



## KCAP Financial, Inc. Announces Full Year 2018 Financial Results

February 26, 2019

NEW YORK, Feb. 26, 2019 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq GS: KCAP) ("KCAP" or the "Company") announces its full year 2018 financial results.

### Recent Developments

As previously announced, the Company has entered into a stock purchase and transaction agreement (the "Externalization Agreement") with BC Partners Advisors L.P., an affiliate of BC Partners LLP ("BC Partners"), pursuant to which the Company's management function would be externalized (the "Externalization"). At a special meeting of the Company's stockholders held on February 19, 2019, the Company's stockholders approved an investment advisory agreement between the Company and Sierra Crest Investment Management LLC, an affiliate of BC Partners (the "Adviser"). If the transactions contemplated by the Externalization Agreement are completed and closing conditions are satisfied or appropriately waived, upon closing of the Externalization, the Company will commence operations as an externally managed BDC managed by the Adviser.

On November 8, 2018, we entered into an agreement with LibreMax Intermediate Holdings, LP ("LibreMax") under which our wholly-owned subsidiary Commodore Holdings, LLC ("Commodore") agreed to sell Katonah Debt Advisors, L.L.C. ("Katonah Debt Advisors"), Trimaran Advisors, L.L.C. ("Trimaran Advisors"), and Trimaran Advisors Management, L.L.C. ("Trimaran Advisors Management" and, together with Katonah Debt Advisors and Trimaran Advisors, the "Disposed Manager Affiliates") to LibreMax for a cash purchase price of approximately \$37.9 million (the "LibreMax Transaction"). In connection with the closing of the LibreMax Transaction on December 31, 2018, Commodore sold the Disposed Manager Affiliates, which manage collateralized loan obligation funds ("CLO Funds") to LibreMax for a cash purchase price of approximately \$37.9 million.

### Financial Highlights

- Net investment income for the year ended December 31, 2018 was approximately \$10.0 million, or \$0.27 per basic share, compared with \$11.0 million, \$0.30 per basic share in 2017.
- Taxable distributable income for the year was \$0.25 per basic share.
- KCAP declared a fourth quarter shareholder distribution of \$0.10 per share.
- At December 31, 2018, the fair value of KCAP's investments totaled approximately \$273.3 million.
- Net asset value per share of \$4.23 as of December 31, 2018, compared with \$4.87 at December 31, 2017.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "We executed on two significant strategic initiatives during the fourth quarter of 2018, with the successful completion of the sale of substantially all of our Asset Manager Affiliates, and our shareholders have recently approved the externalization of the management of KCAP which we expect will close towards the end of the first quarter of 2019."

### Operating Results

For the year ended December 31, 2018, we reported total investment income of approximately \$27.1 million as compared to approximately \$28.3 million in the prior year, a decrease of 4%. Investment income from debt securities increased 6% to approximately \$16.0 million from approximately \$15.1 million in 2017. Investment income from investments in CLO fund securities in 2018 decreased 43% to \$6.4 million from \$11.2 million in 2017, and investment income from our joint venture investment increased to \$3.1 million from just under \$1.0 million in 2017.

For the year ended December 31, 2018, total expenses were relatively flat as compared to the same period in 2017, with lower compensation expenses offset by higher professional fees.

Net investment income for the years ended 2018 and 2017 was approximately \$10.0 million and \$11.0 million, or \$0.27 and \$0.30 per share, respectively. Net realized and unrealized depreciation on investments for the year ended 2018 was approximately \$19.4 million, compared to net realized and unrealized depreciation on investments of \$3.5 million for the same period in 2017.

### Portfolio and Investment Activity

The fair value of our portfolio was approximately \$273.3 million as of December 31, 2018. The composition of our investment portfolio at December 31, 2018 and December 31, 2017, at cost and fair value, was as follows:

Security Type	December 31, 2018			December 31, 2017		
	Cost/Amortized Cost	Fair Value	% <sup>1</sup>	Cost/Amortized Cost	Fair Value	% <sup>1</sup>
Short-term investments <sup>2</sup>	\$ 44,756,478	\$ 44,756,478	17	\$ 77,300,320	\$ 77,300,320	26 %
Senior Secured Loan	86,040,921	77,616,209	28	48,337,900	44,960,146	14
Junior Secured Loan	76,223,561	70,245,535	26	62,561,913	58,941,300	19
Senior Unsecured Loan	—	—	-	12,777,283	12,777,283	4
Senior Secured Bond	—	—	-	1,502,374	1,518,750	-

