THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CCT - Q2 2018 Corporate Capital Trust Inc Earnings Call

EVENT DATE/TIME: AUGUST 10, 2018 / 3:00PM GMT

CORPORATE PARTICIPANTS

Daniel Ryan Pietrzak *Corporate Capital Trust, Inc. - CIO*

Danny McMahon *Corporate Capital Trust, Inc. - Head of IR*

Ryan L.G. Wilson *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

Todd Christopher Builione *Corporate Capital Trust, Inc. - President*

CONFERENCE CALL PARTICIPANTS

Casey Jay Alexander *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

Finian Patrick O'Shea *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Corporate Capital Trust's Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I will now hand the call over to Danny McMahon, Head of Investor Relations for CCT. Danny, please go ahead.

Danny McMahon - *Corporate Capital Trust, Inc. - Head of IR*

Thank you. Good morning, and welcome to Corporate Capital Trust's Second Quarter 2018 Earnings Conference Call. Please note that Corporate Capital Trust may be referred to as CCT or the company throughout the call. Today's conference call is being recorded and an audio replay of the call will be available. Replay information is included in a press release that CCT issued on August 9, 2018. In addition, CCT has posted on its website a presentation containing supplemental financial information with respect to its portfolio and financial performance for the quarter ended June 30, 2018. A link to today's presentation is available on the Investor Relations section of the company's website at corporatecapitaltrust.com under Events & Presentations. Please note that this call is the property of CCT. Any unauthorized rebroadcast of this call in any form is strictly prohibited. I would also like to call your attention to the customary disclosure in CCT's filings with the SEC regarding forward-looking statements. Today's conference call includes forward-looking statements, and we ask that you refer to CCT's most recent filings with the SEC for important factors that could cause actual results or outcomes to differ materially from these statements. CCT does not undertake to update its forward-looking statements unless required to do so by law. In addition, this call will include certain non-GAAP financial measures. For such measures, reconciliations to the most directly comparable GAAP measures can be found in CCT's second quarter earnings supplement that was filed with the SEC yesterday. Non-GAAP information should be considered supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly named measures reported by other companies. To obtain copies of the company's latest SEC filings, please visit CCT's website. I'd now like to turn the call over to Todd Builione, Corporate Capital Trust's President.

Todd Christopher Builione - *Corporate Capital Trust, Inc. - President*

Thanks, Danny. Good morning, everyone, and thank you for joining us. With me today are Dan Pietrzak, CCT's Chief Investment Officer; Brian Gerson, Head of Private Credit at FS Investments; Ryan Wilson, CCT's Chief Operating Officer and Associate Portfolio Manager; and Thomas Murphy, CCT's Chief Financial Officer.

On today's call, I'll provide an update on the progress we've made since announcing the partnership between FS Investments and KKR in December of last year. Following my remarks, Ryan will discuss our financial results for the quarter, and then Dan will provide perspective on the lending environment and discuss our investment activity.

We pride ourselves on doing what we say we will do. In that spirit, we plan to continue to articulate our strategy to drive near and long-term value to our investors and then diligently execute upon that strategy. In the 4 months since we closed the strategic partnership between FS and KKR, we've been busy executing:

First, and Dan will touch on this in more detail. We remained disciplined in our underwriting approach and selectively allocated capital during the quarter given today's competitive lending environment.

Second, we've made significant progress towards optimizing and streamlining CCT's capital structure. Yesterday, CCT closed a $1.45 billion revolver as part of a $3.4-plus billion 5-year omnibus revolving credit facility that will be used by CCT at FSIC I, II and III. More than 20 lenders participated in the syndicate.

Proceeds from the new revolving credit facility will be used to refinance CCT's existing revolving credit facility and syndicated term loan. This new revolver provides many key benefits to CCT. It provides cheaper financing, allows us to consolidate our existing leverage facilities, provides greater flexibility to originate assets across many different asset types, allows us to more efficiently manage cash and extends the maturity of our revolver by 2 years to August of 2023. This new $1.45 billion revolver is significantly larger than the size of the existing revolving credit facility and the rate of LIBOR plus 200 is 25 basis points lower than the cost of the existing revolver and 125 basis points lower than CCT's term loan. In total, we expect this new revolver will save $7 million to $8 million of annual interest expense for CCT. We believe raising this $3.4-plus billion omnibus revolving credit facility, which is the largest revolver arranged for a BDC franchise, is an example of the strength of the FS/KKR partnership.

