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TCG BDC, Inc. (CGBD)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the TCG BDC, Inc. Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference to your speaker today, Daniel Harris, Head of Investor Relations. Please go ahead, sir.

Daniel Harris

Head-Investor Relations, TCG BDC, Inc.

Good morning and welcome to TCG BDC's third quarter 2020 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 the TCG BDC Investor Relation website. Following our remarks today, 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.

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 risks and uncertainties, including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated. TCG BDC assumes no obligation to update forward-looking statements at any time.

And with that, I'll turn the call over to our Chief Executive Officer, Linda Pace.

Linda Pace

Chief Executive Officer & Director, TCG BDC, Inc.

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Thank you, Dan. Good morning, everyone, and thank you for joining us on our call this morning to discuss our third quarter 2020 results. Joining me on the call today is our Chief Investment Officer, Taylor Boswell; and our Chief Financial Officer, Tom Hennigan. I'm going to focus my remarks today across three areas. First, I'll once again start with a review of our portfolio which continues to be in good shape. Second, I'll provide a quick review of our third quarter results. And third, we'll discuss all of the positive developments at TCG BDC that we've completed over the past year that has led to significantly improved performance.

Let's start with a discussion of our current credit position which was stable in the quarter and continues to perform well despite the significant economic headwinds this year. Several key measures highlight our strong and improving outlook. We had zero new non-accruals during the quarter. In fact, the number of non-accruals across our portfolio has been flat the past three quarters; and on both the fair value and cost basis, non-accruals ticked down in the quarter. The amount of investments in our risk level 3 to 5 buckets ticked down 2% sequentially during the third quarter.

Recall that, last quarter, we changed our risk rating methodology to be more forward-looking based on business trends, rather than backward-looking. So, improvement in these ratings gives us further confidence in our forward credit profile. And our watch list also continues to trend in a positive direction, and we believe the vast majority of amendment activity in our portfolio is now behind us. Along with other more granular factors, these indicators give us increased confidence in the positive trajectory of our portfolio.

Moving on to an overview of our financial results for the third quarter. We generated net investment income of $0.36 per share, net of our preferred dividend expense. This comfortably covered our $0.32 fixed dividend that we announced for the fourth quarter. We also announced a $0.04 special dividend. So, in total, we have declared a $0.36 dividend for the fourth quarter or just under a 10% ROE.

Net asset value per share increased 1.4% quarter-over-quarter to $15.01 from $14.80 last quarter as we had our second consecutive quarter of net gains in the portfolio. In a stable macro and market environment, we would expect a continued gradual recovery in our NAV over the coming quarters.

Lastly, I'd like to put the strong position of our business today in perspective, which highlights our improved operating outlook. Over the past year, we have undertaken significant steps, some plainly visible while others are more behind the scenes, to achieve our goal of delivering sustainable income to our shareholders.

We optimized our investment portfolio. We recently created our second joint venture shifting $250 million of loans from our balance sheet into this vehicle. And earlier this year, we sold approximately $200 million of loans. In both cases, these actions created capacity on our balance sheet for new investments and reduced leverage.

We also identified and quickly extinguished an underperforming strategy in our portfolio, our small borrower last out unitranche program, which helped drive improved credit performance. In addition, we focused on our investment process. We implemented a strong sector alignment for all investment professionals, installed a new head of underwriting, beefed up our origination team, and improved the process flows for all of our investment committees. We also created a stronger, all-weather balance sheet.

Over the past year, we raised $115 million of unsecured debt and $50 million in convertible preferred equity with limited NAV dilution and which affirmed our strong relationship with Carlyle. Financial leverage declined to 1.2 times as of 3Q from [ph] 1.6 times (00:06:05) earlier this year, and pro forma for our recent second joint venture leverage declined further to 1.0 times. Given the strength and performance of our balance sheet, as well as the incredible value we see in CGBD shares, we are now in a position to restart a steady repurchase strategy as our

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trading window opens. Our board of directors recently increased our repurchase authorization to $150 million and extended the program to November 2021.

And lastly, we set a sustainable and attractive fixed dividend. Our $0.32 fixed dividend currently equates to a current mid-teens dividend yield with upside from special distributions, and has been set to reflect the new operating environment and exceptionally low interest rates. We are incredibly confident in our ability to deliver this level of dividend to our shareholders over the long-term. These initiatives have all been done with a focus on improving shareholder value. Our goal remains to deliver sustainable income and, while COVID impacted CGBD and our entire industry in 2020, we remain confident in our ability to meet this objective.

