



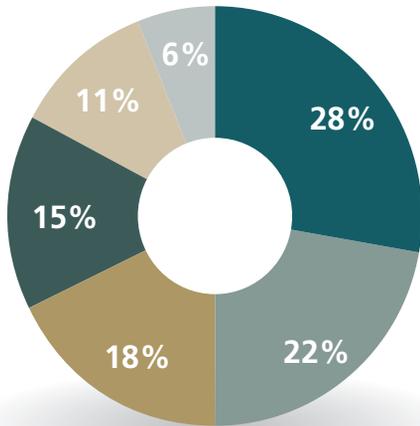
# CNL *Strategic Capital*

Sub-managed by Levine Leichtman

2020 Annual Report

## Portfolio Diversification

(Based on Fair Market Value as of 12/31/20)



- Commercial & Professional Services
- Information Services & Advisory Solutions
- Healthcare Supplies
- Hobby Goods & Supplies
- Business Services
- Manufacturing

*“We are pleased with our portfolio companies’ performance, particularly given the disruption from the pandemic.”*

**74%**

**Average Ownership<sup>1</sup>**

On average, CNL Strategic Capital owns 74% of the acquired companies.

<sup>1</sup> Represents direct investments only, which is the majority of the portfolio. For co-investments, the percentage ownership ranges from 8% to 18%.

## To Our Shareholders

We are pleased with our portfolio companies' performance during 2020, particularly given the disruption from COVID-19. We believe they had limited impact relative to other businesses and either met or exceeded performance forecasts while facing headwinds in the broader environment. This is a testament to our investment strategy that relies on acquiring resilient, industry-leading private companies through a combination of debt and equity capital, with little or no reliance on third-party leverage.

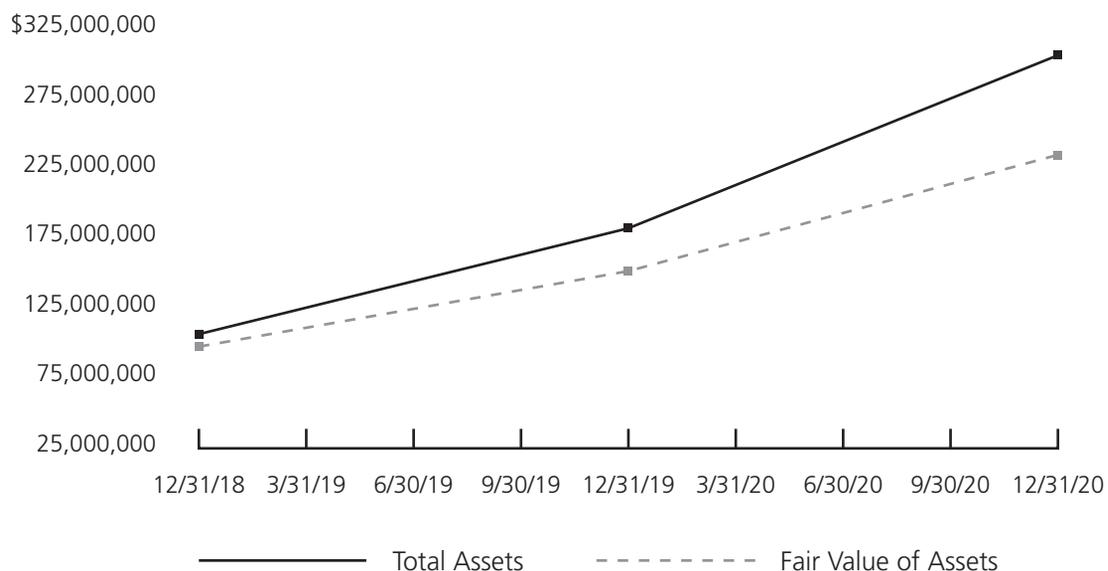
The year was indeed transformational for our families, communities and businesses. COVID-19 has created a complex and changing environment filled with challenges and previously unimaginable times across our nation and the globe. Although there was no playbook for operating in this crisis, CNL Strategic Capital was uniquely positioned to manage through the upheavals.

We believe we have assembled a portfolio of underlying businesses that have demonstrated their ability to generate consistent and growing levels of cash flows throughout various economic cycles. Throughout the market volatility in 2020, our strategy enabled us to pay our monthly distribution, maintain our quarterly share repurchase plan and focus on value creation from revenue growth opportunities in our portfolio companies. While we cannot predict future performance, we currently do not anticipate any changes to our shareholder distribution levels or quarterly share repurchase plan that provides liquidity to shareholders.

### The Year in Review

Despite the pandemic, during 2020 we successfully invested \$64.2 million in three additional portfolio companies. This was possible because of our capital raise, investment guiding principles and overall financial health. As of year-end, we were invested in seven portfolio companies.

### Total Assets vs. Fair Value of Assets



Our investments at fair value grew by \$87 million to nearly \$231.2 million as of year-end 2020, compared to \$144.2 million as of Dec. 31, 2019 — representing an approximate 60% increase from the prior year. Our investments' cash yields ranged from 2.5% to 10.9% and generated \$14.5 million of interest and dividend income received by the company. For the year ended Dec. 31, 2020, our distribution rates ranged 3.3% to 4.7%, having declared and disbursed \$9.9 million in monthly distributions to our shareholders.

Throughout 2020, our net asset valuations sustained steady growth for each share class, driven by increases in our portfolio companies' fair value. Together with distributions paid, shareholders achieved a total investment return of 13.2%, 12.0%, 11.9%, 10.1%, 10.7% and 12.8% for Class FA, Class I, Class A, Class T, Class D and Class S shares, respectively, for the year ended Dec. 31, 2020. These returns are before any applicable sales load and assume that shareholders reinvested their distributions.

For additional details on our return information for year-end 2020, please see our financial highlights table and sources of our distributions in Notes 6 and 11 in the accompanying Annual Report on Form 10-K.

### **Portfolio Update**

#### *Lawn Doctor*

##### *\$7.3 Million Increase in Fair Value*

Lawn Doctor reported net revenue for the year ended Dec. 31, 2020, of \$28.7 million, compared to \$25.0 million during the year ended Dec. 31, 2019 — an approximate 15% increase. Lawn Doctor's fair value increased \$7.3 million during the year ended Dec. 31, 2020, and it has limited third-party debt.

Lawn Doctor provides an inherently socially distanced outside-of-home service. With little interaction between people, we believe many of their customers would consider

their service essential to maintain their home's value. Hence, this has benefitted the company, having had no slowdown in operations or franchisee closures due to the pandemic.

Accordingly, their business for the 12 months ended Dec. 31, 2020, performed better than the same period in 2019. Lawn Doctor continues to develop its franchise as planned across its brands. We think that its subscription service business model helps maintain a consistent revenue stream during changing economic conditions.

#### *Polyform*

##### *\$3.9 Million Increase in Fair Value*

Polyform has seen steady demand throughout the year, and we believe this trend will continue as consumers are spending more time at home. There was more robust performance for the year ended Dec. 31, 2020, with net revenue of \$19.0 million, an approximate 15% growth compared to \$16.5 million for the year-ended Dec. 31, 2019. The company has no third-party debt and, during the year ended Dec. 31, 2020, experienced an increase in its fair value of \$3.9 million to \$35.2 million compared to 2019.

Polyform's craft and hobby product manufacturing facility temporarily closed in the early first quarter of 2020, given Illinois' measures to contain the spread of COVID-19. However, the company reopened in the late second quarter consistent with the state's phased recovery response guidelines and executed a cost reduction plan in the pandemic's early stages. Some retailer closures affected revenue; however, that was partially offset by a demand shift to Polyform's e-commerce business.

#### *Auriemma U.S. Roundtables*

##### *\$4.9 Million Increase in Fair Value*

For the year ended Dec. 31, 2020, Auriemma reported total revenue of \$10.9 million compared to \$3.9 million for the period Aug. 1, 2019 to Dec. 31, 2019 — the time frame they were part of our portfolio. Auriemma's fair value at year-end

2020 was \$51.4 million — an increase of \$4.9 million compared to 2019. The company also has no third-party debt.

At the onset of the health crisis, Auriemma transitioned from in-person roundtables to calls and webinars to share critical business intelligence in the consumer finance sector. The company's action to deliver this highly valued aspect of its services via virtual channels during 2020 translated into lower costs and higher margins. Furthermore, new benchmarks and content focused on COVID-19 impacts and new roundtable offerings were introduced and well received. Auriemma also effectuated a cost reduction plan amid the pandemic. We believe Auriemma's subscription service business supports its ability to maintain a consistent revenue stream during changing market cycles.

*“As of year-end 2020, we were invested in seven portfolio companies.”*

#### *Milton Industries*

##### *\$3.4 Million Increase in Fair Value*

During the second quarter, Milton strategically acquired a tire gauge manufacturing company. This acquisition further supports Milton's potential for growth in new and existing markets and is an example of executing a key part of its investment strategy. Milton improved its performance during 2020, and we believe the long-term outlook remains positive. Milton has limited third-party debt, and its fair value increased \$3.4 million during the year ended Dec. 31, 2020, compared to 2019.

As a producer of highly engineered pneumatic tools and accessories, Milton's manufacturing facility was considered an essential business during the pandemic and remained

operational. The company's revenue was affected by a loss in retail sales, but that was partially offset by military orders in the second quarter of 2020 and an increase in e-commerce sales.

#### *Resolution Economics*

##### *\$1.4 Million Increase in Fair Value*

Resolution Economics' fair value increased by \$1.4 million during the year ended Dec. 31, 2020, and it has limited third-party debt.

The company's business model focuses on labor and employment litigation matters. In today's environment, these specific matters have become more complex, expansive and frequent. We expect this business to benefit from the record high unemployment resulting from the pandemic and new employment laws. Resolution Economics' revenue has increased since being added to CNL Strategic Capital's portfolio in January 2020. However, due to COVID-19, some courts were closed and a few of Resolution's clients had to delay or temporarily stop specific projects.

#### *Blue Ridge ESOP Associates*

##### *\$1.0 Million Increase in Fair Value*

In March 2020, CNL Strategic Capital acquired this third-party administrator of employee stock ownership plans (ESOPs) and 401(k) plans. The decision to invest was partly due to Blue Ridge's business model and diversified client base, which positions it to be more resilient in economic recessions and less correlated to overall economic cycles.

During the year ended Dec. 31, 2020, Blue Ridge's fair value increased by \$1.0 million, and it has no third-party debt.

Due to its clients' (primarily ESOPs) requirement to maintain a third-party plan administrator, Blue Ridge is considered an essential business. Therefore, the pandemic had little impact on the company's business. The company performed as

expected for the year ended Dec. 31, 2020, and expanded the number of plans it services by acquiring a small ESOP business in early July.

*Healthcare Safety Holdings, LLC*  
*\$0.9 Million Increase in Fair Value*

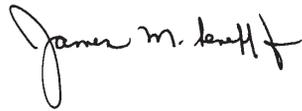
In July 2020, we acquired our seventh portfolio company — our first in the healthcare sector. We are pleased to have a majority stake in Healthcare Safety Holdings (HSH), a leading producer of daily use insulin pens, syringes and related offerings for the human and animal diabetes care markets. We invested in this company because of its innovative product, brand positioning, value proposition, growth opportunities and business model, making the company more insulated from changing market and economic cycles.

As of Dec. 31, 2020, HSH had no third-party debt and its fair value was \$42.6 million, an increase of \$0.9 million since acquisition.

**Looking Ahead**

We continue to see an active pipeline of attractive opportunities to acquire high-quality companies, even in these early stages of the company's life cycle, and remain strategic and disciplined in our acquisitions approach. Our offer of private capital allows privately held companies to expand and/or recapitalize and often exit founders who are no longer involved in the day-to-day business activities.

On behalf of our board of directors and everyone at CNL Strategic Capital, thank you for your ongoing support. Please continue to be well as we all navigate through this challenging time and look forward to brighter days ahead.



James M. Seneff  
Chairman of the Board



Chirag J. Bhavsar  
Chief Executive Officer

Please refer to our annual report on Form 10-K for a discussion of risks and the use of forward-looking statements contained in this letter.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 333-222986

**CNL STRATEGIC CAPITAL, LLC**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

32-0503849

(I.R.S. Employer  
Identification No.)

CNL Center at City Commons

450 South Orange Avenue

Orlando, FL

(Address of principal executive offices)

32801

(Zip Code)

Registrant's telephone number, including area code (407) 650-1000

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Exchange Act:

**Title of Each Class**

Class A Shares of Limited Liability Company Interests, \$0.001 par value per share  
Class FA Shares of Limited Liability Company Interests, \$0.001 par value per share  
Class T Shares of Limited Liability Company Interests, \$0.001 par value per share  
Class D Shares of Limited Liability Company Interests, \$0.001 par value per share  
Class I Shares of Limited Liability Company Interests, \$0.001 par value per share  
Class S Shares of Limited Liability Company Interests, \$0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There is no established market for the Registrant’s common shares. The Registrant is currently conducting an ongoing public offering of its common shares pursuant to a Registration Statement on Form S-1, which were offered and sold at \$29.08, \$27.98, \$26.21 and \$26.88 per Class A, Class T, Class D, and Class I shares as of June 30, 2020 (the last business day of the registrant’s most recently completed second fiscal quarter), respectively, with discounts available for certain categories of purchasers, or at a price necessary to ensure that shares are not sold at a price, net of sales load, below net asset value per share. The number of shares held by non-affiliates as of June 30, 2020 was 7,465,132.

As of March 29, 2021, the Company had 4,578,537 Class FA shares, 1,107,029 Class A shares, 706,358 Class T shares, 480,379 Class D shares, 2,329,068 Class I shares and 1,770,386 Class S shares outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Registrant incorporates by reference portions of the CNL Strategic Capital, LLC definitive proxy statement for the 2021 Annual Meeting of Shareholders (Items 10, 11, 12, 13 and 14 of Part III) to be filed no later than April 30, 2021. Certain exhibits previously filed with the Securities and Exchange Commission are incorporated by reference into Part IV of this report.

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## PART I

### Statement Regarding Forward-Looking Information

Certain statements in this annual report on Form 10-K (this “Annual Report”) constitute “forward-looking statements.” Forward-looking statements are statements that do not relate strictly to historical or current facts, but reflect management’s current understandings, intentions, beliefs, plans, expectations, assumptions and/or predictions regarding the future of our business and its performance, the economy and other future conditions and forecasts of future events and circumstances. Forward-looking statements are typically identified by words such as “believes,” “expects,” “anticipates,” “intends,” “estimates,” “plans,” “continues,” “pro forma,” “may,” “will,” “seeks,” “should” and “could,” and words and terms of similar substance, although not all forward-looking statements include these words. The forward-looking statements contained in this Annual Report involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our businesses and other assets;
- unanticipated costs, delays and other difficulties in executing our business strategy;
- performance of our businesses and other assets relative to our expectations and the impact on our actual return on invested equity, as well as the cash provided by these assets;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with the Manager, the Sub-Manager and their respective affiliates;
- the dependence of our future success on the general economy and its effect on the industries in which we target;
- events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, pandemics such as the novel coronavirus (“COVID-19”) pandemic or threatened or actual armed conflicts;
- the use, adequacy and availability of proceeds from our current public offering, financing sources, working capital or borrowed money to finance a portion of our business strategy and to service our outstanding indebtedness;
- the timing of cash flows, if any, from our businesses and other assets;
- the ability of the Manager and the Sub-Manager to locate suitable acquisition opportunities for us and to manage and operate our businesses and other assets;
- the ability of the Manager, the Sub-Manager and their respective affiliates to attract and retain highly talented professionals;
- the ability to operate our business efficiently, manage costs (including general and administrative expenses) effectively and generate cash flow;
- the lack of a public trading market for our shares;
- the ability to make and the amount and timing of anticipated future distributions;
- estimated net asset value per share of our shares;
- the loss of our exemption from the definition of an “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”);
- fiscal policies or inaction at the U.S. federal government level, which may lead to federal government shutdowns or negative impacts on the U.S economy;
- the degree and nature of our competition; or
- the effect of changes to government regulations, accounting rules or tax legislation.

In addition, these forward-looking statements are subject to risks related to the COVID-19 pandemic, many of which are unknown, including the duration of the pandemic, the extent of the adverse health impact on the general population and on our customers, and in particular our personnel, its impact on the employment rate and the economy, the extent and impact of governmental responses, and the impact of operational changes we or our businesses may implement in response to the pandemic.

Our forward-looking statements are not guarantees of our future performance and shareholders are cautioned not to place undue reliance on any forward-looking statements. While we believe our forward-looking statements are reasonable, such statements are inherently susceptible to uncertainty and changes in circumstances. As with any projection or forecast, forward-looking statements are necessarily dependent on assumptions, data and/or methods that may be incorrect or imprecise, and may not be realized. Our forward-looking statements are based on our current expectations and a variety of risks, uncertainties and other factors, many of which are beyond our ability to control or accurately predict.

Important factors that could cause our actual results to vary materially from those expressed or implied in our forward-looking statements include, but are not limited to, the factors listed and described under “Risk Factors” in the Company’s prospectus filed with the SEC pursuant to Rule 424(b)(3) and dated April 16, 2020 (as supplemented to date, our “prospectus”) and Item 1A. “Risk Factors” of this Annual Report. One of the most significant factors is the ongoing and potential impact of the COVID-19 pandemic on the economy and the broader financial markets, which may have a significant negative impact on the Company’s (and its portfolio companies) financial condition, results of operations and cash flows. The Company is unable to predict whether the continuing effects of the COVID-19 pandemic will trigger a further economic slowdown or a recession and to what extent the Company will experience disruptions related to the COVID-19 pandemic in 2021 or thereafter.

All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Forward-looking statements speak only as of the date on which they are made; we undertake no obligation to, and expressly disclaim any obligation to, update or revise forward-looking statements to reflect new information, changed assumptions, the occurrence of subsequent events, or changes to future operating results over time unless otherwise required by law.

### **Risk Factor Summary**

An investment in our shares involves a high degree of risk. You should carefully consider the risks summarized in Item 1A. “Risk Factors” included in this report. These risks include, but are not limited to, the following:

- We may be unable to successfully implement our business and acquisition strategies or generate sufficient cash flow to make distributions to our shareholders.
- Our success will be dependent on the performance of the Manager and the Sub-Manager, but investors should not rely on the past performance of the Manager, the Sub-Manager and their respective affiliates as an indication of future success. Prior to the Initial Public Offering, affiliates of CNL have only sponsored real estate and credit investment programs.
- We pay substantial fees and expenses to the Manager, the Sub-Manager, the Managing Dealer or their respective affiliates. These payments increase the risk that investors will not earn a profit on their investment.
- We have held our current businesses for only a short period of time and investors will not have the opportunity to evaluate the assets we acquire before we make them, which makes an investment in us more speculative. We face risks with respect to the evaluation and management of future acquisitions.
- The Initial Public Offering is a "best efforts" offering and if we are unable to raise substantial funds, we will be limited in the number and type of acquisitions we may make, and the value of investors’ investment in us will fluctuate with the performance of the assets we acquire.
- The shares sold in the Initial Public Offering will not be listed on an exchange or quoted through a national quotation system for the foreseeable future, if ever. Therefore, investors will have limited liquidity and may not receive a full return of their invested capital if investors sell their shares.
- The purchase price for the shares in the Initial Public Offering is based on our most recently determined net asset value and is not based on any public trading market. While our board of directors has engaged an independent valuation firm to assist with the valuation of our businesses, the valuation of our assets is inherently subjective, and our net asset value may not accurately reflect the actual price at which our assets could be liquidated on any given day.
- The amount of any distributions we may pay is uncertain. We may not be able to pay you distributions and our distributions may not grow over time. We may pay distributions from any source, including from cash resulting from expense support and fee deferrals and/or waivers from the Manager and the Sub-Manager as needed, and there are no limits on the amount of offering proceeds we may use to fund distributions. If we pay distributions from sources other than cash flow from operations, we will have less funds available for investments, and your overall return may be reduced. We believe the likelihood that we will pay distributions from sources other than cash flow from operations will be higher in the early stages of the Initial Public Offering.
- The Manager, the Sub-Manager and their respective affiliates, including our officers and some of our directors, will face conflicts of interest including conflicts that may result from compensation arrangements with us and our affiliates, which could result in actions that are not in the best interests of our shareholders.
- If we were to become taxable as a corporation for U.S. federal income tax purposes, we would be required to pay income tax at corporate rates on our net income and would reduce the amount of cash available for distribution to our shareholders. Such distributions, if any, by us to shareholders would constitute dividend income taxable to such shareholders, to the extent of our earnings and profits.
- Our board of directors may change our business and acquisition policies and strategies without prior notice or shareholder approval, the effects of which may be adverse to you.

## **Item 1. Business**

### **General**

CNL Strategic Capital, LLC (which is referred to in this report as “we,” “our,” “us,” “our company” or the “Company”) is a limited liability company that primarily seeks to acquire and grow durable, middle-market U.S. businesses. We are externally managed by CNL Strategic Capital Management, LLC (the “Manager”), an entity that is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Manager is controlled by CNL Financial Group, LLC, a private investment management firm specializing in alternative investment products. We have engaged the Manager under a management agreement, as currently amended and as may be amended in the future (the “Management Agreement”) pursuant to which the Manager is responsible for the overall management of our activities. The Manager has engaged Levine Leichtman Strategic Capital, LLC (the “Sub-Manager”), a registered investment adviser, under a sub-management agreement, as currently amended and as may be amended in the future (the “Sub-Management Agreement”) pursuant to which the Sub-Manager is responsible for the day-to-day management of our assets. The Sub-Manager is an affiliate of Levine Leichtman Capital Partners, LLC. The Manager also provides us with certain administrative services (in such capacity, the “Administrator”) under an administrative services agreement, as currently amended and as may be amended in the future (the “Administrative Services Agreement”) with us. The Sub-Manager also provides certain other administrative services to us (in such capacity, the “Sub-Administrator”) under a sub-administration agreement, as currently amended and as may be amended in the future (the “Sub-Administration Agreement”) with the Manager.

The Manager and the Sub-Manager are collectively responsible for sourcing potential acquisitions and debt financing opportunities, subject to approval by the Manager’s management committee that such opportunity meets our investment objectives and final approval of such opportunity by our board of directors, and monitoring and managing the businesses we acquire and/or finance on an ongoing basis. The Sub-Manager is primarily responsible for analyzing and conducting due diligence on prospective acquisitions and debt financings, as well as the overall structuring of transactions.

We refer to the strategy of owning both the debt and equity of our target private companies as a “private capital” strategy. We intend to target businesses that are highly cash flow generative, with annual revenues primarily between \$15 million and \$250 million and whose management teams seek an ownership stake in the company. Our business strategy is to acquire controlling equity interests in combination with debt positions and in doing so, provide long-term capital appreciation and current income while protecting invested capital. We seek to structure our investments with limited, if any, third-party senior leverage.

We intend for a significant majority of our total assets to be comprised of long-term controlling equity interests and debt positions in the businesses we acquire. In addition and to a lesser extent, we may acquire other debt and minority equity positions, which may include acquiring debt in the secondary market and minority equity interests in combination with other funds managed by the Sub-Manager from co-investments with other partnerships managed by the Sub-Manager or their affiliates. We expect that these positions will comprise a minority of our total assets.

Our target businesses are expected to fall within the following industries (without limitation): business services, consumer products, education, franchising, light manufacturing / specialty engineering, non-FDA regulated healthcare and safety companies. We do not intend to acquire businesses in industries that we believe are not stable or predictable, including oil and gas, commodities, high technology, internet and e-commerce. We also do not intend to acquire businesses that at the time of our acquisition are distressed or in the midst of a turnaround.

We intend to operate these businesses over a long-term basis with minimum holding period of four to six years. Actual holding periods for many of our businesses are expected to exceed this minimum holding period, but each business will be acquired with the expectation of an eventual exit transaction after a reasonable time frame to allow for the realization of shareholder appreciation. In limited circumstances in order to manage liquidity needs, meet other operating objectives or adapt to changing market conditions, we may also exit businesses prior to the expected minimum holding period. Exit decisions in relation to our businesses after the expiration of the minimum holding period will be made with the objective of maximizing shareholder value and allowing us to realize capital appreciation to the extent available from individual businesses. We will also assess the impact that any exit decision may have on our exclusion from registration as an investment company under the Investment Company Act. Potential exit transactions that we may pursue for our businesses include recapitalizations, public offerings, asset sales, mergers and other business combinations. In each case, in selecting the form of exit transaction we expect to assess prevailing market conditions, the timing and cost of implementation, whether we will be required to assume any post-transaction liabilities and other factors determined by the Manager and the Sub-Manager. No assurance can be given relating to the actual timing or impact of any exit transaction on our business.

We were formed as a Delaware limited liability company on August 9, 2016 and we intend to operate our business in a manner that will permit us to avoid registration under the Investment Company Act. We are not a “blank check” company within the meaning of Rule 419 of the Securities Act of 1933, as amended (the “Securities Act”).

## **Our Common Shares Offerings**

### *Public Offerings*

We commenced our initial public offering of up to \$1.1 billion of shares on March 7, 2018 (the “Initial Public Offering”), which includes up to \$100.0 million of shares being offered through our distribution reinvestment plan, pursuant to a registration statement on Form S-1, as amended (the “Initial Registration Statement”) as further described below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Our Common Shares Offerings—Public Offerings.” Through the Initial Public Offering, we are offering, in any combination, four classes of shares: Class A shares, Class T shares, Class D shares and Class I shares (collectively, “Non-founder shares”). There are differing selling fees and commissions for each class. We also pay distribution and shareholder servicing fees, subject to certain limits, on the Class T and Class D shares sold in the Initial Public Offering (excluding sales pursuant to our distribution reinvestment plan).

As of March 29, 2021, we raised aggregate gross offering proceeds of approximately \$132.0 million from the sale of common shares in the Initial Public Offering, including \$3.7 million received through our distribution reinvestment plan.

On February 19, 2021, we filed a registration statement on Form S-1 (the “Follow-On Registration Statement”) with the Securities and Exchange Commission (the “SEC”) in connection with the proposed offering of shares of our limited liability company interest (the “Follow-On Public Offering”). As permitted under applicable securities laws, we continue to offer our common shares in the Initial Public Offering until the effective date of the Follow-On Registration Statement, upon which the Initial Registration Statement will be deemed terminated.

### *Private Offerings*

During the period from commencement of operations on February 7, 2018 to December 31, 2020, we offered Class FA (“Class FA”) and Class S (“Class S”) limited liability company interests (collectively, the “Founder shares”) through a combination of four private offerings (the “Private Offerings” and, together with the Initial Public Offering, the “Offerings”) only to persons that were “accredited investors,” as that person is defined under the Securities Act and Regulation D promulgated under the Securities Act, and raised aggregate gross offering proceeds of approximately \$177 million. We conducted each of the Private Offerings pursuant to the applicable exemption under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act. All of the Private Offerings were terminated on or before December 31, 2020.

We commenced and terminated our initial private offering of up to \$85 million of Class FA shares and up to \$115 million of Class A shares (the “2018 Private Offering”) in February 2018, after having raised gross proceeds of approximately \$82 million (approximately 3.3 million shares). See “Item 7. Management’s Discussion of Financial Position and Results of Operations—Our Common Shares Offerings” of our Form 10-K for the year ending December 31, 2019 for additional information related to our 2018 Private Offering.

In April and June 2019, we commenced separate private offerings of up to \$50 million each of Class FA shares (the “Class FA Private Offering” and the “Follow-On Class FA Private Offering,” respectively). The Class FA Private Offering was terminated in December 2019, after having raised gross proceeds of approximately \$35 million (approximately 1.3 million shares) and the Follow-On Class FA Private Offering was terminated in March 2020, after having raised gross proceeds of approximately \$8 million (approximately 0.3 million shares).

In January 2020, we commenced a private offering of up to \$50 million of Class S shares (the “Class S Private Offering”). The Class S Private Offering was terminated in December 2020, after having raised gross proceeds of approximately \$52 million (approximately 1.8 million shares).

For additional information on our Initial Public Offering, Follow-On Public Offering and the Private Offerings, see “Our Common Shares Offerings” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 7. “Capital Transactions” in Item 8. “Financial Statements and Supplementary Data.”

## **Portfolio and Investment Activity**

Since we commenced operations in February 2018, we have acquired controlling equity interests in combination with debt positions in four middle-market U.S. businesses. We have also acquired non-controlling equity interests in combination with debt positions in three additional middle-market U.S. businesses.

As of December 31, 2020, our investment portfolio consisted of investments in seven portfolio companies, each with equity and debt investments, for a total fair value of \$231.2 million. As of December 31, 2019, our investment portfolio consisted of investments in four portfolio companies for a total fair value of \$144.2 million. Our investment portfolio was diversified across six industries and all of our debt investments featured fixed interest rates as of December 31, 2020. See Item 7. “Management’s Discussion and Analysis – Portfolio and Investment Activity” and Note 3. “Investments” in Item 8. “Financial Statements and Supplementary Data” for additional information related to our investment portfolio.

As of December 31, 2020 and for the year then ended, we had three portfolio companies which exceeded 20% of at least one of the significance tests under Rule 3-09 of Regulation S-X. See Item 15. “Exhibits and Financial Statement Schedules” for financial statements of each of our significant portfolio companies, as defined by Regulation S-X.

Our portfolio companies are required to make monthly interest payments on their debt, with the debt principal due upon maturity. Failure of any of these portfolio companies to pay contractual interest payments could have a material adverse effect on our results of operations and cash flows from operations which would impact our ability to make distributions to shareholders.

### **Borrowings**

As of December 31, 2020, we had the ability to borrow up to \$20.0 million under a line of credit. We had not borrowed any amounts under the line of credit during the year ended or as of December 31, 2020. See Note 8. “Borrowings” in Item 8. “Financial Statements and Supplementary Data” for additional information related to our borrowings.

We will not use leverage in excess of 35% of our gross assets (for which calculation borrowings of our businesses are not included) unless a majority of our independent directors approves any excess above such limit and determines that such borrowing is in the best interests of our company. Any excess in leverage over such 35% limit shall be disclosed to shareholders in our next quarterly or annual report, along with the reason for such excess. In any event, we expect that the amount of our aggregate borrowings will be reasonable in relation to the value of our assets and will be reviewed by our board of directors at least quarterly.

Financing a portion of the acquisition price of our assets will allow us to broaden our business by increasing the funds available for acquisition. Financing a portion of our acquisitions is not free from risk. Using borrowings requires us to pay interest and principal, referred to as “debt service,” all of which decrease the amount of cash available for distribution to our shareholders or other purposes. We may also be unable to refinance the borrowings at maturity on favorable or equivalent terms, if at all, exposing us to the potential risk of loss with respect to assets pledged as collateral for loans. Certain of our borrowings may be floating rate and the effective interest rates on such borrowings will increase when the relevant interest benchmark increases.

### **Competition**

We compete for acquisitions with strategic buyers, private equity funds and diversified holding companies. Additionally, we may compete for loans with traditional financial services companies such as commercial banks. Certain competitors are substantially larger and have greater financial, technical and marketing resources than we do. For example, some competitors may have access to funding sources that are not available to us, and others may have higher risk tolerances or different risk assessments.

However, we believe we provide a unique capital solution to sellers and operating management teams that is not widely available in the market, if at all. We believe we are able to be competitive with these entities primarily due to our focus on established middle-market U.S. companies, the ability of the Manager and the Sub-Manager to source proprietary transactions, and our unique business strategy that offers business owners a flexible capital structure and is a more attractive alternative when they require investment capital to meet their ongoing business needs. Further, we believe regulatory changes, including the adoption of the Dodd-Frank Act and the introduction of the international capital and liquidity requirements under the Basel III Accords (“Basel III”) have caused some of our potential competitors to curtail their lending to middle-market U.S. companies as a result of the greater regulatory risk and expense involved in lending to the sector.

### **Human Capital Resources**

We are externally managed and as such we do not have any employees. All of our executive officers are employees of the Manager or one or more of its affiliates. The Manager has reported to us that it generally strives to have a diverse group of candidates to consider for roles. In addition, the Manager has reported that it maintains a variety of development, health and wellness and charitable programs for its personnel, including those who provide services to us.

## **Tax Status**

We believe that we are properly characterized as a partnership for U.S. federal income tax purposes and expect to continue to qualify as a partnership, and not be treated as a publicly traded partnership or otherwise be treated as a taxable corporation, for such purposes. As a partnership, we are generally not subject to U.S. federal and state income tax at the entity level. However, the Company holds certain equity investments in taxable subsidiaries (the "Taxable Subsidiaries"). The Taxable Subsidiaries permit the Company to hold equity investments in portfolio companies which are "pass through" entities for tax purposes. The Taxable Subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of the Taxable Subsidiaries' ownership of certain investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in the Company's consolidated financial statements.

## **Corporate Information**

Our executive offices are located at 450 South Orange Avenue, Orlando, Florida 32801, and our telephone number is 407-650-1000.

## **Available Information**

We maintain a web site at [www.cnlstrategiccapital.com](http://www.cnlstrategiccapital.com) containing additional information about our business, and a link to the SEC web site ([www.sec.gov](http://www.sec.gov)). We make available free of charge on our web site our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practical after we file such material, or furnish it to, the SEC. The contents of our website are not incorporated by reference in or are otherwise a part of this Annual Report. The SEC also maintains a web site ([www.sec.gov](http://www.sec.gov)) where you can search for annual, quarterly and current reports, proxy and information statements, and other information regarding us and other public companies.

## **Item 1A. Risk Factors**

*Investing in our shares involves a number of significant risks. In addition to the other information contained in this Annual Report, investors should consider carefully the following information before making an investment in our shares. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, the value of our shares could decline, and investors may lose part or all of their investment.*

### **Risks Related to Our Shares**

***The offering prices may change on a monthly basis and investors may not know the offering price when they submit their subscription agreements.***

The offering prices for our classes of shares may change on a monthly basis and investors will need to determine the price by checking our website at [www.cnlstrategiccapital.com](http://www.cnlstrategiccapital.com) or reading a supplement to our prospectus. A subscriber may also obtain our current offering price by calling us by telephone at (866) 650-0650. In addition, if there are issues processing an investor's subscription, the offering price may change prior to the acceptance of such subscription. In the event we adjust the offering price after an investor submits their subscription agreement and before the date we accept such subscription, such investor will not be provided with direct notice by us of the adjusted offering price but will need to check our website or our filings with the SEC prior to the closing date of their subscription. In this case, an investor will have at least five business days after we publish the adjusted offering price to consider whether to withdraw their subscription request before they are committed to purchase shares upon our acceptance.

***We have held our current businesses for only a short period of time and investors will not have the opportunity to evaluate the assets we acquire before we make them, which makes an investment in us more speculative.***

We have held our current businesses for only a short period of time and we are not able to provide investors with information to evaluate the economic merit of the acquisitions we intend to make prior to our making them and investors will be relying entirely on the ability of the Manager, the Sub-Manager and our board of directors to select or approve, as the case may be, such acquisitions. Future opportunities may include the acquisition of businesses that are currently owned and/or controlled by the Sub-Manager or its affiliates. In connection with any acquisition of a business that involves the Sub-Manager or its affiliates (excluding co-investment opportunities acquired directly from third parties other than the Sub-Manager or its affiliates), we would seek a valuation from a third-party valuation firm, and such acquisition would be subject to approval of a majority of our independent directors.

Additionally, the Manager and the Sub-Manager, subject to oversight by our board of directors, have broad discretion to review, approve, and oversee our business and acquisition policies, to evaluate our acquisition opportunities and to structure the terms of such acquisitions and investors will not be able to evaluate the transaction terms or other financial or operational data concerning such acquisitions. Because of these factors, the Initial Public Offering may entail more risk than other types of offerings. Our board of directors has also delegated broad discretion to both of the Manager and Sub-Manager to implement our business and acquisitions strategies, which includes delegation of the duty to approve certain decisions consistent with the business and acquisition policies approved by our board, our board's fiduciary duties and securities laws. This additional risk may hinder investors' ability to achieve their own personal investment objectives related to portfolio diversification, risk-adjusted returns and other objectives.

***The Initial Public Offering is a "best efforts" offering and if we are unable to raise substantial funds, we will be limited in the number and type of acquisitions we may make, and the value of an investment in us will fluctuate with the performance of the assets we have acquired or may acquire.***

The Initial Public Offering is a "best efforts," as opposed to a "firm commitment" offering. This means that the Managing Dealer is not obligated to purchase any shares, but has only agreed to use its "best efforts" to sell the shares to investors. As a result, if we are unable to raise substantial funds, we will make fewer acquisitions resulting in less diversification in terms of the number of assets owned and the types of assets that we acquire.

Effective June 30, 2020, participating broker-dealers in the Initial Public Offering are required to comply with Regulation Best Interest, which enhances the broker-dealer standard of conduct beyond current suitability obligations and requires participating broker-dealers in the Initial Public Offering to act in the best interest of each investor when making a recommendation to purchase shares in the Initial Public Offering, without placing their financial or other interest ahead of the investor's interests. The application of this enhanced standard of conduct may impact whether a broker-dealer recommends our shares for investment and consequently may adversely affect our ability to raise substantial funds in the Initial Public Offering. In particular, under SEC guidance concerning Regulation Best Interest, a broker-dealer recommending an investment in our shares should consider a number of factors, including but not limited to cost and complexity of the investment and reasonably available alternatives in determining whether there is a reasonable basis for the recommendation. Broker-dealers may recommend a more costly or complex product as long as they have a reasonable basis to believe is in the best interest of a particular retail customer. However, if broker-dealers instead choose alternatives to our shares, our ability to raise capital will be adversely affected. If Regulation Best Interest reduces our ability to raise capital in the Initial Public Offering, it would also harm our ability to create a diversified portfolio of investments and ability to achieve our objectives.

In such event, the likelihood of our profitability being affected by the performance of any one of our assets will increase. An investment in our shares will be subject to greater risk to the extent that we lack asset diversification. In addition, our inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, and our financial condition and ability to pay distributions could be adversely affected.

Investors should not assume that we will sell the maximum offering amount of the Initial Public Offering, or any other particular offering amount in the Initial Public Offering.

***The shares sold in the Initial Public Offering will not be listed on an exchange or quoted through a national quotation system for the foreseeable future, if ever. Therefore, investors in the Initial Public Offering will have limited liquidity and may not receive a full return of their invested capital if investors sell their shares.***

The shares offered by us are illiquid assets for which there is not expected to be any secondary market nor is it expected that any will develop in the future. The ability to transfer shares is limited. Pursuant to our fifth amended and restated limited liability company agreement, as currently amended and as may be amended in the future (our "LLC Agreement"), we have the discretion under certain circumstances to prohibit transfers of shares, or to refuse to consent to the admission of a transferee as a shareholder. We have adopted a share repurchase program to conduct quarterly share repurchases but only a limited number of shares are eligible for repurchase. Moreover, investors should not rely on our share repurchase program as a method to sell shares promptly because our share repurchase program includes numerous restrictions that limit their ability to sell their shares to us, and our board of directors may amend, suspend or terminate our share repurchase program upon 30 days' prior notice to our shareholders. In such an event, we will notify our shareholders of such developments in a current report on Form 8-K or in our annual or quarterly reports, which will be posted on our website, and will also provide a separate communication to our shareholders.

The aggregate amount of funds under our share repurchase program will be determined on a quarterly basis in the sole discretion of our board of directors. During any calendar quarter, the total amount of aggregate repurchases will be limited to the aggregate proceeds from our distribution reinvestment plan during the previous quarter, unless our board of directors determines otherwise. At the discretion of our board of directors, we may also use cash on hand, cash available from borrowings, and cash from the sale of assets as of the end of the applicable period to repurchase shares. Our share repurchase program also limits the total amount of aggregate repurchases of Class A, Class FA, Class T, Class D, Class I and Class S shares to up to 2.5% of our aggregate net asset value per calendar quarter (based on the aggregate net asset value as of the last date of the month immediately prior to the repurchase date) and up to 10% of our aggregate net asset value per year (based on the average aggregate net asset value as of the end of each of our trailing four quarters). The timing, amount and terms of our share repurchase program will include certain restrictions intended to maintain our ability to qualify as a partnership for U.S. federal income tax purposes. Therefore, it will be difficult for investors to sell their shares promptly or at all. If investors are able to sell their shares, investors may only be able to sell them at a substantial discount for the price they paid. Investor suitability standards imposed by certain states may also make it more difficult to sell their shares to someone in those states. The shares should be purchased as a long-term investment only.

Our board of directors intends to contemplate a liquidity event for our shareholders within six years from the date we terminate the Initial Public Offering; however, our board of directors is under no obligation to pursue or complete any particular liquidity event during this timeframe or otherwise. We expect that our board of directors, in the exercise of its fiduciary duty to our shareholders, will decide to pursue a liquidity event when it believes that then-current market conditions are favorable for a liquidity event, and that such an event is in the best interests of our shareholders. There can be no assurance that a suitable transaction will be available or that market conditions for a transaction will be favorable during that timeframe. A liquidity event could include, among other transactions: (i) a sale of all or substantially all of our assets, either on a complete portfolio basis or individually, followed by a liquidation; (ii) subject to an affirmative vote of a two-thirds (2/3) super-majority of our outstanding shares, a decision to continue as a perpetual-life company with a self-tender offer for a minimum of twenty-five percent (25%) of our outstanding shares; (iii) a merger or other transaction approved by our board of directors in which our shareholders will receive cash or shares of another publicly traded company; or (iv) a listing of our shares on a national securities exchange or a quotation through a national quotation system. However, there can be no assurance that we will complete a liquidity event within such time or at all.

If a liquidity event does not occur, shareholders may have to hold their shares for an extended period of time, or indefinitely. In making a determination of what type of liquidity event is in the best interest of our shareholders, our board of directors, including our independent directors, may consider a variety of criteria, including, but not limited to, asset diversification and performance, our financial condition, potential access to capital as a listed company, market conditions for the sale of our assets or listing of our shares, internal management requirements to become a perpetual life company and the potential for investor liquidity. Notwithstanding the shareholder approval requirement in connection with a determination to continue as a perpetual-life company as discussed above in (ii), nothing shall prevent our board of directors from exercising its fiduciary duty on behalf of our company and our shareholders, including any limitation on our board of directors to conduct self-tender offers or seek shareholder approval through multiple proxy attempts.

***Under our share repurchase program, our ability to make new acquisitions of businesses or increase the current distribution rate may become limited if, during any consecutive two year period, we do not have at least one quarter in which we fully satisfy 100% of properly submitted repurchase requests, which may adversely affect our flexibility and our ability to achieve our investment objectives.***

If, during any consecutive two year period, we do not have at least one quarter in which we fully satisfy 100% of properly submitted repurchase requests, we will not make any new acquisitions of businesses (excluding short-term cash management investments under 90 days in duration) and we will use all available investable assets (as defined below) to satisfy repurchase requests (subject to the limitations under our share repurchase program) until all outstanding repurchase requests (“Unfulfilled Repurchase Requests”) have been satisfied. Additionally, during such time as there remains any requests under our share repurchase plan outstanding from such period, the Manager and the Sub-Manager will defer their total return incentive fee until all such Unfulfilled Repurchase Requests have been satisfied. If triggered, this requirement may prevent us from pursuing potentially accretive investment opportunities and may keep us from fully realizing our investment objectives. In addition, this requirement may limit our ability to pay distributions to our shareholders. “Investable assets” includes net proceeds from new subscription agreements, unrestricted cash, proceeds from marketable securities, proceeds from the distribution reinvestment plan, and net cash flows after any payment, accrual, allocation, or liquidity reserves or other business costs in the normal course of owning, operating or selling our acquired businesses, debt service, repayment of debt, debt financing costs, current or anticipated debt covenants, funding commitments related to our businesses, customary general and administrative expenses, customary organizational and offering costs, asset management and advisory fees, performance or actions under existing contracts, obligations under our organizational documents or those of our subsidiaries, obligations imposed by law, regulations, courts or arbitration, or distributions or establishment of an adequate liquidity reserve as determined by our board of directors.

***The ongoing offering price may not accurately reflect the value of our assets.***

Our board of directors determines our net asset value for each class of our shares on a monthly basis. If our net asset value per share on such valuation date increases above or decreases below our net proceeds per share as stated in our prospectus, we will adjust the offering price of any of the classes of our shares, effective five business days after such determination is published, to ensure that no share is sold at a price, after deduction of upfront selling commissions and dealer manager fees, that is above or below our net asset value per share on such valuation date. Ongoing offering prices for the shares in the Initial Public Offering will take into consideration other factors such as selling commissions, dealer manager fees, distribution and shareholder servicing fees and organization and offering expenses so the offering price will not be the equivalent of the value of our assets.

***Valuations and appraisals of our assets are estimates of fair value and may not necessarily correspond to realizable value.***

Our board of directors, with assistance from the Manager and the Sub-Manager, is ultimately responsible for determining in good faith the fair value of our assets for which market prices are not readily available. Our board of directors, including a majority of our independent directors and our audit committee, has adopted a valuation policy that provides for methodologies to be used to determine the fair value of our assets for purposes of our net asset value calculation. Our board of directors makes this determination on a monthly basis, and any other time when a decision is required regarding the fair value of our assets. Our board of directors has retained an independent valuation firm to assist the Manager and the Sub-Manager in preparing their recommendations with respect to our board of directors' determination of the fair values of assets for which market prices are not readily available. However, it may be difficult to reflect fully and accurately rapidly changing market conditions or material events that may impact the value of assets or liabilities between valuations, or to obtain quickly complete information regarding any such events. As a result, the net asset value per share may not reflect a material event until such time as sufficient information is available and analyzed, and the financial impact is fully evaluated, such that our net asset value may be appropriately adjusted in accordance with our valuation procedures.

Within the parameters of our valuation procedures, the valuation methodologies used to value our assets involves subjective judgments and projections and may not be accurate. Valuation methodologies also involve assumptions and opinions about future events, which may or may not turn out to be correct. Valuations of our assets are only estimates of fair value. Ultimate realization of the value of an asset depends to a great extent on economic, market and other conditions beyond our control and the control of the Manager, the Sub-Manager and the independent valuation firm. Further, valuations do not necessarily represent the price at which an asset would sell, since market prices of assets can only be determined by negotiation between a willing buyer and seller. As such, the carrying value of an asset may not reflect the price at which the asset could be sold in the market, and the difference between carrying value and the ultimate sales price could be material. In addition, accurate valuations are more difficult to obtain in times of low transaction volume because there are fewer market transactions that can be considered in the context of the valuation. The determinations of fair value by our board of directors may differ materially from the values that would have been used if an active market and market prices existed for these assets. Furthermore, through the valuation process, our board of directors may determine that the fair value of our assets that differs materially from the values that were provided by the independent valuation firm. There will be no retroactive adjustment in the valuation of such assets, the offering price of our shares, the price we paid to repurchase shares or net asset value-based fees we paid to the Manager, the Sub-Manager or the Managing Dealer to the extent such valuations prove to not accurately reflect the realizable value of our assets. Because the price investors will pay for our shares in the Initial Public Offering, and the price at which their shares may be repurchased by us pursuant to our share repurchase program are generally based on our most recently determined net asset value per share, they may pay more than realizable value or receive less than realizable value for their investment.

***Our net asset value per share may change materially if the valuations of our assets materially change from prior valuations or the actual operating results for a particular month differ from what we originally budgeted for that month.***

When the valuations of our assets are reflected in our net asset value calculations, there may be a material change in our net asset value per share for each class of our shares from those previously reported. In addition, actual operating results for a given month may differ from what we originally budgeted for that month, which may cause a material increase or decrease in the net asset value per share. We will not retroactively adjust the net asset value per share of each class of shares reported for the previous month. Therefore, because a new monthly valuation may differ materially from the prior valuation or the actual results from operations may be better or worse than what we previously budgeted, the adjustment to reflect the new valuation or actual operating results may cause the net asset value per share for each class of our shares to increase or decrease, and such increase or decrease will occur on the day the adjustment is made.

***The amount of any distributions we may pay is uncertain. We may not be able to pay investors distributions and our distributions may not grow over time.***

Subject to our board of directors' discretion and applicable legal restrictions, our board of directors has declared, and intends to continue to declare cash distributions to shareholders. We intend to pay these distributions to our shareholders out of assets legally available for distribution. We cannot assure investors that we will achieve operating results that will allow us to make a targeted level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of the risks described in our prospectus. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, compliance with applicable regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure investors that we will pay distributions to our shareholders in the future. We may pay all or a substantial portion of our distributions from various sources of funds available to us, including from expense support from the Manager and the Sub-Manager, borrowings, the offering proceeds and other sources, without limitation. In the early stages of our company, we are likely to pay some, if not all, of our distributions from offering proceeds, borrowings, or from other sources, including cash resulting from expense support from the Manager and the Sub-Manager pursuant to an expense support and conditional reimbursement agreement (the "Expense Support and Conditional Reimbursement Agreement"), which became effective on February 7, 2018. If we fund distributions from financings, then such financings will need to be repaid, and if we fund distributions from offering proceeds, then we will have fewer funds available for business opportunities, which may affect our ability to generate future cash flows from operations and, therefore, reduce their overall return. Distributions on the Non-founder shares will likely be lower than distributions on Class FA shares because we are required to pay higher management and incentive fees to the Manager and the Sub-Manager with respect to the Non-founder shares. Additionally, distributions paid to our shareholders of share classes with ongoing distribution and shareholder servicing fees may be lower than distributions on certain other of our classes without such ongoing distributions and shareholder servicing fees that we are required to pay. We also believe the likelihood that distributions will be paid from sources other than cash flow from operations may be higher in the early stages of the offering. These risks will be greater for persons who acquire our shares relatively early in the Initial Public Offering, before a significant portion of the offering proceeds have been deployed. Accordingly, shareholders who receive the payment of a distribution from us should not assume that such distribution is the result of a net profit earned by us.

***Because the Managing Dealer is an affiliate of the Manager, investors will not have the benefit of an independent review of the Initial Public Offering or us customarily performed in underwritten offerings.***

The Managing Dealer, CNL Securities Corp., is an affiliate of the Manager, and will not make an independent review of us or the Initial Public Offering. Accordingly, investors will have to rely on their own broker-dealer or distribution intermediary to make an independent review of the terms of the Initial Public Offering. If an investor's broker-dealer or distribution intermediary does not conduct such a review, they will not have the benefit of an independent review of the terms of the Initial Public Offering. Further, the due diligence investigation of us by the Managing Dealer cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker. In addition, we do not, and do not expect to, have research analysts reviewing our performance or our securities on an ongoing basis. Therefore, investors will not have an independent review of our performance and the value of our shares relative to publicly traded companies.

***We may be unable to use a significant portion of the net proceeds of the Initial Public Offering on acceptable terms in the timeframe contemplated by the prospectus relating to the Initial Public Offering.***

Delays in using the net proceeds of the Initial Public Offering may impair our performance. We cannot assure an investor that we will be able to identify any acquisition opportunities in a manner consistent with our business strategy or that any acquisition that we make will produce a positive return. We may be unable to use the net proceeds of the Initial Public Offering on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

Before we have raised sufficient funds to deploy the proceeds of the Initial Public Offering in acquisitions that are consistent with our business strategy, we will deploy the net proceeds of the Initial Public Offering primarily in cash, cash equivalents, U.S. government securities, repurchase agreements, certain leveraged loans and high-quality debt instruments maturing in one year or less from the time of acquisition, which may produce returns that are significantly lower than the returns which we expect to achieve in relation to the businesses and other assets we will seek to acquire. As a result, any distributions that we pay during this period may be substantially lower than the distributions that we may be able to pay in a manner consistent with our business strategy.

***Investors' interest in us will be diluted if we issue additional shares, which could reduce the overall value of the investment.***

Potential investors in the Initial Public Offering do not have pre-emptive rights to any shares we issue in the future. Our LLC Agreement authorizes us to issue 1,000,000,000 shares. Pursuant to our LLC Agreement, a majority of our entire board of directors may amend our LLC Agreement from time to time to increase or decrease the aggregate number of authorized shares or the number of authorized shares of any class or series without shareholder approval. After an investor's purchase in the Initial Public Offering, our board of directors may elect to sell additional shares in this or future public offerings, issue equity interests in private offerings or issue share-based awards to our independent directors, the Manager, the Sub-Manager and/or employees of the Manager or the Sub-Manager. To the extent we issue additional equity interests after an investor's purchase in the Initial Public Offering, their percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our assets, an investor may also experience dilution in the net asset value and fair value of their shares.

***Investors will experience substantial dilution in the net tangible book value of their shares equal to the offering costs and sales load associated with their shares and will encounter substantial on-going fees and expenses.***

If investors purchase our shares in the Initial Public Offering, there are substantial fees and expenses which will be borne by the investor initially and ongoing as an investor. Also, investors will incur immediate dilution in the net tangible book value of their shares equal to the offering costs and the sales load associated with their shares. There are also certain offering costs associated with the shares in the Initial Public Offering, which will be reimbursed to the Manager and the Sub-Manager. This means that the investors who purchase shares will pay a price per share that substantially exceeds the per share value of our assets after subtracting our liabilities.

