



**First Quarter 2018 Earnings Presentation**

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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.

# Q1 2018 HIGHLIGHTS

## Components of Distributable Resources

- ◆ Net Investment Income of \$0.07 per basic share for Q1'18 vs. \$0.09 for Q1'17
- ◆ Taxable Distributable Income of \$0.06 per basic share for Q1'18 and \$0.06 for Q1'17

## Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~55% of total company Investment Revenue vs. ~59% in Q1'17 and ~53% in Q4'17
- ◆ Weighted average interest rate on income producing debt investments was 9.8% in Q1'18 vs. 10.1% in Q4'17

## Asset Manager

- ◆ Distributed \$820,000 in Q1'18, compared with \$650,000 in Q1'17

## Credit Performance

- ◆ Portfolio is well diversified across 22 different industries and 50 different entities with an average debt investment of approximately \$2.8 million
- ◆ One investment was on non-accrual status
- ◆ Two of our PIK investments were on partial non-accrual status

## Net Asset Value

- ◆ Net Asset Value of \$4.85, down slightly from \$4.87 in Q4'17

## Distributions

- ◆ \$0.10 distribution declared for Q1'18

# RECENT ACTIVITY

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- ◆ Executed new \$50 million Revolving Credit Facility
  - ◆ Approximately \$19.8 million outstanding at March 31, 2018
  - ◆ Provides for significant additional liquidity in order to grow the investment portfolio
  
