

Business Development Corporation of America

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Executive Summary

Kroll Bond Rating Agency (KBRA) affirmed the issuer and senior unsecured debt ratings of BBB for Business Development Corporation of America (“BDCA”) (“the Company”) and maintained the Stable Outlook on June 10, 2019. The following ratings for BDCA are based on KBRA’s [Global Finance Company Rating Methodology](#), published on November 28, 2017.

Ratings				
Entity	Type	Rating	Outlook	Action
Business Development Corporation of America	Issuer Rating	BBB	Stable	Affirmed
	Senior Unsecured Debt	BBB	Stable	Affirmed

Recent Developments:

- July 31, 2018: Benefit Street Partners (“Benefit Street” and “BSP”), BDCA’s advisor, completed the acquisition of Triangle Capital Corporation with BDCA acquiring \$188.1 million of the investment portfolio and BSP acquiring \$605.2 million. The acquisition represented 7.5% of BDCA’s \$2.5 billion portfolio.
- February 1, 2019: Benefit Street Partners was acquired by Franklin Resources, Inc., (NYSE:BEN), a global investment management organization. Franklin Resources operates as Franklin Templeton (FT) and provides global and domestic investment management to retail, institutional and sovereign wealth clients in over 170 countries. As of March 31, 2019 BEN had over \$712 billion of assets under management. While BEN is BDCA’s advisor there have been no changes to BDCA’s management with Richard J. Byrne remaining the CEO and President. Additionally, all current investment professionals and members of the BSP’s Investment Committee maintain their current responsibilities.
- February 15, 2019: BDCA acquired a controlling interest in Siena Capital Finance LLC, an asset-based lender serving middle-market companies. Loans range in size from \$3 million to \$35 million. Founded in 2012, Siena has 27 employees and is headquartered in Stamford, CT. Siena continues to operate independently as a portfolio company of BDCA.

Summary:

Incorporated in 2010, BDCA is a New York based externally managed, non-traded business development company (“BDC”) operating under the Investment Company Act of 1940. The company was established to provide capital, primarily in the form of senior secured loans to middle market companies while providing investors a preservation of capital and attractive yields. BDCA is externally managed by BDCA Adviser, LLC (the “Adviser”), a subsidiary of BSP, a registered investment advisor with the SEC and an affiliate of Franklin Templeton which had over \$712 billion of assets under management as of March 31, 2019.

Key Rating Drivers

The BBB ratings reflect BDCA’s solid and well diversified \$2.5 billion investment portfolio consisting mainly of senior secured debt, a sound external manager, BSP Advisor, a subsidiary of Franklin Templeton (FT), which has a sizeable fixed income asset management platform of \$261 and a declining CLO portfolio that comprised 5% of total investments as of March 31, 2019 compared to more than 11% as of December 31, 2011. Further supporting the ratings are the company’s appropriate leverage at .67 times and ample unencumbered assets in excess of \$1 billion. These strengths are counterbalanced by the potential risks related to BDCA’s significant exposure to illiquid investments and limitations in accessing the equity markets.

Key Rating Drivers

Credit Strengths

- Focus on first-lien secured loans
- Appropriate leverage metrics
- Strong expertise in middle market lending
- Strong due diligence process including highly integrated loan approval process involving the input of industry focused analysts, senior analysts and chief officers
- Access to Franklin Templeton larger platform (\$712 bn AUM with \$266.3 bn dedicated to fixed income)
- Substantial unencumbered assets in excess of \$1 billion

Credit Constraints

- Exposure to higher valuation volatility due to equity-like investments and potential Net Asset Value (NAV) decline due to the quarterly fair value calculation of investments
- Illiquid investments
- Limitation on retaining earnings as capital due to Regulated Investment Company (RIC) status requirements for distribution

