

OFS CAPITAL

OFS Capital Corporation Announces Fourth Quarter and Full Year 2022 Financial Results

March 3, 2023

Quarterly Distribution Increased 10% to \$0.33 Per Share

CHICAGO--(BUSINESS WIRE)--Mar. 3, 2023-- OFS Capital Corporation (Nasdaq: OFS) ("OFS Capital," "we," "us," or "our") today announced its financial results for the fiscal quarter and the full year ended December 31, 2022.

FOURTH QUARTER FINANCIAL HIGHLIGHTS

- Net investment income per common share increased from \$0.33 for the quarter ended September 30, 2022 to \$0.35 for the quarter ended December 31, 2022.
- Net loss on investments per common share for the quarter ended December 31, 2022 was \$0.17.
- Net asset value ("NAV") per common share decreased from \$13.58 at September 30, 2022 to \$13.47 at December 31, 2022.
- For the quarter ended December 31, 2022, the investment portfolio's weighted-average performing income yield increased from 11.6% during the prior quarter to 12.7%.
- On December 30, 2022, we paid a quarterly distribution of \$0.30 per common share and on February 28, 2023, our Board of Directors declared a distribution of \$0.33 per common share for the first quarter of 2023, a 10% increase compared to the prior quarter distribution, payable on March 31, 2023 to stockholders of record as of March 24, 2023.

SELECTED FINANCIAL HIGHLIGHTS (unaudited)

(Per common share)

Net Investment Income

Net investment income

| | Quarter Ended | |
|-----------------------|-------------------|--------------------|
| | December 31, 2022 | September 30, 2022 |
| Net investment income | \$ 0.35 | \$ 0.33 |

Net Realized/Unrealized Gain (Loss)

Net realized loss on investments

Net unrealized depreciation on investments

Net loss on investments

| | | |
|--|-----------|-----------|
| Net realized loss on investments | \$ (0.09) | \$ (0.04) |
| Net unrealized depreciation on investments | (0.08) | (1.00) |
| Net loss on investments | \$ (0.17) | \$ (1.04) |

Earnings (Loss)

Earnings (loss)

| | | |
|-----------------|---------|-----------|
| Earnings (loss) | \$ 0.18 | \$ (0.71) |
|-----------------|---------|-----------|

Net Asset Value

Net asset value

Distributions paid

| | | |
|--------------------|----------|----------|
| Net asset value | \$ 13.47 | \$ 13.58 |
| Distributions paid | \$ 0.30 | \$ 0.29 |

Adjusted Net Investment Income ("Adjusted NII")⁽¹⁾ — Non-GAAP

Net investment income

Capital gain incentive fee accrual

Adjusted NII — Non-GAAP

| | | |
|------------------------------------|---------|---------|
| Net investment income | \$ 0.35 | \$ 0.33 |
| Capital gain incentive fee accrual | — | — |
| Adjusted NII — Non-GAAP | \$ 0.35 | \$ 0.33 |

(in millions, except per share data)

Balance Sheet Highlights

Investment portfolio, at fair value

Total assets

Net asset value per common share

| | As of | |
|-------------------------------------|-------------------|--------------------|
| | December 31, 2022 | September 30, 2022 |
| Investment portfolio, at fair value | \$ 500.6 | \$ 516.6 |
| Total assets | 520.7 | 538.2 |
| Net asset value per common share | \$ 13.47 | \$ 13.58 |

Management Commentary

"We are pleased to announce a dividend increase for the first quarter of 2023," said Bilal Rashid, OFS Capital's Chairman and Chief Executive Officer. "Our fourth quarter NII of \$0.35 per share was solid due to strong growth in interest income, as our portfolio continues to benefit from the current rising rate environment. We believe our balance sheet is well positioned as 94% of our loans are floating rate and 69% of our debt is fixed rate as of December 31, 2022."

(1) On a supplemental basis, we disclose Adjusted NII (including on a per share basis), which is a financial measure calculated and presented on basis other than in accordance with generally accepted accounting principles of the United States of America ("GAAP"). Adjusted NII represents net investment income, excluding the capital gains incentive fee, in periods in which such expense occurs. GAAP requires recognition of a capital

gains incentive fee in our financial statements when aggregate net realized and unrealized capital gains, if any, on a cumulative basis is positive from the date of the election to be a BDC through the reporting date. Such fees are subject to further conditions specified in the investment advisory agreement with OFS Capital Management, LLC, principally related to the realization of such net gains, before OFS Capital Management, LLC is entitled to payment, and such recognized fees are subject to the risk of reversal should unrealized gains diminish to become losses. 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 the net gains, realized or unrealized, associated with the capital gains incentive fee.

