



KCAP Financial, Inc. Announces Third Quarter 2017 Financial Results

November 7, 2017

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NEW YORK, Nov. 07, 2017 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company") announces its third quarter 2017 financial results.

Financial Highlights

- Net investment income for the third quarter ended September 30, 2017 was approximately \$2.5 million, or \$0.07 per basic share, compared with approximately \$2.6 million, or \$0.07 per basic share in the quarter ended June 30, 2017.
- Cash distributed by the Asset Manager Affiliates in excess of taxable earnings was approximately \$0.02 per basic share for the quarter.
- The Company declared a third quarter shareholder distribution of \$0.12 per share.
- At September 30, 2017, the fair value of KCAP's investments totaled approximately \$317 million.
- Net asset value per share of \$4.95 as of September 30, 2017, compared with \$5.10 at June 30, 2017.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "We are taking a series of actions to extend and increase our assets under management, reduce leverage and expand our borrowing capacity. We are confident that utilizing our disciplined investment process to invest our liquidity, we will over the next few quarters, enhance returns to our shareholders."

Operating Results

For the three months ended September 30, 2017, we reported total investment income of approximately \$6.3 million as compared to approximately \$7.7 million in the second quarter of 2017. Investment income from debt securities decreased to approximately \$2.4 million from approximately \$4.8 million in the second quarter of 2017. Investment income on CLO Fund Securities in the third quarter of 2017 remained flat at \$2.8 million compared with the second quarter of 2017. We received distributions from our Asset Manager Affiliates of \$880,000 in the third quarter of 2017, \$700,000 of which was a return of capital. The Asset Manager Affiliates distributed \$650,000 in the second quarter of 2017, all of which was a return of capital.

For the three months ended September 30, 2017, total expenses decreased by approximately \$1.3 million as compared to the second quarter of 2017, primarily attributable to lower interest expense due to the redemption of the KCAP Senior Funding debt liabilities in July 2017 and lower professional fees.

Net investment income for the third quarter of 2017 and the second quarter of 2017 was approximately \$2.5 million and \$2.6 million, respectively, or \$0.07 and \$0.07 per basic share, respectively. Net realized and unrealized gains on investments for the three months ended September 30, 2017 was approximately \$816,000, compared to net realized and unrealized gains of approximately \$20 thousand for the second quarter of 2017.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$317 million as of September 30, 2017. The composition of our investment portfolio at September 30, 2017 and December 31, 2016 at cost and fair value was as follows:

| Security Type | September 30, 2017 (unaudited) | | | December 31, 2016 | | |
|---------------------------------------|--------------------------------|---------------|----------------|-------------------------|---------------|----------------|
| | Cost/ Amortized Cost | Fair Value | % ¹ | Cost/ Amortized Cost | Fair Value | % ¹ |
| Short-term Investments ² | \$ 57,024,828 | \$ 57,024,828 | 18 | \$ 28,699,269 | \$ 28,699,269 | 8 |
| Senior Secured Loan | 49,982,415 | 46,124,914 | 15 | 207,701,078 | 200,322,152 | 55 |
| Junior Secured Loan | 59,490,855 | 58,343,554 | 18 | 37,251,776 | 35,444,440 | 10 |
| Senior Unsecured Loan | 20,000,000 | 20,000,000 | 6 | - | - | - |
| First Lien Bond | 3,054,337 | 1,063,762 | - | 3,060,919 | 1,089,338 | - |
| Senior Secured Bond | 1,503,404 | 1,494,600 | - | 1,506,461 | 1,487,400 | - |
| CLO Fund Securities | 78,544,739 | 51,843,344 | 16 | 76,851,317 | 54,174,350 | 15 |
| Equity Securities | 10,389,007 | 4,450,177 | 1 | 10,389,007 | 5,056,355 | 1 |
| Asset Manager Affiliates ³ | 53,341,230 | 39,679,000 | 13 | 55,341,230 | 40,198,000 | 11 |
| Joint Venture | 36,738,873 | 36,591,122 | 13 | - | - | - |

| | | | | | | |
|-------|----------------|----------------|-------|----------------|----------------|-------|
| Total | \$ 370,069,689 | \$ 316,615,300 | 100 % | \$ 420,801,057 | \$ 366,471,304 | 100 % |
|-------|----------------|----------------|-------|----------------|----------------|-------|

¹ Represents percentage of total portfolio at fair value.

² Includes money market accounts and U.S. treasury bills.

³ Represents the equity investment in the Asset Manager Affiliates.

