

Edgar Filing: New Mountain Finance Corp - Form 10-Q

New Mountain Finance Corp
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarter Ended September 30, 2018

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number	Exact name of registrant as specified in its charter, address of principal executive offices, telephone numbers and states or other jurisdictions of incorporation or organization	I.R.S. Employer Identification Number
814-00832	New Mountain Finance Corporation 787 Seventh Avenue, 48th Floor New York, New York 10019 Telephone: (212) 720-0300 State of Incorporation: Delaware	27-2978010

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

Description	Shares as of November 7, 2018
Common stock, par value \$0.01 per share	76,106,372

Table of Contents

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018
TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>New Mountain Finance Corporation</u>	
<u>Consolidated Statements of Assets and Liabilities as of September 30, 2018 (unaudited) and December 31, 2017 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2018 (unaudited) and September 30, 2017 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2018 (unaudited) and September 30, 2017 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 (unaudited) and September 30, 2017 (unaudited)</u>	<u>6</u>
<u>Consolidated Schedule of Investments as of September 30, 2018 (unaudited)</u>	<u>7</u>
<u>Consolidated Schedule of Investments as of December 31, 2017</u>	<u>22</u>
<u>Notes to the Consolidated Financial Statements of New Mountain Finance Corporation</u>	<u>35</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>71</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>72</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>101</u>
<u>Item 4. Controls and Procedures</u>	<u>102</u>
<u>PART II. OTHER INFORMATION</u>	<u>103</u>
<u>Item 1. Legal Proceedings</u>	<u>103</u>
<u>Item 1A. Risk Factors</u>	<u>103</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>104</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>104</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>104</u>
<u>Item 5. Other Information</u>	<u>104</u>
<u>Item 6. Exhibits</u>	<u>105</u>
<u>Signatures</u>	<u>106</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

New Mountain Finance Corporation

Consolidated Statements of Assets and Liabilities

(in thousands, except shares and per share data)

(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Investments at fair value		
Non-controlled/non-affiliated investments (cost of \$1,754,348 and \$1,438,889, respectively)	\$ 1,755,572	\$ 1,462,182
Non-controlled/affiliated investments (cost of \$178,262 and \$180,380, respectively)	190,569	178,076
Controlled investments (cost of \$328,406 and \$171,958, respectively)	348,618	185,402
Total investments at fair value (cost of \$2,261,016 and \$1,791,227, respectively)	2,294,759	1,825,660
Securities purchased under collateralized agreements to resell (cost of \$30,000 and \$30,000, respectively)	25,200	25,212
Cash and cash equivalents	146,345	34,936
Interest and dividend receivable	49,964	31,844
Receivable from unsettled securities sold	1,283	—
Receivable from affiliates	295	343
Other assets	3,928	10,023
Total assets	\$ 2,521,774	\$ 1,928,018
Liabilities		
Borrowings		
Holdings Credit Facility	\$ 465,963	\$ 312,363
Unsecured Notes	335,000	145,000
Convertible Notes	270,329	155,412
SBA-guaranteed debentures	165,000	150,000
NMFC Credit Facility	135,000	122,500
Deferred financing costs (net of accumulated amortization of \$20,646 and \$16,578, respectively)	(16,906)	(15,777)
Net borrowings	1,354,386	869,498
Payable for unsettled securities purchased	80,781	—
Management fee payable	16,058	7,065
Incentive fee payable	13,210	6,671
Interest payable	8,919	5,107
Deferred tax liability	1,880	894
Payable to affiliates	988	863
Other liabilities	12,022	2,945
Total liabilities	1,488,244	893,043
Commitments and contingencies (See Note 9)		
Net assets		
Preferred stock, par value \$0.01 per share, 2,000,000 shares authorized, none issued	—	—
Common stock, par value \$0.01 per share, 100,000,000 shares authorized, 76,106,372 and 75,935,093 shares issued and outstanding, respectively	761	759
Paid in capital in excess of par	1,055,796	1,053,468
Accumulated undistributed net investment income	40,227	39,165

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Accumulated undistributed net realized losses on investments	(79,830) (76,681)
Net unrealized appreciation (depreciation) (net of provision for taxes of \$1,880 and \$894, respectively)	16,576	18,264	
Total net assets	\$ 1,033,530	\$ 1,034,975	
Total liabilities and net assets	\$ 2,521,774	\$ 1,928,018	
Number of shares outstanding	76,106,372	75,935,093	
Net asset value per share	\$ 13.58	\$ 13.63	

The accompanying notes are an integral part of these consolidated financial statements.

