

Thesis Update on Senior Notes of MVC Capital

This article is excerpted from a letter by Jim Roumell, partner and portfolio manager of [Roumell Asset Management](#), based in Chevy Chase, Maryland. The following discussion focuses on MVC Capital's 6.25% senior notes due November 2022.

MVC Capital, Inc. is a publicly-traded business development company (BDC) that makes private debt and equity investments. The Company seeks to build shareholder value by making yielding, equity and other investments in middle-market companies across various industries, with flexibility to invest across the entire capital structure. MVC Capital generally targets companies at the lower end of the middle market, with annual revenue ranging from \$10 million to \$150 million and EBITDA of between \$3 million and \$25 million. Since these companies tend to be overlooked by traditional lenders and investment banks, MVC has a greater opportunity to positively influence the financial and operational outcomes of these organizations.

The 6.25% senior notes, purchased at par, are a new issuance of notes. The notes will mature on November 30, 2022 and pay interest quarterly, beginning January 15, 2018. MVC Capital may redeem the notes in whole or in part at any time on or after November 30, 2019, at its option, at par plus any accrued and unpaid interest. MVC Capital disclosed that it will use the proceeds from this offering to redeem outstanding indebtedness under its 7.25% notes due 2023. RAM held these notes so, in essence, the new notes will replace the old notes.

Regulatory restrictions under the Investment Company Act of 1940 limit the amount of debt that a BDC can have outstanding. Generally, a BDC may not issue any class of indebtedness unless, immediately after such issuance, it will have assets covering its debt by at least 200%. Put another way, debt can only be 1x the equity at a BDC. For example, if a BDC has \$1 million in assets, it can borrow up to \$1 million, which would result in assets of \$2 million and debt of \$1 million. If MVC Capital were to breach this regulatory limit it would be forced to take action to come back into compliance. The company would not be able to pay any common stock dividends until it was in compliance. These actions could include the sale of assets and repayment of a portion of the debt or the issuance of new common equity, all of which protect us as noteholders.

The 1940 Investment Company Act debt limit restriction brings us a great deal of comfort that our notes are well protected by significant, and persistent, asset coverage. As referenced in our prior quarter letter, with over 50% of ten-year rolling periods for the S&P 500 (including dividends) failing to generate an 8% annualized return (calculated on a rolling monthly basis beginning in January of 1926), we are satisfied with securing this relatively safe 6.25% return.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. The top three securities purchased in the quarter are based on the largest absolute dollar purchases made in the quarter.