



KCAP Financial, Inc. Announces Second Quarter 2018 Financial Results

August 1, 2018

NEW YORK, Aug. 01, 2018 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq GS: KCAP) (the "Company") announces its second quarter 2018 financial results.

Financial Highlights

- Net investment income for the second quarter ended June 30, 2018 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.
- Net investment income for the six months ended June 30, 2018 was \$0.13 per basic share, while estimated taxable distributable income for the six months of 2018 was \$0.14 per basic share.
- The Company declared a second quarter shareholder distribution of \$0.10 per share.
- At June 30, 2018, the fair value of KCAP's investments totaled approximately \$274 million.
- Net asset value per share of \$4.72 as of June 30, 2018, compared with \$4.87 at December 31, 2017.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "While our results in the quarter were flat year-over-year due in part to higher than expected professional fees and relatively slow originations, we remain confident that our disciplined investment process will lead to future growth. We look forward to increasing direct lending and identifying opportunities to drive shareholder value creation."

Operating Results

For the three months ended June 30, 2018, we reported total investment income of approximately \$6.8 million as compared to approximately \$7.7 million in the same period last year. Investment income from debt securities decreased to approximately \$4.3 million from approximately \$4.8 million in the second quarter of 2017. Investment income on CLO fund securities in the second quarter of 2018 decreased to approximately \$1.5 million from approximately \$2.8 million for the same period in 2017. We received distributions from our Asset Manager Affiliates of \$800,000 in the second quarter of 2018, \$500,000 of which is estimated to be 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 June 30, 2018, total expenses were lower by approximately \$731,000 as compared to the same period in 2017, primarily attributable to a decrease in interest expense.

Net investment income for the second quarter of 2018 and 2017 was approximately \$2.5 million and \$2.6 million, respectively, or \$0.07 per basic share for both periods. Net realized and unrealized losses on investments for the three months ended June 30, 2018 was approximately \$3.8 million, compared to net realized and unrealized gains of approximately \$20,000 for the same period in 2017.

Portfolio and Investment Activity

The fair value of our investment portfolio was approximately \$274 million as of June 30, 2018. The composition of our investment portfolio at June 30, 2018 and December 31, 2017, at cost and fair value, was as follows:

Security Type	June 30, 2018 (unaudited)			December 31, 2017		
	Cost/Amortized		% ¹	Cost/Amortized		% ¹
	Cost	Fair Value		Cost	Fair Value	
Short-term investments ²	\$ 11,454,078	\$ 11,454,078	4	\$ 77,300,320	\$ 77,300,320	26
Senior Secured Loan	62,122,920	58,324,196	21	48,337,900	44,960,146	14
Junior Secured Loan	78,346,396	74,037,768	27	62,561,913	58,941,300	19
Senior Unsecured Loan	29,777,282	29,777,283	11	12,777,283	12,777,283	4
Senior Secured Bond	—	—	-	1,502,374	1,518,750	-
CLO Fund Securities	59,446,300	37,972,985	14	72,339,032	51,678,673	17
Equity Securities	10,571,007	4,251,111	2	10,571,007	4,414,684	1
Asset Manager Affiliates ³	51,591,230	36,853,000	13	52,591,230	38,849,000	12
Joint Venture	24,914,858	21,091,494	8	24,914,858	21,516,000	7
Total	\$ 328,224,071	\$ 273,761,914	100 %	\$ 362,895,917	\$ 311,956,156	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 June 30, 2018, we had unrestricted cash and money market balances of approximately \$13.9 million, total assets of approximately \$280 million and stockholders' equity of approximately \$176 million. Our net asset value per common share was \$4.72. As of June 30, 2018, we had approximately \$105.6 million (par value) of borrowings outstanding (\$101.8 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 during the quarter ended June 30, 2018. The record date for this distribution was July 6, 2018 and the distribution was paid on July 26, 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, August 2, 2018 at 10:00 am Eastern Time to discuss our second 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 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 1:00 p.m. on August 2, 2018 until 11:59 p.m. on August 10, 2018. The dial in number for the replay is (855) 859-2056 and the conference ID is 1494828.

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://globenewswire.com/attachment-download-view/1526815/370017/4/1/0/370017.jpg>

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
June 30, 2018
(unaudited)

As of
December 31, 2017

ASSETS

Investments at fair value:

Short-term investments (cost: 2018 - \$11,454,078; 2017 - \$77,300,320)	\$ 11,454,078	\$ 77,300,320
Debt securities (amortized cost: 2018 - \$170,246,598; 2017 - \$125,179,470)	162,139,246	118,197,479
CLO Fund Securities managed by affiliates (amortized cost: 2018 - \$54,277,463; 2017 - \$67,212,139)	35,545,465	49,488,393
CLO Fund Securities managed by non-affiliates (amortized cost: 2018 - \$5,168,837; 2017 - \$5,126,893)	2,427,520	2,190,280
Equity securities (cost: 2018 - \$10,571,007; 2017 - \$10,571,007)	4,251,111	4,414,684
Asset Manager Affiliates (cost: 2018 - \$51,591,230; 2017 - \$52,591,230)	36,853,000	38,849,000
Joint Venture (cost: 2018 - \$24,914,858; 2017 - \$24,914,858)	21,091,494	21,516,000
Total Investments at Fair Value (cost: 2018 - \$328,224,071; 2017 - \$362,895,917)	273,761,914	311,956,156
Cash	2,451,249	2,034,095
Restricted cash	1,023,114	—
Interest receivable	1,520,858	1,051,271
Receivable for open trades	—	2,993,750
Due from affiliates	1,155,635	1,243,493
Other assets	478,024	530,209
Total Assets	<u>\$ 280,390,794</u>	<u>\$ 319,808,974</u>

