



**Full Year 2017 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.

# FULL YEAR 2017 HIGHLIGHTS

## Components of Distributable Resources

- ◆ Net Investment Income of \$0.30 per basic share for 2017 and \$0.50 for 2016

## Debt Securities Portfolio

- ◆ Investment Income on debt securities portfolio represented ~53% of total company Investment Income vs. ~58% in 2016 and ~53% in 2015
- ◆ Weighted average interest rate on income producing debt investments was 10.1% at December 31, 2017 vs 7.0% at December 31, 2016

## Asset Manager

- ◆ Distributed \$3.2 million in 2017, compared with \$2.7 million in 2016

## Credit Performance

- ◆ Debt Securities Portfolio is well diversified across 19 different industries and 40 different entities with an average debt investment of approximately \$2.8 million
- ◆ Two of our PIK investments were on partial non-accrual status

## Net Asset Value

- ◆ Net Asset Value of \$4.87, down from \$5.24 in 2016

## Distributions

- ◆ \$0.10 distribution declared for Q4'17

# RECENT ACTIVITY

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- ◆ Closed \$300mm JV CLO in Q4
  - ◆ Removed \$147mm of Debt - Alleviates Asset Coverage Constraints
- ◆ Continued Joint Venture with Freedom 3 Capital
  - ◆ Greater access to Middle Market opportunities
  - ◆ Economic Benefits:
    - ◆ Generates asset management fee income – Portfolio size \$300 million
    - ◆ Return on investment in JV
    - ◆ New debt raised gives flexibility for new asset selections
    - ◆ Accretive to Investment Income
- ◆ Issued \$77 mm New Public Debt in Q3
  - ◆ Right sizes the balance sheet – fixed rate debt
  - ◆ Additional capacity/flexibility – asset coverage ratio at 271% as of December 31, 2017
- ◆ Completed the Resetting and Upsizing of existing CLO's managed by AMA's
  - ◆ Extends maturity, adds assets to manage, stabilizes value of Asset Manager Affiliates
  - ◆ 2 CLOs Upsized and extended maturity – one CLO reset debt interest rates

