



KCAP Financial, Inc. Announces Third Quarter 2017 Financial Results

November 7, 2017

KCAP Financial, Inc. Announces Third Quarter 2017 Financial Results

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.

KCAP-G

Ted Gilpin
gilpin@kcapinc.com
(212) 455-8300

Source: KCAP Financial, Inc.

News Provided by Acquire Media