



KCAP Financial, Inc. Announces Third Quarter 2018 Financial Results

November 6, 2018

NEW YORK, Nov. 06, 2018 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq GS: KCAP) (the "Company") announces its third quarter 2018 financial results.

Financial Highlights

- Net investment income for the third quarter ended September 30, 2018 was approximately \$3.0 million, or \$0.08 per basic share, compared with approximately \$2.5 million, or \$0.07 per basic share in the quarter ended September 30, 2017.
- Net investment income for the nine months ended September 30, 2018 was \$0.21 per basic share, while estimated taxable distributable income for the nine months of 2018 was \$0.24 per basic share.
- The Company declared a third quarter shareholder distribution of \$0.10 per share.
- At September 30, 2018, the fair value of KCAP's investments totaled approximately \$273 million.
- Net asset value per share of \$4.66 as of September 30, 2018, compared with \$4.87 at December 31, 2017.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "We are pleased with our progress in the third quarter as we continue to execute on our strategy and position the Company for growth."

Operating Results

For the three months ended September 30, 2018, we reported total investment income of approximately \$7.2 million as compared to approximately \$6.3 million in the same period last year. Investment income from debt securities increased to approximately \$4.8 million from approximately \$2.4 million in the third quarter of 2017. Investment income on CLO fund securities in the third quarter of 2018 decreased to approximately \$1.3 million from approximately \$2.8 million for the same period in 2017. We received distributions from our Asset Manager Affiliates of \$300,000 in the third quarter of 2018. The Asset Manager Affiliates distributed \$880,000 in the third quarter of 2017, of which \$700,000 was a return of capital.

For the three months ended September 30, 2018, total expenses increased by approximately \$480,000 as compared to the same period in 2017, primarily attributable to an increase in interest expense.

Net investment income for the third quarter of 2018 and 2017 was approximately \$3.0 million and \$2.5 million, respectively, or \$0.08 and \$0.07 per basic share, respectively. Net realized and unrealized losses on investments for the three months ended September 30, 2018 was approximately \$1.6 million, compared to net realized and unrealized gains on investments of approximately \$816,000 for the same period in 2017.

Portfolio and Investment Activity

The fair value of our investment portfolio was approximately \$273 million as of September 30, 2018. The composition of our investment portfolio at September 30, 2018 and December 31, 2017, at cost and fair value, was as follows:

Security Type	September 30, 2018 (unaudited)				December 31, 2017			
	Cost/Amortized		%		Cost/Amortized		%	
	Cost	Fair Value			Cost	Fair Value		
Short-term investments ²	\$ 24,431,512	\$ 24,431,512	9	\$ 77,300,320	\$ 77,300,320	26		
Senior Secured Loan	66,465,014	62,292,361	23	48,337,900	44,960,146	14		
Junior Secured Loan	76,396,298	71,229,383	26	62,561,913	58,941,300	19		
Senior Unsecured Loan	6,277,283	6,277,283	2	12,777,283	12,777,283	4		
Senior Secured Bond	—	—	-	1,502,374	1,518,750	-		
CLO Fund Securities	68,769,245	47,983,931	18	72,339,032	51,678,673	17		
Equity Securities	10,571,007	4,079,336	1	10,571,007	4,414,684	1		
Asset Manager Affiliates ³	51,591,230	35,818,000	13	52,591,230	38,849,000	12		
Joint Venture	24,914,858	21,373,570	8	24,914,858	21,516,000	7		
Total	\$ 329,416,447	\$ 273,485,375	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 September 30, 2018, we had unrestricted cash and money market balances of approximately \$26.1 million, total assets of approximately \$280 million and stockholders' equity of approximately \$174 million. Our net asset value per common share was \$4.66. As of September 30, 2018, we had approximately \$107.4 million (par value) of borrowings outstanding (\$103.7 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 September 30, 2018. The record date for this distribution was October 9, 2018 and the distribution was paid on October 29, 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.

Conference Call and Webcast

We will hold a conference call on Wednesday, November 7, 2018 at 9:00 am Eastern Time to discuss our third 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 on November 7, 2018 after 7:00 p.m. Eastern Time for approximately 90 days.

A replay of this conference call will be available from 12:00 p.m. on November 7, 2018 until 12:00 p.m. on November 15, 2018. The dial in number for the replay is (855) 859-2056 and the conference ID is 8885087.

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/?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

	<u>As of September 30, 2018</u>	<u>As of December 31, 2017</u>
	(unaudited)	
ASSETS		
Investments at fair value:		
Short-term investments (cost: 2018 - \$24,431,512; 2017 - \$77,300,320)	\$ 24,431,512	\$ 77,300,320
Debt securities (amortized cost: 2018 - \$149,138,595; 2017 - \$125,179,470)	139,799,027	118,197,479
CLO Fund Securities managed by affiliates (amortized cost: 2018 - \$63,580,483; 2017 - \$67,212,139)	45,531,058	49,488,393