LIABILITIES

6.125% Notes Due 2022 (net of offering costs of: 2018-\$2,474,275; 2017 - \$2,734,248)	\$ 74,932,925	\$ 74,672,952
7.375% Notes Due 2019 (net of offering costs of: 2018 - \$40,536; 2017 - \$259,635)	6,959,463	26,740,365
KCAP Funding I, LLC Revolving Credit Facility (net of offering costs of: 2018 - \$1,265,107)	19,895,080	—
Payable for open trades	776,180	34,215,195
Accounts payable and accrued expenses	1,582,528	2,350,803
Accrued interest payable	90,664	—
Due to affiliates	8,690	25,083
Total Liabilities	104,245,530	138,004,398

COMMITMENTS AND CONTINGENCIES (Note 8)**STOCKHOLDERS' EQUITY**

Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,536,496 issued, and 37,341,924 outstanding at June 30, 2018, and 37,507,402 issued, and 37,339,224 outstanding at December 31, 2017

	373,419	373,392
Capital in excess of par value	330,266,874	329,789,716
Excess distribution of net investment income	(12,432,385)	(9,987,928)
Accumulated net realized losses	(86,201,443)	(86,031,799)
Net unrealized depreciation on investments	(55,861,201)	(52,338,805)
Total Stockholders' Equity	176,145,264	181,804,576
Total Liabilities and Stockholders' Equity	<u>\$ 280,390,794</u>	<u>\$ 319,808,974</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 4.72</u>	<u>\$ 4.87</u>

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Investment Income:				
Interest from investments in debt securities	\$ 3,910,473	\$ 4,565,276	\$ 7,308,670	\$ 8,901,115
Payment-in-kind investment income	369,116	204,577	732,053	423,916

Interest from cash and time deposits	12,211	14,300	61,416	30,206
Investment income on CLO Fund Securities managed by affiliates	1,414,903	2,710,680	3,248,569	5,685,238
Investment income on CLO Fund Securities managed by non-affiliates	98,341	111,419	197,702	229,530
Dividends from Asset Manager Affiliates	300,000	—	620,000	—
Investment income - Joint Venture	700,000	—	1,400,000	—
Capital structuring service fees	43,399	53,480	106,509	164,124
Total investment income	6,848,443	7,659,732	13,674,919	15,434,129
Expenses:				
Interest and amortization of debt issuance costs	1,847,432	2,237,317	3,711,280	4,418,289
Compensation	1,005,050	1,175,294	2,212,387	2,401,030
Professional fees	906,965	1,193,407	1,621,375	1,742,688
Insurance	79,726	80,644	157,748	175,680
Administrative and other	480,351	364,301	982,466	869,534
Total expenses	4,319,524	5,050,963	8,685,256	9,607,221
Net Investment Income	2,528,919	2,608,771	4,989,663	5,826,908
Realized And Unrealized Gains (Losses) On Investments:				
Net realized losses from investment transactions	(3,671)	(1,009,342)	(571)	(965,405)
Net change in unrealized (depreciation) appreciation on:				
Debt securities	(682,477)	1,211,554	(1,125,361)	2,413,571
Equity securities	(227,169)	(266,249)	(163,573)	(419,811)
CLO Fund Securities managed by affiliates	(787,433)	(852,828)	(1,008,252)	(2,105,814)
CLO Fund Securities managed by non-affiliates	(154,059)	(227,903)	195,296	(293,897)
Asset Manager Affiliates investments	(1,310,000)	1,165,000	(996,000)	(1,441,000)
Joint Venture Investment	(675,882)	—	(424,506)	—
Total net change in unrealized appreciation (depreciation)	(3,837,020)	1,029,574	(3,522,396)	(1,846,951)
Net realized and unrealized appreciation (depreciation) on investments	(3,840,691)	20,232	(3,522,967)	(2,812,356)
Realized losses on extinguishments of Debt	—	(107,276)	(169,074)	(107,276)
Net (Decrease) Increase In Stockholders' Equity Resulting From Operations	\$ (1,311,772)	\$ 2,521,727	\$ 1,297,622	\$ 2,907,276
Net (Decrease) Increase In Stockholders' Equity Resulting from Operations per Common Share:				
Basic:	\$ (0.04)	\$ 0.07	\$ 0.03	\$ 0.08
Diluted:	\$ (0.03)	\$ 0.07	\$ 0.03	\$ 0.08
Net Investment Income Per Common Share:				
Basic:	\$ 0.07	\$ 0.07	\$ 0.13	\$ 0.16
Diluted:	\$ 0.07	\$ 0.07	\$ 0.13	\$ 0.16
Weighted Average Shares of Common Stock Outstanding—Basic	37,363,038	37,206,487	37,356,759	37,204,751
Weighted Average Shares of Common Stock Outstanding—Diluted	37,363,038	37,206,487	37,356,759	37,204,751

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 [Primary Logo](#)

Source: KCAP Financial, Inc.