3

Table of Contents

New Mountain Finance Corporation

Consolidated Statements of Operations

(in thousands, except shares and per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Investment income				
From non-controlled/non-affiliated investments:				
Interest income	\$38,332	\$ 38,511	\$112,278	\$ 107,905
Dividend income	—	—	486	159
Non-cash dividend income	1,491	59	4,254	72
Other income	4,669	1,196	8,550	5,545
From non-controlled/affiliated investments:				
Interest income	817	718	1,129	2,077
Dividend income	787	816	2,423	2,662
Non-cash dividend income	4,024	3,994	12,050	8,625
Other income	315	294	1,529	888
From controlled investments:				
Interest income	1,771	409	4,342	1,293
Dividend income	5,925	3,659	14,755	11,739
Non-cash dividend income	1,721	1,342	4,683	3,016
Other income	617	238	1,477	581
Total investment income	60,469	51,236	167,956	144,562
Expenses				
Incentive fee	6,780	6,573	19,644	18,430
Management fee	10,018	8,422	28,011	24,311
Interest and other financing expenses	14,759	9,509	38,873	26,930
Professional fees	2,053	819	3,455	2,391
Administrative expenses	846	652	2,607	2,022
Other general and administrative expenses	437	346	1,365	1,214
Total expenses	34,893	26,321	93,955	75,298
Less: management and incentive fees waived (See Note 5)	(1,766)	(1,483)	(4,583)	(6,124)
Less: expenses waived and reimbursed (See Note 5)	—	—	(276)	(474)
Net expenses	33,127	24,838	89,096	68,700
Net investment income before income taxes	27,342	26,398	78,860	75,862
Income tax expense	225	106	286	341
Net investment income	27,117	26,292	78,574	75,521
Net realized gains (losses):				
Non-controlled/non-affiliated investments	3,254	(14,216)	(3,149)	(39,843)
Net change in unrealized appreciation (depreciation):				
Non-controlled/non-affiliated investments	(4,048)	19,755	(22,069)	54,365
Non-controlled/affiliated investments	829	(3,807)	10,908	(4,401)
Controlled investments	(390)	(1,305)	10,471	(1,264)
Securities purchased under collateralized agreements to resell	—	(1,549)	(12)	(2,382)
(Provision) benefit for taxes	(2)	(394)	(986)	525
Net realized and unrealized gains (losses)	(357)	(1,516)	(4,837)	7,000
Net increase in net assets resulting from operations	\$26,760	\$ 24,776	\$73,737	\$ 82,521

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Basic earnings per share	\$0.35	\$ 0.33	\$0.97	\$ 1.12
Weighted average shares of common stock outstanding - basic (See Note 11)	76,106,377	75,688,429	75,994,068	73,618,794
Diluted earnings per share	\$0.32	\$ 0.31	\$0.91	\$ 1.04
Weighted average shares of common stock outstanding - diluted (See Note 11)	89,388,999	85,512,556	86,983,697	83,442,921
Distributions declared and paid per share	\$0.34	\$ 0.34	\$1.02	\$ 1.02

The accompanying notes are an integral part of these consolidated financial statements.

4

Table of Contents

New Mountain Finance Corporation

Consolidated Statements of Changes in Net Assets
(in thousands, except shares and per share data)
(unaudited)

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Increase (decrease) in net assets resulting from operations:		
Net investment income	\$78,574	\$ 75,521
Net realized losses on investments	(3,149)	(39,843)
Net change in unrealized (depreciation) appreciation of investments	(690)	48,700
Net change in unrealized depreciation of securities purchased under collateralized agreements to resell	(12)	(2,382)
(Provision) benefit for taxes	(986)	525
Net increase in net assets resulting from operations	73,737	82,521
Capital transactions		
Net proceeds from shares sold	—	81,478
Deferred offering costs	—	(172)
Distributions declared to stockholders from net investment income	(77,512)	(75,132)
Reinvestment of distributions	2,330	4,907
Other	—	(81)
Total net (decrease) increase in net assets resulting from capital transactions	(75,182)	11,000
Net (decrease) increase in net assets	(1,445)	