Let me now turn the call over to our Chief Investment Officer, Taylor Boswell.

Taylor P. Boswell

Chief Investment Officer, TCG BDC, Inc.

Thank you, Linda. As usual, I will begin today with a summary of what Carlyle's proprietary macro research is telling us about the global economy. After that, I'll provide comments on both the evolution of credit in our portfolio, as well as the new deal environment. From Carlyle's research, we witnessed the global economy continue its recovery in the third quarter, though significant dispersion has emerged across industries and geographies.

China continues to lead the global recovery, largely driven by domestic demand. In Europe, the travel and tourism sectors are bearing the brunt of the economic impact from a second wave of infections, posing risks to many southern European economies, while activity continued to improve in other areas of the continent.

In the US, the economic impact of new infections has similarly been focused in the hospitality, travel, and energy sectors. As hotel occupancy remain stuck at half capacity, airline passenger volumes hover 70% below year ago activity, and gasoline demand has stagnated 10% below 2019 levels. However, more broadly, business and consumer spending remain robust and continue to drive the US recovery, led by software and services companies and surging online spending.

More recently, we have been carefully monitoring the impact of second waves of COVID across several geographies, including the US. While our current view is that future disruptions will be less severe than those of the first half of 2020, we do not expect the path to recovery will be without volatility. This is a perspective we have held since the beginning of this crisis, and one which continues to strongly inform our portfolio management decisions at CGBD.

On the portfolio side, the last several months have generally played out as expected, transitioning out of an active period of COVID-related covenant amendments and into a third more tempered and likely longer running stage of this credit cycle. At this point, less COVID impacted borrowers are generally seeing recoveries in demand and financial performance. While for more COVID impacted borrowers, problems have been fully assessed and sufficiently addressed. As such, there are now very few known pending covenant breaches or liquidity issues across our portfolio.

In general, heavily COVID impacted borrowers have secured sufficient liquidity and covenant breathing room for the forward three- to six-quarter period, providing significant runway for value recovery to both credit and equity participants in these capital structures. CGBD's portfolio level credit metrics are evidencing these same trends. As Linda mentioned earlier, but it's certainly worth reiterating, we had no new non-accruals in the third quarter, while also experiencing positive valuation and risk ratings migration.

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With regards to new investments, the uptick in activity we noted at the time of our last call transitioned into a brisk transaction environment in recent months. Our new originations in Q2 and Q3 concentrated in attractive incremental financings, typically at low leverage points with high quality borrowers that we know well. As well as in the ABL space where we have transacted on a number of compelling opportunities.

Today, the preponderance of new deal activity is related to regular way M&A demand, both new platform and add-on acquisitions, as sale processes delayed by COVID resume while others seek to transact ahead of potential changes in tax and regulatory regimes. With higher transaction activity, we expect both repayments and new deployment to increase in the coming quarters. Concurrently, we are also seeing a normalization of the competitive environment, with syndicated markets reopening and the private credit market continuing on its path to healing.

Competition for assets in the technology and healthcare spaces has been particularly robust, while other profiles continue to offer differentiated relative value. That said, more broadly speaking, spread, leverage, and documentation terms generally remain comparable to or more favorable than the pre-COVID market. In our estimation, it remains an attractive environment for new deployment and we are very active across our footprint.

Before concluding my comments, allow me to share a few additional thoughts. First, let me say how pleased I am by the performance of our team here at Carlyle through the last several quarters. It feels as if we have compressed an entire economic cycle and the five years' worth of hard work that come with it into just six months. Layering on top of that, the personal challenges this crisis has thrown at many has only increased the degree of difficulty. We are deeply appreciative and proud of the team's efforts.

Second, it should also be noted that the cycle is, in many respects, the first severe credit test for what is a young private credit industry, given that the preponderance of this market's growth and evolution have occurred in the relatively benign environment of the last 10 years. Encouragingly, both in our portfolio and across the market, we largely see evidence of an asset class performing well and as expected, given the severity of the economic shock. For this and other reasons mentioned here, we have confidence in our ability to deliver for our shareholders going forward.

As always, we thank you for your continuing support. I'll hand the call over to Tom Hennigan, our CFO. Tom?

