire or ability to retain investment

**The Changing Banking Landscape (Pre-Crisis)**

- Consolidation wave
- Large banks acquire smaller banks
- Capacity leaves market
- Lending capabilities of banking platforms diminishes
- Rise of non-bank lenders and institutional investors
- Foreign banks exit

**Shifting Risk Tolerances (Post-Crisis)**

- Continued consolidation
- Increased capital and risk standards by regulators
- Banks refocus towards lower risk lending
- Growing borrower acceptance of non-bank lenders

**Demand for Experienced Credit Managers**

- Growing demand from underserved borrowers
- Global investor demand increases
- Pursuit of absolute returns with predictable yield

**The Future of Non-Bank Lending**

- Market share gains for alternative managers
- New geographies
- Global scale and integrated platforms
- Further development of adjacent assets and sectors

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# ARCC Has Clear Competitive Advantages

### Direct Origination

- 89 investment professionals in six U.S. offices*
- Drives asset selectivity and ability to optimize portfolio mix
- Improves due diligence, management access and control over deal terms
- Ability to underwrite and syndicate to drive fee income

### Flexible Capital/Multi-Asset Class Expertise

- Multi-asset class “one-stop” solutions to match client needs
- Rotate between asset classes with superior relative value
- Cycle durable business model


### Scale

- Commit and hold up to $500 million in a single transaction**
- Incumbency creates organic growth opportunities within existing portfolio
- More efficient access to capital

### Control/Active Investor

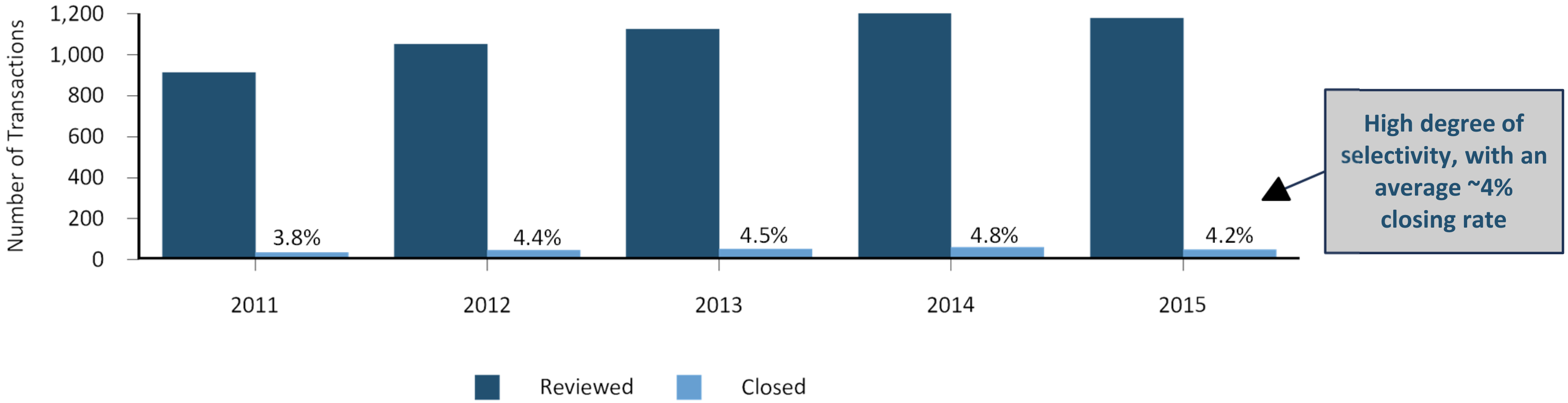
- Focus on lead investing for primary diligence and additional control over investment outcomes
- Active investor post-closing with seats or observation rights on 37% of portfolio company board of directors*
- Focus on controlling the tranche or being the sole lender

*As of September 30, 2016.
**Includes Ares Capital and certain of its financial services portfolio companies.

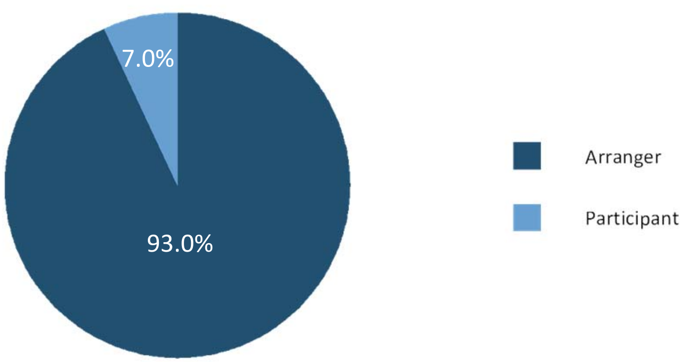
# Direct Origination Focus

**We believe that our scale, seasoned investment team and direct origination capabilities represent significant competitive advantages and allow for strong asset selectivity**

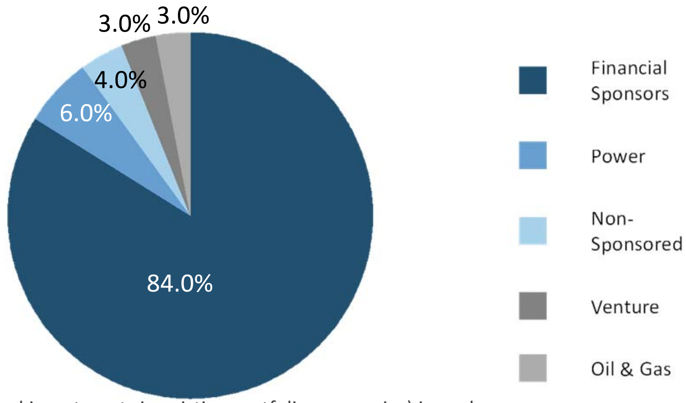
## ARCC - Closing Conversion Rates*




## ARCC's Underwriting Role**




## Sourcing: Portfolio Composition**




*Calculation based on ARCC's reviewed and closed transactions with new portfolio companies (excludes any additional investments in existing portfolio companies) in each calendar year excluding equity-only investments and legacy investments from portfolio acquisitions.

**Calculated based on the cost basis of ARCC's portfolio as of December 31, 2015, excluding equity-only investments and legacy investments from portfolio acquisitions.

