

January 30, 2019

Dear Fellow MCC Shareholders,

FrontFour Capital Group LLC (“FrontFour”) continues to be a significant shareholder of Medley Capital Corporation (“MCC” or the “Company”) with ownership of approximately 2 million shares or 3.8% of the outstanding shares. **We are writing to highlight the significant concerns proxy advisory firm Institutional Shareholder Services (“ISS”) has regarding the proposed combination of MCC, Sierra Income Corporation (“SIC”) and Medley Management Inc. (“MDLY”) and to reiterate our belief that there are superior alternatives to unlock value for MCC shareholders.** It is time for shareholders to stand up and take ownership of our business and reject the sleight of hand transaction the Taubes and MDLY have orchestrated to further enrich and entrench themselves at the expense of shareholders, the true owners of MCC.

ISS has concerns with the proposed related party transaction and deems a shareholder’s rejection of the deal as reasonable:

- “Shareholders have limited visibility regarding the value they are receiving, given that Sierra shares are not publicly traded. Moreover, **the deal appears to disproportionately favor an external manager (Medley)** that has demonstrated a poor track record of managing MCC assets...” **“Shareholders could reasonably opt to reject the proposed terms on these bases.”** (emphasis added)

While we do not agree with ISS’s voting recommendation, we do share its **concerns with the process that preceded this related party transaction:**

- **“The board's decision to forgo an auction process for MCC is a cause for concern,** since investors lack market-based evidence that the deal presented in fact represents the best available alternative for MCC shareholders. This becomes a more concerning fact in related party transactions such as the proposed three-way merger. In addition, the potential acquirers that participated in the MDLY sales process may have had limited ability to engage directly with MCC. For example, the proxy states that **Party X indicated it had preference for an asset purchase** transaction rather than a merger. **Considering that MDLY has no assets, it would be fair to assume that the interest related to MCC or Sierra assets;** however, further details of Party X's interest were not disclosed.” (emphasis added)
- “No premium can be calculated as Sierra shares are not publicly traded.”

We believe there are superior alternatives to the proposed transaction that would maximize value for all MCC shareholders, including an outright sale or windup, as we wrote in our letter dated December 13, 2018.

ISS expressed its concerns with the NAV discount:

- "This NAV discount appears to reflect not only the decline in the company's fundamentals, but also a low market expectation as to MCC's ability to deliver positive returns to shareholders." (emphasis added)
- Given the continued erosion of NAV, ISS also expressed its concerns with management's ability to deliver positive returns: "... the continued erosion of NAV at MCC, which is still driven mostly by pre-2015 vintages, gives little confidence to shareholders as to management's ability to deliver positive shareholder returns." (emphasis added)

We are very concerned that the combined company will continue to trade at a significant discount to NAV. The merger proxy statement even highlights the following concerning factors taken into consideration by the MCC Special Committee: "the Combined Company has not traded before and there is no way to determine with certainty the price at which it will trade, both initially and in the long term" and "the Combined Company would still have the same management team as before".

We also question management's projections, basis for growth, and ability to raise the dividend:

Specifically, we are highly suspect of management's January presentation and most recent narrative to shareholders that they will be able to raise the dividend, especially given the fact that the presentation contains a disclaimer in the "fine print" stating, "[t]here can be no assurances your dividend will increase and the Combined Company's distribution levels may not be as disclosed and may fluctuate."

Let's look at the numbers presented. To begin, according to the Barclays presentation to the Special Committee of the Board of Directors of MDLY dated 8/9/18 ("Barclays presentation"), the transaction will increase net leverage by ~\$110 million to fund the cash payments to the Taube brothers and MDLY. Next, MCC relies heavily on management's forecasted growth of "Other" revenue as depicted in the following table from the Barclays presentation. **Given management's track record, we find this growth highly suspect, and the fact that this growth serves as the basis for driving the valuation of MDLY, forecasted growth of NII and the dividend should be cause for concern.** There simply isn't enough transparency behind these numbers to justify such growth.

Historical and Forecasted P&L						
(\$ in millions)	2016A	2017A	2018E	2019E	2020E	2021E
Revenue						
MCC	\$18.5	\$17.3	\$13.7	\$13.5	\$13.5	\$13.5
SIC	19.9	21.2	19.8	20.3	21.1	22.5
Other	11.6	12.4	15.0	21.5	29.5	40.5
Base Management Fees	\$50.0	\$50.9	\$48.5	\$55.2	\$64.1	\$76.5
Origination Fees	1.3	2.3	1.4	2.0	2.9	1.8
Incentive Fees	14.2	4.9	2.3	8.4	11.1	13.3
Performance Fees	2.4	(1.7)	0.6	1.1	2.2	3.6
Other Revenue and Fees	8.1	9.5	10.5	10.6	10.6	10.6
Total Revenue	\$76.0	\$65.8	\$63.3	\$77.3	\$91.0	\$105.9