Liquidity and Capital Resources

At September 30, 2017, we had unrestricted cash and short-term investments of approximately \$59.0 million, total assets of approximately \$322.8 million and stockholders' equity of approximately \$184.8 million. Our net asset value per common share was \$4.95. As of September 30, 2017, we had approximately \$104.4 million (par value) of borrowings outstanding (\$101.3 million net of discount and capitalized costs) with a weighted average interest rate of approximately 6.4%.

Subject to prevailing market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. As a result, we may seek to enter into new agreements with other lenders or into other financing arrangements as market conditions permit. Such financing arrangements may include a new secured and/or unsecured credit facility or the issuance of unsecured debt or preferred stock.

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. However, a portion of distributions paid to shareholders may be a return of capital. We announced a regular quarterly distribution of \$0.12 per share for the quarter ended September 30, 2017. The record date for this distribution was October 10, 2017 and the distribution was paid on October 26, 2017. An estimate of the tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year. Tax characteristics of all distributions will be 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. For more information regarding our distributions, please refer to our 2016 annual financial report. 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 Tuesday, November 7, 2017 at 4:00 p.m. Eastern Time to discuss our third quarter 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 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 7:00 p.m. on November 7, 2017 until 7:00 p.m. on November 15, 2017. The dial in number for the replay is (855) 859-2056 and the conference ID is 1989878.

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., Katonah Debt Advisors, L.L.C., and KCAP Management, 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/?pkqid=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

| | As of September 30, 2017 (unaudited) | As of December 31, 2016 |
|---|---|--|
| ASSETS | | |
| Investments at fair value: | | |
| Short-term investments (cost: 2017 - \$57,024,828; 2016 - \$28,699,269) | \$ 57,024,828 | \$ 28,699,269 |
| Debt securities (cost: 2017 - \$134,031,011; 2016 - \$249,520,234) | 127,026,829 | 238,343,330 |
| CLO Fund securities managed by affiliates (cost: 2017 - \$73,495,563; 2016 - \$71,734,809) | 49,973,662 | 51,908,784 |
| CLO Fund securities managed by non-affiliates (cost: 2017 - \$5,049,176; 2016 - \$5,116,508) | 1,869,682 | 2,265,566 |
| Equity securities (cost: 2017 - \$10,389,008; 2016 - \$10,389,007) | 4,450,177 | 5,056,355 |
| Asset Manager Affiliates (cost: 2017 - \$53,341,230; 2016 - \$55,341,230) | 39,679,000 | 40,198,000 |
| Joint Venture (cost: 2017 - \$36,738,873; 2016 - \$0) | 36,591,122 | — |
| Total Investments at Fair Value (cost: 2017 - \$370,069,689; 2016 - \$420,801,057) | 316,615,300 | 366,471,304 |
| Cash | 1,936,300 | 1,307,257 |
| Restricted cash | — | 8,528,298 |
| Interest receivable | 923,344 | 1,033,917 |
| Receivable for open trades | — | 2,950,658 |
| Accounts receivable | 2,000,021 | — |
| Due from affiliates | 1,159,759 | 612,854 |
| Other assets | 173,185 | 467,695 |
| Total Assets | \$ 322,807,909 | \$ 381,371,983 |
| LIABILITIES | | |
| Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: 2016 - \$2,286,425 and \$2,459,156, respectively) | \$ — | \$ 142,604,419 |
| 7.375% Notes due 2019 (net of offering costs of: 2017 - \$306,073; 2016 - \$550,774) | 26,693,927 | 32,980,151 |
| 6.125% Notes due 2022 (net of offering costs of: 2017 - \$2,757,357) | 74,649,843 | — |
| Payable for open trades | 34,950,728 | 7,884,943 |
| Accounts payable and accrued expenses | 1,649,529 | 2,047,405 |
| Accrued interest payable | — | 930,086 |
| Due to affiliates | 78,438 | 54 |
| Total Liabilities | 138,022,465 | 186,447,058 |
| COMMITMENTS AND CONTINGENCIES (Note 8) | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,485,993 issued, and 37,317,815 outstanding at September 30, 2017, and 37,282,296 issued, and 37,178,294 outstanding at December 31, 2016 | 373,178 | 371,783 |
| Capital in excess of par value | 354,341,009 | 353,404,155 |
| Excess distribution of net investment income | (19,589,473) | (14,630,319) |
| Accumulated net realized losses | (95,485,836) | (88,491,896) |
| Net unrealized depreciation on investments | (54,853,434) | (55,728,798) |
| Total Stockholders' Equity | 184,785,444 | 194,924,925 |
| Total Liabilities and Stockholders' Equity | \$ 322,807,909 | \$ 381,371,983 |
| NET ASSET VALUE PER COMMON SHARE | \$ 4.95 | \$ 5.24 |

See accompanying notes to consolidated financial statements.