Selected Financial Data

	Business Development Corporation of America (BDCA)					
	1Q2019	Year-end	Year-end	Year-end	Year-end	Year-end
Key Statistics	2019	2018	2017	2016	2015	2014
Investments, at fair market value (\$M)	2,528,816	2,334,714	2,503,523	2,394,083	2,311,281	1,916,991
Portfolio Composition by Asset Class						
Senior Secured First Lien Debt	68.32%	69.92%	70.96%	68.11%	60.83%	52.04%
Senior Secured Second Lien Debt	11.59%	11.23%	9.53%	10.94%	15.10%	14.00%
Subordinated Debt	4.70%	4.84%	3.77%	3.36%	3.99%	3.18%
CLOs	5.08%	5.45%	6.40%	10.42%	11.33%	19.03%
Equity/Other	10.31%	8.56%	9.34%	7.16%	8.75%	11.74%
Portfolio Performance						
Net income / Avg. Total Investments	9.18%	1.17%	3.20%	4.01%	0.38%	6.09%
Total Investment Income / Portfolio- Amortized Cost	9.54%	9.33%	8.75%	9.29%	8.98%	10.56%
Net Investment Income / Portfolio- Amortized Cost	4.24%	4.07%	4.15%	4.85%	5.24%	6.60%
Total Investment Income / Portfolio- FMV	10.05%	9.80%	9.14%	9.76%	9.26%	10.59%
Net Investment Income / Portfolio- FMV	4.47%	4.27%	4.33%	5.10%	5.40%	6.61%
Weighted Average Current Portfolio Yield	9.80%	9.80%	8.90%	9.30%	9.60%	10.40%
Expenses						
Interest Coverage (x)	3.0x	2.9x	3.4x	4.2x	5.3x	8.8x
Non-Interest Expense / Average Managed Assets	3.33%	3.17%	2.95%	3.03%	2.61%	3.13%
Operating Expenses / Average Net Assets ³	5.51%	5.46%	4.74%	4.61%	3.86%	3.98%
Leverage and Capital Adequacy						
Total Debt less SBA debentures/Equity	0.67x	0.59x	0.69x	0.60x	0.52x	0.40x
Net Leverage excl. SBA debentures	0.62x	0.53x	0.62x	0.47x	0.42x	0.27x
Total Debt less SBA debentures/EBIT(x)	6.27x	5.58x	6.87x	5.79x	5.94x	6.35x
Asset Quality						
Non-accruals at Amortized Cost	4.50%	4.70%	3.76%	4.91%	2.10%	0.20%
Non-accruals at Fair Market Value	1.80%	1.90%	0.84%	2.14%	1.40%	0.00%

Key Business Factors Rating Determinants

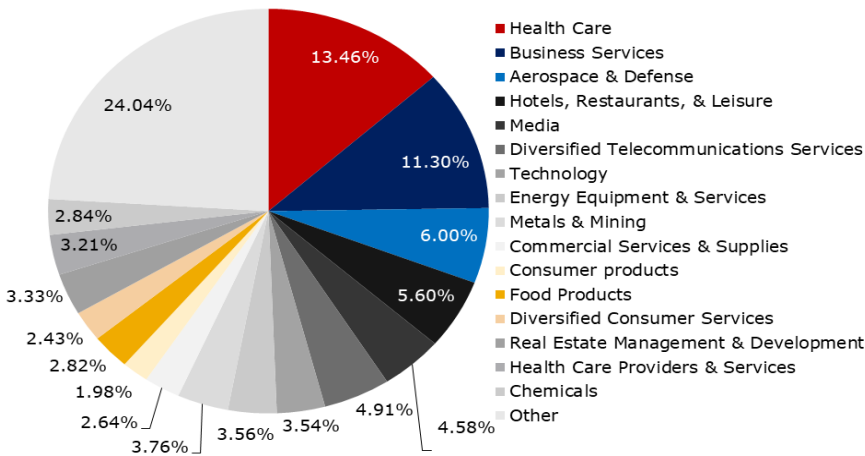
Market Share, Branding and Viability

BDCA is a New York based externally managed, non-traded business development company (“BDC”) operating under the Investment Company Act of 1940. The company was established to provide capital, primarily in the form of senior secured loans to middle market companies. The company is managed by BDCA Adviser, LLC (the “Adviser”), a subsidiary of BSP, a registered investment advisor with the SEC and an affiliate of Franklin Templeton which had over \$712 billion of assets under management of which \$266.3 billion was dedicated to fixed income as of March 31, 2019.

As one of the larger BDCs in the space, BDCA is able to leverage its size to market itself as a one stop shop for borrowers, providing first lien term loans to unitranche loans with specialized loan covenants to protect the company on the downside. Since November 2016 approximately 85% of BDCA’s investment portfolio has been originated by BSP. BSP has a dedicated origination team of 28 private debt professionals focused exclusively on proprietary deal flow.

BDCA has a well-diversified investment portfolio of 210 companies across 40 plus industry sectors with an average weighted yield of 9.0% as of March 31, 2019. Approximately 79.9% of the portfolio was comprised of senior secured loans with 86.7% of the portfolio invested in floating rate debt. The largest three concentrations, excluding the diversified investment vehicles were Health Care (13.5%), Business Services (11.3%) and Aerospace & Defense (6.0%) at FYE March 31, 2019. See chart below.