Thomas M. Hennigan

Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

Thank you, Taylor. Today, I'll begin with a review of our third quarter earnings. Then, I'll provide further detail on the portfolio and our balance sheet position. As Linda previewed, we had another stable quarter of total income generation, particularly given the macroeconomic backdrop and some of the earnings headwinds we discussed last quarter.

Total investment income for the third quarter was $43 million, down from $45 million in the prior quarter. The decrease was driven by a couple of factors. First, the decrease in interest income on the core investment book, driven primarily by a lower average invested loan balance. However, despite the low rate environment, our portfolio yield increased slightly from the second quarter.

And second, lower amendment and underwriting fees. Total expenses were $22 million in the quarter, down from $24 million last quarter. The largest component of the decrease was, again, interest expense due to lower LIBOR, as we had the benefit of a full quarter of low LIBOR on our liabilities, while most assets in the portfolio benefited

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from LIBOR floors. This resulted in net investment income for the quarter of $20 million or $0.36 per common share, which is right in line with the general guidance we provided last quarter when we reset the regular dividend.

On November 2, our board of directors declared the dividends for the fourth quarter of 2020, as Linda noted, at a total level of $0.36 per share, which is payable to shareholders of record as of the close of business on December 31. And I'll reiterate, we remain very confident in our ability to meet the $0.32 regular dividend and anticipate continuing to pay special dividends each quarter that'll be sized based on the prior quarter's actual earnings.

Moving on to the JV's performance. The dividend yield on our equity was about 11% in the third quarter. Again, consistent with the 9% to 11% expected range. Following very light repayments across the BDC and JV portfolios over the last two quarters, we've seen a sharp increase in expected repayment activity this quarter, particularly at the JV, so this could weigh on JV earnings and distributions in coming quarters. On [ph] the valuations (00:15:15), our total aggregate realized and unrealized net gain was $12 million for the quarter. Similar to the second quarter, we saw valuations increase based on the continued rebound in market benchmark yields and our stable-to-improving credit outlook.

With reference to the buckets I outlined last quarter, first, performing lower COVID impacted names plus our equity investment in the JV, which accounts for a combined 70% of fair value at September 30, increase in value about $17 million compared to June 30. The assets that had been underperforming pre-pandemic, some which have COVID exposure, were flat on an aggregate basis. The second consecutive quarter of stability. The final category is the moderate to heavier COVID impacted names. Similar to last quarter, we attempted to be appropriately conservative in our assessment of these names, which resulted in a $5 million markdown across these investments.

I'll turn next to a more granular look at the portfolio and related activity. We continue to be encouraged by the outperformance of our borrowers, relative to our expectations set back in March when we've conducted a full re-underwriting of our portfolio. That outperformance ranges from recovery in revenue and EBITDA to fewer financial covenant issues to overall improved borrower liquidity. This is very evident in the revolver activity across our borrowers. Utilization levels across revolvers, historically about 20%, increased to almost 65% in early April, but now has normalized close to pre-pandemic levels. That said, [ph] what's (00:16:53) largely behind us now, we definitely experienced [ph] a normal (00:16:55) uptick in a more material amendment activity during the third quarter and into early October.

Dating back to March, we've closed credit enhancing amendments for about 20% of our debt investments at fair value, which is up from about 7% at the end of the second quarter. These amendments typically included some combination of increased economics, tightening of documentation terms and, when necessary, sponsor equity to support liquidity. For over half these amendments, we received additional yield which added, on average, 125 basis points of spread on those investments. And you won't see this until next quarter's filings, but in early October, we completed balance sheet restructurings for two investments that were already on non-accrual status as of September 30. In both cases, [ph] where they (00:17:41) lenders now in the controlling equity seat, we're better-positioned to drive longer-term recoveries.

I'll finish with a review of our financing facilities and liquidity. Total debt outstanding was about $1.1 billion at quarter end, that's up about $40 million from June 30, based on the modest net deployment for the quarter. Both statutory leverage and net financial leverage were roughly flat at 1.3 times and 1.2 times, respectively. However, net financial leverage improved to about 1.0 times after giving effect to the recent closing of our second JV.

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Let me provide a bit more color on this new investment vehicle, which closed on November 3. It consists of a portfolio of $250 million of assets contributed by CGBD and is generally representative of our current portfolio. It's intended to be an extension of our existing investment strategy, and the underlying financing vehicle has an initial 18 months reinvestment period. CGBD maintains an 84% equity interest but governance is shared with our partner so the vehicle is not consolidated on the balance sheet. Initial use of debt proceeds will be to repay debt.

