



OFS Capital Corporation Announces Second Quarter 2018 Financial Results

August 3, 2018

Declares a \$0.34 Per Share Distribution

CHICAGO--(BUSINESS WIRE)--Aug. 3, 2018-- OFS Capital Corporation (NASDAQ:OFS) ("OFS Capital," the "Company," "we," "us," or "our") today announced its financial results for the second quarter ended June 30, 2018.

FINANCIAL HIGHLIGHTS

- Net investment income of \$4.56 million, or \$0.34 per share.
- Net asset value ("NAV") per share increased to \$13.70 at June 30, 2018 from \$13.67 per share at March 31, 2018.
- At June 30, 2018, 80% of our loan portfolio consisted of senior secured loans, based on fair value.
- Closed investments in the second quarter of 2018 totaled approximately \$47.0 million. As of August 3, 2018, we closed approximately \$17.3 million of additional new investments during the third quarter of 2018.
- As of June 30, 2018, 77% of the fair value of our loan portfolio was floating rate, and the weighted average yield of our loan portfolio was 12.26%⁽¹⁾.
- As of June 30, 2018, our debt had a weighted average cost of 4.37%.
- As of June 30, 2018, 96% of our debt was fixed rate and over 86% of our debt matures after 2023.
- On July 31, 2018, OFS Capital's Board of Directors declared a distribution of \$0.34 per share for the third quarter of 2018, payable on September 28, 2018 to stockholders of record as of September 14, 2018.

"The second quarter was a strong period for us," said Bilal Rashid, OFS Capital's Chairman and Chief Executive Officer. "Our net investment income per share was in line with our current distribution rate and we just declared our 23rd straight \$0.34 per share quarterly distribution. We believe that our loan portfolio, which is predominantly senior secured, is performing well as evidenced by the increase in our NAV this quarter. We expect our portfolio to be well positioned for a rising interest rate environment as a vast majority of our loan portfolio is floating rate and our liabilities are largely fixed rate.

Since our IPO in 2012, our total return (as measured by change in NAV plus cumulative distributions) is well above the industry average. We believe our strong performance is attributable to the strength of our platform which has been in existence since 1994."

(1) See Highlights contained in this press release for further information on our weighted average yield. Excluding assets classified as non-accrual, the weighted average yield of our debt investment portfolio was 12.26% at June 30, 2018. Including assets classified as non-accrual, the weighted average yield of our debt investment portfolio was 11.80% at June 30, 2018.

HIGHLIGHTS

(\$ in millions, except for per share data)

| Portfolio Overview | At June 30, 2018 |
|--|------------------|
| Total assets | \$ 392.7 |
| Investment portfolio, at fair value | \$ 362.8 |
| Net assets | \$ 182.9 |
| Net asset value per share | \$ 13.70 |
| Weighted average yield on performing debt investments ⁽¹⁾ | 12.26% |
| Weighted average yield on total debt investments ⁽²⁾ | 11.80% |
| Weighted average yield on total investments ⁽³⁾ | 11.06% |

(1) The weighted average yield on our performing debt investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of loan origination fees, original issue discount, market discount or premium, and loan amendment fees divided by (b) amortized cost of our debt investments, excluding assets on non-accrual basis as of the balance sheet date.

(2) The weighted average yield on our total debt investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of loan origination fees, original issue discount, market discount or premium, and loan amendment fees divided by (b) amortized cost of our debt investments, including assets on non-accrual basis as of the balance sheet date.

(3) The weighted average yield on total investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of loan origination fees, original issue discount, market discount or premium, and loan amendment fees, plus the effective cash yield on our performing preferred equity investments divided by (b) amortized cost of our total investment portfolio, including assets on non-accrual basis as of the balance sheet date. The weighted average yield of investments is not the same as a return on investment for our stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our fees and expenses.