# Flexibility of Capital: Diversified Product Offerings

| | | | |
|---|---|---|---|
| TARGETED INVESTMENT HOLD SIZES | Corporate:<br>Project Finance:<br>Venture:<br>EBITDA Range: | \$30 - \$250 million<br>\$10 - \$200 million<br>\$1 - \$25 million<br>Generally under \$100 million | |
| TRANSACTION TYPES | Leveraged Buyouts<br>Acquisitions<br>Recapitalizations | Restructurings<br>General Refinancing<br>Rescue Financing<br>Growth Capital | Power Generation<br>Venture Finance<br>Oil & Gas |
| PRODUCTS | Revolvers<br>First Lien Loans<br>Stretch Senior | Unitranche Loans<br>Second Lien Loans<br>Mezzanine Debt<br>Asset-Based Loans | Private High Yield<br>Junior Capital<br>Minority Equity |
| PARTNERS | Private Equity Sponsors<br>Management Teams<br>Intermediaries | Project Developers<br>Venture Capital Firms | Family Offices<br>Entrepreneurs<br>Other Lenders |

**Ability to be a total solution provider for our portfolio companies and financial sponsors**



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# Benefits of ARCC Scale

**Ability to originate larger investments provides competitive advantages**

- Total solution provider
- Ability to win mandates with larger commitments
- Ability to distribute can generate attractive fees
- Broadens market relationships and enhances deal flow

**Expansive origination platform improves credit selection and risk adjusted returns**

- Broader platform and product offering creates larger investment opportunity set, improving asset selectivity
- Diversifies deal flow and reduces dependence on certain geographies, sponsors or capital market sources

**Consolidation and expansion into new verticals**

- Successful acquisition of Allied Capital Corporation ("Allied Capital"), IHAM acquisitions and other strategic acquisitions
- Organic expansion into specialized venture, power generation, oil & gas lending verticals

**Improves access to debt sources, reduces cost of capital and improves liquidity**

- Scale and diversification improve access to various capital markets and greatly improves execution
- Longer duration liability structure

**Improves ROE**

- Selectivity, improved risk adjusted returns, fee income, lower funding costs and improved execution improves long term ROE

# Long Term Track Record of Performance

11-YEAR TRACK RECORD - $26.9 BILLION INVESTED SINCE INCEPTION[8]

$14.0 BILLION OF REALIZED INVESTMENTS GENERATING A 13% CUMULATIVE IRR TO ARCC[9]

$8.8 BILLION INVESTMENT PORTFOLIO[3]

90%* OF INVESTMENTS ARRANGED OR LEAD

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$66.9 MILLION AVG. EBITDA AND 2.5X AVG. INTEREST COVERAGE IN PORTFOLIO[4][5][6][7]

LOW LEVEL OF NON-ACCRUALS OF 2.3% AT COST

CUMULATIVE NET REALIZED INVESTMENT GAINS OF $558 MILLION (1.1% ANNUALIZED)[10][11]

PAID $18.31 IN DIVIDENDS PER SHARE SINCE IPO WHILE GROWING NAV[12]

Note: All data as of September 30, 2016 unless otherwise stated. There can be no assurance that dividends will continue to be paid at historic levels or at all. Past performance is not indicative of future results. See Endnotes on slides 30-31 for additional important information.
*Calculated based on the cost basis of ARCC's portfolio as of September 30, 2016, excluding equity-only investments and legacy investments from portfolio acquisitions.

# Performance and Financial Review

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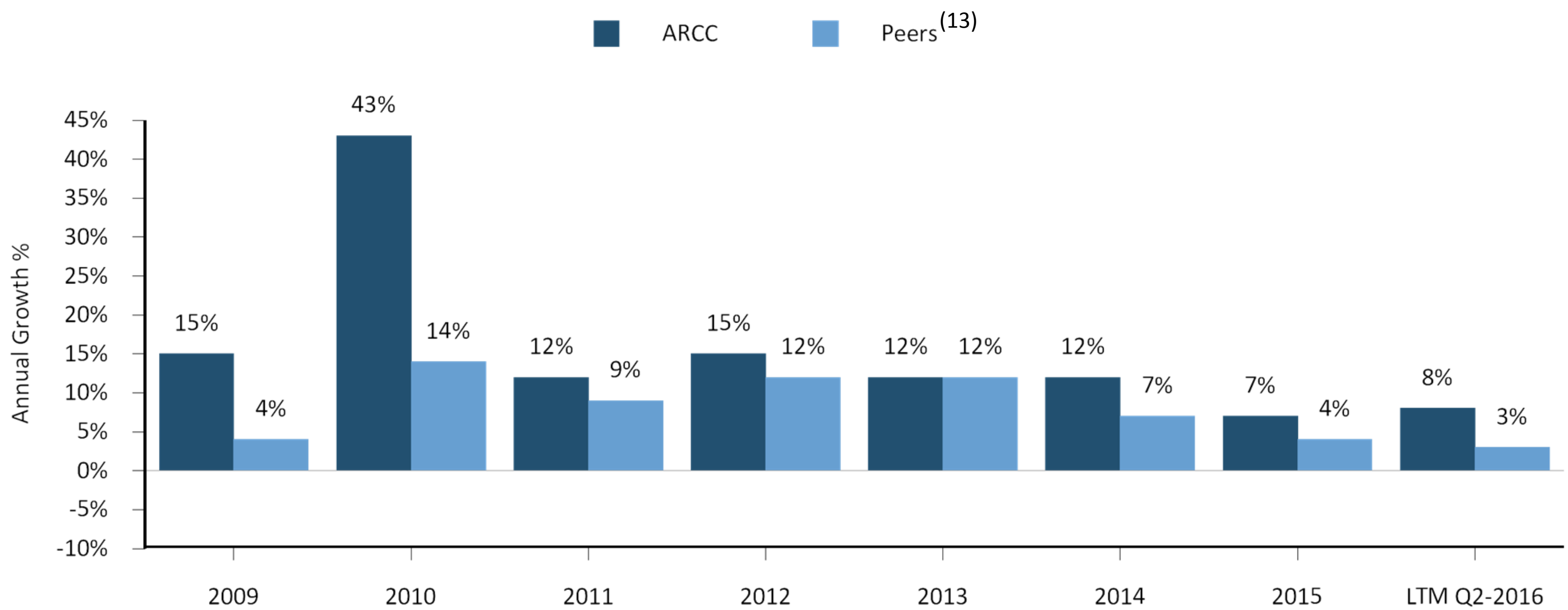
# ARCC Has Delivered NAV Growth and Dividend Performance

## We believe this is one of the most meaningful metrics to evaluate ARCC's performance

**Annual NAV + Dividend Performance**




| BDC's Included | 11 | 11 | 14 | 18 | 19 | 21 | 23 | 24 |
|---|---|---|---|---|---|---|---|---|

Note: Includes regular and special dividends. Dividends based on ex-dividend date. See Endnotes on slides 30-31 for additional important information.



