



## KCAP Financial, Inc. Announces First Quarter 2018 Financial Results

May 2, 2018

NEW YORK, May 02, 2018 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq GS:KCAP) (the "Company") announces its first quarter 2018 financial results.

### Financial Highlights

- Net investment income for the first quarter ended March 31, 2018 was approximately \$2.5 million, or \$0.07 per basic share, compared with approximately \$3.2 million, or \$0.09 per basic share in the quarter ended March 31, 2017.
- Taxable distributable income for the quarter was \$0.06 per basic share.
- The Company declared a first quarter shareholder distribution of \$0.10 per share.
- At March 31, 2018, the fair value of KCAP's investments totaled approximately \$282 million.
- Net asset value per share of \$4.85 as of March 31, 2018, compared with \$4.87 at December 31, 2017.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "The first quarter saw us continue on the trajectory we articulated late in 2017. During the quarter, we put excess cash to work at KCAP and in our joint venture. In addition, our new Revolving Credit Facility, which closed in the first quarter, will give KCAP significant additional liquidity to continue to grow the investment portfolio."

### Operating Results

For the three months ended March 31, 2018, we reported total investment income of approximately \$6.8 million as compared to approximately \$7.8 million in the same period last year. Investment income from debt securities decreased to approximately \$3.8 million from approximately \$4.6 million in the first quarter of 2017. Investment income on CLO fund securities in the first quarter of 2018 decreased to \$1.9 million from \$3.1 million in 2017. We received a distribution from our Asset Manager Affiliates of \$820,000 in the first quarter of 2018, \$500,000 of which was a return of capital. The Asset Manager Affiliates distributed \$650,000 in the first quarter of 2017, all of which was a return of capital.

For the three months ended March 31, 2018, total expenses were lower by approximately \$191,000 as compared to the same period in 2017, primarily attributable to a decrease in interest expense partially offset by higher professional fees.

Net investment income for the first quarter of 2018 and 2017 was approximately \$2.5 million and \$3.2 million, or \$0.07 and \$0.09 per basic share, respectively. Net realized and unrealized gains on investments for the three months ended March 31, 2018 was approximately \$318,000, compared to net realized and unrealized loss of approximately \$2.8 million for the same period in 2017.

### Portfolio and Investment Activity

The fair value of our portfolio was approximately \$282 million as of March 31, 2018. The composition of our investment portfolio at March 31, 2018 and December 31, 2017 at cost and fair value was as follows:

Security Type	March 31, 2018 (unaudited)			December 31, 2017		
	Cost/Amortized		% <sup>1</sup>	Cost/Amortized		% <sup>1</sup>
	Cost	Fair Value		Cost	Fair Value	
Short-term investments <sup>2</sup>	\$ 9,905,719	\$ 9,905,719	4	\$ 77,300,320	\$ 77,300,320	26
Senior Secured Loan	56,195,353	52,989,838	18	48,337,900	44,960,146	14
Junior Secured Loan	80,066,631	75,858,237	27	62,561,913	58,941,300	19
Senior Unsecured Loan	35,777,283	35,777,283	13	12,777,283	12,777,283	4
Senior Secured Bond	1,501,366	1,490,400	1	1,502,374	1,518,750	-
CLO Fund Securities	61,300,443	40,768,620	14	72,339,032	51,678,673	17
Equity Securities	10,571,007	4,478,280	2	10,571,007	4,414,684	1
Asset Manager Affiliates <sup>3</sup>	52,091,230	38,663,000	14	52,591,230	38,849,000	12
Joint Venture	24,914,858	21,767,376	7	24,914,858	21,516,000	7
<b>Total</b>	<b>\$ 332,323,890</b>	<b>\$ 281,698,753</b>	<b>100 %</b>	<b>\$ 362,895,917</b>	<b>\$ 311,956,156</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 March 31, 2018, we had unrestricted cash and money market balances of approximately \$11.8 million, total assets of approximately \$291 million and stockholders' equity of approximately \$181 million. Our net asset value per common share was \$4.85. As of March 31, 2018, we had approximately \$104.2 million (par value) of borrowings outstanding (\$100.2 million net of capitalized costs) with a weighted average interest rate of approximately 6.1%.

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 \$0.10 per share for the quarter ended March 31, 2018. The record date for this distribution was April 6, 2018 and the distribution was paid on April 27, 2018. 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 2017 annual financial report. Please contact your broker or other financial intermediary for more information regarding the dividend reinvestment plan.

### **Reduction in Asset Coverage Ratio Effective March 29, 2019**

On March 29, 2018, our Board of Directors, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Small Business Credit Availability Act (the "SBCA"). As a result, our asset coverage requirements for senior securities will be changed from 200% to 150%, effective as of March 29, 2019. However, pursuant to covenants in the indentures governing our 7.375% Notes Due 2019 and 6.125% Notes Due 2022 (together, the "Notes"), we are limited in our ability to make distributions if our asset coverage ratio is below 200% at the time we declare a distribution. As a result, despite the SBCA, we will continue to be prohibited by the indentures governing the Notes from making distributions on our common stock if our asset coverage ratio falls below 200%.

### **Conference Call and Webcast**

We will hold a conference call on Thursday, May 3, 2018 at 8:00 am Eastern Time to discuss our first quarter 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 11:00 a.m. on May 3, 2018 until 11:00 a.m. on May 11, 2018. The dial in number for the replay is (855) 859-2056 and the conference ID is 8781447.