***We are an "emerging growth company" under the federal securities laws and will be subject to reduced public company reporting requirements.***

We are an "emerging growth company," as defined in the JOBS Act, and therefore are eligible to take advantage of certain exemptions from, or reduced disclosure obligations relating to, various reporting requirements that normally are applicable to public companies. For so long as we remain an emerging growth company, we will not be required to (i) comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, (ii) submit certain executive compensation matters to stockholder advisory votes pursuant to the "say on frequency" and "say on pay" provisions of Section 14A(a) of the Exchange Act (requiring a non-binding stockholder vote to approve compensation of certain executive officers) and the "say on golden parachute" provisions of Section 14A(b) of the Exchange Act (requiring a non-binding stockholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations), (iii) disclose more than two years of audited financial statements in a registration statement filed with the SEC, (iv) disclose selected financial data pursuant to the rules and regulations of the Securities Act (requiring selected financial data for the past five years or for the life of the issuer, if less than five years) in our periodic reports filed with the SEC for any period prior to the earliest audited period presented in this registration statement, and (v) disclose certain executive compensation related items, such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to median employee compensation as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Once we are no longer an "emerging growth company," because we are not a "large accelerated filer" or an "accelerated filer" under the Exchange Act, and will not be so long as our shares are not traded on a securities exchange, we are not subject to the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. In addition, because we have no employees, we do not have any executive compensation or golden parachute payments to report in our periodic reports and proxy statements. We cannot predict if investors will find our shares less attractive because we choose to rely on any of the exemptions discussed above.

Additionally, under Section 107 of the JOBS Act, an "emerging growth company" may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. This means an "emerging growth company" can delay adopting certain accounting standards until such standards are otherwise applicable to private companies. However, we are electing to "opt out" of such extended transition period, and therefore will comply with new or revised accounting standards on the applicable dates on which the adoption of such standards is required for non-emerging growth companies. This election is irrevocable.

We will remain an "emerging growth company" for up to five years, although we will lose that status sooner if our annual gross revenues exceed \$1.07 billion, if we issue more than \$1 billion in non-convertible debt in a three year period, or if the market value of our shares that is held by non-affiliates equals or exceeds \$700 million after we have been publicly reporting for at least 12 months and have filed at least one annual report on Form 10-K with the SEC.

***Our business could be adversely affected if we fail to maintain our qualification as a venture capital operating company, or VCOC, under the Plan Asset Regulation.***

We used a substantial portion of the net proceeds from the Private Offerings to acquire our businesses. We currently operate our business in a manner so that it is intended to qualify as a “venture capital operating company” (“VCOC”) under the U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA (the “Plan Asset Regulation”), and therefore are not subject to the fiduciary requirements of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) with respect to our assets. However, if we fail to satisfy the requirements to qualify as a VCOC for any reason and no other exception under the Plan Asset Regulation applies, such failure could materially interfere with our activities or expose us to risks related to our failure to comply with the requirements and the fiduciary responsibility standards of ERISA would apply to us, including the requirement of investment prudence and diversification, and certain transactions that we enter into, or may have entered into, in the ordinary course of business, might constitute or result in non-exempt prohibited transactions under Section 406 of ERISA or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). A non-exempt prohibited transaction, in addition to imposing potential fiduciary liabilities may also result in the imposition of an excise tax under the Code upon a “party in interest” (as defined in Section 3(14) of ERISA) or “disqualified person” (as defined in Section 4975 of the Code) with whom we engaged in the transaction. Therefore, our business could be adversely affected if we fail to qualify as a VCOC under the Plan Asset Regulation.

### **Risks Related to Our Organization and Structure**

***We may be unable to successfully implement our business and acquisition strategies or generate sufficient cash flow to make distributions to our shareholders.***

We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will be unable to implement and execute our business strategy as described in our prospectus and that the value of our shares could decline substantially and, as a result, investors may lose part or all of their investment. Our financial condition and results of operations will depend on many factors including the availability of acquisition opportunities, readily accessible short and long-term financing, financial markets and economic conditions generally and the performance of the Manager and the Sub-Manager. There can be no assurance that we will be able to generate sufficient cash flow over time to pay our operating expenses and make distributions to shareholders.

***Our ability to implement and execute our business strategy depends on the Manager’s and the Sub-Manager’s ability to manage and support our business operations. If the Manager or the Sub-Manager were to lose any members of their respective senior management teams, our ability to implement and execute our business strategy could be significantly harmed.***

We have no internal management capacity or employees other than our appointed executive officers and will be dependent on the diligence, skill and network of business contacts of the Manager’s and the Sub-Manager’s senior management teams to implement and execute our business strategy. We also depend, to a significant extent, on the Manager’s and the Sub-Manager’s access to its investment professionals and the information and deal flow generated by these professionals. The Manager’s and the Sub-Manager’s senior management teams will evaluate, negotiate, structure, close, and monitor the assets we acquire. The departure of any of the Manager’s or the Sub-Manager’s senior management teams could have a material adverse effect on our ability to implement and execute our business strategy. We do not anticipate maintaining any key person insurance on any of the Manager’s or the Sub-Manager’s senior management teams.

***Our board of directors may change our business and acquisition policies and strategies without prior notice or shareholder approval, the effects of which may be adverse to investors.***

Our board of directors has the authority to modify or waive our current business and acquisition policies, criteria and strategies without prior notice and without shareholder approval. In such event, we will promptly file a prospectus supplement and a current report on Form 8-K, disclosing any such modification or waiver. We cannot predict the effect any changes to our current business and acquisition policies, criteria and strategies would have on our business, operating results and value of our shares. However, the effects might be adverse, which could negatively impact our ability to pay investors distributions and cause investors to lose all or part of their investment. Moreover, we will have significant flexibility in deploying the net proceeds of the Initial Public Offering and may use the net proceeds from the Initial Public Offering in ways with which investors may not agree or for purposes other than those contemplated at the time of the Initial Public Offering.

***If we internalize our management functions, investors' interest in us could be diluted, and we could incur other significant costs and face other significant risks associated with being self-managed.***

Our board of directors may decide in the future to internalize our management functions. If we do so, we may elect to negotiate to acquire the Manager's or the Sub-Manager's assets and personnel. At this time, we cannot anticipate the form or amount of consideration or other terms relating to any such internalization transaction. Such consideration could take many forms, including cash payments, promissory notes and shares. The payment of such consideration could result in dilution of an investor's interests as a shareholder and could reduce the earnings per share attributable to their investment.

In addition, while we would no longer bear the costs of the various fees and expenses we expect to pay to the Manager under the Management Agreement (50% of which is paid to the Sub-Manager under the Sub-Management Agreement), we would incur the compensation and benefits as well as the costs of our officers and other employees and consultants that we now expect will be paid by the Manager, the Sub-Manager or their respective affiliates. In addition, we may issue equity awards to officers, employees and consultants, which awards would decrease net income and may further dilute an investor's investment. We cannot reasonably estimate the amount of fees we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of internalization are higher than the expenses we avoid paying to the Manager and the Sub-Manager, our earnings per share would be lower as a result of the internalization than they otherwise would have been, potentially decreasing the amount of funds available to distribute to our shareholders and the value of our shares. As currently organized, we do not expect to have any employees. If we elect to internalize our operations, we would employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances.

If we internalize our management functions, we could have difficulty integrating these functions as a stand-alone entity. In addition, we could have difficulty retaining such personnel employed by us. We expect individuals employed by the Manager and the Sub-Manager to perform asset management and general and administrative functions, including accounting and financial reporting for us. These personnel have a great deal of know-how and experience. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from most effectively managing our assets.

In some cases, internalization transactions involving the acquisition of a manager have resulted in litigation. If we were to become involved in such litigation in connection with an internalization of our management functions, we could be forced to spend significant amounts of money defending ourselves in such litigation, regardless of the merit of the claims against us, which would reduce the amount of funds available to acquire additional assets or make distributions to our shareholders.

***Anti-takeover provisions in our LLC Agreement could inhibit a change in control.***

Provisions in our LLC Agreement may make it more difficult and expensive for a third party to acquire control of us, even if a change of control would be beneficial to our shares. Under our LLC Agreement, our shares have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. In addition, our LLC Agreement contains a number of provisions that could make it more difficult for a third party to acquire, or may discourage a third party from acquiring control of the company. These provisions include:

- restrictions on our ability to enter into certain transactions with major holders of our shares modeled on the limitation contained in Section 203 of the Delaware General Corporation Law, or the DGCL;
- allowing only the company's board of directors to fill vacancies, including newly created directorships;
- requiring that directors may be removed, with or without cause, only by a vote of a majority of the issued and outstanding shares;
- requiring advance notice for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by holders of our shares at a meeting of shareholders;
- permitting each of the Manager and Sub-Manager, respectively, to initially appoint a non-independent director and, thereafter, to nominate such non-independent director's replacement upon such non-independent director's failure to stand for re-election, resignation, removal from office, death or incapacity;
- our ability to issue additional securities, including securities that may have preferences or are otherwise senior in priority to our shares; and
- limitations on the ability of our shareholders to call special meetings of the shareholders.

***We may have conflicts of interest with the noncontrolling shareholders of our businesses.***

The boards of directors of the businesses we acquire controlling interests in will have fiduciary duties to all their shareholders, including the company and noncontrolling shareholders. As a result, they may make decisions that are in the best interests of their shareholders generally but which are not necessarily in the best interest of the company or our shareholders. In dealings with the company, the directors of these businesses may have conflicts of interest and decisions may have to be made without the participation of directors appointed by us, and such decisions may be different from those that we would make.

***An investor's investment return may be reduced if we are required to register as an investment company under the Investment Company Act.***

We are organized as a holding company that conducts its business primarily through its wholly- and majority-owned subsidiaries. We conduct and intend to continue to conduct our operations so that the company and each of its subsidiaries do not fall within, or are excluded from the definition of an "investment company" under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is deemed to be an "investment company" if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. We believe that we are not to be considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because we do not and will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we have and continue to intend to acquire stable and growing middle-market U.S. businesses with a focus on business services, consumer products, education, franchising, light manufacturing / specialty engineering, non-FDA regulated healthcare and safety companies. In addition, through the Manager and the Sub-Manager, we have been and intend to continue to be engaged with the acquired businesses in several areas, including (i) strategic direction and planning, (ii) supporting add-on acquisitions and introducing senior management to new business contacts, (iii) balance sheet management, (iv) capital markets strategies, and (v) optimization of working capital. We monitor the critical success factors of our acquired businesses on a daily/weekly basis and meet monthly with senior management of the companies we acquire in an operating committee environment to discuss their respective strategic, financial and operating performance. As a consequence, we primarily engage and hold ourselves out as being primarily engaged in the non-investment company businesses of these companies, which are or will become our wholly- or majority-owned subsidiaries.

Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an "investment company" if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, which we refer to as the "40% test." Excluded from the term "investment securities," among other instruments, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exceptions under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We conduct operations, and intend to continue to conduct our operations, so that on an unconsolidated basis we and most of our subsidiaries will comply with the 40% test and no more than 40% of the assets of those subsidiaries will consist of investment securities. We expect that most, if not all, of our wholly- and majority-owned subsidiaries will fall outside the definitions of investment company under Section 3(a)(1)(A) and Section 3(a)(1)(C) or rely on an exception or exemption from the definition of investment company other than the exceptions under Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act. Consequently, interests in these subsidiaries (which currently constitute and are expected to continue to constitute most, if not all, of our assets) generally will not constitute "investment securities" for purposes of Section 3(a)(1)(C) of the Investment Company Act. Accordingly, we believe that we are not considered and will not be considered an investment company under Section 3(a)(1)(C) of the Investment Company Act. We monitor our holdings on an ongoing basis and in connection with each of our business acquisitions to determine compliance with the 40% test.

The determination of whether an entity is our majority-owned subsidiary is made by us. Under the Investment Company Act, a majority-owned subsidiary of a person means a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. The Investment Company Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority-owned subsidiaries for purposes of the 40% test. We have not requested the SEC to approve our treatment of any company as a majority-owned subsidiary and the SEC has not done so. If the SEC, or its staff, were to disagree with our treatment of one of more companies as majority-owned subsidiaries, we would need to adjust our strategy and our assets in order to continue to pass the 40% test. Any such adjustment in our strategy could have a material adverse effect on us.

Additionally, we conduct and intend to continue to conduct operations so that we are not treated as a “special situation investment company” as such term has been interpreted by the SEC and its staff and by courts in judicial proceedings under the Investment Company Act. Special situation investment companies generally are companies which secure control of other companies primarily for the purpose of making a profit in the sale of the controlled company’s securities. The types of companies that have been characterized by the SEC in SEC releases, the SEC staff or by courts in judicial proceedings under the Investment Company Act as “special situation investment companies” are those that, as part of their history and their stated business purpose, engage in a pattern of acquiring large or controlling blocks of securities in companies, attempting to control or to exert a controlling influence over these companies, improving their performance and then disposing of acquired share positions after a short-term holding period at a profit once the acquired shares increase in value. Special situation investment companies also follow a policy of shifting from one investment to another because greater profits seem apparent elsewhere. We monitor our business activities, including our acquisitions and divestments, on an ongoing basis to avoid being deemed a special situation investment company. One of the factors that distinguishes us from a “special situation investment company” is our policy of acquiring middle-market U.S. businesses with the expectation of operating these businesses over a long-term basis that for us will involve a minimum holding period of four to six years.

A change in the value of our assets could cause us or one or more of our wholly- or majority-owned subsidiaries to fall within the definition of “investment company” and negatively affect our ability to maintain our exclusion from registration under the Investment Company Act. To avoid being required to register the company or any of its subsidiaries as an investment company under the Investment Company Act, we may be unable to acquire businesses with an intention of disposing of them on a short-term basis. In addition, we may in other circumstances be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. We also may have to acquire additional income- or loss-generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our business strategy.

If we become obligated to register the company or any of its subsidiaries as an investment company pursuant to the Investment Company Act, the registered entity would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

If we were required to register the company as an investment company pursuant to the Investment Company Act but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business, all of which would have a material adverse effect on us and the returns generated for shareholders.

***If, in the future, we cease to control and operate our businesses, we may be deemed to be an investment company under the Investment Company Act.***

Under the terms of our LLC Agreement, we have the latitude to acquire equity interests in businesses that we will not operate or control. If we make significant acquisitions of equity interests in businesses that we do not operate or control or cease to operate and control such businesses, we may be deemed to be an investment company under the Investment Company Act. If we were deemed to be an investment company under the Investment Company Act, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the SEC or modify our equity interests and debt positions or organizational structure or our contract rights to fall outside the definition of an investment company under the Investment Company Act. Registering as an investment company pursuant to the Investment Company Act could, among other things, materially adversely affect our financial condition, business and results of operations, materially limit our ability to borrow funds or engage in other transactions involving leverage and require us to add directors who are independent of us, the Manager and the Sub-Manager and otherwise will subject us to additional regulation that will be costly and time-consuming.

## **Risks Related to the Manager, the Sub-Manager and Their Respective Affiliates**

***Our success will be dependent on the performance of the Manager and the Sub-Manager and their respective affiliates, but investors should not rely on the past performance of the Manager, the Sub-Manager and their respective affiliates as an indication of future success. Prior to the Initial Public Offering, affiliates of CNL have only sponsored real estate and credit investment programs.***

The Manager was formed in August 2016 and has a limited operating history. The Sub-Manager was formed in September 2016 and has limited experience managing a business under guidelines designed to allow us to avoid registration as an investment company under the Investment Company Act, which may hinder our ability to take advantage of attractive acquisition opportunities and, as a result, implement and execute our business strategy. In addition, the Sub-Manager has limited experience complying with regulatory requirements applicable to public companies. We cannot guarantee that we will be able to find suitable acquisition opportunities and our ability to implement and execute our business strategy and to pay distributions will be dependent upon the performance of the Manager and the Sub-Manager in the identification and acquisition of such opportunities and the management of our businesses and other assets. Additionally, investors should not rely on the past performance of investments by other CNL- or LLCP-affiliated entities to predict our future results. Our business strategy and key employees differ from the business strategies and key employees of certain other CNL- or LLCP-affiliated programs in the past, present and future. Prior to the Initial Public Offering, affiliates of CNL have only sponsored real estate and credit investment programs. If either the Manager or the Sub-Manager fails to perform according to our expectations, we could be materially adversely affected.

***The Manager, the Sub-Manager and their respective affiliates, including our officers and some of our directors will face conflicts of interest including conflicts that may result from compensation arrangements with us and our affiliates, which could result in actions that are not in the best interests of our shareholders.***

The Manager, the Sub-Manager and their respective affiliates will receive substantial fees from us (directly or indirectly) in return for their services, and these fees could influence the advice provided to us. Among other matters, the compensation arrangements could affect their judgment with respect to public and private offerings of equity by us, which allow the Managing Dealer to earn additional dealer manager fees and the Manager and the Sub-Manager to earn increased management fees. The Administrator and the Sub-Administrator will also face conflicts of interests with respect to their performance of various administrative services that we require, including but not limited to conflicts that may arise from the Administrator's and the Sub-Administrator's decisions with respect to the allocation of their time and resources as they relate to their recommendations and oversight of the personnel, facilities and services provided to us, and the quality of professional and administrative services rendered by their respective affiliates to us. The Manager, the Sub-Manager and their respective affiliates, including certain of our officers and some of our directors will face conflicts of interest including conflicts that may result from compensation arrangements. The Manager compensates the members of its management committee with incentive-based compensation, asset-based compensation and/or bonuses and awards which will vary based on the Manager's performance.

The incentive fees that we may pay to the Manager (50% of which would be paid to the Sub-Manager) may create an incentive for the Manager and the Sub-Manager to make acquisitions on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee is determined may encourage the Manager and the Sub-Manager to use leverage to increase the return on our assets. In addition, the fact that our base management fee for a certain month is calculated based on the average value of our gross assets at the end of that month and the immediately preceding calendar month, which would include any borrowings for investment purposes, may encourage the Manager and the Sub-Manager to use leverage or to acquire additional assets. The use of leverage increases the volatility of assets by magnifying the potential for gain or loss on invested equity capital. In addition, we and our shareholders will bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the management fees payable to the Manager. Our businesses may pay fees to the Sub-Manager for services it provides to them and therefore our shareholders may be indirectly subject to such fees. These fees may be paid before we realize any income or gain. The Manager and the Sub-Manager may face conflicts of interest with respect to services performed for our businesses, on the one hand, and opportunities recommended to us, on the other hand. Furthermore, our board of directors is responsible for determining the net asset value of our assets (with the assistance from the Manager, the Sub-Manager and the independent valuation firm) and, because the base management fee is payable monthly and for a certain month is calculated based on the average value of our gross assets at the end of that month and the immediately preceding calendar month, a higher net asset value of our assets would result in a higher base management fee to the Manager and the Sub-Manager.

***We pay substantial fees and expenses to the Manager, the Sub-Manager, the Managing Dealer or their respective affiliates. These payments increase the risk that investors will not earn a profit on their investment.***

The Manager and the Sub-Manager perform services for us in connection with the identification, selection and acquisition of our assets, and the monitoring and administration of our assets. We pay the Manager and the Sub-Manager certain fees for management services, including a base management fee that is not tied to the performance of our assets. We pay fees and commissions to the Managing Dealer in connection with the offer and sale of the shares. We may pay third parties directly or reimburse the costs or expenses of third parties paid by the Administrator and the Sub-Administrator for providing us with certain administrative services. Since the Administrator and the Sub-Administrator are affiliates of the Manager and the Sub-Manager, respectively, they may experience conflicts of interests when seeking expense reimbursement from us. Similarly, our businesses may pay fees to the Sub-Manager for services it provides to them and therefore our shareholders may be indirectly subject to such fees. These fees reduce the amount of cash available for acquisitions or distribution to our shareholders. These fees also increase the risk that the amount available for distribution to shareholders upon a liquidation of our assets would be less than the purchase price of the shares in the Initial Public Offering and that investors may not earn a profit on their investment.

***The time and resources that individuals associated with the Manager and the Sub-Manager devote to us may be diverted.***

We currently expect the Manager, the Sub-Manager and their respective officers and employees to devote such time as shall be necessary to conduct our business affairs in an appropriate manner. However, the Manager, the Sub-Manager and their respective officers and employees are not required to do so. Moreover, neither the Manager, the Sub-Manager nor their affiliates are prohibited from raising money for and managing another entity that competes with us or our businesses, except as agreed to by the Manager and the Sub-Manager. Accordingly, the respective management teams of the Manager and the Sub-Manager may have obligations to investors in entities they work at or manage in the future, the fulfillment of which might not be in the best interests of us or our shareholders or that may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. In addition, we may compete with any such investment entity for the same investors and acquisition opportunities.

***We do not have a policy that expressly prohibits our directors, officers, or affiliates from engaging for their own account in business activities of the types conducted by us.***

We do not have a policy that expressly prohibits our directors, officers, or affiliates from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct contains a conflicts of interest policy that prohibits our directors and executive officers, as well as personnel of the Manager and the Sub-Manager who provide services to us, from engaging in any transaction that involves an actual conflict of interest with us without the approval of a majority of our independent directors. In addition, the Management Agreement and the Sub-Management Agreement do not prevent the Manager, the Sub-Manager and their respective affiliates from engaging in additional business opportunities, some of which could compete with us, except as agreed to by the Manager and the Sub-Manager.

***The Manager and the Sub-Manager will experience conflicts of interest in connection with the management of our business affairs, our businesses and their respective other accounts and clients.***

The Manager and the Sub-Manager will experience conflicts of interest in connection with the management of our business affairs relating to the allocation of business opportunities by the Manager, the Sub-Manager and their respective affiliates to us and other clients; compensation to the Manager, the Sub-Manager and their respective affiliates; services that may be provided by the Manager, the Sub-Manager and their respective affiliates to our businesses; co-investment opportunities for us and the allocation of such opportunities to us and other clients of the Manager and the Sub-Manager; the formation of investment vehicles by the Manager or the Sub-Manager; differing recommendations given by the Manager and the Sub-Manager to us versus other clients; the Manager's and the Sub-Manager's use of information gained from our businesses for investments by other clients, subject to applicable law; and restrictions on the Manager's and the Sub-Manager's use of "inside information" with respect to potential acquisitions by us.

In connection with the services that the Sub-Manager or its affiliates may provide to the businesses we acquire, the Sub-Manager may be paid transaction fees in connection with services customarily performed in connection with the management of such businesses (except that no such transaction fees were charged on our acquisition of the initial businesses). Any transaction fees received by the Sub-Manager up to \$1.5 million to \$3.5 million annually (dependent on our total assets at the time of receipt of such transaction fees) will not be shared with us. Any transaction fees charged to businesses in excess of \$3.5 million will be paid to us. Additionally, these fees may be paid before we realize any income or gain. We may also reimburse the Sub-Manager for certain transactional expenses (e.g. research costs, due diligence costs, professional fees, legal fees and other related items) related to businesses that we acquire as well as transactional expenses related to deals that do not close, often referred to as “broken deal costs.” The Manager and the Sub-Manager may face conflicts of interest with respect to services performed for our businesses, on the one hand, and opportunities recommended to us, on the other hand.

***The Sub-Manager may experience conflicts of interests in their management of other clients that may have a similar business strategy as us.***

The Sub-Manager and its affiliates currently manage other clients and may in the future manage new clients that may have a similar business strategy as us. The Sub-Manager will determine which opportunities it presents to us or another client with a similar business objective. The Sub-Manager may determine it is more appropriate for one or more other clients managed by the Sub-Manager or any of its affiliates than it is for us and present such opportunity to the other client. These co-investment opportunities may give rise to conflicts of interest or perceived conflicts of interest among us and the other participating accounts, including the amount of such co-investment opportunity allocated to us.

The Sub-Manager and its affiliates may (i) give advice and take action with respect to any of its other clients that may differ from advice given or the timing or nature of action taken with respect to us, so long as it is consistent with the provisions of the Sub-Manager’s allocation policy and its obligations under the Sub-Management Agreement, and (ii) subject to the Exclusivity Agreement and its obligations thereunder, engage in activities that overlap with or compete with those in which the company and its subsidiaries, directly or indirectly, may engage. The company, on its own behalf and on behalf of its subsidiaries, has renounced any interest or expectancy in, or right to be offered an opportunity to participate in, any business opportunity which may be a corporate opportunity for another client of the Sub-Manager or its affiliates to the extent such opportunity has been determined in good faith by the Sub-Manager not to be allocated to the company, all in accordance with the company’s and the Sub-Manager’s allocation policy. Furthermore, subject to the company’s investment policy and its obligations under the Sub-Management Agreement, the Sub-Manager shall not have any obligation to recommend for purchase or sale any securities or loans which its principals, affiliates or employees may purchase or sell for its or their own accounts or for any other client or account if, in the opinion of the Sub-Manager, such transaction or investment appears unsuitable, impractical or undesirable for the Manager (on behalf of the company).

Consistent with our allocation policy, in the event that a co-investment opportunity that the Manager has approved for potential participation does not close and the Sub-Manager and its affiliates accumulate broken deal costs in connection with the co-investment opportunity, the Sub-Manager and its affiliates will be required to allocate such broken deal costs among us and the other participating accounts. Broken deal costs will generally be allocated to us by the Sub-Manager *pro rata* based on our allocation in a proposed co-investment opportunity if our allocation in such co-investment opportunity has been determined; however, in the event that we participate in a co-investment opportunity with Levine Leichtman Capital Partners VI, L.P. (“LLCP VI”), LLC Lower Middle Market Fund, L.P. (“LMM Fund”), or LLC Lower Middle Market Fund III, L.P. (“LMM III Fund”) which accumulates broken deal costs and if our allocation in such co-investment opportunity has not been determined, we will be allocated 5% of the broken deal costs with respect to a co-investment with LLC VI, 12.5% of the broken deal costs with respect to a co-investment with LMM Fund, or 10% of the broken deal costs with respect to a co-investment with the LMM III Fund, subject to annual review by the Sub-Manager. We may similarly act as a dedicated co-investor for other private acquisition funds advised by affiliates of the Sub-Manager that are formed in the future, with our allocation percentage being determined at or prior to the time we begin pursuing co-investment opportunities with such vehicles and subject to annual review by the Sub-Manager. Additionally, on a quarterly basis, the Sub-Manager will identify third party broken deal costs for opportunities for us on a direct or co-investment basis (such opportunity, a “lookback broken deal”). Subject to approval by the Manager, we will reimburse the Sub-Manager for our allocable portion of third party broken deal expenses incurred in connection with a lookback broken deal. In the case of a lookback broken deal identified as an opportunity on a co-investment basis with LLC VI, LMM Fund, or LMM III Fund, our allocable portion of such third party broken deal expenses will be 5%, 12.5% or 10%, respectively. Unless our board of directors approves otherwise, in no event will our portion of the aggregate lookback broken deal expenses exceed \$75,000 on a calendar year basis.

***The Manager and its respective affiliates may have an incentive to delay a liquidity event, which may result in actions that are not in the best interest of our shareholders.***

We pay certain amounts to the Managing Dealer and participating broker-dealers in connection with the distribution of certain classes of shares for the ongoing marketing, sale and distribution of such shares, including an ongoing distribution and shareholder servicing fee. The ongoing distribution and shareholder servicing fee for these classes of shares will terminate for all shareholders upon a liquidity event. As such, the Manager may have an incentive to delay a liquidity event or making such recommendation to our board of directors if such amounts receivable by the Managing Dealer have not been fully paid. A delay in a liquidity event may not be in the best interests of our shareholders.

***Our access to confidential information may restrict our ability to take action with respect to our businesses, which, in turn, may negatively affect our results of operations.***

We, directly or through the Manager or the Sub-Manager, may obtain confidential information about our businesses. If we possess confidential information about such businesses, there may be restrictions on our ability to make, dispose of, increase the amount of, or otherwise take action with respect to, those businesses. The impact of these restrictions on our ability to take action with respect to such businesses could have an adverse effect on our results of operations.

***We may be obligated to pay the Manager and the Sub-Manager incentive fees even if there is a decline in the value of our assets for that calendar year and even if our earned interest income is not payable in cash.***

The Management Agreement and the Sub-Management Agreement entitle the Manager and the Sub-Manager to receive an incentive fee based on the total return of each class of our shares regardless of any capital losses. In such case, we may be required to pay the Manager and the Sub-Manager an incentive fee for a calendar year even if there is a decline in the value of our assets for that calendar year or if our net asset value is less than the purchase price of an investor's shares.

Any incentive fee payable by us that relates to the total return of each class of our shares may be computed and paid on income that may include interest that has been accrued but not yet received or interest in the form of securities received rather than cash ("payment-in-kind" or "PIK" income) or based on unrealized gains. If one of our businesses defaults on a loan that is structured to provide accrued interest income, it is possible that accrued interest income previously included in the calculation of the incentive fee will become uncollectible. The Manager and the Sub-Manager are not obligated to reimburse us for any part of the incentive fee they received that was based on accrued interest income that we never received as a result of a subsequent default or an unrealized gain. Although we do not expect our debt assets to include a PIK feature, to the extent we do so, PIK income will be included in the total return of each class of our shares used to calculate the incentive fee to the Manager and the Sub-Manager even though we do not receive the income in the form of cash.

***The Manager's and the Sub-Manager's liability is limited under the Management Agreement, the Sub-Management Agreement, the Administrative Services Agreement and the Sub-Administration Agreement, as applicable, and we are required to indemnify the Manager and the Sub-Manager against certain liabilities, which may lead them to act in a riskier manner on our behalf than it would when acting for their own account.***

The Manager and the Sub-Manager have not assumed any responsibility to us other than to render the services described in the Management Agreement, the Sub-Management Agreement, the Administrative Services Agreement and the Sub-Administration Agreement, as applicable. Pursuant to the Management Agreement, the Sub-Management Agreement, the Administrative Services Agreement and the Sub-Administration Agreement, as applicable, the Manager, the Sub-Manager and their respective officers, managers, partners, members, agents, employees, controlling persons, shareholders, and any other person or entity affiliated with the Manager and the Sub-Manager will not be liable to us or any of our subsidiaries' members, stockholders or partners in connection with the performance of any duties or obligations under the Management Agreement, the Sub-Management Agreement, the Administrative Services Agreement and the Sub-Administration Agreement, absent negligence or misconduct in the performance of the Manager's or the Sub-Manager's duties, as applicable. We have also agreed to indemnify, defend and protect the Manager, the Sub-Manager and their respective officers, managers, partners, members, agents, employees, controlling persons and any other person or entity affiliated with the Manager and the Sub-Manager with respect to all damages, liabilities, costs and expenses incurred in or by reason of any pending, threatened or completed, action suit investigation or other proceeding resulting from acts of the Manager and the Sub-Manager not arising out of negligence or misconduct in the performance of the Manager's or the Sub-Manager's duties, as applicable, under such agreements. These protections may lead the Manager and the Sub-Manager to act in a riskier manner when acting on our behalf than it would when acting for its own account.

***Each of the Manager's and the Sub-Manager's net worth is not available to satisfy our liabilities and other obligations.***

As required by the Omnibus Guidelines, as adopted by the North American Securities Administrators Association, the Manager and the Sub-Manager and their respective affiliates have an aggregate net worth in excess of the required \$11.8 million for the Initial Public Offering. However, no portion of such net worth will be available to us to satisfy any of our liabilities or other obligations. The use of our own funds to satisfy such liabilities or other obligations could have a material adverse effect on our business, financial condition and results of operations.

***Each of the Manager and the Sub-Manager can resign on 120 days notice and, pursuant to the Sub-Management Agreement, the Manager and the Sub-Manager have agreed to resign if the other is terminated for anything other than cause and we may not be able to find suitable replacement(s) within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.***

The Manager has the right, under the Management Agreement, to resign at any time on 120 days written notice, whether we have found a replacement or not. If the Manager resigns, we may not be able to contract with a new manager or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 120 days, or at all, in which case our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected. In addition, the coordination of our internal management, business activities and supervision of our businesses is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Manager and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our businesses may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

The Sub-Manager also has the right, under the Sub-Management Agreement, to resign at any time on 120 days written notice, whether the Manager or the company has found a replacement or not. If the Sub-Manager resigns, the Manager and the company may not be able to contract with a new sub-manager. The Sub-Management Agreement provides that, in the event the Manager or the Sub-Manager is terminated or not renewed as a manager or sub-manager, other than for cause, the other will also terminate its Management Agreement or Sub-Management Agreement, as applicable. In such case, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected.

## **Risks Related to Our Business**

***A business strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.***

We intend to acquire controlling interests in privately held, middle-market U.S. businesses which by their nature pose certain incremental risks as compared to public companies including that they:

- have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- may have limited financial resources and may be unable to meet their obligations under their debt securities that we may hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees we may have obtained in connection with our acquisition;
- may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our privately held company and, in turn, on us; and
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and members of the Manager's and the Sub-Manager's management may, in the ordinary course of business, be named as defendants in litigation arising from our ownership of these companies.

In addition, interests in private companies tend to be less liquid. The securities of private companies are not publicly traded or actively traded on the secondary market and are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. These over-the-counter secondary markets may be inactive during an economic downturn or a credit crisis. In addition, the securities in these companies will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. If there is no readily available market for these assets, we are required to carry these assets at fair value as determined by our board of directors. As a result, if we are required to liquidate all or a portion of our assets quickly, we may realize significantly less than the value at which we had previously recorded these assets. We may also face other restrictions on our ability to liquidate our ownership of a business to the extent that we, the Manager, the Sub-Manager or any of their respective affiliates have material nonpublic information regarding such business or where the sale would be an impermissible joint transaction. The reduced liquidity of these assets may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

Finally, little public information generally exists about private companies and these companies may not have third-party credit ratings or audited financial statements. We must therefore rely on the ability of the Manager and the Sub-Manager to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from these business opportunities. Additionally, these companies and their financial information will not generally be subject to the Sarbanes-Oxley Act and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed business decision, and we may lose money on our assets.

***We face risks with respect to the evaluation and management of future acquisitions.***

A significant component of our business strategy is to acquire controlling equity interests in businesses. We intend to focus on middle-market U.S. businesses in various industries. Generally, because such businesses are held privately, we may experience difficulty in evaluating potential target businesses as the information concerning these businesses is not publicly available. Therefore, our estimates and assumptions used to evaluate the operations, management and market risks with respect to potential target businesses may be subject to various risks. Further, the time and costs associated with identifying and evaluating potential target businesses and their industries may cause a substantial drain on our resources and may divert our management team's attention away from operations for significant periods of time. In addition, we may incur substantial broken deal costs in connection with acquisition opportunities that are not consummated.

In addition, we may have difficulty effectively managing the businesses we acquire. The management or improvement of businesses we acquire may be hindered by a number of factors including limitations in the standards, controls, procedures and policies of such acquisitions. Further, the management of an acquired business may involve a substantial reorganization resulting in the loss of employees and customers or the disruption of our ongoing businesses. Some of the businesses we acquire may have significant exposure to certain key customers, the loss of which could negatively impact our financial condition, business and results of operations. We may experience greater than expected costs or difficulties relating to such acquisition, in which case, we might not achieve the anticipated returns from any particular acquisition, which may have a material adverse effect on our financial condition, business and results of operations.

In addition, certain members of the management teams of our businesses have, and may have in the future, the opportunity to participate in equity incentive programs which are expected to be based on the satisfaction of certain performance criteria and metrics and may include receipt of options. Although we believe such awards are important incentives for the management teams of our businesses, such awards could decrease our percentage ownership in a business to the extent such award vests and is exercised in the future.

***If we cannot obtain debt financing or equity capital on acceptable terms, our ability to finance future acquisitions of businesses and expand our operations will be adversely affected.***

The net proceeds from the sale of our shares in the Initial Public Offering and Private Offerings will be used to finance the acquisition of businesses, and, if necessary, the payment of operating expenses and the payment of various fees and expenses such as management fees, incentive fees, other fees and distributions. Any working capital reserves we maintain may not be sufficient for business purposes, and we may require additional debt financing or equity capital to operate. These sources of funding may not be available to us due to unfavorable economic conditions, which could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. Consequently, if we cannot obtain further debt or equity financing on acceptable terms, our ability to fund the acquisition of businesses and to expand our operations will be adversely affected. As a result, we would be less able to execute our business strategy, which may negatively impact our results of operations and reduce our ability to make distributions to our shareholders.

***We may face increasing competition for acquisition opportunities, which could delay deployment of our capital, reduce returns and result in losses.***

We compete for acquisitions with strategic buyers, private equity funds and diversified holding companies. Additionally, we may compete for loans with traditional financial services companies such as commercial banks. Certain competitors are substantially larger and have greater financial, technical and marketing resources than we do. For example, some competitors may have access to funding sources that are not available to us, and others may have higher risk tolerances or different risk assessments. These characteristics could allow our competitors to consider a wider variety of acquisition opportunities, establish more relationships and offer better pricing and more flexible structuring than we are able to do. We may lose acquisition opportunities if we do not match our competitors' pricing, terms or structure. If we are forced to match our competitors' pricing, terms and structure, we may not be able to achieve acceptable risk-adjusted returns on our businesses or may bear risk of loss, which may have a material adverse effect on our business, financial condition and results of operations. In addition, if we lose an acquisition opportunity, we may still incur broken deal costs related to the review of an opportunity that is not consummated, which could be substantial.

***We rely on receipts from our businesses to make distributions to our shareholders.***

We are dependent upon the ability of our businesses to generate earnings and cash flow and distribute them to us in the form of interest and principal payments of indebtedness and, from time to time, distributions on equity to enable us, first, to satisfy our financial obligations and, second to make distributions to our shareholders. This ability may be subject to limitations under laws of the jurisdictions in which they are incorporated or organized. As a consequence of these various restrictions, we may be unable to generate sufficient receipts from our businesses, and therefore, we may not be able to declare, or may have to delay or cancel payment of, distributions to our shareholders.

We do not intend to own 100% of our businesses. While we receive cash payments from our businesses which are in the form of interest payments, debt repayment and distributions, if any distributions were to be paid by our businesses, they would be shared *pro rata* with the minority shareholders of our businesses and the amounts of distributions made to minority shareholders would not be available to us for any purpose, including debt service or distributions to our shareholders. Any proceeds from the sale of a business will be allocated among us and the non-controlling shareholders of the business that is sold.

***We anticipate acquiring controlling interests in a limited number of businesses and these businesses may be subject to unplanned business interruptions.***

We anticipate acquiring controlling interests in a limited number of companies. As a result, the performance of our business may be substantially adversely affected by the unfavorable performance of even a single business. Further, operational interruptions and unplanned events at one or more of our production facilities of these businesses, such as explosions, fires, inclement weather, natural disasters, pandemics, accidents, transportation interruptions and supply could cause substantial losses in our production capacity. Furthermore, because customers may be dependent on planned deliveries from us, customers that have to reschedule their own operations due to our delivery delays may be able to pursue financial claims against us, and we may incur costs to correct such problems in addition to any liability resulting from such claims. Such interruptions may also harm our reputation among actual and potential customers, potentially resulting in a loss of business. To the extent these losses are not covered by insurance, our financial position, results of operations and cash flows may be adversely affected by such events.

***The outbreak of highly infectious or contagious diseases, including the ongoing novel coronavirus ("COVID-19") pandemic, could materially and adversely impact our business, our operating businesses, our financial condition, results of operations and cash flows. Further, the spread of COVID-19 pandemic has caused severe disruptions in the U.S. and global economy and financial markets and could potentially create widespread business continuity issues of an as yet unknown magnitude and duration.***

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. COVID-19 has since spread globally, including every state in the United States. In March 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020 the United States declared a national emergency with respect to COVID-19. Since March 13, 2020, there have been a number of federal, state and local government initiatives to manage the spread of the virus and its impact on the economy, financial markets and continuity of businesses of all sizes and industries. For example, in March 2020, Congress approved, and former President Trump signed into law, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides approximately \$2 trillion in financial assistance to individuals and businesses in response to economic harms resulting from the COVID-19 pandemic. The CARES Act, among other things, provides certain measures to support individuals and businesses in maintaining solvency through monetary relief, including in the form of financing and loan forgiveness/forbearance. The Federal Reserve implemented asset purchase and lending programs, including purchases of residential and commercial-mortgage backed securities and the establishment of lending facilities to support loans to small- and mid-size businesses. To further address the continued economic impact of the COVID-19 pandemic, the U.S. Congress passed, and former President Trump signed into law, a second COVID-19 relief bill in December 2020, which provided approximately \$900 billion in additional financial assistance to individuals and businesses, including funds for rental assistance to be distributed by state and local governments and a revival of the forgivable small business loan program originally provided for under the CARES Act. As of December 31, 2020, some of our portfolio companies have taken advantage of certain provisions under the CARES Act but we and our portfolio companies have not borrowed under the Payroll Protection Program. We continue to analyze the relevant legislative and regulatory developments and the potential impact they may have on our business (including our portfolio companies), results of operations, financial condition and liquidity. The COVID-19 pandemic has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the pandemic has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures, requiring restrictions on travel, and issuing "shelter-in-place" and/or "stay-at-home" orders. While some of these restrictions have been relaxed or phased out, many of these or similar restrictions remain in place, continue to be implemented, or additional restrictions are being considered. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries. The pandemic has triggered a period of economic slowdown and experts are uncertain as to how long these conditions may last.

Outbreaks of pandemic or contagious diseases, such as the COVID-19 pandemic, could materially and adversely affect our business, our operating businesses, our financial condition, results of operations and cash flows. The Manager and the Sub-Manager have not been prevented and do not expect to be prevented from conducting business activities as a result of the COVID-19 pandemic. However, our portfolio companies could be prevented from conducting business activities for an indefinite period of time. Since certain aspects of the services provided by our businesses involve face to face interaction, the related COVID-19 quarantines and work and travel restrictions may reduce participation or result in a loss of business. Additionally, since certain of the products offered by our businesses are manufactured in a facility or distributed through retail stores, a closure of such facility or loss in business for such retail store due to COVID-19 would have an adverse impact on product sales. For example, as a result of the pandemic and a "stay-at-home" order issued by the state of Illinois, the manufacturing facility used by Polyform Products, Co. ("Polyform") temporarily closed starting in late March 2020; it subsequently reopened in early June 2020. As of December 31, 2020, all of the facilities were open and safety procedures have been implemented across our portfolio companies; however, there is a continued risk of temporary business interruptions resulting from employees contracting COVID-19 or from the reinstatement of business closures or work and travel restrictions. Further, if the U.S. and global economy continue to slow down or consumer behavior continues to shift due to the COVID-19 pandemic (including the continued threat or perceived threat of such pandemic), the demand for the products or services offered by our operating businesses may be reduced. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19. Nevertheless, COVID-19 presents material uncertainty and risk with respect to our business, our operating businesses, our financial condition, results of operations and cash flows.

***In certain circumstances, certain business analyses and decisions by the Manager and the Sub-Manager may be required to be undertaken on an expedited basis.***

While we generally will not seek to make an acquisition until the Sub-Manager has conducted sufficient due diligence to make a determination whether to pursue an acquisition opportunity, in such cases, the information available to the Manager and the Sub-Manager at the time of making an acquisition decision may be limited. In certain circumstances, the business analyses and decisions by the Manager and the Sub-Manager may be required to be undertaken on an expedited basis to take advantage of acquisition opportunities. Therefore, no assurance can be given that the Manager and the Sub-Manager will have knowledge of all circumstances that may adversely affect such decision. In addition, the Manager and the Sub-Manager expect often to rely upon independent consultants in connection with its evaluation of proposed acquisitions. No assurance can be given as to the accuracy or completeness of the information provided by such independent consultants and we may incur liability as a result of such consultants' actions.

***Economic recessions or downturns could impair our businesses and harm our operating results.***

Some of our businesses may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets may increase, and the value of our assets is likely to decrease during these periods. Adverse or disruptive economic conditions, such as during a government shutdown, may also decrease the value of any collateral securing our senior or second lien loans. A severe recession may further decrease the value of such collateral and result in losses of value in our assets and a decrease in our revenues, net income, assets and net worth. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us on terms we deem acceptable. In addition, any future financial market uncertainty could lead to financial market disruptions and could further impact our ability to obtain financing. These events could prevent us from acquiring additional assets, limit our ability to grow and negatively impact our operating results and financial condition.

***Financial results of certain of our businesses may be affected by the operating results of and actions taken by their franchisees.***

Certain of our businesses may receive a substantial portion of their revenues in the form of royalties, which are generally based on a percentage of gross sales from franchisees. Accordingly, financial results of such businesses are to a large extent dependent upon the operational and financial success of their franchisees. If sales trends or economic conditions deteriorate for franchisees, their financial results may also deteriorate and the royalties paid to such businesses may decline and the accounts receivable and related allowance for doubtful accounts may increase. In addition, if the franchisees fail to renew their franchise agreements, royalty revenues of these businesses may decrease which in turn may materially and adversely affect business and operating results of these businesses. For example, Lawn Doctor, Inc. ("Lawn Doctor") one of our initial businesses, relies primarily on broker referrals for new franchise development and has two main broker relationships that are key to driving new franchisee growth, in addition to its corporate employees generating opportunities. Any disputes with brokers could negatively affect Lawn Doctor's ability to attract new franchisees and adversely affect its business and operating results.

Additionally, although franchisees are contractually obligated to operate their businesses in accordance with the operations, safety, and health standards set forth in agreements between our businesses and their franchisees, such franchisees are independent third parties whom we or our businesses do not control. The franchisees own, operate, and oversee the daily operations of their business and have sole control over all employee and other workforce decisions. As a result, the ultimate success and quality of any franchisee's business rests with the franchisee. If franchisees do not successfully operate their business in a manner consistent with required standards, royalty income paid to our businesses may be adversely affected and brand image and reputation could be harmed, which in turn could materially and adversely affect business and operating results of our businesses.

***For certain of our businesses, a limited number of customers may account for a large portion of their net sales, so that if one or more of the major customers were to experience difficulties in fulfilling their obligations to such businesses, cease doing business with such businesses, significantly reduce the amount of their purchases from such businesses or return substantial amounts of such businesses' products, it could have a material adverse effect on our business, financial condition and results of operations.***

For certain of our businesses, a limited number of customers may account for a large portion of their gross sales, so that if one or more of the major customers of such businesses were to experience difficulties in fulfilling their obligations to such businesses, cease doing business with such businesses, significantly reduce the amount of their purchases from such businesses or return substantial amounts of such businesses' products, it could have a material adverse effect on our business, financial condition and results of operations. Except for outstanding purchase orders for specific products, certain of our businesses may not have written contracts with or commitments from any of their customers and pursuant to the terms of certain of their vendor agreements, even some purchase orders may be cancelled without penalty until delivery. A substantial reduction in or termination of orders from any of their largest customers could adversely affect their business, financial condition and results of operations. In addition, pressure by large customers seeking price reductions, financial incentives, and changes in other terms of sale or for these businesses to bear the risks and the cost of carrying inventory could also adversely affect business, financial condition and results of operations of our businesses. In addition, the bankruptcy or other lack of success of one or more of the significant customers could negatively impact such businesses' revenues and bad debt expense.

***Some of our businesses are or may be dependent upon the financial and operating conditions of their customers and clients. If the demand for their customers' and clients' products and services declines, demand for their products and services will be similarly affected and could have a material adverse effect on their financial condition, business and results of operations.***

The success of our businesses' customers' and clients' products and services in the market and the strength of the markets in which these customers and clients operate affect our businesses. Our businesses' customers and clients are subject to their own business cycles, thus posing risks to these businesses that are beyond our control. These cycles are unpredictable in commencement, severity and duration. Due to the uncertainty in the markets served by most of our businesses' customers and clients, our businesses cannot accurately predict the continued demand for their customers' and clients' products and services and the demands of their customers and clients for their products and services. As a result of this uncertainty, past operating results, earnings and cash flows may not be indicative of our future operating results, earnings and cash flows. If the demand for their customers' and clients' products and services declines, demand for their products and services will be similarly affected and could have a material adverse effect on their financial condition, business and results of operations.

Certain of our businesses compete in highly competitive markets which are subject to the risk of market disruption including from the development and advancement of new technologies and there can be no assurance that our businesses will be able to compete successfully. For example, Healthcare Safety Holdings' ("HSH") business competes in the highly competitive medical supply market. HSH's daily use insulin pen needles, syringes and complementary offerings for the diabetes care markets compete with other needle-syringes manufacturers and other alternative drug delivery systems. The lack of product differentiation among manufacturers of traditional needles and syringes may subject HSH to downward product pricing pressures in the market. Other companies may develop new products that compete directly or indirectly with HSH's products. A variety of new technologies, including other delivery methods such as microneedles on dissolvable patches and transdermal patches are being marketed as alternatives to injection for drug delivery. HSH's narrow focus as a manufacturer of traditional needles and syringes products increases the risk that HSH loses market share to competing products and alternative drug delivery systems. While we currently do not believe such technologies have significantly affected the use of injection for drug delivery to date, there can be no assurance that they will not do so in the future or have an adverse impact on the value of HSH.

***Some of our businesses are and may be subject to a variety of federal, state and foreign laws and regulations concerning employment, health, safety and products liability. Failure to comply with governmental laws and regulations could subject them to, among other things, potential financial liability, penalties and legal expenses which could have a material adverse effect on our financial condition, business and results of operations.***

Some of our businesses are and may be subject to various federal, state and foreign government employment, health, safety and products liability regulations. Compliance with these laws and regulations, which may be more stringent in some jurisdictions, is a major consideration for our businesses. Government regulators generally have considerable discretion to change or increase regulation of our operations, or implement additional laws or regulations that could materially adversely affect our businesses. For example, as a manufacturer and seller of pen needle and syringes, one of our portfolio companies, HSH, is subject to significant regulatory oversight from governmental authorities such as the Food and Drug Administration as well as inherent products liability risk in the event of a product failure or a personal injury caused by HSH's products. Noncompliance with applicable regulations and requirements could subject our businesses to investigations, sanctions, product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. Suffering any of these consequences could materially adversely affect our financial condition, business and results of operations. In addition, responding to any action may result in a diversion of the Manager's, the Sub-Manager's and our executive officers' attention and resources from our operations.

***Some of our businesses are and may be subject to federal, state and foreign environmental laws and regulations that expose them to potential financial liability. Complying with applicable environmental laws requires significant resources, and if our businesses fail to comply, they could be subject to substantial liability.***

Some of the facilities and operations of our businesses are and may be subject to a variety of federal, state and foreign environmental laws and regulations including laws and regulations pertaining to the handling, storage and transportation of raw materials, products and wastes, which require and will continue to require significant expenditures to remain in compliance with such laws and regulations currently in place and in the future. Compliance with current and future environmental laws is a major consideration for certain of our businesses as any material violations of these laws can lead to substantial liability, revocations of discharge permits, fines or penalties. Because some of our businesses may use hazardous materials in their operations, they may be subject to potential financial liability for costs associated with the investigation and remediation of their own sites if such sites become contaminated. Even if they fully comply with applicable environmental laws and are not directly at fault for the contamination, such businesses may still be liable.

The identification of presently unidentified environmental conditions, more vigorous enforcement by regulatory agencies, enactment of more stringent laws and regulations, or other unanticipated events may arise in the future and give rise to material environmental liabilities, higher than anticipated levels of operating expenses and capital investment or, depending on the severity of the impact of the foregoing factors, costly plant relocation, all of which could have a material adverse effect on our financial condition, business and results of operations.

***Some of our businesses are subject to certain risks associated with business they conduct in foreign jurisdictions.***

Some of our businesses conduct business in foreign jurisdictions. Certain risks are inherent in conducting business in foreign jurisdictions, including:

- exposure to local economic conditions;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- longer payment cycles for foreign customers;
- adverse currency exchange controls;
- exposure to risks associated with changes in foreign exchange rates;
- potential adverse changes in the political environment of the foreign jurisdictions or diplomatic relations of foreign countries with the United States;
- withholding taxes and restrictions on the withdrawal of foreign investments and earnings;
- export and import restrictions;
- labor relations in the foreign jurisdictions;
- difficulties in enforcing intellectual property rights; and
- required compliance with a variety of foreign laws and regulations.

***Some of the businesses we acquire may rely on their intellectual property and licenses to use others' intellectual property, for competitive advantage. If they are unable to protect their intellectual property, are unable to obtain or retain licenses to use others' intellectual property, or if they infringe upon or are alleged to have infringed upon others' intellectual property, it could have a material adverse effect on their financial condition, business and results of operations.***

Each business' success depends in part on their, or licenses to use others' brand names, proprietary technology and manufacturing techniques. Such businesses may rely on a combination of patents, trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions to protect their intellectual property rights. The steps they have taken to protect their intellectual property rights may not prevent third parties from using their intellectual property and other proprietary information without their authorization or independently developing intellectual property and other proprietary information that is similar. In addition, the laws of foreign countries may not protect the intellectual property rights of these companies effectively or to the same extent as the laws of the United States.