Management believes Adjusted NII facilitates the analysis of our results of operations and provides greater transparency into the determination of incentive fees. Adjusted NII is not meant as a substitute for net investment income determined in accordance with GAAP and should be considered in the context of the entirety of our reported results of operations, financial position and cash flows determined in accordance with GAAP. A reconciliation of net investment income determined in accordance with GAAP to Adjusted NII is set forth in Schedule I to this press release.

PORTFOLIO AND INVESTMENT ACTIVITIES

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

| Portfolio Overview | As of and for the Quarter Ended | |
|--|---------------------------------|--------------------|
| | December 31, 2022 | September 30, 2022 |
| Investment portfolio, at fair value | \$ 500.6 | \$ 516.6 |
| Weighted-average performing income yield - interest-bearing investments ⁽²⁾ | 12.7% | 11.6% |
| Weighted-average realized yield - interest-bearing investments ⁽³⁾ | 11.7% | 10.8% |

The increase in our weighted-average performing income yield was primarily due to an increase in interest income as a result of rising interest rates.

(2) Income yield is calculated as (a) the actual amount earned on performing investments, including interest and prepayment fees and amortization of net loan fees, divided by (b) the weighted-average of total performing investments amortized cost.

(3) Realized yield computed as (a) the actual amount earned on interest-bearing investments, including interest, prepayment fees and net loan fees, divided by (b) the weighted-average of total interest-bearing investments amortized cost, in each case, including debt investments in non-accrual status and non-income producing structured finance securities.

| Portfolio Activity | Quarter Ended | |
|--|-------------------|--------------------|
| | December 31, 2022 | September 30, 2022 |
| Investments in debt and equity investments | \$ 9.3 | \$ 22.3 |
| Investments in structured finance securities | — | — |

As of December 31, 2022, based on fair value, our investment portfolio was comprised of the following:

- Total investments of \$500.6 million, which was equal to approximately 105% of amortized cost;
- Debt investments of \$312.9 million in 52 portfolio companies, of which 99.6% and 0.4% were senior secured loans and subordinated loans, respectively;
- Equity investments of \$99.2 million;
- 23 structured finance securities totaling \$88.5 million; and
- Unfunded commitments of \$32.2 million to 16 portfolio companies.

RESULTS OF OPERATIONS (unaudited)

(in thousands)

| | Quarter Ended | |
|--|-------------------|--------------------|
| | December 31, 2022 | September 30, 2022 |
| Total investment income | \$ 13,998 | \$ 13,368 |
| Expenses: | | |
| Interest expense | 4,801 | 4,657 |
| Management and incentive fees | 3,101 | 3,079 |
| Other expenses | 1,369 | 1,260 |
| Total expenses | 9,271 | 8,996 |
| Net investment income | 4,727 | 4,372 |
| Net loss on investments | (2,292) | (13,930) |
| Net increase (decrease) in net assets resulting from operations | \$ 2,435 | \$ (9,558) |

Investment Income

For the quarter ended December 31, 2022, total investment income increased by \$0.6 million as compared to the quarter ended September 30, 2022, primarily due to an increase in interest income of \$1.0 million as a result of rising interest rates, and partially offset by a decrease of \$0.5 million in fee income.

Expenses

For the quarter ended December 31, 2022, total expenses increased \$0.3 million primarily due to an increase in interest expense related to rising SOFR rates on our BNP Facility.

Net Loss on Investments

For the quarter ended December 31, 2022, net loss on investments of \$2.3 million was primarily due to unrealized depreciation on a few issuer specific portfolio companies as well as broader market related declines in CLO equity securities and liquid debt securities. These declines were partially offset by unrealized appreciation on a few specific portfolio company investments.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2022, we had \$14.9 million of cash, which includes \$12.3 million held in the aggregate by our wholly owned small business investment company, OFS SBIC I, LP ("SBIC I LP"), and OFSCC-FS, LLC ("OFSCC-FS"), an indirect wholly owned subsidiary. Our use of cash held by SBIC I LP and OFSCC-FS is restricted by regulatory and contractual conditions, including limitations on the amount of cash SBIC I LP and OFSCC-FS can distribute to us.

As of December 31, 2022, we had an unused commitment of \$25.0 million under our senior secured revolving credit facility with Pacific Western Bank (the "PWB Credit Facility"), as well as an unused commitment of \$45.3 million under the revolving credit facility with BNP Paribas, both of which are subject to borrowing base requirements and other covenants. Based on fair values and equity capital at December 31, 2022, we could access all unused commitments under our credit facilities and remain in compliance with the 1940 Act asset coverage requirement.

