



## KCAP Financial, Inc. Announces Full Year 2017 Financial Results

March 7, 2018

NEW YORK, March 07, 2018 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) ("KCAP" or the "Company") announces its full year 2017 financial results.

### Financial Highlights

- Net investment income for the year ended December 31, 2017 was approximately \$11.0 million, or \$0.30 per basic share, compared with \$18.5 million, \$0.50 per basic share in 2016.
- Taxable distributable income for the year was \$0.16 per basic share.
- KCAP declared a fourth quarter shareholder distribution of \$0.10 per share.
- At December 31, 2017, the fair value of KCAP's investments totaled approximately \$312.0 million.
- Net asset value per share of \$4.87 as of December 31, 2017, compared with \$5.24 at December 31, 2016.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "We had a busy year in 2017 including taking action to significantly reduce leverage, adding dry powder to our balance sheet for new investments and increasing our middle market assets under management through our Joint Venture. At the same time, our Asset Manager Affiliates extended the life and increased the size of two managed CLOs and reduced the cost of capital of three managed CLOs. Business development efforts continued into 2018 as we recently closed a \$50 million revolving credit facility with a syndicate of lenders."

### Operating Results

For the year ended December 31, 2017, we reported total investment income of approximately \$28.3 million as compared to approximately \$36.2 million in the prior year, a decrease of 22%. Investment income from debt securities decreased 27% to approximately \$15.1 million from approximately \$20.8 million. Investment income from investments in CLO fund securities in 2017 decreased 16% to \$11.2 million from \$13.3 million in 2016, and dividends from our Asset Manager Affiliates decreased 67% from \$1.4 million to \$460,000.

For the year ended December 31, 2017, total expenses were lower by approximately \$465,000 as compared to the same period in 2016, primarily attributable to a decrease in interest expense related to the lower average outstanding principal balance on our borrowings during 2017.

Net investment income for the years ended 2017 and 2016 was approximately \$11.0 million and \$18.5 million, or \$0.30 and \$0.50 per share, respectively. Net realized and unrealized depreciation on investments for the year ended 2017 was approximately \$3.5 million, compared to net realized and unrealized depreciation on investments of \$19.4 million for the same period in 2016.

### Portfolio and Investment Activity

The fair value of our portfolio was approximately \$312.0 million as of December 31, 2017. The composition of our investment portfolio at December 31, 2017 and December 31, 2016, at cost and fair value, was as follows:

Security Type	December 31, 2017			December 31, 2016		
	Cost/Amortized Cost	Fair Value	% <sup>1</sup>	Cost/Amortized Cost	Fair Value	% <sup>1</sup>
Short-term investments <sup>2</sup>	\$ 77,300,320	\$ 77,300,320	26	\$ 28,699,269	\$ 28,699,269	8 %
Senior Secured Loan	48,337,900	44,960,146	14	207,701,078	200,322,152	55
Junior Secured Loan	62,561,913	58,941,300	19	37,251,776	35,444,440	10
Senior Unsecured Loan	12,777,283	12,777,283	4	—	—	—
First Lien Bond	—	—	—	3,060,919	1,089,338	—
Senior Secured Bond	1,502,374	1,518,750	—	1,506,461	1,487,400	—
CLO Fund Securities	72,339,032	51,678,673	17	76,851,317	54,174,350	15
Equity Securities	10,571,007	4,414,684	1	10,389,007	5,056,355	1
Asset Manager Affiliates <sup>3</sup>	52,591,230	38,849,000	12	55,341,230	40,198,000	11
Joint Venture	24,914,858	21,516,000	7	—	—	—
<b>Total</b>	<b>\$ 362,895,917</b>	<b>\$ 311,956,156</b>	<b>100 %</b>	<b>\$ 420,801,057</b>	<b>\$ 366,471,304</b>	<b>100 %</b>

<sup>1</sup> Represents percentage of total portfolio at fair value.

<sup>2</sup> Includes money market accounts and U.S. treasury bills.

<sup>3</sup> Represents the equity investment in the Asset Manager Affiliates.

## Liquidity and Capital Resources

At December 31, 2017, we had unrestricted cash and short-term investments of approximately \$79.3 million, total assets of approximately \$319.8 million and stockholders' equity of approximately \$181.8 million, and our net asset value per common share was \$4.87. As of December 31, 2017, we had \$104.4 million of borrowings outstanding (\$101.4 million net of discount) with a weighted average interest rate of approximately 6.4%.