Stopping unauthorized use of their proprietary information and intellectual property, and defending against claims that they have made unauthorized use of others' proprietary information or intellectual property, may be difficult, time-consuming and costly. The use of their intellectual property and other proprietary information by others, and the use by others of their intellectual property and proprietary information, could reduce or eliminate any competitive advantage they have developed, cause them to lose sales or otherwise harm their business.

Some of the businesses we acquire may become involved in legal proceedings and claims in the future either to protect their intellectual property or to defend allegations that they have infringed upon others' intellectual property rights. These claims and any resulting litigation could subject them to significant liability for damages and invalidate their property rights. In addition, these lawsuits, regardless of their merits, could be time consuming and expensive to resolve and could divert management's time and attention. The costs associated with any of these actions could be substantial and could have a material adverse effect on their financial condition, business and results of operations.

***Some of the businesses we acquire may be subject to certain risks associated with the movement of businesses offshore.***

Some of the businesses we acquire may be potentially at risk of losing business to competitors operating in lower cost countries. An additional risk is the movement offshore of some customers of these businesses we control, leading them to procure products or services from more closely located companies. Either of these factors could negatively impact our financial condition, business and results of operations.

***Defaults by our businesses will harm our operating results.***

A business's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its debt financing and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize such business's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting business. Further, there may not be any prepayment penalty for our borrowers who prepay their loans. If borrowers choose to prepay their loans, we may not receive the full amount of interest payments otherwise to be received by us.

***Our businesses may incur debt that ranks equally with, or senior to, our debt in such businesses.***

Our businesses may have, or may be permitted to incur, other debt that ranks equally with, or senior to, our debt in such businesses. By their terms, such debt may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to our debt in such business. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of our business, holders of debt instruments ranking senior to our debt in that business would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such business may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with our debt in the business, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant business.

***We may not have the funds or ability to make additional capital contributions or loans to our businesses.***

After our initial acquisition of an equity stake in a business or loans to such business, we may be called upon from time to time to provide additional funds to such business or have the opportunity to increase our capital contributions. There is no assurance that we will make, or will have sufficient funds to make, follow-on contributions. Even if we do have sufficient capital to make a desired follow-on contribution, we may elect not to make a follow-on contribution because we may not want to increase our level of risk or we prefer other opportunities. Our ability to make follow-on contributions may also be limited by the Manager's and the Sub-Manager's allocation policies. Any decisions not to make a follow-on contribution or any inability on our part to make such a contribution may have a negative impact on such business, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce our expected return with respect to the business.

***The debt positions we will typically acquire in connection with our acquisition of controlling equity interests in businesses may be risky, and we could lose all or part of our assets.***

When we acquire a controlling equity interest in a business, we also will typically acquire a debt position in such business, which may be in the form of senior or subordinated securities.

When we acquire senior debt, we will generally seek to take a security interest in the available assets of a business, including equity interests in any of its subsidiaries. There is a risk that the collateral securing our loans may decrease in value over time or lose its entire value, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the business to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in such business's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

Our acquisitions of subordinated and/or mezzanine debt will generally be subordinated to senior debt and will generally be unsecured, which may result in a heightened level of risk and volatility or a loss of principal, which could lead to the loss of the entire investment. These acquisitions may involve additional risks that could adversely affect our returns as compared to our acquisition of senior debt. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our shareholders to non-cash income. We will not receive any principal repayments prior to the maturity of most of our subordinated debt, which may be of greater risk than amortizing loans.

***We may acquire debt and minority interests in businesses and, if we do so, we may not be in a position to control such businesses, and their respective management team may make decisions that could decrease the value of our assets.***

We anticipate that most of our net assets will be used for acquisitions which will involve controlling equity interests in businesses, but we may acquire only debt and/or minority interests in certain businesses. If we do so, we will be subject to risk that such businesses may make business decisions with which we disagree, and the management of such businesses may take risks or otherwise act in ways that do not serve our best interests. As a result, such businesses may make decisions that could decrease the value of our assets. In addition, we will generally not be in a position to control any business by acquiring its debt securities.

We may also participate in co-investment opportunities with affiliates of the Sub-Manager or with other third parties through partnerships, joint ventures or other entities, thereby acquiring jointly-controlled or non-controlling interests in businesses in conjunction with participation by one or more parties in such opportunity. As participants in such co-investment opportunities, we may have economic or other business interests or objectives that are inconsistent with those of our third-party partners or co-venturers. We may not have a right to participate in the operation, management, direction or control of such businesses, and our ability to redeem or sell all or a portion of our investment may be subject to significant restrictions. Furthermore, such co-investment opportunities may involve risks not present in acquisitions where a third party is not involved, including the possibility that we may incur liabilities as the result of actions taken by the controlling party and that a third-party partner or co-venturer may have financial difficulties and may have different liquidity objectives.

***The credit ratings of certain of our assets may not be indicative of the actual credit risk of such rated instruments.***

Rating agencies rate certain debt securities based upon their assessment of the likelihood of the receipt of principal and interest payments. Rating agencies do not consider the risks of fluctuations in market value or other factors that may influence the value of debt securities. Therefore, the credit rating assigned to a particular instrument may not fully reflect the true risks of an investment in such instrument. Credit rating agencies may change their methods of evaluating credit risk and determining ratings. These changes may occur quickly and often. While we may give some consideration to ratings, ratings may not be indicative of the actual credit risk of our assets that are in rated instruments. In fact, most debt securities that we intend to acquire will not be rated by any rating agency and, if they were rated, they would most likely be rated as below investment grade quality. Debt securities rated below investment grade quality are generally regarded as having predominantly speculative characteristics and may carry a greater risk with respect to a borrower's capacity to pay interest and repay principal.

***A redemption of convertible securities held by us could have an adverse effect on our ability to execute our business strategy.***

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by us is called for redemption, we will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on our ability to execute our business strategy.

***Subordinated liens on collateral securing debt that we may acquire in businesses may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.***

Certain debt that we will acquire in businesses may be secured on a second priority basis by the same collateral securing senior debt of such businesses. The first priority liens on the collateral will secure the business's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by such business under the agreements governing the debt. In the event of a default, the holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the debt obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the debt obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the business's remaining assets, if any.

We may also acquire unsecured debt in businesses, meaning that such acquisitions will not benefit from any interest in collateral of such businesses. Liens on any such business's collateral, if any, will secure such business's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by such business under its secured debt agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before us. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy our unsecured debt obligations after payment in full of all secured debt obligations. If such proceeds were not sufficient to repay the outstanding secured debt obligations, then our unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the business's remaining assets, if any.

The rights we may have with respect to the collateral securing the debt we acquire in businesses with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

***There may be circumstances where the loans we make to businesses could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

Although we intend to generally structure certain of our acquisitions as secured debt, if one of our businesses were to go bankrupt, depending on the facts and circumstances, including the extent to which we provided managerial assistance to such company or a representative of us or the Manager and the Sub-Manager sat on the board of directors of such company, a bankruptcy court might re-characterize our debt in a business and subordinate all or a portion of our claim to that of other creditors. In situations where a bankruptcy carries a high degree of political significance, our legal rights may be subordinated to other creditors.

In addition a number of U.S. judicial decisions have upheld judgments obtained by borrowers against lending institutions on the basis of various evolving legal theories, collectively termed “lender liability.” Generally, lender liability is founded on the premise that a lender has violated a duty (whether implied or contractual) of good faith, commercial reasonableness and fair dealing, or a similar duty owed to the borrower or has assumed an excessive degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or members. Because of the nature of our assets in businesses, we may be subject to allegations of lender liability.

***Certain of our assets may be adversely affected by laws relating to fraudulent conveyance or voidable preferences.***

Certain of our assets could be subject to federal bankruptcy law and state fraudulent transfer laws, which vary from state to state, if the debt obligations relating to such assets were issued with the intent of hindering, delaying or defrauding creditors or, in certain circumstances, if the issuer receives less than reasonably equivalent value or fair consideration in return for issuing such debt obligations. If the debt is used for a buyout of shareholders, this risk is greater than if the debt proceeds are used for day-to-day operations or organic growth. If a court were to find that the issuance of the debt obligations was a fraudulent transfer or conveyance, the court could void or otherwise refuse to recognize the payment obligations under the debt obligations or the collateral supporting such obligations, further subordinate the debt obligations or the liens supporting such obligations to other existing and future indebtedness of the issuer or require us to repay any amounts received by us with respect to the debt obligations or collateral. In the event of a finding that a fraudulent transfer or conveyance occurred, we may not receive any repayment on the debt obligations.

Under certain circumstances, payments to us and distributions by us to our shareholders may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, assets involving restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the court’s discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

***We may acquire various structured financial instruments for purposes of “hedging” or reducing our risks, which may be costly and ineffective and could reduce the cash available to service our debt or for distribution to our shareholders.***

We may seek to hedge against interest rate and currency exchange rate fluctuations and credit risk by using structured financial instruments such as futures, options, swaps and forward contracts. Use of structured financial instruments for hedging purposes may present significant risks, including the risk of loss of the amounts invested. Defaults by the other party to a hedging transaction can result in losses in the hedging transaction. Hedging activities also involve the risk of an imperfect correlation between the hedging instrument and the asset being hedged, which could result in losses both on the hedging transaction and on the instrument being hedged. Use of hedging activities may not prevent significant losses and could increase our losses. Further, hedging transactions may reduce cash available to service our debt or pay distributions to our shareholders.

***The downgrade of the U.S. credit rating could negatively impact our business, financial condition and results of operations.***

U.S. debt ceiling and budget deficit concerns continue to present the possibility of a credit-rating downgrade, economic slowdowns, or a recession for the United States. The impact of any downgrades to the U.S. government’s sovereign credit rating could adversely affect the U.S. and global financial markets and economic conditions. These developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations. Further, if key economic indicators, such as the unemployment rate or inflation, progress at a rate consistent with the Federal Reserve’s objectives, the target range for the federal funds rate may increase and cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms.

***To the extent that we borrow money, the potential for gain or loss on amounts invested in us will be magnified and may increase the risk of investing in us. Borrowed money may also adversely affect the return on our assets, reduce cash available to service our debt or for distribution to our shareholders, and result in losses.***

The use of borrowings, also known as leverage, increases the volatility of investments by magnifying the potential for gain or loss on invested equity capital. If we use leverage to partially finance our acquisitions, through borrowing from banks and other lenders an investor will experience increased risks of investing in our securities. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would if we had not borrowed and employed leverage. Similarly, any decrease in our income would cause net income to decline more sharply than it would have if we had not borrowed and employed leverage. Such a decline could negatively affect our ability to service our debt or make distributions to our shareholders. In addition, our shareholders will bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the management or incentive fees payable to the Manager and the Sub-Manager. Additionally, to the extent we use borrowings to finance a portion of the acquisition price of assets, we would make such acquisitions through corporate subsidiaries taxed at U.S. federal corporate tax rates, which may increase tax expenses.

The amount of leverage that we employ will depend on the Manager's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. There can be no assurance that leveraged financing will be available to us on favorable terms or at all. However, to the extent that we use leverage to finance our assets, our financing costs will be borne solely by our shareholders and will reduce cash available for distributions to our shareholders. Moreover, we may not be able to meet our financing obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to liquidation or sale to satisfy the obligations. In such an event, we may be forced to sell assets at significantly depressed prices due to market conditions or otherwise, which may result in losses.

***Uncertainty regarding LIBOR may adversely impact our borrowings.***

In July 2017, the U.K. Financial Conduct Authority ("FCA"), which regulates the LIBOR administrator, ICE Benchmark Administration Limited ("IBA"), announced that it would cease to compel banks to participate in setting the LIBOR as a benchmark by the end of 2021. On December 4, 2020, the IBA published a consultation on its intention to cease the publication of LIBOR. For the most commonly used tenors (overnight and one, three, six and 12 months) of U.S. dollar LIBOR, the IBA is proposing to cease publication immediately after June 30, 2023, anticipating continued rate submissions from panel banks for these tenors of U.S. dollar LIBOR. The IBA's consultation also proposes to cease publication of all other U.S. dollar LIBOR tenors, and of all non-U.S. dollar LIBOR rates, after December 31, 2021. The FCA and U.S. bank regulators have welcomed the IBA's proposal to continue publishing certain tenors for U.S. dollar LIBOR through June 30, 2023 because it would allow many legacy U.S. dollar LIBOR contracts that lack effective fallback provisions and are difficult to amend to mature before such LIBOR rates experience disruptions. U.S. bank regulators are, however, encouraging banks to cease entering into new financial contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. Given consumer protection, litigation, and reputation risks, U.S. bank regulators believe entering into new financial contracts that use LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks. In addition, they expect new financial contracts to either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's discontinuation. Although the foregoing may provide some sense of timing, there is no assurance that LIBOR, of any particular currency and tenor, will continue to be published or be representative of the underlying market until any particular date, and it appears highly likely that LIBOR will be discontinued or modified after December 31, 2021 or June 30, 2023, depending on the currency and tenor.

The Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions convened by the U.S. Federal Reserve, has recommended the Secured Overnight Financing Rate (“SOFR”) as a more robust reference rate alternative to U.S. dollar LIBOR. SOFR is calculated based on overnight transactions under repurchase agreements, backed by Treasury securities. SOFR is observed and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with LIBOR). SOFR is therefore likely to be lower than LIBOR and is less likely to correlate with the funding costs of financial institutions. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question. As such, the future of LIBOR at this time is uncertain. Our line of credit with United Community Bank (d/b/a Seaside Bank and Trust), originally entered into in June 2019 and as amended in July 2020 (the “2020 Line of Credit”), is, and other future financings may be, linked to this benchmark rate. Before December 31, 2021 or June 30, 2023, depending on the currency and tenor, we may need to amend the 2020 Line of Credit or other future financings that utilize LIBOR as a factor in determining the interest rate based on a new standard that is established, if any. However, these efforts may not be successful in mitigating the legal and financial risk from changing the reference rate in our legacy agreements. In addition, any resulting differences in interest rate standards among our assets and our financing arrangements may result in interest rate mismatches between our assets and the borrowings used to fund such assets. There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, results of operations, financial condition, and the market price of our common stock.

***Future litigation or administrative proceedings could have a material adverse effect on our business, financial condition and results of operations.***

We may become involved in legal proceedings, administrative proceedings, claims and other litigation that arise in the ordinary course of business. In defending ourselves in these proceedings, we may incur significant expenses in legal fees and other related expenses, regardless of the outcome of such proceedings. Unfavorable outcomes or developments relating to these proceedings, such as judgments for monetary damages, injunctions or denial or revocation of permits, could have a material adverse effect on our business, financial condition and results of operations. In addition, settlement of claims could adversely affect our financial condition and results of operations.

***We could be negatively impacted by cybersecurity attacks.***

We, and our businesses, as well as the Manager and the Sub-Manager, may use a variety of information technology systems in the ordinary course of business, which are potentially vulnerable to unauthorized access, computer viruses and cyber attacks, including cyber attacks to our information technology infrastructure and attempts by others to gain access to our proprietary or sensitive information, and ranging from individual attempts to advanced persistent threats. The risk of such a security breach or disruption has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. The procedures and controls we use to monitor these threats and mitigate our exposure may not be sufficient to prevent cyber security incidents. The results of these incidents could include disrupted operations, misstated or unreliable financial data, theft of trade secrets or other intellectual property, liability for disclosure of confidential customer, supplier or employee information, increased costs arising from the implementation of additional security protective measures, regulatory enforcement litigation and reputational damage, which could materially adversely affect our financial condition, business and results of operations. These risks require continuous and likely increasing attention and other resources from us to, among other actions, identify and quantify these risks, upgrade and expand our technologies, systems and processes to adequately address them and provide periodic training for the Manager’s employees to assist them in detecting phishing, malware and other schemes. Such attention diverts time and other resources from other activities and there is no assurance that our efforts will be effective. Potential sources for disruption, damage or failure of our information technology systems include, without limitation, computer viruses, security breaches, human error, cyber-attacks, natural disasters and defects in design. Additionally, due to the size and nature of our company, we rely on third-party service providers for many aspects of our business. We can provide no assurance that the networks and systems that our third-party vendors have established or use will be effective.

***We, and our businesses, are subject to a variety of federal, state and international laws and other obligations regarding data protection.***

We, and our businesses, are subject to a variety of federal, state and international laws and other obligations regarding data protection. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing domestic and international requirements may cause us or our businesses to incur substantial costs or require us or one of our businesses to change its business practices. Any failure by us or one of our businesses to comply with its own privacy policy, applicable association rules, or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against us or one of our businesses by governmental entities or others. Additionally, given the data collection and distribution focus of our Auriemma U.S. Roundtables' ("Roundtables") business, any failure could have a material impact on the use of its services by its customers.

***We may acquire interests in joint ventures, which creates additional risk because, among other things, we cannot exercise sole decision making power and our partners may have different economic interests than we have.***

We may acquire interests in joint ventures with third parties. There are additional risks involved in joint venture transactions. As a co-investor in a joint venture, we may not be in a position to exercise sole decision-making authority relating to the joint venture or other entity. As a result, the operations of the joint venture may be subject to the risk that third parties may make business, financial or management decisions with which we do not agree or the management of the joint venture may take risks or otherwise act in a manner that does not serve our interests. Further, there may be a potential risk of impasse in some business decisions because we may not be in a position to exercise sole decision-making authority. In such situations, it is possible that we may not be able to exit the relationship because we may not have the funds necessary to complete a buy-out of the other partner or it may be difficult to locate a third-party purchaser for our interest. Because we may not have the ability to exercise control over such operations, we may not be able to realize some or all of the benefits that we believe will be created from our involvement. In addition, there is the potential of our joint venture partner becoming bankrupt and the possibility of diverging or inconsistent economic or business interests of us and our partner. These diverging interests could result in, among other things, exposing us to liabilities of the joint venture in excess of our proportionate share of these liabilities. If any of the foregoing were to occur, our business, financial condition and results of operations could suffer as a result.

***A significant portion of our assets are recorded at fair value as determined in good faith by our board of directors, with assistance from the Manager and the Sub-Manager and, as a result, there will be uncertainty as to the value of our assets.***

Our financial statements are prepared using the specialized accounting principles of Accounting Standards Codification Topic 946, Financial Services-Investment Companies, or ASC Topic 946, which requires us to carry our assets at fair value or, if fair value is not determinable based on transactions observable in the market, at fair value as determined by our board of directors. For most of our assets, market prices are not readily available. As a result, we value these assets monthly at fair value as determined in good faith by our board of directors based on input from the Manager, the Sub-Manager and the independent valuation firm.

Our board of directors is ultimately responsible for the determination, in good faith, of the fair value of our assets. The determination of fair value is subjective, and the Manager and the Sub-Manager have a conflict of interest in assisting our board of directors in making this determination. Our board of directors, including a majority of our independent directors and our audit committee, has adopted a valuation policy that provides for the methodologies to be used to estimate the fair value of our assets for purposes of our net asset value calculation. Our board of directors makes this determination on a monthly basis and any other time when a decision is required regarding the fair value of our assets. Our board of directors has retained an independent valuation firm to assist the Manager and the Sub-Manager in preparing their recommendations with respect to our board of directors' determination of the fair values of assets for which market prices are not readily available. The types of factors that may be considered in determining the fair values of our assets include available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the business's ability to make payments, its earnings and discounted cash flows, the markets in which the company does business, comparisons of financial ratios of peer business entities that are public, mergers and acquisitions comparables, the principal market and enterprise values, among other factors. Because such valuations, and particularly valuations of private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our board of directors may differ materially from the values that would have been used if an active market and market prices existed for these assets. Our net asset value could be adversely affected if the determinations regarding the fair value of our assets were materially higher than the values that we ultimately realize upon the disposal of such assets.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including, but not limited to, our ability to consummate transactions, the terms of any transactions that we complete, variations in the earnings and/or distributions paid by the businesses we make capital contributions and loans to, variations in the interest rates on loans we make, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***We may experience fluctuations in our operating expenses.***

We could experience fluctuations in our operating expenses due to a number of factors, including, but not limited to, changes in inflation and the flow on effects on prices generally, the terms of any transactions that we complete, changes in operating conditions, changes to our operating environment, changes in the perception of risk associated with operating these assets. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***We will be exposed to risks associated with changes in interest rates.***

To the extent we borrow to finance our assets, we will be subject to financial market risks, including changes in interest rates. As of the date of our prospectus, interest rates in the U.S. are near historic lows, which may increase our exposure to risks associated with rising interest rates. An increase in interest rates would make it more expensive to use debt for our financing needs.

When we borrow, our net income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we employ those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net income. In periods of rising interest rates when we have floating-rate debt outstanding, our cost of funds may increase, which could reduce our net income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include borrowing at fixed rates or various interest rate hedging activities. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

## **Risks Related to Tax**

***Shareholders may realize taxable income without cash distributions, and may have to use funds from other sources to fund tax liabilities.***

Because we intend to continue to be taxed as a partnership for U.S. federal income tax purposes, shareholders may realize taxable income in excess of cash distributions by us. There can be no assurance that we will pay distributions at a specific rate or at all. As a result, shareholders may have to use funds from other sources to pay their tax liability.

In addition, the payment of the distribution and shareholder servicing fees over time with respect to the Class T and Class D shares will be paid from cash distributions that would otherwise be distributable to the shareholders of Class T and Class D shares. Accordingly, the Class T and Class D shareholders will receive a lower cash distribution than the Class FA, Class A, Class I and Class S shareholders as a result of economically bearing our obligation to pay such fees. Additionally, since the management and incentive fees for the Non-founder shares are higher than the management and incentive fees for the Class FA shares, the non-founder shareholders will receive a lower cash distribution than the Class FA shareholders as a result of economically bearing a greater proportionate share of our obligation to pay such fees. The payment of such fees will be specially allocated to the class of shares that are bearing these fees. Some shareholders will not be able to deduct these fees for tax purposes, which may result in shareholders' taxable income from the Company exceeding the amount of cash distributions made to such shareholders.

***If we were to become taxable as a corporation for U.S. federal income tax purposes, we would be required to pay income tax at corporate rates on our net income and would reduce the amount of cash available for distributions to our shareholders. Such distributions, if any, by us to shareholders would constitute dividend income taxable to such shareholders, to the extent of our earnings and profits.***

Under Section 7704 of the Code, unless certain exceptions apply, a publicly traded partnership is generally treated and taxed as a corporation, and not as a partnership, for U.S. federal income tax purposes. A partnership is a publicly traded partnership if (i) interests in the partnership are traded on an established securities market or (ii) interests in the partnership are readily tradable on a secondary market or the substantial equivalent thereof. Applicable Treasury regulations (the “Section 7704 Regulations”) provide guidance with respect to such classification standards, and create certain safe harbor standards which, if satisfied, generally preclude classification as a publicly traded partnership. Failure to satisfy a safe harbor provision under the Section 7704 Regulations will not cause an entity to be treated as a publicly traded partnership if, taking into account all facts and circumstances, the partners are not readily able to buy, sell or exchange their interests in a manner that is comparable, economically, to trading on an established securities market.

While it is expected that we will operate so that we will qualify to be treated for U.S. federal income tax purposes as a partnership, and not as an association or a publicly traded partnership taxable as a corporation, given the highly complex nature of the rules governing partnerships, the ongoing importance of factual determinations, the lack of direct guidance with respect to the application of tax laws to the activities we are undertaking and the possibility of future changes in our circumstances, it is possible that we will not qualify to be taxable as a partnership for any particular year. Our shares will not be listed on an exchange or quoted through a national quotation system for the foreseeable future, if ever. Our LLC Agreement provides for certain restrictions on transferability and on our ability to repurchase shares intended to ensure that we qualify as a partnership for U.S. federal income tax purposes and that we are not taxable as a publicly traded partnership. Under our LLC Agreement, prior to a listing of our shares on a national securities exchange, no transfer (including any share repurchase) of an interest may be made if it would result in our being treated as a publicly traded partnership. In addition, we may, without the consent of any shareholder, amend our LLC Agreement in order to improve, upon advice of counsel, our position in avoiding such publicly traded partnership status (and we may impose time-delay and other restrictions on recognizing transfers (including any share repurchases) as necessary to do so).

If we were treated as a publicly traded partnership for U.S. federal income tax purposes, we would nonetheless remain taxable as a partnership if 90% or more of our income for each taxable year in which we were a publicly traded partnership consisted of “qualifying income” and we were not required to register under the Investment Company Act (the “qualifying income exception”). Qualifying income generally includes interest (other than interest generated from a financial business), dividends, real property rents, gain from the sale of assets that produce qualifying income and certain other items. Although there is no direct authority regarding whether activities similar to those conducted by us could be treated as a financial business for this purpose, the Internal Revenue Service, or the IRS, has privately ruled that interest income on loans made to subsidiaries and not to customers in connection with a banking or other financing business is qualifying income for purposes of the publicly traded partnership rules. Although private letter rulings are binding on the IRS only with respect to the particular taxpayers who requested and received those rulings, such authority may nonetheless provide valuable indications of the IRS’s views on specific issues. In addition, to the extent that we invest in levered loans through “controlled foreign corporations” (each, a “CFC”), as discussed in “Certain U.S. Federal Income Tax Consequences-Investments in Non-U.S. Corporations,” we intend to currently distribute any Subpart F inclusions and treat such Subpart F inclusions as qualifying income for purposes of the qualifying income exception. Since our gross income will largely consist of dividend and interest income from our subsidiaries and other portfolio companies, we expect to satisfy the qualifying income exception. However, no assurance can be given that the actual results of our operations for any taxable year will satisfy the qualifying income exception.

If, for any reason, we become taxable as a corporation for U.S. federal income tax purposes, our items of income and deduction would not pass through to our shareholders and our shareholders would be treated for U.S. federal income tax purposes as shareholders in a corporation. We would be required to pay income tax at corporate rates on our net income. Distributions by us to shareholders would constitute dividend income taxable to such shareholders, to the extent of our earnings and profits, and the payment of these distributions would not be deductible by us. Although the Tax Cuts and Jobs Act reduced regular corporate rates from 35% to 21%, our failure to qualify as a partnership for U.S. federal income tax purposes could have a material adverse effect on us, our shareholders and the value of the shares.

***The IRS could adjust or reallocate items of income, gain, deduction, loss and credit with respect to the shares if the IRS does not accept the assumptions or conventions utilized by us.***

Although we are not a publicly traded partnership, given the large number of investors we anticipate will invest in us, we expect to apply conventions relevant to publicly traded partnerships. U.S. federal income tax rules applicable to partnerships are complex and their application is not always clear. We apply certain assumptions and conventions intended to comply with the intent of the rules and report income, gain, deduction, loss and credit to shareholders in a manner that reflects each shareholder's economic gains and losses, but these assumptions and conventions may not comply with all aspects of the applicable rules. It is possible therefore that the IRS will successfully assert that these assumptions or conventions do not satisfy the technical requirements of the Code or the Treasury regulations promulgated thereunder and will require that items of income, gain, deduction, loss and credit be adjusted or reallocated in a manner that could be adverse to shareholders.

***Changes in tax laws and regulations may have an adverse effect on our business, financial condition and result of operations and have a negative impact on our shareholders.***

The present U.S. federal income tax treatment of an investment in our shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. No assurance can be given as to whether, when, or in what form, the U.S. federal and state income tax laws applicable to us and our shareholders may be enacted. We and our shareholders could be adversely affected by any such change in, or any new, tax law, regulation or interpretation. Prospective investors should consult their tax advisors regarding the potential changes in tax laws.

***Interest deductions on loans made to our subsidiaries and other portfolio companies may be limited, which could result in adverse tax consequences.***

Our debt investments in our subsidiaries and other portfolio companies are intended to be treated as indebtedness for U.S. federal income tax purposes. If the IRS successfully recharacterized any of such debt investments as equity for U.S. federal income tax purposes, payments of interest with respect to such debt investment may be recharacterized as a dividend and would not be deductible by our subsidiary in computing its taxable income, resulting in the subsidiary potentially being subject to additional U.S. federal income tax. Even to the extent the debt investments are respected as indebtedness for U.S. federal income tax purposes, the deduction for interest payments by each of our subsidiaries with respect to such debt investments for any taxable year is generally limited to the sum of (i) such subsidiary's business interest income and (ii) 30% of the subsidiary's "adjusted taxable income", unless the subsidiary is an electing real property trade or business. On March 27, 2020, Congress passed and former President Trump signed the CARES Act, which, among other changes, generally relaxed the business interest deduction limitation to 50% of adjusted taxable income for 2019 and 2020. The CARES Act provided that partnerships are still subject to the 30% limitation for 2019 (although the 50% limitation applied in 2020). To the extent interest deductions by our subsidiaries are limited, it could increase the U.S. federal income tax liability of our subsidiaries, reducing the amount of cash available for distribution to us, and, as a result, to our shareholders.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We do not own any real estate or other physical properties materially important to our operation. We believe that the office facilities of the Manager and Sub-Manager are suitable and adequate for our business as it is contemplated to be conducted.

#### **Item 3. Legal Proceedings**

From time to time, we and individuals employed by us may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our businesses. In addition, our business and the businesses of the Manager, the Sub-Manager and the Managing Dealer are subject to extensive regulation, which may result in regulatory proceedings. Legal proceedings, lawsuits, claims and regulatory proceedings are subject to many uncertainties and their ultimate outcomes are not predictable with assurance.

As of December 31, 2020, we were not involved in any legal proceedings. Additionally, there is no action, suit or proceeding pending before any court, or, to our knowledge, threatened by any regulatory agency or other third party, against the Manager, the Sub-Manager or the Managing Dealer that would have a material adverse effect on us.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

#### Market Information

There is no established public trading market for our common shares, therefore, there is a risk that a shareholder may not be able to sell our shares at a time or price acceptable to the shareholder, or at all. Unless and until our shares are listed on a national securities exchange, it is not expected that a public market for the shares will develop.

Our board of directors determines our net asset value for each class of our shares on a monthly basis. If our net asset value per share on such valuation date increases above or decreases below our net proceeds per share as stated in this prospectus, we will adjust the offering price per share of any of the classes of our shares, effective five business days after such determination is published, to ensure that no share is sold at a price, after deduction of upfront selling commissions and dealer manager fees, that is above or below our net asset value per share on such valuation date.

Since our Initial Public Offering went effective and through December 31, 2020, we sold shares on a continuous basis at the following prices through the Initial Public Offering:

Effective Date <sup>(1)</sup>	Public Offering Price per Share				Effective Date <sup>(1)</sup>	Public Offering Price per Share			
	Class A	Class T	Class D	Class I		Class A	Class T	Class D	Class I
3/7/2018	\$ 27.32	\$ 26.25	\$ 25.00	\$ 25.00	8/27/2019	\$ 29.17	\$ 28.13	\$ 26.35	\$ 26.87
4/27/2018	27.46	26.38	25.13	25.13	9/23/2019	29.11	28.07	26.27	26.83
5/25/2018	27.50	26.41	25.16	25.23	10/28/2019	29.22	28.18	26.43	26.95
6/26/2018	27.41	26.43	25.26	25.23	11/26/2019	29.22	28.19	26.40	26.96
7/27/2018	27.73	26.69	25.41	25.40	12/23/2019	29.28	28.23	26.43	27.02
8/24/2018	28.51	27.46	26.12	26.13	1/28/2020	29.41	28.36	26.61	27.15
9/27/2018	28.74	27.70	26.28	26.35	2/28/2020	29.25	28.19	26.44	27.00
10/25/2018	28.72	27.67	26.20	26.34	3/23/2020	29.23	28.16	26.40	26.99
11/23/2018	28.69	27.64	26.11	26.33	4/28/2020	28.74	27.67	25.94	26.55
12/26/2018	28.87	27.84	26.23	26.52	5/29/2020	28.68	27.61	25.86	26.50
1/29/2019	28.90	27.86	26.23	26.55	6/22/2020	29.08	27.98	26.21	26.88
2/28/2019	28.78	27.75	26.07	26.44	7/27/2020	29.49	28.36	26.58	27.25
3/22/2019	28.89	27.86	26.15	26.57	8/27/2020	30.15	28.98	27.15	27.87
4/26/2019	28.84	27.82	26.17	26.54	9/22/2020	30.38	29.18	27.34	28.08
5/28/2019	28.97	27.95	26.24	26.67	10/28/2020	30.55	29.31	27.48	28.24
6/21/2019	29.23	28.20	26.45	26.91	11/27/2020	30.74	29.48	27.64	28.42
7/26/2019	29.22	28.18	26.46	26.91	12/22/2020	30.99	29.70	27.85	28.65

<sup>(1)</sup> Subscriptions are held in escrow until accepted by us.

#### Unregistered Sales of Equity Securities

During the year ended December 31, 2020, we sold 1,770,386 Class S shares under the Class S Private Offering, which was conducted pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act and only to persons that were “accredited investors,” as that term is defined under the Securities Act and Regulation D promulgated thereunder, for net proceeds of approximately \$50.7 million. Under the Class S Private Offering, we paid the Placement Agent a selling commission of up to 2.0% and a placement agent fee of up to 1.5% of the sale price for each Class S share sold, except as a reduction or sales load waiver that may have applied. We terminated the Class S Private Offering on December 31, 2020. See Note 7. “Capital Transactions” in Item 8. “Financial Statements and Supplementary Data” for additional information related to the Class S Private Offering.

## Repurchase of Shares and Issuer Purchases of Equity Securities

On March 29, 2019, our board of directors approved and adopted a share repurchase program, as further amended on January 29, 2020 (the “Share Repurchase Program”). The total amount of aggregate repurchases of Class FA, Class A, Class T, Class D, Class I and Class S shares will be limited to up to 2.5% of the aggregate net asset value per calendar quarter (based on the aggregate net asset value as of the last date of the month immediately prior to the repurchase date) and up to 10% of the aggregate net asset value per year (based on the average aggregate net asset value as of the end of each of the Company’s trailing four quarters). Unless our board of directors determines otherwise, we will limit the number of shares to be repurchased during any calendar quarter to the number of shares we can repurchase with the proceeds received from the sale of shares under our distribution reinvestment plan in the previous quarter. Notwithstanding the foregoing, at the sole discretion of our board of directors, we may also use other sources, including, but not limited to, offering proceeds and borrowings to repurchase shares. Our board of directors, in its sole discretion, may amend, suspend or terminate the Share Repurchase Program or waive any of its specific conditions to the extent it is in our best interest, including to ensure our ability to qualify as a partnership for U.S. federal income tax purposes.

During the quarter ended December 31, 2020, we repurchased the following shares:

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan</u>	<u>Maximum Value of Shares That May Yet Be Purchased Under the Plan <sup>(1)</sup></u>
October 1, 2020 to October 31, 2020	—	\$ —	—	\$ 593,042
November 1, 2020 to November 30, 2020	—	—	—	593,042
December 1, 2020 to December 31, 2020	68,145	28.89	68,145	—

### FOOTNOTE:

<sup>(1)</sup> During the quarter ended December 31, 2020, we received requests for the repurchase of approximately \$2.0 million of our common shares, which exceeded proceeds received from our distribution reinvestment plan in the previous quarter by approximately \$1.4 million. Our board of directors approved the use of other sources to satisfy repurchase requests in excess of proceeds received from our distribution reinvestment plan.

## Holders

As of December 31, 2020, we had the following number of record holders of our common shares:

<u>Share Class</u>	<u>Number of Shareholders</u>
FA	764
A	725
T	359
D	237
I	824
S	715

## Distribution Reinvestment Plan

We have adopted a distribution reinvestment plan pursuant to which shareholders who purchase shares in the Initial Public Offering have their cash distributions automatically reinvested in additional shares having the same class designation as the class of shares to which such distributions are attributable, unless such shareholders elect to receive distributions in cash, are residents of Opt-In States, or are clients of certain participating broker-dealers that do not permit automatic enrollment in our distribution reinvestment plan. Opt-In States include Alabama, Arkansas, Idaho, Kansas, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Nebraska, New Hampshire, New Jersey, North Carolina, Ohio, Oregon, and Washington. Shareholders who are residents of Opt-In States, holders of Class FA shares and clients of certain participating broker-dealers that do not permit automatic enrollment in our distribution reinvestment plan automatically receive their distributions in cash unless they elect to have their cash distributions reinvested in additional shares. Cash distributions paid on Class FA shares are reinvested in additional shares of Class A shares. Class S shares do not participate in the distribution reinvestment plan.

The purchase price for shares purchased under our distribution reinvestment plan is equal to the most recently determined and published net asset value per share of the applicable class of shares. Because the distribution and shareholder servicing fee is calculated based on net asset value, it reduces net asset value and/or distributions with respect to Class T shares and Class D shares, including shares issued under the distribution reinvestment plan with respect to such share classes. To the extent newly issued shares are purchased from us under the distribution reinvestment plan or shareholders elect to reinvest their cash distribution in our shares, we retain and/or receive additional funds for acquisitions and general purposes including the repurchase of shares under the Share Repurchase Program.

We do not pay selling commissions or dealer manager fees on shares sold pursuant to our distribution reinvestment plan. However, the amount of the distribution and shareholder servicing fee payable with respect to Class T or Class D shares, respectively, sold in the Initial Public Offering is allocated among all Class T or Class D shares, respectively, including those sold under our distribution reinvestment plan and those received as distributions.

Our shareholders will be taxed on their allocable share of income, even if their distributions are reinvested in additional shares of our common shares and even if no distributions are made.

## Performance Graph

Not applicable.

## Use of Proceeds

On March 7, 2018, the Initial Registration Statement covering the Initial Public Offering, of up to \$1.1 billion shares, was declared effective under the Securities Act. The Initial Public Offering commenced on March 7, 2018, and is currently expected to continue until the Follow-On Registration Statement covering the Follow-On Public Offering is declared effective by the SEC.

Through CNL Securities Corp., the Managing Dealer for the Initial Public Offering, we are offering to the public on a best efforts basis up to \$1.0 billion shares consisting of Class A shares, Class T shares, Class D shares and Class I shares.

We are also offering up to \$100.0 million shares to be issued pursuant to our distribution reinvestment plan.

The shares being offered can be reallocated among the different classes and between the primary Initial Public Offering and the distribution reinvestment plan. The following table presents the net offering proceeds received from the Initial Public Offering through December 31, 2020:

	<u>Total</u>	<u>Payments to Affiliates <sup>(1)</sup></u>	<u>Payments to Others</u>
Aggregate price of offering amount registered <sup>(2)</sup>	\$ 1,000,000,000		
Shares sold <sup>(3)</sup>	4,105,441		
Aggregate amount sold <sup>(3)</sup>	\$ 113,809,613		
Payment of underwriting compensation <sup>(4)</sup>	<u>(2,984,586)</u>	(2,984,586)	—
Net offering proceeds to the issuer	110,825,027		
Investments in portfolio companies <sup>(5)</sup>	(70,897,179)	—	(70,897,179)
Distributions to shareholders <sup>(6)</sup>	<u>(2,726,351)</u>	(602)	(2,725,749)
Remaining proceeds from the Offering	<u>\$ 37,201,497</u>		

## FOOTNOTES:

- (1) Represents direct or indirect payments to our directors or officers, the Manager, the Sub-Manager and their respective affiliates; to persons owning 10% or more of any class of our shares; and to our affiliates.
- (2) We are also offering up to \$100.0 million of shares to be issued pursuant to our distribution reinvestment plan. The shares being offered can be reallocated among the different classes and between the Initial Public Offering and the distribution reinvestment plan.
- (3) Excludes approximately \$3.0 million (111,390 shares) issued pursuant to our distribution reinvestment plan, approximately \$0.2 million (8,000 shares) of unregistered shares issued to the Manager, and the Sub-Manager in a private transaction exempt from the registration requirements pursuant to section 4(a)(2) of the Securities Act, approximately \$81.5 million (3,258,260 million shares) of unregistered Class FA shares sold in the 2018 Private Offering, approximately \$43.3 million (1,578,130 shares) of unregistered Class FA shares sold in the Class FA Private Offering and Follow-on Class FA Private Offering and approximately \$52.4 million (1,770,386 shares) of unregistered Class S shares sold in the Class S Private Offering.

- (4) Underwriting compensation includes selling commissions and dealer manager fees paid to the Managing Dealer; all or a portion of which may be reallocated to participating broker-dealers. Excludes selling commissions and placement agent fees paid to the Managing Dealer for shares sold in the Follow-On Class FA Private Offering and Class S Private Offering.
- (5) Excludes approximately \$126.6 million funded using proceeds from the 2018 Private Offering, Class FA Private Offering, Follow-On Class FA Private Offering, Class S Private Offering and a non-cash contribution from the Sub-Manager.
- (6) Until such time as we have sufficient operating cash flows from our assets, we will pay cash distributions, debt service and/or operating expenses from net proceeds of the Initial Public Offering. The amounts presented above represent the net proceeds used for such purposes.

## **Item 6. Selected Financial Data**

Reserved.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The information contained in this section should be read in conjunction with our financial statements and related notes thereto appearing elsewhere in this annual report on Form 10-K (this “Annual Report”). In this Annual Report “we,” “our,” “us,” and “our company” refer to CNL Strategic Capital, LLC. Capitalized terms used in this Item 7. have the same meaning as in Item 1. “Business” unless otherwise defined herein.

### **Overview**

Since we commenced operations on February 7, 2018, we have acquired equity and debt investments in middle market U.S. businesses with annual revenues primarily between \$15 million and \$250 million. Our investments are in businesses that have a track record of stable and predictable operating performance, are highly cash flow generative and have management teams who have a meaningful ownership stake in their respective company. As of December 31, 2020, we had four investments structured as controlling equity interests in combination with debt positions and three investments structured as minority equity interests in combination with debt positions. All of our debt investments were current as of December 31, 2020. See “Factors Impacting Our Operating Results” below for additional discussion of the impact of the COVID-19 pandemic.

See Item 1. Business for additional information regarding our Manager, Sub-Manager and business objectives.

### **Our Common Shares Offerings**

#### ***Public Offerings***

On March 7, 2017, we commenced our Initial Public Offering of up to \$1.1 billion of shares, which includes up to \$100.0 million of shares being offered through our distribution reinvestment plan, pursuant to the Initial Registration Statement. Through the Initial Public Offering, we are offering, in any combination, four classes of shares: Class A shares, Class T shares, Class D shares and Class I shares (collectively, “Non-founder shares”). There are differing selling fees and commissions for each class. We also pay distribution and shareholder servicing fees, subject to certain limits, on the Class T and Class D shares sold in the Initial Public Offering (excluding sales pursuant to our distribution reinvestment plan).

On February 19, 2021, we filed the Follow-On Registration Statement with the SEC in connection with the Follow-On Public Offering. As permitted under applicable securities laws, we continue to offer our common shares in the Initial Public Offering until the effective date of the Follow-On Registration Statement, upon which the Initial Registration Statement will be deemed terminated.

Since the Initial Public Offering became effective through December 31, 2020, we have received net proceeds from the Initial Public Offering of approximately \$110.8 million, including approximately \$3.0 million received through our distribution reinvestment plan. As of December 31, 2020, the public offering price was \$30.99 per Class A share, \$29.70 per Class T share, \$27.85 per Class D share and \$28.65 per Class I share. See Note 7. “Capital Transactions” and Note 12. “Subsequent Events” in Item 8. “Financial Statements and Supplementary Data” for additional information regarding the Initial Public Offering.

Since the Initial Public Offering became effective through December 31, 2020, we have incurred selling commissions and dealer manager fees of approximately \$3.0 million from the sale of Class A shares and Class T shares. The Class D shares and Class I shares sold through December 31, 2020 were not subject to selling commissions and dealer manager fees. We also incurred obligations to reimburse the Manager and Sub-Manager for organization and offering costs of approximately \$1.7 million based on actual amounts raised through the Initial Public Offering since the Initial Public Offering became effective through December 31, 2020. These organization and offering costs related to the Initial Public Offering had been previously advanced by the Manager and Sub-Manager, as described further in Note 5. “Related Party Transactions” of Item 8. “Financial Statements and Supplementary Data.”

In January, February and March 2021, our board of directors approved new per share public offering prices for each share class in the Initial Public Offering. The new public offering prices are effective as of January 29, 2021, February 25, 2021 and March 22, 2021, respectively. The following table provides the new public offering prices and applicable upfront selling commissions and dealer manager fees for each share class available in the Initial Public Offering:

	<u>Class A</u>	<u>Class T</u>	<u>Class D</u>	<u>Class I</u>
<b>Effective January 29, 2021:</b>				
Public Offering Price, Per Share	\$ 31.43	\$ 30.10	\$ 28.24	\$ 29.06
Selling Commissions, Per Share	1.89	0.90	—	—
Dealer Manager Fees, Per Share	0.78	0.53	—	—
<b>Effective February 25, 2021:</b>				
Public Offering Price, Per Share	32.01	30.64	28.75	29.60
Selling Commissions, Per Share	1.92	0.92	—	—
Dealer Manager Fees, Per Share	0.80	0.54	—	—
<b>Effective March 22, 2021</b>				
Public Offering Price, Per Share	32.40	31.00	29.11	29.97
Selling Commissions, Per Share	1.94	0.93	—	—
Dealer Manager Fees, Per Share	0.81	0.54	—	—

### ***Private Offerings***

We commenced and terminated our initial private offering of up to \$85 million of Class FA shares and up to \$115 million of Class A shares (the “2018 Private Offering”) in February 2018, after having raised gross proceeds of approximately \$81.7 million (approximately 3.3 million shares). See “Item 1. Business” and Note. 7 “Capital Transactions” in Item 8. Financial Statements and Supplementary Data for additional information related to our 2018 Private Offering.

#### ***Class FA Private Offerings***

In April and June 2019, we launched separate Class FA Private Offerings of up to \$50.0 million each of Class FA shares (the “Class FA Private Offering” and the “Follow-On Class FA Private Offering,” respectively) pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act and entered into a placement agent agreement with the Placement Agent, an affiliate of the Manager. There were no selling commissions or placement agent fees for the sale of Class FA shares in the Class FA Private Offering. The Class FA Private Offering was terminated in December 2019. Under the Follow-On Class FA Private Offering we paid the Placement Agent a selling commission of up to 5.5% and placement agent fee of up to 3.0% of the sale price for each Class FA share sold, except for any reductions or waivers that may have applied. The Follow-On Class FA Private Offering was terminated in March 2020.

In conjunction with the launch of the Class FA Private Offering in April 2019, our board of directors reclassified 4.0 million authorized shares of Class T shares to Class FA shares.

## Class S Private Offering

In January 2020, our board of directors authorized the designation of Class S shares and we commenced the Class S Private Offering of up to \$50.0 million of Class S shares. The Placement Agent served as placement agent for the Class S Private Offering. The Class S Private Offering was conducted pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act. We paid the Placement Agent a selling commission of up to 2.0% and a placement agent fee of up to 1.5% of the sale price for each Class S share sold in the Class S Private Offering, except for any reductions or waivers that may have applied. There are no ongoing distribution and shareholder servicing fees paid by the Company with respect to our Class S shares. The Class S Private Offering was terminated on December 31, 2020.

In conjunction with the launch of the Class S Private Offering, in January 2020 our board of directors reclassified 100.0 million authorized shares of Class T shares to Class S shares.

## Portfolio and Investment Activity

As of December 31, 2020, we had invested in seven portfolio companies, consisting of equity investments and debt investments in each portfolio company. The table below presents our investments by portfolio company (in millions):

Portfolio Company	Investment Date	As of December 31, 2020						
		Equity Investments		Debt Investments <sup>(1)</sup>				Total Cost Basis <sup>(2)</sup>
		Ownership %	Cost Basis	Type	Interest Rate	Maturity Date	Cost Basis	
Lawn Doctor	2/7/2018	61 %	\$ 30.5	Senior Secured - Second Lien	16.0 %	8/7/2023	\$ 15.0	\$ 45.5
Polyform	2/7/2018	87	15.6	Senior Secured - First Lien	16.0	8/7/2023	15.7	31.3
Roundtables	8/1/2019	81	32.4	Senior Secured - Second Lien	16.0	8/1/2025	12.1	44.5
Roundtables	11/13/2019	—	—	Senior Secured - First Lien	8.0	11/13/2021	2.0	2.0
Milton	11/21/2019	13	6.6	Senior Secured - Second Lien	15.0	11/21/2025	3.4	10.0
Resolution Economics	1/2/2020	8	7.1	Senior Secured - Second Lien	15.0	1/2/2026	2.8	9.9
Blue Ridge	3/24/2020	18	9.9	Senior Secured - Second Lien	15.0	3/24/2026	2.6	12.5
HSH	7/16/2020	75	17.3	Senior Secured - First Lien	15.0	7/16/2027	24.4	41.7
			<u>\$ 119.4</u>				<u>\$ 78.0</u>	<u>\$ 197.4</u>

## FOOTNOTES:

<sup>(1)</sup> The note purchase agreements contain customary covenants and events of default. As of December 31, 2020, all of our portfolio companies were in compliance with their respective debt covenants.

<sup>(2)</sup> See the Consolidated Schedules of Investments and Note 3. “Investments” of Item 8. “Financial Statements and Supplementary Data” for additional information related to our investments, including fair values as of December 31, 2020.

## Our Portfolio Companies

Lawn Doctor is a leading franchisor of residential lawn care programs and services. Lawn Doctor’s core service offerings provide residential homeowners with year-round monitoring and treatment by focusing on weed and insect control, seeding, and professionally and consistently-administered fertilization, using its proprietary line of equipment. Lawn Doctor is not involved in other lawn maintenance services, such as mowing, edging and leaf blowing. In May 2018, Lawn Doctor acquired a majority equity interest in Mosquito Hunters, a franchisor of mosquito and pest control services. Mosquito Hunters was founded in 2013, is based in Northbrook, Illinois and specializes in the eradication of mosquitoes through regular spraying applications and follow-up maintenance. In May 2019, Lawn Doctor acquired a majority equity interest in Ecomaid, a franchisor of residential cleaning services. Ecomaid was founded in 2012. Ecomaid specializes in home cleaning services utilizing environmentally-friendly cleaning products and solutions. These acquisitions further Lawn Doctor’s strategy of both growing organically and also via acquisition of additional home service brands.

Polyform is a leading developer, manufacturer and marketer of polymer clay products worldwide. Through its two primary brands, Sculpey® and Premo!®, Polyform sells a comprehensive line of premium craft products to a diverse mix of customers including specialty and big box retailers, distributors and e-tailers.

Roundtables is an information services and advisory solutions business to the consumer finance industry. Prior to this transaction, Roundtables operated as a division of Auriemma Consulting Group, Inc. Roundtables offers membership in any of 30+ topic-specific roundtables across five verticals (credit cards, auto finance, banking, wealth management and other lending) that includes participation in hosted executive meetings, proprietary benchmarking studies, and custom surveys. The subscription-based model provides executives with key operational data to optimize business practices and address current issues within the consumer finance industry.

Milton Industries, Inc. (“Milton”) is a leading provider of highly-engineered tools and accessories for pneumatic applications across a variety of end markets including vehicle service; industrial maintenance, repair and operating supplies; aerospace and defense; and agriculture. The company has more than 1,300 active customers and over 1,600 SKUs with products including couplers, gauges, chucks, blow guns, filters, regulators and lubricators. Milton’s high-quality products, engineering expertise and partnership approach creates long-term relationships, with an average tenure of over 30 years among its top ten customers.

Resolution Economics, LLC (“Resolution Economics”) is a leading specialty consulting firm that provides services to law firms and corporations in labor and employment and commercial litigation matters.

Blue Ridge ESOP Associates (“Blue Ridge”) is an independent, third-party employee stock ownership plans (“ESOP”) and 401(k) administrator. For over 30 years, Blue Ridge has developed proprietary and comprehensive solutions to address the unique and complex administrative needs of companies operating as ESOPs and managing 401(k) plans. Blue Ridge’s services and solutions include recordkeeping, compliance, reporting, distribution and processing, administrative services and plan management and analysis software.

HSH is a leading producer of daily use insulin pen needles, syringes and complementary offerings for the human and animal diabetes care markets. HSH specializes in providing “dispense and dispose” sharps solutions, which allow users to more easily and safely dispose of sharps.

### **Non-GAAP Financial Measures**

This Annual Report on Form 10-K contains financial measures utilized by management to evaluate our operating performance and liquidity that are not calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Each of these measures, Adjusted EBITDA and Adjusted Free Cash Flow (“FCF”), should not be considered in isolation from or as superior to or as a substitute for net income (loss), income (loss) from operations, net cash provided by (used in) operating activities, or other financial measures determined in accordance with GAAP. We use these non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our portfolio companies.

You are encouraged to evaluate the adjustments to Adjusted EBITDA and Adjusted FCF, including the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA and Adjusted FCF, you should be aware that in the future our portfolio companies may incur expenses that are the same as or similar to some of the adjustments in this presentation. The presentations of Adjusted EBITDA and Adjusted FCF should not be construed as an inference that the future results of our portfolio companies will be unaffected by unusual or non-recurring items.

