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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the TCG BDC Third Quarter 2017 Earnings Call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to turn the conference over to Daniel Harris, Head of Investor Relations. Sir, you may begin.

Daniel Harris

Thank you, Shannon. Good morning and welcome to TCG BDC's Third Quarter 2017 Earnings Call. Last night, we issued an earnings press release and detailed earnings presentation with our quarterly results, a copy of which is available on TCG BDC's Investor Relation website. Following our remarks, we will hold a question and answer session for analysts and institutional investors. This call is being webcast and a replay will be available on our website. This call and webcast is the property of TCG BDC and any unauthorized broadcast in any form is strictly prohibited.

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risk and uncertainties, including those identified in the Risk Factor section of our prospectus and other SEC filings, that could cause actual results to differ materially from those indicated. TCG BDC assumes no obligation to update any forward-looking statements at any time. Lastly, past performance does not guarantee future results.

And with that, I'm going to turn it over to our Chief Executive Officer, Michael Hart.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Thank you, Dan. Good morning, everyone, and thank you for joining us for our quarterly earnings call. I'm joined today by our management team, including our President, Jeff Levin; our Chief Risk Officer, Tom Hannigan; our Head of Originations, Grishma Parekh; and our Chief Financial Officer, Venu Rathi; as well as other members of the team. I'll begin by touching a few highlights from the quarter and then turn it over to my colleagues to provide a more in-depth look at our financial and operating results.

We once again saw all components of our business performing well. We had continued strong performance of our core portfolio. We had another quarter of high-quality origination activity. And we benefitted from the continued scaling of our strategic partnership with PSP, or our JV as we'll refer to it during our comments, which provided a nice contribution to our performance.

This was our first full quarter operating as a public company so, in some ways, it was a return to business as usual without the significant time spent on the IPO last quarter and without some of the IPO-related anomalies which tend to run through a company's numbers in the quarter of issuance.

In that regard, I'm pleased to report a solid quarter of performance for our shareholders with net investment income per share of $0.41, exceeding our dividend of $0.37 per share. Our net asset value per share rose to $18.18 from $18.14 at the end of the second quarter. As I mentioned, we paid a third quarter dividend of $0.37 per share and the board, on Tuesday of this week, approved a fourth quarter dividend, which will again be $0.37, payable to shareholders of record on December 29th with a payment date of January 17th.

Regarding capital markets activity, on July 5th of this quarter, we issued an additional 450,000 shares pursuant to the exercise of a portion of the green shoe option related to the IPO. This resulted in additional proceeds to the business of approximately $8 million.

The quarter was not without its challenges. The market continues to be extremely competitive and with that dynamic affecting not only the spreads and leverage, but also the structures and EBITDA add-back that borrowers are being asked to accept. This is where our broad origination platform pays significant dividends. With access to over 500 financial sponsors through our direct coverage effort combined with that of our unit tranche partner, we create a wide funnel of opportunities that, in turn, allows for a high level of selectivity in choosing new investments.

We made approximately $325 million in commitments across 15 different investments in the BDC. Our investment activity during the quarter reflected the same level of selectivity and defensiveness that has defined our business since inception. There were no covenant-light deals done and in fact nearly 40% of these transactions had more than one covenant. Our activity is also reflective of our continued commitment to high levels of diversification, with an average investment size of approximately $25 million, which represents 1.3% of total investments. This new investment activity was also squarely within the risk parameters that have guided our business historically with the new investments resulting in no meaningful change in either the composition of the portfolio from an asset mix or an average industry concentration perspective. The weighted-average yield on our investment portfolio remained essentially flat through the quarter.

In addition to investment activity made in the BDC, which I just mentioned, we made 7 new investments in the JV, which totaled $124 million, bringing a total investments in that vehicle to $823 million. The return on equity in the JV exceeded 15% on an annualized basis this quarter.

Overall, the credit quality of our portfolio remained stable with the weighted-average internal risk rating remaining flat at about 2.2 quarter-over quarter. Grishma and Tom will be sharing some further thoughts on both our origination and our portfolio performance in a moment.

On more of a personal note, I'm saddened to report that Bill Hendry, a long-time member of the company's board of directors, passed away unexpectedly on September 29th. Bill joined our board at the company's inception and was a valuable contributor to our business throughout its development, and all of us on the management team extend our sincere condolences to Bill's family.