On December 15, 2022, we amended the PWB Credit Facility to: (i) reduce the maximum amount available under the PWB Credit Facility from \$35.0 million to \$25.0 million; and (ii) eliminate the No Net Losses covenant, which restricted net losses (defined as income after adjustments to the investment portfolio for gains and losses, realized and unrealized, also shown as net increase (decrease) in net assets resulting from operations) in more than two quarters during the prior four quarters then ended.

CONFERENCE CALL

OFS Capital will host a conference call to discuss these results on Friday, March 3, 2023, 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 (844) 763-8274 (Domestic) or (412) 717-9224 (International) approximately 15 minutes prior to the call. A telephone replay of the conference call will be available through March 13, 2023 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 #1365852.

For more detailed discussion of the financial and other information included in this press release, please refer to OFS Capital's Form 10-K for the year ended December 31, 2022.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities

(Dollar amounts in thousands, except per share data)

| | December 31, | |
|---|----------------|----------------|
| | 2022 | 2021 |
| Assets | | |
| Total investments, at fair value (amortized cost of \$474,880 and \$457,312, respectively) | \$ 500,576 | \$ 507,099 |
| Cash | 14,937 | 43,048 |
| Receivable for investments sold | — | 14,893 |
| Interest receivable | 2,202 | 1,475 |
| Prepaid expenses and other assets | 3,002 | 2,533 |
| Total assets | 520,717 | 569,048 |
| Liabilities | | |
| Revolving lines of credit | 104,700 | 100,000 |
| SBA debentures (net of deferred debt issuance costs of \$223 and \$555, respectively) | 50,697 | 69,365 |
| Unsecured Notes (net of discounts and deferred debt issuance costs of \$3,647 and \$4,554, respectively) | 176,353 | 175,446 |
| Interest payable | 3,947 | 3,685 |
| Payable to investment adviser and affiliates | 3,909 | 6,217 |
| Payable for investments purchased | — | 8,788 |
| Accrued professional fees | 444 | 452 |
| Other liabilities | 244 | 1,351 |
| Total liabilities | 340,294 | 365,304 |
| 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 December 31, 2022 and December 31, 2021, respectively | — | — |
| Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,398,078 and 13,422,413 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively | 134 | 134 |
| Paid-in capital in excess of par | 184,841 | 185,113 |
| Total distributable earnings (accumulated losses) | (4,552) | 18,497 |

| | | |
|---|-------------------|-------------------|
| Total net assets | 180,423 | 203,744 |
| Total liabilities and net assets | <u>\$ 520,717</u> | <u>\$ 569,048</u> |
| Number of shares outstanding | 13,398,078 | 13,422,413 |
| Net asset value per share | <u>\$ 13.47</u> | <u>\$ 15.18</u> |

OFS Capital Corporation and Subsidiaries
Consolidated Statements of Operations
(Dollar amounts in thousands, except per share data)

| | (unaudited) | | | |
|--|----------------------------|-------------------|-------------------------|-------------------|
| | Quarter Ended December 31, | | Year Ended December 31, | |
| | 2022 | 2021 | 2022 | 2021 |
| Investment income | | | | |
| Interest income | \$ 13,519 | \$ 11,482 | \$ 46,258 | \$ 42,384 |
| Dividend income | 372 | 1,855 | 1,413 | 2,167 |
| Fee income | 107 | 1,930 | 1,073 | 3,212 |
| Total investment income | <u>13,998</u> | <u>15,267</u> | <u>48,744</u> | <u>47,763</u> |
| Expenses | | | | |
| Interest and financing expense | 4,801 | 4,215 | 17,025 | 17,515 |
| Management fees | 1,918 | 2,009 | 7,979 | 7,669 |
| Income Incentive Fee | 1,183 | 1,543 | 2,276 | 2,352 |
| Capital Gains Fee | — | 1,814 | (1,916) | 1,916 |
| Professional fees | 453 | 440 | 1,608 | 1,670 |
| Administration fees | 433 | 416 | 1,742 | 1,758 |
| Other expenses | 484 | 400 | 1,678 | 1,433 |
| Total expenses | <u>9,272</u> | <u>10,837</u> | <u>30,392</u> | <u>34,313</u> |
| Net investment income | <u>4,726</u> | <u>4,430</u> | <u>18,352</u> | <u>13,450</u> |
| Net realized and unrealized gain (loss) on investments | | | | |
| Net realized loss, net of taxes | (1,227) | (13,099) | (1,730) | (20,596) |
| Net unrealized appreciation (depreciation), net of taxes | (1,065) | 27,821 | (24,064) | 68,601 |
| Net gain (loss) on investments | <u>(2,292)</u> | <u>14,722</u> | <u>(25,794)</u> | <u>48,005</u> |
| Loss on extinguishment of debt | — | (2,068) | (144) | (4,591) |
| Net increase (decrease) in net assets resulting from operations | <u>\$ 2,434</u> | <u>\$ 17,084</u> | <u>\$ (7,586)</u> | <u>\$ 56,864</u> |
| Net investment income per common share - basic and diluted | <u>\$ 0.35</u> | <u>\$ 0.33</u> | <u>\$ 1.37</u> | <u>\$ 1.00</u> |
| Net increase (decrease) in net assets resulting from operations per common share - basic and diluted | <u>\$ 0.18</u> | <u>\$ 1.27</u> | <u>\$ (0.57)</u> | <u>\$ 4.24</u> |
| Distributions declared per common share | <u>\$ 0.30</u> | <u>\$ 0.25</u> | <u>\$ 1.16</u> | <u>\$ 0.91</u> |
| Basic and diluted weighted average common shares outstanding | <u>13,393,505</u> | <u>13,419,010</u> | <u>13,417,410</u> | <u>13,413,861</u> |