CLO Fund Securities	55,480,626	44,325,000	16	72,339,032	51,678,673	17
Equity Securities	21,944,430	14,504,687	5	10,571,007	4,414,684	1
Asset Manager Affiliates <sup>3</sup>	17,791,230	3,470,000	1	52,591,230	38,849,000	12
Joint Venture	24,914,858	18,390,440	7	24,914,858	21,516,000	7
Total	<u>\$ 327,152,104</u>	<u>\$ 273,308,349</u>	<u>100 %</u>	<u>\$ 362,895,917</u>	<u>\$ 311,956,156</u>	<u>100 %</u>

<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, 2018, we had unrestricted cash and short-term investments of approximately \$50.2 million, total assets of approximately \$285.5 million and stockholders' equity of approximately \$158.0 million, and our net asset value per common share was \$4.23. As of December 31, 2018, we had \$103.8 million of borrowings outstanding (\$100.4 million net of discount) with a weighted average interest rate of approximately 6.0%. At December 31, 2018, we had approximately \$23.6 million of available capacity under our Revolving Credit Facility.

## 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. 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, 2018. The record date for this distribution was January 7, 2019 and the distribution was paid on January 31, 2019. Tax characteristics of all distributions paid by us in 2018 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 Wednesday, February 27, 2019 at 9:00 a.m. Eastern Time to discuss our full year 2018 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 February 27, 2019 until 12:00 p.m. Eastern time on March 7, 2019. The dial in number for the replay is 855-859-2056 and the conference ID is 1725119.

## About KCAP Financial, Inc.

KCAP Financial, Inc. is a publicly traded, internally managed business development company ("BDC"). 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.

## Forward Looking Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The matters discussed in this press release, as well as in future oral and written statements by management of KCAP Financial, Inc., 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. Forward-looking statements are based upon current plans, estimates and expectations that are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements.

Important assumptions include our ability to originate new investments, and achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this press release should not be regarded as a representation by us that such plans, estimates, expectations or our plans or objectives will be achieved. Important factors that could cause actual results to differ materially from such plans, estimates or expectations include, among others, (1) that one or more closing conditions to the externalization may not be satisfied or waived, on a timely basis or otherwise, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the externalization, may require conditions, limitations or restrictions in connection with such approvals; (2) the risk that the externalization contemplated by the stock purchase and transaction agreement may not be completed in the time frame expected by parties, or at all; (3) unexpected costs, charges or expenses resulting from the externalization; (4) uncertainty of the expected financial performance of the Company following completion of the externalization; (5) failure to realize

the anticipated benefits of the externalization, including as a result of delay in completing the externalization; (6) the ability of the Company and/or BC Partners to implement its business strategy; (7) the occurrence of any event that could give rise to termination of the agreement; (8) the risk that stockholder litigation in connection with the externalization may affect the timing or occurrence of the contemplated externalization or result in significant costs of defense, indemnification and liability; (9) evolving legal, regulatory and tax regimes; and (10) changes in general economic and/or industry specific conditions. 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.

This press release does not constitute an offer to sell or the solicitation of an offer to buy the securities of any CLO fund. Such securities have not been, and will not be, registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933

**KCAP FINANCIAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>As of December 31, 2018</b>	<b>As of December 31, 2017</b>
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Investments at fair value:		
Short-term investments (cost: 2018 - \$44,756,478; 2017 - \$77,300,320)	\$ 44,756,478	\$ 77,300,320
Debt securities (amortized cost: 2018 - \$162,264,482; 2017 - \$125,179,470)	147,861,744	118,197,479
CLO Fund Securities managed by affiliates (amortized cost: 2018 - \$4,407,106; 2017 - \$67,212,139)	4,473,840	49,488,393
CLO Fund Securities managed by non-affiliates (amortized cost: 2018 - \$51,073,520; 2017 - \$5,126,893)	39,851,160	2,190,280
Equity securities (cost: 2018 - \$21,944,430; 2017 - \$10,571,007)	14,504,687	4,414,684
Asset Manager Affiliates (cost: 2018 - \$17,791,230; 2017 - \$52,591,230)	3,470,000	38,849,000
Joint Venture (cost: 2018 - \$24,914,858; 2017 - \$24,914,858)	18,390,440	21,516,000
	<u>273,308,349</u>	<u>311,956,156</u>
Total Investments at Fair Value (cost: 2018 - \$327,152,104; 2017 - \$362,895,917)		
Cash	5,417,125	2,034,095
Restricted cash	3,907,341	—
Interest receivable	1,342,970	1,051,271
Receivable for open trades	—	2,993,750
Due from affiliates	1,007,631	1,243,493
Other assets	481,265	530,209
Total Assets	<u>\$ 285,464,681</u>	<u>\$ 319,808,974</u>
<b>LIABILITIES</b>		
6.125% Notes Due 2022 (net of offering costs of: 2018 - \$2,207,342; 2017 - \$2,734,248)	\$ 75,199,858	\$ 74,672,952
KCAP Funding I, LLC Revolving Credit Facility (net of offering costs of: 2018 - \$1,155,754)	25,200,331	—
7.375% Notes Due 2019 (net of offering costs of: 2017 - \$259,635)	-	26,740,365
Payable for open trades	23,204,564	34,215,195
Accounts payable and accrued expenses	3,591,910	2,350,803
Accrued interest payable	131,182	—
Due to affiliates	115,825	25,083
Total Liabilities	<u>127,443,670</u>	<u>138,004,398</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,521,705 issued, and 37,326,846 outstanding at December 31, 2018, and 37,507,402 issued, and 37,339,224 outstanding at December 31, 2017	373,268	373,392
Capital in excess of par value	306,784,387	329,789,716
Total distributable (loss) earnings	(149,136,644)	(148,358,532)
Total Stockholders' Equity	<u>158,021,011</u>	<u>181,804,576</u>
Total Liabilities and Stockholders' Equity	<u>\$ 285,464,681</u>	<u>\$ 319,808,974</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 4.23</u>	<u>\$ 4.87</u>

