New Mountain Finance Corporation Second Quarter 2026 Earnings Call
August 4, 2026, at 10:30am ET

Presenters:

Steven Klinsky – Chairman of NMFC & Chief Executive Officer of New Mountain Capital

John R. Kline – President & Chief Executive Officer

Laura C. Holson – Chief Operating Officer, Interim Chief Financial Officer & Treasurer

Q&A Participants:

Finian O'Shea – Wells Fargo Securities

Heli Sheth – Raymond James

Operator

Good day, and welcome to the New Mountain Finance Corporation Second Quarter 2026 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to John Kline, President and CEO. Please go ahead.

John R. Kline

Thank you, and good morning, everyone. Welcome to New Mountain Finance Corporation's second quarter 2026 earnings call. On the line with me here today are Steve Klinsky, Chairman of NMFC and CEO of New Mountain Capital; Laura Holson, COO, Interim CFO, and Treasurer of NMFC. Steve is going to make some introductory remarks, but before he does, I'd like to ask Laura to make some important statements regarding today's call.

Laura C. Holson

Thanks, John. Good morning, everyone. Before we get into the presentation, I would like to advise everyone that today's call and webcast are being recorded. Please note that they are the property of New Mountain Finance Corporation and that any unauthorized broadcast in any form is strictly prohibited. Information about the audio replay of this call is available in our August 3rd earnings press release.

I would also like to call your attention to the customary Safe Harbor disclosure in our press release and on pages 2 and 3 of the slide presentation regarding forward-looking statements. Today's conference call and webcast may include forward-looking statements and projections, and we ask that you refer to our most recent filings with the SEC for important factors that could cause actual results to differ materially from those statements and projections. We do not undertake to update our forward-looking statements or projections unless required to by law.

All materials referenced during today's call, including the earnings press release, earnings presentation and Form 10-Q are available on our website at www.newmountainfinance.com. At this time, I'd like to turn the call over to Steve Klinsky, NMFC's Chairman, who will give some highlights beginning on page 6 of the slide presentation. Steve?

Steven Klinsky

Thanks, Laura. It's great to be able to address you all today, both as NMFC's Chairman and as a major fellow shareholder. Adjusted net investment income for the second quarter was $0.26 per share, covering our $0.25 per share dividend that was paid in cash on June 30th. Looking forward to Q3, we would like to announce a $0.25 dividend payable on September 30th to shareholders of record as of September 16th. Consistent with our historical practice, we project the net investment income will continue to cover the quarterly dividend in the upcoming quarters.

Our net asset value per share of $10.89 declined $0.03 or just 30 basis points compared to Q1, reflecting stable credit performance across the portfolio. Notably, non-accruals at fair value improved meaningfully from 2.6% last quarter to 1.5%. During the quarter,

we repurchased approximately $9 million of stock at approximately $8 per share or about a 27% discount to book value. Year-to-date, we have repurchased approximately $66 million of stock, leaving us with approximately $80 million of total remaining capacity.

Future buybacks will be predicated on having adequate excess capital, as well as making sure that we are appropriately within our stated leverage range. As I stated in the past, I believe that NMFC continues to be oversold. Overall, NMFC's book value has been stabilizing, as evidenced by these recent quarterly results. We believe that blind fears of a universal SaaSpocalypse have been excessive. We have marked many of our well-performing loans lower based on negative market sentiments overall and pursuant to fair value accounting standards, and believe that there could be upside in the coming quarters as these loans move back towards par.

We are executing our stated strategy of finding bargains in the secondary market to build book value as they trade up. And we are optimistic that we will have catalysts upcoming for some of our equity positions in the portfolio if they perform on or above plan. We believe that risk-adjusted returns in direct lending are improving in this new market environment that is characterized by slightly higher pricing and lower average leverage multiples on new originations. We have pledged to voluntarily and permanently reduce our fees to be shareholder friendly.

And finally, NMFC is paying a cash yield of 15% at Friday's closing stock price, which is a level that is approximately two times as high as high yield bond index averages. And with the dividend, which we feel is sustainable based on the anticipated earnings power of the portfolio for the foreseeable future. I and my fellow NMC executives remain the largest shareholders of NMFC stock and our ownership position has been increasing over time. Overall, New Mountain ownership increased by 100 basis points sequentially and 400 basis points versus prior year to approximately 18% of total shares outstanding as of June 30th. We thank you, as always, for your ownership and partnership, and we are working diligently to serve your interests in the months and years ahead.

