



Third Quarter 2018 Earnings Presentation

This presentation includes forward-looking statements. The matters discussed in this presentation, 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. Important assumptions include our ability to acquire or originate new investments, 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 presentation should not be regarded as a representation by us that our plans or objectives will be achieved.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. You should not place undue reliance on these forward-looking statements. The forward-looking statements relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this presentation.

This presentation may also contain non-GAAP financial information. The Company’s management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of the Company’s financial performance, identifying trends in our results and providing meaningful period-to-period comparisons.

Q3 2018 HIGHLIGHTS

Components of Distributable Resources

- ◆ Net Investment Income of \$0.08 per basic share for Q3'18 vs. \$0.07 for Q3'17
- ◆ Net Investment Income of \$0.21 per basic share for nine months of 2018 vs. \$0.23 for nine months of 2017
- ◆ Taxable Distributable Income of \$0.24 per basic share for nine months of 2018 vs. \$0.19 in same period in 2017

Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~67% of total company Investment Revenue vs. ~39% in Q3'17 and ~50% in Q4'17
- ◆ Weighted average contractual interest rate on debt securities was 10.1% as of September 30, 2018 and 9.9% as of December 31, 2017
- ◆ Weighted average rate on debt securities, adjusted for non-accrual and partial non-accrual investments was approximately 8.9% at September 30, 2018 and 9.6% at December 31, 2017

Asset Manager

- ◆ Distributed \$300,000 in Q3'18, compared with \$880,000 in Q3'17 (of which \$700,000 was a return of capital)

Credit Performance

- ◆ Portfolio is well diversified across 20 different industries and 47 different entities with an average notional debt investment of approximately \$3.2 million
- ◆ One investment was on non-accrual status
- ◆ Three of our PIK investments were on partial non-accrual status

Net Asset Value

- ◆ Net Asset Value of \$4.66, down 1.3% from \$4.72 in Q2'18

Distributions

- ◆ \$0.10 distribution declared for Q3'18

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

September 30, 2018	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 24,431,512	\$ 0.65
Investments in debt securities	139,799,027	3.74
Investments in CLO Fund securities	47,983,931	1.29
Investments in equity securities	4,079,336	0.11
Investments in Asset Manager Affiliates	35,818,000	0.96
Investments in Joint Venture	<u>21,373,570</u>	<u>0.57</u>
Total Investments	273,485,375	7.32
Other assets	<u>6,253,479</u>	<u>0.18</u>
Total assets	\$ <u>279,738,854</u>	\$ <u>7.50</u>
Borrowings	\$ 103,735,536	\$ 2.78
Other Liabilities	<u>2,094,813</u>	<u>0.06</u>
Total Liabilities	<u>105,830,349</u>	<u>2.84</u>
NET ASSET VALUE	\$ <u>173,908,505</u>	\$ <u>4.66</u>

INVESTMENT PORTFOLIO

September 30, 2018	Cost/Amortized Cost	Fair Value
Short-term investments	\$ 24,431,512	\$ 24,431,512
Senior Secured Loan	66,465,014	62,292,360
Junior Secured Loan	76,396,298	71,229,383
Senior Unsecured Loan	6,277,283	6,277,283
CLO Fund Securities	68,769,245	47,983,931
Equity Securities	10,571,007	4,079,336
Asset Manager Affiliates	51,591,230	35,818,000
Joint Venture	<u>24,914,858</u>	<u>21,373,570</u>
Total Assets	\$ <u>329,416,447</u>	\$ <u>273,485,375</u>

DEBT SECURITIES PORTFOLIO

- ◆ Invested \$15 million in new originations during the third quarter
 - ◆ Funded primarily with cash on hand
- ◆ Weighted average contractual interest rate on our loans and debt securities was 10.1% at September 30, 2018 and 9.9% at December 31, 2017
- ◆ Weighted average rate on loans and debt securities, adjusted for non-accrual and partial non-accrual investments, was approximately 8.9% at September 30, 2018 and 9.6% at December 31, 2017
- ◆ 96% of the debt securities portfolio is secured as of September 30, 2018.
- ◆ One investment was on non-accrual status.
- ◆ Three of our PIK investments were on partial non-accrual status.

PORTFOLIO HIGHLIGHTS

DEBT SECURITIES PORTFOLIO – INDUSTRY DIVERSIFICATION