We caution investors that amounts presented in accordance with our definitions of Adjusted EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures disclosures by other companies, because not all companies calculate these non-GAAP measures in the same manner. Because of these limitations and additional limitations described below, Adjusted EBITDA and Adjusted FCF should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on the GAAP results and using Adjusted EBITDA and Adjusted FCF only as supplemental measures.

Additionally, we provide our proportionate share of each non-GAAP measure because our ownership percentage of each portfolio company varies. We urge investors to consider our ownership percentage of each portfolio company when evaluating the results of each of our portfolio companies.

### ***Adjusted EBITDA***

When evaluating the performance of our portfolio, we monitor Adjusted EBITDA to measure the financial and operational performance of our portfolio companies and their ability to pay contractually obligated debt payments to us. In connection with this evaluation, the Manager and Sub-Manager review monthly portfolio company operating performance versus budgeted expectations and conduct regular operational review calls with the management teams of the portfolio companies.

We present Adjusted EBITDA as a supplemental measure of the performance of our portfolio companies because we believe it assists investors in comparing the performance of such businesses across reporting periods on a consistent basis by excluding items that we do not believe are indicative of their core operating performance.

We define Adjusted EBITDA as net income (loss), plus (i) interest expense, net, and loan cost amortization, (ii) taxes and (iii) depreciation and amortization, as further adjusted for certain other non-recurring items that we do not consider indicative of the ongoing operating performance of our portfolio companies. These further adjustments are itemized below. Our proportionate share of Adjusted EBITDA is calculated based on our equity ownership percentage at period end.

Adjusted EBITDA has limitations as an analytical tool. Some of these limitations are: (i) Adjusted EBITDA does not reflect cash expenditures, or future requirements, for capital expenditures or contractual commitments; (ii) Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; (iii) Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on indebtedness; (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; (v) Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we do not consider to be indicative of the on-going operations of our portfolio companies; and (vi) other companies in similar industries as our portfolio companies may calculate Adjusted EBITDA differently, limiting its usefulness as a comparative measure.

The tables below reconcile our proportionate share of Adjusted EBITDA of our portfolio companies from net income (loss) of such portfolio companies for the years ended December 31, 2020 and 2019:

	<b>Year Ended December 31, 2020</b>				
	<b>Lawn Doctor</b>	<b>Polyform</b>	<b>Roundtables</b>	<b>HSH<sup>(1)</sup></b>	<b>Other<sup>(2)</sup></b>
Net income (loss) (GAAP)	\$ 1,287,306	\$ 1,139,552	\$ 693,454	\$ (1,583,514)	\$ (7,830,358)
Interest and debt related expenses	4,169,309	2,944,711	2,598,676	1,721,146	15,656,397
Depreciation and amortization	2,500,608	1,691,957	1,506,983	1,855,966	8,353,573
Income tax expense (benefit)	371,274	468,750	(1,443,128)	(109,000)	(3,117,173)
Transaction related expenses <sup>(3)</sup>	—	—	—	1,241,182	5,779,935
Adjusted EBITDA (non-GAAP)	<u>\$ 8,328,497</u>	<u>\$ 6,244,970</u>	<u>\$ 3,355,985</u>	<u>\$ 3,125,780</u>	<u>\$ 18,842,374</u>
<i>Our Ownership Percentage</i>	<i>61 %</i>	<i>87 %</i>	<i>81 %</i>	<i>75 %</i>	<i>13 %</i>
<i>Our Proportionate Share of Adjusted EBITDA (non-GAAP)</i>	<u>\$ 5,118,694</u>	<u>\$ 5,441,242</u>	<u>\$ 2,710,293</u>	<u>\$ 2,329,019</u>	<u>\$ 1,977,232</u>

	<b>Year Ended December 31, 2019<sup>(4)</sup></b>		
	<b>Lawn Doctor</b>	<b>Polyform</b>	<b>Roundtables<sup>(5)</sup></b>
Net loss (GAAP)	\$ (429,111)	\$ (359,241)	\$ (1,004,642)
Interest and debt related expenses	4,361,517	2,920,588	1,043,334
Depreciation and amortization	2,499,175	1,651,906	618,462
Income tax benefit	(142,104)	(140,000)	(335,795)
Transaction related expenses <sup>(3)</sup>	—	—	—
Adjusted EBITDA (non-GAAP)	<u>\$ 6,289,477</u>	<u>\$ 4,073,253</u>	<u>\$ 321,359</u>
<i>Our Ownership Percentage</i>	<i>62 %</i>	<i>87 %</i>	<i>81 %</i>
<i>Our Proportionate Share of Adjusted EBITDA (non-GAAP)</i>	<u>\$ 3,868,028</u>	<u>\$ 3,547,803</u>	<u>\$ 259,658</u>

#### **FOOTNOTES:**

- (1) Results for HSH are for the period from July 16, 2020 (the date we acquired our investments in HSH) to December 31, 2020.
- (2) Includes results for our co-investments in which we own a minority equity interest (Milton, Resolution Economics and Blue Ridge) for the period presented unless otherwise noted. Results for Resolution Economics are for the period from January 2, 2020 (the date we acquired our investments in Resolution Economics) to November 30, 2020 (reported on a one-month lag basis). Results for Blue Ridge are for the period from March 24, 2020 (the date we acquired our investments in Blue Ridge) to December 31, 2020. Our ownership percentage represents the average ownership percentage of our co-investments.
- (3) Transaction related expenses are non-recurring.
- (4) Excludes results for our co-investment in which we own a minority equity interest (Milton) for the period from November 21, 2019 (the date we acquired our investments in Milton) to December 31, 2019 as this information is de minimis.
- (5) Results for Roundtables are for the period from August 1, 2019 (the date we acquired our investments in Roundtables) to December 31, 2019.

## Adjusted Free Cash Flow

We monitor Adjusted FCF to measure the liquidity of our portfolio companies. We present Adjusted FCF as a supplemental measure of the performance of our portfolio companies since such measure reflects the cash generated by the operating activities of our portfolio companies and to the extent such cash is not distributed to us, it generally represents cash used by the portfolio companies for the repayment of debt, investing in expansions or acquisitions, reserve requirements or other corporate uses by such portfolio companies, and such uses reduce our potential need to make capital contributions to the portfolio companies for our proportionate share of cash needed for such items. We use Adjusted FCF as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and share repurchases.

We define Adjusted FCF as cash from operating activities less capital expenditures, net of proceeds from the sale of property and equipment, of our portfolio companies, as further adjusted for certain non-recurring items. These further adjustments are itemized below. Our proportionate share of Adjusted FCF is calculated based on our equity ownership percentage at period end. Adjusted FCF does not represent cash available to our business except to the extent it is distributed to us, and to the extent actually distributed to us, we may not have control in determining the timing and amount of distributions from our portfolio companies, and therefore, we may not receive such cash.

Adjusted FCF has limitations as an analytical tool. Some of these limitations are: (i) Adjusted FCF does not account for future contractual commitments; (ii) Adjusted FCF excludes required debt service payments; (iii) Adjusted FCF does not reflect the impact of certain cash charges resulting from matters we do not consider to be indicative of the on-going operations of our portfolio companies; and (iv) other companies in similar industries as our portfolio companies may calculate Adjusted FCF differently, limiting its usefulness as a comparative measure. This non-GAAP measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes or as an alternative to operating cash flows presented in accordance with GAAP.

The tables below reconcile our proportionate share of Adjusted FCF of our portfolio companies from cash provided by (used in) operating activities of such portfolio companies for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020				
	Lawn Doctor	Polyform	Roundtables	HSH <sup>(1)</sup>	Other <sup>(2)</sup>
Cash provided by operating activities (GAAP)	\$ 6,924,963	\$ 2,106,748	\$ 2,152,388	\$ 1,604,417	\$ 1,507,092
Capital expenditures <sup>(3)</sup>	(41,153)	(425,089)	(79,926)	(113,228)	(484,898)
Adjusted FCF (non-GAAP)	<u>\$ 6,883,810</u>	<u>\$ 1,681,659</u>	<u>\$ 2,072,462</u>	<u>\$ 1,491,189</u>	<u>\$ 1,022,194</u>
<i>Our Ownership Percentage</i>	61 %	87 %	81 %	75 %	13 %
<i>Our Proportionate Share of Adjusted FCF (non-GAAP)</i>	<u>\$ 4,230,790</u>	<u>\$ 1,465,229</u>	<u>\$ 1,673,720</u>	<u>\$ 1,111,085</u>	<u>\$ 454,883</u>
	Year Ended December 31, 2019 <sup>(4)</sup>				
	Lawn Doctor	Polyform	Roundtables <sup>(5)</sup>		
Cash provided by (used in) operating activities (GAAP)	\$ 658,396	\$ 1,764,361	\$ (3,525,769)		
Capital expenditures <sup>(3)</sup>	(413,562)	(241,652)	(7,536)		
Deferred revenue adjustment <sup>(6)</sup>	—	—	3,415,000		
Adjusted FCF (non-GAAP)	<u>\$ 244,834</u>	<u>\$ 1,522,709</u>	<u>\$ (118,305)</u>		
<i>Our Ownership Percentage</i>	62 %	87 %	81 %		
<i>Our Proportionate Share of Adjusted FCF (non-GAAP)</i>	<u>\$ 150,573</u>	<u>\$ 1,326,280</u>	<u>\$ (95,590)</u>		

### FOOTNOTES:

- (1) Results for HSH are for the period from July 16, 2020 (the date we acquired our investments in HSH) to December 31, 2020.
- (2) Includes results for our co-investments in which we own a minority equity interest (Milton, Resolution Economics and Blue Ridge) for the period presented unless otherwise noted. Results for Resolution Economics are for the period from January 2, 2020 (the date we acquired our investments in Resolution Economics) to November 30, 2020 (reported on a one-month lag basis). Results for Blue Ridge are for the period from March 24, 2020 (the date we acquired our investments in Blue Ridge) to December 31, 2020. Our ownership percentage represents the average ownership percentage of our co-investments.
- (3) Capital expenditures relate to the purchase of property, plant and equipment.
- (4) Excludes results for our co-investment in which we own a minority equity interest (Milton) for the period from November 21, 2019 (the date we acquired our investments in Milton) to December 31, 2019 as this information is de minimis.
- (5) Results for Roundtables are for the period from August 1, 2019 (the date we acquired our investments in Roundtables) to December 31, 2019.

- <sup>(6)</sup> Represents a non-recurring adjustment in the year of acquisition for Roundtables. Roundtables receives annual subscription dues in the beginning of the year for calendar year subscriptions. Roundtables collected a significant portion of receivables from customers for the 2019 calendar year prior to our acquisition date which pertained to revenues earned during the period from August 1, 2019 (the date we acquired our investments in Roundtables) to December 31, 2019.

Our aggregate proportionate share of Adjusted FCF was approximately \$8.9 million and \$1.4 million for the years ended December 31, 2020 and 2019, respectively. As discussed above, cash not distributed to us is used by our portfolio companies for various reasons, including, but not limited to, repayment of debt, investing in acquisitions and general cash reserves.

### **Factors Impacting Our Operating Results**

We expect that the results of our operations will be affected by a number of factors. Many of the factors that will affect our operating results are beyond our control. We will be dependent upon the earnings of and cash flow from the businesses that we acquire to meet our operating and management fee expenses and to make distributions. These earnings and cash flows, net of any minority interests in these businesses, will be available:

- *first*, to meet our management fees and corporate overhead expenses; and
- *second*, to fund business operations and to make distributions to our shareholders.

### **COVID-19**

The Company and the operations of its portfolio companies could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the current outbreak of the COVID-19 pandemic. In March 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020 the United States declared a national emergency with respect to COVID-19, which continues to spread throughout the United States and globally. The global impact of the outbreak rapidly evolved and many countries, including the United States, reacted by, among other things, instituting quarantines, mandating business and school closures, requiring restrictions on travel and issuing “shelter-in-place” and/or “stay-at-home” orders. While some of these restrictions have been relaxed or phased out, many of these or similar restrictions remain in place, continue to be implemented, or additional restrictions are being considered. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries. The Manager and Sub-Manager have not been prevented and do not expect to be prevented from conducting business activities as a result of the COVID-19 pandemic. However, our portfolio companies could be prevented from conducting business activities for an indefinite period of time. Since certain aspects of the services provided by our portfolio companies involve face to face interaction, the related COVID-19 quarantines and work and travel restrictions may reduce participation or result in a loss of business. Additionally, since certain of the products offered by our businesses are manufactured in a facility or distributed through retail stores, a closure of such facility or loss in business for such retail store due to COVID-19 would have an adverse impact on product sales. For example, as a result of the outbreak and a “stay-at-home” order issued by the state of Illinois, the manufacturing facility used by Polyform temporarily closed starting in late March 2020; it subsequently reopened in early June 2020. As of December 31, 2020, all of the manufacturing facilities were open and safety procedures have been implemented across our portfolio companies; however, there is a continued risk of temporary business interruptions resulting from employees contracting COVID-19 or from the reinstatement of business closures or work and travel restrictions.

We have worked with management teams at each of our portfolio companies to implement cost reduction plans as needed to reduce or defer controllable costs, such as labor costs, marketing spend and capital expenditures. To the extent business has recovered, management teams have reversed such cost reduction plans to scale back up to increased demand as appropriate. Additionally, our portfolio companies are proactively managing working capital and drawing on revolving credit facilities as applicable. Some of our portfolio companies have experienced and could continue to experience reductions in customer demand. We expect that the government measures taken to address the spread of the virus, the reductions in production at certain facilities, and the closure of many brick and mortar retail businesses may impact the operations of some of our portfolio companies more than others in future periods. The ultimate extent of the impact of the COVID-19 pandemic on the financial performance of our business (including our portfolio companies) will depend on future developments, including the duration and spread of the COVID-19 pandemic, and the overall economy, all of which are highly uncertain and cannot be predicted.

Since March 13, 2020, there have been a number of federal, state and local government initiatives to manage the spread of the virus and its impact on the economy, financial markets and continuity of businesses of all sizes and industries. For example, in March 2020, Congress approved, and former President Trump signed into law, the CARES Act, which provided approximately \$2 trillion in financial assistance to individuals and businesses in response to the economic harm resulting from the COVID-19 pandemic. The CARES Act, among other things, provided certain measures to support individuals and businesses in maintaining solvency through monetary relief, including in the form of financing and loan forgiveness/forbearance. The Federal Reserve implemented asset purchase and lending programs, including purchases of residential and commercial-mortgage backed securities and the establishment of lending facilities to support loans to small- and mid-size businesses. To further address the continued economic impact of the COVID-19 pandemic, the U.S. Congress passed, and former President Trump signed into law, a second COVID-19 relief bill in December 2020, which provided approximately \$900 billion in additional financial assistance to individuals and businesses, including funds for rental assistance to be distributed by state and local governments and a revival of the forgivable small business loan program originally provided for under the CARES Act. As of December 31, 2020, some of our portfolio companies have taken advantage of certain provisions under the CARES Act but we and our portfolio companies have not borrowed under the Payroll Protection Program. We continue to analyze the relevant legislative and regulatory developments and the potential impact they may have on our business (including our portfolio companies), results of operations, financial condition and liquidity. See Item 1A. “Risk Factors” for additional information regarding the risks of COVID-19.

### ***Size of assets***

If we are unable to raise substantial funds, we will be limited in the number and type of acquisitions we may make. The size of our assets will be a key revenue driver. Generally, as the size of our assets grows, the amount of income we receive will increase. In addition, our assets may grow at an uneven pace as opportunities to acquire assets may be irregularly timed, and the timing and extent of the Manager’s and the Sub-Manager’s success in identifying such opportunities, and our success in making acquisitions, cannot be predicted.

### ***Market conditions***

From time to time, the global capital markets may experience periods of disruption and instability, as we have seen and continue to see with the COVID-19 pandemic, which could materially and adversely impact the broader financial and credit markets and reduce the availability of debt and equity capital. Significant changes or volatility in the capital markets have and may continue to have a negative effect on the valuations of our businesses and other assets. While all of our assets are likely to not be publicly traded, applicable accounting standards require us to assume as part of our valuation process that our assets are sold in a principal market to market participants (even if we plan on holding an asset long term or through its maturity) and impairments of the market values or fair market values of our assets, even if unrealized, must be reflected in our financial statements for the applicable period, which could result in significant reductions to our net asset value for the period. Significant changes in the capital markets may also affect the pace of our activity and the potential for liquidity events involving our assets. Thus, the illiquidity of our assets may make it difficult for us to sell such assets to access capital if required, and as a result, we could realize significantly less than the value at which we have recorded our assets if we were required to sell them for liquidity purposes.

## **Liquidity and Capital Resources**

### ***General***

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments, fund and maintain our assets and operations, repay borrowings, make distributions to our shareholders and other general business needs. We will use significant cash to fund acquisitions, make additional investments in our portfolio companies, make distributions to our shareholders and fund our operations. Our primary sources of cash will generally consist of:

- the net proceeds from the Offerings;
- distributions and interest earned from our assets;
- expense support; and
- proceeds from sales of assets and principal repayments from our assets.

We expect we will have sufficient cash from current sources to meet our liquidity needs for the next twelve months. However, we may opt to supplement our equity capital and increase potential returns to our shareholders through the use of prudent levels of borrowings. We may use debt when the available terms and conditions are favorable to long-term investing and well-aligned with our business strategy. In light of the current COVID-19 pandemic and its impact on the global economy, we are closely monitoring overall liquidity levels and changes in the business performance of our portfolio companies to be in a position to enact changes to ensure adequate liquidity going forward.

While we generally intend to hold our assets for the long term, certain assets may be sold in order to manage our liquidity needs, meet other operating objectives and adapt to market conditions. The timing and impact of future sales of our assets, if any, cannot be predicted with any certainty.

As of December 31, 2020 and December 31, 2019, we had approximately \$82.7 million and \$31.0 million, respectively, of cash and restricted cash. Additional information related to the period from February 7, 2018 to December 31, 2018, is included in our Form 10-K filed with the SEC on March 26, 2020.

### ***Sources of Liquidity and Capital Resources***

*Offerings.* We received approximately \$122.1 million, \$67.2 million and \$96.9 million in net proceeds (4.4 million shares, 2.5 million and 3.9 million shares, respectively) during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively, from our Offerings, which excludes approximately \$2.1 million (77,522 shares), \$0.8 million (30,024 shares) and \$0.1 million (3,844 shares) raised through our distribution reinvestment plan during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. Additionally, the amount raised during the period from February 7, 2018 to December 31, 2018 included a \$2.4 million non-cash contribution by an affiliate of the Sub-Manager, as described in Note 5. “Related Party Transactions” of Item 8. “Financial Statements and Supplementary Data.” As of December 31, 2020, we had approximately 938 million authorized common shares remaining for sale.

*Operating Activities.* During the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, we generated operating cash flows (excluding amounts related to purchases of investments) of approximately \$9.3 million, \$3.9 million and \$4.4 million, respectively.

The increase in operating cash flows (excluding amounts related to purchases of investments) during the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily attributable to the following:

- an increase in total investment income of approximately \$6.3 million, offset partially by an increase in organization and offering expenses of approximately \$0.5 million, base management fees of approximately \$1.3 million, and professional fees of approximately \$0.6 million; and
- an increase in amounts due to related parties, net of changes in expense support and total return incentive fees, of approximately \$1.5 million.

The decrease in operating cash flows (excluding amounts related to purchases of investments) during the year ended December 31, 2019, as compared to the period from February 7, 2018 to December 31, 2018, was primarily attributable to:

- an increase in base management fees of approximately \$0.6 million and an increase in professional services expense of approximately \$0.2 million, offset by an increase in total investment income of approximately \$1.3 million primarily attributable to an increase in interest earned on debt investments; and
- an increase in expense support receivable due to from related parties of approximately \$1.0 million.

*Borrowings.* In June 2019, we, through a wholly-owned subsidiary, entered into a loan agreement for a \$20.0 million line of credit (the “2019 Line of Credit”). The 2019 Line of Credit matured in July 2020. We did not borrow any amounts under the 2019 Line of Credit. In July 2020, we entered into an Amended and Restated Loan Agreement in the same amount, as described in Note 8. “Borrowings” of Item 8. “Financial Statements”. The purpose of the 2020 Line of Credit is for general Company working capital and acquisition financing purposes. The 2020 Line of Credit has a maturity date of June 14, 2021. We had not borrowed any amounts under the 2020 Line of Credit as of December 31, 2020.

### ***Uses of Liquidity and Capital Resources***

*Investments.* We used approximately \$64.3 million, \$56.4 million and \$74.4 million of cash proceeds from our Offerings to purchase investments during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively.

*Distributions.* We paid distributions to our shareholders of approximately \$7.4 million, \$4.8 million and \$3.1 million (which excludes distributions reinvested of approximately \$2.1 million, \$0.8 million and \$0.1 million, respectively) during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. See “Distributions Declared” below for additional information.

*Share Repurchases.* We received requests for the repurchase of shares in accordance with our Share Repurchase Program of approximately \$9.6 million (341,225 shares) and \$0.9 million (32,133 shares) during the years ended December 31, 2020 and 2019, respectively, of which approximately \$7.9 million and \$0.6 million was paid during the years ended December 31, 2020 and 2019, respectively. The Share Repurchase Program became effective in March 2019 so we did not repurchase shares during the period from February 7, 2018 to December 31, 2018.

## Distributions Declared

In January 2019, our board of directors began declaring cash distributions to shareholders based on monthly record dates, and such distributions were paid monthly in arrears. During the year ended December 31, 2020, our board of directors declared monthly distributions totaling approximately \$9.9 million, of which approximately \$7.7 million was paid to shareholders and \$2.2 million was reinvested through the distribution reinvestment plan described below (including amounts paid and reinvested in January 2021 of approximately \$0.8 million and \$0.2 million, respectively). For the year ended December 31, 2020, our distribution rates ranged from 3.3% to 4.7%.

During the year ended December 31, 2019, our board of directors declared monthly distributions totaling approximately \$5.8 million, of which approximately \$4.9 million was paid to shareholders and \$0.9 million was reinvested through the distribution reinvestment plan (including amounts paid and reinvested in January 2020 of approximately \$0.5 million and \$0.1 million). For the year ended December 31, 2019, our distribution rates ranged from 3.5% to 4.7%.

During the period from February 7, 2018 to December 31, 2018, our board of directors declared cash distributions to shareholders based on weekly record dates, and such distributions were paid monthly in arrears. Our board of directors declared 43 weekly distributions starting March 7, 2018 through and including December 28, 2018, totaling approximately \$3.5 million, of which approximately \$3.4 million was paid to shareholders and \$0.1 million was reinvested through the distribution reinvestment plan during the period from February 7, 2018 to December 31, 2018.

Cash distributions declared during the periods presented were funded from the following sources noted below:

	Year Ended December 31, 2020		Year Ended December 31, 2019		Period from February 7, 2018 to December 31, 2018	
	Amount	% of Distributions Declared	Amount	% of Distributions Declared	Amount	% of Distributions Declared
Net investment income <sup>(1)</sup>	\$ 7,493,472	75.5 %	\$ 4,981,264	85.2 %	\$ 3,389,372	96.3 %
Distributions in excess of net investment income <sup>(2)</sup>	2,435,881	24.5 %	864,320	14.8 %	128,930	3.7 %
Total distributions declared <sup>(3)</sup>	<u>\$ 9,929,353</u>	<u>100.0 %</u>	<u>\$ 5,845,584</u>	<u>100.0 %</u>	<u>\$ 3,518,302</u>	<u>100.0 %</u>

## FOOTNOTES:

- <sup>(1)</sup> Net investment income includes expense support from the Manager and Sub-Manager of \$3,301,473, \$1,372,020 and \$389,774 for the years ended December 31, 2020 and 2019 and for the period from February 7, 2018 to December 31, 2018, respectively. See Note 5. “Related Party Transactions” of Item 8. “Financial Statements and Supplementary Data” for additional information.
- <sup>(2)</sup> Consists of offering proceeds for both periods presented.
- <sup>(3)</sup> For the year ended December 31, 2020, includes \$2,240,547 of distributions reinvested pursuant to our distribution reinvestment plan, of which \$244,845 was reinvested in January 2021 with the payment of distributions declared in December 31, 2020. For the year ended December 31, 2019, includes \$886,408 of distributions reinvested pursuant to our distribution reinvestment plan, of which \$114,090 was reinvested in January 2020. For the period from February 7, 2018 to December 31, 2018, includes \$126,625 of distributions reinvested pursuant to our distribution reinvestment plan, of which \$26,789 was reinvested in January 2019.

Distribution amounts and sources of distributions declared vary among share classes. We calculate each shareholder's specific distribution amount for the period using record and declaration dates. Distributions are made on all classes of our shares at the same time. Amounts distributed are allocated among each class in proportion to the number of shares of each class outstanding. Amounts distributed to each class are allocated among the holders of our shares in such class in proportion to their shares. The per share amount of distributions on Class A, Class T, Class D and Class I shares will differ because of different allocations of certain class-specific expenses. Specifically, distributions paid to our shareholders of share classes with ongoing distribution and shareholder servicing fees may be lower than distributions on certain other of our classes without such ongoing distribution and shareholder servicing fees that we are required to pay. Additionally, distributions on the Non-founder shares may be lower than distributions on Founder shares because we are required to pay higher management and total return incentive fees to the Manager and the Sub-Manager with respect to the Non-founder shares. There is no assurance that we will pay distributions in any particular amount, if at all.

See Note 6. "Distributions" in Item 8. "Financial Statements and Supplementary Data" for additional disclosures regarding distributions, including per share amounts declared per share class for the periods presented.

### ***Distribution Reinvestment Plan***

We have adopted a distribution reinvestment plan pursuant to which shareholders who purchase shares in the Initial Public Offering have their cash distributions automatically reinvested in additional shares having the same class designation as the class of shares to which such distributions are attributable, unless such shareholders elect to receive distributions in cash, are residents of Opt-In States, or are clients of certain participating broker-dealers that do not permit automatic enrollment in our distribution reinvestment plan. Opt-In States include Alabama, Arkansas, Idaho, Kansas, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Nebraska, New Hampshire, New Jersey, North Carolina, Ohio, Oregon, and Washington. Shareholders who are residents of Opt-In States, holders of Class FA shares and clients of certain participating broker-dealers that do not permit automatic enrollment in our distribution reinvestment plan automatically receive their distributions in cash unless they elect to have their cash distributions reinvested in additional shares. Cash distributions paid on Class FA shares are reinvested in additional shares of Class A shares. Class S shares do not participate in the distribution reinvestment plan.

The purchase price for shares purchased under our distribution reinvestment plan is equal to the most recently determined and published net asset value per share of the applicable class of shares. Because the distribution and shareholder servicing fee is calculated based on net asset value, it reduces net asset value and/or distributions with respect to Class T shares and Class D shares, including shares issued under the distribution reinvestment plan with respect to such share classes. To the extent newly issued shares are purchased from us under the distribution reinvestment plan or shareholders elect to reinvest their cash distribution in our shares, we retain and/or receive additional funds for acquisitions and general purposes including the repurchase of shares under the Share Repurchase Program.

We do not pay selling commissions or dealer manager fees on shares sold pursuant to our distribution reinvestment plan. However, the amount of the distribution and shareholder servicing fee payable with respect to Class T or Class D shares, respectively, sold in the Initial Public Offering is allocated among all Class T or Class D shares, respectively, including those sold under our distribution reinvestment plan and those received as distributions.

Our shareholders will be taxed on their allocable share of income, even if their distributions are reinvested in additional shares of our common shares and even if no distributions are made.

### **Share Repurchase Program**

We adopted the Share Repurchase Program effective March 2019, as further amended in January 2020, pursuant to which we conduct quarterly share repurchases to allow our shareholders to sell all or a portion of their shares (at least 5% of his or her shares) back to us at a price equal to the net asset value per share of the month immediately prior to the repurchase date. The repurchase date is generally the last business day of the month of a calendar quarter end. We are not obligated to repurchase shares under the Share Repurchase Program. If we determine to repurchase shares, the Share Repurchase Program also limits the total amount of aggregate repurchases of Class FA, Class A, Class T, Class D, Class I and Class S shares to up to 2.5% of our aggregate net asset value per calendar quarter (based on the aggregate net asset value as of the last date of the month immediately prior to the repurchase date) and up to 10% of our aggregate net asset value per year (based on the average aggregate net asset value as of the end of each of our trailing four quarters). The Share Repurchase Program also includes certain restrictions on the timing, amount and terms of our repurchases intended to ensure our ability to qualify as a partnership for U.S. federal income tax purposes.

The aggregate amount of funds under the Share Repurchase Program is determined on a quarterly basis at the sole discretion of our board of directors. During any calendar quarter, the total amount of aggregate repurchases is limited to the aggregate proceeds from our distribution reinvestment plan during the previous quarter unless our board of directors determines otherwise. At the sole discretion of our board of directors, we may also use other sources, including, but not limited to, offering proceeds and borrowings to repurchase shares.

To the extent that the number of shares submitted to us for repurchase exceeds the number of shares that we are able to purchase, we will repurchase shares on a *pro rata* basis, from among the requests for repurchase received by us based upon the total number of shares for which repurchase was requested and the order of priority described in the Share Repurchase Program. We may repurchase shares including fractional shares, computed to three decimal places.

Under the Share Repurchase Program, our ability to make new acquisitions of businesses or increase the current distribution rate may become limited if, over any two-year period, we experience repurchase demand in excess of capacity. If, during any consecutive two year period, we do not have at least one quarter in which we fully satisfy 100% of properly submitted repurchase requests, we will not make any new acquisitions of businesses (excluding short-term cash management investments under 90 days in duration) and we will use all available investable assets (as defined below) to satisfy repurchase requests (subject to the limitations under the Share Repurchase Program) until all Unfulfilled Repurchase Requests have been satisfied. Additionally, during such time as there remains any Unfulfilled Repurchase Requests outstanding from such period, the Manager and the Sub-Manager will defer their total return incentive fee until all such Unfulfilled Repurchase Requests have been satisfied. “Investable assets” includes net proceeds from new subscription agreements, unrestricted cash, proceeds from marketable securities, proceeds from the distribution reinvestment plan, and net cash flows after any payment, accrual, allocation, or liquidity reserves or other business costs in the normal course of owning, operating or selling our acquired businesses, debt service, repayment of debt, debt financing costs, current or anticipated debt covenants, funding commitments related to our businesses, customary general and administrative expenses, customary organizational and offering costs, asset management and advisory fees, performance or actions under existing contracts, obligations under our organizational documents or those of our subsidiaries, obligations imposed by law, regulations, courts or arbitration, or distributions or establishment of an adequate liquidity reserve as determined by our board of directors.

During the years ended December 31, 2020 and 2019, we received requests for the repurchase of approximately \$9.6 million (341,225 shares) and \$0.9 million (32,133 shares) of our common shares, respectively, which exceeded proceeds received from our distribution reinvestment plan for the applicable periods by approximately \$7.8 million and \$0.3 million, respectively. Our board of directors approved the use of other sources to satisfy repurchase requests received in excess of proceeds received from the distribution reinvestment plan. The following table summarizes the shares repurchased during the years ended December 31, 2020 and 2019:

	Year Ended December 31,					
	2020			2019		
	Shares Repurchased	Total Consideration	Average Price Paid per Share	Shares Repurchased	Total Consideration	Average Price Paid per Share
Class FA shares	246,653	\$ 7,037,470	\$ 28.53	19,200	\$ 521,971	\$ 27.19
Class A shares	4,580	123,038	26.86	300	8,040	26.76
Class T shares	25,774	721,226	27.98	—	—	—
Class D shares	1,156	32,212	27.85	3,185	84,175	26.43
Class I shares	63,062	1,732,971	27.48	9,448	254,746	26.96
Total	341,225	\$ 9,646,917	\$ 28.27	32,133	\$ 868,932	\$ 27.04

## Results of Operations

Since we commenced operations on February 7, 2018, we have acquired seven portfolio companies using the net proceeds from our Offerings. See “Portfolio and Investment Activity” above for discussion of the general terms and characteristics of our investments, and for information regarding investment activities. The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the notes thereto.

The following table summarizes our operating results for the years ended December 31, 2020 and 2019 and for the period from February 7, 2018 to December 31, 2018:

	Year Ended December 31,		Period from
	2020	2019	February 7, 2018 to December 31, 2018
Total investment income	\$ 14,453,851	\$ 8,138,307	\$ 6,792,445
Total operating expenses	(10,261,852)	(4,529,063)	(3,792,847)
Expense support	3,301,473	1,372,020	389,774
Net investment income	7,493,472	4,981,264	3,389,372
Net change in unrealized appreciation on investments, net of tax	22,552,891	5,195,000	5,725,661
<b>Net increase in net assets resulting from operations</b>	<b>\$ 30,046,363</b>	<b>\$ 10,176,264</b>	<b>\$ 9,115,033</b>

### *Investment Income*

Investment income consisted of the following for the years ended December 31, 2020 and 2019 and for the period from February 7, 2018 to December 31, 2018:

	Year Ended December 31,		Period from
	2020	2019	February 7, 2018 to December 31, 2018
Interest income	\$ 10,341,158	\$ 6,382,429	\$ 4,616,133
Dividend income	4,112,693	1,755,878	2,176,312
<b>Total investment income</b>	<b>\$ 14,453,851</b>	<b>\$ 8,138,307</b>	<b>\$ 6,792,445</b>

The majority of our interest income is generated from our debt investments, all of which had fixed rate interest as of December 31, 2020, 2019 and 2018. As of December 31, 2020, 2019 and 2018, our weighted average annual yield on our accruing debt investments was 15.4%, 15.6% and 16.0%, respectively, based on amortized cost as defined above in “Portfolio and Investment Activity.” Interest income from our debt investments was approximately \$10.1 million, \$5.9 million and \$4.5 million for the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively, while interest income earned on our cash accounts was approximately \$0.2 million, \$0.5 million, and \$0.1 million, respectively. The increase in interest income during the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily attributable to additional debt investments during the year ended December 31, 2020 of approximately \$29.9 million. The increase in interest income during the year ended December 31, 2019, as compared to the period from February 7, 2018 to December 31, 2018 was primarily attributable to additional debt investments during the year ended December 31, 2019 of approximately \$17.5 million.

Dividend income is recorded on the record date for privately issued securities, but excludes any portion of distributions that are treated as a return of capital. Since we commenced operations on February 7, 2018, all distributions we received from our portfolio companies have been classified as dividend income. Dividend income increased approximately \$2.4 million during the year ended December 31, 2020, as compared to year ended December 31, 2019. Dividend income decreased approximately \$0.4 million during the year ended December 31, 2019, as compared to the period from February 7, 2018 to December 31, 2018.

Our total investment income for the year ended December 31, 2020, resulted in cash yields ranging from 2.5% to 10.9% based on our investment cost, as compared to 1.8% to 10.9% for the year ended December 31, 2019.

We do not believe that our interest income, dividend income and total investment income are representative of either our stabilized performance or our future performance. We expect investment income to increase in future periods as we increase our base of investments that we expect to acquire from existing cash, borrowings and an expected increase in capital available for investment using proceeds from our Offerings.

## Operating Expenses

Our operating expenses for the years ended December 31, 2020 and 2019 and for the period from February 7, 2018 to December 31, 2018 were as follows:

	Year Ended December 31,		Period from
	2020	2019	February 7, 2018 to December 31, 2018
Organization and offering expenses	\$ 1,106,111	\$ 643,814	\$ 933,598
Base management fees	2,596,842	1,327,920	722,233
Total return incentive fees	4,150,562	847,863	1,015,228
Professional services	1,397,606	786,610	510,197
Pursuit costs	154,727	76,052	—
Director fees and expenses	201,671	214,000	173,756
General and administrative expenses	106,702	184,100	168,810
Custodian and accounting fees	170,298	191,814	140,242
Insurance expense	212,321	210,490	122,009
Distribution and shareholder servicing fees	165,012	46,400	6,774
<b>Total operating expenses</b>	<b>10,261,852</b>	<b>4,529,063</b>	<b>3,792,847</b>
Expense support	(3,301,473)	(1,372,020)	(389,774)
<b>Net expenses</b>	<b>\$ 6,960,379</b>	<b>\$ 3,157,043</b>	<b>\$ 3,403,073</b>

We consider the following expense categories to be relatively fixed in the near term: insurance expenses and director fees and expenses. Variable operating expenses include general and administrative, custodian and accounting fees, professional services, pursuit costs, base management fees, total return incentive fees, and distribution and shareholder servicing fees. We expect these variable operating expenses to increase either in connection with the growth in our asset base (base management fees and total return incentive fees), the number of shareholders and open accounts (transfer agency services and shareholder services, distribution and shareholder servicing fees) and the complexity of our investment processes and capital structure (professional services).

### Organization and Offering Expenses

Organization expenses are expensed on our statement of operations as incurred. Offering expenses, which consist of amounts incurred for items such as legal, accounting, regulatory and printing work incurred related to our Offerings, are capitalized on our statements of assets and liabilities as deferred offering expenses and expensed to our statement of operations over the lesser of the offering period or 12 months; however, the end of the deferral period will not exceed 12 months from the date the offering expense is incurred by the Manager and the Sub-Manager.

We expensed organization and offering expenses of approximately \$1.1 million, \$0.6 million and \$0.9 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The changes in organization and offering expenses are directly correlated to gross offering proceeds received from our Offerings of approximately \$125.3 million, \$68.4 million and \$97.4 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively.

### Base Management Fee

Our base management fee is calculated for each share class at an annual rate of (i) for the Non-founder shares, 2% of the product of (x) our average gross assets and (y) the ratio of Non-founder share Average Adjusted Capital for a particular class to total Average Adjusted Capital and (ii) for the Founder shares, 1% of the product of (x) our average gross assets and (y) the ratio of outstanding Founder share Average Adjusted Capital to total Average Adjusted Capital, in each case excluding cash, and is payable monthly in arrears.

We incurred base management fees of approximately \$2.6 million, \$1.3 million and \$0.7 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The increase in base management fees was primarily attributable to the increase in our average gross assets which were approximately \$189.0 million, \$102.8 million and \$76.1 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively.

### *Total Return Incentive Fee*

The Manager and Sub-Manager are eligible to receive incentive fees based on the Total Return to Shareholders, as defined in the Management Agreement and Sub-Management Agreement, for each share class in any calendar year, payable annually in arrears. We accrue (but do not pay) the total return incentive fee on a quarterly basis, to the extent that it is earned, and perform a final reconciliation at completion of each calendar year. The total return incentive fee is due and payable to the Manager and Sub-Manager no later than ninety (90) calendar days following the end of the applicable calendar year. The total return incentive fee may be reduced or deferred by the Manager and the Sub-Manager under the Management Agreement and the Expense Support and Conditional Reimbursement Agreement.

We incurred total return incentive fees of approximately \$4.2 million, \$0.8 million and \$1.0 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The increase in total return incentive fees during the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily attributable to an increase in the net change in unrealized appreciation on investments of approximately \$17.4 million. The decrease in total return incentive fees during the year ended December 31, 2019, as compared to the period from February 7, 2018 to December 31, 2018, was primarily attributable to a decrease in the net change in unrealized appreciation on investments of approximately \$0.5 million.

### *Pursuit Costs*

Pursuit costs relate to transactional expenses incurred for investments that did not close, including fees and expenses associated with performing the due diligence reviews. We incurred pursuit costs of approximately \$0.1 million during each of the years ended December 31, 2020 and 2019. We did not incur pursuit costs during the period from February 7, 2018 to December 31, 2018.

### *Other Operating Expenses*

Other operating expenses (consisting of professional services, director fees and expenses, general and administrative expenses, custodian and accounting fees, and insurance expense) were approximately \$2.1 million, \$1.6 million and \$1.1 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The increases in other operating expenses during the years ended December 31, 2020 and 2019 as compared to the preceding years was primarily attributable to an increase in accounting, legal, tax and valuation professional services resulting from an increase in the number of shareholders and investments each year.

### *Distribution and Shareholder Servicing Fee*

The Managing Dealer is eligible to receive a distribution and shareholder servicing fee, subject to certain limits, with respect to our Class T and Class D shares sold in the Initial Public Offering (excluding Class T shares and Class D shares sold through our distribution reinvestment plan and those received as share distributions) in an amount equal to 1.00% and 0.50%, respectively, of the current net asset value per share.

We incurred distribution and shareholder servicing fees of \$165,012, \$46,400 and \$6,774 during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The increase in distribution and shareholder servicing fees during the years ended December 31, 2020 and 2019 as compared to the preceding years is attributable to an increase in Class T and Class D shareholders.

### *Expense Support and Conditional Reimbursement Agreement*

Expense support from the Manager and Sub-Manager partially offsets operating expenses. Expense support totaled approximately \$3.3 million, \$1.4 million and \$0.4 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The actual amount of expense support is determined as of the last business day of each calendar year and is paid within 90 days after each year end per the terms of the Expense Support and Conditional Reimbursement Agreement described below.

We have entered into an Expense Support and Conditional Reimbursement Agreement with the Manager and the Sub-Manager, pursuant to which each of the Manager and the Sub-Manager agrees to reduce the payment of base management fees, total return incentive fees and the reimbursements of reimbursable expenses due to the Manager and the Sub-Manager under the Management Agreement and the Sub-Management Agreement, as applicable, to the extent that our annual regular cash distributions exceed our annual net income (with certain adjustments). Expense Support is equal to the annual (calendar year) excess, if any, of (a) the distributions (as defined in the Expense Support and Conditional Reimbursement Agreement) declared and paid (net of our distribution reinvestment plan) to shareholders minus (b) the available operating funds. The Expense Support amount is borne equally by the Manager and the Sub-Manager and is calculated as of the last business day of the calendar year. The Manager and Sub-Manager equally conditionally reduce the payment of fees and reimbursements of reimbursable expenses in an amount equal to the conditional waiver amount (as defined in and subject to limitations described in the Expense Support and Conditional Reimbursement Agreement). The term of the Expense Support and Conditional Reimbursement Agreement has the same initial term and renewal terms as the Management Agreement or the Sub-Management Agreement, as applicable to the Manager or the Sub-Manager.

If, on the last business day of the calendar year, the annual (calendar year) year-to-date available operating funds exceeds the sum of the annual (calendar year) year-to-date distributions paid per share class (the “Excess Operating Funds”), we will use such Excess Operating Funds to pay the Manager and the Sub-Manager all or a portion of the outstanding unreimbursed Expense Support amounts for each share class, as applicable, subject to the Conditional Reimbursements as described further in the Expense Support and Conditional Reimbursement Agreement. Our obligation to make Conditional Reimbursements shall automatically terminate and be of no further effect three years following the date which the Expense Support amount was provided and to which such Conditional Reimbursement relates, as described further in the Expense Support and Conditional Reimbursement Agreement. We did not have any Excess Operating Funds as of December 31, 2020 for any share class which had received expense support.

#### *Net Change in Unrealized Appreciation on Investments*

Unrealized appreciation is based on the current fair value of our investments as determined by our board of directors based on inputs from the Sub-Manager and our independent valuation firm and consistent with our valuation policy, which take into consideration, among other factors, actual results of our portfolio companies in comparison to budgeted results for the year, future growth prospects, and the valuations of publicly traded comparable companies as determined by our independent valuation firm.

During the years ended December 31, 2020 and 2019, we recognized a net change in unrealized appreciation of approximately \$22.8 million, \$5.2 million and \$5.7 million, respectively, due to growth in EBITDA of our portfolio companies and changes in public market multiples. Additionally, we recorded a net change in provision for taxes on unrealized appreciation of \$(0.3) million during the year ended December 31, 2020 related to unrealized appreciation on investments held by our Taxable Subsidiaries. We did not record a net change in provision for taxes on unrealized appreciation during the year ended December 31, 2019 or the period from February 7, 2018 to December 31, 2018.

#### *Net Assets*

During the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, the net increase in net assets consisted of the following:

	<b>Year Ended December 31,</b>		<b>Period from February 7, 2018 to December 31,</b>
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Operations	\$ 30,046,363	\$ 10,176,264	\$ 9,115,033
Distributions to shareholders	(9,929,353)	(5,845,584)	(3,518,302)
Capital share transactions	114,563,007	67,122,401	97,033,079
Net increase in net assets	<u>\$ 134,680,017</u>	<u>\$ 71,453,081</u>	<u>\$ 102,629,810</u>

Operations increased by approximately \$19.9 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase in operations was primarily due to an increase of approximately \$17.4 million in the net change in unrealized appreciation on investments, net of taxes, and an increase of approximately \$2.5 million in net investment income during the year ended December 31, 2020 as compared to the year ended December 31, 2019.

Operations increased by approximately \$1.1 million during the year ended December 31, 2019, as compared to the period from February 7, 2018 to December 31, 2018. The increase in operations was primarily due to an increase of approximately \$1.6 million in net investment income, offset by a decrease of approximately \$0.5 million in the net change in unrealized appreciation on investments during the year ended December 31, 2019 as compared to the period from February 7, 2018 to December 31, 2018.

Distributions increased approximately \$4.1 million and \$2.3 million during the years ended December 31, 2020 and 2019, as compared to the year ended December 31, 2019 and the period from February 7, 2018 to December 31, 2018, respectively, primarily as a result of an increase in shares outstanding.

Capital share transactions increased approximately \$47.4 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase was primarily due an increase in net proceeds received through our Offerings of approximately \$54.9 million and an increase of approximately \$1.3 million in amounts received through our distribution reinvestment plan. Capital share transactions were reduced during the year ended December 31, 2020 as a result of an increase in share repurchases of approximately \$8.8 million under the Share Repurchase Program.

Capital share transactions decreased approximately \$29.9 million during the year ended December 31, 2019, as compared to the period from February 7, 2018 to December 31, 2018. The decrease was primarily due to a decrease in net proceeds received through the Offerings of approximately \$29.7 million, offset partially by an increase of approximately \$0.7 million in amounts received through our distribution reinvestment plan. Capital share transactions were also reduced during the year ended December 31, 2019 as a result of the repurchasing of approximately \$0.9 million in shares under the Share Repurchase Program, which became effective in March 2019. No shares were repurchased in 2018.

### **Total Returns**

The following table illustrates year-to-date and cumulative total returns with and without upfront selling commissions and placement agent / dealer manager fees (“sales load”), as applicable. All total returns with sales load assume full upfront selling commissions and placement agent / dealer manager fees. Total returns are calculated for each share class as the change in the net asset value for such share class during the period and assuming all distributions are reinvested. Class FA assumes distributions are reinvested in Class A shares and all other share classes assume distributions are reinvested in the same share class. Management believes total return is a useful measure of the overall investment performance of our shares.

	<b>Year-To-Date Total Return<sup>(1)</sup></b>	<b>Cumulative Total Return</b>	<b>Cumulative Total Return Period</b>
Class FA (no sales load)	13.2 %	36.1 %	February 7, 2018 to December 31, 2020
Class FA (with sales load)	5.8 %	27.2 %	February 7, 2018 to December 31, 2020
Class A (no sales load)	11.9 %	30.8 %	April 10, 2018 - December 31, 2020
Class A (with sales load)	2.4 %	19.6 %	April 10, 2018 - December 31, 2020
Class I	12.0 %	31.9 %	April 10, 2018 - December 31, 2020
Class T (no sales load)	10.1 %	25.6 %	May 25, 2018 - December 31, 2020
Class T (with sales load)	4.9 %	19.6 %	May 25, 2018 - December 31, 2020
Class D	10.7 %	24.4 %	June 26, 2018 - December 31, 2020
Class S (no sales load)	12.8 %	12.8 %	March 31, 2020 - December 31, 2020
Class S (with sales load)	8.9 %	8.9 %	March 31, 2020 - December 31, 2020

### **FOOTNOTE:**

<sup>(1)</sup> For Class S, year-to-date return is calculated for the period from March 31, 2020 (the date the first Class S share was issued) to December 31, 2020.

We are not aware of any material trends or uncertainties, favorable or unfavorable, that may be reasonably anticipated to have a material impact on either capital resources or the revenues or income to be derived from our investments, other than those described above and the risk factors identified in Item 1A in Part I of this Annual Report.

Our shares are illiquid investments for which there currently is no secondary market. Investors should not expect to be able to resell their shares regardless of how we perform. If investors are able to sell their shares, they will likely receive less than their purchase price. Our net asset value and annualized returns — which are based in part upon determinations of fair value of Level 3 investments by our board of directors, not active market quotations — are inherently uncertain. Past performance is not a guarantee of future results.

## Hedging Activities

As of December 31, 2020, we had not entered into any derivatives or other financial instruments. However, in an effort to stabilize our revenue and input costs where applicable, we may enter into derivatives or other financial instruments in an attempt to hedge our commodity risk. With respect to any potential financings, general increases in interest rates over time may cause the interest expense associated with our borrowings to increase, and the value of our debt investments to decline. We may seek to stabilize our financing costs as well as any potential decline in our assets by entering into derivatives, swaps or other financial products in an attempt to hedge our interest rate risk. In the event we pursue any assets outside of the United States we may have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar. We may in the future, enter into derivatives or other financial instruments in an attempt to hedge any such foreign currency exchange risk. It is difficult to predict the impact hedging activities may have on our results of operations.

## Contractual Obligations

We have entered into the Management Agreement with the Manager and the Sub-Management Agreement with the Manager and the Sub-Manager pursuant to which the Manager and the Sub-Manager are entitled to receive a base management fee and reimbursement of certain expenses. Certain incentive fees based on our performance are payable to the Manager and the Sub-Manager after our performance thresholds are met. Each of the Manager and the Sub-Manager is entitled to 50% of the base management fee and incentive fees, subject to any reduction or deferral of any such fees pursuant to the terms of the Expense Support and Conditional Reimbursement Agreement.

If, on the last business day of the calendar year, there are Excess Operating Funds, we will use such Excess Operating Funds to pay the Manager and the Sub-Manager all or a portion of the outstanding unreimbursed Expense Support amounts for each share class, as applicable, subject to certain conditions as described further in the Expense Support and Conditional Reimbursement Agreement. Our obligation to make Conditional Reimbursements will automatically terminate and be of no further effect three years following the date which the Expense Support amount was provided and to which such Conditional Reimbursement relates, as described further in the Expense Support and Conditional Reimbursement Agreement. As of December 31, 2020, the amount of Expense Support collected from the Manager and Sub-Manager was \$1.8 million. The following table reflects the expense support that may become reimbursable, subject to the conditions of reimbursement defined in the Expense Support and Conditional Reimbursement Agreement:

<u>For the Year Ended</u>	<u>Amount of Expense Support</u>	<u>Reimbursement Eligibility Expiration</u>
December 31, 2018	\$ 389,774	March 31, 2022
December 31, 2019	1,372,020	March 31, 2023
	<u>\$ 1,761,794</u>	

As of December 31, 2020, management believes that reimbursement payments by the Company to the Manager and Sub-Manager are not probable under the terms of the Expense Support and Conditional Reimbursement Agreement.

We have also entered into the Administrative Services Agreement with the Administrator and the Sub-Administration agreement with the Administrator and the Sub-Administrator pursuant to which the Administrator and the Sub-Administrator will provide us with administrative services and are entitled to reimbursement of expenses for such services. For a discussion of the compensation we pay in connection with the management of our business, see Note 5. "Related Party Transactions" in Item 8. "Financial Statements and Supplementary Data."

## Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

## Inflation

Inflation may affect the fair value of our investments or affect the performance of our portfolio companies. As inflation increases, the fair value of our portfolio companies could decline. Additionally, during periods of inflation, income and expenses of our portfolio companies may increase, including interest expense that our portfolio companies pay on variable rate third part debts. Any increases in income may not be sufficient to cover increases in expenses of our portfolio companies.

## Seasonality

We do not anticipate that seasonality will have a significant effect on our results of operations.

## **Critical Accounting Policies and Use of Estimates**

Our most critical accounting policies will involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our financial statements are based are reasonable at the time made and based upon information available to us at that time. Our critical accounting policies and accounting estimates will be expanded over time as we continue to implement our business and operating strategy. Our significant accounting policies are described in Note 2. “Significant Accounting Policies” of Item 8. “Financial Statements and Supplementary Data.” Those material accounting policies and estimates that we initially expect to be most critical to an investor’s understanding of our financial results and condition, as well as those that require complex judgment decisions by our management, are discussed below.

### ***Basis of Presentation***

Our financial statements are prepared in accordance with GAAP, which requires the use of estimates, assumptions and the exercise of subjective judgment as to future uncertainties. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial results as of and for the periods presented.

Although we are organized and intend to conduct our business in a manner so that we are not required to register as an investment company under the Investment Company Act, our financial statements are prepared using the specialized accounting principles of ASC Topic 946 to utilize investment company accounting. We obtain funds through the issuance of equity interests to multiple unrelated investors, and provide such investors with investment management services. Further, our business strategy is to acquire interests in middle-market businesses to provide current income and long term capital appreciation, while protecting invested capital. Overall, we believe that the use of investment company accounting on a fair value basis is consistent with the management of our assets on a fair value basis, and make our financial statements more useful to investors and other financial statement users in facilitating the evaluation of an investment in us as compared to other investment products in the marketplace.