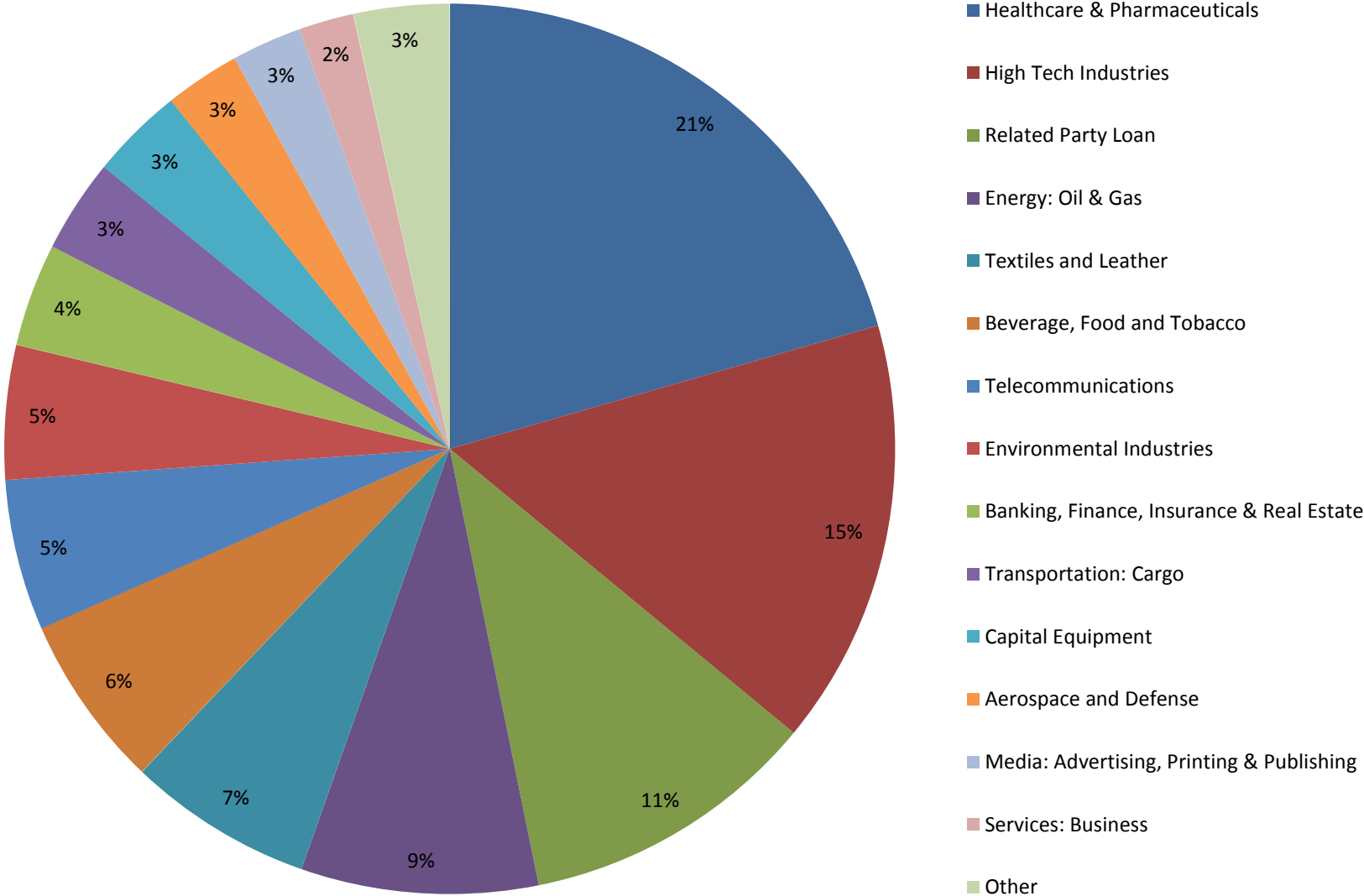
# ORIGINATIONS AND REPAYMENTS

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- ◆ Invested over \$50 million in new originations during the fourth quarter
  - ◆ Asset mix evolving into higher yielding junior debt resulting in increased average interest rate.
  - ◆ New Q1 Revolving Credit Facility will be primarily senior secured debt
  
- ◆ Weighted average interest rate on income producing debt investments was 10.1% in and 7.0% in 2016

# PORTFOLIO HIGHLIGHTS

## PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



# STRONG CREDIT QUALITY

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- ◆ The credit quality of our current portfolio remains strong.
- ◆ 89% of the debt securities portfolio is secured as of December 31, 2017.
- ◆ Two of our investments were on partial non-accrual status.
  - ◆ Representing 3.3% of the total investment portfolio at fair value.

# FINANCIAL HIGHLIGHTS

## NET ASSET VALUE

December 31, 2017	Fair Value	NAV per Share
<i>Investments at Fair Value</i>		
Short-term investments	\$ 77,300,320	\$ 2.07
Investments in debt securities	118,197,479	3.17
Investments in CLO Fund securities	51,678,673	1.38
Investments in equity securities	4,414,684	0.12
Investments in Asset Manager Affiliates	38,849,000	1.04
Joint Venture	<u>21,516,000</u>	<u>0.58</u>
Total Investments	311,956,156	8.35
Other assets	<u>7,852,818</u>	<u>0.21</u>
Total assets	\$ <u>319,808,974</u>	\$ <u>8.57</u>
Borrowings	\$ 101,413,316	\$ 2.72
Other Liabilities	<u>36,591,082</u>	<u>0.98</u>
Total Liabilities	<u>138,004,398</u>	<u>3.70</u>
<b>NET ASSET VALUE</b>	\$ <b><u>181,804,576</u></b>	\$ <b><u>4.87</u></b>

## INVESTMENT PORTFOLIO

December 31, 2017	Cost/Amortized Cost	Fair Value
Short-term investments	\$ 77,300,320	\$ 77,300,320
Senior Secured Loan	48,337,900	44,960,146
Junior Secured Loan	62,561,913	58,941,300
Senior Unsecured Loan	12,777,283	12,777,283
Senior Secured Bond	1,502,374	1,518,750
CLO Fund Securities	72,339,032	51,678,673
Equity Securities	10,571,007	4,414,684
Asset Manager Affiliates	52,591,230	38,849,000
Joint Venture	<u>24,914,858</u>	<u>21,516,000</u>
<b>Total Assets</b>	\$ <b><u>362,895,917</u></b>	\$ <b><u>311,956,156</u></b>