With that, let me turn the call over to John for more details and comments.

John R. Kline

Thank you, Steve. I would like to begin on page 7, which offers an overview of our approach to direct lending. First and foremost, we focus only on select parts of the economy that we believe are defensive and have sustainable tailwinds. The businesses that we invest in tend to have recurring or naturally reoccurring revenue models, stable margins and are cash flow generative in many different economic environments.

Overall, NMFC's focus on stable, non-cyclical sectors is more important than ever as we consider current economic risks, which include supply chain disruptions, weak consumer confidence, and persistent inflationary pressure. Importantly, NMFC provides heightened transparency around our industry niches as opposed to the standard practice of using broad sector classifications. This practice provides our investors with more clarity into the specific types of companies that we invest in.

Page 8 provides key performance statistics showing a long-term track record of delivering consistent, enhanced yield by minimizing credit losses and distributing virtually all of our excess income to shareholders. Since our IPO in 2011, NMFC has returned over $1.5 billion to shareholders through our dividend program, generating an annualized return of approximately 10%. Our dividend yield as of Friday's closing stock price is 15% annualized based on what we believe are sustainable earnings. Our loan-to-value ratio is just 49% and includes the latest view of enterprise value at our portfolio companies. Importantly, we recalculate this metric every quarter to ensure we are accurately reflecting evolving market conditions and their impact on the valuation of our borrowers.

Turning to page 9. We have made excellent progress on our strategic priorities so far this year. The portfolio sale, which closed in late Q1, reduced PIK income and improved our position diversity. And on the liability side, we continue to actively term out the maturities of our debt stack. Looking forward, we remain focused on further improving these same metrics. Over the next year we believe that there are potential realization opportunities for many of our most concentrated positions. These exits would catalyze more diversity in the portfolio and in many cases reduce PIK income. Additionally, there are several other smaller preferred and common stock positions that could be sold in the near-term. We believe that ongoing momentum on the asset side of our balance sheet will position us well for continued improvement on our liability mix and cost of financing.

As shown on page 10, 88% of the portfolio carries a green risk rating. The red and orange categories, which represent our most challenged positions, both declined this quarter. We did see an increase in the yellow category, which represents modestly underperforming positions. Non-green names carry a weighted average mark of approximately $0.67, reflecting substantial derisking already captured in the current portfolio marks.

Turning to page 11, we provide a graphical analysis of NAV changes during the quarter, resulting in a book value of $10.89, a $0.03 decline compared to $10.92 for Q1. The main driver of the decline this quarter was a write down on our non-accruing position in Convey, partially offset by a handful of unrealized gains as well as accretive share repurchases.

Page 12 addresses NMFC's credit performance. For the quarter, non-accruals at fair value stood at 1.5%, which was a meaningful improvement from 2.6% last quarter. Finally, on the right side of the page, we show our cumulative track record since IPO. During that time, NMFC has made $10.6 billion of investments while realizing losses net of realized gains of $101 million. We remain focused on reversing losses through pull to par improvements on certain loans and through aforementioned exits on our equity positions.

I will now turn the call over to Laura to discuss the current market environment and provide more details on NMFC's quarterly performance.

Laura C. Holson

Thanks, John. Muted Q2 M&A activity led to lower industry-wide direct lending volume in the quarter. Pitchbook LCD data indicates second quarter volume was down approximately 55% from the first quarter and down about 13% year-to-date versus the first half of 2025. That said, the backlog of potential private equity exits remains substantial and sponsors continue to face pressure to deploy significant dry powder. As a result, we remain cautiously optimistic about activity through the balance of the year, which is further supported by an uptick in deal activity in recent weeks.

At the same time, several crosscurrents are contributing to an uncertain investing environment. These include conflicting macroeconomic signals around inflation, consumer health, labor markets and commodity prices, ongoing geopolitical conflicts, the impact of AI and the accelerating pace of technological change, and persistent valuation gaps. Importantly, despite this uncertainty, we remain confident that direct lending offers attractive risk-adjusted returns and enhanced yields relative to other asset classes.

Spreads have stabilized around SOFR+ 500 basis points for sectors viewed as relatively insulated from AI disruption, maintaining an attractive spread premium over liquid below investment grade assets and delivering a higher, more defensible all in yield than many other income oriented investments. We are also seeing an unusual dynamic in which some smaller companies can price debt more tightly than larger companies, in part because fewer lenders are required to complete those smaller transactions.