### ***Valuation of Investments***

We have adopted, and our valuation policy is performed in accordance with, ASC Topic 820, as described in Note 2. “Significant Accounting Policies” in Item 8. “Financial Statements and Supplementary Data.” As of December 31, 2020, all of our investments were categorized as Level 3. Our investments are valued utilizing a market approach, an income approach (i.e. discounted cash flow approach), a transaction approach, or a combination of such approaches, as appropriate. The market comparables approach uses prices, including third party indicative broker quotes, and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The transaction approach uses pricing indications derived from recent precedent merger and acquisition transactions involving comparable target companies. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) that are discounted based on a required or expected discount rate to derive a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors we may take into account to determine the fair value of our investments include, as relevant: available current market data, including an assessment of the credit quality of the security’s issuer, relevant and applicable market trading and transaction comparables, applicable market yields and multiples, illiquidity discounts, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company’s ability to make payments, its earnings and cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, data derived from merger and acquisition activities for comparable companies, and enterprise values, among other factors.

Our board of directors is ultimately responsible for determining in good faith the fair value of our investments in accordance with the valuation policy and procedures approved by the board of directors, based on, among other factors, the input of the Manager, the Sub-Manager, our audit committee, and the independent third-party valuation firm. The determination of the fair value of our assets requires judgment, especially with respect to assets for which market prices are not available. For most of our assets, market prices will not be available. Due to the inherent uncertainty of determining the fair value of assets that do not have a readily available market value, the fair value of the assets may differ significantly from the values that would have been used had a readily available market value existed for such assets, and the differences could be material. Because the calculation of our net asset value is based, in part, on the fair value of our assets, our calculation of net asset value is subjective and could be adversely affected if the determinations regarding the fair value of its assets were materially higher than the values that we ultimately realize upon the disposal of such assets. Furthermore, through the valuation process, our board of directors may determine that the fair value of our assets differs materially from the values that were provided by the independent valuation firm.

## ***U.S. Federal and State Income Taxes***

We believe that we are properly characterized as a partnership for U.S. federal income tax purposes and expect to continue to qualify as a partnership, and not be treated as a publicly traded partnership or otherwise be treated as a taxable corporation, for such purposes. As a partnership, we are generally not subject to U.S. federal and state income tax at the entity level. However, the Company holds certain equity investments in Taxable Subsidiaries. The Taxable Subsidiaries permit the Company to hold equity investments in portfolio companies which are “pass through” entities for tax purposes. The Taxable Subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of the Taxable Subsidiaries’ ownership of certain portfolio investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in the Company’s consolidated financial statements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We anticipate that our primary market risks will be related to the credit quality of our counterparties, market interest rates and changes in exchange rates. We will seek to manage these risks while, at the same time, seeking to provide an opportunity to shareholders to realize attractive returns through ownership of our shares. Many of these risks have been magnified due to the continuing economic disruptions caused by the COVID-19 pandemic; however, while we continue to monitor the pandemic, its impact on such risks remains uncertain and difficult to predict.

### ***Credit Risk***

We expect to encounter credit risk relating to (i) the businesses and other assets we acquire and (ii) our ability to access the debt markets on favorable terms. We will seek to mitigate this risk by deploying a comprehensive review and asset selection process, including scenario analysis, and careful ongoing monitoring of our acquired businesses and other assets as well as mitigation of negative credit effects through back up planning. Nevertheless, unanticipated credit losses could occur, which could adversely impact our operating results.

### ***Changes in Market Interest Rates***

We are subject to financial market risks, including changes in interest rates. Our debt investments are currently structured with fixed interest rates. Returns on investments that carry fixed rates are not subject to fluctuations in payments we receive from our borrowers, and will not adjust should rates move up or down. However, the fair value of our debt investments may be negatively impacted by rising interest rates. We may also invest in floating interest rate debt investments in the future.

We had not borrowed any money as of December 31, 2020. However, to the extent that we borrow money to make investments, our net investment income will be partially dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. In periods of rising interest rates, our cost of funds may increase, which may reduce our net investment income. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

### ***Exchange Rate Sensitivity***

At December 31, 2020, we were not exposed to any foreign currency exchange rate risks that could have a material effect on our financial condition or results of operations. Although we do not have any foreign operations, some of the portfolio companies we invest in conduct business in foreign jurisdictions and therefore our investments have an indirect exposure to risks associated with changes in foreign exchange rates.

**Item 8. Financial Statements and Supplementary Data**

**CNL STRATEGIC CAPITAL, LLC**

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of CNL Strategic Capital, LLC

### Opinion on the Financial Statements

We have audited the accompanying consolidated statements of assets and liabilities of CNL Strategic Capital, LLC (the Company), including the consolidated schedules of investments, as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in net assets, and cash flows for each of the two years in the period ended December 31, 2020 and the period from February 7, 2018 (Commencement of Operations) to December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for each of the two years in the period ended December 31, 2020 and the period from February 7, 2018 (Commencement of Operations) to December 31, 2018, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2017.

Charlotte, North Carolina  
March 30, 2021

**CNL STRATEGIC CAPITAL, LLC**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Assets</b>		
Investments at fair value (amortized cost of \$197,457,113 and \$133,274,339, respectively)	\$ 231,197,454	\$ 144,195,000
Cash	82,688,211	20,954,005
Restricted cash	—	10,000,000
Deferred offering expenses	61,549	25,423
Net due from related parties (Note 5)	—	278,564
Prepaid expenses and other assets	130,161	90,631
Total assets	314,077,375	175,543,623
<b>Liabilities</b>		
Accounts payable and other accrued expenses	385,083	325,449
Net due to related parties (Note 5)	1,476,458	—
Distributions payable	1,017,405	593,536
Payable for shares repurchased	1,968,732	223,738
Deferred tax liability, net	266,789	—
Payable for investments purchased	—	118,009
Total liabilities	5,114,467	1,260,732
<b>Commitments and contingencies (Note 10)</b>		
<b>Members' Equity (Net Assets)</b>		
Preferred shares, \$0.001 par value, 50,000,000 shares authorized and unissued	—	—
Class FA Common shares, \$0.001 par value, 7,400,000 shares authorized; 4,844,390 and 4,274,748 shares issued, respectively; 4,578,537 and 4,255,548 shares outstanding, respectively	4,579	4,255
Class A Common shares, \$0.001 par value, 94,660,000 shares authorized; 1,039,257 and 669,442 shares issued, respectively; 1,034,377 and 669,141 shares outstanding, respectively	1,034	669
Class T Common shares, \$0.001 par value, 558,620,000 and 658,620,000 shares authorized, respectively; 680,446 and 198,662 shares issued, respectively; 654,672 and 198,662 shares outstanding, respectively	655	199
Class D Common shares, \$0.001 par value, 94,660,000 shares authorized; 458,065 and 305,817 shares issued, respectively; 453,724 and 302,632 shares outstanding, respectively	454	303
Class I Common shares, \$0.001 par value, 94,660,000 shares authorized; 2,039,062 and 938,296 shares issued, respectively; 1,966,552 and 928,848 shares outstanding, respectively	1,967	929
Class S Common shares, \$0.001 par value, 100,000,000 shares authorized; 1,770,386 shares issued and outstanding as of December 31, 2020	1,770	—
Capital in excess of par value	278,908,028	164,349,125
Distributable earnings	30,044,421	9,927,411
Total Members' Equity	\$ 308,962,908	\$ 174,282,891
Net assets, Class FA shares	\$ 137,237,594	\$ 117,637,467
Net assets, Class A shares	29,747,587	18,008,048
Net assets, Class T shares	18,771,713	5,366,259
Net assets, Class D shares	12,813,290	8,053,103
Net assets, Class I shares	57,147,617	25,218,014
Net assets, Class S shares	53,245,107	—
Total Members' Equity	\$ 308,962,908	\$ 174,282,891

*See notes to consolidated financial statements.*

**CNL STRATEGIC CAPITAL, LLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>	<b>Period from February 7, 2018 to December 31, 2018</b>
<b>Investment Income</b>			
Interest income	\$ 10,341,158	\$ 6,382,429	\$ 4,616,133
Dividend income	4,112,693	1,755,878	2,176,312
Total investment income	<u>14,453,851</u>	<u>8,138,307</u>	<u>6,792,445</u>
<b>Operating Expenses</b>			
Organization and offering expenses	1,106,111	643,814	933,598
Base management fees	2,596,842	1,327,920	722,233
Total return incentive fees	4,150,562	847,863	1,015,228
Professional services	1,397,606	786,610	510,197
Pursuit costs	154,727	76,052	—
Director fees and expenses	201,671	214,000	173,756
General and administrative expenses	106,702	184,100	168,810
Custodian and accounting fees	170,298	191,814	140,242
Insurance expense	212,321	210,490	122,009
Distribution and shareholder servicing fees	165,012	46,400	6,774
Total operating expenses	<u>10,261,852</u>	<u>4,529,063</u>	<u>3,792,847</u>
Expense support	<u>(3,301,473)</u>	<u>(1,372,020)</u>	<u>(389,774)</u>
Net expenses	<u>6,960,379</u>	<u>3,157,043</u>	<u>3,403,073</u>
<b>Net investment income</b>	7,493,472	4,981,264	3,389,372
Net change in unrealized appreciation on investments	22,819,680	5,195,000	5,725,661
Net change in provision for taxes on unrealized appreciation on investments	(266,789)	—	—
<b>Net increase in net assets resulting from operations</b>	<u>\$ 30,046,363</u>	<u>\$ 10,176,264</u>	<u>\$ 9,115,033</u>
<b>Common shares per share information:</b>			
Net investment income	<u>\$ 0.93</u>	<u>\$ 1.05</u>	<u>\$ 1.00</u>
Net increase in net assets resulting from operations	<u>\$ 3.72</u>	<u>\$ 2.15</u>	<u>\$ 2.68</u>
Weighted average number of common shares outstanding	<u>8,084,469</u>	<u>4,727,789</u>	<u>3,404,903</u>

*See notes to consolidated financial statements.*

**CNL STRATEGIC CAPITAL, LLC**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

	<b>Common Shares</b>		<b>Capital in Excess of Par Value</b>	<b>Distributable Earnings</b>	<b>Total Net Assets</b>
	<b>Number of Shares</b>	<b>Par Value</b>			
Balance as of February 7, 2018	8,000	\$ 8	\$ 199,992	\$ —	\$ 200,000
Net investment income	—	—	—	3,389,372	3,389,372
Net change in unrealized appreciation on investments	—	—	—	5,725,661	5,725,661
Distributions to shareholders	—	—	—	(3,518,302)	(3,518,302)
Issuance of common shares through the Offerings	3,850,671	3,850	96,929,393	—	96,933,243
Issuance of common shares through distribution reinvestment plan	3,844	4	99,832	—	99,836
Balance as of December 31, 2018	<u>3,862,515</u>	<u>\$ 3,862</u>	<u>\$ 97,229,217</u>	<u>\$ 5,596,731</u>	<u>\$ 102,829,810</u>
Net investment income	—	—	—	4,981,264	4,981,264
Net change in unrealized appreciation on investments	—	—	—	5,195,000	5,195,000
Distributions to shareholders	—	—	—	(5,845,584)	(5,845,584)
Issuance of common shares through the Offerings	2,494,425	2,495	67,189,731	—	67,192,226
Issuance of common shares through distribution reinvestment plan	30,024	30	799,077	—	799,107
Repurchase of common shares pursuant to share repurchase program	(32,133)	(32)	(868,900)	—	(868,932)
Balance as of December 31, 2019	<u>6,354,831</u>	<u>\$ 6,355</u>	<u>\$ 164,349,125</u>	<u>\$ 9,927,411</u>	<u>\$ 174,282,891</u>
Net investment income	—	—	—	7,493,472	7,493,472
Net change in unrealized appreciation on investments, net of tax	—	—	—	22,552,891	22,552,891
Distributions to shareholders	—	—	—	(9,929,353)	(9,929,353)
Issuance of common shares through the Offerings	4,367,120	4,367	122,095,764	—	122,100,131
Issuance of common shares through distribution reinvestment plan	77,522	78	2,109,715	—	2,109,793
Repurchase of common shares pursuant to share repurchase program	(341,225)	(341)	(9,646,576)	—	(9,646,917)
Balance as of December 31, 2020	<u>10,458,248</u>	<u>\$ 10,459</u>	<u>\$ 278,908,028</u>	<u>\$ 30,044,421</u>	<u>\$ 308,962,908</u>

*See notes to consolidated financial statements.*

**CNL STRATEGIC CAPITAL, LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>	<b>Period from February 7, 2018 to December 31, 2018</b>
<b>Operating Activities:</b>			
Net increase in net assets resulting from operations	\$ 30,046,363	\$ 10,176,264	\$ 9,115,033
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Purchases of investments	(64,182,774)	(56,500,000)	(74,374,339)
Net change in unrealized appreciation on investments	(22,819,680)	(5,195,000)	(5,725,661)
Amortization of deferred offering expenses	250,174	25,531	668,846
Amortization of deferred financing costs	37,328	7,443	—
Increase (decrease) in net due to (from) related parties	1,755,022	(1,060,846)	782,282
(Decrease) increase in payable for investments purchased	(118,009)	118,009	—
Increase in accounts payable and other accrued expenses	59,634	42,593	282,856
Increase in deferred offering expenses	(286,300)	(36,520)	(682,963)
Increase in deferred tax liabilities, net	266,789	—	—
Increase in prepaid expenses and other assets	(11,758)	(12,791)	(70,833)
Net cash used in operating activities	(55,003,211)	(52,435,317)	(70,004,779)
<b>Financing Activities:</b>			
Proceeds from issuance of common shares	122,100,131	67,192,226	94,533,243
Payment on repurchases of common shares	(7,901,923)	(645,194)	—
Distributions paid, net of distributions reinvested	(7,395,691)	(4,811,127)	(3,060,280)
Deferred financing costs	(65,100)	(14,450)	—
Net cash provided by financing activities	106,737,417	61,721,455	91,472,963
Net increase in cash and restricted cash	51,734,206	9,286,138	21,468,184
Cash and restricted cash, beginning of period	30,954,005	21,667,867	199,683
Cash and restricted cash, end of period	\$ 82,688,211	\$ 30,954,005	\$ 21,667,867
<b>Supplemental disclosure of cash flow information and non-cash financing activities:</b>			
Distributions reinvested	\$ 2,109,793	\$ 799,107	\$ 99,836
Amounts incurred but not paid (including amounts due to related parties):			
Distributions payable	\$ 1,017,405	\$ 593,536	\$ 358,186
Offering costs	\$ 122,779	\$ 56,888	\$ 66,894
Payable for shares repurchased	\$ 1,968,732	\$ 223,738	\$ —
Non-cash contribution from an affiliate of the Sub-Manager	\$ —	\$ —	\$ 2,400,000
Non-cash purchase of investments	\$ —	\$ —	\$ (2,400,000)

*See notes to consolidated financial statements.*

**CNL STRATEGIC CAPITAL, LLC**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**AS OF DECEMBER 31, 2020**

<b>Company<sup>(1)(2)</sup></b>	<b>Industry</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount / No. Shares</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Senior Secured Note – First Lien–13.6%</b>						
Auriemma U.S. Roundtables	Information Services and Advisory Solutions	8.0%	11/13/2021	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Healthcare Safety Holdings, LLC	Healthcare Supplies	15.0%	7/16/2027	24,400,000	24,400,000	24,400,000
Polyform Products, Co.	Hobby Goods and Supplies	16.0%	8/7/2023	15,700,000	15,700,000	15,700,000
<b>Total Senior Secured Note - First Lien</b>					<b>42,100,000</b>	<b>42,100,000</b>
<b>Senior Secured Note – Second Lien–11.6%</b>						
Auriemma U.S. Roundtables	Information Services and Advisory Solutions	16.0%	8/1/2025	\$ 12,114,338	\$ 12,114,338	\$ 12,114,338
Blue Ridge ESOP Associates	Business Services	15.0%	3/24/2026	2,640,844	2,640,844	2,640,844
Lawn Doctor, Inc.	Commercial and Professional Services	16.0%	8/7/2023	15,000,000	15,000,000	15,000,000
Milton Industries, Inc.	Manufacturing	15.0%	11/21/2025	3,353,265	3,353,265	3,353,265
Resolution Economics, LLC	Business Services	15.0%	1/2/2026	2,834,007	2,834,007	2,834,007
<b>Total Senior Secured Note - Second Lien</b>					<b>35,942,454</b>	<b>35,942,454</b>
<b>Total Senior Secured Notes</b>					<b>78,042,454</b>	<b>78,042,454</b>
<b>Equity–49.6%</b>						
Auriemma U.S. Roundtables <sup>(3)</sup>	Information Services and Advisory Solutions			32,386	\$ 32,385,662	\$ 37,272,000
Blue Ridge ESOP Associates	Business Services			9,859	9,859,156	10,877,000
Healthcare Safety Holdings, LLC <sup>(3)</sup>	Healthcare Supplies			17,320	17,320,000	18,186,000
Lawn Doctor, Inc. <sup>(3)</sup>	Commercial and Professional Services			7,746	30,475,551	48,685,000
Milton Industries, Inc.	Manufacturing			6,647	6,646,735	10,090,000
Polyform Products, Co. <sup>(3)</sup>	Hobby Goods and Supplies			10,820	15,598,788	19,502,000
Resolution Economics, LLC	Business Services			7,166	7,128,767	8,543,000
<b>Total Equity</b>					<b>119,414,659</b>	<b>153,155,000</b>
<b>TOTAL INVESTMENTS–74.8%</b>					<b>\$ 197,457,113</b>	<b>\$ 231,197,454</b>
OTHER ASSETS IN EXCESS OF LIABILITIES–25.2%						77,765,454
NET ASSETS–100.0%						<b>\$ 308,962,908</b>

**FOOTNOTES:**

- (1) Security may be an obligation of one or more entities affiliated with the named company.
- (2) Percentages represent fair value as a percentage of net assets for each type of investment.
- (3) As of December 31, 2020, the Company owned a controlling interest in this portfolio company.

*See notes to consolidated financial statements.*

**CNL STRATEGIC CAPITAL, LLC**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**AS OF DECEMBER 31, 2019**

<u>Company<sup>(1)(2)</sup></u>	<u>Industry</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount / No. Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Senior Secured Note – First Lien–10.1%</b>						
Auriemma U.S Roundtables	Information Services and Advisory Solutions	8.0%	11/13/2020	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Polyform Products, Co.	Hobby Goods and Supplies	16.0%	8/7/2023	15,700,000	15,700,000	15,700,000
<b>Total Senior Secured Note - First Lien</b>					<u>17,700,000</u>	<u>17,700,000</u>
<b>Senior Secured Note – Second Lien–17.5%</b>						
Auriemma U.S Roundtables	Information Services and Advisory Solutions	16.0%	8/1/2025	\$ 12,114,338	\$ 12,114,338	\$ 12,114,338
Lawn Doctor, Inc.	Commercial and Professional Services	16.0%	8/7/2023	15,000,000	15,000,000	15,000,000
Milton Industries, Inc.	Manufacturing	15.0%	11/21/2025	3,353,265	3,353,265	3,353,265
<b>Total Senior Secured Note - Second Lien</b>					<u>30,467,603</u>	<u>30,467,603</u>
<b>Total Senior Secured Notes</b>					<u><b>48,167,603</b></u>	<u><b>48,167,603</b></u>
<b>Equity–55.1%</b>						
Auriemma U.S Roundtables <sup>(3)</sup>	Information Services and Advisory Solutions			32,386	\$ 32,385,662	\$ 32,385,662
Lawn Doctor, Inc. <sup>(3)</sup>	Commercial and Professional Services			7,746	30,475,551	41,395,000
Milton Industries, Inc.	Manufacturing			6,647	6,646,735	6,646,735
Polyform Products, Co. <sup>(3)</sup>	Hobby Goods and Supplies			10,820	15,598,788	15,600,000
<b>Total Equity</b>					<u><b>85,106,736</b></u>	<u><b>96,027,397</b></u>
<b>TOTAL INVESTMENTS–82.7%</b>					<u><b>\$ 133,274,339</b></u>	<u><b>\$ 144,195,000</b></u>
OTHER ASSETS IN EXCESS OF LIABILITIES–17.3%						<u>30,087,891</u>
NET ASSETS–100.0%						<u><u>\$ 174,282,891</u></u>

**FOOTNOTES:**

- (1) Security may be an obligation of one or more entities affiliated with the named company.
- (2) Percentages represent fair value as a percentage of net assets for each type of investment.
- (2) As of December 31, 2019, the Company owned a controlling interest in this portfolio company.

*See notes to consolidated financial statements.*

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**1. Principal Business and Organization**

CNL Strategic Capital, LLC (the “Company”) is a limited liability company that primarily seeks to acquire and grow durable, middle-market U.S. businesses. The Company is externally managed by CNL Strategic Capital Management, LLC (the “Manager”) and sub-managed by Levine Leichtman Strategic Capital, LLC (the “Sub-Manager”). The Manager is responsible for the overall management of the Company’s activities and the Sub-Manager is responsible for the day-to-day management of the Company’s assets. Each of the Manager and the Sub-Manager are registered as an investment adviser under the Investment Advisers Act of 1940, as amended. The Company conducts and intends to continue its operations so that the Company and each of its subsidiaries do not fall within, or are excluded from the definition of an “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”).

The Company intends to target businesses that are highly cash flow generative, with annual revenues primarily between \$15 million and \$250 million and whose management teams seek an ownership stake in the company. The Company’s business strategy is to acquire controlling equity interests in combination with debt positions and in doing so, provide long-term capital appreciation and current income while protecting invested capital. The Company seeks to structure its investments with limited, if any, third-party senior leverage.

The Company intends for a significant majority of its total assets to be comprised of long-term controlling equity interests and debt positions in the businesses it acquires. In addition and to a lesser extent, the Company may acquire other debt and minority equity positions, which may include acquiring debt in the secondary market and minority equity interests in combination with other funds managed by the Sub-Manager from co-investments with other partnerships managed by the Sub-Manager or their affiliates. The Company expects that these positions will comprise a minority of its total assets.

The Company commenced operations on February 7, 2018, following a private offering of approximately \$81.7 million (the “2018 Private Offering”) of its Class FA limited liability company interests (the “Class FA shares”). The Company is currently offering and selling shares of its limited liability company interests (the “Initial Public Offering”) pursuant to a registration statement on Form S-1 (the “Registration Statement”) with the Securities and Exchange Commission (the “SEC”). Through its Initial Public Offering, the Company is offering, in any combination, four classes of shares: Class A shares, Class T shares, Class D shares and Class I shares (collectively, the “Non-founder shares” and together with the Founder shares (as described below), the “Shares”). On February 19, 2021, the Company filed a registration statement on Form S-1 (the “Follow-On Registration Statement”) with the SEC in connection with the proposed offering of shares of our limited liability company interest (the “Follow-On Public Offering”). As permitted under applicable securities laws, the Company will continue to offer its common shares in the Initial Public Offering until the effective date of the Follow-On Registration Statement, upon which the Initial Registration Statement will be deemed terminated.

In April and June 2019, the Company launched separate Class FA private offerings of up to \$50.0 million each of Class FA shares (the “Class FA Private Offering” and the “Follow-On Class FA Private Offering”, respectively; collectively, the “Class FA Private Offerings”) pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act of 1933 and Rule 506(c) of Regulation D promulgated under the Securities Act. The Class FA Private Offering was closed in December 2019 and the Follow-On Class FA Private Offering closed in March 2020.

In January 2020, the Company’s board of directors authorized the designation of Class S shares of the Company’s common stock, \$0.001 par value per share (“Class S shares” and together with Class FA shares “Founder shares”), and approved a private offering of Class S shares (the “Class S Private Offering”) of up to a maximum of \$50.0 million in Class S shares. The Class S Private Offering is being conducted pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act. The Class S Private Offering closed in December 2020.

See Note 7. “Capital Transactions” and Note 12. “Subsequent Events” for additional information related to the Offerings.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

## **2. Significant Accounting Policies**

### ***Basis of Presentation***

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as contained in the Financial Accounting Standards Board Accounting Standards Codification (the "Codification" or "ASC"), which requires the use of estimates, assumptions and the exercise of subjective judgment as to future uncertainties. In the opinion of management, the consolidated financial statements reflect all adjustments that are of a normal recurring nature and necessary for the fair presentation of financial results as of and for the periods presented.

Although the Company is organized and intends to conduct its business in a manner so that it is not required to register as an investment company under the Investment Company Act, its financial statements are prepared using the specialized accounting principles of ASC Topic 946, "Financial Services—Investment Companies" ("ASC Topic 946") to utilize investment company accounting. The Company obtains funds through the issuance of equity interests to multiple unrelated investors, and provides such investors with investment management services. Further, the Company's business strategy is to acquire interests in middle-market U.S. businesses to provide current income and long term capital appreciation, while protecting invested capital. Overall, the Company believes that the use of investment company accounting on a fair value basis is consistent with the management of its assets on a fair value basis, and makes the Company's financial statements more useful to investors and other financial statement users in facilitating the evaluation of an investment in the Company as compared to other investment products in the marketplace.

### ***Principles of Consolidation***

Under ASC Topic 946 the Company is precluded from consolidating any entity other than an investment company or an operating company which provides substantially all of its services to benefit the Company. In accordance therewith, the Company has consolidated the results of its wholly owned subsidiaries which provide services to the Company in its consolidated financial statements. However, the Company has not consolidated the results of its subsidiaries in which the Company holds debt and equity investments. All intercompany account balances and transactions have been eliminated in consolidation.

### ***Risks and Uncertainties***

The outbreak of the novel coronavirus ("COVID-19") pandemic around the globe continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The global impact of COVID-19 has been rapidly evolving and many countries, including the United States, have reacted by, among other things, instituting quarantines, mandating business and school closures, requiring restrictions on travel and issuing "shelter-in-place" and/or "stay-at-home" orders. While some of these restrictions have been relaxed or phased out, many of these or similar restrictions remain in place, continue to be implemented, or additional restrictions are being considered. Such actions are creating significant disruption in global supply chains, and adversely impacting a number of industries.

The major disruption caused by COVID-19 significantly reduced economic activity in most of the United States resulting in a significant increase in unemployment claims.

COVID-19 has had a continued and prolonged adverse impact on economic and market conditions and has triggered a period of economic slowdown which could have a material adverse effect on the Company's results and financial condition.

The full impact of COVID-19 on the financial and credit markets and consequently on the Company's financial condition and results of operations is uncertain and cannot be predicted at the current time as it depends on several factors beyond the control of the Company including, but not limited to (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope and effectiveness of additional governmental responses to the pandemic, (v) the timing and speed of economic recovery, including the availability of a treatment or vaccination for COVID-19, and (vi) the negative impact on its portfolio companies.

### ***Cash***

Cash consists of demand deposits at commercial banks. Demand deposits are carried at cost plus accrued interest, which approximates fair value. The Company deposits its cash with highly-rated banking corporations and, at times, cash deposits may exceed the insured limits under applicable law.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

***Restricted Cash***

The Company's restricted cash as of December 31, 2019 consisted of escrowed funds held with an affiliate of the Sub-Manager for investment purposes. The Company had no restricted cash as of December 31, 2020.

***Use of Estimates***

Management makes estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with generally accepted accounting principles. The uncertainty of future events, including the impact of the COVID-19 pandemic, may materially impact the accuracy of the estimates and assumptions used in the financial statements and related footnotes and actual results could differ from those estimates.

***Valuation of Investments***

ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC Topic 820") clarifies that the fair value is the price in an orderly transaction between market participants to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. ASC Topic 820 provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs.

In addition, ASC Topic 820 provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of valuation hierarchy established by ASC Topic 820 are defined as follows:

**Level 1** – Quoted prices (unadjusted) for identical assets or liabilities in active markets. An active market is defined as a market in which transactions for the asset or liability occur with sufficient pricing information on an ongoing basis. Publicly listed equity and debt securities and listed derivatives that are traded on major securities exchanges and publicly traded equity options are generally valued using Level 1 inputs. If a price for an asset cannot be determined based upon this established process, it shall then be valued as a Level 2 or Level 3 asset.

**Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following: (i) quoted prices for similar assets in active markets; (ii) quoted prices for identical or similar assets in markets that are not active; (iii) inputs that are derived principally from or corroborated by observable market data by correlation or other means; and (iv) inputs other than quoted prices that are observable for the assets. Fixed income and derivative assets, where there is an observable secondary trading market and through which pricing inputs are available through pricing services or broker quotes, are generally valued using Level 2 inputs. If a price for an asset cannot be determined based upon this established process, it shall then be valued as a Level 3 asset.

**Level 3** – Unobservable inputs for the asset or liability being valued. Unobservable inputs will be used to measure fair value to the extent that observable inputs are not available and such inputs will be based on the best information available in the circumstances, which under certain circumstances might include the Manager's or the Sub-Manager's own data. Level 3 inputs may include, but are not limited to, capitalization and discount rates and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples. The information may also include pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. Certain assets may be valued based upon estimated value of underlying collateral and include adjustments deemed necessary for estimates of costs to obtain control and liquidate available collateral. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence. Debt and equity investments in private companies or assets valued using the market or income approach are generally valued using Level 3 inputs.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls will be determined based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each asset.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

The Company's board of directors is responsible for determining in good faith the fair value of the Company's investments in accordance with the valuation policy and procedures approved by the board of directors, based on, among other factors, the input of the Manager, the Sub-Manager, its audit committee, and the independent third-party valuation firm. The determination of the fair value of the Company's assets requires judgment, especially with respect to assets for which market prices are not available. For most of the Company's assets, market prices will not be available. Due to the inherent uncertainty of determining the fair value of assets that do not have a readily available market value, the fair value of the assets may differ significantly from the values that would have been used had a readily available market value existed for such assets, and the differences could be material. Because the calculation of the Company's net asset value is based, in part, on the fair value of its assets, the Company's calculation of net asset value is subjective and could be adversely affected if the determinations regarding the fair value of its assets were materially higher than the values that the Company ultimately realizes upon the disposal of such assets. Furthermore, through the valuation process, the Company's board of directors may determine that the fair value of the Company's assets differs materially from the values that were provided by the independent valuation firm.

The Company may also look to private merger and acquisition statistics, public trading multiples adjusted for illiquidity and other factors, valuations implied by third-party investments in the businesses or industry practices in determining fair value. The Company may also consider the size and scope of a business and its specific strengths and weaknesses, as well as any other factors it deems relevant in assessing the value.

***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation on Investments***

The Company will measure realized gains or losses as the difference between the net proceeds from the sale, repayment, or disposal of an asset and the adjusted cost basis of the asset, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation on investments will reflect the change in asset values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

***Income Recognition***

*Interest Income* – Interest income is recorded on an accrual basis to the extent that the Company expects to collect such amounts. The Company does not accrue as a receivable interest on loans and debt securities for accounting purposes if it has reason to doubt its ability to collect such interest.

The Company places loans on non-accrual status when principal and interest are past due 90 days or more or when there is a reasonable doubt that the Company will collect principal or interest. Accrued interest is generally reversed when a loan is placed on non-accrual. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are generally restored to accrual status when past due principal and interest amounts are paid and, in management's judgment, are likely to remain current. Since inception, the Company has not experienced any past due payments on any of its loans.

*Dividend Income* – Dividend income is recorded on the record date for privately issued securities, but excludes any portion of distributions that are treated as a return of capital. Each distribution received from an equity investment is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions from equity investments as dividend income unless there are sufficient current or accumulated earnings prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. Since inception, all distributions from equity investments have been classified as dividend income.

***Paid in Capital***

The Company records the proceeds from the sale of its common shares on a net basis to (i) capital stock and (ii) paid in capital in excess of par value, excluding upfront selling commissions and placement agent/dealer manager fees.

***Share Repurchases***

Under the Company's share repurchase program (the "Share Repurchase Program"), a shareholder's shares are deemed to have been redeemed as of the repurchase date, which will generally be the last business day of the month of a calendar quarter. Shares redeemed are retired and not available for reissue. See Note 7. "Capital Transactions" for additional information.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

***Organization and Offering Expenses***

Organization expenses are expensed on the Company's statements of operations as incurred. Offering expenses, which consist of amounts incurred for items such as legal, accounting, regulatory and printing work incurred related to the Offerings, are capitalized on the Company's statements of assets and liabilities as deferred offering expenses and expensed to the Company's statements of operations over the lesser of the offering period or 12 months; however, the end of the deferral period will not exceed 12 months from the date the offering expense is incurred by the Manager and the Sub-Manager.

***Distribution and Shareholder Servicing Fees***

Under the Initial Public Offering, the Company pays distribution and shareholder servicing fees with respect to its Class T and Class D shares, as described further below in Note 5. "Related Party Transactions." The Company records the distribution and shareholder servicing fees, which accrue daily, in its statements of operations as they are incurred.

***Deferred Financing Costs***

Financing costs, including upfront fees, commitment fees and legal fees related to borrowings (as further described in Note 8. "Borrowings") are deferred and amortized over the life of the related financing instrument using the effective yield method. The amortization of deferred financing costs is included in general and administrative expense in the statements of operations.

***Allocation of Profit and Loss***

Class-specific expenses, including base management fees, total return incentive fees, organization and offering expenses, distribution and shareholder servicing fees, expense support and certain transfer agent fees, are allocated to each share class of common shares in accordance with how such fees are attributable to the particular share classes, as determined by the Company's board of directors, the Company's governing agreements and, in certain cases, expenses which are specifically identifiable to a specific share class.

Income and expenses which are not class-specific are allocated monthly pro rata among the share classes based on shares outstanding as of the end of the month.

***Earnings per Share and Net Investment Income per Share***

Earnings per share and net investment income per share are calculated for each share class of common shares based upon the weighted average number of common shares outstanding during the reporting period.

***Distributions***

The Company's board of directors has declared and intends to continue to declare distributions based on monthly record dates and such distributions are expected to be paid on a monthly basis one month in arrears. Distributions are made on all classes of the Company's shares at the same time.

The Company has adopted a distribution reinvestment plan that provides for reinvestment of distributions on behalf of shareholders. Non-founder shareholders participating in the distribution reinvestment plan will have their cash distribution automatically reinvested in additional shares having the same class designation as the class of shares to which such distributions are attributable at a price per share equivalent to the then current public offering price, net of up-front selling commissions and dealer manager fees. Cash distributions paid on Class FA shares participating in the distribution reinvestment plan are reinvested in additional Class A shares. Class S shares do not participate in the distribution reinvestment plan.

***Income Taxes***

Under GAAP, the Company is subject to the provisions of ASC 740, "Income Taxes." The Company follows the authoritative guidance on accounting for uncertainty in income taxes and concluded it has no material uncertain tax positions to be recognized at this time. If applicable, the Company will recognize interest and penalties related to unrecognized tax benefits as income tax expense in the statements of operations.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

The Company has operated and expects to continue to operate so that it will qualify to be treated for U.S. federal income tax purposes as a partnership, and not as an association or a publicly traded partnership taxable as a corporation. Generally, the Company will not be taxable as a corporation if 90% or more of its gross income for each taxable year consists of “qualifying income” (generally, interest (other than interest generated from a financial business), dividends, real property rents, gain from the sale of assets that produce qualifying income and certain other items) and the Company is not required to register under the Investment Company Act (the “qualifying income exception”). As a partnership, the individual shareholders are responsible for their proportionate share of the Company’s taxable income.

The Company holds certain equity investments in taxable subsidiaries (the “Taxable Subsidiaries”). The Taxable Subsidiaries permit the Company to hold equity investments in portfolio companies which are “pass through” entities for tax purposes. The Taxable Subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of the Taxable Subsidiaries’ ownership of certain portfolio investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in the Company’s condensed consolidated financial statements.

For the year ended December 31, 2020, the Company recorded a provision for taxes on unrealized appreciation on investments of approximately \$0.3 million related to the Taxable Subsidiaries in the Condensed Consolidated Statements of Operations. The Company did not record a provision for taxes on unrealized appreciation on investments during the year ended December 31, 2019 or the period from February 7, 2018 to December 31, 2018. As of December 31, 2020, \$0.3 million was included in deferred tax liabilities, net on the Condensed Consolidated Statement of Assets and Liabilities, which includes a deferred tax asset of \$0.1 million and a deferred tax liability of approximately \$(0.4) million, primarily relating to deferred taxes on unrealized appreciation.

During the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, the Company did not incur any interest or penalties.

### 3. Investments

During the year ended December 31, 2019, the Company invested in two portfolio companies, Roundtable Equity Holdings LLC and Subsidiary (“Roundtables”) and Milton Industries, Inc. (“Milton”), for approximately \$56.5 million in aggregate.

During the year ended December 31, 2020, the Company invested in three additional portfolio companies, Resolution Economics, LLC (“Resolution Economics”), Blue Ridge ESOP Associates (“Blue Ridge”) and Healthcare Safety Holdings LLC (“HSH”), for approximately \$64.2 million in aggregate.

As of December 31, 2020 and December 31, 2019, the Company’s investment portfolio is summarized as follows:

Asset Category	As of December 31, 2020			
	Cost	Fair Value	Fair Value Percentage of Investment Portfolio	Fair Value Percentage of Net Assets
Senior debt				
Senior secured debt - first lien	\$ 42,100,000	\$ 42,100,000	18.2 %	13.6 %
Senior secured debt - second lien	35,942,454	35,942,454	15.6	11.6
Total senior debt	78,042,454	78,042,454	33.8	25.2
Equity	119,414,659	153,155,000	66.2	49.6
<b>Total investments</b>	<b>\$ 197,457,113</b>	<b>\$ 231,197,454</b>	<b>100.0 %</b>	<b>74.8 %</b>

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Asset Category	As of December 31, 2019			
	Cost	Fair Value	Fair Value Percentage of Investment Portfolio	Fair Value Percentage of Net Assets
Senior debt				
Senior secured debt - first lien	\$ 17,700,000	\$ 17,700,000	12.3 %	10.1 %
Senior secured debt - second lien	30,467,603	30,467,603	21.1	17.5
Total senior debt	48,167,603	48,167,603	33.4	27.6
Equity	85,106,736	96,027,397	66.6	55.1
<b>Total investments</b>	<b>\$ 133,274,339</b>	<b>\$ 144,195,000</b>	<b>100.0 %</b>	<b>82.7 %</b>

Collectively, the Company's debt investments accrue interest at a weighted average per annum rate of 15.4% and have weighted average remaining years to maturity of 4.4 years as of December 31, 2020. The note purchase agreements contain customary covenants and events of default. As of December 31, 2020, all of the Company's portfolio companies were in compliance with the Company's debt covenants.

As of December 31, 2020 and December 31, 2019, none of the Company's debt investments were on non-accrual status.

The industry and geographic dispersion of the Company's investment portfolio as a percentage of total fair value of the Company's investments as of December 31, 2020 and December 31, 2019 were as follows:

Industry	December 31, 2020	December 31, 2019
Commercial and Professional Services	27.5 %	39.2 %
Information Services and Advisory Solutions	22.3	32.2
Healthcare Supplies	18.4	—
Hobby Goods and Supplies	15.2	21.7
Business Services	10.8	—
Manufacturing	5.8	6.9
Total	100.0 %	100.0 %

Geographic Dispersion <sup>(1)</sup>	December 31, 2020	December 31, 2019
United States	100.0 %	100.0 %
Total	100.0 %	100.0 %

**FOOTNOTE:**

<sup>(1)</sup> The geographic dispersion is determined by the portfolio company's country of domicile or the jurisdiction of the security's issuer.

All investment positions held at December 31, 2020 and December 31, 2019 were denominated in U.S. dollars.

**Summarized Portfolio Company Financial Statement Information**

The Company had four portfolio companies which individually met at least one of the significance tests under Rule 4-08(g) of Regulation S-X ("Rule 4-08(g)") for the years ended December 31, 2020 and 2019. In addition, the Company's remaining individually insignificant portfolio companies met the significance tests under Rule 4-08(g) on an aggregate basis. The following tables present audited summarized operating data years ended December 31, 2020 and 2019, and summarized balance sheet data as of December 31, 2020 and December 31, 2019 for the Company's portfolio companies on an individual or aggregate basis, as applicable:

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Summarized Operating Data

	<b>Year Ended December 31, 2020</b>				
	<b>Lawn Doctor<sup>(1)</sup></b>	<b>Polyform<sup>(2)</sup></b>	<b>Roundtables<sup>(3)</sup></b>	<b>HSH<sup>(4)</sup></b>	<b>Other<sup>(5)</sup></b>
Revenues	\$ 28,676,790	\$ 18,980,631	\$ 10,941,572	\$ 13,939,954	\$ 87,739,720
Expenses	(27,231,876)	(17,372,329)	(11,691,246)	(15,632,468)	(98,687,251)
Income (loss) before taxes	1,444,914	1,608,302	(749,674)	(1,692,514)	(10,947,531)
Income tax (expense) benefit	(371,274)	(468,750)	1,443,128	109,000	3,117,173
Consolidated net income (loss)	1,073,640	1,139,552	693,454	(1,583,514)	(7,830,358)
Net loss attributable to non-controlling interests	213,666	—	—	—	—
Net income (loss)	\$ 1,287,306	\$ 1,139,552	\$ 693,454	\$ (1,583,514)	\$ (7,830,358)

	<b>Year Ended December 31, 2019<sup>(6)</sup></b>		
	<b>Lawn Doctor<sup>(1)</sup></b>	<b>Polyform<sup>(2)</sup></b>	<b>Roundtables<sup>(3)</sup></b>
Revenues	\$ 24,951,481	\$ 16,517,512	\$ 3,929,101
Expenses	(25,754,966)	(17,016,753)	(5,269,538)
Loss before taxes	(803,485)	(499,241)	(1,340,437)
Income tax benefit	142,104	140,000	335,795
Consolidated net loss	(661,381)	(359,241)	(1,004,642)
Net loss attributable to non-controlling interests	232,270	—	—
Net loss	\$ (429,111)	\$ (359,241)	\$ (1,004,642)

Summarized Balance Sheet Data

	<b>As of December 31, 2020</b>				
	<b>Lawn Doctor<sup>(1)</sup></b>	<b>Polyform<sup>(2)</sup></b>	<b>Roundtables<sup>(3)</sup></b>	<b>HSH<sup>(4)</sup></b>	<b>Other<sup>(5)</sup></b>
Current assets	\$ 8,386,243	\$ 9,692,346	\$ 4,166,690	\$ 12,684,343	\$ 51,902,237
Non-current assets	94,600,554	30,032,976	59,582,072	42,701,069	311,984,977
Current liabilities	7,669,894	2,460,606	4,406,878	5,732,781	35,926,638
Non-current liabilities	53,385,715	21,563,451	19,553,072	29,297,356	146,900,604
Non-controlling interest	(392,791)	—	—	—	—
Stockholders' equity	42,323,979	15,701,265	39,788,812	20,355,275	181,059,972

	<b>As of December 31, 2019<sup>(6)</sup></b>		
	<b>Lawn Doctor<sup>(1)</sup></b>	<b>Polyform<sup>(2)</sup></b>	<b>Roundtables<sup>(3)</sup></b>
Current assets	\$ 5,679,790	\$ 5,917,238	\$ 2,495,539
Non-current assets	96,327,351	31,474,762	61,232,699
Current liabilities	5,208,665	1,484,148	3,686,652
Non-current liabilities	52,854,284	21,123,045	20,946,228
Non-controlling interest	(179,125)	—	—
Stockholders' equity	44,123,317	14,784,807	39,095,358

**FOOTNOTES:**

- (1) As of December 31, 2020 and December 31, 2019, the Company owned approximately 61% and 62%, respectively, of the outstanding equity in Lawn Doctor on an undiluted basis.
- (2) As of December 31, 2020 and December 31, 2019, the Company owned approximately 87% of the outstanding equity in Polyform on an undiluted basis.
- (3) Summarized operating data presented for Roundtables for 2019 is for the period from August 1, 2019 (the date the Company acquired its investments in Roundtables) to December 31, 2019. As of December 31, 2020 and December 31, 2019, the Company owned approximately 81% of the outstanding equity in Roundtables on an undiluted basis.

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- (4) Summarized operating data presented for HSH is for the period from July 16, 2020 (the date the Company acquired its investments in HSH) to December 31, 2020. As of December 31, 2020, the Company owned approximately 75% of the outstanding equity in HSH on an undiluted basis.
- (5) Includes results for the Company's co-investments in which it owns a minority equity interest (Milton, Resolution Economics and Blue Ridge) for the period presented unless otherwise noted. Summarized operating data for Resolution Economics is for the period from January 2, 2020 (the date the Company acquired its investments in Resolution Economics) to November 30, 2020 (reported on a one-month lag basis). Summarized operating data for Blue Ridge is for the period from March 24, 2020 (the date the Company acquired its investments in Blue Ridge) to December 31, 2020.
- (6) Excludes results for our co-investment in which we own a minority equity interest (Milton) for the period from November 21, 2019 (the date the Company acquired its investments in Milton) to December 31, 2019 as this information is de minimis.

**4. Fair Value of Financial Instruments**

The Company's investments were categorized in the fair value hierarchy described in Note 2. "Significant Accounting Policies," as follows as of December 31, 2020 and 2019:

Description	As of December 31, 2020				As of December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Senior Debt	\$ —	\$ —	\$ 78,042,454	\$ 78,042,454	\$ —	\$ —	\$ 48,167,603	\$ 48,167,603
Equity	—	—	153,155,000	153,155,000	—	—	96,027,397	96,027,397
<b>Total investments</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$231,197,454</b>	<b>\$231,197,454</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$144,195,000</b>	<b>\$144,195,000</b>

The ranges of unobservable inputs used in the fair value measurement of the Company's Level 3 investments as of December 31, 2020 and December 31, 2019 were as follows:

December 31, 2020						
Asset Group	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) <sup>(1)</sup>	Impact to Valuation from an Increase in Input <sup>(2)</sup>	
Senior Debt	\$ 78,042,454	Discounted Cash Flow Market Comparables Transaction Method	Discount Rate	8.0% – 13.0% (10.7%)	Decrease	
			EBITDA Multiple	6.4x – 15.2x (11.6x)	Increase	
			EBITDA Multiple	6.8x – 14.5x (11.3x)	Increase	
Equity	153,155,000	Discounted Cash Flow Market Comparables Transaction Method	Discount Rate	8.0% – 13.0% (10.7%)	Decrease	
			EBITDA Multiple	6.4x – 15.2x (11.6x)	Increase	
			EBITDA Multiple	6.8x – 14.5x (11.3x)	Increase	
<b>Total</b>	<b>\$231,197,454</b>					

December 31, 2019						
Asset Group	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) <sup>(1)</sup>	Impact to Valuation from an Increase in Input <sup>(2)</sup>	
Senior Debt	\$ 44,814,338	Discounted Cash Flow Market Comparables Transaction Method	Discount Rate	9.0% – 14.0% (10.3%)	Decrease	
			EBITDA Multiple	7.8x – 14.3x (12.3x)	Increase	
			EBITDA Multiple	8.0x – 14.5x (12.2x)	Increase	
	3,353,265	Transaction Precedent	Transaction Price	N/A	N/A	
Equity	89,380,662	Discounted Cash Flow Market Comparables Transaction Method	Discount Rate	9.0% – 14.0% (10.3%)	Decrease	
			EBITDA Multiple	7.8x – 14.3x (12.3x)	Increase	
			EBITDA Multiple	8.0x – 14.5x (12.2x)	Increase	
	6,646,735	Transaction Precedent	Transaction Price	N/A	N/A	
<b>Total</b>	<b>\$144,195,000</b>					

**FOOTNOTES:**

- (1) Discount rates are relative to the enterprise value of the portfolio companies and are not the market yields on the associated debt investments. Unobservable inputs were weighted by the relative fair value of the investments.
- (2) This column represents the directional change in the fair value of the Level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.

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The preceding tables include the significant unobservable inputs as they relate to the Company's determination of fair values for its investments categorized within Level 3 as of December 31, 2020 and 2019. In addition to the techniques and inputs noted in the tables above, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the fair value estimates for the Company's investments. Any significant increases or decreases in the unobservable inputs would result in significant increases or decreases in the fair value of the Company's investments.

Investments that do not have a readily available market value are valued utilizing a market approach, an income approach (i.e. discounted cash flow approach), a transaction approach, or a combination of such approaches, as appropriate. The market approach uses prices, including third party indicative broker quotes, and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The transaction approach uses pricing indications derived from recent precedent merger and acquisition transactions involving comparable target companies. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) that are discounted based on a required or expected discount rate to derive a present value amount range. The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors the Company may take into account to determine the fair value of its investments include, as relevant: available current market data, including an assessment of the credit quality of the security's issuer, relevant and applicable market trading and transaction comparables, applicable market yields and multiples, illiquidity discounts, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, data derived from merger and acquisition activities for comparable companies, and enterprise values, among other factors.

The following tables provide a reconciliation of investments for which Level 3 inputs were used in determining fair value for the years ended December 31, 2020 and 2019:

	<b>Year Ended December 31, 2020</b>		
	<b>Senior Debt</b>	<b>Equity</b>	<b>Total</b>
Fair value balance as of January 1, 2020	\$ 48,167,603	\$ 96,027,397	\$ 144,195,000
Additions	29,874,851	34,307,923	64,182,774
Net change in unrealized appreciation <sup>(1)</sup>	—	22,819,680	22,819,680
Fair value balance as of December 31, 2020	<u>\$ 78,042,454</u>	<u>\$ 153,155,000</u>	<u>\$ 231,197,454</u>
Change in net unrealized appreciation in investments held as of December 31, 2020 <sup>(1)</sup>	<u>\$ —</u>	<u>\$ 22,819,680</u>	<u>\$ 22,819,680</u>
	<b>Year Ended December 31, 2019</b>		
	<b>Senior Debt</b>	<b>Equity</b>	<b>Total</b>
Fair value balance as of January 1, 2019	\$ 30,700,000	\$ 51,800,000	\$ 82,500,000
Additions	17,467,603	39,032,397	56,500,000
Net change in unrealized appreciation <sup>(1)</sup>	—	5,195,000	5,195,000
Fair value balance as of December 31, 2019	<u>\$ 48,167,603</u>	<u>\$ 96,027,397</u>	<u>\$ 144,195,000</u>
Change in net unrealized appreciation in investments held as of December 31, 2019 <sup>(1)</sup>	<u>\$ —</u>	<u>\$ 5,195,000</u>	<u>\$ 5,195,000</u>

**FOOTNOTE:**

<sup>(1)</sup> Included in net change in unrealized appreciation on investments in the consolidated statements of operations.

**5. Related Party Transactions**

On February 7, 2018, the Company commenced operations when it met the minimum offering requirement of \$80.0 million in Class FA shares under its 2018 Private Offering and issued approximately 3.3 million shares of Class FA shares for aggregate gross proceeds of approximately \$81.7 million. The \$81.7 million in gross proceeds received included a cash capital contribution of \$2.4 million from the Manager in exchange for 96,000 Class FA shares and a cash capital contribution of \$9.5 million from CNL Strategic Capital Investment, LLC, which is indirectly controlled by James M. Seneff, Jr., the chairman of the Company, in exchange for 380,000 Class FA shares. The \$81.7 million also included 96,000 Class FA shares received in

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exchange for \$2.4 million of non-cash consideration in the form of equity interests in Lawn Doctor received from an affiliate of the Sub-Manager pursuant to an exchange agreement. The \$81.7 million in gross proceeds also included a cash capital contribution of approximately \$0.4 million in exchange for 15,000 Class FA shares from other individuals affiliated with the Manager.

The Manager and Sub-Manager, along with certain affiliates of the Manager or Sub-Manager, will receive fees and compensation in connection with the Company's Initial Public Offering and Follow-On Class FA Private Offering, as well as the acquisition, management and sale of the assets of the Company, as follows:

***Placement Agent/Dealer Manager***

*Commissions* — Under the Initial Public Offering, the Company pays CNL Securities Corp. (the “Managing Dealer” in connection with the Initial Public Offering and the “Placement Agent” in connection with the Class FA Private Offerings), an affiliate of the Manager, a selling commission up to 6.00% of the sale price for each Class A share and 3.00% of the sale price for each Class T share sold in the Initial Public Offering (excluding sales pursuant to the Company's distribution reinvestment plan). The Company paid the Placement Agent a selling commission of up to 5.50% and up to 2.0% of the sale price for each Class FA and Class S share sold in the Follow-On Class FA Private Offering and Class S Private Offering, respectively. There was no selling commission for the sale of Class FA shares in the Class FA Private Offering. The Managing Dealer may reallocate all or a portion of the selling commissions to participating broker-dealers.

*Placement Agent/Dealer Manager Fee* — Under the Initial Public Offering, the Company pays the Managing Dealer a dealer manager fee of 2.50% of the price of each Class A share and 1.75% of the price of each Class T share sold in the Initial Public Offering (excluding sales pursuant to the Company's distribution reinvestment plan). Under the Follow-On Class FA Private Offering, the Company paid the Placement Agent a placement agent fee of 3.00% and 1.5% of the price of each Class FA and Class S share sold in the Follow-On Class FA Private Offering and Class S Private Offering, respectively. There was no placement agent fee for the sale of Class FA shares sold in the Class FA Private Offering. The Managing Dealer may reallocate all or a portion of such placement agent / dealer manager fees to participating broker-dealers.