Third, we have repurchased $50 million in shares, fulfilling our commitment to utilize the full buyback authorization. These repurchases were executed at prices below the fund's NAV, and therefore, were immediately accretive to shareholders.

Finally, we announced the merger of CCT and FSIC on July 23. As outlined on Slide 5, we believe that merging these entities will provide business and operational synergies in the near term as well as longer term that will expand shareholder value, specifically through reductions in administrative costs, further expansion and diversification of the investment portfolio and the optimization of our capital structure with lower borrowing costs. We recently filed the preliminary joint proxy statement with the SEC, hope to begin the proxy solicitation process in September and expect to close before year-end, subject to shareholder approval and the satisfaction of other closing conditions.

We will, of course, continue to provide updates on these initiatives in the coming months. With that, I'll turn the call over to Ryan to discuss our second quarter results.

Ryan L.G. Wilson - *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

Thanks, Todd. I'll provide a summary of the results for the second quarter. You can find this information beginning on Slide 8 of the earnings presentation.

For the 3 months ended June 30, 2018, net investment income was $0.40 per share, pro forma for the exclusion of $1 million in onetime merger-related expenses. This compares to $0.39 per share last quarter and $0.37 per share for the second quarter of 2017.

Net realized and unrealized losses on investments were $11 million in the second quarter of 2018, resulting from $13 million of net realized losses, offset by $2 million net change in unrealized gains. The realized losses were driven primarily from the realization of unrealized losses previously recorded.

In total, this quarter's activity led to earnings per share of $0.30 compared to $0.57 for the first quarter of 2018 and $0.27 for the second quarter of 2017.

Turning to dividends. For the quarter, we paid a regular $0.40 per share dividend, representing a 9.5% annualized yield based on Wednesday's closing share price. We also paid a special dividend of just over $0.10 per share in May, which was announced in conjunction with CCT's listing. Our

Board of Directors has declared a third quarter dividend of $0.40 per share, payable on October 9, 2018, to shareholders of record as of the close of business on September 28, 2018.

Net asset value as of the end of the second quarter was $19.58 per share compared to $19.72 per share for the first quarter. The main drivers of the change to NAV can be seen on Slide 11. The special dividend of $0.10 per share was a key component of this quarter's reduction.

Turning to the balance sheet. We ended the quarter with total investments at fair value of $4.1 billion, total cash of $91 million and total assets of $4.4 billion. Investments at fair value increased approximately 2% quarter-over-quarter, driven largely by strong origination activity, which Dan will touch on shortly. Investment purchases outpaced sales and prepayments in the quarter. And we sold over $200 million of investments to our JV, which is highlighted on Slide 15.

Moving to the right-hand side of the balance sheet. Todd touched on the revolving credit facility, which closed yesterday. In terms of the quarter's as-reported figures, total debt was $1.8 billion with total committed debt of $2.2 billion, diversified across lenders with no near-term maturities. Our weighted average cost of debt was 4.7% at quarter end, up 9 basis points from the prior quarter due to an increase in LIBOR rate. Our balance sheet continues to be asset-sensitive as you'll see on Slide 17. Using our balance sheet as of June 30 and assuming a 100 basis point increase in LIBOR, our net investment income would increase by $10.4 million or $0.08 per share. I will now turn it over to Dan Pietrzak, CCT's Chief Investment Officer.

Daniel Ryan Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Thanks, Ryan. Over the past several quarters, we have commented on the generally tight conditions that continue to prevail in today's marketplace. We continue to see lenders reach in terms of structure and pricing and have started to notice some weakness entering the market. In markets like these, with nearly half of the middle market loan issuance being covenant-lite, careful credit selection is critical, as is being focused on structural protections within transactions. Despite the overall market trend favoring covenant-lite transactions, all of our direct origination activity in the second quarter included both incurrence and maintenance covenants.

Total purchases during the quarter totaled $575 million, 95% of which were in senior secured debt investments. Offset by $452 million in sales redemptions, CCT generated net investment activity of over $120 million in Q2. However, it's important to note that nearly 50% or $207 million of the headline sales of redemptions figures were asset sales to our JV, as we seek to grow the distributions from that JV and expand our non-EPC capacity.