Quarter Ended June 30,

| Operating Results | 2018 | 2017 |
|--|-------------|-------------|
| Total investment income | \$ 10.3 | \$ 8.0 |
| Net investment income | \$ 4.6 | \$ 4.3 |
| Net investment income per common share, basic and diluted | \$ 0.34 | \$ 0.33 |
| Adjusted net investment income (a Non-GAAP measure described below) | \$ 4.6 | \$ 4.0 |
| Adjusted net investment income (a Non-GAAP measure described below) per share, basic and diluted | \$ 0.34 | \$ 0.31 |
| Net increase in net assets resulting from operations | \$ 5.0 | \$ (2.3) |

| | Quarter Ended June 30, | |
|--|-------------------------------|-------------|
| Portfolio Activity | 2018 | 2017 |
| Number of new portfolio companies | 5 | 9 |
| Investments in new portfolio companies | \$ 44.2 | \$ 59.1 |
| Investments in existing portfolio companies | \$ 2.8 | \$ 7.0 |
| Number of portfolio companies at end of period | 42 | 42 |

PORTFOLIO AND INVESTMENT ACTIVITIES

During the second quarter of 2018, OFS Capital closed \$44.2 million of senior secured debt investments, in five new portfolio companies. In addition, we made \$2.8 million of new senior secured debt investments in existing portfolio companies.

The total fair value of OFS Capital's investment portfolio was \$362.8 million at June 30, 2018, which was equal to approximately 99% of amortized cost. As of June 30, 2018, the fair value of OFS Capital's debt investment portfolio totaled \$326.5 million in 38 portfolio companies, of which 80% and 20% were senior secured loans and subordinated loans, respectively. As of June 30, 2018, we also held approximately \$36.3 million in equity investments, at fair value, in 17 portfolio companies in which we also held debt investments and four portfolio companies in which we solely held an equity investment. We had unfunded commitments of \$10.8 million to four portfolio companies at June 30, 2018. As of June 30, 2018, floating rate loans comprised 77% of OFS Capital's debt investment portfolio, with the remaining 23% in fixed rate loans, as a percentage of fair value.

RESULTS OF OPERATIONS

Income

Interest Income

Interest income increased by \$2.6 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to a \$2.2 million increase in recurring interest income caused by a 25% increase in the average outstanding loan balance, and an increase of \$0.4 million in recurring interest income resulting from a 57 basis point increase in the weighted average yield in our portfolio. Acceleration of loan origination fees, original issue discount, market discount or premium, and loan amendment fees of approximately \$110,000 and \$128,000 were included in interest income for the three months ended June 30, 2018 and 2017, respectively.

Expenses

Interest expense

Interest expense for the three months ended June 30, 2018 increased \$0.8 million over the corresponding period in the prior year due to an increase in borrowings under our revolving line of credit with Pacific Western Bank (the "PWB Credit Facility") and the \$50.0 million issuance of the Unsecured Notes (defined below). The average dollar amount of borrowings outstanding under the PWB Credit Facility during the three months ended June 30, 2018 and 2017 was \$7.1 million and \$0.7 million, respectively.

Management fee

Management fee expense for the three months ended June 30, 2018 increased \$0.3 million over the corresponding period in the prior year due to an increase in our average total assets, primarily due to a increase in net investment activity.

Incentive fee

Incentive fee expense increased by \$1.2 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily due to a increase in the income incentive fee of \$0.9 million. We accrue the capital gain fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive, which was \$0 and \$(0.3) million for the three months ended June 30, 2018 and 2017, respectively.

Administration fee

Administration fee expense for the three months ended June 30, 2018, increased \$0.1 million over the corresponding period in the prior year primarily due to an increase in our allocable portion of OFS Capital Services's overhead expenses.

Other expenses

Other expenses for the three months ended June 30, 2018, decreased \$0.2 million over the corresponding period in the prior year primarily due to legal and other offering costs incurred during the second quarter of 2017 in connection with the closing of a \$53.7 million equity offering.

Net Gain (Loss) on Investments

We recognized net losses of \$1.7 million on senior secured debt during the three months ended June 30, 2018, primarily as a result of an additional net loss of \$1.2 million from the sale of Jobson Healthcare Information, LLC, and additional unrealized losses of \$0.5 million, primarily as a result of the net negative impact of portfolio company-specific performance factors and the impact of changes to certain market loan indices.

We recognized net losses of \$0.2 million on subordinated debt during the three months ended June 30, 2018, primarily as a result of the negative impact of portfolio company-specific performance factors, including an unrealized depreciation of \$0.3 million recognized on our subordinated debt investment in Master Cutlery, LLC, which was placed on non-accrual during the second quarter of 2018 and written down to a fair value of \$2.3 million at June 30, 2018.

We recognized net losses of \$0.6 million on preferred equity investments for the three months ended June 30, 2018, primarily as a result of unrealized depreciation on certain portfolio investments due to the net negative impact of portfolio company-specific performance factors.