*Distribution and Shareholder Servicing Fee* — Under the Initial Public Offering, the Company pays the Managing Dealer a distribution and shareholder servicing fee, subject to certain limits, with respect to its Class T and Class D shares (excluding Class T shares and Class D shares sold through the distribution reinvestment plan and those received as share distributions) in an annual amount equal to 1.00% and 0.50%, respectively, of its current net asset value per share, as disclosed in its periodic or current reports, payable on a monthly basis. The distribution and shareholder servicing fee accrues daily and is paid monthly in arrears. The Managing Dealer may reallocate all or a portion of the distribution and shareholder servicing fee to the broker-dealer who sold the Class T or Class D shares or, if applicable, to a servicing broker-dealer of the Class T or Class D shares or a fund supermarket platform featuring Class D shares, so long as the broker-dealer or financial intermediary has entered into a contractual agreement with the Managing Dealer that provides for such reallocation. The distribution and shareholder servicing fee is an ongoing fee that is allocated among all Class T and Class D shares, respectively, and is not paid at the time of purchase.

***Manager and/or Sub-Manager***

*Organization and Offering Costs* — Under the Offerings, the Company reimburses the Manager and the Sub-Manager, along with their respective affiliates, for the organization and offering costs (other than selling commissions and placement agent / dealer manager fees) they have incurred on the Company's behalf only to the extent that such expenses do not exceed (A) 1.0% of the cumulative gross proceeds from the 2018 Private Offering, Class FA Private Offerings, and Class S Private Offering and (B) 1.5% of the cumulative gross proceeds from the Initial Public Offering. The Company incurred an obligation to reimburse the Manager and Sub-Manager for approximately \$1.1 million, \$0.7 million and \$0.9 million in organization and offering costs based on actual amounts raised through the Offerings during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. The Manager and the Sub-Manager have incurred additional organization and offering costs of approximately \$4.6 million on behalf of the Company in connection with the Offerings (exceeding the respective limitations) as of December 31, 2020. These costs will be recognized by the Company in future periods as the Company receives future offering proceeds from its Initial Public Offering to the extent such costs are within the 1.5% limitation.

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*Base Management Fee to Manager and Sub-Manager* — The Company pays each of the Manager and the Sub-Manager 50% of the total base management fee for their services under the Management Agreement and the Sub-Management Agreement, subject to any reduction or deferral of any such fees pursuant to the terms of the Expense Support and Conditional Reimbursement Agreement described below. The Company incurred base management fees of approximately \$2.6 million, \$1.3 million and \$0.7 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively.

The base management fee is calculated for each share class at an annual rate of (i) for the Non-founder shares of a particular class, 2% of the product of (x) the Company's average gross assets and (y) the ratio of Non-founder share Average Adjusted Capital (as defined below), for a particular class to total Average Adjusted Capital and (ii) for the Founder shares of a particular class, 1% of the product of (x) the Company's average gross assets and (y) the ratio of outstanding Founder share Average Adjusted Capital for a particular class to total Average Adjusted Capital, in each case excluding cash, and will be payable monthly in arrears. The management fee for a certain month is calculated based on the average value of the Company's gross assets at the end of that month and the immediately preceding calendar month. The determination of gross assets reflects changes in the fair market value of the Company's assets, which does not necessarily equal their notional value, reflecting both realized and unrealized capital appreciation or depreciation. The base management fee may be reduced or deferred by the Manager and the Sub-Manager under the Management Agreement and the Expense Support and Conditional Reimbursement Agreement described below. For purposes of this calculation, "Average Adjusted Capital" for an applicable class is computed on the daily Adjusted Capital for such class for the actual number of days in such applicable month. "Adjusted Capital" is defined as cumulative proceeds generated from sales of the Company's shares of a particular share class (including proceeds from the sale of shares pursuant to the distribution reinvestment plan, if any), net of sales load (upfront selling commissions and dealer manager fees), if any, reduced for the full amounts paid for share repurchases pursuant to any share repurchase program, if any, for such class.

*Total Return Incentive Fee on Income to the Manager and Sub-Manager* — The Company also pays each of the Manager and the Sub-Manager 50% of the total return incentive fee for their services under the Management Agreement and the Sub-Management Agreement. The Company recorded total return incentive fees of approximately \$4.2 million, \$0.8 million and \$1.0 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively.

The total return incentive fee is based on the Total Return to Shareholders (as defined below) for each share class in any calendar year, payable annually in arrears. The Company accrues (but does not pay) the total return incentive fee on a quarterly basis, to the extent that it is earned, and performs a final reconciliation and makes required payments at completion of each calendar year. The total return incentive fee may be reduced or deferred by the Manager and the Sub-Manager under the Management Agreement and the Expense Support and Conditional Reimbursement Agreement described below. For purposes of this calculation, "Total Return to Shareholders" for any calendar quarter is calculated for each share class as the change in the net asset value for such share class plus total distributions for such share class calculated based on the Average Adjusted Capital for such class as of such calendar quarter end. The terms "Total Return to Non-founder Shareholders" and "Total Return to Founder Shareholders" means the Total Return to Shareholders specifically attributable to each particular share class of Non-founder shares or Founder shares, as applicable.

The total return incentive fee for each share class is calculated as follows:

- No total return incentive fee will be payable in any calendar year in which the annual Total Return to Shareholders of a particular share class does not exceed 7% (the "Annual Preferred Return").
- As it relates to the Non-founder shares, all of the Total Return to Shareholders with respect to each particular share class of Non-founder shares, if any, that exceeds the annual preferred return, but is less than or equal to 8.75%, or the "Non-founder breakpoint," in any calendar year, will be payable to the Manager ("Non-founder Catch Up"). The Non-Founder Catch Up is intended to provide an incentive fee of 20% of the Total Return to Non-founder Shareholders of a particular share class once the Total Return to Non-founder Shareholders of a particular class exceeds 8.75% in any calendar year.
- As it relates to Founder shares, all of the Total Return to Founder Shareholders with respect to each particular share class of Founder shares, if any, that exceeds the annual preferred return, but is less than or equal to 7.777%, or the "founder breakpoint," in any calendar year, will be payable to the Manager ("Founder Catch Up"). The Founder Catch Up is intended to provide an incentive fee of 10% of the Total Return to Founder Shareholders of a particular share class once the Total Return to Founder Shareholders of a particular class exceeds 7.777% in any calendar year.

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- For any quarter in which the Total Return to Shareholders of a particular share class exceeds the relevant breakpoint, the total return incentive fee of a particular share class shall equal, for Non-founder shares, 20% of the Total Return to Non-founder Shareholders of a particular class, and for Founder shares, 10% of the Total Return to Founder Shareholders of a particular class, in each case because the annual preferred and relevant catch ups will have been achieved.
- For purposes of calculating the Total Return to Shareholders, the change in the Company's net asset value is subject to a High Water Mark. The "High Water Mark" is equal to the highest year-end net asset value, for each share class of the Company since inception, adjusted for any special distributions resulting from the sale of the Company's assets, provided such adjustment is approved by the Company's board of directors. If, as of each calendar year end, the Company's net asset value for the applicable share class is (A) above the High Water Mark, then, for such calendar year, the Total Return to Shareholders calculation will include the increase in the Company's net asset value for such share class in excess of the High Water Mark, and (B) if the Company's net asset value for the applicable share class is below the High Water Mark, for such calendar year, (i) any increase in the Company's per share net asset value will be disregarded in the calculation of Total Return to Shareholders for such share class while (ii) any decrease in the Company's per share net asset value will be included in the calculation of Total Return to Shareholders for such share class. For the year ended December 31, 2018, the High Water Mark was \$24.75 for all share classes. For the year ended December 31, 2019, the High Water Marks were \$26.65 for Class FA shares, \$26.44 for Class A shares, \$26.54 for Class T shares, \$26.23 for Class D shares, and \$26.55 for Class I shares. For the year ended December 31, 2020, the High Water Marks were \$27.64 for Class FA shares, \$26.91 for Class A shares, \$27.01 for Class T shares, \$26.61 for Class D shares, \$27.15 for Class I shares and \$27.64 for Class S shares.

For purposes of this calculation, "Average Adjusted Capital" for an applicable class is computed on the daily Adjusted Capital for such class for the actual number of days in such applicable quarter. The annual preferred return of 7% and the relevant breakpoints of 8.75% and 7.777%, respectively, are also adjusted for the actual number of days in each calendar year, measured as of each calendar quarter end.

*Reimbursement to Manager and Sub-Manager for Operating Expenses* — The Company reimburses the Manager and the Sub-Manager and their respective affiliates for certain operating costs and expenses of third parties incurred in connection with their provision of services to the Company, including fees, costs, expenses, liabilities and obligations relating to the Company's activities, acquisitions, dispositions, financings and business, subject to the terms of the Company's limited liability company agreement, the Management Agreement, the Sub-Management Agreement and the Expense Support and Conditional Reimbursement Agreement (as defined below). The Company does not reimburse the Manager and Sub-Manager for administrative services performed by the Manager or Sub-Manager for the benefit of the Company.

*Expense Support and Conditional Reimbursement Agreement* — The Company entered into an expense support and conditional reimbursement agreement with the Manager and the Sub-Manager (the "Expense Support and Conditional Reimbursement Agreement"), which became effective on February 7, 2018, pursuant to which each of the Manager and the Sub-Manager agrees to reduce the payment of base management fees, total return incentive fees and the reimbursements of reimbursable expenses due to the Manager and the Sub-Manager under the Management Agreement and the Sub-Management Agreement, as applicable, to the extent that the Company's annual regular cash distributions exceed its annual net income (with certain adjustments). The amount of such expense support is equal to the annual (calendar year) excess, if any, of (a) the distributions (as defined in the Expense Support and Conditional Reimbursement Agreement) declared and paid (net of the Company's distribution reinvestment plan) to shareholders minus (b) the available operating funds, as defined in the Expense Support and Conditional Reimbursement Agreement (the "Expense Support"). The Company recorded expense support due from the Manager and Sub-Manager of approximately \$3.3 million, \$1.4 million and \$0.4 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. Expense support is paid by the Manager and Sub-Manager annually in arrears.

The Expense Support amount is borne equally by the Manager and the Sub-Manager and is calculated as of the last business day of the calendar year. Until the Expense Support and Conditional Reimbursement Agreement is terminated, the Manager and Sub-Manager shall equally conditionally reduce the payment of fees and reimbursements of reimbursable expenses in an amount equal to the conditional waiver amount (as defined in and subject to limitations described in the Expense Support and Conditional Reimbursement Agreement). The term of the Expense Support and Conditional Reimbursement Agreement has the same initial term and renewal terms as the Management Agreement or the Sub-Management Agreement, as applicable, to the Manager or the Sub-Manager.

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If, on the last business day of the calendar year, the annual (calendar year) year-to-date available operating funds exceeds the sum of the annual (calendar year) year-to-date distributions paid per share class (the “Excess Operating Funds”), the Company uses such Excess Operating Funds to pay the Manager and the Sub-Manager all or a portion of the outstanding unreimbursed Expense Support amounts for each share class, as applicable, subject to certain conditions (the “Conditional Reimbursements”) as described further in the Expense Support and Conditional Reimbursement Agreement. The Company’s obligation to make Conditional Reimbursements shall automatically terminate and be of no further effect three years following the date which the Expense Support amount was provided and to which such Conditional Reimbursement relates, as described further in the Expense Support and Conditional Reimbursement Agreement.

As of December 31, 2020, the amount of expense support collected from the Manager and Sub-Manager was approximately \$1.8 million. As of December 31, 2020, management believes that reimbursement payments by the Company to the Manager and Sub-Manager are not probable under the terms of the Expense Support and Conditional Reimbursement Agreement. The following table reflects the expense support that may become reimbursable, subject to the conditions of reimbursement defined in the Expense Support and Conditional Reimbursement Agreement:

<u>For the Year Ended</u>	<u>Amount</u>	<u>Expiration</u>
December 31, 2018	\$ 389,774	March 31, 2022
December 31, 2019	1,372,020	March 31, 2023
	<u>\$ 1,761,794</u>	

As of December 31, 2020, the Company recorded a receivable for expense support of approximately \$3.3 million. This amount will become subject to the conditions of reimbursement once paid by the Manager and Sub-Manager.

*Distributions*

Individuals and entities affiliated with the Manager and Sub-Manager owned approximately 0.6 million shares as of December 31, 2020 and 2019, and received distributions from the Company of approximately \$0.7 million, \$0.7 million and \$0.6 million during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively.

Related party fees and expenses incurred for the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018 are summarized below:

<u>Related Party</u>	<u>Source Agreement &amp; Description</u>	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>	<u>Period from February 7, 2018 to December 31, 2018</u>
Managing Dealer / Placement Agent	Managing Dealer / Placement Agent Agreements: Commissions	\$ 1,918,852	\$ 816,330	\$ 321,905
	Dealer Manager / Placement Agent Fees	1,256,229	418,270	149,945
	Distribution and shareholder servicing fees	165,012	46,400	6,774
Manager and Sub- Manager	Management Agreement and Sub-Management Agreement:			
	Organization and offering reimbursement <sup>(1)(2)</sup>	1,142,237	654,803	948,032
	Base management fees <sup>(1)</sup>	2,596,842	1,327,920	722,233
	Total return incentive fees <sup>(1)</sup>	4,150,562	847,863	1,015,228
Manager and Sub- Manager	Expense Support and Conditional Reimbursement Agreement:			
	Expense support	(3,301,473)	(1,372,020)	(389,774)
Manager	Administrative Services Agreement: Reimbursement of third-party operating expenses <sup>(1)</sup>	191,070	164,744	160,291
Sub-Manager	Sub-Management Agreement: Reimbursement of third-party pursuit costs <sup>(1)(3)</sup>	154,727	76,052	—

**FOOTNOTES:**

<sup>(1)</sup> Expenses subject to Expense Support.

<sup>(2)</sup> Organization reimbursements are expensed on the Company’s statements of operations as incurred. Offering reimbursements are capitalized on the Company’s statements of assets and liabilities as deferred offering expenses and expensed to the Company’s statements of operations over the lesser of the offering period or 12 months.

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<sup>(3)</sup> Includes reimbursement of third-party fees incurred for investments that did not close, including fees and expenses associated with performing the due diligence reviews.

The following table presents amounts due from (to) related parties as of December 31, 2020 and December 31, 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Due from related parties:		
Expense Support	\$ 3,301,473	\$ 1,372,020
Total due from related parties	<u>3,301,473</u>	<u>1,372,020</u>
Due to related parties:		
Organization and offering expenses	(122,779)	(56,888)
Base management fees	(271,983)	(165,338)
Total return incentive fee	(4,150,562)	(847,863)
Reimbursement of third-party operating expenses and pursuit costs	(212,793)	(16,677)
Distribution and shareholder servicing fees	(19,814)	(6,690)
Total due to related parties	<u>(4,777,931)</u>	<u>(1,093,456)</u>
Net due (to) from related parties	<u>\$ (1,476,458)</u>	<u>\$ 278,564</u>

*Other Related Party Transactions*

As of December 31, 2019, an affiliate of the Sub-Manager held \$10.0 million of the Company's funds in escrow for purposes of acquiring new equity and debt investments in January 2020.

The Sub-Manager earned transaction fees of approximately \$0.2 million during the year ended December 31, 2020, related to the co-investments of Resolution Economics and Blue Ridge, and approximately \$0.1 million during the year ended December 31, 2019, related to the co-investment of Milton. See Note 3. "Investments" for additional information on investments. The transaction fees were charged to the respective portfolio companies and are not reflected in the financial statements of the Company. The Sub-Manager did not earn any transaction fees during the period from February 7, 2018 to December 31, 2018.

Lawn Doctor and Polyform were majority owned by an affiliate of the Sub-Manager prior to the Company's acquisition of these portfolio companies in 2018.

**6. Distributions**

The Company's board of directors declared distributions on a monthly basis (12 record dates) in each of the years ended December 31, 2020 and 2019 and on a weekly basis (43 record dates) during the period from March 7, 2018 to December 31, 2018. Declared distributions are paid monthly in arrears. The following table reflects the total distributions declared during the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018:

<u>Distribution Period</u>	<u>Distributions Declared<sup>(1)(2)</sup></u>	<u>Distributions Reinvested<sup>(3)</sup></u>	<u>Cash Distributions Net of Distributions Reinvested</u>
Year ended December 31, 2020	\$ 9,929,353	\$ 2,240,547	\$ 7,688,806
Year ended December 31, 2019	5,845,584	886,408	4,959,176
Period from February 7, 2018 to December 31, 2018	3,518,302	126,625	3,391,677

**FOOTNOTES:**

<sup>(1)</sup> Distributions declared per share for each share class were as follows:

<u>Record Date Period</u>	<u>Class FA</u>	<u>Class A</u>	<u>Class T</u>	<u>Class D</u>	<u>Class I</u>	<u>Class S</u>
January 1, 2020 - December 31, 2020 (12 record dates)	\$ 0.104167	\$ 0.104167	\$ 0.083333	\$ 0.093750	\$ 0.104167	\$ 0.104167
January 1, 2019 - December 31, 2019 (12 record dates)	0.104167	0.104167	0.083333	0.093750	0.104167	—
March 7, 2018	0.020604	0.020604	0.016484	0.018544	0.020604	—
March 13, 2018 - December 31, 2018 (42 record dates)	0.024038	0.024038	0.019231	0.021635	0.024038	—

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- (2) The Company’s board of directors began declaring monthly distributions per Class S share for record date March 30, 2020. The Class S shares were first sold on March 31, 2020.
- (3) For the year ended December 31, 2020, includes distributions reinvested in January 2021 of \$244,845 related to distributions declared based on record dates in December 31, 2020 and excludes distributions reinvested in January 2020 of \$114,090 related to distributions declared based on record dates in December 31, 2019. For the year ended December 31, 2019, includes distributions reinvested in January 2020 of \$114,090 related to distributions declared based on record dates in December 31, 2019 and excludes distributions reinvested in January 2019 of \$26,789 related to distributions declared based on record dates in December 2018. For the period from February 7, 2018 to December 31, 2018, includes distributions reinvested in January 2019 of \$26,789 related to distributions declared based on record dates in December 2018.

The sources of declared distributions on a GAAP basis were as follows:

	<u>Year Ended December 31, 2020</u>		<u>Year Ended December 31, 2019</u>		<u>Period from February 7, 2018 to December 31, 2018</u>	
	<u>Amount</u>	<u>% of Cash Distributions Declared</u>	<u>Amount</u>	<u>% of Cash Distributions Declared</u>	<u>Amount</u>	<u>% of Cash Distributions Declared</u>
Net investment income <sup>(1)</sup>	\$ 7,493,472	75.5 %	\$ 4,981,264	85.2 %	\$ 3,389,372	96.3 %
Distributions in excess of net investment income <sup>(2)</sup>	2,435,881	24.5	864,320	14.8 %	128,930	3.7
Total distributions declared	<u>\$ 9,929,353</u>	<u>100.0 %</u>	<u>\$ 5,845,584</u>	<u>100.0 %</u>	<u>\$ 3,518,302</u>	<u>100.0 %</u>

**FOOTNOTES:**

- (1) Net investment income includes expense support from the Manager and Sub-Manager of \$3,301,473, \$1,372,020 and \$389,774 for the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018, respectively. See Note 5. “Related Party Transactions” for additional information.
- (2) Consists of distributions made from offering proceeds for the periods presented.

In December 2020, the Company’s board of directors declared a monthly cash distribution on the outstanding shares of all classes of common shares of record on January 28, 2021 of \$0.104167 per share for Class FA shares, \$0.104167 per share for Class A shares, \$0.083333 per share for Class T shares, \$0.093750 per share for Class D shares, \$0.104167 per share for Class I shares and \$0.104167 per share for Class S shares.

**7. Capital Transactions**

***2018 Private Offering***

On February 7, 2018, the Company commenced operations when it met the minimum offering requirement of \$80.0 million in Class FA shares under its 2018 Private Offering and issued approximately 3.3 million shares of Class FA shares for aggregate gross proceeds of approximately \$81.7 million. The Company did not incur any selling commissions or placement agent fees (“sales load”) from the sale of the approximately 3.3 million Class FA shares sold under the terms of the 2018 Private Offering. See Note 5. “Related Party Transactions” for additional information on Class FA shares issued to the Manager, Sub-Manager and their affiliates.

***Initial Public Offering***

The Registration Statement became effective on March 7, 2018, and the Company began offering up to \$1.0 billion of shares, on a best efforts basis, which means that CNL Securities Corp., as the Managing Dealer of the Initial Public Offering, uses its best effort but is not required to sell any specific amount of shares. The Company is offering, in any combination, four classes of shares in the Initial Public Offering: Class A shares, Class T shares, Class D shares and Class I shares. The initial minimum permitted purchase amount is \$5,000 in shares. There are differing selling fees and commissions for each share class. The Company also pays distribution and shareholder servicing fees, subject to certain limits, on the Class T and Class D shares sold in the Initial Public Offering (excluding sales pursuant to the Company’s distribution reinvestment plan). The public offering price, selling commissions and dealer manager fees per share class are determined monthly as approved by the Company’s board of directors. As of December 31, 2020, the public offering price was \$30.99 per Class A share, \$29.70 per Class T share, \$27.85 per Class D share and \$28.65 per Class I share. See Note 12. “Subsequent Events” for information on changes to the public offering price, selling commissions and dealer manager fees by share class.

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The Company is also offering, in any combination, up to \$100.0 million of Class A shares, Class T shares, Class D shares and Class I shares to be issued pursuant to its distribution reinvestment plan. See Note 12. “Subsequent Events” for additional information related to the Initial Public Offering.

***Class FA Private Offerings***

In April and June 2019, the Company launched separate Class FA private offerings of up to \$50.0 million each (the “Class FA Private Offering” and the “Follow-On Class FA Private Offering,” respectively) pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act and entered into a placement agent agreement with the Placement Agent. There were no selling commissions or placement agent fees for the sale of Class FA shares in the Class FA Private Offering. The Class FA Private Offering was closed in December 2019.

The Company paid the Placement Agent a selling commission of up to 5.5% and placement agent fee of up to 3.0% of the sale price for each Class FA share sold in the Follow-On Class FA Private Offering, except as a reduction or sales load waiver may apply. The Follow-On Class FA Private Offering closed in March 2020.

In conjunction with the launch of the Class FA Private Offering in April 2019, the Company’s board of directors reclassified 4.0 million authorized shares of Class T shares to Class FA shares.

***Class S Private Offering***

In January 2020, the Company’s board of directors authorized the designation of Class S shares and the Company commenced the Class S Private Offering of up to \$50.0 million of Class S shares. The Placement Agent served as placement agent for the Class S Private Offering. The Class S Private Offering was conducted pursuant to the applicable exemption from registration under Section 4(a)(2) of the Securities Act and Rule 506(c) of Regulation D promulgated under the Securities Act. The Company paid the Placement Agent a selling commission of up to 2.0% and a placement agent fee of up to 1.5% of the sale price for each Class S share sold in the Class S Private Offering, except as a reduction or sales load waiver that may apply. The Class S Private Offering closed in December 2020.

In conjunction with the launch of the Class S Private Offering, in January 2020 the Company’s board of directors reclassified 100.0 million authorized shares of Class T shares to Class S shares.

The following table summarizes the total shares issued and proceeds received by share class in connection with the Offerings, excluding shares repurchased through the Share Repurchase Program described further below, for the years ended December 31, 2020 and 2019 and for the period from February 7, 2018 to December 31, 2018:

<b>Year Ended December 31, 2020</b>									
<b>Proceeds from Offerings</b>					<b>Distributions Reinvested<sup>(1)</sup></b>		<b>Total</b>		
<b>Share Class</b>	<b>Shares Issued</b>	<b>Gross Proceeds</b>	<b>Sales Load<sup>(2)(3)</sup></b>	<b>Net Proceeds to Company</b>	<b>Shares</b>	<b>Proceeds to Company</b>	<b>Shares</b>	<b>Net Proceeds to Company</b>	<b>Average Net Proceeds per Share</b>
Class FA	569,642	\$ 15,853,000	\$ (167,960)	\$ 15,685,040	—	\$ —	569,642	\$ 15,685,040	\$ 27.53
Class A	334,440	9,808,964	(679,465)	9,129,499	35,376	961,623	369,816	10,091,122	27.29
Class T	473,344	13,486,208	(640,595)	12,845,613	8,440	229,816	481,784	13,075,429	27.14
Class D	143,074	3,873,660	—	3,873,660	9,174	245,006	152,248	4,118,666	27.05
Class I	1,076,234	29,893,733	—	29,893,733	24,532	673,348	1,100,766	30,567,081	27.77
Class S	1,770,386	52,359,647	(1,687,061)	50,672,586	—	—	1,770,386	50,672,586	28.62
	<u>4,367,120</u>	<u>\$ 125,275,212</u>	<u>\$(3,175,081)</u>	<u>\$ 122,100,131</u>	<u>77,522</u>	<u>\$ 2,109,793</u>	<u>4,444,642</u>	<u>\$ 124,209,924</u>	<u>\$ 27.95</u>

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**Year Ended December 31, 2019**

Share Class	Proceeds from Offerings				Distributions Reinvested <sup>(4)</sup>		Total		
	Shares Issued	Gross Proceeds	Sales Load <sup>(2)(3)</sup>	Net Proceeds to Company	Shares	Proceeds to Company	Shares	Net Proceeds to Company	Average Net Proceeds per Share
Class FA	1,008,488	\$ 27,628,371	\$ (41,924)	\$ 27,586,447	—	\$ —	1,008,488	\$ 27,586,447	\$ 27.35
Class A	463,565	13,294,279	(970,592)	12,323,687	13,489	359,080	477,054	12,682,767	26.59
Class T	166,277	4,675,452	(222,084)	4,453,368	933	24,962	167,210	4,478,330	26.78
Class D	176,604	4,655,674	—	4,655,674	6,324	166,334	182,928	4,822,008	26.36
Class I	679,491	18,173,050	—	18,173,050	9,278	248,731	688,769	18,421,781	26.75
	<u>2,494,425</u>	<u>\$ 68,426,826</u>	<u>\$(1,234,600)</u>	<u>\$ 67,192,226</u>	<u>30,024</u>	<u>\$ 799,107</u>	<u>2,524,449</u>	<u>\$ 67,991,333</u>	<u>\$ 26.93</u>

**Period from February 7, 2018 to December 31, 2018**

Share Class	Proceeds from Offerings				Distributions Reinvested <sup>(5)</sup>		Total		
	Shares Issued	Gross Proceeds	Sales Load <sup>(2)(3)</sup>	Net Proceeds to Company	Shares	Proceeds to Company	Shares	Net Proceeds to Company	Average Net Proceeds per Share
Class FA	3,258,260	\$ 81,456,500	\$ —	\$ 81,456,500	—	\$ —	3,258,260	\$ 81,456,500	\$ 25.00
Class A	190,046	5,435,093	(430,953)	5,004,140	2,342	60,639	192,388	5,064,779	26.33
Class T	31,432	861,000	(40,897)	820,103	20	510	31,452	820,613	26.09
Class D	121,797	3,160,000	—	3,160,000	1,092	28,533	122,889	3,188,533	25.95
Class I	249,136	6,492,500	—	6,492,500	390	10,154	249,526	6,502,654	26.06
	<u>3,850,671</u>	<u>\$ 97,405,093</u>	<u>\$ (471,850)</u>	<u>\$ 96,933,243</u>	<u>3,844</u>	<u>\$ 99,836</u>	<u>3,854,515</u>	<u>\$ 97,033,079</u>	<u>\$ 25.17</u>

**FOOTNOTES:**

- (1) Amounts exclude distributions reinvested in January 2021 related to the payment of distributions declared in December 2020 and include distributions reinvested in January 2020 related to the payment of distributions declared in December 2019.
- (2) The Company incurred selling commissions and placement agent fees on the sale of Class FA shares sold in the Follow-On Class FA Private Offering and on the sale of Class S shares sold in the Class S Private Offering. The Company also incurs selling commissions and dealer manager fees on the sale of Class A and Class T shares sold through the Initial Public Offering. See Note 5. “Related Party Transactions” for additional information regarding up-front selling commissions and dealer manager/placement agent fees.
- (3) The Company did not incur any selling commissions or placement agent fees from the sale of the approximately 0.3 million and 3.3 million Class FA shares sold under the terms of the Class FA Private Offering and 2018 Private Offering, respectively.
- (4) Amounts exclude distributions reinvested in January 2020 related to the payment of distributions declared in December 2019 and include distributions reinvested in January 2019 related to the payment of distributions declared in December 2018.
- (5) Amounts exclude distributions reinvested in January 2019 related to the payment of distributions declared in December 2018.

**Share Repurchase Program**

In March 2019, the Company’s board of directors approved and adopted the Share Repurchase Program. The total amount of aggregate repurchases of Class A, Class FA, Class T, Class D and Class I shares will be limited to up to 2.5% of the aggregate net asset value per calendar quarter (based on the aggregate net asset value as of the last date of the month immediately prior to the repurchase date) and up to 10% of the aggregate net asset value per year (based on the average aggregate net asset value as of the end of each of the Company’s trailing four quarters). Unless the Company’s board of directors determines otherwise, the Company will limit the number of shares to be repurchased during any calendar quarter to the number of shares the Company can repurchase with the proceeds received from the sale of shares under its distribution reinvestment plan in the previous quarter. Notwithstanding the foregoing, at the sole discretion of the Company’s board of directors, the Company may also use other sources, including, but not limited to, offering proceeds and borrowings to repurchase shares.

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During the year ended December 31, 2020 and 2019, the Company received requests for the repurchase of approximately \$9.6 million and \$0.9 million of the Company's common shares, respectively, which exceeded proceeds received from its distribution reinvestment plan for the applicable periods by approximately \$7.8 million and \$0.3 million, respectively. The Company's board of directors approved the use of other sources to satisfy repurchase requests received in excess of proceeds received from the distribution reinvestment plan. The following table summarizes the shares repurchased during the year ended December 31, 2020 and 2019:

	Year Ended December 31,					
	2020			2019		
	Shares Repurchased	Total Consideration	Average Price Paid per Share	Shares Repurchased	Total Consideration	Average Price Paid per Share
Class FA shares	246,653	\$ 7,037,470	\$ 28.53	19,200	\$ 521,971	\$ 27.19
Class A shares	4,580	123,038	26.86	300	8,040	26.76
Class T shares	25,774	721,226	27.98	—	—	—
Class D shares	1,156	32,212	27.85	3,185	84,175	26.43
Class I shares	63,062	1,732,971	27.48	9,448	254,746	26.96
Total	<u>341,225</u>	<u>\$ 9,646,917</u>	<u>\$ 28.27</u>	<u>32,133</u>	<u>\$ 868,932</u>	<u>\$ 27.04</u>

As of December 31, 2020 and 2019, the Company had a payable for shares repurchased of approximately \$2.0 million and \$0.2 million, respectively.

## 8. Borrowings

In June 2019, the Company, through a wholly-owned subsidiary, entered into a loan agreement and related promissory note (the "2019 Loan Agreement") with Seaside National Bank and Trust for a \$20.0 million line of credit (the "2019 Line of Credit") with an original maturity date in June 2020. The Company extended the original maturity date of the 2019 Line of Credit to July 2020. The Company did not borrow any amounts under the 2019 Line of Credit.

In July 2020, the Company entered into an Amended and Restated Loan Agreement (the "2020 Loan Agreement") and related Amended and Restated Promissory Note with United Community Bank (d/b/a Seaside Bank and Trust, referred to as "Seaside") for a line of credit (the "2020 Line of Credit") in the same amount. The 2020 Line of Credit has a maturity date of July 14, 2021. The Company paid a \$60,000 commitment fee to Seaside in connection with closing on the 2020 Line of Credit. The Company is required to pay an additional fee to Seaside with each advance under the 2020 Loan Agreement in an amount equal to 0.05% of the amount of each borrowing with a maximum fee of \$20,000. Under the 2020 Loan Agreement, the Company is required to pay interest on the borrowed amount at a rate per year equal to the greater of (a) the 30-day LIBOR plus 2.75% and (b) 3.00%. Interest payments are due monthly in arrears. The Company may prepay, without penalty, all or any part of the borrowings under the 2020 Loan Agreement at any time and such borrowings are required to be repaid within 180 days of the borrowing date. Under the 2020 Loan Agreement, the Company is required to comply with reporting requirements and other customary requirements for similar credit facilities. In connection with the 2020 Loan Agreement, in July 2020, the Company entered into an amended assignment and pledge of deposit account agreement ("Deposit Agreement") in favor of the lender under the 2020 Line of Credit. Under the Deposit Agreement, the Company is required to contribute proceeds from the Offerings to pay down the outstanding debt to the extent there are any borrowings outstanding under the 2020 Loan Agreement above the minimum cash balance of \$2.5 million.

The Company had not borrowed any amounts under the 2020 Line of Credit as of December 31, 2020.

## 9. Concentrations of Risk

As of and for the year ended December 31, 2020, the Company had four portfolio companies (Lawn Doctor, Polyform, Roundtables and HSH) which met at least one of the significance tests under Rule 4-08(g) of Regulation S-X.

The portfolio companies are required to make monthly interest payments on their debt, with the debt principal due upon maturity. Failure of any of these portfolio companies to pay contractual interest payments could have a material adverse effect on the Company's results of operations and cash flows from operations, which would impact its ability to make distributions to shareholders.

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**10. Commitments & Contingencies**

See Note 5. “Related Party Transactions” for information on contingent amounts due to the Manager and Sub-Manager for the reimbursement of organization and offering costs under the Initial Public Offering.

In December 2019, the Company committed to funding \$10.0 million for a co-investment with an affiliate of its Sub-Manager. The Company had funded its co-investment commitment of \$10.0 million into escrow and in January 2020 completed its co-investment in Resolution Economics. As of December 31, 2020, the Company did not have any commitments outstanding.

From time to time, the Company and officers or directors of the Company may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of the Company’s rights under contracts with its businesses. As of December 31, 2020, the Company was not involved in any legal proceedings.

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**11. Financial Highlights**

The following are schedules of financial highlights of the Company attributed to each class of shares for the years ended December 31, 2020 and 2019 and the period from February 7, 2018 to December 31, 2018.

	Year Ended December 31, 2020					
	Class FA Shares	Class A Shares	Class T Shares	Class D Shares	Class I Shares	Class S Shares
<b>OPERATING PERFORMANCE PER SHARE</b>						
<b>Net Asset Value, Beginning of Year<sup>(1)</sup></b>	<b>\$ 27.64</b>	<b>\$ 26.91</b>	<b>\$ 27.01</b>	<b>\$ 26.61</b>	<b>\$ 27.15</b>	<b>\$ 27.56</b>
Net investment income (loss), before expense support <sup>(2)</sup>	0.79	0.10	(0.33)	0.03	0.02	0.82
Expense support <sup>(2)(3)</sup>	0.35	0.53	0.47	0.26	0.66	0.10
Net investment income <sup>(2)</sup>	1.14	0.63	0.14	0.29	0.68	0.92
Net realized and unrealized gains, net of taxes <sup>(2)(4)</sup>	2.44	2.47	2.52	2.47	2.48	2.64
<b>Net increase resulting from investment operations</b>	<b>3.58</b>	<b>3.10</b>	<b>2.66</b>	<b>2.76</b>	<b>3.16</b>	<b>3.56</b>
Distributions to shareholders <sup>(5)</sup>	(1.25)	(1.25)	(1.00)	(1.13)	(1.25)	(1.04)
<b>Net decrease resulting from distributions to shareholders</b>	<b>(1.25)</b>	<b>(1.25)</b>	<b>(1.00)</b>	<b>(1.13)</b>	<b>(1.25)</b>	<b>(1.04)</b>
<b>Net Asset Value, End of Year</b>	<b>\$ 29.97</b>	<b>\$ 28.76</b>	<b>\$ 28.67</b>	<b>\$ 28.24</b>	<b>\$ 29.06</b>	<b>\$ 30.08</b>
Net assets, end of period	\$ 137,237,594	\$ 29,747,587	\$ 18,771,713	\$ 12,813,290	\$ 57,147,617	\$ 53,245,107
Average net assets <sup>(6)</sup>	\$ 130,939,855	\$ 22,983,588	\$ 11,991,453	\$ 9,674,927	\$ 35,671,564	\$ 19,256,767
Shares outstanding, end of period	4,578,537	1,034,377	654,672	453,724	1,966,552	1,770,386
Distributions declared	\$ 5,812,212	\$ 1,052,079	\$ 435,971	\$ 404,787	\$ 1,609,683	\$ 614,619
Total investment return based on net asset value before total return incentive fee <sup>(1)(7)</sup>	13.27 %	12.43 %	10.79 %	11.99 %	12.23 %	13.36 %
Total investment return based on net asset value after total return incentive fee <sup>(1)(7)</sup>	13.16 %	11.89 %	10.11 %	10.67 %	12.01 %	12.80 %
<b>RATIOS/SUPPLEMENTAL DATA (not annualized):</b>						
Ratios to average net assets: <sup>(6)(8)</sup>						
Total operating expenses before total return incentive fee and expense support	1.81 %	3.51 %	5.54 %	3.93 %	4.02 %	2.35 %
Total operating expenses before expense support	3.10 %	6.09 %	8.21 %	6.48 %	6.72 %	4.15 %
Total operating expenses after expense support	1.85 %	4.14 %	6.49 %	5.52 %	4.34 %	3.79 %
Net investment income before total return incentive fee <sup>(10)</sup>	4.09 %	2.96 %	1.46 %	2.67 %	2.78 %	4.61 %
Net investment income after total return incentive fee	4.05 %	2.32 %	0.51 %	1.08 %	2.46 %	3.17 %

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	<b>Class FA Shares</b>	<b>Class A Shares</b>	<b>Class T Shares</b>	<b>Class D Shares</b>	<b>Class I Shares</b>
<b>OPERATING PERFORMANCE PER SHARE</b>					
<b>Net Asset Value, Beginning of Year</b>	<b>\$ 26.65</b>	<b>\$ 26.44</b>	<b>\$ 26.54</b>	<b>\$ 26.23</b>	<b>\$ 26.55</b>
Net investment income before expense support <sup>(2)</sup>	0.90	0.50	(0.10)	0.46	0.40
Expense support <sup>(2)(3)</sup>	0.31	0.13	0.42	—	0.36
Net investment income <sup>(2)</sup>	1.21	0.63	0.32	0.46	0.76
Net realized and unrealized gains <sup>(2)(4)</sup>	1.03	1.09	1.15	1.04	1.09
<b>Net increase resulting from investment operations</b>	<b>2.24</b>	<b>1.72</b>	<b>1.47</b>	<b>1.50</b>	<b>1.85</b>
Distributions to shareholders <sup>(5)</sup>	(1.25)	(1.25)	(1.00)	(1.12)	(1.25)
<b>Net decrease resulting from distributions to shareholders</b>	<b>(1.25)</b>	<b>(1.25)</b>	<b>(1.00)</b>	<b>(1.12)</b>	<b>(1.25)</b>
<b>Net Asset Value, End of Year</b>	<b>\$ 27.64</b>	<b>\$ 26.91</b>	<b>\$ 27.01</b>	<b>\$ 26.61</b>	<b>\$ 27.15</b>
Net assets, end of period	\$ 117,637,467	\$ 18,008,048	\$ 5,366,259	\$ 8,053,103	\$ 25,218,014
Average net assets <sup>(6)</sup>	\$ 92,567,951	\$ 11,801,755	\$ 2,079,541	\$ 5,248,921	\$ 15,749,822
Shares outstanding, end of period	4,255,548	669,141	198,662	302,632	928,848
Distributions declared	\$ 4,268,395	\$ 549,420	\$ 76,739	\$ 222,967	\$ 728,063
Total investment return based on net asset value before total return incentive fee <sup>(7)</sup>	8.46 %	6.66 %	5.65 %	5.87 %	7.14 %
Total investment return based on net asset value after total return incentive fee <sup>(7)</sup>	8.46 %	6.66 %	5.65 %	5.87 %	7.14 %
<b>RATIOS/SUPPLEMENTAL DATA (not annualized):</b>					
Ratios to average net assets: <sup>(6)(8)</sup>					
Total operating expenses before total return incentive fee and expense support	2.08 %	4.89 %	7.71 %	4.97 %	4.81 %
Total operating expenses before expense support	2.92 %	4.89 %	7.71 %	4.97 %	5.26 %
Total operating expenses after expense support	1.77 %	4.38 %	6.14 %	4.97 %	3.89 %
Net investment income before total return incentive fee <sup>(9)</sup>	4.47 %	2.36 %	1.20 %	1.74 %	2.84 %
Net investment income	4.47 %	2.36 %	1.20 %	1.74 %	2.84 %

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Period from February 7, 2018<sup>(11)</sup> to December 31, 2018

	Class FA Shares	Class A Shares	Class T Shares	Class D Shares	Class I Shares
<b>OPERATING PERFORMANCE PER SHARE</b>					
<b>Net Asset Value, Beginning of Period<sup>(11)</sup></b>	<b>\$ 25.00</b>	<b>\$ 25.00</b>	<b>\$ 25.16</b>	<b>\$ 25.26</b>	<b>\$ 25.00</b>
Net investment income before expense support <sup>(2)</sup>	0.93	(1.26)	(0.11)	0.02	0.06
Expense support <sup>(2)(3)</sup>	0.08	1.74	0.52	—	0.69
Net investment income <sup>(2)</sup>	1.01	0.48	0.41	0.02	0.75
Net realized and unrealized gains <sup>(2)(4)</sup>	1.67	1.87	1.57	1.53	1.69
<b>Net increase resulting from investment operations</b>	<b>2.68</b>	<b>2.35</b>	<b>1.98</b>	<b>1.55</b>	<b>2.44</b>
Distributions to shareholders <sup>(5)</sup>	(1.03)	(0.91)	(0.60)	(0.58)	(0.89)
<b>Net decrease resulting from distributions to shareholders</b>	<b>(1.03)</b>	<b>(0.91)</b>	<b>(0.60)</b>	<b>(0.58)</b>	<b>(0.89)</b>
<b>Net Asset Value, End of Period</b>	<b>\$ 26.65</b>	<b>\$ 26.44</b>	<b>\$ 26.54</b>	<b>\$ 26.23</b>	<b>\$ 26.55</b>
Net assets, end of period	\$ 87,061,758	\$ 5,086,607	\$ 834,576	\$ 3,222,865	\$ 6,624,004
Average net assets <sup>(6)</sup>	\$ 83,797,239	\$ 562,185	\$ 385,874	\$ 1,732,979	\$ 2,381,673
Shares outstanding, end of period	3,266,260	192,388	31,452	122,889	249,526
Distributions declared	\$ 3,364,900	\$ 21,184	\$ 9,032	\$ 39,313	\$ 83,873
Total investment return based on net asset value before total return incentive fee <sup>(7)(11)</sup>	11.72 %	9.56 %	7.94 %	6.80 %	9.90 %
Total investment return based on net asset value after total return incentive fee <sup>(7)(12)</sup>	10.88 %	9.56 %	7.94 %	6.19 %	9.90 %
<b>RATIOS/SUPPLEMENTAL DATA (not annualized):</b>					
Ratios to average net assets: <sup>(6)(8)</sup>					
Total operating expenses before total return incentive fee and expense support	2.87 %	18.09 %	6.15 %	4.86 %	6.68 %
Total operating expenses before expense support	4.00 %	19.62 %	7.34 %	5.92 %	8.40 %
Total operating expenses after expense support	3.66 %	13.02 %	5.37 %	5.92 %	5.75 %
Net investment income before total return incentive fee <sup>(9)</sup>	4.73 %	1.81 %	1.55 %	1.15 %	2.87 %
Net investment income	3.94 %	1.81 %	1.55 %	0.09 %	2.87 %

**FOOTNOTES:**

- (1) The net asset value as of the beginning of the period is as of January 1, 2020 for all share classes except Class S shares. The net asset value as of the beginning of the period for Class S shares is based on the price of shares sold, net of any sales load, to the initial Class S investors. The initial investors for Class S shares purchased their shares on March 31, 2020.
- (2) The per share amounts presented are based on weighted average shares outstanding.
- (3) Expense support is accrued throughout the year and is subject to a final calculation as of the last business day of the calendar year.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

- <sup>(4)</sup> The amount shown at this caption is the balancing figure derived from the other figures in the schedule. The amount shown at this caption for a share outstanding throughout the period may not agree with the change in the aggregate gains and losses in portfolio investments for the period because of the timing of sales and repurchases of the Company's shares in relation to fluctuating fair values for the portfolio investments.
- <sup>(5)</sup> The per share data for distributions is the actual amount of distributions paid or payable per common share outstanding during the entire period; distributions per share are rounded to the nearest \$0.01.
- <sup>(6)</sup> The computation of average net assets during the period is based on net assets measured at each month end, adjusted for capital contributions or withdrawals during the month.
- <sup>(7)</sup> Total investment return is calculated for each share class as the change in the net asset value for such share class during the period and assuming all distributions are reinvested. Class FA assumes distributions are reinvested in Class A shares and all other share classes assume distributions are reinvested in the same class, including Class S shares which do not participate in the distribution reinvestment plan. Amounts are not annualized and are not representative of total return as calculated for purposes of the total return incentive fee described in Note 5. "Related Party Transactions." Total returns before total return incentive fees also exclude related expense support. See footnote (9) below for information regarding the percentage of total incentive fees covered by expense support by share class for all periods presented. Since there is no public market for the Company's shares, terminal market value per share is assumed to be equal to net asset value per share on the last day of the period presented. The Company's performance changes over time and currently may be different than that shown above. Past performance is no guarantee of future results. Investment performance is presented without regard to sales load that may be incurred by shareholders in the purchase of the Company's shares.
- <sup>(8)</sup> Actual results may not be indicative of future results. Additionally, an individual investor's ratios may vary from the ratios presented for a share class as a whole.
- <sup>(9)</sup> Amounts represent net investment income before total return incentive fee and related expense support as a percentage of average net assets. For the year ended December 31, 2020, the percentage of total return incentive fees covered by expense support was approximately 97%, 75%, 64%, 38%, 88% and 20% for Class FA, Class A, Class T, Class D, Class I and Class S, respectively. For the year ended December 31, 2019, only Class FA and Class I shares incurred total return incentive fees, 100% of which were covered by expense support. For the period February 7, 2018 through December 31, 2018, 100% of the total return incentive fees for Class A, Class T and Class I shares were covered by expense support, approximately 30% of the total return incentive fees for Class FA shares were covered by expense support, and none of the total return incentive fees for Class D shares were covered by expense support.
- <sup>(10)</sup> February 7, 2018 is the date the Company commenced operations.
- <sup>(11)</sup> The net asset value as of the beginning of the period is based on the price of shares sold, net of any sales load, to the initial investor of each respective share class. All Class FA shares sold in the 2018 Private Offering were sold at the same per share amount. The first investors for Class A, Class T, Class D and Class I shares purchased their shares in April 2018, May 2018, June 2018 and April 2018, respectively.

**CNL STRATEGIC CAPITAL, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**12. Subsequent Events**

*Distributions*

In January, February and March 2021, the Company's board of directors declared a monthly cash distribution on the outstanding shares of all classes of common shares of record on February 25, 2021, March 30, 2021 and April 29, 2021, respectively, of \$0.104167 per share for Class FA shares, \$0.104167 per share for Class A shares, \$0.083333 per share for Class T shares, \$0.093750 per share for Class D shares, \$0.104167 per share for Class I shares and \$0.104167 per share for Class S shares.

*Offerings*

In January, February and March 2021, the Company's board of directors approved new per share offering prices for each share class in the Initial Public Offering. The new offering prices are effective as of January 27, 2021, February 25, 2021 and March 22, 2021, respectively. The following table provides the new offering prices and applicable upfront selling commissions and placement agent / dealer manager fees for each share class available in the Initial Public Offering:

	<u>Class A</u>	<u>Class T</u>	<u>Class D</u>	<u>Class I</u>
<b>Effective January 27, 2021:</b>				
Offering Price, Per Share	\$ 31.43	\$ 30.10	\$ 28.24	\$ 29.06
Selling Commissions, Per Share	1.89	0.90	—	—
Placement Agent / Dealer Manager Fees, Per Share	0.78	0.53	—	—
<b>Effective February 25, 2021:</b>				
Offering Price, Per Share	\$ 32.01	\$ 30.64	\$ 28.75	\$ 29.60
Selling Commissions, Per Share	1.92	0.92	—	—
Dealer Manager Fees, Per Share	0.80	0.54	—	—
<b>Effective March 22, 2021:</b>				
Offering Price, Per Share	\$ 32.40	\$ 31.00	\$ 29.11	\$ 29.97
Selling Commissions, Per Share	1.94	0.93	—	—
Dealer Manager Fees, Per Share	0.81	0.54	—	—

*Capital Transactions*

During the period January 1, 2020 through March 29, 2021, the Company received additional net proceeds from the Initial Public Offering and its distribution reinvestment plan of:

Share Class	Proceeds from Offerings				Distribution Reinvestment Plan		Total		
	Shares Issued	Gross Proceeds	Sales Load <sup>(2)(3)</sup>	Net Proceeds to Company	Shares	Proceeds to Company	Shares	Net Proceeds to Company	Average Net Proceeds per Share
Class A	63,736	\$ 1,998,369	\$ (151,086)	\$ 1,847,283	8,916	\$ 257,557	72,652	\$ 2,104,840	\$ 28.97
Class T	48,302	1,467,700	(69,716)	1,397,984	3,384	97,198	51,686	1,495,182	28.93
Class D	23,949	680,500	—	680,500	2,706	76,518	26,655	757,018	28.40
Class I	352,840	10,365,742	—	10,365,742	9,676	281,757	362,516	10,647,499	29.37
	<u>488,827</u>	<u>\$ 14,512,311</u>	<u>\$ (220,802)</u>	<u>\$ 14,291,509</u>	<u>24,682</u>	<u>\$ 713,030</u>	<u>513,509</u>	<u>\$15,004,539</u>	<u>\$ 29.22</u>

**Item 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosures**

None.

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by us in the reports we filed under the Securities Exchange Act of 1934, as amended (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

***Management’s Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act.

In connection with the preparation this Annual Report, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (2013).

Based on its assessment, our management believes that, as of December 31, 2020, our internal control over financial reporting was effective based on those criteria.

**Item 9B. Other Information**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the Commission no later than April 30, 2021.

**Item 11. Executive Compensation**

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the Commission no later than April 30, 2021.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the Commission no later than April 30, 2021.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the Commission no later than April 30, 2021.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated by reference to our Definitive Proxy Statement to be filed with the Commission no later than April 30, 2021.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### (a) Financial Statements

1. The Company is required to file the following separate audited financial statements of its unconsolidated subsidiaries which are filed as part of this report:
  - (i) LD Parent, Inc.  
Independent Auditor's Report  
Consolidated Balance Sheets as of December 31, 2020 and 2019  
Consolidated Statements of Operations for the Year Ended December 31, 2020 and 2019  
Consolidated Statements of Changes in Stockholders' Equity for the Year Ended December 31, 2020 and 2019  
Consolidated Statements of Cash Flows for the Year Ended December 31, 2020 and 2019  
Notes to Consolidated Financial Statements
  - (ii) Polyform Holdings, Inc. and Subsidiary  
Independent Auditor's Report  
Consolidated Balance Sheets as of December 31, 2020 and 2019  
Consolidated Statements of Operations for the Year Ended December 31, 2020 and 2019  
Consolidated Statements of Changes in Stockholders' Equity for the Year Ended December 31, 2020 and 2019  
Consolidated Statements of Cash Flows for the Year Ended December 31, 2020 and 2019  
Notes to Consolidated Financial Statements
  - (iii) Auriemma U.S. Roundtables  
Independent Auditor's Report  
Consolidated Balance Sheet as of December 31, 2020 and 2019  
Consolidated Statement of Operations for the Year Ended December 31, 2020 and the Period from August 1, 2019 to December 31, 2019  
Consolidated Statement of Changes in Stockholders' Equity for the Year Ended December 31, 2020 and the Period from August 1, 2019 to December 31, 2019  
Consolidated Statement of Cash Flows for the Year Ended December 31, 2020 and the Period from August 1, 2019 to December 31, 2019  
Notes to Consolidated Financial Statements

#### (b) Exhibits

The following exhibits are filed or incorporated as part of this report.