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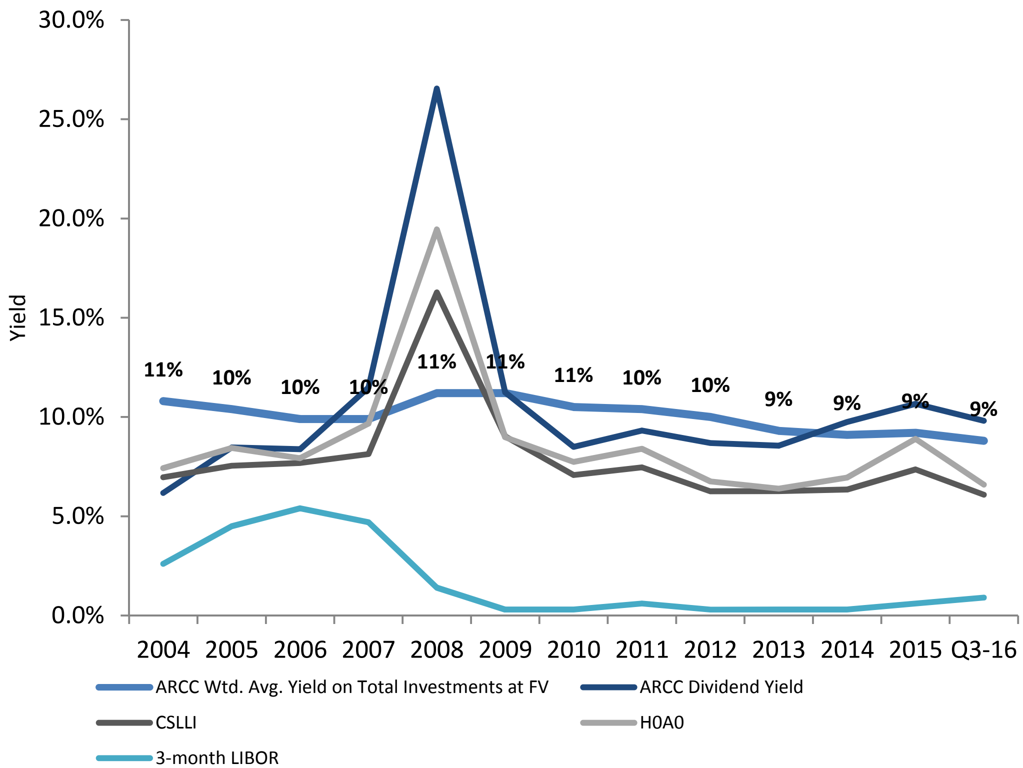
# Yield Premium Sustained Over Time

## We believe ARCC represents attractive relative value in this low interest rate environment

**ARCC has historically provided a premium to the high yield and bank loan markets**




**Attractive yields in today's market…**

| | Yield as of 9/30/16 | *ARCC Wtd. Avg. Asset Yield Premium* | *ARCC Dividend Yield Premium* |
|---|---|---|---|
| ARCC Asset Yield[1] | 8.8% | | |
| ARCC Dividend Yield | 9.8% | | |
| Merrill Lynch HY Master II[2] | 6.6% | *2.2%* | *3.2%* |
| Credit Suisse Leveraged Loan Index[2] | 6.1% | *2.7%* | *3.7%* |
| 3-month LIBOR | 0.9% | *7.9%* | *8.9%* |

**…with lower loss rates**

| | Average Annual Gain/(Loss) Rate |
|---|---|
| ARCC[3] | +1.1% |
| High Yield Bonds[4] | -1.9% |

Note: All data as of December 31 of the respective years, excluding Q3-16, which is as of September 30, 2016. Past performance is not indicative of future results.

1. Reflects ARCC's weighted average yield on total investments at fair value.
2. Reflects yield to maturity.
3. From inception through September 30, 2016, excludes $196 million one-time gain on the acquisition of Allied Capital in Q2-10 and gains/losses from extinguishment of debt and sale of other assets. Calculated as an average of the historical annual net realized gain/loss rates (where annual net realized gain/loss rate is calculated as the amount of net realized gains/losses for a particular period from ARCC IPO in October 2004 to September 30, 2016 divided by the average quarterly investments at amortized cost in such period). For purposes of this calculation, SSLP sub certs are considered debt investments.
4. Source: Moody's 2015 Annual Default Study. Reflects average annual loss rate for speculative grade bonds from 2004-2015.



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# Strong Historical Investment Track Record

## ARCC had cumulative realized investment gains in excess of cumulative realized investment losses of $558 million since inception[10]

- Since IPO in October 2004 through September 30, 2016, cumulative internal rate of return to ARCC totaled 13%[9] on $14.0 billion of exited investments since inception
- ARCC investment philosophy is to manage underperforming companies to achieve favorable recoveries
- Low net realized losses on loans combined with net realized gains on equity positions have resulted in an average annualized net realized gain rate of 1.1%, with a net realized loss in only one fiscal year[10][11][14]

**ARCC and BDC Peers Net Realized Gain (Loss) Rate through 6/30/2016**

| | CY2006 | CY2007 | CY2008 | CY2009 | CY2010 | CY2011 | CY2012 | CY2013 | CY2014 | CY2015 | LTM 6/30/16 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ARCC** | 3.1% | 0.4% | 0.3% | (2.0)% | 1.3% | 2.1% | 0.9% | 1.0% | 1.2% | 1.5% | 1.5% |
| **BDC Peer Group Average[13]** | 1.3% | (0.1)% | —% | (7.3)% | (5.8)% | (1.3)% | (0.5)% | (0.7)% | 0.5% | (0.7)% | (1.6)% |
| **Outperformance (%)** | 1.8% | 0.5% | 0.3% | 5.3% | 7.2% | 3.4% | 1.3% | 1.7% | 0.7% | 2.2% | 3.1% |