We recognized net gains of \$2.9 million on common equity and warrant investments for the three months ended June 30, 2018, primarily as a result of unrealized appreciation stemming from the positive impact of portfolio company-specific performance factors.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2018, we had \$22.7 million in cash and cash equivalents, which includes cash and cash equivalents of \$20.6 million held by our wholly owned small business investment company, and \$149.9 million in outstanding SBA-guaranteed debentures. Our use of cash held by SBIC I LP is restricted by SBA regulation, including limitations on the amount of cash SBIC I LP can distribute to OFS Capital as parent company. As of June 30, 2018, we had \$42.0 million available for additional borrowings under our PWB Credit Facility and had drawn all of our available SBA-guaranteed debentures.

In April 2018, we closed the public offering of \$50.0 million in aggregate principal amount of our 6.375% notes due 2025 (the "Unsecured Notes"). The total net proceeds to us from the Unsecured Notes, after deducting underwriting discounts of approximately \$1.6 million and estimated offering expenses of \$0.4 million, were approximately \$48.0 million. The Unsecured Notes will mature on April 30, 2025 and bear interest at a rate of 6.375%. The Unsecured Notes are unsecured obligations of the Company and rank pari passu with our existing and future unsecured subordinated indebtedness; effectively subordinated to all of our existing and future secured unsubordinated indebtedness; and structurally subordinated to all existing and future indebtedness and other obligations of any subsidiaries, including the SBA-guaranteed debentures. The Unsecured Notes may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2020 at the redemption price of 100% of the aggregate principal amount thereof plus accrued and unpaid interest. Interest on the Unsecured Notes is payable quarterly on January 31, April 30, July 31, and October 31 of each year. The Unsecured Notes are listed on the Nasdaq Global Select Market under the trading symbol "OFSSL." We may from time to time repurchase Unsecured Notes in accordance with the 1940 Act and the rules promulgated thereunder. As of June 30, 2018, the outstanding principal balance of the Unsecured Notes was \$50.0 million.

On May 22, 2018, our Board of Directors authorized the Company to initiate the stock repurchase program under which the Company may acquire up to \$10.0 million of its outstanding common stock. Under the stock repurchase program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The stock repurchase program may be extended, modified or discontinued at any time for any reason. The Company expects the stock repurchase program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The stock repurchase program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases. No shares of common stock were repurchased during the three months ended June 30, 2018.

CONFERENCE CALL

OFS Capital will host a conference call to discuss these results on Friday, August 3, 2018, at 10:00 AM Eastern Time. Interested parties may participate in the call via the following:

INTERNET: Log on to www.ofscapital.com at least 15 minutes prior to the start time of the call to register, download, and install any necessary audio software. A replay will be available for 90 days on OFS Capital's website at www.ofscapital.com.

TELEPHONE: Dial (877) 510-7674 (Domestic) or (412) 902-4139 (International) approximately 15 minutes prior to the call. A telephone replay of the conference call will be available through August 13, 2018 at 9:00 AM Eastern Time and may be accessed by calling (877) 344-7529 (Domestic) or (412) 317-0088 (International) and utilizing conference ID #10122867.

For more detailed discussion of the financial and other information included in this press release, please refer to OFS Capital's Form 10-Q for the second quarter ended June 30, 2018, which will be filed with the Securities and Exchange Commission later today.

OFS Capital Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

| | June 30, 2018 | December 31, 2017 |
|---|------------------|-------------------------|
| | (unaudited) | |
| Assets | | |
| Investments, at fair value: | | |
| Non-control/non-affiliate investments (amortized cost of \$249,111 and \$209,360, respectively) | \$ 241,071 | \$ 197,374 |
| Affiliate investments (amortized cost of \$106,689 and \$70,402, respectively) | 111,017 | 69,557 |
| Control investments (amortized cost of \$10,275 and \$10,213, respectively) | 10,744 | 10,568 |
| Total investments at fair value (amortized cost of \$366,075 and \$289,975, respectively) | 362,832 | 277,499 |

| | | |
|-----------------------------------|-------------------|-------------------|
| Cash and cash equivalents | 22,665 | 72,952 |
| Interest receivable | 2,919 | 2,734 |
| Prepaid expenses and other assets | 4,257 | 4,593 |
| Total assets | \$ 392,673 | \$ 357,778 |