In total, we provided capital to 16 portfolio companies or $457 million in our originated strategy during the quarter. This drove our debt-to-equity ratio up to 0.74x as of quarter end, as we drew on our revolver to fund the purchases.

Now let's start in the Page 13, which provides a snapshot of CCT's portfolio at quarter end. A few items worth noting. We're maintaining our focus on investing in senior secured and floating rate debt, which at the end of the second quarter represented approximately 75% and 74%, respectively, of the portfolio. In terms of return profile, the gross portfolio yield, prior to leverage and excluding non-income producing assets, was 10.5%, up from 9.6% from the prior quarter. In addition to LIBOR increasing, certain investments within our asset-based finance strategy pushed the blended portfolio yield higher quarter-over-quarter.

We've spoken on previous calls about CCT's focus and ability to invest in asset-based finance opportunities and how investing here can provide incremental returns, as we diversify CCT and utilize our non-EPC bucket. In the second quarter, a refinancing at one of our larger asset-based finance investments, Central Park Leasing, was a driver of the blended increase in our overall portfolio yield. The refinancing was very accretive to the transaction and allowed us to begin accruing interest income versus taking dividend income on the investment.

Moving to the top right-hand side of Page 13. As of June 30, we had 5 companies on non-accrual, which in aggregate represented 1.5% of the portfolio based on fair value, down from 2.4% last quarter. Proserv and Willbros, both removed from the list in the second quarter, were the primary drivers of the reduction. We are actively working on our nonaccrual positions and will continue to update you as things progress.

We remain focused on driving and maintaining ball control on transactions as shown by the 93% number where we have been the lead, the co-lead or the sole lender in our originated strategy investments. Our intention is to be a partner of choice for issuers seeking flexible capital solutions and alternative sources of financing.

Now turning to Slide 14. At the top, we have summarized our product suite and target investment size with a continued focus on the upper end of the middle market. We thought it would be helpful to review a few key highlights of transactions that occurred in Q2 as outlined on the bottom half of that page.

Let's start with Virgin Pulse. In May, CCT invested $58 million to support Marlin Equity Partners' acquisition of both Virgin Pulse and RedBrick Health, two leading providers of health and wellness software products. Marlin plans to merge these companies together, which will create the largest digital health and engagement company. KKR Credit's total investment consists of 100% of the $317 million first lien term loan. This term loan priced at LIBOR plus 650 basis points with 2 points between OID and structuring fees.

Next, in June, we provided $28 million to Eagle Foods, a Kelso portfolio company that is a leading producer of canned milk products and snack foods. KKR Credit's total investment consisted of $139 million of the $300 million first lien term loan and $21 million of the $45 million first lien revolver. The loan is priced at LIBOR plus 650 basis points with 2.25% between OID and structuring fees.

Finally, an important sourcing channel for us is our existing portfolio. This quarter, we increased our commitment to Toorak, with CCT now having committed $105 million as of June 30 with $71 million funded.

As a reminder, Toorak is in the asset-based finance bucket and provides capital to experienced residential real estate investors, secured by mortgages, with generally 25% down payments. The company maintains senior debt relationships and is essentially taking risk across a diversified pool of U.S. residential housing, roughly between 50 to 75 LTV, and is earning mid-teens returns doing so.

We're happy to announce that on Monday the company priced its inaugural securitization and to date has acquired in excess of $1.3 billion of loans. As we mentioned before, the competitive environment continues to intensify. In this market, where upper middle market borrowers have access to the capital markets and there is strong competition in the lower middle market, we believe that it's critically important to have broad origination capabilities to be highly selective and the ability to provide a wide range of creative solutions to sponsors and their portfolio companies. Year-to-date, KKR has reviewed 740 private credit deals. On an annualized basis, that's approximately 1,500 deals compared to 760 in all of 2017. While deal flow can be lumpy quarter-over-quarter, we believe our continued investment in the KKR Credit platform has resulted in a meaningful pickup in deal flow. And while we recognize that volume alone does not translate into higher future returns, it does allow us to be selective in the current environment, which we believe is critical to maintaining our underwriting discipline and serves as a competitive advantage. With that, I'll now turn the call back over to Todd.