## Distributions

Generally, we seek to fund distributions to shareholders from current distributable earnings, primarily from net interest and dividend income generated by our investment portfolio and any distributions from our Asset Manager Affiliates, which include Trimaran Advisors, L.L.C. and Katonah Debt Advisors, L.L.C.. However, a portion of distributions paid to shareholders may be a return of capital. We announced a regular quarterly distribution of \$0.10 per share for the quarter ended December 31, 2017. The record date for this distribution was January 5, 2018 and the distribution was paid on January 25, 2018. Tax characteristics of all distributions paid by us in 2017 have been reported to stockholders on Form 1099-DIV after the end of the calendar year.

We have adopted a dividend reinvestment plan that provides for reinvestment of distributions in shares of our common stock, unless a stockholder elects to receive cash. As a result, if we declare a cash distribution, shareholders who have not "opted out" of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving cash. Please contact your broker or other financial intermediary for more information regarding the dividend reinvestment plan.

## Conference Call and Webcast

We will hold a conference call on Thursday, March 8, 2018 at 9:00 a.m. Eastern Time to discuss our full year 2017 financial results. Shareholders, prospective shareholders and analysts are welcome to listen to the call or attend the webcast.

The conference call dial-in number is (866) 757-5630. No password is required. A live audio webcast of the conference call can be accessed via the Internet, on a listen-only basis on our Company's website [www.kcapfinancial.com](http://www.kcapfinancial.com) in the Investor Relations section under Events. The online archive of the webcast will be available after 7:00 p.m. Eastern Time for approximately 90 days.

A replay of this conference call will be available from 12:00 p.m. on March 8, 2018 until 1:00 p.m. Eastern Time on March 16, 2018. The dial in number for the replay is 855-859-2056 and the conference ID is 8157219.

## About KCAP Financial, Inc.

KCAP Financial, Inc. is a publicly traded, internally managed business development company. The Company's middle market investment business originates, structures, finances and manages a portfolio of term loans, mezzanine investments and selected equity securities in middle market companies. The Company's wholly owned portfolio companies, Trimaran Advisors, L.L.C. and Katonah Debt Advisors, L.L.C., manage collateralized debt obligation funds that invest in broadly syndicated corporate term loans, high-yield bonds and other credit instruments.

The KCAP Financial, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=3121>

## Forward Looking Statements

This press release contains forward-looking statements. The matters discussed in this press release that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Further information about factors that could affect our financial and other results is included in our filings with the Securities and Exchange Commission. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required to be reported under the rules and regulations of the Securities and Exchange Commission.

## KCAP FINANCIAL, INC. CONSOLIDATED BALANCE SHEETS

	<u>As of December 31, 2017</u>	<u>As of December 31, 2016</u>
<b>ASSETS</b>		
Investments at fair value:		
Short-term investments (cost: 2017 - \$77,300,320; 2016 - \$28,699,269)	\$ 77,300,320	\$ 28,699,269
Debt securities (amortized cost: 2017 - \$125,179,470; 2016 - \$249,520,234)	118,197,479	238,343,330
CLO Fund Securities managed by affiliates (amortized cost: 2017 - \$67,212,139; 2016 - \$71,734,809)	49,488,393	51,908,784
CLO Fund Securities managed by non-affiliates (amortized cost: 2017 - \$5,126,893; 2016 - \$5,116,508)	2,190,280	2,265,566
Equity securities (cost: 2017 - \$10,571,007; 2016 - \$10,389,007)	4,414,684	5,056,355
Asset Manager Affiliates (cost: 2017 - \$52,591,230; 2016 - \$55,341,230)	38,849,000	40,198,000
Joint Venture (cost: 2017 - \$24,914,858)	21,516,000	—
Total Investments at Fair Value (cost: 2017 - \$362,895,917; 2016 - \$420,801,057)	311,956,156	366,471,304
Cash	2,034,095	1,307,257
Restricted cash	—	8,528,298

Interest receivable	1,051,271	1,033,917
Receivable for open trades	2,993,750	2,950,658
Due from affiliates	1,243,493	612,854
Other assets	530,209	467,695
Total Assets	<u>\$ 319,808,974</u>	<u>\$ 381,371,983</u>