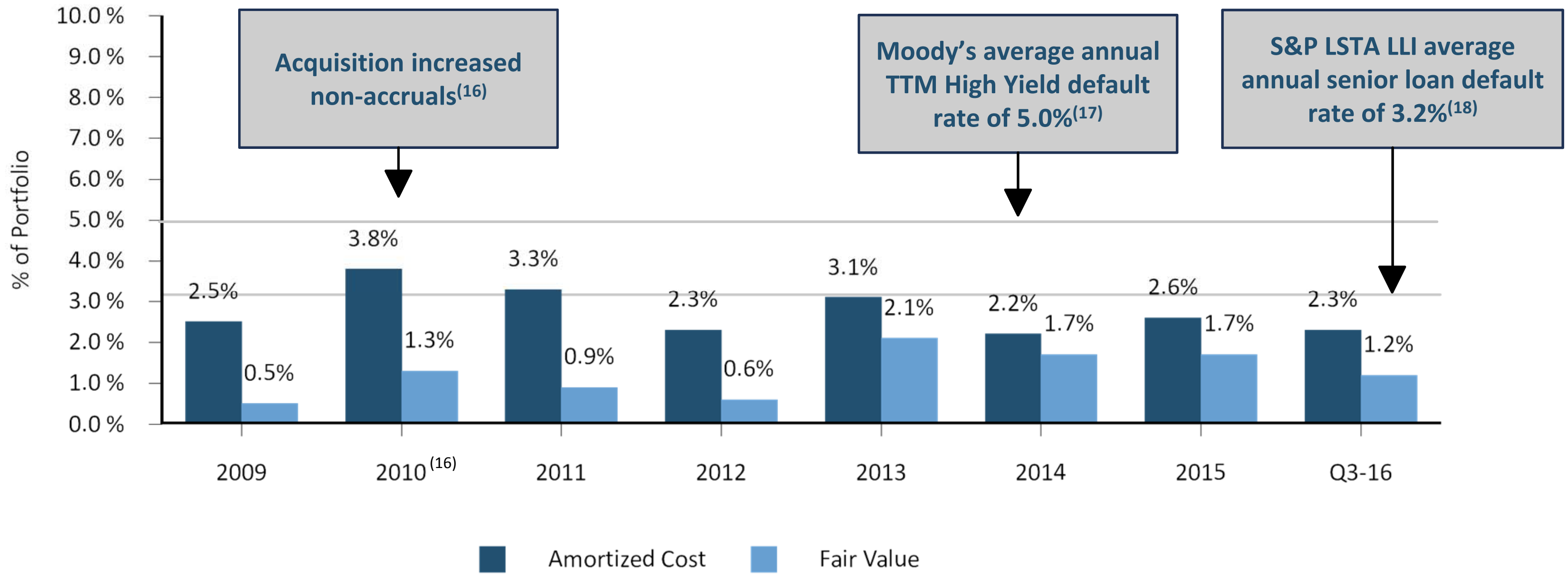
Note: Past performance is not indicative of future results. See Endnotes on slides 30-31 for additional important information.

# Strong Historical Investment Track Record

## ARCC has consistently generated a low level of non-accruals

- Our investment strategy highlights capital preservation as our highest focus
- Non-accruals have generally remained well below the industry average
- At September 30, 2016, 2.3% of the total portfolio at amortized cost and 1.2% at fair value were on non-accrual

**Non-Accruing Investments as a % of Portfolio at Amortized Cost and Fair Value[15]**

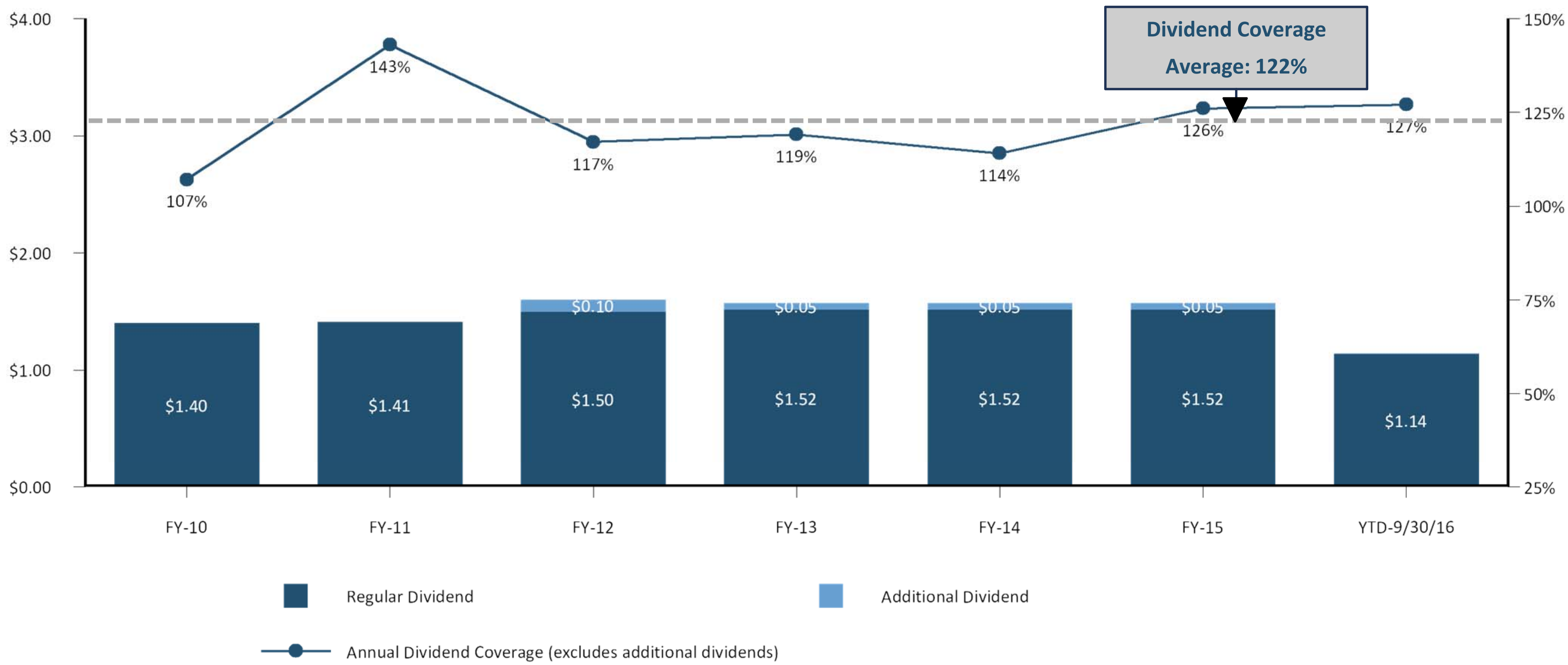



Note: Past performance is not indicative of future results. See Endnotes on slides 30-31 for additional important information.