KCAP FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|------------------|--------------------------|-------------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Investment Income: | | | | |
| Interest from investments in debt securities | \$ 2,439,671 | \$ 5,186,745 | \$ 11,764,702 | \$ 16,106,654 |
| Interest from cash and short-term investments | 21,043 | 7,168 | 51,250 | 21,521 |
| Investment income on CLO Fund Securities managed by affiliates | 2,693,547 | 3,307,950 | 8,378,785 | 9,595,522 |
| Investment income on CLO Fund Securities managed by non-affiliates | 99,578 | 195,182 | 329,108 | 503,358 |
| Dividends from Asset Manager Affiliates | 180,000 | — | 180,000 | 1,400,000 |
| Investment income - Joint Venture | 685,000 | — | 685,000 | — |
| Capital structuring service fees | 134,504 | 321,744 | 298,629 | 481,456 |
| | | | | |
| Total investment income | 6,253,343 | 9,018,789 | 21,687,474 | 28,108,510 |
| Expenses: | | | | |
| Interest and amortization of debt issuance costs | 1,371,953 | 2,122,325 | 5,790,242 | 6,960,355 |
| Compensation | 1,072,812 | 1,199,412 | 3,473,841 | 3,212,886 |
| Professional fees | 802,507 | 699,607 | 2,545,195 | 1,913,722 |
| Insurance | 80,794 | 102,254 | 256,473 | 315,307 |
| Administrative and other | 395,783 | 372,164 | 1,265,317 | 1,310,424 |
| | | | | |
| Total expenses | 3,723,849 | 4,495,762 | 13,331,068 | 13,712,694 |
| | | | | |
| Net Investment Income | 2,529,495 | 4,523,027 | 8,356,404 | 14,395,816 |
| Realized And Unrealized Gains (Losses) On Investments: | | | | |
| Net realized (losses) gains from investment transactions | (1,906,537) | 4,647,841 | (2,871,941) | (6,046,199) |
| Net change in unrealized appreciation (depreciation) on: | | | | |
| Debt securities | 1,759,152 | 456,530 | 4,172,723 | 2,539,345 |
| Equity securities | (186,368) | (4,579,566) | (606,179) | (4,896,852) |
| CLO Fund securities managed by affiliates | (1,590,062) | (993,011) | (3,695,876) | 5,890,984 |
| CLO Fund securities managed by non-affiliates | (34,655) | (137,193) | (328,552) | (136,490) |
| Asset Manager Affiliates investments | 2,922,000 | (1,113,000) | 1,481,000 | (12,706,000) |
| Joint Venture investment | (147,751) | — | (147,751) | — |
| Total net change in unrealized appreciation (depreciation) | 2,722,316 | (6,366,240) | 875,365 | (9,309,013) |
| | | | | |
| Net realized and unrealized appreciation (depreciation) on investments | 815,779 | (1,718,399) | (1,996,576) | (15,355,212) |
| | | | | |
| Realized losses on extinguishments of debt | (4,014,723) | (88,015) | (4,121,998) | (159,206) |
| Net Increase (Decrease) In Stockholders' Equity Resulting From Operations | \$ (669,449) | \$ 2,716,613 | \$ 2,237,830 | \$ (1,118,601) |
| | | | | |
| Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share: | | | | |
| Basic: | \$ (0.02) | \$ 0.07 | \$ 0.06 | \$ (0.03) |
| Diluted: | \$ (0.02) | \$ 0.07 | \$ 0.06 | \$ (0.03) |
| | | | | |
| Net Investment Income Per Common Share: | | | | |
| Basic: | \$ 0.07 | \$ 0.12 | \$ 0.23 | \$ 0.39 |
| Diluted: | \$ 0.07 | \$ 0.12 | \$ 0.23 | \$ 0.39 |

| | | | | |
|---|------------|------------|------------|------------|
| Weighted Average Shares of Common Stock Outstanding—Basic | 37,196,621 | 37,152,622 | 37,202,011 | 37,142,002 |
| Weighted Average Shares of Common Stock Outstanding—Diluted | 37,196,621 | 37,152,622 | 37,202,011 | 37,142,002 |

See accompanying notes to consolidated financial statements.

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Source: KCAP Financial, Inc.

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