#### LIABILITIES

6.125% Notes Due 2022 (net of offering costs of: 2017-\$2,734,248)	\$ 74,672,952	\$ —
7.375% Notes Due 2019 (net of offering costs of: 2017 - \$259,635; 2016 - \$550,774)	26,740,365	32,980,151
Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: \$2,286,425 and \$2,459,156, respectively)	—	142,604,419
Payable for open trades	34,215,195	7,884,943
Accounts payable and accrued expenses	2,350,803	2,047,405
Accrued interest payable	—	930,086
Due to affiliates	25,083	54
Total Liabilities	138,004,398	186,447,058

#### COMMITMENTS AND CONTINGENCIES (Note 8)

#### STOCKHOLDERS' EQUITY

Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,507,402 issued, and 37,339,224 outstanding at December 31, 2017, and 37,282,296 issued, and 37,178,294 outstanding at December 31, 2016	373,392	371,783
Capital in excess of par value	329,789,716	353,404,155
Excess distribution of net investment income	(9,987,928)	(14,630,319)
Accumulated net realized losses	(86,031,799)	(88,491,896)
Net unrealized depreciation on investments	(52,338,805)	(55,728,798)
Total Stockholders' Equity	181,804,576	194,924,925
Total Liabilities and Stockholders' Equity	<u>\$ 319,808,974</u>	<u>\$ 381,371,983</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 4.87</u>	<u>\$ 5.24</u>

### KCAP FINANCIAL, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2017	2016	2015
<b>Investment Income:</b>			
Interest from investments in debt securities	\$ 15,063,193	\$ 20,828,916	\$ 24,101,257
Interest from cash and time deposits	71,934	29,383	10,239
Investment income on CLO Fund Securities managed by affiliates	10,807,490	12,642,625	14,691,428
Investment income on CLO Fund Securities managed by non-affiliates	420,766	630,647	1,008,634
Dividends from Asset Manager Affiliates	460,000	1,400,000	5,348,554
Investment income from Joint Venture	949,037	—	—
Capital structuring service fees	491,279	668,527	366,859
Total investment income	28,263,699	36,200,098	45,526,971
<b>Expenses:</b>			
Interest and amortization of debt issuance costs	7,661,407	9,110,603	11,727,880
Compensation	4,571,309	4,103,558	3,843,799
Professional fees	2,942,059	2,391,038	3,520,461
Insurance	347,175	412,764	433,561

Administrative and other	<u>1,722,618</u>	<u>1,692,140</u>	<u>1,818,480</u>
Total expenses	<u>17,244,568</u>	<u>17,710,103</u>	<u>21,344,181</u>
<b>Net Investment Income</b>	<b>11,019,131</b>	<b>18,489,995</b>	<b>24,182,790</b>
<b>Realized And Unrealized Gains (Losses) On Investments:</b>			
Net realized losses from investment transactions	(6,899,044)	(6,167,467)	(6,202,290)
Net change in unrealized (depreciation) appreciation on:			
Debt securities	4,194,914	2,492,707	(10,748,262)
Equity securities	(823,671)	(4,413,354)	(210,167)
CLO Fund Securities managed by affiliates	2,102,279	4,380,974	(12,990,404)
CLO Fund Securities managed by non-affiliates	(85,671)	284,625	(977,483)
Asset Manager Affiliates investments	1,401,000	(15,933,000)	(11,243,554)
Joint Venture investment	(3,398,858)	—	—
Total net appreciation (depreciation) from investment transactions	<u>3,389,993</u>	<u>(13,188,048)</u>	<u>(36,169,870)</u>
Net realized and unrealized loss on investments	<u>(3,509,051)</u>	<u>(19,355,515)</u>	<u>(42,372,160)</u>
Realized losses on extinguishments of debt	(4,121,998)	(174,211)	(445,189)
<b>Net (Decrease) Increase In Stockholders' Equity Resulting From Operations</b>	<b><u>\$ 3,388,082</u></b>	<b><u>\$ (1,039,731)</u></b>	<b><u>\$ (18,634,559)</u></b>
Net Increase (Decrease) in Stockholders' Equity Resulting from Operations per Common Share:			
Basic:	\$ 0.09	\$ (0.03)	\$ (0.50)
Diluted:	\$ 0.09	\$ (0.03)	\$ (0.50)
Net Investment Income Per Common Share:			
Basic:	\$ 0.30	\$ 0.50	\$ 0.65
Diluted:	\$ 0.30	\$ 0.50	\$ 0.65
Weighted Average Shares of Common Stock Outstanding—Basic	37,235,130	37,149,663	36,964,444
Weighted Average Shares of Common Stock Outstanding—Diluted	37,235,130	37,149,663	36,964,444

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