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

	<b>For the Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Investment Income:</b>			
Interest from investments in debt securities	\$ 14,939,309	\$ 13,963,970	\$ 19,763,577
Payment-in-kind investment income	1,066,354	1,099,223	1,065,339
Interest from cash and time deposits	76,055	71,934	29,383
Investment income on CLO Fund Securities managed by affiliates	6,024,935	10,807,490	12,642,625
Investment income on CLO Fund Securities managed by non-affiliates	388,237	420,766	630,647
Dividends from Asset Manager Affiliates	1,246,510	460,000	1,400,000
Investment income from Joint Venture	3,100,000	949,037	—
Capital structuring service fees	245,393	491,279	668,527
Total investment income	<u>27,086,793</u>	<u>28,263,699</u>	<u>36,200,098</u>
<b>Expenses:</b>			
Interest and amortization of debt issuance costs	7,403,436	7,661,407	9,110,603
Compensation	4,012,743	4,571,309	4,103,558
Professional fees	3,470,269	2,942,059	2,391,038
Insurance	321,268	347,175	412,764
Administrative and other	1,874,600	1,722,618	1,692,140
Total expenses	<u>17,082,316</u>	<u>17,244,568</u>	<u>17,710,103</u>
<b>Net Investment Income</b>	<b>10,004,477</b>	<b>11,019,131</b>	<b>18,489,995</b>
<b>Realized And Unrealized Gains (Losses) On Investments:</b>			
Net realized losses from investment transactions	(16,474,939)	(6,899,044)	(6,167,467)
Net change in unrealized (depreciation) appreciation on:			
Debt securities	(7,420,747)	4,194,914	2,492,707
Equity securities	(1,283,420)	(823,671)	(4,413,354)
CLO Fund Securities managed by affiliates	17,790,480	2,102,279	4,380,974
CLO Fund Securities managed by non-affiliates	(8,285,747)	(85,671)	284,625
Asset Manager Affiliates investments	(579,000)	1,401,000	(15,933,000)
Joint Venture investment	(3,125,560)	(3,398,858)	—
Total net (depreciation) appreciation from investment transactions	<u>(2,903,994)</u>	<u>3,389,993</u>	<u>(13,188,048)</u>
Net realized and unrealized losses on investments	<u>(19,378,933)</u>	<u>(3,509,051)</u>	<u>(19,355,515)</u>
Realized losses on extinguishments of debt	<u>(197,090)</u>	<u>(4,121,998)</u>	<u>(174,211)</u>
<b>Net (Decrease) Increase In Stockholders' Equity Resulting From Operations</b>	<b>\$ (9,571,546)</b>	<b>\$ 3,388,082</b>	<b>\$ (1,039,731)</b>
Net (Decrease) Increase in Stockholders' Equity Resulting from Operations per Common Share:			
Basic:	\$ (0.26)	\$ 0.09	\$ (0.03)
Diluted:	\$ (0.26)	\$ 0.09	\$ (0.03)
Net Investment Income Per Common Share:			
Basic:	\$ 0.27	\$ 0.30	\$ 0.50
Diluted:	\$ 0.27	\$ 0.30	\$ 0.50
Weighted Average Shares of Common Stock Outstanding—Basic	37,356,241	37,235,130	37,149,663
Weighted Average Shares of Common Stock Outstanding—Diluted	37,356,241	37,235,130	37,149,663

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