# Consistent Dividend Coverage

## ARCC has consistently had strong dividend coverage from core earnings and net realized gains(19)

**Annual Dividends and Dividend Coverage from Core Earnings and Net Realized Gains(19)**




**ARCC carried forward excess taxable income of approximately $262 million or $0.83 per share from 2015 for distribution to stockholders in 2016**

Note: There can be no assurance that dividends will continue to be paid at historic levels or at all. Past performance is not indicative of future results. See Endnotes on slides 30-31 for additional important information.

# Conservatively Funded Balance Sheet

## We seek to maintain an investment grade balance sheet with strong liquidity

**Well Capitalized with Access to Diverse Market Channels**

- Significant permanent equity capital base of $5.2 billion
- ~$5.4 billion in committed debt capital; $3.8 billion of funded debt
- Demonstrated ability to access diverse market channels since IPO in October 2004
  - Raised over $3.8 billion in gross proceeds in public equity in 18 offerings
  - Raised over $6.6 billion across various public and private debt channels

**Moderate Leverage Profile with Significant Liquidity**

- Generally target a leverage ratio with sufficient cushion against the regulatory restriction of approximately 1:1*
- $1.6 billion** of cash and available liquidity under our long-dated revolving facilities and SBA debentures provides significant flexible capital
- Capital availability enables us to be opportunistic as market environment changes

**Conservatively Funded**

- Weighted average maturity of outstanding liabilities of 5.1 years vs. weighted average maturity of investments at fair value of 4.3 years***
- Weighted average duration of investments is generally in line with or lower than the weighted average maturity of outstanding liabilities

Note: All data as of September 30, 2016 unless otherwise stated.
*Leverage ratio of 0.71x net of available cash at September 30, 2016
**Subject to borrowing base and leverage restrictions.
***Weighted average maturity of investments at fair value excludes the investment in the subordinated certificates of the SDLP, SSLP and equity securities. The weighted average maturity of investments within the SDLP portfolio and the SSLP portfolio were 4.6 years and 3.7 years, respectively.

# Strategic Acquisition of American Capital

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# Investment Thesis for Transaction

**We believe that this acquisition will generate value for our stockholders**

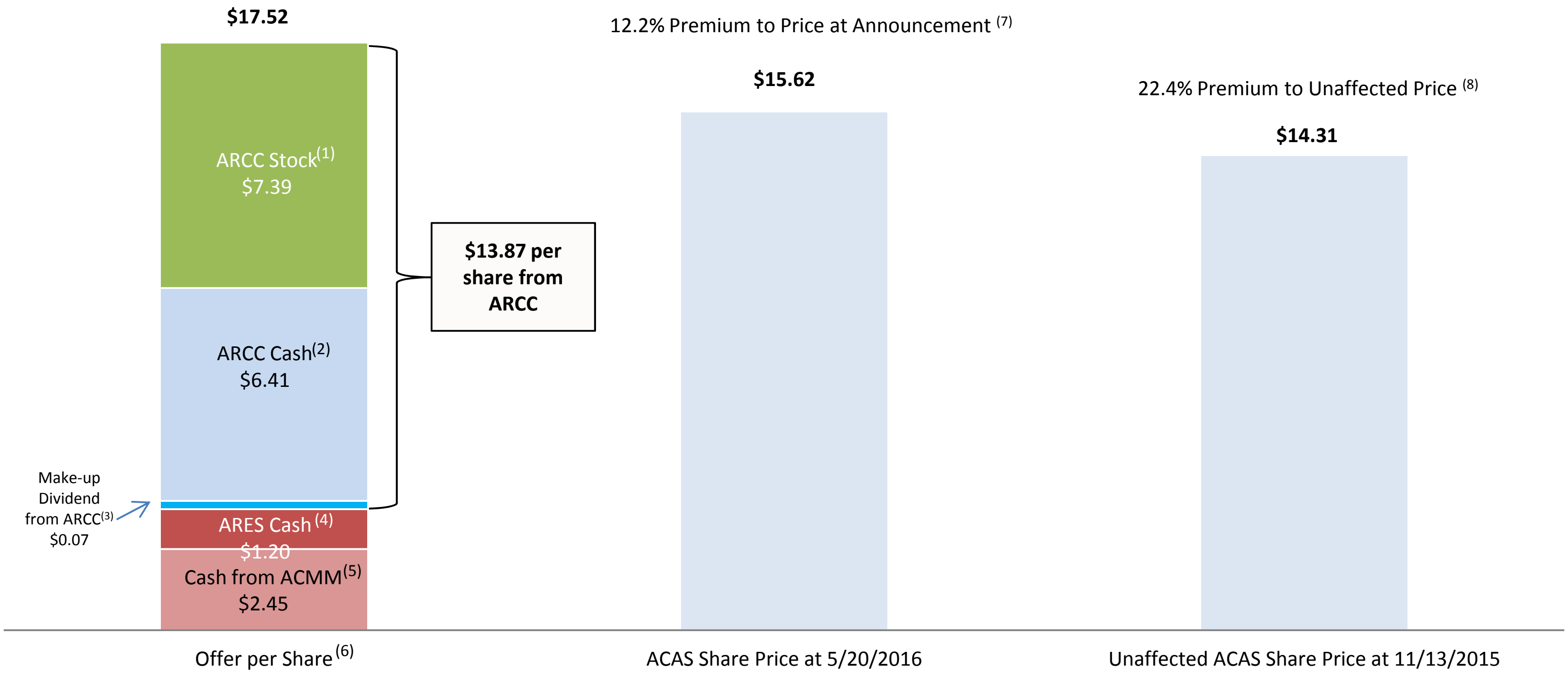
- **Enhances Stockholder Value in Accretive Transaction**: ARCC anticipates that the acquisition will be accretive to core earnings per share with the potential for increased dividends over time
- **Improves Value Proposition to Our Clients**: The combined company will offer an enhanced value proposition to financial sponsors and borrowers with the ability to originate and hold larger transactions
- **Accelerates Growth of Potentially High Returning Lending Program**: The combination may allow ARCC to accelerate the growth of its currently high yielding investment in the Senior Direct Lending Program and increase the target size of the investments made by the program
- **Further Diversifies Our Portfolio**: The acquisition will result in a more diversified portfolio across issuers and industries
- **Improves Access to Capital Markets**: With greater scale and diversification, we anticipate increased access to banks and capital market participants
- **Creates Greater Fee Income Opportunities**: The acquisition increases our balance sheet scale and potential for increased fee income from greater underwriting and distribution capabilities
- **Significant Support from our External Advisor**: In addition to the approximately $275 million in cash consideration at closing, Ares Capital Management LLC, the external manager of ARCC, is waiving up to $100 million in potential income-based fees for the ten calendar quarters beginning in the first full quarter after the acquisition

**We believe this strategic acquisition will enhance ARCC's position as the largest business development company[1] in the United States and a leading direct lender to U.S. middle market companies**

(1) Measured using total assets and market capitalization as of 9/30/16.