In October, the board appointed Leslie Bradford as an independent director to fill the vacancy following Bill's passing. Leslie has over 30 years of relevant experience working within the financial sector and we're extremely grateful to be adding an individual of Leslie's caliber and experience to our board.

I'd like to now turn the call over to Grishma to discuss our origination activity in greater detail.

Grishma Parekh

Thanks, Mike. In general, the investing environment continues to be challenging, characterized by tight spreads, elevated levels of leverage and high degree of competition sparked by CLO issuances and substantial fund-raising from private debt funds.

However, what has allowed us to be successful despite this backdrop is by tapping into the resources, contents, intellectual capital and reach of Carlyle. We are bigger and deeper than most other middle market lending platforms. The flow of ideas across the organization by strategy, by geography and cross-functional expertise has allowed us to cast a wide origination funnel, conduct differentiated diligence so we can move decisively and invest wisely.

There are 3 interesting market data points I want to highlight and juxtapose with our business. First, LBO and M-and-A activity was the driver of new issue volume this quarter, and sponsor-backed activity dominated increasing to 70% of overall M-and-A volume or about $56 billion, the highest level since 2007. Our business, which is centered on sponsor activity, achieved another strong quarter of growth and over 80% of our investments were in support of LBOs and acquisition financing.

Second, PE firms are buying these companies at increasingly higher purchase multiples. This reflects the substantial amount of dry powder at the PE firms, which could exceed $1 trillion over the coming years. The average purchase price was 10.4 times with equity representing 42% of total capitalization. In our portfolio for third quarter investments, the average purchase multiple was 12 times with equity representing 53% of total capitalization.

And finally, covenant-light volume has ballooned and reached unprecedented levels, representing 70% of broadly syndicated issuances. To put that figure into context, covenant-light volume was about 30%, less than half, pre-financial crisis. We have seen these terms trickle down into the upper middle market. However, our focus on borrowers with $15 million to $50 million of EBITDA, with a median EBITDA in our portfolio being about $40 million, coupled with incredibly high levels of investment selectivity, has allowed us to construct a portfolio where the vast majority of our loans have this important lender protection. In fact, during the third quarter, 100% of the loans we originated contained a financial covenant.

Shifting to investment activity, we were able to deliver another quarter of strong origination, and we did not change our underwriting standards or deviate from an ethos of selectivity and defensibility to get there. As of September 30th, the BDC investment portfolio totaled $2 billion at fair value compared to $1.7 billion at the end of the second quarter. During the third quarter, we made 21 new commitments totaling over $450 million. About 3/4 of that origination volume was from TCG BDC and 1/4 from our JV.

Our investment in the JV currently comprises 10% of the BDC portfolio as of September 30th providing us with substantial room for further investment and earnings growth as we continue to scale that program. When including the JV, total investments in the portfolio increased to $2.6 billion from $2.3 billion last quarter.

While we can't change the market environment, we do have a number of tools that allow us to navigate this market and deliver consistent returns to our investors. Those tools are: a robust direct origination engine, a highly flexible capital base, a large and diverse portfolio of existing positions that create a base level of demand, and an incumbency edge.

In today's market, we lean in for our existing borrowers and repeat sponsors, which continued to be a healthy driver of our investment activity. We closed transactions with 15 private equity sponsors in the third quarter representing an 88% repeat rate of business. Importantly, over 80% of the transactions we executed in the third quarter were processes where we had a lead titled role. This underscores not only the depth of our middle market sponsor relationships, but also the deliberate focus we have taken towards working with proven PE firms where we are viewed as a trusted financing partner. And we are deploying our capital in support of buyouts and acquisitions versus a return of capital back to PE firms in the form of dividends.

Our investment focus remains towards recession-resilient industries. During the quarter, we invested in consumer non-discretionary non-durables as well as software businesses with high recurring revenue models. We continue to steer away from sectors that exhibit greater volatility and cyclical characteristics such as energy and retail.

Our asset mix during the quarter continued to be weighted towards first lien senior secured loans, which accounted for 95% of new investments and is a reflection of where we saw the best risk-adjusted returns across the market. First lien last out loans accounted for about 20% of new investments and highlights the continued success of our partnership with Madison Capital.

Finally, core loan sales and repayments were $142 million split fairly equally between BDC and the JV. In certain occasions, the flexibility of our capital base allows us to retain our highest-quality investments by converting the repayments into investment for the JV in the case of repricings or refinancings.

