PennantPark Floating Rate Capital Ltd. Announces Financial Results for the Quarter Ended December 31, 2018

February 6, 2019

NEW YORK, Feb. 06, 2019 (GLOBE NEWSWIRE) -- PennantPark Floating Rate Capital Ltd. (NASDAQ: PFLT) (TASE: PFLT) announced today financial results for the first fiscal quarter ended December 31, 2018.

HIGHLIGHTS
Quarter ended December 31, 2018
($ in millions, except per share amounts)

Assets and Liabilities:	
Investment portfolio [1]	$ 979.7
PSSL investment portfolio	$ 493.5
Net assets	$ 529.8
Net asset value per share	$ 13.66
Credit Facility	$ 345.9
2023 Notes	$ 133.4
Yield on debt investments at quarter-end	9.2%
Operating Results:	
Net investment income	$ 10.9
GAAP net investment income per share	$ 0.28
Capital gain incentive fee accrued but not payable per share	$ (0.04)
Credit facility amendment costs, net of incentive fees	$ 0.06
Core net investment income per share [2]	$ 0.30
Distributions declared per share	$ 0.285
Portfolio Activity:	
Purchases of investments	$ 180.7
Sales and repayments of investments	$ 190.3
Number of new portfolio companies invested	9
Number of existing portfolio companies invested	24
Number of ending portfolio companies	85

[1] Includes investments in PennantPark Senior Secured Loan Fund I LLC, or PSSL, an unconsolidated joint venture, totaling $161.0 million, at fair value.

[2] Core net investment income is a non-GAAP financial measure. The Company believes that core net investment income provides useful information to investors and management because it reflects the Company's financial performance excluding the charges related to incentive fee on net unrealized gains accrued under GAAP but not payable unless such net unrealized gains are realized and the costs associated with amending our multi-currency, senior secured revolving credit facility, as amended and restated, or the Credit Facility. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP.

CONFERENCE CALL AT 10:00 A.M. ET ON FEBRUARY 7, 2019

PennantPark Floating Rate Capital Ltd. ("we," "our," "us" or the "Company") will host a conference call at 10:00 a.m. (Eastern Time) on Thursday, February 7, 2019 to discuss its financial results. All interested parties are welcome to participate. You can access the conference call by dialing toll-free (800) 289-0459 approximately 5-10 minutes prior to the call. International callers should dial (323) 794-2558. All callers should reference PennantPark Floating Rate Capital Ltd. An archived replay of the call will be available through February 21, 2019 by calling toll-free (888) 203-1112. International callers please dial (719) 457-0820. For all phone replays, please reference conference ID #2535745.

PORTFOLIO AND INVESTMENT ACTIVITY

"We are pleased that our current run rate net investment income covers the dividend due to the selective growth of the portfolio, as well as PSSL," said Art Penn, Chairman and CEO. "Our earnings stream should have a nice tailwind based on a gradual increase in our debt to equity ratio, while still maintaining a prudent debt profile."

As of December 31, 2018, our portfolio totaled $979.7 million and consisted of $887.6 million of first lien secured debt (including $113.3 million in PSSL), $20.9 million of second lien secured debt and $71.2 million of preferred and common equity (including $47.7 million in PSSL). Our debt portfolio consisted of 100% variable-rate investments. As of December 31, 2018, we had no portfolio companies on non-accrual. Overall, the portfolio had net unrealized depreciation of $13.3 million. Our overall portfolio consisted of 85 companies with an average investment size of $11.5 million, had a weighted average yield on debt investments of 9.2%, and was invested 91% in first lien secured debt (including 12% in PSSL), 2% in second lien secured debt and 7% in preferred and common equity (including 5% in PSSL). As of December 31, 2018, all of the investments held by PSSL were first lien secured debt.