### **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.

	<b>As of March 31, 2018</b>	<b>As of December 31, 2017</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Investments at fair value:		
Short-term investments (cost: 2018 - \$9,905,719; 2017 - \$77,300,320)	\$ 9,905,719	\$ 77,300,320
Debt securities (amortized cost: 2018 - \$173,540,632; 2017 - \$125,179,470)	166,115,758	118,197,479
CLO Fund Securities managed by affiliates (amortized cost: 2018 - \$56,154,414; 2017 - \$67,212,139)	38,209,849	49,488,393
CLO Fund Securities managed by non-affiliates (amortized cost: 2018 - \$5,146,029; 2017 - \$5,126,893)	2,558,771	2,190,280
Equity securities (cost: 2018 - \$10,571,007; 2017 - \$10,571,007)	4,478,280	4,414,684
Asset Manager Affiliates (cost: 2018 - \$52,091,230; 2017 - \$52,591,230)	38,663,000	38,849,000
Joint Venture (cost: 2018 - \$24,914,858; 2017 - \$24,914,858)	21,767,376	21,516,000
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Total Investments at Fair Value (cost: 2018 - \$332,323,890; 2017 - \$362,895,917)	281,698,753	311,956,156
Cash	1,933,851	2,034,095
Restricted cash	3,146,354	—
Interest receivable	1,446,129	1,051,271
Receivable for open trades	—	2,993,750
Due from affiliates	2,679,896	1,243,493
Other assets	523,057	530,209
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Total Assets	<u>\$ 291,428,040</u>	<u>\$ 319,808,974</u>
<b>LIABILITIES</b>		
6.125% Notes Due 2022 (net of offering costs of: 2018-\$2,605,179; 2017 - \$2,734,248)	\$ 74,802,021	\$ 74,672,952
7.375% Notes Due 2019 (net of offering costs of: 2018 - \$49,743; 2017 - \$259,635)	6,950,257	26,740,365
KCAP Funding I, LLC Revolving Credit Facility (net of offering costs of: 2018 - \$1,353,761)	18,473,983	—
Payable for open trades	8,952,506	34,215,195
Accounts payable and accrued expenses	1,054,965	2,350,803
Accrued interest payable	72,161	—
Due to affiliates	120,060	25,083
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Total Liabilities	110,425,953	138,004,398
<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; 37,522,657 issued, and 37,354,479 outstanding at March 31, 2018, and 37,507,402 issued, and 37,339,224 outstanding at December 31, 2017	373,545	373,392
Capital in excess of par value	330,093,978	329,789,716
Excess distribution of net investment income	(11,243,483)	(9,987,928)
Accumulated net realized losses	(86,197,772)	(86,031,799)
Net unrealized depreciation on investments	(52,024,181)	(52,338,805)
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Total Stockholders' Equity	181,002,087	181,804,576
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Total Liabilities and Stockholders' Equity	<u>\$ 291,428,040</u>	<u>\$ 319,808,974</u>
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NET ASSET VALUE PER COMMON SHARE	<u>\$ 4.85</u>	<u>\$ 4.87</u>

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

<b>Three Months Ended</b>	
<b>March 31,</b>	
<b>2018</b>	<b>2017</b>
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**Investment Income:**

Interest from investments in debt securities	\$ 3,398,197	\$ 4,406,373
Payment-in-kind investment income	362,937	148,805
Interest from cash and time deposits	49,205	15,906
Investment income on CLO Fund Securities managed by affiliates	1,833,667	2,974,558
Investment income on CLO Fund Securities managed by non-affiliates	99,361	118,111
Dividends from Asset Manager Affiliates	320,000	—
Investment income - Joint Venture	700,000	—
Capital structuring service fees	63,110	110,644
Total investment income	<u>6,826,477</u>	<u>7,774,397</u>

**Expenses:**

Interest and amortization of debt issuance costs	1,863,848	2,180,972
Compensation	1,207,337	1,225,735
Professional fees	714,410	549,281
Insurance	78,022	95,036
Administrative and other	502,118	505,234
Total expenses	<u>4,365,735</u>	<u>4,556,258</u>

**Net Investment Income****2,460,742**      **3,218,139****Realized And Unrealized Gains (Losses) On Investments:**

Net realized gains from investment transactions	3,101	43,938
Net change in unrealized (depreciation) appreciation on:		
Debt securities	(442,884)	1,202,017
Equity securities	63,596	(153,562)
CLO Fund Securities managed by affiliates	(220,819)	(1,252,986)
CLO Fund Securities managed by non-affiliates	349,355	(65,994)
Asset Manager Affiliates investments	314,000	(2,606,000)
Joint Venture Investment	251,376	—
Total net change in unrealized appreciation (depreciation)	<u>314,624</u>	<u>(2,876,525)</u>
Net realized and unrealized appreciation (depreciation) on investments	<u>317,725</u>	<u>(2,832,587)</u>
Realized losses on extinguishments of Debt	<u>(169,074)</u>	<u>—</u>
<b>Net Increase In Stockholders' Equity Resulting From Operations</b>	<u>\$ 2,609,393</u>	<u>\$ 385,552</u>

## Net Increase In Stockholders' Equity Resulting from Operations per Common Share:

Basic:	\$ 0.07	\$ 0.01
Diluted:	\$ 0.07	\$ 0.01
Net Investment Income Per Common Share:		
Basic:	\$ 0.07	\$ 0.09
Diluted:	\$ 0.07	\$ 0.09

Weighted Average Shares of Common Stock Outstanding—Basic	37,350,411	37,202,996
Weighted Average Shares of Common Stock Outstanding—Diluted	37,350,411	37,202,996

KCAP-G

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