Todd Christopher Builione - *Corporate Capital Trust, Inc. - President*

We're looking forward to updating you throughout 2018 as we make progress on our core objectives and our planned merger with FSIC. Thanks very much for your time today and for your partnership. Operator, we're now happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Finian O'Shea with Wells Fargo.

Finian Patrick O'Shea - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Just first one on co-investments, still not getting through the Qs here, but it looks like not a lot of co-investment or similar deals in FS -- FSIC, was the advisory agreement effectuated sometime after the April 19 day? Or is there any, maybe, leverage item that I'm missing here that would lead to that minimal amount?

Daniel Ryan Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Hey Finian, it's Dan Pietrzak. Really good question. So that deal was closed April 9. You know the way these middle market loans work though. You will commit to a deal. And then it will actually kind of fund well past that commitment date. So that could be anywhere from 3 weeks to, in some cases, many months. So there was a lot of deals inside of CCT that were just committed before that advisory arrangement was done on April 9. So it would've only made the way into CCT. You will see though the overlap for deals that were done thereafter and you should expect that going forward as our exemptive relief allows all the vehicles to invest in the same deal flow. But it's just the timing differences from when the commitments were done versus when they were funded.

Finian Patrick O'Shea - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Awesome. That's very helpful. And looking at some of your larger second lien acquisitions or originations, were -- are you seeing -- I think you outlined previously that a good source of second lien would be through KKR Capital Markets providing a solution and you doing a privately placed format. Did we see a good amount of that this quarter, for example?

Daniel Ryan Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Yes. So I think we're inclined to look at and spend time on what we call these privately placed second liens. We're probably much more cautious on the market kind of syndicated second lien. So I think that has been consistent. You will see from an investment number, I think 25% of the activity this quarter was seconds. Couple of things I would note though is; one, year-over-year, you're looking at June 30 last year versus June 30 this year. Our second lien, kind of, actual fair value number is still the same, it's actually slightly down. The sub debt number in the -- inside CCT is down, that bucket is down almost a half. I think we're trying to be pretty darn mindful of risk considering we are -- where we are within the cycle. The 2 big items that did move the needle this quarter. One was a transaction for CommerceHub, which was a software name, exactly that privately placed second lien, where we talked about where I think we're getting outsized returns relative to risk. And then we did acquire a second lien from a motivated seller, which I think is probably about 11.75%, which was pretty darn attractive for that risk, and I don't think that will be around very long from a duration perspective, but from a running yield perspective, it's pretty attractive.

Finian Patrick O'Shea - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Sure. That's very helpful as well, and I'll just throw one final one. You touched upon the SLP a bit. And I know that you've kind of been actively thoughtful all along on the 30% bucket. Just any updates on your view for the best -- or I just should say, the desired breakdown between SLP European or maybe financials, any color there?

Daniel Ryan Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Ryan should talk about maybe just how the JV for us evolved over the quarter. I think we have been mindful about how we deploy capital against that 30% bucket. We've had a stated goal of growing our asset-based finance line item. I think you will see that come through just the fair value numbers over the course of the past year. We've had good results there. Central Park Leasing, which we talked about on the call was quite a positive transaction for us to date. Toorak continues to scale and grow and then -- I think we've always talked about the JV, is kind of roughly a 10%-ish type number, the overall vehicle. And Ryan will give a couple of stats about how it grew this quarter.

Ryan L.G. Wilson - *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

Yes. This quarter, more than past quarters, a number of the positions had paid down. So in total, there is $161 million of paydowns during the quarter. We replaced that and a little bit. We added $207 million of new deals for a slight increase in the total deal size. As Dan mentioned, our goal is to get that closer to 10%. So we will continue to responsibly add positions to the JV over time. I think other highlights are kind of related to the ramp speed. In the past, we mentioned what our dividend would be for the following quarter because it's on a 1-quarter lag from the performance of the JV. And we are expecting the dividend to be a similar amount to what it was during Q2 at $8.7 million.

Todd Christopher Builione - *Corporate Capital Trust, Inc. - President*

And Finian, it's Todd, just couple things to add just kind of going back a couple of quarters. We've been talking about wanting to continue to ramp the JV. I'm just giving you a little bit longer-term perspective. Over the past 2 quarters, assets have grown by 24%. And our JV income has more than tripled over the past 3 quarters. And so we're delivering on that promise and one of our strategic goals to continue to ramp the JV. And as I mentioned on the last call, we've got very attractive financing behind it, the GS financing facility that we closed in September of last year, and we think we have continued appetite from GS to grow there.