As of September 30, 2018, our portfolio totaled $1,000.6 million and consisted of $913.3 million of first lien secured debt (including $101.1 million in PSSL), $21.2 million of second lien secured debt and $66.1 million of preferred and common equity (including $44.8 million in PSSL). Our debt portfolio consisted of 100% variable-rate investments. As of September 30, 2018, we had no portfolio companies on non-accrual. Overall, the portfolio had net unrealized depreciation of $0.9 million. Our overall portfolio consisted of 88 companies with an average investment size of $11.4 million, had a weighted average yield on debt investments of 8.8%, and was invested 91% in first lien secured debt (including 10% in PSSL), 2% in second lien secured debt and 7% in preferred and common equity (including 4% in PSSL). As of September 30, 2018, all of the investments held by PSSL were first lien secured debt.

For the three months ended December 31, 2018, we invested $180.7 million in nine new and 24 existing portfolio companies with a weighted average yield on debt investments of 8.6%. Sales and repayments of investments for the three months ended December 31, 2018 totaled $190.3 million.

For the three months ended December 31, 2017, we invested $176.9 million in 11 new and 11 existing portfolio companies with a weighted average yield on debt investments of 8.0%. Sales and repayments of investments for the three months ended December 31, 2017 totaled $149.1 million.

PennantPark Senior Secured Loan Fund I LLC

As of December 31, 2018, PSSL's portfolio totaled $493.5 million, consisted of 43 companies with an average investment size of $11.5 million and had a weighted average yield on debt investments of 8.2%. As of September 30, 2018, PSSL's portfolio totaled $425.4 million, consisted of 42 companies with an average investment size of $10.1 million and had a weighted average yield on debt investments of 7.8%.

For the three months ended December 31, 2018, PSSL invested $142.4 million (including $38.0 million purchased from the Company) in nine new and seven existing portfolio companies with a weighted average yield on debt investments of 8.1%. PSSL's sales and repayments of investments for the three months ended December 31, 2018 totaled $70.7 million. For the three months ended December 31, 2017, PSSL invested $47.9 million (including $27.3 million purchased from the Company) in seven new portfolio companies with a weighted average yield on debt investments of 7.4%. PSSL's sales and repayments of investments for the three months ended December 31, 2018 totaled $0.9 million.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three months ended December 31, 2018 and 2017.

Investment Income

Investment income for the three months ended December 31, 2018 was $23.2 million and was attributable to $21.1 million from first lien secured debt and $2.1 million from second lien secured debt and preferred equity. Investment income for the three months ended December 31, 2017 was $14.8 million and was attributable to $13.6 million from first lien senior debt and $1.2 million from second lien secured debt and subordinated debt. The increase in investment income compared to the same period in the prior year was primarily due to the growth of our portfolio.

Expenses

Expenses for the three months ended December 31, 2018 totaled $12.2 million. Base management fee for the same period totaled $2.5 million, incentive fee totaled $(1.2) million (including $0.2 million on net investment income and $(1.4) million accrued but not payable on realized gains), debt related interest and expenses totaled $9.8 million (including $4.5 million in Credit Facility amendment costs) and general and administrative expenses totaled $1.1 million. Expenses for the three months ended December 31, 2017 totaled $16.8 million. Base management fee for the same period totaled $1.8 million, incentive fee totaled $0.1 million (including $(0.1) million on realized gains and $0.2 million on unrealized gains accrued but not payable), debt related interest and expenses totaled $13.5 million (including $10.9 million in Credit Facility amendment and debt issuance costs on the 3.83% Series A notes due 2023, or the 2023 Notes), general and administrative expenses totaled $1.2 million and provision for taxes totaled $0.2 million. The decrease in expenses compared to the same period in the prior year was primarily due to the expenses incurred in connection with the debt issuance costs on the 2023 Notes in the prior period.

Net Investment Income (Loss)

Net investment income (loss) totaled $10.9 million, or $0.28 per share, for the three months ended December 31, 2018, and $(1.9) million, or $(0.05) per share, for the three months ended December 31, 2017. The increase in net investment income compared to the same period in the prior year was primarily due to the growth of our portfolio in the current period and the additional expenses incurred in connection with the debt issuance costs on the 2023 Notes in the prior period.