With the improved leverage and liquidity profile provided by this transaction, we feel very well-positioned going forward whether to withstand another possible leg down in the economy from the second wave or under more normalized market conditions to pursue both attractive new investment opportunities and share repurchases.

With that, let me turn the call back over to Linda for some closing remarks.

Linda Pace
Chief Executive Officer & Director, TCG BDC, Inc.

Thank you, Tom. Delivering a sustainable dividend to our shareholders alongside a stable or growing NAV are our top priorities, which all begins with strong credit performance. We're on the right track to deliver on these goals for our shareholders. Thank you all for your time and attention this morning, and I'll now turn the call back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Rick Shane with JPMorgan. Your line is now open.

Richard Shane Q
Analyst, JPMorgan Securities LLC

Hey. Good morning, everybody, and thanks for taking my questions. I'd love to go through the [ph] core (00:20:02) investments on non-accrual and put them in context of their maturity dates. When we look at Central Security and Derm Growth; Central Security is a 2021 maturity, Derm Growth is a 2022. Based on the timeline on – of when they went on non-accrual, it appears that that was idiosyncratic because it was before any COVID-19 related write-downs. I'm curious what the sort of outlook for both of those is, particularly Central Security, given the timeline to maturity?

Thomas M. Hennigan A
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

Hey. Good morning, Rick. Thanks for the questions. This is Tom. On both those, you're correct in they were idiosyncratic credit issues not related primarily to COVID. On Central Security, [ph] I'll note (00:20:56), that was one of the transactions that we restructured in early October. So, that deal now, I'll say, has a new capital structure fit for the earnings profile and an extended maturity date. So, that one, we have appropriately restructured. Dermatology Associates is one we are – we have been engaged and remain engaged and we anticipate a similar [ph] resolution (00:21:23) on that transaction or that current capital structure within, let's call it, the next couple of quarters.

Richard Shane Q
Analyst, JPMorgan Securities LLC

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Got it. Okay. That's helpful. And then, moving to the two investments that are potentially more COVID related. Direct Travel, obviously, that appears to be highly correlated to what's gone on with developments there. That's maturing in 2021. How are the sponsors behaving and how are they looking towards that maturity? And then – and I apologize if I mispronounce it, but SolAero Technologies – I can't figure that one out. That business, in theory, making panels – or excuse me, solar panels for satellites shouldn't be impacted, but it does look like SoftBank pulled financing, potentially related to COVID-19 issues. Is that business fundamentally impacted? And by the way, I'm sorry, pulled financing of their largest customer, I should say.

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.
A

Right. Good observation. So, on SolAero, that's a deal we actually restructured about a year and a half ago that had just fundamental issues based on the industry. [ph] Solid (00:22:38) industry is just highly cyclical. And you're exactly right, that business had had some issues based on its ties to OneWeb. That's one that we're in the equity seat in that transaction. And it's one that we see a positive resolution going forward, or at least we're in negotiations and hoping to have positive resolution in terms of that company turning the corner and working with their top customer OneWeb, as OneWeb emerges from their bankruptcy.

Richard Shane
Analyst, JPMorgan Securities LLC
Q

Got it. And then, on Direct Travel just...

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.
A

Right. Direct Travel – yeah, Direct Travel, probably one of if not the most severely COVID-impacted name on our books. And that was the other transaction – I noted we had two deals that restructured, that deal also restructured in early October timeframe. And the lenders, again, supporting that business and we are the majority owners going forward and providing the capital for that business.

Richard Shane
Analyst, JPMorgan Securities LLC
Q

Got it. Okay. Great. Thank you. Thank you very much. And sorry, if I re-covered some materials, we've had so many companies report today. It's a blur. I apologize.

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.
A

No, no. No problem at all. And Rick, one thing I will say, is that each – all four of those situations, what I'd highlight is, we are the – our original debt and existing debt is in the first lien position. In each case – in three cases, the lenders either now own the equity or we anticipate will own the equity. So, we think we're in a good position based on our seniority and based on our equity position to drive strong outcomes and recoveries in those situations.

Richard Shane
Analyst, JPMorgan Securities LLC
Q

Great. Hey, Tom, thank you so much.

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Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc. A

Sure.

Operator: Thank you. Our next question comes from Finian O'Shea with Wells Fargo. Your line is now open.