Liabilities

| | | |
|---|----------------|----------------|
| Revolving line of credit | \$ 8,000 | \$ 17,600 |
| SBA debentures (net of deferred debt issuance costs of \$2,470 and \$2,657, respectively) | 147,410 | 147,223 |
| Unsecured notes (net of deferred debt issuance costs of \$1,701 and \$0, respectively) | 48,299 | — |
| Interest payable | 2,260 | 1,596 |
| Management and incentive fees payable | 2,683 | 1,987 |
| Administration fee payable | 478 | 476 |
| Accrued professional fees | 444 | 433 |
| Other liabilities | 170 | 127 |
| Total liabilities | 209,744 | 169,442 |

Commitments and contingencies

Net assets

| | | |
|--|----------------|----------------|
| Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of June 30, 2018, and December 31, 2017, respectively | \$ — | \$ — |
| Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,350,458 and 13,340,217 shares issued and outstanding as of June 30, 2018, and December 31, 2017, respectively | 134 | 133 |
| Paid-in capital in excess of par | 187,549 | 187,398 |
| Accumulated undistributed net investment income | 7,088 | 9,404 |
| Accumulated undistributed net realized gain (loss) | (8,497) | 3,881 |
| Net unrealized depreciation on investments | (3,345) | (12,480) |
| Total net assets | 182,929 | 188,336 |

Total liabilities and net assets **\$ 392,673 \$ 357,778**

| | | |
|------------------------------|------------|------------|
| Number of shares outstanding | 13,350,458 | 13,340,217 |
| Net asset value per share | \$ 13.70 | \$ 14.12 |

OFS Capital Corporation and Subsidiaries

Condensed Consolidated Statements of Operations (unaudited)

(Dollar amounts in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Investment income | | | | |
| Interest income: | | | | |
| Non-control/non-affiliate investments | \$ 6,326 | \$ 4,446 | \$ 12,084 | \$ 9,058 |
| Affiliate investments | 2,768 | 1,646 | 4,853 | 3,477 |
| Control investment | 250 | 542 | 489 | 1,066 |
| Total interest income | 9,344 | 6,634 | 17,426 | 13,601 |
| Payment-in-kind interest and dividend income: | | | | |
| Non-control/non-affiliate investments | 122 | 319 | 346 | 626 |
| Affiliate investments | 285 | 374 | 746 | 726 |
| Control investment | 27 | 39 | 54 | 77 |
| Total payment-in-kind interest and dividend income | 434 | 732 | 1,146 | 1,429 |
| Dividend income: | | | | |
| Non-control/non-affiliate investments | — | 45 | — | 50 |
| Affiliate investments | — | — | 130 | 85 |
| Control investments | 94 | 137 | 127 | 170 |
| Total dividend income | 94 | 182 | 257 | 305 |
| Fee income: | | | | |
| Non-control/non-affiliate investments | 387 | 169 | 413 | 325 |
| Affiliate investments | 3 | 176 | 5 | 234 |

| | | | | |
|--|-----------------|--------------------|-----------------|-----------------|
| Control investments | 16 | 85 | 34 | 118 |
| Total fee income | 406 | 430 | 452 | 677 |
| Total investment income | 10,278 | 7,978 | 19,281 | 16,012 |
| Expenses | | | | |
| Interest expense | 2,169 | 1,339 | 3,803 | 2,726 |
| Management fee | 1,548 | 1,224 | 2,908 | 2,416 |
| Incentive fee | 1,135 | (22) | 1,872 | 1,159 |
| Professional fees | 200 | 293 | 401 | 556 |
| Administration fee | 358 | 307 | 941 | 708 |
| Other expenses | 310 | 521 | 1,005 | 791 |
| Total expenses before incentive fee waiver | 5,720 | 3,662 | 10,929 | 8,356 |
| Incentive fee waiver | — | — | (22) | — |
| Total expenses, net of incentive fee waiver | 5,720 | 3,662 | 10,907 | 8,356 |
| Net investment income | 4,558 | 4,316 | 8,374 | 7,656 |
| Net realized and unrealized gain (loss) on investments | | | | |
| Net realized gain (loss) on non-control/non-affiliate investments | (5,464) | 163 | (5,003) | 163 |
| Net realized gain (loss) on affiliate investments | (3,477) | 874 | (4,018) | 874 |
| Net unrealized appreciation (depreciation) on non-control/non-affiliate investments | 5,411 | (5,505) | 3,848 | (8,546) |
| Net unrealized appreciation (depreciation) on affiliate investments | 3,928 | (3,366) | 5,173 | 658 |
| Net unrealized appreciation on control investment | 39 | 1,237 | 114 | 1,780 |
| Net gain (loss) on investments | 437 | (6,597) | 114 | (5,071) |
| Net increase (decrease) in net assets resulting from operations | \$ 4,995 | \$ (2,281) | \$ 8,488 | \$ 2,585 |
| Net investment income per common share – basic and diluted | \$ 0.34 | \$ 0.33 | \$ 0.63 | \$ 0.67 |
| Net increase (decrease) in net assets resulting from operations per common share – basic and diluted | \$ 0.37 | \$ (0.17) | \$ 0.64 | \$ 0.23 |
| Distributions declared per common share | \$ 0.34 | \$ 0.34 | \$ 1.05 | \$ 0.68 |
| Basic and diluted weighted average shares outstanding | 13,348,793 | 13,197,759 | 13,344,670 | 11,458,706 |