BDCA Portfolio by Industry Grouping
% of Total Investment-fair value excl. Investment Vehicles
 As of Mar 31, 2019



In KBRA’s view, BDCA’s overall market positioning within the broader network of competitors, which includes banks, is solid, which should support its competitive advantage and earnings growth going forward.

Business Risk Management

BDCA’s investment team consists of experienced professionals with extensive industry knowledge and solid relationships within the middle market. BDCA’s external manager, BSP, has 108 plus dedicated investment professionals in six regional offices in addition to New York. The BSP senior management team has worked together for 30 years. BDCA is led by Richard Byrne, the CEO and President of BDCA since November 2016. Prior to joining BSP, Byrne was CEO of Deutsche Bank Securities. In KBRA’s view, management has solid expertise in middle market lending. BDCA’s strategy remains unchanged under the Franklin Templeton ownership structure with the same officers leading the company, maintaining its governance and operations.

BDCA manages its credit risk by focusing primarily on senior secured debt which comprised 79.9% of the portfolio at fair value as of March 31, 2019 and directly originating its loans which allow the company to negotiate stronger investment terms. Senior secured investments are much more stable in less favorable economic environments than subordinated securities and equities due to their higher ranking in the capital structure. KBRA notes, however, that BDCA still has considerable exposure to riskier investments - CLOs, equities and subordinated debt investments, which accounted for 17.1% of portfolio fair value as of March 31, 2019 and carry both higher credit risk and higher valuation volatility.

To further enhance its credit risk profile, BDCA utilizes thorough origination and due diligence processes which includes extensive research into the target company, encompassing its growth prospects, ability to withstand adverse conditions, competitive position, financial performance and industry dynamics. Also, BDCA targets those companies with stable cash flow that are well established, have experienced management teams and maintain strong franchises. To further strengthen its investment portfolio credit risk, the company focuses on protecting its investments through first liens, covenants, default penalties, call protection and change of control rights. The average LTV across the portfolio ranges between 50% and 60%. The underwriting process also includes management meetings and monthly (when available), quarterly and annual financial statement reviews.

As a Registered Investment Company (RIC), BDCA must distribute at least 90% of its taxable income to shareholders as defined by the Internal Revenue Code and is required to apply fair value accounting to its investment portfolio on a quarterly basis. This could bring high volatility to BDCA's Net Asset Value (NAV), especially since 15% of its portfolio includes equity-like exposures, which tend to have higher fair value volatility in stress scenarios. BDCA uses independent third-party valuation firms for both its new originations and for its quarterly fair value process, which supports the transparency and confidence in the portfolio value at each quarterly earnings period.

BDCA's leverage ratio has remained well below the one to one ratio required over the past 5 years and was at .67 times as of March 31, 2019. The low leverage provides a cushion against more volatile segments of the portfolio and despite the recent passage of the increased leverage under the Small Business Credit Availability Act (SBCAA), BDCA does not anticipate that it will incorporate the higher leverage in the near term.

Economic and Operational Risk

As a BDC, BDCA is regulated by the SEC and is subject to several provisions of the Investment Company Act of 1940, including a limitation on the level of debt, a code of ethics, a comprehensive compliance program, filing of quarterly reports and annual reports, as well as proxy statements, with the SEC. While BDCA's capital levels could be subject to severe pressure during market downturns that limit access to capital markets and/or may lead to breaches of regulatory triggers from quarterly marking of portfolio investments, KBRA views BDCA's solid equity base, successful DRIP platform and low leverage supportive of its 'BBB' rating.

Key Financial Factors Rating Determinants

Business Development Corporation of America (BDCA)						
Selected Financial Data (\$ in thousands, except per share data)	1Q2019	Year-end	Year-end	Year-end	Year-end	Year-end
	2019	2018	2017	2016	2015	2014
Balance sheet						
Investments, at value	2,528,816	2,334,714	2,503,523	2,394,083	2,311,281	1,916,991
Cash and Cash Equivalents	79,385	96,692	99,822	189,270	150,412	206,872
Total Assets	2,637,425	2,463,324	2,652,514	2,616,306	2,490,755	2,187,942
Portfolio Composition						
By Asset Class						
Senior Secured First Lien Debt	1,727,617	1,632,463	1,776,534	1,630,661	1,405,868	997,661
Senior Secured Second Lien Debt	293,174	262,194	238,513	261,987	349,038	268,358
Subordinated Debt	118,778	113,049	94,339	80,540	92,272	60,930
CLOs	128,464	127,212	160,195	249,582	261,784	364,897
Equity/Other	260,783	199,796	233,942	171,313	202,319	225,145
Earnings and Expenses						
Total Investment Income	61,101	237,012	223,820	229,658	195,846	138,281
Total Operating Expenses	33,473	131,997	116,161	108,521	81,690	51,994
Net Investment Income	27,164	103,385	106,011	119,978	114,156	86,355
Net Realized Gain (loss)	(1,911)	(24,310)	(53,135)	(23,309)	(354)	9,394
Net change in unrealized (depreciation) appreciation	32,906	(50,982)	25,484	(3,583)	(103,222)	(26,921)
Net realized gain (loss) and unrealized gain (loss)	28,668	(75,139)	(27,622)	(25,576)	(106,103)	(6,815)
Net Increase in Net Assets from Operations	55,832	28,246	78,389	94,402	8,053	79,540
Cash Dividends Declared Per Common Share	0.16	0.65	0.76	0.87	0.87	0.87