Finian O'Shea
Analyst, Wells Fargo Securities LLC Q

Hi. Good morning. Thanks. I'll reiterate Rick's comments. My questions might be a bit elementary here. But can you first talk about the NAV improvement? You had a bit less of a write-up than many of your peers. Is this a function of a name or two idiosyncratically or is it less of a benchmark spread enhancement? Any color you'd provide there?

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc. A

Hey, Fin. It's Tom. When we look at, across the board, I mentioned our three buckets and categories, the performing book, primarily valuations up based on stable credit and outlook, an improving credit outlook, and then the benchmark yields improving. I think our legacy underperforming yields are flat, so we feel really good about those in terms of just stability. And again, those are more driven based on enterprise value and not necessarily market benchmark yields.

And then, that last bucket, the COVID bucket, is where we saw a little bit more deteriorations, mostly with that Direct Travel investment. I've mentioned the $5 million, that represented more than half that bucket, the declines, and that valuation went from roughly [ph] 80 to 70 (00:25:48) round numbers. So, I'd say that limited on the idiosyncratic besides Direct Travel, we think overall, we fell really good about the overall performance of the book in what we call modest migration upward, and we expect to continue to see that migration going forward.

Linda Pace
Chief Executive Officer & Director, TCG BDC, Inc. A

Yeah. And Fin, it's Linda. Let me just add that, as Tom kind of explained on the – to Rick on his question, we were pretty busy in the third quarter sort of getting resolution on some of these restructured names and what not. So, now that that's kind of set, what we see given how we – our visibility into the portfolio now is kind of a path to just continued improving NAV. So, we feel pretty good about what's on the horizon. And would kind of guide you to not necessarily a step function up, but kind of slow and steady progress on increasing NAV.

Finian O'Shea
Analyst, Wells Fargo Securities LLC Q

That's helpful. And on the second joint venture, can you just go through the sort of basics of kind of what segment of loans will go in there and what its leverage will look like as well?

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc. A

Hey, Fin. Sure. It's Tom. Maybe best way to – if we compare it to what I'll call JV one. The existing JV, JV one, focuses primarily on first lean loans with a lower price point of, let's say, [ph] L plus 400 (00:27:38) and that vehicle has ranged anywhere from – I think the target leverage [ph] originally at (00:27:42) 5 times. Right now, we're running at about half that, 2.5 times. The distinction – this JV two is primarily more unitranche loans and a

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higher percentage of second liens so the weighted average spread in that portfolio was right around [ph] L plus 6 (00:27:56). And based on a little bit more risk in that book, the leverage is lower. The leverage will only be 1.7 times that that's a singular credit facility with a 63% advance rates payment.

Finian O'Shea
Analyst, Wells Fargo Securities LLC

Q

Okay. That's helpful.

Taylor P. Boswell
Chief Investment Officer, TCG BDC, Inc.

A

And, Fin, it's Taylor. Maybe I'll just touch on the strategic rationale there quickly as well. We really think that's a transaction that servers us well in any variance of the forward macroeconomic scenario. So, in a downside case, of course, liquidity enhancing and the like; in a base case or an upside case, frees up a fair amount of balance sheet for us to both pursue this new investment environment which we regard as attractive, and also get going again on the share repurchase front.

Finian O'Shea
Analyst, Wells Fargo Securities LLC

Q

Yep and that sort of just segues to my last question and I'll hop off. Where does this pro forma – your 1 times, is that about where you want to be given, obviously, what we've gone through in COVID and – but you have, obviously, the opportunity buyback stocks. There's a few moving parts. So, just like where, if your leverage profile target has changed at all in light of these joint ventures in today's environment? Thank you.

Taylor P. Boswell
Chief Investment Officer, TCG BDC, Inc.

A

Sure.

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

A

Sure, Finian.

Taylor P. Boswell
Chief Investment Officer, TCG BDC, Inc.

A

I think – oh, go ahead Tom, you pick this one up.

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

A

Oh, sure. What I can say is, Fin, again, with our focus on net financial leverage, that's the 1.0 times. And I think we still feel very comfortable based on the composition of our current portfolio, the composition of both JVs ,that running in that – anywhere from 1.0 times, right now we're or at the lower end up to 1.4 times, we think ultimately we're very comfortable settling right in the middle of that range, and we anticipate we'll continue to operate within the range.