- 1.1 Amended and Restated Managing Dealer Agreement dated as of April 1, 2019 between CNL Strategic Capital, LLC and CNL Securities Corp. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on April 1, 2019).
- 1.2 Form of Participating Broker Agreement (incorporated by reference to Exhibit 1.2 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 1.3 Form of Distribution and Shareholder Servicing Plan of CNL Strategic Capital, LLC (incorporated by reference to Exhibit 1.3 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 1.4 Selected Dealer Agreement dated as of February 24, 2020 by and among CNL Strategic Capital, LLC and CNL Securities Corp. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on February 25, 2020).
- 1.5 Cost Reimbursement Agreement dated as of February 24, 2020 by and among CNL Strategic Capital, LLC and American Enterprise Investment Services Inc. (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed with the SEC on February 25, 2020).
- 3.1 Certificate of Formation of CNL Strategic Capital, LLC dated August 8, 2016 (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).

- 3.2 Fifth Amended and Restated Limited Liability Company Operating Agreement of CNL Strategic Capital, LLC (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2020).
- 4.1 Distribution Reinvestment Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 4.2 Form of Subscription Agreement (incorporated by reference to Appendix B to the Prospectus filed pursuant to Rule 424(b)(3) with the SEC on March 7, 2018).
- 4.3 Second Amended and Restated Share Repurchase Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2020).
- 4.4\* Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
- 10.1 Third Amended and Restated Management Agreement dated as of January 31, 2020 by and between CNL Strategic Capital and CNL Strategic Capital Management, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2020).
- 10.2 Second Amended and Restated Sub-Management Agreement dated as of February 28, 2018 by and among CNL Strategic Capital, LLC, CNL Strategic Capital Management, LLC and Levine Leichtman Strategic Capital, LLC (incorporated by reference to Exhibit 10.2 to the Pre-Effective Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on March 1, 2018).
- 10.3 Escrow Agreement dated February 14, 2018 by and among CNL Strategic Capital, LLC and CNL Securities Corp. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 15, 2018).
- 10.4 First Amendment to Escrow Agreement by and among CNL Strategic Capital, LLC and CNL Securities Corp. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 18, 2019).
- 10.5 Second Amendment to Escrow Agreement by and among CNL Strategic Capital, LLC and CNL Securities Corp. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on July 16, 2019).
- 10.6 Third Amendment to Escrow Agreement by and among CNL Strategic Capital, LLC and CNL Securities Corp. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2020).
- 10.7 Amended and Restated Administrative Services Agreement dated as of February 7, 2018 by and between CNL Strategic Capital, LLC and CNL Strategic Capital Management, LLC (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 10.8 Amended and Restated Sub-Administration Agreement dated as of February 7, 2018 by and among CNL Strategic Capital, LLC, CNL Strategic Capital Management, LLC and Levine Leichtman Strategic Capital, LLC (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 10.9 Amended and Restated Expense Support and Conditional Reimbursement Agreement dated as of February 7, 2018 by and among CNL Strategic Capital, LLC, CNL Strategic Capital Management, LLC and Levine Leichtman Strategic Capital, LLC (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 10.10 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 10.11 Note Purchase Agreement dated as of February 7, 2018 by and among Lawn Doctor, Inc., LD Strategic Capital DebtCo, LLC and Aspire Capital Group, LLC (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 10.12 Note Purchase Agreement dated as of February 7, 2018 by and among Polyform Products Company, Inc. and Polyform Strategic Capital DebtCo, LLC (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).
- 10.13 Service Agreement dated as of February 7, 2018 by and between CNL Capital Markets Corp. and CNL Strategic Capital Management, LLC (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 (File No. 333-222986) filed with the SEC on February 12, 2018).

- 10.14 Stock Contribution and Purchase Agreement dated June 26, 2019 by and between Michael Auriemma and Roundtable Acquisition, LLC. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on 10-Q filed with the SEC on August 8, 2019).
- 10.15 Amended and Restated Loan Agreement dated July 15, 2020 by and between CNL Strategic Capital B, Inc. and United Community Bank (d/b/a Seaside Bank and Trust) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 17, 2020).
- 10.16 Amended and Restated Promissory Note dated July 15, 2020 by and between CNL Strategic Capital B, Inc. and United Community Bank (d/b/a Seaside Bank and Trust) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on July 17, 2020).
- 10.17 Amended and Restated Assignment and Pledge of Deposit Account dated July 15, 2020 by and between CNL Strategic Capital, LLC and United Community Bank (d/b/a Seaside Bank and Trust) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on July 17, 2020).
- 10.18 Amended and Restated Guaranty dated July 15, 2020 by and between CNL Strategic Capital, LLC and United Community Bank (d/b/a Seaside Bank and Trust) (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on July 17, 2020).
- 10.19 Pledge and Security Agreement dated July 15, 2020 by and between CNL Strategic Capital, LLC and United Community Bank (d/b/a Seaside Bank and Trust) (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on July 17, 2020).
- 21.1\* List of Subsidiaries.
- 24.1 Power of Attorney (included on the signature page).
- 31.1\* Certification of Chief Executive Officer of CNL Strategic Capital, LLC, Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer of CNL Strategic Capital, LLC, Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer of CNL Strategic Capital, LLC, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* The following materials from CNL Strategic Capital, LLC Annual Report on Form 10-K for the year ended December 31, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language); (i) Consolidated Statements of Assets and Liabilities, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Net Assets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Schedules of Investments, and (vi) Notes to the Consolidated Financial Statements.

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\* Filed herewith

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

# **LD Parent, Inc.**

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## **Consolidated Financial Statements**

As of and for the Years Ended December 31, 2020 and 2019

# LD Parent, Inc.

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## Independent Auditor's Report

Board of Directors  
LD Parent, Inc.  
Holmdel, NJ

### ***Opinion***

We have audited the consolidated financial statements of LD Parent, Inc. and its Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019 and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ BDO USA LLP

Woodbridge, NJ

March 15, 2021

# Consolidated Financial Statements

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# LD Parent, Inc.

## Consolidated Balance Sheets

<i>December 31,</i>	<b>2020</b>	2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and equivalents	\$ 4,110,402	\$ 771,838
Receivables from franchisees, net	2,274,041	2,655,758
Inventories, net	1,380,315	1,638,377
Income tax receivable	127,731	179,042
Prepaid expenses and other current assets	493,754	434,775
<b>Total current assets</b>	<b>8,386,243</b>	<b>5,679,790</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	2,191,612	2,342,651
Intangible assets, net	46,488,237	48,796,653
Goodwill	37,507,174	37,507,174
Receivables from franchisees, net of current portion	4,691,881	5,668,659
Prepaid commissions	3,707,228	1,997,792
Other assets	14,422	14,422
<b>Total non-current assets</b>	<b>94,600,554</b>	<b>96,327,351</b>
<b>Total assets</b>	<b>\$ 102,986,797</b>	<b>\$ 102,007,141</b>
<b>Liabilities and Stockholder's Equity</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 200,000	\$ 200,000
Accounts payable and accrued expenses	3,473,562	2,622,600
Deferred revenue	737,227	469,972
Advertising funds	1,370,601	1,089,673
Franchisee deposits	1,559,319	665,175
Other current liabilities	329,185	161,245
<b>Total current liabilities</b>	<b>7,669,894</b>	<b>5,208,665</b>
<b>Non-current liabilities:</b>		
Long-term debt, net of current portion	19,088,125	19,234,425
Related party notes	18,000,000	18,000,000
Deferred income taxes	10,743,239	11,774,306
Deferred revenue, net of current portion	5,249,943	3,519,086
Other non-current liabilities	304,408	326,467
<b>Total non-current liabilities</b>	<b>53,385,715</b>	<b>52,854,284</b>
<b>Total liabilities</b>	<b>61,055,609</b>	<b>58,062,949</b>
<b>Commitments and contingencies</b>		
<b>Stockholder's equity:</b>		
Parent Contribution	\$ 42,323,979	\$ 44,123,317
<b>Total LD Parent, Inc. stockholder's equity</b>	<b>42,323,979</b>	<b>44,123,317</b>
<b>Non-controlling interest</b>	<b>(392,791)</b>	<b>(179,125)</b>
<b>Total stockholder's equity</b>	<b>41,931,188</b>	<b>43,944,192</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 102,986,797</b>	<b>\$ 102,007,141</b>

*See accompanying notes to the consolidated financial statements.*

## LD Parent, Inc.

### Consolidated Statements of Operations

<i>Years Ended December 31,</i>	<b>2020</b>	2019
<b>Revenues:</b>		
Operating revenues	\$ 24,873,100	\$ 22,745,244
Initial franchise fees	2,961,274	1,631,253
Interest, service charges and other income	842,416	574,984
<b>Net revenues</b>	<b>28,676,790</b>	24,951,481
<b>Costs and expenses:</b>		
Operating and training	2,226,186	2,074,395
Manufacturing	2,758,728	2,843,999
Selling, general and administrative	18,077,653	16,475,055
<b>Total expenses</b>	<b>23,062,567</b>	21,393,449
<b>Income from operations</b>	<b>5,614,223</b>	3,558,032
<b>Other expense:</b>		
Interest expense, net	4,169,309	4,361,517
<b>Income (loss) before income taxes</b>	<b>1,444,914</b>	(803,485)
<b>Income taxes:</b>		
Income tax (expense) benefit	(371,274)	142,104
<b>Consolidated net income (loss)</b>	<b>1,073,640</b>	(661,381)
Less: Net loss attributable to the non-controlling interest	(213,666)	(232,270)
<b>Net income (loss) attributable to LD Parent, Inc.</b>	<b>\$ 1,287,306</b>	\$ (429,111)

*See accompanying notes to the consolidated financial statements.*

## LD Parent, Inc.

### Consolidated Statements of Changes in Stockholder's Equity

	LD Parent, Inc.	Non- controlling interest	Total Stockholder's Equity
Balance, December 31, 2018	45,758,348	(40,952)	45,717,396
Cumulative effect of change in accounting principle, net of tax	(637,968)	(5,951)	(643,919)
Parent contributions	373,446	—	373,446
Parent distributions	(1,200,000)	—	(1,200,000)
Stock-based compensation expense	258,602	—	258,602
Investment in non-controlling interest	—	100,048	100,048
Net loss	(429,111)	(232,270)	(661,381)
<b>Balance, December 31, 2019</b>	<b>\$ 44,123,317</b>	<b>\$ (179,125)</b>	<b>\$ 43,944,192</b>
Parent contributions	754,754	—	754,754
Parent distributions	(4,100,000)	—	(4,100,000)
Stock-based compensation expense	258,602	—	258,602
Net income (loss)	1,287,306	(213,666)	1,073,640
<b>Balance, December 31, 2020</b>	<b>\$ 42,323,979</b>	<b>\$ (392,791)</b>	<b>\$ 41,931,188</b>

*See accompanying notes to the consolidated financial statements.*

# LD Parent, Inc.

## Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Consolidated net income (loss)	\$ 1,073,640	\$ (661,381)
<b>Adjustments to reconcile consolidated net income (loss) to net cash flows provided by operating activities:</b>		
Bad debt expense	401,392	265,396
Depreciation	192,192	190,759
Amortization	2,308,416	2,308,416
Deferred income taxes	(1,031,067)	(670,057)
Stock-based compensation expense	258,602	258,602
Amortization of debt issuance costs	53,700	53,700
<b>Changes in operating assets and liabilities:</b>		
Receivables from franchisees	957,103	(2,489,261)
Inventories	258,062	(374,646)
Income tax receivable	51,311	(35,337)
Prepaid commission	(1,709,436)	(1,719,484)
Prepaid expenses and other current assets	(58,979)	229,021
Accounts payable and accrued expenses	850,962	595,347
Deferred revenue	1,998,112	2,855,648
Due to seller	—	(535,569)
Advertising funds	280,928	406,014
Franchisee deposits	894,144	(87,525)
Other current liabilities	167,940	18,361
Other liabilities	(22,059)	50,392
<b>Net cash flows provided by operating activities</b>	<b>6,924,963</b>	<b>658,396</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(41,153)	(413,562)
Purchase of intangible assets	—	(44,580)
Settlement of escrow	—	50,000
<b>Net cash flows used in investing activities</b>	<b>(41,153)</b>	<b>(408,142)</b>
<b>Cash flows from financing activities:</b>		
Parent contribution	754,754	373,446
Repayment for long-term debt	(200,000)	(200,000)
Parent distributions	(4,100,000)	(1,200,000)
Proceeds from ownership interest in Ecomaids LLC	—	100,048
<b>Net cash flows used in financing activities</b>	<b>(3,545,246)</b>	<b>(926,506)</b>
Net increase (decrease) in cash and equivalents	3,338,564	(676,252)
Cash and equivalents, beginning of period	771,838	1,448,090
<b>Cash and equivalents, end of period</b>	<b>\$ 4,110,402</b>	<b>\$ 771,838</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 4,023,729	\$ 4,307,817
Income taxes paid	1,346,628	568,665
<b>Non-cash operating activities:</b>		
Prepaid commission	\$ —	\$ (278,308)
Deferred revenue	—	1,133,410
Deferred income taxes	—	(211,184)

*See accompanying notes to the consolidated financial statements.*

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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### 1. Nature of the Business

LD Parent, Inc. (the “Company” or “LD Parent”) through its wholly-owned subsidiary Lawn Doctor, Inc., grants franchises to conduct lawn care/conditioning, tree/shrub care and pest control businesses throughout the United States, consisting of the sale of services and products authorized by the Company.

On April 20, 2018, the Company acquired an 80% interest in Mosquito Hunters, LLC (“Mosquito Hunters”). The Company has been able to expand their services in the pest industry as a result of this acquisition. As the Company has effective control in significant decision-making areas, the Company includes Mosquito Hunters in its consolidated financial statements.

On May 24, 2019, the Company acquired an 71% interest in Ecomaids LLC (“Ecomaids”), a franchisor of residential cleaning services. Ecomaids specializes as an innovator of environmentally responsible, non-toxic residential cleaning services for families throughout the United States. The Company believes this acquisition furthers its strategy of both growing organically and also through the acquisition of additional home service brands. The Company has been able to expand their services in the home cleaning as a result of this acquisition. As the Company has effective control in significant decision-making areas, the Company includes Ecomaids in its consolidated financial statements.

### 2. COVID-19 Pandemic

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The Company is continuously monitoring the impact the pandemic has on nearly all aspects of the Company’s business and markets, including the workforce and the operations of customers, suppliers, and business partners. To date, there has been limited business interruption or financial impact.

On March 27, 2020, the “Coronavirus Aid, Relief and Economic Security (CARES) Act” was signed into law. The CARES Act, among other things, is a support package that includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

The full extent to which the pandemic will directly or indirectly impact the Company's business, results of operations and financial condition, including sales, expenses, manufacturing, operating and training, and selling, general and administrative costs, reserves and allowances, fair value measurements, asset impairment charges, will depend on future developments that are highly uncertain and difficult to predict. These developments include, but are not limited to, the duration and spread of the outbreak (including new variants of COVID-19), its severity, the actions to contain the virus or address its impact, the timing, distribution, and efficacy of vaccines and other treatments, U.S. and foreign government actions to respond to the reduction in global economic activity, and how quickly and to what extent normal economic and operating conditions can resume.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, material sourcing, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

### 3. Basis of Presentation and Significant Accounting Policies

#### *Principles of Consolidation*

The consolidated financial statements of LD Parent, Inc. & Subsidiaries include the accounts of Lawn Doctor, Inc. and its wholly-owned subsidiaries, Mosquito Hunters, LLC & Ecomaid, LLC (collectively the "Company"). The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany transactions and accounts have been eliminated in consolidation.

#### *Non-controlling Interests*

Non-controlling interests in consolidated subsidiaries are required to be classified as a separate component of equity in the Consolidated Balance Sheets and the amounts of net income and comprehensive income attributable to the non-controlling interests are included in consolidated net income on the face of the Consolidated Statements of Operations.

The accounts of Mosquito Hunters, LLC have been included in the Company's consolidated financial statements and the affiliates' proportionate share of the net assets have been reflected in the accompanying Consolidated Balance Sheets as non-controlling interest in the amount of \$(283,006) and \$(221,449) at December 31, 2020 and 2019, respectively. Included in the years ended December 31, 2020 and 2019 Consolidated Statements of Operations is \$(61,557) and \$(174,546), of the non-controlling interest loss allocation due to the related partial ownership of Mosquito Hunters.

The accounts of Ecomaid, LLC have been included in the Company's consolidated financial statements and the affiliates' proportionate share of the net assets have been reflected in the accompanying consolidated financial statements as non-controlling interest in the amount of \$(109,785) and \$42,324 at December 31, 2020 and 2019, respectively. Included in the years ended December 31, 2020 and 2019 Consolidated Statements of Operations is \$(152,109), and \$(57,724), of the non-controlling interest loss allocation due to the related partial ownership of Ecomaid.

#### *Revenue Recognition*

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09 that introduced a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. Numerous updates were issued in 2016 that provide clarification on a number of specific issues as well as requiring additional disclosures. The new standard was effective for the Company on January 1, 2019.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

On January 1, 2019, the Company adopted the new accounting standard for all contracts not completed as of the adoption date using the modified retrospective method. The Company has identified and implemented appropriate changes to the business policies, processes, and controls to support the adoption, recognition and disclosures under the new standard. As part of this evaluation, the Company has identified the following revenue streams; initial franchise fees, operating revenues which consist of: service/royalty fees from franchises, sales of parts and equipment, revenues from sales type leases, advertising revenue, and interest income related to notes receivable and loans receivables. Additionally, the Company reviewed the related critical customer contract terms and provisions. The Company has concluded that the most significant impact of the standard relates to the timing of the recognition of revenue for initial franchise fees, that were previously recognized at the point in time which the Company had performed all significant services and satisfied all conditions of sale, will be recognized over the life of the contract. Commissions relating to such contracts that were previously charged to expense upon recognition of the initial fee will now be recorded as a prepaid asset and amortized over the life of the contract. Advertising funds will now be presented as a gross up of revenue and related cost. The cumulative impact of adopting the new accounting standard and recognizing revenue over time will result in a reduction in stockholders' equity of \$849,152 which is offset by \$211,184 of tax.

In accordance with ASC 606, the Company disaggregates its revenue from customers with contracts by revenue streams. The Company's revenue streams are presented in the following table:

<i>Years Ended December 31,</i>	<b>2020</b>	<b>2019</b>
Operating Revenues:		
Service/royalty fees	\$ 16,596,110	\$ 14,478,618
Part and equipment sales	2,478,087	2,789,636
Advertising revenue	5,798,903	5,476,990
Initial franchise fees	2,961,274	1,631,253
Interest, service charges, and other	842,416	574,984
Net Revenues	\$ 28,676,790	\$ 24,951,481

Service/royalty fees derived from franchises ("Service Fees") are recognized as revenue when earned. Revenue from sales of parts and equipment are recognized, at the point in time which control is transferred, upon shipment. Interest income related to notes receivable and loans receivable is recorded as revenue when earned (and collection is reasonably assured) in accordance with the interest method.

Initial franchise fees are deferred and recognized over the life of the contract. Commissions paid on initial franchise fees are deferred and charged to expense upon recognition of the initial fee.

Advertising fund revenue is deferred upon sale of the initial franchise. Revenue and the related advertising expense is recognized as incurred by the Company.

### ***Receivables from Franchisees, net***

Receivables from franchises are recorded at net realizable value. The Company provides an allowance for doubtful accounts for franchisees based on the aging of each franchisee's total receivables, unless, in the opinion of management, estimated net realizable value requires a further allowance. The Company monitors the business operations of new and existing franchises to ascertain that its policies continue to provide an appropriate allowance for receivables and financed franchise fees.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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The Company provides franchisees with an option to finance initial franchise fees over a period of up to 96 months with interest at 12% per annum. Additionally, the Company has converted accounts receivable from certain franchisees to notes receivable. These financing arrangements entered into during the years ended December 31, 2020 and 2019 were \$2,433,339 and \$2,981,444, respectively. These financing arrangements are recorded as notes receivable in receivables from franchisees in the accompanying Consolidated Balance Sheets. As of December 31, 2020 and 2019, \$4,364,798 and \$4,831,890 was outstanding of which \$981,171 and \$552,708 was classified as a current asset, which represents the principal amounts due on the aggregate notes receivable, respectively. These financing arrangements are recorded as notes receivable in receivables from franchisees in the accompanying Consolidated Balance Sheets.

The Company provides an estimated allowance for doubtful receivables on any notes and related interest with delinquent installments of more than six months. The Company ceases accrual of interest when the Company can no longer assert that the likelihood of collection is probable.

The Company leases equipment to its franchisees with an option to pay in full upon execution of the lease or finance over 60, 72 or 84 months depending on the type of equipment. Interest is not to exceed 1.5% per month and the Company recognizes the imputed interest over the term of the lease. The Company records these leases as a sales-type lease in accordance with ASC 840. Leased equipment is recorded in receivables from franchisees in the accompanying Consolidated Balance Sheets.

As of December 31, 2020, \$1,666,877 was outstanding of which \$358,623 was classified as a current asset. As of December 31, 2020, the Company recorded \$436,434 as unearned interest of which \$132,026 was classified within other current liabilities.

As of December 31, 2019, \$1,814,902 was outstanding of which \$425,425 was classified as a current asset. As of December 31, 2019, the Company recorded \$468,442 as unearned interest of which \$141,975 was classified within other current liabilities.

Unearned interest beyond one year is recorded in long-term other liabilities.

### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined at a later date, could differ from those estimates.

### *Shipping Costs*

Costs to ship products to franchisees are expensed to manufacturing expenses as incurred. The Company recorded shipping costs of \$129,121 and \$149,262 for the years ended December 31, 2020 and 2019, respectively.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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### *Cash and Equivalents*

The Company considers money market funds and all other highly liquid debt instruments purchased with original maturity of three months or less to be cash equivalents.

### *Concentration of Credit Risk*

The Company maintains its cash balances in a financial institution that is insured by the Federal Deposit Insurance Corporation up to \$250,000 each. At times, such balances may be in excess of the FDIC insurance limit.

No one franchise or vendor exceeded 10% of the Company's sales or purchases for the years ended December 31, 2020 and 2019.

No one franchise or vendor exceeded 10% of the Company's accounts receivable or payables at December 31, 2020 and 2019.

### *Inventories, net*

Inventories are stated at the lower of cost and net realizable value. Parts and materials, included as inventory, are evaluated annually by management for net realizable value and obsolescence. At December 31, 2020 and 2019, the reserve for inventory was \$65,858 and \$17,665, respectively.

### *Property, Plant and Equipment, net*

Property and equipment acquired in connection with the acquisition are stated at fair value, at the date of acquisition, less accumulated depreciation. Other property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives, which approximate 39 years for building, 5 to 7 years for furniture, fixtures and other equipment and 3 to 5 years for software and transportation equipment. Improvements to leasehold property are amortized on the straight-line method over the shorter of the asset life and remaining lease term.

### *Goodwill and Intangible Assets*

As required by ASC 350, Goodwill and Other Intangible Assets, the Company tests goodwill for impairment. Goodwill is not amortized, but instead tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. The Company has one reporting unit. The annual goodwill impairment test is a two-step process. First, the Company determines if the carrying value of its related reporting unit exceeds fair value, which would indicate that goodwill may be impaired. If the Company then determines that goodwill may be impaired, it compares the implied fair value of the goodwill to its carrying amount to determine if there is an impairment loss. In September 2011, the FASB issued ASU 2011-08 which amends ASC 350 for testing goodwill for impairment. The guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The ultimate outcome of the goodwill impairment review for a reporting unit should be the same whether an entity chooses to perform the qualitative assessment or proceeds directly to the two-step quantitative impairment test. In conjunction with management's annual review of goodwill, the Company adopted the new guidance and concluded it is more likely than not that the fair value of the reporting unit exceeds its carrying amount. There were no impairment indicators for the years ended December 31, 2020 and 2019.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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### *Indefinite and Finite Lived Intangibles*

In accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”), indefinite lived intangible assets are recorded at cost and are reviewed for impairment on an annual basis and whenever events or circumstances indicate that their carrying values may not be recoverable. Impairment is recorded if the carrying amount exceeds fair value. Intangible assets which have finite useful lives are amortized using the straight-line method over their useful lives and consist of customer relationships, developed technology, know-how, and a non-compete. Finite lived intangible asset amortization expense was \$2,308,416 and \$2,308,416 for the years ended December 31, 2020 and 2019, respectively.

Future adverse changes in market conditions or poor operating results could result in losses or an inability to recover the carrying value of the goodwill and other intangible assets thereby possibly requiring an impairment charge in the future.

### *Long-lived Assets*

The Company accounts for the impairment of long-lived assets in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, the Company evaluates long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset or group of assets. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company did not have any long-lived assets impairment indicators during the years ended December 31, 2020 and 2019.

### *Debt Issuance Costs*

Costs related to financing are being capitalized and amortized straight line, which approximates the effective interest method, over the term of the related debt facilities. Debt issuance costs were \$111,875 and \$165,575 as of December 31, 2020 and 2019, respectively, and are presented as a reduction to long-term debt in the Consolidated Balance Sheets. Amortization of deferred financing costs for the years ended December 31, 2020 and 2019 was \$53,700 and \$53,700, respectively, and is recorded in interest expense in the Consolidated Statements of Operations.

### *Income Taxes*

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

The Company recognizes a tax benefit from an uncertain position only if it is more likely than not the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority’s widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely being realized upon ultimate settlement. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the statement of operations. As of December 31, 2020 and 2019, there was no impact to the consolidated financial statements relating to accounting for uncertainty in income taxes.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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On March 27, 2020, the CARES Act was enacted into law. Included in the CARES Act (the “Act”) were changes in the tax law with respect to net operating loss carrybacks, bonus depreciation applicability to qualified investment property, changes to IRC Section 163j interest expense limits, AMT credit carryforward refundability, impairment of assets due to COVID-19, and other non-income tax considerations. As a result of the Act, the Company was able to defer certain payroll taxes. However, the Act had no material impact to the consolidated financial statements.

### *Fair Value Measurements*

Fair value is a market-based measurement, which is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques for fair value measurements include the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost), which are each based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. The Company utilizes a fair value hierarchy that prioritizes inputs to fair value measurement techniques into three broad levels:

- Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar asset or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and mode-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

The Company’s material financial instruments at December 31, 2020 and 2019, for which disclosure of estimated value is required by certain accounting standards, consisted primarily of receivables from franchisees, accounts payable, accrued expenses, and debt. The carrying value of the term loan approximates fair value due to the variable interest rate associated with this financial instrument.

### *Business Acquisitions*

The Company accounts for business combinations in accordance with ASC 805 Business Combinations. ASC 805 requires business combinations to be accounted for using the purchase method of accounting and includes specific criteria for recording intangible assets separate from goodwill. Results of operations of acquired businesses are included in the financial statements of the acquiring company from the date of acquisition. Assets acquired and liabilities assumed of the acquired company are recorded at their fair value at the date of acquisitions.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

### *Advertising Expenses*

The Company expenses its advertising costs the first time the advertising takes place. All advertising costs are expensed as incurred. Total advertising expense recorded in selling, general, and administrative expense within the Consolidated Statements of Operations was \$673,434 and \$720,799 for the years ended December 31, 2020 and 2019, respectively.

The Company incurs regional advertising costs, which are repaid weekly by franchisees based upon their cash receipts. The balances are reported as prepaid or accrued expenses at year-end.

### **4. Receivables from Franchisees, net**

<i>December 31,</i>	<b>2020</b>	2019
Amounts billed and currently receivable from franchisees	\$ 1,650,586	\$ 2,154,923
Notes receivable from franchisees	981,171	552,708
Net investment in sales type leases	358,623	425,425
Less: Allowance for doubtful accounts	(716,339)	(477,298)
<b>Current portion</b>	<b>2,274,041</b>	2,655,758
Notes receivable from franchisees	3,383,627	4,279,182
Net investment in sales type leases	1,308,254	1,389,477
<b>Noncurrent portion</b>	<b>4,691,881</b>	5,668,659
<b>Receivables from Franchisees, net</b>	<b>\$ 6,965,922</b>	\$ 8,324,417

The Company wrote off uncollectible accounts totaling \$401,392 and \$265,396 for the years ended December 31, 2020 and 2019, respectively.

### **5. Property, Plant and Equipment, net**

Property, plant and equipment consist of the following:

<i>December 31,</i>	<b>2020</b>	2019
Land	\$ 440,304	\$ 440,304
Building	1,126,624	1,126,624
Furniture, fixtures and other equipment	695,982	654,829
Leasehold improvements	451,388	451,388
	<b>2,714,298</b>	2,673,145
Less: accumulated depreciation	(522,686)	(330,494)
<b>Property, plant and equipment, net</b>	<b>\$ 2,191,612</b>	\$ 2,342,651

Depreciation expense totaled \$192,192 and \$190,759 for the years ended December 31, 2020 and 2019, respectively.

### **6. Other Assets**

Other assets are summarized as follows:

<i>December 31,</i>	<b>2020</b>	2019
Security Deposits	\$ 14,422	\$ 14,422

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

### 7. Intangibles, net

Intangibles are summarized as follows:

<i>December 31,</i>	2020	2019	Useful Life
Franchisee relationships	\$ 34,100,000	\$ 34,100,000	15 years
Trade name	12,094,580	12,094,580	Indefinite
Systems-in-place	6,800,000	6,800,000	Indefinite
Leasehold interest	193,000	193,000	5.5 years
	<b>53,187,580</b>	53,187,580	
Less: accumulated amortization	<b>(6,699,343)</b>	(4,390,927)	
<b>Intangibles, net</b>	<b>\$ 46,488,237</b>	<b>\$ 48,796,653</b>	

Estimated future amortization expense of franchise relationships and leasehold interest at December 31, 2020 is as follows:

<i>Years ending December 31,</i>	
2021	\$ 2,308,416
2022	2,308,416
2023	2,294,532
2024	2,273,333
2025	2,273,333
2026 and thereafter	16,135,627
	<b>\$ 27,593,657</b>

### 8. Borrowing Arrangements

#### *Credit Agreements*

On February 7, 2018, in conjunction with the acquisition by CNLSC, the Company entered into an amendment to their Credit Agreement dated December 11, 2014. The amendment permitted the repayment of all of the outstanding principal amount of Subordinated Debt as of the date of the agreement, issuances up to \$18,000,000 of subordinated second lien indebtedness, increase in the Term Loan by \$6,000,000 and extended the maturity date to February 7, 2023. The amendment also contains revisions to the restrictive covenants inclusive of senior debt to adjusted EBITDA ratio, total debt to adjusted EBITDA ratio, fixed charge ratio, and excess cash flow. The Revolving Loan Commitment remained unchanged. The Revolving Loan Commitment was payable upon maturity on December 11, 2019. This was later amended in March 2019 to extend the maturity date to February 7, 2023 and clarify certain definitions in the prior amendment. There were no outstanding borrowings under the revolving loan commitment at December 31, 2020 or 2019. The Revolving Loan Commitment bears interest of 0.50% of the unfunded portion.

The Credit Agreement is payable in quarterly principal installments of \$50,000, commencing on March 31, 2018 until the maturity date on February 7, 2023, at which time the outstanding balance is to be due and payable. The Credit Agreement also provides for an annual mandatory prepayment of principal based on excess cash flow (as defined in the Credit Agreement). During the year ended December 31, 2020 and 2019, the Company did not make a prepayment based on excess cash flow. The Credit Agreement also provides for the maintenance of certain financial ratios, including leverage and fixed charge ratios. At December 31, 2020 and 2019, the Company was in compliance with all of its covenant requirements. At December 31, 2020 and 2019, \$19,400,000 and \$19,600,000 was outstanding on the Credit Agreement.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

The interest rate on the Credit Agreement varies depending if the Term Loan is a Base Rate Loan or a LIBOR Loan. At December 31, 2020, the Company elected to treat the Credit Agreement as a LIBOR Loan, which carried an effective interest rate of 4.50%.

Repayment of the Credit Agreement is as follows:

<i>Years ending December 31,</i>	
2021	\$ 200,000
2022	200,000
2023	19,000,000
	<b>\$ 19,400,000</b>

	2020	2019
Long-term debt	\$ 19,400,000	\$ 19,600,000
Less: Current portion	(200,000)	(200,000)
Less: Deferred financing costs	(111,875)	(165,575)
<b>Long-term debt, net</b>	<b>\$ 19,088,125</b>	<b>\$ 19,234,425</b>

### *Note Purchase Agreement*

On February 7, 2018, in conjunction with the acquisition, the Company entered into a Note Purchase Agreement for an \$18,000,000 aggregate principal amount of senior secured notes with related parties. The notes are subordinate to the Credit Agreement noted above. The notes contain an annual interest rate of 16% and mature on August 7, 2023. Payment of the notes is due in full on the maturity date. The Company may prepay the notes at a premium based upon the schedule set forth in the note purchase agreement. The note purchase agreement is collateralized by substantially all assets of Lawn Doctor, Inc. and was guaranteed by the Company. The note purchase agreement contains certain restrictive covenants inclusive of senior debt to adjusted EBITDA ratio, total debt to adjusted EBITDA ratio, fixed charge ratio, and excess cash flow. At December 31, 2020 and 2019, the Company was in compliance with all of its covenant requirements. At December 31, 2020 and 2019, \$18,000,000 was outstanding on the Note Purchase Agreement with related parties.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

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### 9. Commitments and Contingencies

#### *Operating Leases*

The Company leases its manufacturing facility and certain automobiles from unrelated parties under non-cancellable operating leases which expire on various dates through 2025. Future minimum rental payments under these leases are as follows:

<i>Years ending December 31,</i>	
2021	\$ 272,259
2022	268,377
2023	159,512
2024	14,212
2025	6,582
	<b>\$ 720,942</b>

Total rent paid for facilities and equipment was \$198,458 and \$238,914 for the years ended December 31, 2020 and 2019, respectively.

#### *Employment Agreement*

The Company has an employment agreement with a key executive which provides for an annual base salary plus an incentive bonus which is payable upon the achievement of certain defined financial benchmarks. The agreement expired in December 2018 and was automatically renewed for an additional one year term. The agreement will continue to renew automatically for an additional one-year term unless the agreement is earlier terminated by either party. The agreement also includes a non-compete clause should the employee be terminated under specific terms of the agreement.

#### *Employee Benefit Plan*

The Company has a 401(k) savings retirement plan for all eligible employees. The plan allows for employee contributions to be matched by the Company on a pro rata basis. Contributions made to the plan by the Company, including fees, were approximately \$132,192 and \$96,648 for the years ended December 31, 2020 and 2019, respectively.

#### *Litigation*

The Company is party to various legal proceedings that arise in the normal course of business. In the present opinion of management, none of these proceedings, individually or in the aggregate, are likely to have a material adverse effect on the consolidated financial position or consolidated results of operations or cash flows of the Company. However, management cannot provide assurance that any adverse outcome would not be material to the Company's consolidated financial position or consolidated results of operations or cash flows.

### 10. Related Party Transactions

See Note 8 for note purchase agreement with the stockholders of LD Parent.

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

### 11. Income Taxes

Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and financial reporting purposes.

Net deferred tax assets and liabilities are summarized as follows:

<i>December 31,</i>	<b>2020</b>	2019
Employee compensation	\$ 273,215	\$ 232,339
Accounts receivable	155,182	113,288
Inventory	16,379	4,393
Partnership interest	365,529	11,613
Deferred revenue	280,546	264,617
<b>Deferred tax assets</b>	<b>1,090,851</b>	626,250
Property and equipment	(316,798)	(343,692)
Intangible assets	(11,480,837)	(12,051,476)
Other	(36,455)	(5,388)
<b>Deferred tax liabilities</b>	<b>(11,834,090)</b>	(12,400,556)
<b>Net deferred income tax liabilities</b>	<b>\$ (10,743,239)</b>	\$ (11,774,306)

A summary of current and deferred income taxes included in the Consolidated Statements of Operations is as follows:

<i>Year Ended December 31,</i>	<b>2020</b>	2019
<b>Current:</b>		
Federal	\$ 1,114,816	\$ 407,242
State	287,525	120,711
<b>Current tax expense</b>	<b>1,402,341</b>	527,953
<b>Deferred:</b>		
Federal	(870,588)	(578,011)
State	(160,479)	(92,046)
<b>Deferred benefit</b>	<b>(1,031,067)</b>	(670,057)
<b>Total tax expense (benefit)</b>	<b>\$ 371,274</b>	\$ (142,104)

The Company's effective income tax rate reconciles with the federal statutory rate as follows:

<i>Years Ended December 31,</i>	<b>2020</b>	2019
Federal statutory rate	21.0 %	21.0 %
State income taxes, net of federal tax benefit	4.4	3.0
Non-deductible expenses	0.1	(0.6)
Non-controlling interest	3.1	(6.2)
Return to provision adjustment	0.1	(0.8)
Stock-based compensation	(3.1)	1.4
<b>Effective income tax rate on income before taxes</b>	<b>25.6 %</b>	17.8 %

# LD Parent, Inc.

## Notes to Consolidated Financial Statements

The Company may be subject to examination by the Internal Revenue Service (IRS) as well as states for calendar year 2017 through 2020. The Company has not been notified of any federal income tax examinations. As disclosed in Note 13, the Company in 2021 is under income tax, sales tax, and payroll tax audits by the State of New Jersey. The Company does not expect any material adjustments.

### 12. Stock-Based Compensation

#### *Share Options*

Stock Options are issued by LD Parent pursuant to its 2018 Stock Incentive Plan (“the Plan”). The related stock-based compensation is pushed down to its subsidiary and recorded by the Company. The Company follows ASC 718, *Share-Based Payment*, for recording stock-based compensation. The fair value of each time-based and performance-based option award is estimated on the date of grant using a Black-Scholes option pricing model. These options, along with performance based options, will be expensed when such events are deemed probable. Expected volatilities are based on historical volatility of an appropriate industry sector index and other factors. The expected term of options with fixed exercise prices is derived by using the midpoint between vesting and expiration as the expected term of the option grant which is permitted under the guidance. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. No stock options were granted during the years ended December 31, 2020 and 2019.

A summary of assumptions for is presented below:

	<b>2018</b>
Expected volatility	23 %
Expected term (years)	5
Expected dividend yield	—
Risk-free interest rate	1.81 %

	Stock Options		Weighted Average Remaining Contractual Term (in years)	Non- Exercisable	Exercisable
	Number of stock option shares	Weighted Average Exercise Price			
<b>Outstanding at December 31, 2018</b>	1,369	\$ 3,931	9.3	1,095	274
Granted	—	—	—	—	—
Exercised	(95)	—	—	—	—
Forfeited or expired	—	—	—	—	—
<b>Outstanding at December 31, 2019</b>	1,274	\$ 3,931	8.30	821	453
Granted	—	—	—	—	—
Exercised	(192)	—	—	—	—
Forfeited or expired	—	—	—	—	—
<b>Outstanding at December 31, 2020</b>	1,082	\$ 3,931	7.30	547	535

The Company has time-based share-based compensation arrangements under the Plan, which vest over 5 years. In addition to time-based awards, the Company has performance-based awards which vest upon meeting certain financial metrics.

# **LD Parent, Inc.**

## **Notes to Consolidated Financial Statements**

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For the years ended December 31, 2020 and 2019, the Company recorded expense of \$258,602 and \$258,602, respectively, in selling, general, and administrative expenses for stock-based compensation. Unamortized stock-based compensation at December 31, 2020 and 2019 was \$516,504 and \$775,106, respectively.

### **13. Subsequent Events**

As of February 2021, the Company is under income tax, sales tax, and payroll tax audits by the State of New Jersey. The Company does not expect any material adjustments.

Management has reviewed and evaluated all events and transactions as of March 15, 2021, the date that the consolidated financial statements were available for issuance.

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# **Polyform Holdings, Inc. and Subsidiary**

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## **Consolidated Financial Report**

**December 31, 2020**

# Polyform Holdings, Inc. and Subsidiary

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## Independent Auditor's Report

To the Board of Directors  
Polyform Holdings, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Polyform Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020 and 2019 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polyform Holdings, Inc. and Subsidiary as of December 31, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Chicago, Illinois  
February 26, 2021

# Polyform Holdings, Inc. and Subsidiary

## Consolidated Balance Sheet

Assets	December 31, 2020	December 31, 2019
<b>Current Assets</b>		
Cash	\$ 2,682,014	\$ 1,350,355
Accounts receivable - Net	3,224,444	2,254,274
Inventory - Net	3,533,000	2,156,799
Prepaid expenses and other current assets	252,888	155,810
Total current assets	9,692,346	5,917,238
<b>Property and Equipment - Net</b>	1,247,434	947,636
<b>Right-of-use Asset - Net</b>	2,732,421	2,907,339
<b>Goodwill</b>	7,094,308	7,094,308
<b>Intangible Assets - Net</b>	18,958,813	20,525,479
Total assets	<b>\$ 39,725,322</b>	<b>\$ 37,392,000</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 834,945	\$ 410,549
Current portion of lease liability	217,687	174,918
Accrued and other current liabilities:		
Taxes payable	16,000	—
Accrued compensation	824,898	514,694
Customer deposits and advances	183,182	68,837
Other accrued liabilities	383,894	315,150
Total current liabilities	2,460,606	1,484,148
<b>Long-term Lease Liability</b>	2,559,827	2,732,421
<b>Deferred Tax Liability</b>	1,000,000	387,000
<b>Long-term Stockholder Debt</b>	18,003,624	18,003,624
<b>Stockholders' Equity</b>	15,701,265	14,784,807
Total liabilities and stockholders' equity	<b>\$ 39,725,322</b>	<b>\$ 37,392,000</b>

See notes to consolidated financial statements

## Polyform Holdings, Inc. and Subsidiary

### Consolidated Statement of Operations

	Year Ended December 31, 2020	Year Ended December 31, 2019
<b>Net Sales</b>	\$ 18,980,631	\$ 16,517,512
<b>Cost of Sales</b>	9,524,659	8,728,095
<b>Gross Profit</b>	9,455,972	7,789,417
<b>Operating Expenses</b>	4,896,599	5,360,877
<b>Operating Income</b>	4,559,373	2,428,540
<b>Nonoperating Expense</b>		
Foreign exchange loss	—	(330)
Interest expense	(2,944,711)	(2,920,588)
Other expense	(6,360)	(6,863)
Total nonoperating expense	(2,951,071)	(2,927,781)
<b>Income - Before income taxes</b>	1,608,302	(499,241)
<b>Income Tax Expense (Recovery)</b>	468,750	(140,000)
<b>Net Income (Loss)</b>	<b>\$ 1,139,552</b>	<b>\$ (359,241)</b>

See notes to consolidated financial statements

## Polyform Holdings, Inc. and Subsidiary

### Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
<b>Balances as of January 1, 2019</b>	<u>\$ 12</u>	<u>\$ 16,904,034</u>	<u>\$ (939,033)</u>	<u>\$ 15,965,013</u>
Net loss	—	—	(359,241)	(359,241)
Dividends paid	—	(1,000,000)	—	(1,000,000)
Stock-based compensation expense	—	179,035	—	179,035
<b>Balances as of December 31, 2019</b>	<u>\$ 12</u>	<u>\$ 16,083,069</u>	<u>\$ (1,298,274)</u>	<u>\$ 14,784,807</u>
Net income	—	—	1,139,552	1,139,552
Dividends paid	—	(350,000)	—	(350,000)
Stock-based compensation expense	—	126,906	—	126,906
<b>Balances as of December 31, 2020</b>	<u>\$ 12</u>	<u>\$ 15,859,975</u>	<u>\$ (158,722)</u>	<u>\$ 15,701,265</u>

See notes to consolidated financial statements

# Polyform Holdings, Inc. and Subsidiary

## Consolidated Statement of Cash Flows

	Year-ended December 31, 2020	Year-ended December 31, 2019
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 1,139,552	\$ (359,241)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	125,291	85,239
Amortization of intangible assets	1,566,666	1,566,667
Stock-based compensation expense	126,906	179,035
Bad debt expense	3,193	103,961
Deferred income tax expense (recovery)	452,750	(140,000)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(973,363)	(30,814)
Inventory	(1,376,201)	53,918
Prepaid expenses and other assets	63,172	(39,811)
Accounts payable	424,396	(28,218)
Accrued and other liabilities	554,386	373,625
Net cash provided by operating activities	<u>2,106,748</u>	<u>1,764,361</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(425,089)	(241,652)
Net cash used in investing activities	<u>(425,089)</u>	<u>(241,652)</u>
<b>Cash Flows from Financing Activities</b>		
Dividends paid	(350,000)	(1,000,000)
Net cash used in financing activities	<u>(350,000)</u>	<u>(1,000,000)</u>
<b>Net Increase in Cash</b>	1,331,659	522,709
<b>Cash - Beginning of period</b>	\$ 1,350,355	\$ 827,646
<b>Cash - End of period</b>	<u><u>\$ 2,682,014</u></u>	<u><u>\$ 1,350,355</u></u>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 2,944,711	\$ 2,920,588
<b>Significant Noncash Transactions</b>		
Increase in lease liabilities and right-of-use assets due to implementation of ASU842:	—	3,073,743
Reduction in lease liabilities and right-of-use assets from amortization of lease	174,918	166,404

See notes to consolidated financial statements

### Note 1 - Nature of Business

Polyform Holdings, Inc. and Subsidiary is composed of Polyform Holdings, Inc. (Holdings), a Delaware corporation and Polyform Products Company, Inc. (Products), a Delaware corporation (collectively, the “Company”). Polyform Holdings, Inc. is the sole stockholder of Polyform Products Company, Inc. The Company develops, manufactures, and markets various types of polymer clay products and tools for sale to customers primarily in the arts and crafts industry. Through its two primary brands, Sculpey and Premo!, the Company sells a comprehensive line of premium craft products to various retailers, distributors, and e-tailers worldwide.

### Note 2 - Significant Accounting Policies

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Holdings and its wholly owned subsidiary, Products. All material intercompany accounts and transactions have been eliminated in consolidation.

#### *Basis of Accounting*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

#### *Risks and Uncertainties*

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations.

During 2020, as a result of orders issued by the State of Illinois, the Company’s facilities maintained a minimal operating level starting in late March 2020 through the end of May 2020. The Company’s operating levels returned to pre-pandemic volumes quickly and increased through the remainder of 2020. No impairments were recorded as of the balance sheet date.

While the Company’s results of operations, cash flows and financial condition were not significantly impacted, the extent of any future impact cannot be reasonably estimated at this time, and the Company continues to monitor the effects surrounding future uncertainty.

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Significant Accounting Policies (Continued)**

***Trade Accounts Receivable***

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. The allowance for doubtful accounts on accounts receivable balance was approximately \$47,000 and \$150,000 as of December 31, 2020 and 2019, respectively. Bad debt incurred on trade accounts receivable was approximately \$4,000 and \$104,000 for the year ended December 31, 2020 and 2019, respectively.

***Inventory***

Inventories are measured at the lower of cost and net realizable value (NRV), with NRV based on selling prices in the ordinary course of business, less costs of completion, disposal and transportation. Cost is determined on the first-in, first-out (FIFO) method.

***Property and Equipment***

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

***Goodwill***

The recorded amounts of goodwill from business combinations are based on management's estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition, February 7, 2018. Goodwill is not amortized, but rather is assessed for impairment at least on an annual basis.

No impairment charge was recognized during the year ended December 31, 2020 or 2019. Estimates associated with goodwill are susceptible to material change in the near term.

***Intangible Assets***

Acquired intangible assets from the purchase of Polyform Products Company, Inc. are stated at cost and subject to amortization. The assets are amortized using the straight-line method over the estimated useful lives of the assets of 15 years. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

***Credit Risk and Major Customers***

The Company extends trade credit to its customers on terms that are generally practiced in the industry. Five customers accounted for approximately 69 percent of accounts receivable as of December 31, 2020 and 56 percent of sales during the year ended December 31, 2020. Five customers accounted for approximately 71 percent of accounts receivable as of December 31, 2019 and 58 percent of sales during the year ended December 31, 2019. Accounts receivable for these customers are considered current.

One major supplier accounts for approximately 10 percent of accounts payable as of December 31, 2020 and 5 percent of purchases for the year ended December 31, 2020. One major supplier accounts for approximately 17 percent of accounts payable as of December 31, 2019 and 5 percent of purchases for the year ended December 31, 2019.

**Note 2 - Significant Accounting Policies (Continued)**

***Revenue Recognition***

The Company develops, manufactures, and markets various types of polymer clay products and tools for sale to customers primarily in the arts and crafts industry. The business is broken down into three major goods/service lines: Polymer clay, tools/accessories/molds and purchased clay.

The Company's contracts with customers are comprised of purchase orders with standard terms and conditions. Substantially all of the contracts with customers require the delivery of products which represent single performance obligations that are satisfied upon transfer of control of the product to the customer. Transfer of control is assessed based on the use of the product distributed and rights to payment for performance under the contract terms. Transfer of control and revenue recognition for substantially all of the Company's sales occur upon shipment or delivery of the product, which is when title, ownership and risk of loss pass to the customer and is based on the applicable shipping terms. The shipping terms depend on the customer contract. An invoice for payment is issued at time of shipment and terms are generally net 30 days.

Under the typical payment terms, the customer will pay the fixed transaction price (Quantity X Price). Variable consideration is taken into account by using the expected value method. Historical allowances are used as a basis to calculate the discount from the fixed transaction price. The Company does not offer any warranties on its products.

The cost of discounts and rebates is recognized at the later of the date at which the related sale is recognized or the date at which the incentive is offered. The cost of these incentives is estimated using a number of factors including historical utilization and redemption rates. Substantially all cash incentives of this type are included in the determination of net sales. Incentives offered in the form of free product are included in the determination of cost of sales. The reserve for discounts and rebates is approximately \$301,000 and \$117,000 at December 31, 2020 and 2019, respectively, and is presented net with accounts receivable on the consolidated balance sheet.

As a practical expedient, the Company elected to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfillment cost rather than an additional performance obligation.

***Shipping and Handling Costs***

The Company records shipping and handling costs for the delivery of finished goods in cost of sales in the consolidated statement of operations. Total shipping and handling costs were approximately \$133,000 for the year ended December 31, 2020 and \$124,000 for the year ended December 31, 2019.

***Income Taxes***

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of the events up through February 26, 2021 which is the date the consolidated financial statements were available to be issued.

# Polyform Holdings, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Note 3 - Revenue Recognition

The Company develops, manufactures, and markets various types of polymer clay products and tools for sale to customers primarily in the arts and crafts industry. The business is broken down into 3 major goods/service lines. Goods are transferred at a point in time.

The following economic factors affect the nature, amount, and timing of the Company's revenue and cash flows as indicated:

- Type of customers: Based on dollar amounts of revenue, the majority of the goods sold by the Company are sold to retailers. Sales to retailers, distributors, and e-tailers are highly seasonal.
- Geographical location of customers: Sales of customers located within the United States represent a significant portion of the Company's sales. Prices realized for international sales tend to be lower than price realized for U.S. sales.

The following table shows revenue with customers by geographic location, major goods/service lines, and customer segments:

#### Gross Sales

##### Primary geographical markets:

	2020	2019
North America	\$ 17,496,312	\$ 15,048,591
All Other	2,856,422	2,255,105
Total	<u>\$ 20,352,734</u>	<u>\$ 17,303,696</u>

##### Major goods/service lines:

Polymer and Purchased Clay	\$ 18,124,003	\$ 15,882,052
Tools/Accessories/Molds	2,228,731	1,421,644
Total	<u>\$ 20,352,734</u>	<u>\$ 17,303,696</u>

##### Customer segments:

Retailer	\$ 9,887,878	\$ 9,984,975
Distributors	6,461,722	5,341,540
E-Tailers	4,003,134	1,977,181
Total	<u>\$ 20,352,734</u>	<u>\$ 17,303,696</u>

Gross sales of \$20,352,734 were reduced by \$1,372,103 of customer returns, discounts and allowances for the year ended December 31, 2020 to arrive at net sales of \$18,980,631 reported in the consolidated statement of operations. Gross sales of \$17,303,696 were reduced by \$786,184 of customer returns, discounts and allowances for the year ended December 31, 2019, to arrive at net sales of \$16,517,512 reported in the consolidated statement of operations.

The beginning balances of the Company's net receivables from contracts with customers were \$2,254,274 and \$2,327,421 as of January 1 2020 and 2019, respectively. The closing balances were \$3,224,444 and \$2,254,274 as of December 31, 2020 and 2019, respectively.

## Polyform Holdings, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2020 and 2019

#### Note 4 - Inventory

Inventory at December 31 consists of the following:

	2020	2019
Raw materials	\$ 1,354,643	\$ 1,123,171
WIP	400,579	40,400
Finished goods	1,777,778	993,228
Total Inventory	<u>\$ 3,533,000</u>	<u>\$ 2,156,799</u>

#### Note 5 - Property and Equipment

Property and equipment at December 31 are summarized as follows:

	2020	2019	Depreciable Life - Years
Leasehold improvements	\$ 52,312	\$ 42,421	10-15
Machinery and equipment	1,349,778	947,391	2-10
Computer equipment and software	117,270	104,459	3-5
Total Cost	<u>1,519,360</u>	<u>1,094,271</u>	
Accumulated depreciation	<u>271,926</u>	<u>146,635</u>	
Net Property and Equipment	<u>\$ 1,247,434</u>	<u>\$ 947,636</u>	

Depreciation expense for the Company was approximately \$125,000 and \$85,000 for the years ended December 31, 2020 and 2019, respectively.