# Total Consideration Paid to ACAS Shareholders

ACAS shareholders are currently expected to receive a premium to the price at announcement of the transaction and the unaffected share price




**ACAS shareholders will also benefit from certain fee waivers provided by Ares Management**

(1) Based on ARCC's stock price of $15.30 per share as of 10/31/2016 at a fixed exchange ratio of 0.483x.
(2) $1.478 billion of cash from ARCC, excluding $16 million make-up dividend.
(3) Includes certain Ares Capital make-up dividend amounts of $16 million, assuming closing occurs the first week of January 2017.
(4) Approximately $275 million of cash from a subsidiary of Ares Management, L.P.
(5) Approximately $562 million in proceeds from the sale of American Capital Mortgage Manager.
(6) Calculated based on 230.5 million of fully diluted shares.
(7) Price at announcement represents ACAS share price of $15.62 as of close on 5/20/2016.
(8) Unaffected ACAS share price is based on the 11/13/2015 price of $14.31 prior to the Elliott Management shareholder proposal filed with SEC. Other factors may have contributed to the increase in share price since that time.

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# Update on ARCC's Recent Activity

**Since transaction announcement, ARCC has continued to perform well and execute on its strategy in the following ways:**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Generated strong Q2 and Q3 core EPS of $0.39 per share and $0.43 per share, respectively, both in excess of the $0.38 per share quarterly dividend | Successfully launched Senior Direct Lending Program with ~$3 billion of investment capacity[(1)] | Issued $600 million of investment grade notes at lowest coupon for such capital in ARCC and BDC history | Continued to originate attractive investment opportunities with more than $2 billion[(2)] of new commitments in the aggregate during Q2 and Q3, generating meaningful fee income | Substantial progress working with ACAS team to begin execution of portfolio rotation strategy |

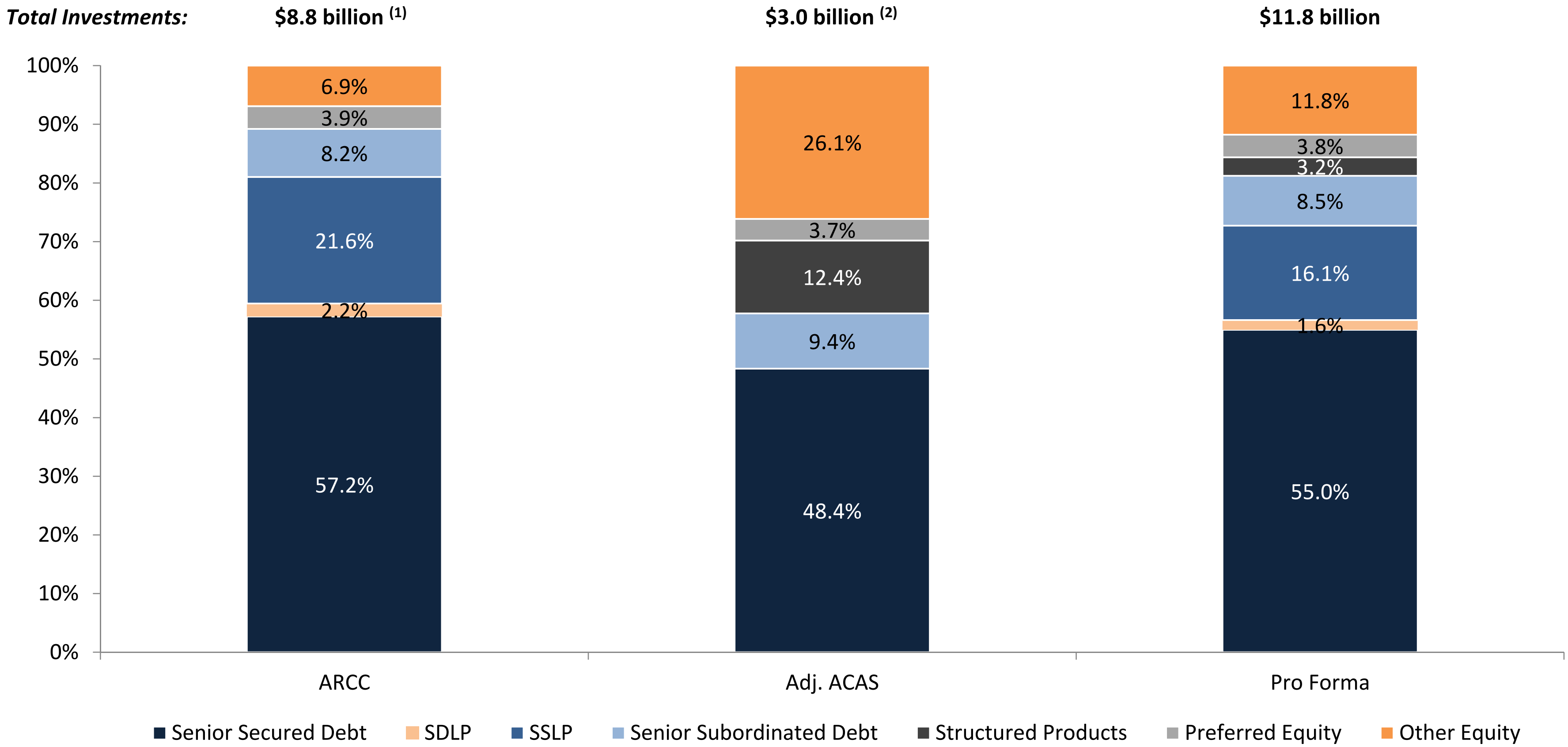
(1) The SDLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SDLP must be approved by an investment committee of the SDLP consisting of representatives of ARCC and Varagon (with approval from a representative of each required).

(2) Includes $0.2 billion investment as part of the initial funding of the subordinated certificates of the Senior Direct Lending Program in Q3-16.

# Opportunities for Value Creation

## We believe that the pro forma portfolio has multiple drivers of potential ROE expansion

*Pro forma combined portfolio includes $1.5 billion of portfolio rotation opportunity from legacy ACAS structured products, subordinated debt and equity portfolio*




(1) As of 9/30/2016.