Profitability

BDCA's major source of revenue is driven by interest income from debt investments, followed by dividend from equity investments. The company reported net interest income of \$103.4 million for FYE 2018, slightly off from FYE 2017 of \$106 million due to a smaller investment portfolio and a lower yielding CLO portfolio. The company continues to mark down and unwind its CLO portfolio. To boost yield while adding little incremental credit risk, the company recently invested in Siena Capital Finance, an asset-based lender. The company anticipates that the increased yield of the Siena portfolio will offset some of the declines from its decreasing aviation and CLO portfolios.

BDCA's operating expenses can be divided into interest expense and various types of fees, with a management fee as a major cost driver. BDCA is an externally managed BDC with an annual base management fee of 1.5% of average gross assets. In addition, the Advisor is entitled to a subordinated incentive fee on income, which is determined based on the performance of the investment portfolio (currently 20% of pre-incentive fee net investment income in excess of 8.75% annualized return for shareholders), and a 20% incentive fee on capital gains earned on liquidated investments.

Liquidity and Funding

Business Development Corporation of America (BDCA) Funding Sources:

3/31/2019	Wells Fargo Credit Facility	Citi Credit Facility	2022 Notes	2020 Notes	2023 Notes	Total
<i>In thousands</i>						
Date Entered	7/24/2012	6/27/2014	12/19/2017	8/26/2015	May 11 2018	
Facility Size	\$600,000	\$400,000	\$150,000	\$100,000	\$60,000	\$1,310,000
Amount Outstanding	\$402,651	\$313,500	\$149,381	\$99,551	\$59,729	\$1,024,812
Amount Available	\$197,349	\$86,500	\$0	\$0	\$0	\$283,849
Type of Facility	Revolver	Revolver	Unsec. Notes	Unsec. Notes	Unsec. Notes	
Interest Rate	1mo L + 1.65-2.50%	3mo L + 1.60%	4.75%	6.00%	5.375%	
Maturity	5/9/2023	5/28/2020	12/30/2022	9/1/2020	5/30/2023	

BDCA has a diversified funding profile with the majority or approximately 70% of its funding needs met through its secured bank facilities and the remaining 30% met through senior unsecured bonds. As of March 31, 2019, BDCA had approximately \$363.2 million in available liquidity; \$79.4 million of which was cash and \$283.8 million in available bank credit lines. As of March 31, 2019, \$1.25 billion or 47% of BDCA's \$2.6 billion total assets were reported as unencumbered assets, which provide an additional source of contingent liquidity. BDCA's other sources of capital include equity from its DRIP platform, unsecured notes, and proceeds from sales/repayment of its investments. As a BDC, BDCA's ability to raise funds through public offerings is very reliant on general market conditions and perceptions of BDCs.

With roughly \$413 million of debt maturing within the next two years, the Company is currently negotiating the extension of its Citi Credit Facility due May 2020 for one or two additional years.

Leverage and Capital Adequacy

In November 2018, Franklin Templeton and BSP, together made a \$90 million investment in BDCA. In addition, BSP invested \$10 million in BDCA when it acquired the management agreement in 2016. With these investments, BSP is the largest shareholder of BDCA with 6.4% ownership position.

BDCA's leverage is low relative to its peers with a ratio of 0.67x at March 31, 2019 and was well within regulatory guidelines. While new regulatory requirements have been raised to allow leverage to effectively double to 2:1, KBRA does not expect BDCA to adopt the new guidelines nor substantially increase its leverage in the near term. The logistics of increasing leverage as a private company is cumbersome and would take several years. Additionally, the Company's current bank loan agreements contain asset coverage covenants that requires the Company to maintain the ratio of total assets less total liabilities not represented by senior securities to total borrowings, equal to at least 200%.