Finian Patrick O'Shea - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. And one just on the European side just -- obviously, just 1 quarter, but saw little more go away than come on. Is that still going to be a meaningful part of that bucket?

Daniel Ryan Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Yes, you should -- no change there. I think that's just quarter-on-quarter moves, and we remain very active in Europe, dedicated focus on the ground. We like the U.S., are kind of mindful of risk there, but same focus as before.

Operator

(Operator Instructions) Our next question comes from the line of Casey Alexander with Compass Point.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

Just a couple of simple questions. First of all, the $7 million to $8 million of interest expense that you expect to save from the new revolver. And by the way, congratulations on such an interesting financing piece. Is that strictly related to CCT? Or are you measuring that over the combined companies post the merger?

Todd Christopher Builione - *Corporate Capital Trust, Inc. - President*

Thanks very much, Casey. It's Todd. That's a good question. I'm going to answer, and I'm going to give you a little bit more detail to it. It's just for CCT. So the $7 million to $8 million annual savings is just for CCT. It's a function of the revolver being 25 basis points cheaper than our existing revolver and 125 basis points cheaper than the term loan. And so, we're going to take the funded piece and pay down that term loan, which today is at LIBOR plus 325. And we'll pay down the existing revolver, which is LIBOR plus 225. I think it's probably also important to point out that the aggregate size of the revolver for CCT is significantly larger on a committed basis. So $1.450 billion total revolver versus $960 million for the existing revolver.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

Okay. Great. That's very helpful. Secondly, at quarter end, the company has 6.9% of exposure to retailing. Is that primarily in the ABL portion of the portfolio? Or is there something idiosyncratic about retailing -- about your retailing cash flow loans, if they're cash flow loans, make you more comfortable in an environment where a lot of BDCs are avoiding retailing?

Daniel Ryan Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Yes, good question when you think about sector risk. I think retail is definitely a place where we have been very leery to add unless it's in an ABL format. If you look at some of the names that have gone in the book over the past, let's call it, 4 quarters, they have been sort of all that, secured by receivables, inventory, sort of otherwise. There are some positions though that were, we'll call, done over the prior years. Obviously, we've been ramping this book over sort of many years. We're pretty darn mindful about watching those, having those on kind of watch list just because of the sector they're in and dedicating a fair amount of time to the risk management sort of side of that and making sure we're doing what we can to protect our investments. So we're mindful of those, and we're also mindful about not really adding much in that sector unless it's coming in that secured capacity.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

Okay, great. And lastly, can you sort of give us an update as to your thoughts regarding the SBCAA and additional leverage?

Todd Christopher Builione - *Corporate Capital Trust, Inc. - President*

Sure. It's Todd, Casey, good question. Thanks for asking about it. Look, I think if you step back for a second, we think it's a very good thing for the industry. It certainly increases flexibility. Maybe more specifically, it opens the door to investing in safer, lower-returning assets. We think, from a lender's perspective, it results in a better safer profile as well. I think it's safe to say our decision here we think is a really important one. We think we're best served by taking our time to deciding on a path. We clearly decided to focus on the merger, which was right in front of us. First, we've articulated on the merger specific call, all the advantages that we think come from merging with FSIC. We are not seeking approval to adjust the minimum asset coverage ratio as part of the merger proxy and there is nothing in front of our boards right now. But of course, we'll be back to you once we have developed a more specific view and have the opportunity to talk through with our board. And then finally, I will say if we were to decide to take advantage of the increased regulatory flexibility, we will certainly seek shareholder approval prior to implementing any change.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back to Mr. Todd Builione for closing remarks.

Todd Christopher Builione - *Corporate Capital Trust, Inc. - President*

Thanks, everyone, for joining. We appreciate you taking the time. We look forward to keeping you well updated on the company as we move forward and hope everyone has a good weekend.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.

Editor

COMPANY DISCLAIMER - THE COMPANY HAS NOT VERIFIED THE ACCURACY OR COMPLETENESS OF THIS TRANSCRIPT.