CLO Fund Securities managed by non-affiliates (amortized cost: 2018 - \$5,188,762; 2017 - \$5,126,893)	2,452,873	2,190,280
Equity securities (cost: 2018 - \$10,571,007; 2017 - \$10,571,007)	4,079,336	4,414,684
Asset Manager Affiliates (cost: 2018 - \$51,591,230; 2017 - \$52,591,230)	35,818,000	38,849,000
Joint Venture (cost: 2018 - \$24,914,858; 2017 - \$24,914,858)	<u>21,373,570</u>	<u>21,516,000</u>
Total Investments at Fair Value (cost: 2018 - \$329,416,447; 2017 - \$362,895,917)	273,485,375	311,956,156
Cash	1,713,906	2,034,095
Restricted cash	987,818	—
Interest receivable	2,276,162	1,051,271
Receivable for open trades	—	2,993,750
Due from affiliates	935,120	1,243,493
Other assets	<u>340,472</u>	<u>530,209</u>
Total Assets	<u>\$ 279,738,854</u>	<u>\$ 319,808,974</u>
LIABILITIES		
6.125% Notes Due 2022 (net of offering costs of: 2018 - \$2,341,686; 2017 - \$2,734,248)	\$ 75,065,514	\$ 74,672,952
7.375% Notes Due 2019 (net of offering costs of: 2018 - \$31,173; 2017 - \$259,635)	6,968,827	26,740,365
KCAP Funding I, LLC Revolving Credit Facility (net of offering costs of: 2018 - \$1,246,998)	21,701,195	—
Payable for open trades	—	34,215,195
Accounts payable and accrued expenses	2,008,553	2,350,803
Accrued interest payable	86,133	—
Due to affiliates	<u>127</u>	<u>25,083</u>
Total Liabilities	105,830,349	138,004,398
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,544,083 issued, and 37,349,224 outstanding at September 30, 2018, and 37,507,402 issued, and 37,339,224 outstanding at December 31, 2017	373,492	373,392
Capital in excess of par value	330,404,400	329,789,716
Excess distribution of net investment income	(13,201,062)	(9,987,928)
Accumulated net realized losses	(86,338,209)	(86,031,799)
Net unrealized depreciation on investments	<u>(57,330,116)</u>	<u>(52,338,805)</u>
Total Stockholders' Equity	<u>173,908,505</u>	<u>181,804,576</u>
Total Liabilities and Stockholders' Equity	<u>\$ 279,738,854</u>	<u>\$ 319,808,974</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 4.66</u>	<u>\$ 4.87</u>

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Investment Income:				
Interest from investments in debt securities	\$ 4,487,575	\$ 2,033,813	\$ 11,796,245	\$ 10,934,928
Payment-in-kind investment income	329,365	405,858	1,061,419	829,773
Interest from cash and time deposits	9,767	21,043	71,183	51,250
Investment income on CLO Fund Securities managed by affiliates	1,179,463	2,693,547	4,428,032	8,378,785
Investment income on CLO Fund Securities managed by non-affiliates	94,992	99,578	292,694	329,108

Dividends from Asset Manager Affiliates	300,000	180,000	920,000	180,000
Investment income - Joint Venture	750,000	685,000	2,150,000	685,000
Capital structuring service fees	7,588	134,504	114,097	298,628
Total investment income	7,158,750	6,253,343	20,833,670	21,687,473
Expenses:				
Interest and amortization of debt issuance costs	1,871,187	1,371,953	5,582,467	5,790,242
Compensation	1,004,323	1,072,812	3,216,710	3,473,841
Professional fees	867,724	802,507	2,489,098	2,545,195
Insurance	79,152	80,794	236,900	256,473
Administrative and other	381,835	395,782	1,364,302	1,265,317
Total expenses	4,204,221	3,723,848	12,889,477	13,331,068
Net Investment Income	2,954,529	2,529,495	7,944,193	8,356,404
Realized And Unrealized Gains (Losses) On Investments:				
Net realized losses from investment transactions	(136,766)	(1,906,537)	(137,336)	(2,871,941)
Net change in unrealized (depreciation) appreciation on:				
Debt securities	(1,232,216)	1,759,152	(2,357,578)	4,172,723
Equity securities	(171,775)	(186,368)	(335,348)	(606,179)
CLO Fund Securities managed by affiliates	682,574	(1,590,062)	(325,678)	(3,695,876)
CLO Fund Securities managed by non-affiliates	5,427	(34,655)	200,723	(328,552)
Asset Manager Affiliates investments	(1,035,000)	2,922,000	(2,031,000)	1,481,000
Joint Venture Investment	282,076	(147,751)	(142,430)	(147,751)
Total net change in unrealized appreciation (depreciation)	(1,468,914)	2,722,316	(4,991,311)	875,365
Net realized and unrealized appreciation (depreciation) on investments	(1,605,680)	815,779	(5,128,647)	(1,996,576)
Realized losses on extinguishments of Debt	—	(4,014,723)	(169,074)	(4,121,998)
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	\$ 1,348,849	\$ (669,449)	\$ 2,646,472	\$ 2,237,830
Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share:				
Basic:	\$ 0.04	\$ (0.02)	\$ 0.07	\$ 0.06
Diluted:	\$ 0.04	\$ (0.02)	\$ 0.07	\$ 0.06
Net Investment Income Per Common Share:				
Basic:	\$ 0.08	\$ 0.07	\$ 0.21	\$ 0.23
Diluted:	\$ 0.08	\$ 0.07	\$ 0.21	\$ 0.23
Weighted Average Shares of Common Stock Outstanding—Basic	37,349,904	37,196,621	37,354,449	37,202,011
Weighted Average Shares of Common Stock Outstanding—Diluted	37,349,904	37,196,621	37,354,449	37,202,011

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