#### Note 6 - Acquired Intangible Assets and Goodwill

Intangible assets of the Company at December 31 are summarized as follows:

	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$ 15,100,000	\$ 2,917,954	\$ 15,100,000	\$ 1,911,288
Trade name	6,100,000	1,178,776	6,100,000	772,110
Developed Technology	2,300,000	444,457	2,300,000	291,123
Total	<u>\$ 23,500,000</u>	<u>\$ 4,541,187</u>	<u>\$ 23,500,000</u>	<u>\$ 2,974,521</u>

Amortization expense for the Company was approximately \$1,600,000 for each of the years ended December 31, 2020 and 2019.

## Polyform Holdings, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2020 and 2019

#### Note 6 - Acquired Intangible Assets and Goodwill (Continued)

Estimated amortization expense for each of the next five years is approximately \$1,600,000 and \$11,000,000 of total amortization expense thereafter.

The carrying amount of goodwill in 2020 and 2019 was \$7,094,308.

#### Note 7 - Long-term Debt

	<u>2020</u>	<u>2019</u>
Senior secured loan to majority stockholders, with monthly interest-only payments. The fixed interest rate on the note is 16 percent. The note is collateralized by the Company's tangible assets and is subject to certain financial covenants, including a fixed-charge coverage ratio of 1:00x and a maximum total debt to adjusted EBITDA ratio of 5:75x	\$ 15,700,000	\$ 15,700,000
Senior secured loan to the minority stockholder, with monthly interest-only payments. The fixed interest rate on the note is 16 percent. The note is collateralized by the Company's tangible assets and is subject to certain financial covenants, including a fixed-charge coverage ratio of 1:00x and a maximum total debt to adjusted EBITDA ratio of 5:75x	<u>2,303,624</u>	<u>2,303,624</u>
Total	<u>\$ 18,003,624</u>	<u>\$ 18,003,624</u>

As of December 31, 2020 Polyform is in compliance with the above fixed-charge coverage ratio and maximum total debt to adjusted EBITDA financial covenants noted above.

There are no principal payments due on the above mention debt, except for the outstanding balance at maturity on August 7, 2023.

Interest expense for the Company was approximately \$2,945,000 and \$2,921,000 for the years ended December 31, 2020 and December 31, 2019, respectively.

#### Note 8 - Line of Credit

The Company entered into a line of credit agreement on December 19, 2019. Under the agreement, the Company has available borrowings of \$1,000,000. The line of credit is collateralized by substantially all of the Company's assets and is subordinated to the senior secured loans discussed in Note 7.

Interest on the line of credit is based on the Prime Rate, or 3.25 percent at December 31, 2020. Under the terms of the agreement, the Company is subject to certain covenants, including a current ratio and minimum accounts receivable balance. As of December 31, 2020 and 2019, there were no amounts outstanding on the line of credit.

**Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

**Note 9 - Capital Stock**

As of December 31, 2020, 40,000 shares of Class A voting common stock, par value of \$0.001 per share and 10,000 shares of Class B non-voting common stock, par value of \$0.001 per share were authorized for the Company. As of December 31, 2020, there were 12,417.75 shares of Class A voting common stock issued and outstanding. There were no shares of Class B non-voting common stock issued or outstanding.

Dividends are applied as follows: retained earnings would first be reduced to zero (but not below zero), and then additional paid-in-capital would be reduced (but not below zero). If the additional paid-in-capital has been fully exhausted, the excess would be reported as a debit in a section in the statement of stockholder's equity titled *distributions in excess of recorded capital*.

The Company declared and paid \$350,000 and \$1,000,000 in dividends during the years ended December 31, 2020 and 2019, respectively, all of which were classified as a reduction in additional paid-in-capital.

**Note 10 - Income Taxes**

The Company files income tax returns annually in the U.S. federal and State of Illinois income tax jurisdictions.

The components of the income tax provision included in the consolidated statement of operations are all attributable to continuing operations and are detailed as follows:

	Federal Expense (Recovery)	State Expense (Recovery)	Total Expense (Recovery)
2020			
Current	\$ (149,250)	\$ 5,000	\$ (144,250)
Deferred	409,000	204,000	613,000
Net income tax expense	<u>\$ 259,750</u>	<u>\$ 209,000</u>	<u>\$ 468,750</u>
	Federal Expense (Recovery)	State Expense (Recovery)	Total Expense (Recovery)
2019			
Current	\$ —	\$ —	\$ —
Deferred	(93,000)	(47,000)	(140,000)
Net income tax recovery	<u>\$ (93,000)</u>	<u>\$ (47,000)</u>	<u>\$ (140,000)</u>

## Polyform Holdings, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2020 and 2019

#### Note 10 - Income Taxes (Continued)

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	2020	2019
Income tax expense (recovery), computed at 21% of pretax income	\$ 337,743	\$ (104,850)
State taxes, net of federal effect	120,703	(37,741)
Nondeductible expense, permanent differences	2,340	2,084
Increased benefit of federal NOL carryback at higher rates	(36,609)	—
All other including adjustment of prior year estimates	44,573	507
Net income tax expense (recovery)	<u>\$ 468,750</u>	<u>\$ (140,000)</u>

The details of the net deferred tax asset (liability) are as follows:

	2020	2019
Goodwill and intangibles	\$ (982,000)	\$ (871,000)
AR Reserve	75,000	49,000
Inventory reserve	74,000	62,000
Property and Equipment	(341,000)	(216,000)
Net operating loss carryforward	—	537,000
Other assets and liabilities	174,000	52,000
Net deferred tax liabilities	<u>\$ (1,000,000)</u>	<u>\$ (387,000)</u>

At December 31, 2019, the Company had a net operating loss (NOL) carry forward of approximately \$1,900,000. Under the provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted in response to the COVID-19 pandemic, the Company was able to carry back approximately \$590,000 in NOLs to previous tax years. The Company has recorded a receivable of approximately \$160,000 as part of other current assets for the expected refund from the Internal Revenue Service. The remaining balance of the NOL was completely utilized in 2020 to offset taxable income. No net operating losses remain as of December 31, 2020.

#### Note 11 - Leases

The Company currently leases a building of approximately 58,200 square feet including 5,500 square feet for offices and 52,700 square feet for manufacturing/warehousing. The lease is classified as an operating lease and expires in April 2032. The lease requires base annual rent payments of \$315,000 and is subject to annual inflationary increases, not to exceed 2% a year. The lease requires the Company to pay taxes, insurance, utilities and maintenance costs. The Company has elected the practical expedient not to separate lease and nonlease components. Cash paid for amounts included in the measurement of lease liabilities for the lease were \$315,000 for each of the years ended December 31, 2020 and 2019.

# Polyform Holdings, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Note 11 - Leases (Continued)

The Company adopted ASU 2016-02 on January 1, 2019 and recognized a lease liability of and a corresponding right-to-use asset of \$3,073,743 which was based on the present value of the minimum lease payments. Because the Company does not have access to the rate implicit in the lease, the Company utilized their incremental borrowing rate as the discount rate, which was 5 percent. The right-of-use assets is presented net of accumulated amortization on the Consolidated Balance Sheet, while the related lease liabilities is also presented on the Consolidated Balance Sheet, with current and long-term portion. In addition, the Company has elected the short-term lease practical expedient related to leases of various equipment.

The Company recognized rent expense associated with the lease as follows:

	Year-ended December 31, 2020	Year-ended December 31, 2019
Operating lease cost:		
Fixed rent expense	\$ 315,000	\$ 315,000
Variable rent expense	16,648	10,290
Short-term lease cost	9,093	12,263
Net lease cost	<u>340,741</u>	<u>337,553</u>
Lease cost - Cost of Sales	300,731	294,561
Lease cost - SG&A	40,010	42,992
Net Lease cost	<u>\$ 340,741</u>	<u>\$ 337,553</u>

Future minimum lease payments are as follows:

2021	\$ 315,000
2022	315,000
2023	315,000
2024	315,000
2025	315,000
Thereafter	<u>1,995,000</u>
Total	3,570,000
Less effects of discounting	<u>(792,486)</u>
Lease liabilities recognized	<u>\$ 2,777,514</u>

### Note 12 - Stock Options

The Company's Stock Incentive Plan (the "Plan"), was approved by the stockholders on February 7, 2018 permits the grant of 1,534 stock options to its employees for up to 1,534 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. The options have 10-year contractual terms. 50 percent of the stock options vest over approximately four years. The remaining 50 percent vest annually based on certain EBITDA targets and also require the recipient to be employed at the EBITDA measurement dates. As the Company believes it is probable that the performance targets will be met, the Company is recording an expense for these awards over their service period. The option awards also provide for accelerated vesting if there is a change in control (as defined in the Plan).

**Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

**Note 12 - Stock Options (Continued)**

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that used the following weighted-average assumptions: (1) 7.5 years time to maturity, (2) 2.51 percent risk-free rate, and (3) 42.00 percent expected annual stock volatility. Expected volatilities are based on competitors in our industry historical stock price volatility over the expected term. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of the stock options was also discounted for lack of marketability. The fair value of the stock options awarded during 2019 was \$414 per option unit. There were no stock options awarded in 2020.

When calculating the amount of annual compensation expense, the Company has elected not to estimate forfeitures and instead accounts for forfeitures as they occur. The compensation cost that has been charged against income for the Plan was \$126,906 and \$79,035 for the year ended December 31, 2020 and 2019, respectively. The Company expects to recognize approximately \$127,000 in compensation cost annually through 2022, and approximately \$75,000 in 2023.

A summary of option activity under the Plan for the years ended December 31, 2020 and 2019 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2019	—	—	—
Granted	1,534	\$ 1,442	10.00
Exercised	—	—	—
Forfeited or expired	—	—	—
Outstanding at December 31, 2019	1,534	1,442	9.33
Granted	—	—	—
Exercised	—	—	—
Forfeited or expired	—	—	—
Outstanding at December 31, 2020	1,534	\$ 1,442	8.33
Vested at December 31, 2020	739	1,442	—
Exercisable at December 31, 2020	739	1,442	—

**Notes to Consolidated Financial Statements**

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**December 31, 2020 and 2019**

**Note 13 - Retirement Plans**

The Company provides a defined contribution savings plan for all eligible employees. The plan provides for the Company to make a discretionary profit-sharing contribution and a required matching contribution. Expenses under the plan amounted to approximately \$65,000 for each of the years ended December 31, 2020 and 2019.

**Note 14 - Contingencies**

The Company is involved in various legal proceedings which are incidental to the conduct of its business. These legal proceedings could result in settlement or award by the court in favor of another party. However, at this time no estimate can be made as to the time or the amount, if any, of ultimate liability. It is management's opinion that none of these proceedings will have a material adverse effect on the Company.

Consolidated Financial Statements and  
Report of Independent Registered Public Accounting Firm

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**

For the Year Ended December 31, 2020 and the Period August 1, 2019  
(Commencement of Operations) through December 31, 2019

# ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members  
Roundtable Equity Holdings LLC and Subsidiary

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Roundtable Equity Holdings LLC and Subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, cash flows and changes in members' equity for year ended December 31, 2020 and the period August 1, 2019 (commencement of operations) through December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the year ended December 31, 2020 and the period August 1, 2019 (commencement of operations) through December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Citrin Cooperman & Company, LLP

We have served as the Company's auditor since 2019.  
Philadelphia, Pennsylvania  
March 19, 2021

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**  
**Consolidated Balance Sheets**  
**December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,568,548	\$ 1,508,968
Accounts receivable, net of allowance for credit losses of \$59,678 and \$112,464, respectively	454,005	835,707
Due from related party	2,832	67,397
Prepaid expenses and other current assets	141,305	83,467
Total current assets	<u>4,166,690</u>	<u>2,495,539</u>
Property and equipment, net of accumulated depreciation of \$36,679 and \$8,085, respectively	109,940	57,451
Finance lease right-of-use assets	37,114	47,631
Operating lease right-of-use assets	697,429	1,225,160
Other intangible assets, net of accumulated amortization of \$2,076,044 and \$610,377, respectively	25,083,956	26,549,623
Goodwill	33,653,633	33,352,834
<b>Total assets</b>	<b><u>\$ 63,748,762</u></b>	<b><u>\$ 63,728,238</u></b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 108,052	\$ 18,414
Accrued expenses and other current liabilities	1,376,820	343,355
Current portion of long-term debt	2,000,000	2,000,000
Current portion of finance lease liabilities	12,405	13,856
Current portion of operating lease liabilities	358,024	361,530
Current portion of deferred FICA tax liability	66,196	—
Deferred revenue	485,381	949,497
Total current liabilities	<u>4,406,878</u>	<u>3,686,652</u>
Long-term debt, net of current portion	15,000,000	15,000,000
Deferred tax liability, net	4,364,569	5,505,743
Deferred FICA tax liability, net of current portion	66,196	—
Finance lease liabilities, net of current portion	26,730	34,529
Operating lease liabilities, net of current portion	95,577	405,956
Total liabilities	<u>23,959,950</u>	<u>24,632,880</u>
Commitments and contingencies		
<b>MEMBERS' EQUITY</b>		
Membership units and paid-in capital 40,100 Class A shares issued and outstanding; 0 Class B shares issued and outstanding	40,100,000	40,100,000
Accumulated deficit	(311,188)	(1,004,642)
Total members' equity	<u>39,788,812</u>	<u>39,095,358</u>
<b>Total liabilities and members' equity</b>	<b><u>\$ 63,748,762</u></b>	<b><u>\$ 63,728,238</u></b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY****Consolidated Statements of Operations****For the year ended December 31, 2020 and the period August 1, 2019 (Commencement of Operations) to December 31, 2019**

	<u>Year Ended December 31, 2020</u>	<u>August 1, 2019 to December 31, 2019</u>
<b>Revenues</b>		
Roundtable and other revenues	\$ 12,723,660	\$ 4,502,775
Sales discounts	(1,782,088)	(573,674)
Total revenues, net	<u>10,941,572</u>	<u>3,929,101</u>
<b>Costs and Expenses</b>		
Salaries and employee benefits	5,704,213	1,541,725
Depreciation and amortization	1,506,983	618,462
Selling	330,119	850,552
General and administrative	1,551,255	1,215,465
Total costs and expenses	<u>9,092,570</u>	<u>4,226,204</u>
Operating income (loss)	1,849,002	(297,103)
Interest expense, net	2,598,676	1,043,334
Loss before income tax benefit	(749,674)	(1,340,437)
Income tax benefit	1,443,128	335,795
<b>Net income (loss)</b>	<u><u>\$ 693,454</u></u>	<u><u>\$ (1,004,642)</u></u>

*The accompanying notes are an integral part of these consolidated financial statements.*

## ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY

### Consolidated Statements of Cash Flows

For the year ended December 31, 2020 and the period August 1, 2019 (Commencement of Operations) to December 31, 2019

	Year Ended December 31, 2020	August 1, 2019 to December 31, 2019
<b>Cash flows from Operating Activities</b>		
Net income (loss)	\$ 693,454	\$ (1,004,642)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,506,983	618,462
Provision for (recovery of) credit losses	(22,118)	37,104
Deferred income tax benefit	(1,443,128)	(335,795)
Operating lease costs	575,581	297,298
Interest on financing leases	3,633	1,700
Changes in operating assets and liabilities:		
Accounts receivable	403,819	518,189
Prepaid expenses and other current assets	(57,838)	(13,467)
Due from related party	64,566	(67,397)
Accounts payable	89,638	(303,587)
Accrued expenses and other current liabilities	1,033,464	(686,255)
Deferred revenue	(464,116)	(2,465,503)
Operating lease liability	(363,940)	(121,876)
Deferred FICA tax liability	132,390	—
Net cash provided by (used in) operating activities	<u>2,152,388</u>	<u>(3,525,769)</u>
<b>Cash flows from Investing Activities</b>		
Cash paid for business combination, net of cash acquired	—	(41,395,000)
Purchase of property and equipment	(79,926)	(7,536)
Net cash used in investing activities	<u>(79,926)</u>	<u>(41,402,536)</u>
<b>Cash flows from Financing Activities</b>		
Proceeds from issuance of debt	—	14,114,338
Repayment of finance lease liabilities	(12,882)	(6,027)
Repayment of debt assumed from business combination	—	(55,000)
Contributions from members	—	32,385,662
Net cash (used in) provided by financing activities	<u>(12,882)</u>	<u>46,438,973</u>
Net change in cash and cash equivalents	2,059,580	1,510,668
Cash and cash equivalents, beginning of period	1,508,968	—
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 3,568,548</u></b>	<b><u>\$ 1,510,668</u></b>
<b>Supplementary disclosure of cash flow information</b>		
Interest paid	\$ 2,606,300	\$ 1,043,334
Taxes paid	\$ 24,600	\$ —
Non-cash investing activities		
Non-cash purchase consideration related to business combination		
Assumption of debt from acquiree	\$ —	\$ 55,000
Issuance of debt	—	2,885,662
Roll-over of seller's equity	—	7,714,338
Total non-cash purchase consideration	<u>\$ —</u>	<u>\$ 10,655,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY****Consolidated Statements of Changes in Members' Equity****For the year ended December 31, 2020 and the period August 1, 2019 (Commencement of Operations) to December 31, 2019**

	<b>Class A Membership Units</b>	<b>Class B Membership Units</b>	<b>Paid-in Capital</b>	<b>Accumulate d Deficit</b>	<b>Total Members' Equity</b>
<b>Balance at August 1, 2019</b>	—	—	\$ —	\$ —	\$ —
Issuance of Class A membership units	40,100	—	40,100,000	—	40,100,000
Net loss	—	—	—	(1,004,642)	(1,004,642)
<b>Balance at December 31, 2019</b>	<u>40,100</u>	<u>—</u>	<u>40,100,000</u>	<u>(1,004,642)</u>	<u>39,095,358</u>
Net income	—	—	—	693,454	693,454
<b>Balance at December 31, 2020</b>	<u>40,100</u>	<u>—</u>	<u>\$ 40,100,000</u>	<u>\$ (311,188)</u>	<u>\$ 39,788,812</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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**1. DESCRIPTION AND LIQUIDITY OF BUSINESS**

*Description of Business*

Roundtable Equity Holdings LLC and its wholly-owned subsidiary, Auriemma Consulting Group, Inc. (collectively, “the Company”), which operate primarily in the United States and Canada, provide leading companies access to key executives and operational data to optimize business practices, maximize efficiency and navigate complexity. The Company’s unique executive meetings provide clients with ongoing, in-person access to other leading organizations, allowing key industry participants to collaborate over common challenges and actionable solutions. Each roundtable typically meets three times per year for one or two day sessions. The Company hosts networking dinners at each meeting. Comprehensive reference reports are delivered within two weeks of each executive meeting. The Company also performs over 130 benchmark studies per year that measure key metrics to help companies assess operational business performance and identify trends over time. The Company is the “go-to” provider of operational information among major financial institutions. Additionally, the Company conducts on-demand peer group surveys that generate quick industry feedback on critical, time-sensitive issues, helping clients validate business strategies, respond to market events, and prepare for regulatory exams. Surveys are driven by client needs to respond quickly to challenges from their own senior management, external auditors, regulators, or other economic/environmental circumstances.

Roundtable Equity Holdings LLC was incorporated in the state of Delaware on June 19, 2019 and did not have operations until its wholly-owned subsidiary, Roundtable Acquisition LLC, acquired Auriemma Consulting Group, Inc. (“ACGI”) on August 1, 2019. Immediately following the acquisition, Roundtable Acquisition LLC merged with ACGI. Refer to Note 3 for details of this transaction. Roundtable Equity Holdings LLC is a majority-owned subsidiary of USR Strategic EquityCo, LLC, which is a wholly owned subsidiary of CNL Strategic Capital, LLC.

*Liquidity of Business*

The Company has a cash and cash equivalents balance of \$3,568,548, a working capital deficit of \$240,188 and an accumulated deficit of \$311,188 as of December 31, 2020. In addition, the Company incurred a loss before income tax benefit of \$749,674 and reported positive cash flows from operations of \$2,152,388 during the year ended December 31, 2020. The Company expects to finance its operations for at least the next twelve months following the issuance of its consolidated financial statements, mainly through Membership renewals and expanded related offerings.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Accounting Principles*

The consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

## **ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**

### **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

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#### ***Principles of Consolidation***

The consolidated financial statements and accompanying notes include the financial statements of Roundtable Equity Holdings LLC and its wholly owned subsidiary, ACGI. All significant intercompany transactions and balances have been eliminated in consolidation.

#### ***Use of Estimates***

The preparation of these consolidated financial statements requires the Company to make estimates and assumptions that affect reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

Cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less at the time of acquisition. The Company places its cash and cash equivalents into institutions and performs periodic evaluations of these institutions and funds to mitigate the risk associated with cash and cash equivalents balances of \$3,568,548, which are in excess of government insurance. In addition, the Company entered into an uncommitted discretionary demand line of credit with a financial institution which can only be used for issuing standby letters of credit of up to \$100,000. The standby letters of credit incur an interest rate of 3% + prime per annum, are payable within 12 months from their issuance and are secured by certain cash and cash equivalents maintained in such financial institution. There were no standby letters of credit issued under this line of credit facility as of December 31, 2020 and 2019.

#### ***Accounts Receivable and Allowance for Credit Losses***

Accounts receivable are stated at amounts due from customers, net of an allowance for credit losses. Accounts outstanding longer than the contractual terms are considered to be past due. The Company maintains an allowance for credit losses based on trade receivables that are not probable of collection after evaluating the aging of receivables and the current economic environment. When the Company determines that the amounts are not recoverable, the receivable is written off against the allowance.

#### ***Property and Equipment***

Property and equipment is recorded at cost. Depreciation is computed principally using the straight-line method over the estimated useful lives of the respective assets, which is typically 3 years. The Company reviews the carrying values of property and equipment, whenever circumstances indicate that such amounts might be impaired. Based on the Company's assessment, the Company determined that its property and equipment was not impaired during the year ended December 31, 2020 and the five months ended December 31, 2019.

#### ***Goodwill and Intangible Assets***

Amortization of finite-lived intangible assets is computed principally using the straight-line method over the estimated useful lives of the assets. The Company reviews the carrying values of finite-lived intangible assets, whenever circumstances indicate that such amounts might be impaired.

Goodwill is evaluated for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is allocated to the Company which represents a single reporting unit for goodwill impairment purposes based on the nature of the Company's business, service offerings and internal organizational structure.

## **ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**

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Based on the Company's assessment, the Company determined that its goodwill and intangible assets, which were acquired on August 1, 2019, were not impaired during the year ended December 31, 2020 and the five months ended December 31, 2019.

#### ***Revenue Recognition***

The Company records revenue under Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"). The core principle of ASC Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To do this, the Company applies the five-step model prescribed by ASC Topic 606, which requires the Company to: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the Company satisfies a performance obligation. Refer to Note 10 for more details of the Company's revenues from contracts with customers.

#### ***Leases***

The Company records leases under ASC Topic 842, Leases ("ASC Topic 842"). Under ASC Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Company has the right to substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term. Leases are classified as either operating or financing. For operating leases, the Company has recognized a lease liability equal to the present value of the remaining lease payments, and a right of use asset equal to the lease liability, subject to certain adjustments, such as prepaid rents, initial direct costs and lease incentives received from the lessor. The Company used its incremental borrowing rate to determine the present value of the lease payments. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Refer to Note 11 for more details of the Company's leasing arrangements.

#### ***Income Taxes***

The income tax benefit includes federal and state income taxes. The Company uses the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are recognized when it is more likely than not that they will be realized, otherwise a valuation allowance is provided.

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The Company accounts for its uncertain tax positions by first determining whether it is more likely than not that a tax position will be sustained based on its technical merits as of the reporting date, assuming that the taxing authorities will examine the position and have full knowledge of all the relevant information. A tax position that meets the more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. The Company classifies interest and penalties associated with the liability for unrecognized tax benefits as income tax expense.

#### ***Foreign Currency Transactions***

Assets and liabilities are translated at the rate of exchange in effect at that date. At the date the transaction is recognized, the transaction is translated into United States dollars (USD). A gain or loss is recognized when the transaction is settled for the difference in the rate in effect between the time the transaction is recognized and when it is settled. Foreign currency transaction adjustment is not material for the year ended December 31, 2020 and during the five months ended December 31, 2019.

#### ***Fair Value Measurements***

The Company applies the relevant accounting guidance on fair value measurements to financial and non-financial assets and liabilities measured and reported at fair value on a recurring and non-recurring basis. The three levels of fair value hierarchy are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and
- Level 3 - unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of their nature and short period of time to maturity or payment. The fair value of the Company's obligations under its debt agreements is based on current rates offered to the Company for debt of the same remaining maturity and, accordingly, approximates its carrying amount.

#### ***Contingencies***

The Company may, from time to time, be a party to various contingencies, including litigation and claims, arising in the normal course of business. Because contingencies are inherently unpredictable, particularly in cases where claimants seek substantial or indeterminable damages or where proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, how or when such matters will be resolved, or what the settlement might be where there is only a reasonable possibility that a loss may have been incurred. There were no loss or gain contingencies recorded in the Company's consolidated financial statements as of and during the year ended December 31, 2020 and as of and during the five months ended December 31, 2019.

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***Reclassifications***

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to current year presentation. These reclassification adjustments had no effect on the Company's previously reported net loss.

***New Accounting Pronouncements to Be Adopted***

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This guidance provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. This guidance is effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating the impact of adopting this update on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The standards update is effective for fiscal years and interim periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting this update on the consolidated financial statements.

***New Accounting Pronouncements Adopted***

Effective January 1, 2020, the Company adopted ASU 2016-13, Measurement of Credit Losses on Financial Instruments (see Note 11 for further discussion). This ASU replaced the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In addition, new disclosures are required. The Company adopted ASU 2016-13 using the modified retrospective transition method. The adoption of ASU 2016-13 did not result in a material cumulative-effect adjustment to the opening balance of accumulated deficit at January 1, 2020, and did not have a material impact on the Company's results of operations, financial condition or liquidity.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). The FASB issued the update to simplify the measurement of goodwill by eliminating step 2 from the goodwill impairment test. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 was effective for the Company in 2020. The adoption of ASU 2017-04 did not have a material impact on the Company's consolidated financial statements and notes.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) ("ASU 2018-13"). The guidance improves the effectiveness of disclosures about fair value measurements required under ASC 820. ASU 2018-13 amends the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. ASU 2018-13 was effective for the Company in 2020. The adoption of ASU 2018-13 did not have a material impact on the Company's consolidated financial statements and notes.

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*Risks and Uncertainties*

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. As of the date these consolidated financial statements were available to be issued, some of the Company’s customers have been impacted by temporary closures. The Company cannot reasonably estimate the length or severity of this pandemic. Nevertheless, the pandemic presents uncertainty and risk with respect to the Company, its performance, and its financial results that cannot not be reasonably estimated at this time.

**3. BUSINESS COMBINATION**

On August 1, 2019, the Company acquired all of the outstanding common stock of ACGI for a purchase consideration of \$53,000,000, which consisted of: (i) a cash consideration of \$42,345,000, (ii) a note payable issued to the seller for \$2,885,662, (iii) a rollover of the seller’s equity interest for \$7,714,338 and (iv) the assumption of debt of \$55,000. The purpose of the transaction was to accelerate the roundtables growth strategy by enhancing the Company’s benchmarking, data and analytics capabilities and expand into new market verticals. The roundtables business’ results of operations have been included in the consolidated financial statements from the date of acquisition.

Based on the finalized valuation report received during March 2020, the Company revised the preliminary purchase allocation as disclosed in the prior year consolidated financial statements. As a result, \$300,800 was recorded to increase goodwill and a corresponding increase of deferred tax liability for the same amount. The final goodwill balance as of December 31, 2020, was \$33,653,633. The following summarizes the final allocation of the purchase price consideration over the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Purchase consideration:	<u>\$ 53,000,000</u>
Assets acquired (liabilities assumed):	
Cash and cash equivalents	950,000
Accounts receivable	1,391,000
Prepaid expenses and other	70,000
Property and equipment	138,000
Operating and finance right of use assets	943,774
Goodwill	33,653,633
Customer relationships	20,700,000
Developed technology	5,100,000
Trade name	1,360,000
Favorable leases	546,776
Accounts payable	(322,000)
Accrued expenses and other	(1,029,610)
Deferred revenue	(3,415,000)
Operating and finance lease liabilities	(943,774)
Deferred tax liability	(6,142,799)
Total assets acquired, net of liabilities assumed	<u>\$ 53,000,000</u>

## **ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**

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The fair values of the notes payable issued to the seller and the assumed debt included in the purchase consideration are based on current rates offered to the Company for debt of the same remaining maturity and, accordingly, such fair values are approximated by their carrying values as of August 1, 2019. The fair value of the seller's equity interest included in the purchase consideration is based on the fair value of the underlying units as of August 1, 2019.

The carrying values of cash and cash equivalents and working capital components approximate their fair values as of August 1, 2019 due to their short-term nature. The fair value of property and equipment is approximated by its carrying value as of August 1, 2019 due to the nature and immateriality of the property and equipment acquired. The fair values of operating and finance right of use assets and lease liabilities were estimated based on the terms of the lease and an incremental borrowing rate. The fair value of deferred revenue is determined using the cost plus markup approach and includes estimates and assumptions such as the timing of when the services will be provided, the estimated cost and related markup and the weighted average cost of capital.

The fair values of the trade name and the developed technology are determined using the relief of royalty method and includes estimates and assumptions such as the revenue growth rate, the royalty rate, the economic life of the trade name and developed technology, and the weighted-average cost of capital. The fair value of customer relationships is determined using the excess earnings method and include estimates and assumptions such as the revenue growth rate, the attrition rate, the estimated expenses and contributory asset charges, the economic life of the customer relationships and the weighted-average cost of capital. The fair value of the favorable leases acquired is determined using the income approach and includes inputs and assumptions such as the lease terms, a discount rate and current and projected market rates. Such favorable leases are included in the operating leases right-of-use assets in the consolidated balance sheets. The fair value the acquired workforce, which is included in goodwill, is determined using estimates and assumptions such as the headcount, the estimated salaries and employee benefits of the workforce and the replacement cost per employee.

The weighted-average cost of capital is determined using estimates and assumptions such as the prospective financial information of the acquiree and guideline public company data. The excess of the purchase consideration over the fair value of the assets acquired and liabilities assumed is attributed to goodwill primarily because of the various operational and market synergies that are expected to be generated from this acquisition. The determination of the fair values of the acquired assets and assumed liabilities requires significant judgement.

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**4. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets as of December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Prepaid technology	\$ 3,531	\$ 40,278
Prepaid conference room	110,596	18,817
Other	27,178	24,372
Total prepaid expenses and other current assets	<u>\$ 141,305</u>	<u>\$ 83,467</u>

**5. PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2020 and 2019 consist of the following:

	<u>Useful Life</u>	<u>2020</u>	<u>2019</u>
Computer equipment	3 years	\$ 131,385	\$ 58,111
Furniture and equipment	3 years	7,425	7,425
Software	3 years	7,809	—
		146,619	65,536
Less accumulated depreciation		36,679	8,085
Total property and equipment, net		<u>\$ 109,940</u>	<u>\$ 57,451</u>

The depreciation expense related to property and equipment amounted to \$28,594 for the year ended December 31, 2020 and \$8,085 for the five months ended December 31, 2019.

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**6. OTHER INTANGIBLE ASSETS**

The balances of Other intangible assets as of December 31, 2020 and 2019 are as follows:

<b>Gross Value</b>	<b>Estimated</b>		
<b>Other Intangible Assets</b>	<b>Useful Life</b>	<b>2020</b>	<b>2019</b>
Developed Technology	15 years	\$ 5,100,000	\$ 5,100,000
Customer Relationships	20 years	20,700,000	20,700,000
Trade Name	15 years	1,360,000	1,360,000
Total other intangibles, gross		<u>27,160,000</u>	<u>27,160,000</u>
Developed Technology		481,667	141,667
Customer Relationships		1,465,933	430,933
Trade Name		128,444	37,777
Total accumulated amortization		<u>2,076,044</u>	<u>610,377</u>
Total other intangible assets, net		<u>\$ 25,083,956</u>	<u>\$ 26,549,623</u>

The amortization expense related to other intangible assets amounted to \$1,465,668 for the year ended December 31, 2020 and \$610,377 for the five months ended December 31, 2019. The amortization expense to be incurred in future periods are as follows:

**Years Ending December 31,**

2021	\$ 1,465,667
2022	1,465,667
2023	1,465,667
2024	1,465,667
2025	1,465,667
Thereafter	17,755,621
Total	<u>\$ 25,083,956</u>

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**7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities as of December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Commissions payable	\$ —	\$ 77,270
Due to credit card company	24,781	76,815
Vacation accrual	46,581	48,030
Advances from clients	721,880	—
Bonuses payable	600,938	—
Other current liabilities	(17,360)	141,240
Total accrued expenses and other current liabilities	<u>\$ 1,376,820</u>	<u>\$ 343,355</u>

**8. RELATED PARTY TRANSACTIONS**

*Financing arrangements with related parties*

The Company's financing arrangements consist of senior subordinated notes and a senior secured bridge note from related parties which have outstanding balances of \$15 million and \$2 million as of December 31, 2020 and 2019, respectively.

*Senior Subordinated Notes*

On August 1, 2019, Roundtable Acquisition LLC entered into note purchase agreements with its members for an aggregate principal amount of \$15 million. The proceeds from these notes were used to settle outstanding debt obligations and to partially fund the Company's acquisition of ACGI. Refer to Note 3 for more details of this transaction. No principal amounts are due until the maturity date of August 1, 2025. These notes bear an interest of 16% per annum which are payable monthly. These notes are secured by the Company's assets and are subordinated to the senior secured bridge note discussed below. The outstanding balance of these notes as of December 31, 2020 and 2019 comprises long-term debt, net of current portion, in the accompanying consolidated balance sheets.

*Senior Secured Bridge Note*

On November 13, 2019, the Company amended the above note purchase agreements to include a \$2 million senior secured bridge loan from one of the Company's members. The proceeds from the note was used to fund the Company's working capital needs. No principal amounts are due until the maturity date of November 13, 2021. The note bears interest at 8% per annum which is payable monthly. The note is secured by the Company's assets and is senior to the senior subordinated notes discussed above. The outstanding balance of this note as of December 31, 2020 and 2019 comprises current portion of long-term debt in the consolidated balance sheets.

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The financing arrangements with related parties discussed above also contain covenants that limit the ability of the Company to, among other things: (i) incur additional indebtedness; (ii) incur liens; (iii) merge, consolidate or dispose of a substantial portion of its business; (iv) transfer or dispose of assets; (v) change its name, organizational identification number, state or province of organization or organizational identity; (vi) make any material change in the nature of business; (vii) prepay or otherwise acquire indebtedness; (viii) cause any change of control; (ix) make any restricted junior payment; (x) change its fiscal year or method of accounting; (xi) make advances, loans or investments; (xii) enter into or permit any transaction with an affiliate of any borrower or any of its subsidiaries; (xiii) use proceeds for certain items; and (xiv) issue or sell any of its units. As of December 31, 2020 and 2019, the Company was in compliance with all covenants included within these financing arrangements with related parties.

Interest expense incurred on these financing arrangements with related parties during the year ended December 31, 2020 and the five months ended December 31, 2019 amounted to \$2,602,667 and \$1,043,334, respectively. There is no unpaid interest as of December 31, 2020 and 2019 on these financing arrangements.

#### ***Other Related Party Transactions***

On August 1, 2019, the Company entered into a transition services agreement with an affiliate. The agreement provides for the Company and its affiliate to share marketing, human resources, information technology, treasury, accounting and back office functions as well as office space and equipment. Receivables arising from this agreement represent the affiliate's share of these costs and are presented in due from related party in the consolidated balance sheets. The affiliate's share of these pass-through costs did not have an impact on the Company's consolidated statements of operations during the year ended December 31, 2020 and the five months ended December 31, 2019.

On August 1, 2019, the Company entered into a management agreement with an affiliate. The agreement provides for the affiliate to provide the Company with management, consulting and advisory services on an ongoing basis through December 2029. Management service cost reflected in the general and administrative line of the Company's consolidated statements of operations for the year ended December 31, 2020 were \$52,609 and \$0 for the five months ended December 31, 2019.

## **9. MEMBERS' EQUITY**

The Company issued 40,100 Class A membership units, during the five months ended December 31, 2019. The ownership of Class A units entitle the holder to distributions of cash and property. In addition, each member holding Class A units is entitled to one vote per Class A unit on all matters voted on by the Company's members and such Class A units vote together as a single class. There were no Class B membership units issued during the year ended December 31, 2020 and during the five months ended December 31, 2019.

Members of the Company are only liable to make capital contributions and other payments to the Company pursuant to the Limited Liability Company ("LLC") agreement. Such members are not personally liable for the obligations and losses incurred by the Company unless explicitly stated in the LLC agreement.

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**10. REVENUES FROM CONTRACTS WITH CUSTOMERS**

*Roundtable Revenues*

The Company accounts for a contract with a customer when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company's primary source of revenue is derived from conducting unique executive meetings or roundtables that provides clients with ongoing, in-person access to other leading organizations, allowing key industry participants to collaborate over common challenges and actionable solutions. The standard roundtables package provides the clients with access to 1 to 3 in-person or virtual executive meetings per year, which are facilitated by leading industry professionals, online access to Vizor (an online platform where the Company shares its research with its clients), benchmarking reports, custom surveys and ongoing year-round support. Variations to the standard roundtables package are also available to customers, which can include customized reporting and analysis. The Company aggregates these services and deliverables into a single performance obligation because they are not distinct from each other in that they are interdependent and the overall value to the customer is maximized by having access to these services and deliverables.

The transaction price is determined by reference to the amounts specified in the contract in the initial year and the invoice amount in subsequent years. While unit prices are generally fixed, the Company provides sales discounts to customers at the time of sale. These sales discounts are not generally incremental to the range of discounts typically given for services provided to similar customers and therefore, such sales discounts do not represent a material right. The Company records sales discounts in the period the related revenue is recognized.

The Company's typical payment terms vary based on the customer, however, the period of time between invoicing and when payment is due is generally not significant. Amounts billed and due from customers are classified as accounts receivable, net of allowance for credit losses, on the consolidated balance sheets. As the Company's standard payment terms are less than one year, the Company has elected the practical expedient under ASC paragraph 606-10-32-18 to not assess whether a contract has a significant financing component. In addition, the Company has also elected the practical expedient in ASC 340-40-25-4, whereby the Company recognizes incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets the Company otherwise would have recognized is one year or less.

Revenues from roundtables are generally recognized over time as the customer simultaneously receives and consumes the benefit of the services as they are performed. As the performance obligation is consumed on a regular cadence throughout the annual contract period, revenue is recognized on a straight-line basis over the contract term. In this regard: a) there is no one primary deliverable that drives most of the contract value; b) the roundtables and benchmarking reports are generally provided evenly throughout the annual contract period for example, benchmarking reports are often provided on a quarterly basis; c) the Company is standing ready to provide the custom surveys as requested throughout the annual contract period; and d) the customer has continuous access to the deliverables through the Vizor platform.

*Accounts Receivable*

Amounts billed and due from customers are classified as accounts receivable, net of allowance for credit losses, on the consolidated balance sheets. Accounts receivable acquired from the business combination discussed in Note 3 has a fair value of \$1,391,000 as of the acquisition date of August 1, 2019. The accounts receivable outstanding as of December 31, 2020 and 2019, net of allowance for credit losses, amounts to \$454,005 and \$835,707, respectively.

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*Deferred Revenue*

Deferred revenues are expected to be recognized as revenues during the twelve months ending December 31, 2021. Significant changes in the Company's deferred revenue balance during the year ended December 31, 2020 and the five months ended December 31, 2019 are as follows:

Deferred revenues assumed on August 1, 2019 through a business combination (Note 3)	\$ 3,415,000
Estimated revenues recognized from deferred revenue assumed on August 1, 2019 through a business combination	(3,415,000)
Increase, excluding amounts recognized as revenues during the period	<u>949,497</u>
<b>Balance, as of December 31, 2019</b>	<u>949,497</u>
Revenues recognized in 2020 from deferred revenue existing as of December 31, 2019	(949,497)
Increase, excluding amounts recognized as revenues during the year	<u>485,381</u>
<b>Balance, as of December 31, 2020</b>	<u><u>\$ 485,381</u></u>

*Concentration of Credit Risks*

The Company's largest customer accounted for approximately 5% of revenues for the year ended December 31, 2020. This customer also accounted for 4% of accounts receivable as of December 31, 2020. Six other customers accounted for 48% of accounts receivable as of December 31, 2020.

The Company's largest customer accounted for approximately 10% of revenues for the five months ended December 31, 2019. This customer also accounted for 8% of accounts receivable as of December 31, 2019. Two other customers accounted for 30% of accounts receivable as of December 31, 2019.

**11. ALLOWANCE FOR CREDIT LOSSES**

On January 1, 2020 (the adoption date of ASU 2016-13 described in Note 2), the Company replaced its previous incurred loss impairment model for estimating credit losses on accounts receivables with an expected loss model prepared in accordance with ASC 326. While the incurred loss impairment model had the Company recognize credit losses when it was probable that a loss had been incurred, ASC 326 requires the Company to estimate future expected credit losses on such instruments before an impairment may occur.

In making the Company's credit evaluations, management considers the general collection risk associated with its customers. The Company establishes credit limits through payment terms with customers, performs ongoing credit evaluations and monitors accounts on an aging schedule basis to minimize risk of loss. Despite the Company's efforts to minimize credit risk exposure, customers could be adversely affected if future industry trends, including those related to COVID-19, change in such a manner as to negatively impact their cash flows. The full effects of COVID-19 on the Company's customers are uncertain and cannot be predicted. As a result, the Company's future collection experience may differ significantly from historical collection trends.

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The Company evaluates its accounts receivable for expected credit losses monthly. Accounts receivables are evaluated based on internally developed credit quality indicators derived from the aging of receivables.

The following table provides a summary of the changes in the Company's allowance for credit losses for the year ended December 31, 2020:

Balance, as of December 31, 2019	\$	112,464
Write-off charged against the allowance		(30,668)
Recoveries of bad debt		<u>(22,118)</u>
Balance, as of December 31, 2020	\$	<u>59,678</u>

Prior to the adoption date, the allowance for credit losses was established when the Company had determined that receivables have been impaired and the Company could reasonably estimate the amount of the incurred loss. The allowance for credit losses was evaluated based on the Company's ongoing review of accounts receivables and was inherently subjective as it required estimates susceptible to significant revision as more information became available.

#### 12. LEASES

The Company records leases in accordance with ASC Topic 842. ASC Topic 842 includes practical expedient and policy election choices. The Company elected the practical expedient transition package available in ASC Topic 842 and, as a result, did not reassess the lease classification of existing contracts or leases or the initial direct costs associated with existing leases. The Company has made an accounting policy election not to recognize right-of-use assets and lease liabilities for leases with a lease term of 12 months or less, including renewal options that are reasonably certain to be exercised, that also do not include an option to purchase the underlying asset that is reasonably certain of exercise. Instead, lease payments for these leases are recognized as lease cost on a straight-line basis over the lease term. Additionally, the Company has elected not to separate the accounting for lease components and non-lease components for all leased assets.

The Company did not elect the hindsight practical expedient, and therefore the Company did not reassess its historical conclusions with regards to whether renewal option periods should be included in the terms of its leases. Given the importance of the leased location to its operations, the Company historically concluded that it was reasonably assured of exercising all renewal periods included in its leases as failure to exercise such options would result in an economic penalty. The Company also did not elect the portfolio approach practical expedient, which permits applying the standard to a portfolio of leases with similar characteristics.

The Company has entered into contracts to lease office space and equipment with terms that expire at various dates through 2023. Under ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Company has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Company considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties.

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
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The components of lease expense, which are included in general and administrative expenses in the consolidated statements of operations, during the year ended December 31, 2020 and the five months ended December 31, 2019 and other lease disclosures are as follows:

	<u>2020</u>	<u>2019</u>
<i>Lease cost</i>		
Finance lease cost:		
Amortization of right-of-use assets	\$ 12,723	\$ 5,081
Interest on lease liabilities	3,633	1,700
Operating lease cost	<u>577,786</u>	<u>240,744</u>
Total lease cost	<u>\$ 594,142</u>	<u>\$ 247,525</u>
Weighted-average remaining lease term - finance lease (in months)	36	47
Weighted-average discount rate - operating lease	8 %	8 %
Weighted-average remaining lease term - operating lease (in months)	15	27
Weighted-average discount rate - operating lease	8 %	8 %

As of December 31, 2020, the maturities of the Company's finance lease liabilities are as follows:

2021	\$ 14,464
2022	14,464
2023	<u>13,155</u>
Total lease payments	42,083
Less: imputed interest	<u>2,948</u>
Present value of finance lease liabilities	39,135
Less: current portion of finance lease liabilities	<u>12,405</u>
Finance lease liabilities, net of current portion	<u>\$ 26,730</u>

As of December 31, 2020, the maturities of the Company's operating lease liabilities are as follows:

2021	\$ 381,550
2022	<u>96,855</u>
Total lease payments	478,405
Less: imputed interest	<u>24,804</u>
Present value of operating lease liabilities	453,601
Less: current portion of operating lease liabilities	<u>358,024</u>
Operating lease liabilities, net of current portion	<u>\$ 95,577</u>

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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**13. INCOME TAXES**

The Company's net loss before income tax benefit, which is attributed to its domestic operations, amounted to \$749,674 during the year ended December 31, 2020 and \$1,340,437 during the five months ended December 31, 2019.

The deferred portions of the income tax benefit during the year ended December 31, 2020 and the five months ended December 31, 2019 are as follows:

<b>Tax Expense Summary</b>	<u><b>2020</b></u>	<u><b>2019</b></u>
Current		
Federal	\$ —	\$ —
State	(1,155)	—
<b>Total</b>	<u>(1,155)</u>	<u>—</u>
Deferred:		
Federal	140,264	(252,436)
State and local	(1,582,237)	(83,359)
	<u>\$ (1,441,973)</u>	<u>\$ (335,795)</u>
<b>Total Tax Benefit</b>	<u><u>\$ (1,443,128)</u></u>	<u><u>\$ (335,795)</u></u>

During the year ended December 31, 2020 and the five months ended December 31, 2019, the income tax benefit differed from the amount calculated using the U.S. federal and state statutory income tax rates as follows:

<b>Tax Expense (Benefit) Summary</b>	<u><b>2020</b></u>		<u><b>2019</b></u>	
	<u><b>Income tax benefit (expense)</b></u>	<u><b>Rate</b></u>	<u><b>Income tax benefit (expense)</b></u>	<u><b>Rate</b></u>
U.S. Federal Income Tax Provision Rate	\$ (157,532)	21.0 %	\$ (281,492)	21.0 %
State and Local Taxes, net of Federal Benefit	(1,250,880)	166.9	(65,854)	5.0
Permanent items	5,194	(0.7)	11,551	(1.0)
Other	(40,010)	5.3	—	—
<b>Total</b>	<u><u>\$ (1,443,228)</u></u>	<u><u>192.5 %</u></u>	<u><u>\$ (335,795)</u></u>	<u><u>25.0 %</u></u>

**ROUNDTABLE EQUITY HOLDINGS LLC AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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The tax effect of temporary differences that give rise to future deferred tax assets and liabilities are as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Operating and finance lease liabilities	\$ 103,114	\$ 200,491
Deferred revenue	—	248,038
NYC REAP credit carryforward	230,174	178,201
Net operating losses	1,171,450	1,080,270
Others	16,403	42,884
Total deferred tax assets	<u>1,521,141</u>	<u>1,749,884</u>
Deferred tax liabilities:		
Intangible assets	(5,702,176)	(6,935,578)
Property and equipment	(24,992)	—
Operating and finance right-of-use assets	(158,542)	(320,049)
Total deferred tax liabilities	<u>(5,885,710)</u>	<u>(7,255,627)</u>
Net deferred tax liability	<u>\$ (4,364,569)</u>	<u>\$ (5,505,743)</u>

The Company has a U.S. federal net operating loss (“NOL”) carryforward of \$3,370,000 that does not expire, and state NOL carryforwards of \$6,760,000 that begin to expire in 2030.

In evaluating the realizability of the deferred tax assets, the Company assesses whether it is more likely than not that some portion, or all, of the deferred tax assets, will be realized. The Company considers, among other things, the generation of future taxable income (including reversals of deferred tax liabilities) during the periods in which the related temporary differences will become deductible. The Company assessed that no valuation allowance should be placed on its deferred tax assets.

The Company believes all its tax positions are more-likely-than-not of being upheld upon examination based on all the technical merits. As such, the Company has not recorded a liability for unrecognized tax benefits.

The Company files income tax returns in the United States and in various state and local jurisdictions. The Company’s significant tax jurisdictions are the United States, New York State, and New York City. No jurisdictions are currently under audit by the IRS or state authorities.

#### **14. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through March 19, 2021, the date the consolidated financial statements were available to be issued. No events have occurred that would require adjustments to or disclosures in the consolidated financial statements.

**Item 16. Form 10-K Summary**

None.



<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James M. Seneff, Jr.</u> <b>JAMES M. SENEFF, JR.</b>	Chairman of the Board	March 30, 2021
<u>/s/ Chirag J. Bhavsar</u> <b>CHIRAG J. BHAVSAR</b>	Chief Executive Officer and President (Principal Executive Officer)	March 30, 2021
<u>/s/ Tammy J. Tipton</u> <b>TAMMY J. TIPTON</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2021
<u>/s/ Arthur E. Levine</u> <b>ARTHUR E. LEVINE</b>	Director	March 30, 2021
<u>/s/ Mark D. Linsz</u> <b>MARK D. LINSZ</b>	Director	March 30, 2021
<u>/s/ Benjamin A. Posen</u> <b>BENJAMIN A. POSEN</b>	Director	March 30, 2021
<u>/s/ Robert J. Woody</u> <b>ROBERT J. WOODY</b>	Director	March 30, 2021

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# CNL Strategic Capital

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Sub-managed by **Levine Leichtman**



## Board of Directors

**James M. Seneff**  
Director and Chairman of the Board  
CNL Strategic Capital



**Arthur E. Levine**  
Director  
CNL Strategic Capital



**Mark D. Linsz**  
Independent Director  
Audit Committee Chairman  
CNL Strategic Capital



**Benjamin A. Posen**  
Independent Director  
CNL Strategic Capital



**Robert J. Woody**  
Independent Director  
CNL Strategic Capital

## Executive Officers

**Chirag J. Bhavsar**  
CEO  
CNL Strategic Capital

**Tammy J. Tipton**  
Chief Financial Officer  
CNL Strategic Capital

**Brett A. Schlemovitz**  
Chief Operating Officer  
CNL Strategic Capital

## Company Profile

CNL Strategic Capital (the company) is a limited liability company that primarily seeks to acquire controlling equity stakes and loan positions in growing and durable middle-market businesses. The company seeks to provide long-term growth and monthly income, while protecting invested capital. CNL Strategic Capital intends to target businesses that have historically generated stable, free cash flow and where management has a meaningful ownership stake in the business. The company is externally managed by CNL Strategic Capital Management, LLC, which is a registered investment adviser.

### Shareholder Information

Inquiries by shareholders should be directed to:  
CNL Client Services  
P. O. Box 219001  
Kansas City, Missouri 64121-9001  
866-650-0650

### Corporate Offices

CNL Strategic Capital, LLC  
450 South Orange Avenue  
Orlando, Florida 32801-3336  
800-522-3863  
cnlstrategiccapital.com

### Manager

CNL Strategic Capital Management, LLC  
Orlando, Florida

### Legal Counsel

Clifford Chance US LLP  
New York, NY

### Independent Registered Certified Public Accounting Firm

Ernst & Young LLP  
Charlotte, North Carolina

## Form 10-K

The company's annual report as filed on Form 10-K with the U.S. Securities and Exchange Commission (the Commission) is enclosed with this report. Additional copies may be obtained at no charge upon written notice to Ms. Tracey B. Bracco, the company's secretary, at the corporate office address above. The Commission maintains a website located at [sec.gov](http://sec.gov) that contains reports, proxy and information statements, and other information regarding the company that is filed electronically with the Commission. In addition, the company makes available free of charge on its website, [cnlstrategiccapital.com](http://cnlstrategiccapital.com), the company's filings with the Commission.

## Electronic Delivery

Sign up today to receive next year's annual report and proxy materials via the Internet rather than by mail. Additional mailings, such as distribution statements and tax forms, are also available electronically. To sign up to receive these mailings electronically, or to review or change your current delivery preferences, please visit our website at [cnlstrategiccapital.com/gopaperless](http://cnlstrategiccapital.com/gopaperless).



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Sub-managed by **Levine Leichtman**