Non-GAAP Financial Measure – Adjusted Net Investment Income (“Adjusted NII”)

On a supplemental basis, we disclose Adjusted NII (including on a per share basis), which is a financial measure calculated and presented on a non-GAAP basis. Adjusted NII represents net investment income excluding the net capital gains incentive fee (fee adjustments) in periods in which they occur. Our management agreement with our investment adviser provides that a capital gains incentive fee is determined and paid annually with respect to realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized capital losses for such year. Management believes that Adjusted NII is a useful indicator of operations exclusive of any net capital gains incentive fee, as net investment income does not include gains associated with the capital gains incentive fee. In addition, management believes that providing Adjusted NII may facilitate a more complete analysis and greater transparency into OFS Capital's ongoing operations, particularly in comparing underlying results from period to period, and afford investors a view of results that may be more easily compared to those of other companies.

The following table provides a reconciliation from net investment income (the most comparable GAAP measure) to Adjusted NII for the periods presented (dollar amounts in thousands, except per share data):

| | Quarter Ended June 30, | |
|--|------------------------|------------|
| | 2018 | 2017 |
| Net investment income | \$ 4,558 | \$ 4,316 |
| Capital gains incentive fee | — | (283) |
| Adjusted net investment income | \$ 4,558 | \$ 4,033 |
| Adjusted net investment income per common share: | | |
| Basic and diluted | \$ 0.34 | \$ 0.31 |
| Weighted average shares outstanding: | | |
| Basic and diluted | 13,348,793 | 13,197,759 |

ABOUT OFS CAPITAL

The Company is an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company. The Company's investment objective is to provide stockholders with both current income and capital appreciation primarily

through debt investments and, to a lesser extent, equity investments. The Company invests primarily in privately held middle-market companies in the United States, including lower-middle-market companies, targeting investments of \$3 to \$20 million in companies with annual EBITDA between \$3 million and \$50 million. The Company offers flexible solutions through a variety of asset classes including senior secured loans, which includes first-lien, second-lien and unitranche loans, as well as subordinated loans and, to a lesser extent, warrants and other equity securities. The Company's investment activities are managed by OFS Capital Management, LLC, an investment adviser registered under the Investment Advisers Act of 1940 and headquartered in Chicago, Illinois, with additional offices in New York and Los Angeles.

FORWARD-LOOKING STATEMENTS

Statements in this press release regarding management's future expectations, beliefs, intentions, goals, strategies, plans or prospects, including statements relating to: OFS Capital's results of operations, including net investment income, net asset value and net investment gains and losses and the factors that may affect such results; management's beliefs regarding the performance of the portfolio and expectations regarding future portfolio performance in a rising rate environment; management's view that OFS Capital has experienced strong performance (whether measured through total return, or otherwise) and the factors that have impacted such performance; and other factors may constitute forward-looking statements for purposes of the safe harbor protection under applicable securities laws. Forward-looking statements can be identified by terminology such as "anticipate," "believe," "could," "could increase the likelihood," "estimate," "expect," "intend," "is planned," "may," "should," "will," "will enable," "would be expected," "look forward," "may provide," "would" or similar terms, variations of such terms or the negative of those terms. Such forward-looking statements involve known and unknown risks, uncertainties and other factors including those risks, uncertainties and factors referred to in OFS Capital's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission under the section "Risk Factors," as well as other documents that may be filed by OFS Capital from time to time with the Securities and Exchange Commission. As a result of such risks, uncertainties and factors, actual results may differ materially from any future results, performance or achievements discussed in or implied by the forward-looking statements contained herein. OFS Capital is providing the information in this press release as of this date and assumes no obligations to update the information included in this press release or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Source: OFS Capital Corporation

INVESTOR RELATIONS:

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