Obviously, it's a low end now, which is, quite frankly, we feel very good about based on just more uncertainty in the market with COVID cases rising, who knows what's going to happen, a noise with the elections. We feel very well-positioned right now to feel that we're at a lower leverage position in case things turn negative. But also,

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we're seeing quite frankly right now a lot of very attractive opportunities in the markets. So, to potentially put new money to work and then, as we noted, the share buyback. But we expect to remain again in that 1.0 times to 1.4 times range as a target.

Linda Pace
Chief Executive Officer & Director, TCG BDC, Inc.
A

Yeah. And it's Linda. Just to sort of to drive it home, Fin, we do continue to see really good value in CGBD shares. So, we're looking forward to restarting the repurchase program. And in the past, we weren't market timers, right, we just kind of – we did it really steady Eddie and we would take that that same position going forward.

Finian O'Shea
Analyst, Wells Fargo Securities LLC
Q

Sure. That's all from me and congratulations on a very good quarter here.

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.
A

Thank you, Fin.

Operator: Thank you. Our next question comes from Paul Johnson with KBW. Your line is now open.

Paul Johnson
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hey, good morning guys. Thanks for taking my questions. Both have already been asked, but two short questions. One, I was just curious, the slight tick up in portfolio yield this quarter, was that driven more upon [ph] amendments (00:31:31) that – this quarter and last or was there something else driving that?

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.
A

Hey, Paul. It's Tom. That's exactly right. The 10 basis points is roughly the 125 basis points across roughly 10% of the portfolio.

Paul Johnson
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Great. And then, my last question is just on the [audio gap] (00:31:53) you guys issued from the adviser. I'm just curious if that's something that is possible to be retired early? And I also realize that there's a conversion price attached to that, that's something you would evaluate, retiring if the price [indiscernible] (00:32:11) of the conversion price or if you have any sort of plans with the preferred?

Linda Pace
Chief Executive Officer & Director, TCG BDC, Inc.
A

I'll take that. Carlyle, obviously, is a strategic investor in the BDC and the investment is looked at with that eye. It's – we're clearly long-term constituents with that money coming from the firm. So, never say never, but there's really not an eye towards what you're talking about right now. It's kind of looked at as a key part of our of our balance sheet and is meant to be able to position us to have not only an appropriate leverage profile and an all-weather balance sheet, as we mentioned, but really to be in a position to act accordingly when we see good

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opportunities to put money to work in the market. So, I would – if I would caution you to look at it as kind of a long-term piece of capital in our balance sheet.

Paul Johnson
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thank you very much. That's all for me.

Operator: Thank you. Our next question comes from Derek Hewett with Bank of America. Your line is now open.

Derek Hewett
Analyst, BofA Securities, Inc.

Q

Good morning, everyone. My first question is more of a clarification. So, what is that – the target leverage of 1 times to 1.4 times? Was that based off of regulatory or statutory leverage or was that purely financial leverage?

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

A

Hey, Derek. It's Tom. To clarify, the 1.0 times to 1.4 times currently right now, we look at it and manage the business based on net financial leverage.

Derek Hewett
Analyst, BofA Securities, Inc.

Q

[ph] Net fi (00:34:07), okay. Great. And then, how should we think about the kind of the ongoing special dividend in terms of size in that? Is it more formulaic or are there other considerations being made?

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

A

Hey Derek. It's Tom again. Right now, our – we'll call it our run rate earnings, we feel very comfortable that, give or take each quarter, based on repayment activity fees, that will be in the mid-30s territory. We'll call that our current normalized earnings. So, we anticipate, every quarter, we'll be paying the stated $0.32 plus, effectively, the outperformance above $0.32.

Derek Hewett
Analyst, BofA Securities, Inc.

Q

Okay.

Thomas M. Hennigan
Chief Financial Officer & Chief Risk Officer, TCG BDC, Inc.

A

Just like we did – much like the third quarter, we earned $0.36, so we declared a $0.32 plus we're going to pay the $0.04 next quarter.

Derek Hewett
Analyst, BofA Securities, Inc.

Q

Okay. Understood. Great. Thank you.

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Operator: Thank you. I am not showing any further questions at this time. I would now like to turn the call back over to Daniel Harris for closing remarks.

Daniel Harris

Head-Investor Relations, TCG BDC, Inc.

Thank you, everyone, for listening and your time today. We do look forward to speaking with you again next quarter. If you have any additional follow-ups after the call, feel free to contact Investor Relations at any time. Thank you very much.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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