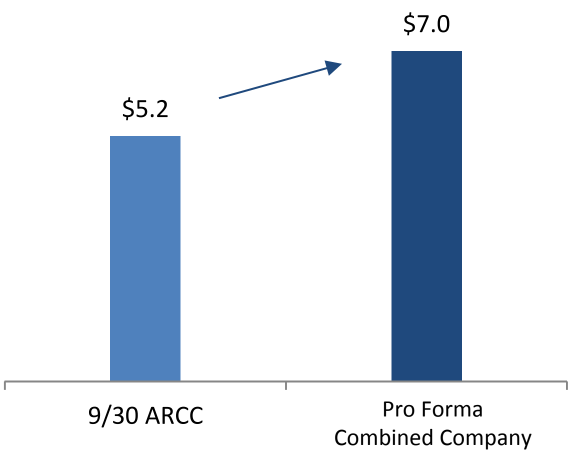
(2) As of 9/30/2016, adjusted for actual exits/repayments of ACAS investments between 10/1/2016 and 10/31/2016 of $57 million at fair value, investments expected to be sold pursuant to contractual agreements as of 10/31/2016 of $74 million at fair value, as well as a reduction in fair value from purchase accounting adjustments of $167 million of ARCC's estimates of fair value. As of 9/30/2016, the weighted average effective interest rate disclosed by ACAS on ACAS interest bearing investments was 9.6%. Please note that the ACAS yield calculation methodology may differ from ARCC.

# Pro Forma Company Benefits

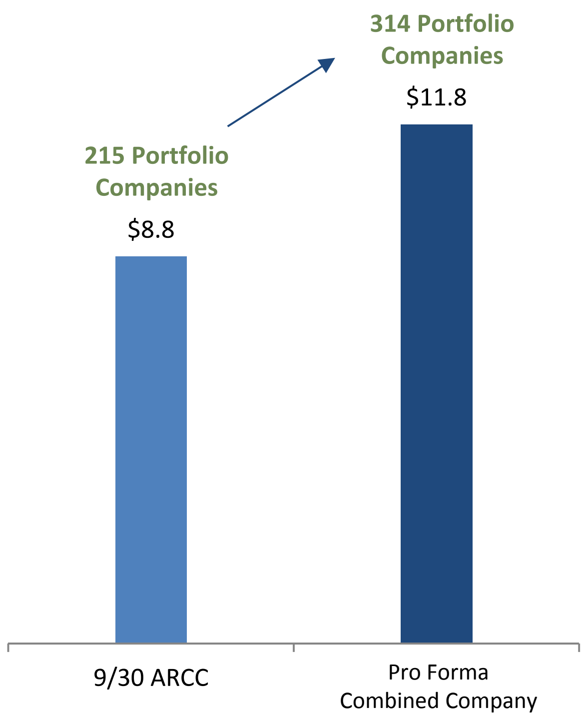
## ARCC pro-forma shows opportunity for improvement in a number of key areas

| Enhanced Size and Liquidity | Diversified Portfolio | Potential Catalyst for Dividend Growth |
|---|---|---|

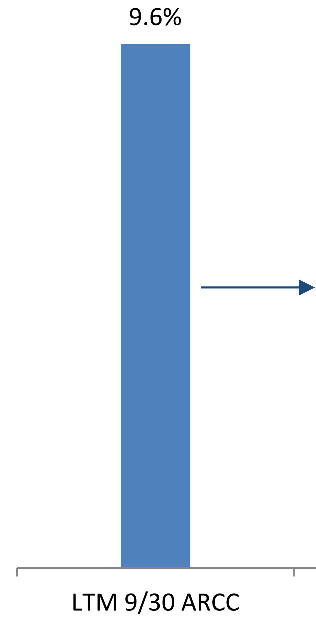
**Total Equity ($B)**




**Investment Portfolio ($B) (1)**




**Return on Equity (2)**




**Key Drivers of Potential ROE Expansion[3]**

- Increased Fee Income
- Increased Portfolio Yield
- Accelerated SDLP growth
- Near term fee waiver
- Cost savings opportunities

(1) Total pro forma investments as of 9/30/2016, adjusted for actual exits and repayments of ACAS investments between 10/1/2016 and 10/31/2016 of $57 million at fair value, investments expected to be sold pursuant to contractual agreements as of 10/31/2016 of $74 million at fair value, as well as a reduction in fair value from purchase accounting adjustments of $167 million of ARCC's estimates of fair value.

(2) Core Earnings over the last twelve months over the average stockholders' equity for the same period; Core Earnings is a non-GAAP financial measure which is the net increase in stockholders' equity resulting from operations less professional fees and other costs related to the proposed acquisition of American Capital, realized & unrealized gains and losses, any capital gains incentive fees attributable to such net realized and unrealized gains and losses and any income taxes related to such realized gains and losses.

(3) There can be no assurance that any or all of these possibilities will be achieved.



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# Conclusion

**Since the transaction announcement, ACAS has made significant progress with portfolio monetizations and realizations while increasing its net asset value**

**We expect to meet all closing conditions, subject to ARCC and ACAS stockholder approvals**

**The ACAS balance sheet has been de-risked with no debt and approximately $1.1 billion of cash[(1)]**

**We continue to expect the transaction to be accretive to core earnings per share as we reposition the ACAS portfolio, with the potential for increased dividends over time**

**The difference between ARCC stand alone and pro forma net asset values has continued to improve since March 31, 2016[(1)] and we believe that further progress is possible as ACAS continues to build retained earnings prior to closing[(2)]**

(1) As of 9/30/16.
(2) Assumes no changes to 9/30/16 fair value of investments for ARCC or ACAS, but includes ARCC's estimated fair value adjustments for ACAS as shown on slide 15.



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# Summary

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# Market Leading Non-Bank Lender with a Long Term Track Record…

**Meaningful benefits derived from leading global alternative asset manager with an integrated platform**

**Cycle tested with a disciplined and repeatable investment process and long term historic outperformance**

**Direct origination allows ARCC to carefully select the best companies**

**Strong and asset-sensitive balance sheet with a well laddered and conservative liability structure**

**Long tenured management team focused on delivering consistent and attractive dividends to investors**

# ...Generating Strong Returns to Our Shareholders

**13% IRR to ARCC on $14.0 billion of realized investments since IPO[9]**

**1.1% annualized net gain rate since IPO[10][11] and current low non-accruals of 2.3% of portfolio***

**Consistent dividend coverage from Core and GAAP earnings[20]**

**$18.31 per share in cumulative dividends paid since IPO while growing NAV per share by 11%[12]**

**Estimated $0.83 per share of excess taxable income carried forward into 2016**

**12% annualized shareholder return since IPO[2]**

*As a percentage of portfolio at amortized cost as of September 30, 2016.
Note: There can be no assurance that the dividends will continue at historical levels or at all. Past performance not indicative of future results. See Endnotes on slides 30-31 for additional important information.