Net Realized Gains or Losses

Sales and repayments of investments for the three months ended December 31, 2018 totaled $190.3 million and net realized gains totaled $0.9 million. Sales and repayments of investments totaled $149.1 million and net realized losses totaled $2.8 million for the three months ended December 31, 2017. The change in realized gains/losses was primarily due to changes in the market conditions of our investments and the values at which they were realized.

Unrealized Appreciation or Depreciation on Investments, the Credit Facility and the 2023 Notes

For the three months ended December 31, 2018 and 2017, we reported net change in unrealized (depreciation) appreciation on investments of $(12.4) million and $3.5 million, respectively. As of December 31, 2018 and September 30, 2018, our net unrealized depreciation on investments totaled $13.3 million and $0.9 million, respectively. The net change in unrealized appreciation/depreciation on our investments compared to the same period in the prior year was primarily due to changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized appreciation/depreciation on investments that were realized.

For the three months ended December 31, 2018 and 2017, our Credit Facility and the 2023 Notes had a net change in unrealized depreciation of $5.5 million and $3.1 million, respectively. As of December 31, 2018 and September 30, 2018, the net unrealized depreciation on the Credit Facility and the 2023 Notes totaled $10.2 million and $4.7 million, respectively. The net change in net unrealized depreciation compared to the same period in the prior year was primarily due to changes in the capital markets.

Net Change in Net Assets Resulting from Operations

Net change in net assets resulting from operations totaled $5.0 million, or $0.13 per share, for the three months ended December 31, 2018. This compares to a net change in net assets resulting from operations of $1.9 million, or $0.05 per share, for the three months ended December 31, 2017. The increase in the net change in net assets from operations compared to the same period in the prior year was primarily due to the growth of our portfolio in the current period and the additional expenses incurred in connection with the debt issuance costs on the 2023 Notes in the prior period.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt capital and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our debt capital, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

The annualized weighted average cost of debt for the three months ended December 31, 2018 and 2017, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility, amendment costs and debt issuance costs, was 5.29% and 7.75%, respectively (excluding amendment and debt issuance costs, amounts were 4.37% and 3.80%, respectively).

As of December 31, 2018 and September 30, 2018, we had $350.9 million and $333.7 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 4.34% and 4.25%, exclusive of the fee on undrawn commitments as of December 31, 2018 and September 30, 2018, respectively. As of December 31, 2018 and September 30, 2018, we had $169.1 million and $71.3 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions.

As of December 31, 2018 and September 30, 2018, we had cash equivalents of $35.2 million and $72.2 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of $43.6 million for the three months ended December 31, 2018, and our financing activities provided cash of $6.1 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from net borrowings under the Credit Facility.

Our operating activities used cash of $44.6 million for the three months ended December 31, 2017, and our financing activities provided cash of $153.4 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from our recent equity offering, the issuance of the 2023 Notes and net borrowings under the Credit Facility.

DISTRIBUTIONS

During both the three months ended December 31, 2018 and 2017, we declared distributions of $0.285 per share, for total distributions of $11.1 million and $10.4 million, respectively. We monitor available net investment income to determine if a return of capital for tax purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, stockholders will be notified of the portion of those distributions deemed to be a tax return of capital. Tax characteristics of all distributions will be reported to stockholders subject to information reporting on Form 1099-DIV after the end of each calendar year and in our periodic reports filed with the Securities and Exchange Commission, or the SEC.

AVAILABLE INFORMATION

The Company makes available on its website its report on Form 10-Q filed with the SEC and stockholders may find the report on its website at www.pennantpark.com.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2018 (unaudited)	September 30, 2018
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—$830,609,329 and $856,893,017, respectively)	$ 818,667,554	$ 854,753,064