ABOUT OFS CAPITAL

OFS Capital Corporation is an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company. OFS Capital'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. OFS Capital invests primarily in privately held middle-market companies in the United States, including lower-middle-market companies, targeting investments of \$3 million to \$20 million in companies with annual EBITDA between \$5 million and \$50 million. OFS Capital 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. OFS Capital's investment activities are managed by OFS Capital Management, LLC, an investment adviser registered under the Investment Advisers Act of 1940⁽⁴⁾, as amended, 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, adjusted net investment income, net asset value and net investment gains and losses and the factors that may affect such results; management's belief that the Company's balance sheet is well positioned given the percentage of portfolio loans calculated on a floating rate basis and the amount of Company debt that is fixed rate, when there can be no assurance such a composition will ensure success; 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, 2022 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.

(4) Registration does not imply a certain level of skill or training

Schedule 1

Non-GAAP Financial Measure – Adjusted Net Investment Income

On a supplemental basis, we disclose Adjusted NII (including on a per share basis), which is a financial measure calculated and presented on basis other than in accordance with GAAP. Adjusted NII represents net investment income, excluding the capital gains incentive fee, in periods in which such expense occurs. GAAP requires recognition of a capital gains incentive fee in our financial statements when aggregate net realized and unrealized capital gains, if any, on a cumulative basis is positive from the date of the election to be a BDC through the reporting date. Such fees are subject to further conditions specified in the investment advisory agreement with OFS Capital Management, LLC, principally related to the realization of such net gains, before OFS Capital Management, LLC is entitled to payment, and such recognized fees are subject to the risk of reversal should unrealized gains diminish to become losses. 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 the net gains, realized or unrealized, associated with the capital gains incentive fee.

Management believes Adjusted NII facilitates the analysis of our results of operations and provides greater transparency into the determination of incentive fees. Adjusted NII is not meant as a substitute for net investment income determined in accordance with GAAP and should be considered in the context of the entirety of our reported results of operations, financial position and cash flows determined in accordance with GAAP.

The following table provides a reconciliation from net investment income (the most comparable GAAP measure) to Adjusted NII for the three months ended December 31, 2022 and September 30, 2022, respectively, and the years ended December 31, 2022 and 2021, respectively (dollar amounts in thousands, except per share data) (unaudited):

| | Three Months Ended | | | | Years Ended December 31, | | | |
|-----------------------|---------------------------|------------------|---------------------------|------------------|---------------------------------|------------------|------------------|------------------|
| | December 31, 2022 | | September 30, 2022 | | 2022 | | 2021 | |
| | (000's) | Per Share | (000's) | Per Share | (000's) | Per Share | (000's) | Per Share |
| Net investment income | \$ 4,726 | \$ 0.35 | \$ 4,372 | \$ 0.33 | \$ 18,352 | \$ 1.37 | \$ 13,450 | \$ 1.00 |
| Capital Gains Fee | — | — | — | — | (1,916) | (0.14) | 1,916 | 0.14 |
| Adjusted NII | <u>\$ 4,726</u> | <u>\$ 0.35</u> | <u>\$ 4,372</u> | <u>\$ 0.33</u> | <u>\$ 16,436</u> | <u>\$ 1.23</u> | <u>\$ 15,366</u> | <u>\$ 1.14</u> |

Although these non-GAAP financial measures are intended to enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

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Source: OFS Capital Corporation