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New Mountain Finance Corp
Form 10-Q
May 04, 2016

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 March 31, 2016
☐ 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 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐

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 May 4, 2016
Common stock, par value \$0.01 per share	63,880,437

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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)

	March 31, 2016	December 31, 2015
Assets		
Investments at fair value		
Non-controlled/non-affiliated investments (cost of \$1,427,717 and \$1,438,415, respectively)	\$1,352,403	\$1,377,515
Non-controlled/affiliated investments (cost of \$91,282 and \$89,047, respectively)	88,371	87,287
Controlled investments (cost of \$42,082 and \$41,254, respectively)	49,429	47,422
Total investments at fair value (cost of \$1,561,081 and \$1,568,716, respectively)	1,490,203	1,512,224
Securities purchased under collateralized agreements to resell (cost of \$30,000 and \$30,000, respectively)	29,674	29,704
Cash and cash equivalents	32,683	30,102
Interest and dividend receivable	16,034	13,832
Receivable from affiliates	707	360
Other assets	2,965	1,924
Total assets	\$1,572,266	\$1,588,146
Liabilities		
Borrowings		
Holdings Credit Facility	\$397,513	\$419,313
SBA-guaranteed debentures	117,745	117,745
Convertible Notes	115,000	115,000
NMFC Credit Facility	96,500	90,000
Deferred financing costs (net of accumulated amortization of \$9,596 and \$8,822, respectively)	(13,264)	(13,992)
Net borrowings	713,494	728,066
Incentive fee payable	11,007	5,622
Management fee payable	10,983	5,466
Payable for unsettled securities purchased	7,549	5,441
Interest payable	2,946	2,343
Payable to affiliates	959	564
Deferred tax liability	952	1,676
Other liabilities	2,531	2,060
Total liabilities	750,421	751,238
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, 64,005,387 and 64,005,387 shares issued, respectively, and 63,880,437 and 64,005,387 shares outstanding, respectively	640	640
Paid in capital in excess of par	899,751	899,713
Treasury stock at cost, 124,950 and 0 shares held, respectively	(1,433)	—
Accumulated undistributed net investment income	4,012	4,164

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Accumulated undistributed net realized gains on investments	1,518	1,342
Net unrealized (depreciation) appreciation (net of provision for taxes of \$952 and \$1,676, respectively)	(82,643)	(68,951)
Total net assets	\$821,845	\$ 836,908
Total liabilities and net assets	\$1,572,266	\$ 1,588,146
Number of shares outstanding	63,880,437	64,005,387
Net asset value per share	\$12.87	\$ 13.08

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

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New Mountain Finance Corporation

Consolidated Statements of Operations
(in thousands, except shares and per share data)
(unaudited)

	Three Months Ended March 31, March 31, 2016 2015	
Investment income		
From non-controlled/non-affiliated investments:		
Interest income	\$ 35,706	\$ 31,854
Dividend income	—	(99)
Other income	1,222	1,557
From non-controlled/affiliated investments:		
Interest income	1,582	1,043
Dividend income	920	858
Other income	313	314
From controlled investments:		
Interest income	502	450
Dividend income	719	548
Other income	12	11
Total investment income	40,976	36,536
Expenses		
Incentive fee	5,385	4,878
Capital gains incentive fee	—	481
Total incentive fees	5,385	5,359
Management fee	6,836	6,468
Interest and other financing expenses	6,602	5,477
Professional fees	877	739
Administrative expenses	839	635
Other general and administrative expenses	432	429
Total expenses	20,971	19,107
Less: management fee waived (See Note 5)	(1,319)	(1,382)
Less: expenses waived and reimbursed (See Note 5)	(284)	(400)
Net expenses	19,368	17,325
Net investment income before income taxes	21,608	19,211
Income tax expense	41	149
Net investment income	21,567	19,062
Net realized gains (losses):		
Non-controlled/non-affiliated investments	176	(133)
Net change in unrealized (depreciation) appreciation:		
Non-controlled/non-affiliated investments	(14,414)	(1,462)
Non-controlled/affiliated investments	(1,151)	(872)
Controlled investments	1,179	6,820
Securities purchased under collateralized agreements to resell	(30)	—
Benefit (provision) for taxes	724	(501)
Net realized and unrealized (losses) gains	(13,516)	3,852
Net increase in net assets resulting from operations	\$ 8,051	\$ 22,914
Basic earnings per share	\$ 0.13	\$ 0.40

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Weighted average shares of common stock outstanding - basic (See Note 11)	63,934,151	57,998,754
Diluted earnings per share	\$0.13	\$ 0.37
Weighted average shares of common stock outstanding - diluted (See Note 11)	71,211,285	5,217,837
Dividends declared and paid per share	\$0.34	\$ 0.34

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

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New Mountain Finance Corporation

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

	Three Months Ended March 31, 2016 March 31, 2015	
Increase (decrease) in net assets resulting from operations:		
Net investment income	\$21,567	\$19,062
Net realized gains (losses) on investments	176	(133)
Net change in unrealized (depreciation) appreciation of investments	(14,386)	4,486
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(30)	—
Benefit (provision) for taxes	724	(501)
Net increase in net assets resulting from operations	8,051	22,914
Capital transactions		
Deferred offering costs	38	—
Dividends declared to stockholders from net investment income	(21,719)	(19,719)
Reinvestment of dividends	—	1,134
Repurchase of shares under repurchase program	(1,433)	—
Total net decrease in net assets resulting from capital transactions	(23,114)	(18,585)
Net (decrease) increase in net assets	(15,063)	4,329
Net assets at the beginning of the period	836,908	802,170
Net assets at the end of the period	\$821,845	\$806,499
Capital share activity		
Shares issued from reinvestment of dividends	—	77,715
Shares repurchased under repurchase program	(124,950)	—
Net (decrease) increase in shares outstanding	(124,950)	77,715

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

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New Mountain Finance Corporation

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended March 31, 2016		March 31, 2015	
Cash flows from operating activities				
Net increase in net assets resulting from operations	\$8,051		\$22,914	
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash (used in) provided by operating activities:				
Net realized (gains) losses on investments	(176)	133		
Net change in unrealized depreciation (appreciation) of investments	14,386	(4,486)		
Net change in unrealized depreciation (appreciation) of securities purchased under collateralized agreements to resell	30	—		
Amortization of purchase discount	(769)	(596)		
Amortization of deferred financing costs	774	672		
Non-cash investment income	(1,664)	(1,178)		
(Increase) decrease in operating assets:				
Purchase of investments and delayed draw facilities	(27,591)	(67,236)		
Proceeds from sales and paydowns of investments	40,188	93,280		
Cash received for purchase of undrawn portion of revolving credit or delayed draw facilities	10	—		
Cash paid on drawn revolvers	(3,806)	(190)		
Cash repayments on drawn revolvers	1,443	190		
Interest and dividend receivable	(2,202)	(2,745)		
Receivable from affiliates	(347)	(141)		
Receivable from unsettled securities sold	—	8,912		
Other assets	(770)	(560)		
Increase (decrease) in operating liabilities:				
Incentive fee payable	5,385	75		
Management fee payable	5,517	(58)		
Payable for unsettled securities purchased	2,108	(26,460)		
Interest payable	603	1,355		
Payable to affiliates	395	(581)		
Deferred tax liability	(724)	501		
Capital gains incentive fee payable	—	481		
Other liabilities	283	(11)		
Net cash flows provided by operating activities	41,124	24,271		
Cash flows from financing activities				
Dividends paid	(21,719)	(18,585)		