Controlled, affiliated investments (cost—$161,875,000 and $144,375,000, respectively)	160,995,761	145,860,229
Total of investments (cost—$992,484,329 and $1,001,268,017, respectively)	979,663,315	1,000,613,293
Cash and cash equivalents (cost—$35,296,899 and $72,231,801, respectively)	35,180,396	72,224,183
Interest receivable	3,182,120	2,813,808
Prepaid expenses and other assets	651,627	792,069
Total assets	1,018,677,458	1,076,443,353
Liabilities		
Distributions payable	3,683,347	3,683,347
Payable for investments purchased	161,625	59,587,222
Credit Facility payable (cost—$350,907,500 and $333,727,520, respectively)	345,867,658	332,128,815
2023 Notes payable (cost—$138,579,858)	133,410,829	135,503,385
Interest payable on debt	1,621,060	2,638,504
Base management fee payable	2,498,766	2,419,629
Performance-based incentive fee payable	187,202	3,298,404
Accrued other expenses	1,460,249	1,342,479
Total liabilities	488,890,736	540,601,785
Commitments and contingencies	—	—
Net assets		
Common stock, 38,772,074 shares issued and outstanding Par value $0.001 per share and 100,000,000 shares authorized	38,772	38,772
Paid-in capital in excess of par value	539,462,336	539,462,336
Distributions in excess of net investment income	(5,259,447)	(5,153,449)
Accumulated net realized loss on investments	(1,407,764)	(2,331,230)
Net unrealized depreciation on investments	(13,256,046)	(850,039)
Net unrealized depreciation on debt	10,208,871	4,675,178
Total net assets	$ 529,786,722	$ 535,841,568
Total liabilities and net assets	$ 1,018,677,458	$ 1,076,443,353
Net asset value per share	$ 13.66	$ 13.82

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,	
	2018	**2017**
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	$ 18,169,998	$ 13,867,420
Other income	621,189	433,180
From controlled, affiliated investments:		
Interest	2,818,045	535,760
Dividend	1,575,000	—
Total investment income	23,184,232	14,836,360
Expenses:		
Base management fee	2,498,766	1,822,063
Performance-based incentive fee	(1,192,409)	148,010
Interest and expenses on debt	5,305,478	2,618,308
Administrative services expenses	500,000	500,000
Other general and administrative expenses	616,075	618,751

Expenses before amendment costs, debt issuance costs and provision for taxes	7,727,910	5,707,132
Credit Facility amendment costs and debt issuance costs	4,512,279	10,869,098
Provision for taxes	—	200,000
Total expenses	12,240,189	16,776,230
Net investment income (loss)	10,944,043	(1,939,870)
Realized and unrealized (loss) gain on investments and debt:		
Net realized gain (loss) on investments	923,466	(2,786,551)
Net change in unrealized (depreciation) appreciation on:		
Non-controlled, non-affiliated investments	(10,041,539)	3,198,156
Controlled, affiliated investments	(2,364,468)	318,442
Debt depreciation	5,533,693	3,128,605
Net change in unrealized (depreciation) appreciation on investments and debt	(6,872,314)	6,645,203
Net realized and unrealized (loss) gain from investments and debt	(5,948,848)	3,858,652
Net increase in net assets resulting from operations	$ 4,995,195	$ 1,918,782
Net increase in net assets resulting from operations per common share	$ 0.13	$ 0.05
Net investment income (loss) per common share	$ 0.28	$ (0.05)

ABOUT PENNANTPARK FLOATING RATE CAPITAL LTD.

PennantPark Floating Rate Capital Ltd. is a business development company which primarily invests in U.S. middle-market companies in the form of floating rate senior secured loans, including first lien secured debt, second lien secured debt and subordinated debt. From time to time, the Company may also invest in equity investments. PennantPark Floating Rate Capital Ltd. is managed by PennantPark Investment Advisers, LLC.

FORWARD-LOOKING STATEMENTS

This press release may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You should understand that under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act. All statements other than statements of historical facts included in this press release are forward-looking statements and are not guarantees of future performance or results, and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in filings with the SEC. The Company undertakes no duty to update any forward-looking statement made herein. You should not place undue influence on such forward-looking statements as such statements speak only as of the date on which they are made.

We may use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks,” “plans,” “estimates” and similar expressions to identify forward-looking statements. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations.

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Source: PennantPark Floating Rate Capital Ltd.