The Company maintains a dividend reinvestment plan for their shareholders. The total amount of equity raised through dividend reinvestment program was \$38.5 million in FYE 2018 and \$50.8 million in FYE 2017. To provide additional capital flexibility, BDCA requested and received shareholder approval to sell or issue up to 25% of the company's outstanding common stock at a price below the companies then current NAV per share. However, the company has no intention to issue shares at below NAV at this time.

The Company reduced its dividend by 25% in July 2017 reflecting the more difficult operating environment including margin compression from competitive pricing for the entire industry. While BDCA expected to have full distribution coverage in 2018, its NII currently covers approximately 90% of distributions due to the continued spread tightening, reduction in CLO yield and an unwinding of its aviation portfolio.

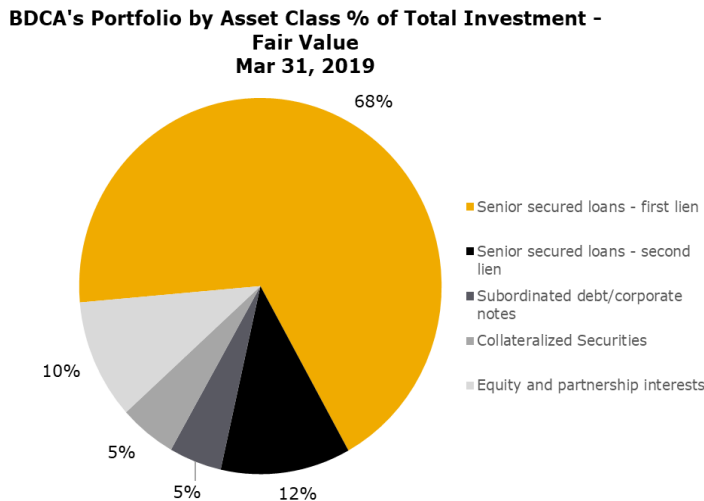
Overall, and in view of the composition of its investment portfolio, KBRA views BDCA's current leverage metrics as within the range for a 'BBB' category rating.

Asset Quality

The Company's \$2.5 billion investment portfolio at fair market value as of March 31, 2019 consisted mostly of senior secured debt which accounted for 79.9% of the total portfolio. The Company has been focused on increasing its investments in loans higher in the capital structure while decreasing its CLO exposure as the

opportunities present itself to help reduce net asset value volatility and strengthen the credit profile of the portfolio. The CLO portfolio has been reduced by 50% since FYE 2015 and accounted for about 5.1% of the portfolio as of March 31, 2019 compared to 11.3% at FYE 2015. However, the company's equity and other positions have been climbing and totaled 10.3% as of March 31, 2019 compared to 8.8% at FYE 2015. Part of the increase was attributed to the BDCA's recent acquisition of ABL lender Siena Capital Finance in February 2019. As an asset-based lender, Siena maintains a solid risk profile while returning low to mid-double digit returns for BDCA.

First lien senior secured debt accounted for 68.3% of BDCA’s portfolio with second lien loans accounting for 11.6%, subordinated debt 4.7%, CLOs 5.1% and equity/other 10.3%. See chart below.



The Company had eight portfolio companies on non-accrual status with a cost of \$119 million or 4.5% of the portfolio and a fair value of \$46.5 million or 1.8% of the portfolio. The vast majority of non-accruals were four legacy BDCA investments.

The Company’s investment portfolio is diversified with over 200 portfolio companies across 40 plus industries. However, investments in middle market company loans are illiquid. Fair market valuations are performed each quarter by independent valuation firms and are confirmed by the board of directors. As of March 31, 2019, BDCA’s fair market value of its portfolio was 95.75% of cost.

In KBRA’s view, BDCA’s portfolio is highly diversified by sector, well hedged against the interest rate risk with floating rate debt, and its exposure concentrations by size of investments are fair when compared to peers.

Outlook

KBRA does not foresee any intermediate rating change.

Drivers of Rating Change

Rating Upgrade

A rating upgrade is not expected in the near future.

Rating Downgrade

In KBRA’s view, the following factors may contribute to a downgrade of BDCA’s rating:

- A deterioration in asset quality with increasing portfolio companies on non-accrual status.
- A significant downturn in the economy with impact on the performance of BDCA
- An increase in riskier investments such as equity exposures with potential pressure on asset quality
- A significant increase in asset encumbrance as well as other stresses in liquidity profile
- A significant change in the current management structure coupled with a negative change in strategy and/or credit monitoring as well as originations may also indicate a reason for a rating downgrade

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