- ◆ Redeemed \$20 million of 7.375% Notes
  
- ◆ Joint Venture nearly fully invested at March 31, 2018
  
- ◆ Trimaran currently warehousing assets for a new CLO

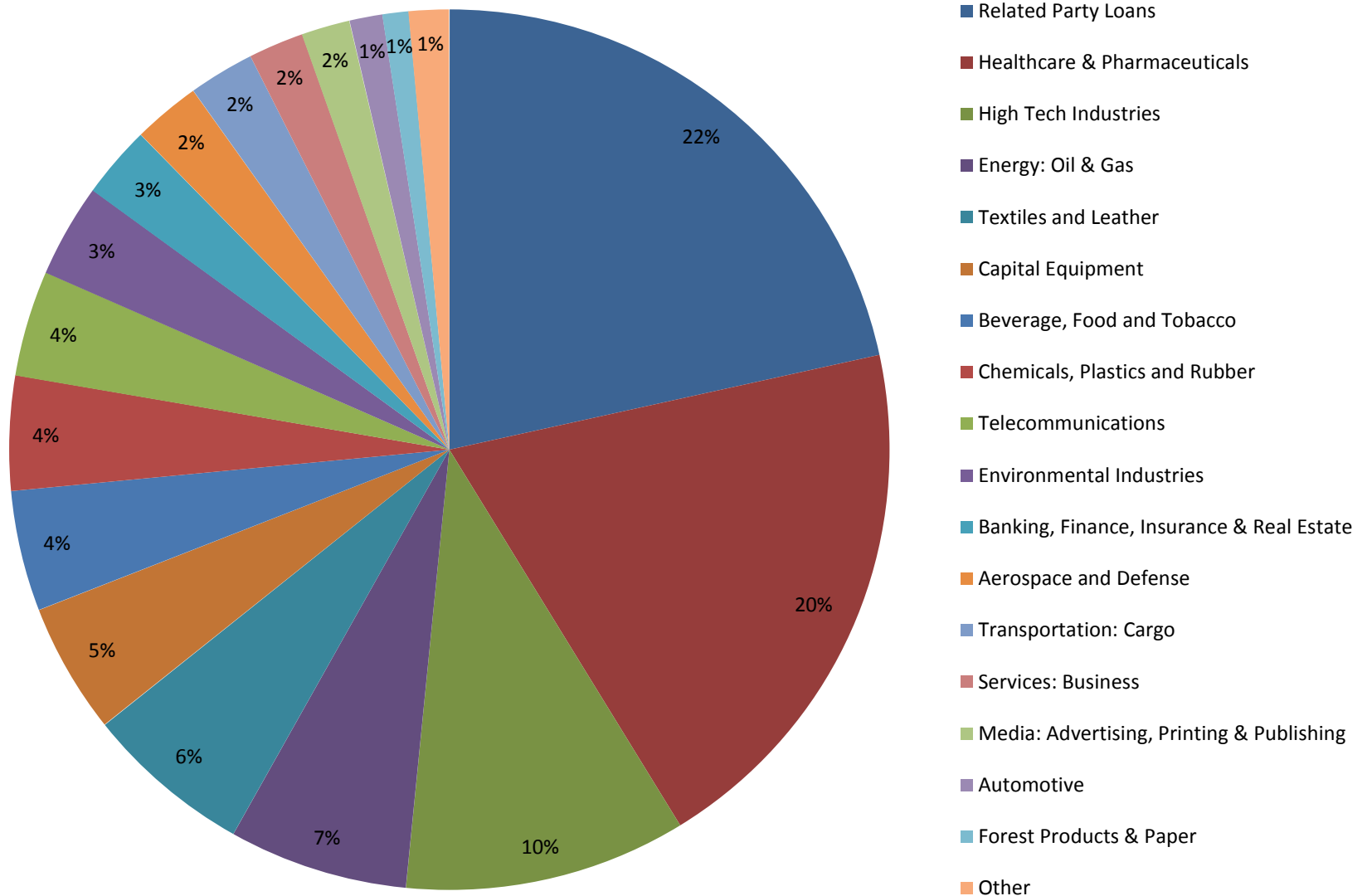
# ORIGINATIONS AND REPAYMENTS

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- ◆ Invested \$52 million in new originations during the first quarter
  - ◆ Funded primarily with cash on hand from year-end 2017
  - ◆ Mix of first and second liens
  - ◆ Repayments were slow in Q1 2018
  
- ◆ Weighted average interest rate on income producing debt investments was 9.8% in Q1 2018, down slightly from 10.1% in Q4'17

# PORTFOLIO HIGHLIGHTS

## PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



# STRONG CREDIT QUALITY

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- ◆ The credit quality of our current portfolio remains strong.
- ◆ 78% of the debt securities portfolio is secured as of March 31, 2018.
- ◆ One investment was on non-accrual status.
- ◆ Two of our PIK investments were on partial non-accrual status.

# FINANCIAL HIGHLIGHTS

## NET ASSET VALUE

March 31, 2018	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Investments in money markets	\$ 9,905,719	\$ 0.27
Investments in debt securities	166,115,758	4.45
Investments in CLO Fund securities	40,768,620	1.09
Investments in equity securities	4,478,280	0.12
Investments in Asset Manager Affiliates	38,663,000	1.03
Investments in Joint Venture	<u>21,767,376</u>	<u>0.58</u>
Total Investments	281,698,753	7.54
Other assets	<u>9,729,287</u>	<u>0.26</u>
Total assets	\$ <u>291,428,040</u>	\$ <u>7.80</u>
Borrowings	\$ 100,226,261	\$ 2.68
Other Liabilities	<u>10,199,692</u>	<u>0.27</u>
Total Liabilities	<u>110,425,953</u>	<u>2.95</u>
<b>NET ASSET VALUE</b>	\$ <b><u>181,002,087</u></b>	\$ <b><u>4.85</u></b>

## INVESTMENT PORTFOLIO

March 31, 2018	Cost/Amortized Cost	Fair Value
Short-term investments	\$ 9,905,719	\$ 9,905,719
Senior Secured Loan	56,195,353	52,989,838
Junior Secured Loan	80,066,631	75,858,237
Senior Unsecured Loan	35,777,283	35,777,283
Senior Secured Bond	1,501,366	1,490,400
CLO Fund Securities	61,300,443	40,768,620
Equity Securities	10,571,007	4,478,280
Asset Manager Affiliates	52,091,230	36,663,000
Joint Venture	<u>24,914,858</u>	<u>21,767,376</u>
<b>Total Assets</b>	\$ <b><u>332,323,890</u></b>	\$ <b><u>281,698,753</u></b>