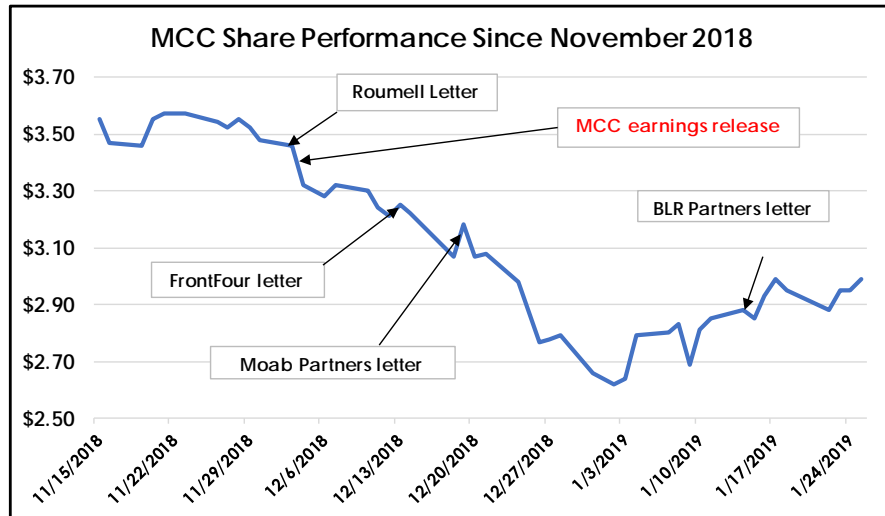
In addition, synergies touted by management are being eroded by compensation. According to the following table from the Barclays presentation, increased compensation is in excess of “synergies”. Aren’t synergies supposed to be a net positive for shareholders?

Pro Forma SIC P&L			
SIC NII	\$48.8	\$50.7	\$53.6
(+) MCC NII	19.8	20.0	19.3
(+) MDLY NII	23.7	29.4	34.6
(+) Synergies	6.8	6.8	6.8
(-) Incremental Compensation	(7.5)	(8.7)	(9.9)
(-) Pre-Tax Incremental CoF	(2.3)	(2.3)	(2.3)
PF SIC NII	\$89.2	\$95.9	\$102.1
<i>NII / Share⁽¹⁾</i>	<i>\$0.58</i>	<i>\$0.63</i>	<i>\$0.67</i>
NAV	\$1,109	\$1,150	\$1,195
<i>NAV / Share</i>	<i>\$7.24</i>	<i>\$7.51</i>	<i>\$7.80</i>
SIC Shares (63.2%)	96,785	96,785	96,785
Shares Issued to MCC (28.2%)	43,179	43,179	43,179
Shares Issued to MDLY (8.6%)	13,160	13,160	13,160
PF SIC Shares Outstanding	153,124	153,124	153,124

Finally, according to the following table from the proxy statement, the increase in SIC NII is being driven by an increase in SIC standalone shares outstanding (issuance of equity to raise assets). However, per the data in the Barclays table above (circled green) and the data in the table below from the proxy statement, there is no increase in shares outstanding for Barclays’ analysis while NAV declines at SIC and NII are the same. **Given the opaqueness of management’s “Other” revenue forecast, SIC’s NII growth based on the issuance of shares, negative synergies, and the increase in leverage, we do not see a bridge to increasing NII per share and the dividend of the combined company.**

	FY 2018	FY 2019	FY 2020	FY 2021
Investment Income	102,988	110,318	115,242	121,780
Interest Expense	21,973	23,577	23,925	25,192
Operating Expenses	33,109	37,976	40,651	42,943
Net Investment Income (“NII”)	47,906	48,765	50,666	53,644
Net Realized Gain/(Loss) on Total Return Swap	5,029	4,889	4,889	4,889
Net Increase/(Decrease) in Net Assets Resulting From Operations	52,935	53,654	55,556	58,534
Shares Outstanding	96,784,857	96,784,857	102,691,107	108,597,357
NAV per share	\$ 7.24	\$ 7.14	\$ 7.13	\$ 7.15
NII per share	0.49	0.50	0.50	0.50
Realized Gain/(Loss) on Total Return Swap per share	0.05	0.05	0.05	0.05
Dividends per share	0.64	0.64	0.64	0.64

Lastly, we are amused by management’s attempt to blame shareholders for the December stock price decline. On December 4, 2018, MCC stock was down after reporting 2018 year-end results and yet another write-down of NAV from \$6.43 per share to \$5.90 per share. We believe that throughout December investors threw the towel in on the Taubes and MDLY given further writedowns.



Source: Bloomberg.

We believe the best path forward for MCC shareholders is to vote down the proposed transaction and for MCC to commence a corporate windup or sales process on a standalone basis. We reiterate our intention to vote against this transaction.

Sincerely,

FrontFour Capital

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