Let me now hand the call over to Tom Hennigan, our Chief Risk Officer.

Tom Hennigan

Thanks, Grishma. The overall composition of our portfolio was largely unchanged as of September 30, and it continues to be defensively positioned and highly diversified. First lien loans accounted for 76% of the portfolio as of 9/30, up slightly from 74% as of 6/30, while true first lien loans remained stable at about 64%. No single debt investment accounted for greater than 3% of the portfolio. The top industries remain non-cyclical and account for only about 11% of the total portfolio. And the portfolio remains 99% floating rate, so well-positioned for potential increases in interest rates.

As Grishma noted, the investment mix in the third quarter was more heavily weighted towards first lien loans while overall investments in both second lien loans and the JV during the third quarter were lighter than historical levels indicative of where we saw the best risk-adjusted returns across the market. Total repayments and loan sales were lighter in the third quarter compared to prior periods and included strategic exits from a few lower-yielding first lien loans. All told, portfolio mix was largely unchanged compared to 6/30.

In the third quarter, we had no sales of assets to the JV, but this is an initiative that should accelerate later this quarter or early next year. In fact, we still hold over $200 million of saleable loans that are priced south of our current yield hurdle so rotating out of these assets over time should create the opportunity to increase our portfolio yield.

As we look forward now to the fourth quarter, we're targeting the pricing and closing of our first CLO at the JV in the coming weeks. Proceeds from this CLO will be used, in part, for a sizeable repayment of the mezzanine loan that the BDC provides to the JV, but the CLO will also significantly reduce the JV's weighted-average cost of financing. With the closing of the CLO, we expect to see a decline of about 50% in the mezzanine loan outstanding. This should result in a modest decline in our total investment in the JV when considering both equity and the mezzanine loan when we report 12/31 results.

As of September 30, the weighted-average yield on our first lien and second lien debt investments was 8.6% based on amortized cost, consistent with prior quarter. The overall yield for first lien loans, including first lien last outs, was flat versus prior quarter as continued rotation into higher-yielding assets was offset by some movement in non-accruals, which I will detail further in a minute. Overall volume activity for second lien loans was limited during the quarter so the average yield for second liens was unchanged. Excluding the impact of movements in non-accruals, the weighted-average yield would have increased modestly across the portfolio.

In terms of quality of the portfolio, credit performance remained stable during the quarter. Third quarter non-accruals as a percentage of the total portfolio at fair value increased slightly from 77 basis points to 1.2%. 2080 was placed back on accrual status based on substantial progress since we closed its restructuring back in January of this year. However, Product Quest was added to non-accrual and it now represents our sole investment on non-accrual. The weighted average of risk rating in the portfolio remained stable at about 2.2, and total watch list transactions, those rated 4 or worse on our internal risk rating scale, ticked down modestly this quarter as measured by both total fair value and as a percentage of the portfolio.

In terms of credit metrics, our portfolio weighted-average net leverage remained stable in the mid-5 times as modest improvement in the existing portfolio was slightly offset by higher leverage from new investments.

In regards to valuations, total aggregate realized and unrealized net gain was approximately $500,000 for the quarter. In general, valuations benefitted from continued tightening in market spreads particularly for junior debt.

Regarding specific credits, we saw notable increases with 2080 and Prowler as those borrowers' performance continues to stabilize and/or improve, while PSC was marked up based on an anticipated repayment, and that repayment did indeed occur in October.

Offsetting these positive movements was a markdown on Product Quest. We placed this loan on non-accrual in the third quarter following some operational and liquidity challenges, but all lenders, including our BDC, indicated their support by providing an incremental credit facility to support the working capital needs of the business. This developing situation is relatively early days. Given the status of ongoing discussions between the lenders, equity sponsor and borrower, we're limited in providing additional color, but hope to have an update over the next couple of quarters. That said, we're dedicating appropriate resources to optimize the outcome on our current investment.

Now, let me turn it over to our Chief Financial Officer, Venu Rathi.

Venu Rathi

Thanks, Tom. We ended the third quarter with total portfolio investments of approximately $2 billion, up by $245 million or 14% since the prior quarter. On the leveraging side, outstanding debt as of September 30th was $850 million, up by $247 million since the prior quarter. And our net assets remained unchanged at approximately $1.1 billion.