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# Endnotes

# Endnotes

1. Measured using total assets as of September 30, 2016 and market capitalization as of November 2, 2016.
2. Source: SNL Financial. As of September 30, 2016. Ares Capital Corp's stock price-based total return is calculated assuming dividends are reinvested at the end of the day stock price on the relevant quarterly ex-dividend dates. Total return is calculated assuming investors did not participate in Ares capital Corp's rights offering issuance as of March 20, 2008. Past Performance is not indicative of future results.
3. As of September 30, 2016. Represents amount at fair value.
4. Weighted average EBITDA amounts are weighted based on the fair value of the portfolio company investments except for the weighted average EBITDA for the Senior Secured Loan Program, which is weighted based on the principal amount of the loan made by the Senior Secured Loan Program to such portfolio company. EBITDA amounts are estimated from the most recent portfolio company financial statements, have not been independently verified by Ares Capital and may reflect a normalized or adjusted amount. Accordingly, Ares Capital makes no representation or warranty in respect of this information.
5. The weighted average interest coverage ratio for the underlying borrowers in the Senior Secured Loan Program (the "SSLP") was 3.0x, 3.0x, 3.2x, 3.6x, 3.8x, 3.7x and 3.9x as of year end December 31, 2010, 2011, 2012, 2013, 2014, 2015 and Q3-16, respectively. Portfolio weighted average interest coverage ratio represents the portfolio company's EBITDA as a multiple of interest and facility fees expense. Portfolio company credit statistics are derived from the most recently available portfolio company financial statements, have not been independently verified by Ares Capital and may reflect a normalized or adjusted amount. Accordingly, Ares Capital makes no representation or warranty in respect of this information.
6. This portfolio weighted average EBITDA data includes information solely in respect of corporate investments in the Company's portfolio and the weighted average total net leverage multiple and interest coverage ratio data includes information solely in respect of corporate portfolio companies in which the Company has a debt investment (in each case, subject to the exclusions described in the following sentence). Excluded from the data above is information in respect of the following: (i) the SSLP (and the underlying borrowers in the SSLP), (ii) portfolio companies that do not report EBITDA, including Ivy Hill Asset Management L.P., (iii) investment funds/vehicles, (iv) discrete projects in the project finance/power generation sector, (v) certain oil and gas companies, (vi) venture capital backed companies and (vii) commercial real estate finance companies.
7. EBITDA is a non-GAAP financial measure. For a particular portfolio company, EBITDA is generally defined as net income before net interest expense, income tax expense, depreciation and amortization. EBITDA amounts are estimated from the most recent portfolio company financial statements, have not been independently verified by Ares Capital and may reflect a normalized or adjusted amount. Accordingly, Ares Capital makes no representation or warranty in respect of this information.
8. Excludes $1.8 billion of assets acquired from Allied Capital on April 1, 2010.
9. Based on original cash invested, net of syndications, of approximately $14.0 billion and total proceeds from such exited investments of approximately $17.1 billion. Internal rate of return ("IRR") is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of management fees and expenses related to investments as these fees and expenses are not allocable to specific investments. The effect of such management and other expenses may reduce, maybe materially, the IRR's shown herein. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of ARCC's debt investment or sale of an investment, or through the determination that no further consideration was collectible and, thus, a loss may have been realized. These IRR results are historical results relating to ARCC's past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.
10. From inception through September 30, 2016, excludes $196 million one-time gain on the acquisition of Allied Capital in Q2-10 and gains/losses from extinguishment of debt and sale of other assets.
11. Calculated as an average of the historical annual net realized gain/loss rates (where annual net realized gain/loss rate is calculated as the amount of net realized gains/losses for a particular period from ARCC IPO in October 2004 to September 30, 2016 divided by the average quarterly investments at amortized cost in such period).
12. From ARCC IPO in October 2004 to September 30, 2016.
13. BDC peer group consists of BDCs with market capitalization or an investment portfolio of $500 million as of June 30, 2016 or greater or who are under common management with a BDC that meets these criteria. Peers include ACAS, AINV, BKCC, CPTA, FSC, FSFR, GBDC, GSBD, HTGC, MAIN, MCC, NMFC, PFLT, PNNT, PSEC, SLRC, SUNS, TCAP, TCPC, TCRD, and TICC.
14. For purposes of this calculation, SSLP sub certs are considered debt investments.
15. All data as of December 31 of the respective years, excluding Q3-16, which is as of September 30, 2016.
16. On April 1, 2010, ARCC completed the acquisition of Allied Capital.
17. Source: Moody's U.S. Trailing 12-month issuer-weighted spec-grade default rate. Actual speculative grade default data taken from January 2000 to September 30, 2016.
18. Source: S&P LCD data for LSTA Leveraged Loan Index ("LLI"). Calculated as average of rolling twelve month default rates for the LLI from January 2000 to September 30, 2016.

# Endnotes (cont'd)

19. Dividend Coverage represents annual core earnings and net realized gains/losses as a percentage of the regular dividend (excluding additional dividends) from 2010 – 2016 YTD. 2016 YTD dividend coverage represents the nine months ended September 30, 2016. Excludes $196 million one-time gain from the Allied acquisition in Q2-10, extinguishment of debt and the sale of other assets. Net realized gains/losses are net of income tax expense related to realized gains and losses and capital gains incentive fees incurred and payable as calculated under the investment advisory and management agreement.

20. Core Earnings is a non-GAAP financial measure. Core Earnings is the net increase (decrease) in stockholders' equity resulting from operations less professional fees and other costs related to the proposed acquisition of American Capital, Ltd. (the "American Capital Acquisition"), realized and unrealized gains and losses (including the gain on the Allied acquisition), any incentive fees attributable to such realized and unrealized gains and losses and any income taxes related to such realized gains. Net Realized Gains are net of income tax expense related to realized gains and losses and capital gains incentive fees incurred and payable as calculated under the investment advisory and management agreement. Excludes $196 million one-time gain from the Allied acquisition in Q2-10, extinguishment of debt and the sale of other assets. Net increase (decrease) in stockholders' equity is the most directly comparable GAAP financial measure. ARCC believes that Core Earnings provides useful information to investors regarding financial performance because it is one method ARCC uses to measure its financial condition and results of operations. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. In addition, past performance is not indicative of future results.

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