Our debt to equity ratio was 0.76 times as of September 30th compared to 0.54 times as of June 30th. Our prior quarter-end ratio was at the low end of the range due to cash proceeds received from our IPO were used to pay down then outstanding borrowing. As of September 30th, we are at the high end of our targeted debt to equity ratio driven by additional borrowings due to strong new originations for the quarter combined with the timing of loan sales and repayment. However, adding in to the fourth quarter to date, we have visibility into about $115 million of repayment, which will provide adequate liquidity for new investments. In September, aggregate commitments under our existing credit facility increased by $100 million and currently have 3 to 4 years of remaining revolving period. As of September 30th, we had approximately $204 million of total unused commitments under our credit facilities.

Turning to the financial results for the third quarter, total investment income was $43 million or $0.41 per share, approximately $4 million higher compared to the second quarter. The increase was due to the strong asset growth, higher interest and dividend income from our investments in the JV, and partially offset by the lower other income.

Net expenses were $18 million for the third quarter compared to $17 million in the second quarter with the increase driven by higher management fees due to higher gross assets. Interest expense also increased due to an increase in average outstanding borrowing and an increase in LIBOR. Expenses were partially offset by a decrease of non-recurring professional fees. This professional fee had been elevated due to the merger with NF Investment Corp. in the last quarter.

On Page 12 of the earnings presentation, you fill find the changes in the NAV during the quarter. Our NAV per share at the end of the second quarter was $18.14. During the third quarter we earned $0.41 of net investment income, distributed a $0.37 in dividend and net realized and change in unrealized appreciation on investment had less than $0.01 impact, resulting in ending NAV of $18.18 per share as of September 30th.

As Mike mentioned earlier, we issued an additional 454,000 shares in early July pursuant to the exercise of the underwriter's over (inaudible) option related to our IPO. The impact of these additional shares is reflected in our September 30th financial results.

In September, our shareholders approved the reduction in incentive fee rate from 20% to 17.5% effective at the beginning of the third quarter. This change resulted in a positive impact of $0.01 per share on net investment income this quarter. Also as previously disclosed during the IPO, the management fee waiver expired at the end of the third quarter. Starting in the fourth quarter, the management fee rate will be 1.5% of quarterly average gross assets including cash and cash equivalents.

That concludes our prepared remarks. Let me turn the call back to the operator to open up for the Q-and-A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from Rick Shane with JP Morgan.

Richard Barry Shane - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

I appreciate you pointing out the expiration of the fee waiver. I'd like to delve into that just a little bit in terms of how to think about the fourth quarter. So this quarter, you'll have a full load on the management fee. You are entering the quarter, as you pointed out, towards the high end of your leverage target so there's not likely to be a ton of asset growth. I am curious, as we think about the timing of the assets that were added in the third quarter and the implications for the run rate into the fourth quarter, is there going to be an incremental pickup in net interest income to offset that fee waiver?

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Let me touch on a couple of points. Obviously, the third quarter activity, being fully booked, will fully ramp and be reflected in that fourth quarter. So we can look to that element of our origination to contribute fully for that quarter, which is a positive. The pipeline today is fine. It's early to tell, but we never really look at in-quarter originations to play a meaningfully, an overly meaningful role. In the absence of them coming in right at the front end, being very much front-end-loaded, which they're not, it's never part of our forecasting that we're looking for that to contribute in any meaningful way.

Venu or Tom, do you want to talk about some of the other elements of the P-and-L that we look to, to sort of target to a full EPS?

Tom Hennigan

Yes, Rick, to your point about the timing of assets, we did have a fair number of assets come on later in the quarter in the second quarter -- I'm sorry, in the third quarter. So you will see from a run rate perspective an offset just on the top line, offsetting some of the management fee.

In addition, the third quarter was very light on repayments. So the acceleration of OID in the third quarter was relatively light. As we go to a more normalized level of repayments in the fourth quarter, that will also aid the top line, offsetting the management fee increase.

Richard Barry Shane - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Okay, great. You had mentioned the pickup in prepayments this quarter and I thought that might be another element to consider.

Operator

Our next question comes from comes from Ryan Lynch with KBW.

Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

First one, I guess as you kind of touched on, you guys are at the high end of your leverage range today. You guys do expect to have a decent amount of repayments, though, coming in in the fourth quarter. But with the $200 million of lower-yielding loans on your portfolio, do you anticipate, I guess, selling at some point, either next quarter or the next couple quarters, selling all of those into the JV and that will actually provide -- deleverage your balance sheet and provide actually additional capacity for not only growth on the balance, but as well as growth in the middle market credit fund?

Tom Hennigan

Ryan, that's right. We're working on a project right now where we've identified those assets and we're working on sales to both the JV and also to just external third parties.

Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

Okay. And then, as far as the dividend policy goes, obviously this is the first quarter or the second quarter -- first quarter after your IPO. You guys had income well above the dividend this quarter. You guys have income above the dividend pretty substantially. I would suspect pretty strong earnings above the dividend going forward. How do you guys view the dividend policy going forward? Are you guys of the opinion that you guys will kind of hold this core rate and pay out specials? Will you guys just hold that excess income and pay excise taxes on it going forward? Or is there any possibility you guys are thinking about raising the core dividend? Just kind of go over all thoughts on dividend policy going forward.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Sure, Ryan. Our policy with respect to dividend is to have it set at a steady level that we feel comfortable that the core earnings of our business can comfortably cover. And we're looking into the beginning of next year as a period that our business model and the platform will generate that.

With respect excess, would certain consider special dividends at the end of the year. We have not historically paid excise tax to any significant degree. If there was a meaningful use of those proceeds around that -- away from that I should say. But in all likelihood that would be in the form of special dividends, which would match the full amount of the available dividend.

And then with respect to earning -- increases, rather -- we were very much willing to increase that and would look to do so, but under the proviso that we see the growth in our business that we've talked about either through a different yield profile, perhaps market-driven, or the continued growth of the strategic partnerships that we would look to drive yield. And to that extent, we'd certainly look to increase the dividend and look to that for the growth.

Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

Okay that makes sense. And, yes, I certainly appreciate that commentary, and I think that it is important to have a core dividend that is well-covered by earnings. So I understand your guys not wanting to take -- raise it too far too fast, to kind of get over your skis in case something -- some sort of downturn would happen.

And then just one kind of small question from a modeling perspective. Your guys' professional fees were obviously very high in the second quarter. I'm assuming fees surrounding the IPO and the merger. I was just wondering in the second quarter -- or in the third quarter, professional fees dropped to about $400,000. Is that a fairly good run rate we should expect going forward?

Venu Rathi

Yes. I would say last quarter we had those one-time professional fees relate to the NF merger and a portion related to the IPO. So this quarter about $400,000 on a quarterly basis would be average good estimate for the next quarter.

Operator

(Operator Instructions). Our next question comes from comes from Jonathan Bock with Wells Fargo Securities.

Finn O'Shea

Finn O'Shea in for Jonathan Bock. First, can you explain the design of the partnership with Oppenheimer, if that relates to the BDC at all? And perhaps touch on any other direct lending growth within the platform.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Sure, Finn. As a part of the private credit platform that our BDC represents the most significant piece, we're often looking at alternative complementary sources either in fund form -- as you know, we are raising a complementary fund in the market currently -- and sometimes looking at SMA or other joint ventures.

The opportunity you mentioned with Oppenheimer is relatively early stages in terms of determining the impact that it would have on our business, but we're thrilled to have the opportunity to work with them. And in the coming quarters, and it would be measured over quarters, we'll be getting greater clarity on where those assets might fall across the global credit platform.

Finn O'Shea

Okay, very well. Makes sense. And can you kind of remind us the -- if you look at the core book, the BDC versus the credit fund, what's the difference in average or median EBITDA levels?

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Just hold on one minute, Finn. We'll get you the --

Finn O'Shea

Just brushstroke is fine.

Grishma Parekh

With the JV and with the BDC with the JV, our goal is to do really nothing differently as it relates to sourcing those deals of sponsors that we're covering and the parts of the capital structure that we're focused on. And so they continue to target our core market. So if the median EBITDA in the portfolio is about $40 million or so, I would say that's consistent across the BDC as well as the JV that we have with PSP.

Operator

I'm currently showing no further questions at this time. I'd like to turn the call back over to Daniel Harris for closing remarks.

Daniel Harris

Thank you for listening to the call today. If you have any follow-up questions, feel free to call Investor Relations. And we look forward to talking to you again next quarter.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Thanks, everyone.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation, and have a wonderful day.