Software and other AI exposed sectors continue to price wider. This environment reinforces the importance of our differentiated underwriting strategy, which enables us to conduct deeper diligence and identify compelling credit opportunities in both the primary and secondary markets. As a reminder, most of NMFC's portfolio sits in sectors where New Mountain has direct private equity experience and dedicated industry resources, which gives us an underwriting depth and real time insights that we believe generalist lenders simply cannot replicate.

Turning to slide 14. Origination activity was relatively light during the quarter. NMFC originated $73 million of investments offset by $105 million of sales and repayments effectively remaining fully invested. We continue to balance three priorities when thinking about origination, maintaining leverage within our target range, deploying capital into select high conviction opportunities, and repurchasing our shares at a discount to book value. As discussed last quarter, we continue to acquire select positions in the secondary market at meaningful discounts where we believe our differentiated perspective creates the potential for book value appreciation. Although portfolio activity was modest, the yield on new investments exceeded those on repayments, in part due to these discounted purchases as shown on slide 15.

Turning to slide 16. Approximately 80% of the portfolio, including first lien investments, SLPs and net lease investments is senior in nature, broadly consistent with the prior quarter. Equity positions represent approximately 6% of the portfolio, with the largest position shown on the right side of the page. We continue to devote meaningful time and resources to business building at these companies, and as John noted, believe we are making positive progress towards monetizing certain positions.

Slide 17 highlights the diversification of our portfolio across 113 companies. Excluding investments in the SLPs and net lease funds, our top 10 single name issuers represent 24% of total fair value. As John mentioned earlier, increasing portfolio diversification remains an important priority. And while we have made great strides there with the portfolio sale and subsequent investment activity, we believe we have line of sight into further progress over the coming quarters.

I will now review our financial results beginning on slide 18. For the second quarter, total investment income was $61 million, down 11% from the prior quarter, primarily due to the smaller, but more senior and more diversified portfolio, following the secondary sale. Total net expenses were approximately $37 million, broadly unchanged from the prior quarter. Lower interest expense was offset by the resumption of the incentive fee, which had been fully waived in the first quarter. NMFC's effective incentive fee rate for Q2 was 15%, reflecting a voluntary waiver of $1.4 million of incentive fees ahead of the previously announced permanent reduction to 15% in 2027.

Adjusted net investment income for the quarter was $0.26 per share, more than covering our second quarter dividend. For the third quarter, our board has declared a dividend of $0.25 per share. We expect to fully cover the dividend through net investment income consistent with our historical performance.

Slide 19 provides additional detail on cash and PIK income. PIK income generated by assets structured with PIK from origination represented 13% of total investment income. Modified PIK resulting from amendments or restructurings represented only 3% of total investment income consistent with the prior quarter. The modest increase in total PIK income as a percentage of investment income primarily reflects the denominator effect from the secondary sale along with some PIK compounding. Importantly, investments generating non-cash income during the quarter are marked at a weighted average fair value of approximately 95% of par, and 89% of this income is generated by names rated green on our heat map.

Moving to the balance sheet on slide 20. As of June 30th, the portfolio had total assets of $2.4 billion, total liabilities of $1.4 billion, and net asset value of $1 billion or $10.89 per share. Our net debt to equity ratio was 1.11 times below the midpoint of our target range of 1 to 1.25 times.

On slide 21, we highlight our diversified financing sources and leverage profile. We have more than $2 billion of total borrowing capacity, including approximately $830 million available under our credit facilities, subject to borrowing base limitations. This capacity more than covers approximately $160 million of unfunded commitments and our 2027 maturities. During the second quarter, we closed a $150 million private placement with a delayed funding date as part of our proactive management of upcoming maturities. We expect to remain active in the unsecured debt markets in line with our strategic priorities. After quarter end, we also extended the maturity of our corporate revolving credit facility to 2031, as reflected on slide 22. We continue to ladder our maturities with nearly 60% of outstanding debt maturing in 2029 or later.

Lastly, slide 23 summarizes the floating and fixed rate composition of our assets and liabilities. As of June 30, 89% of the NMFC loan portfolio was floating rate and 11% was fixed rate. Our liabilities were 74% floating rate and 26% fixed rate. As discussed in recent quarters, we have meaningfully increased the floating rate portion of our liabilities and intend to continue to do so in order to reduce potential asset liability mismatches.

With that, I'll turn the call back over to John.

John R. Kline

Thank you, Laura. In closing, we would like to thank all of our stakeholders for the ongoing partnership and look forward to speaking to you again on our third quarter 2026 earnings call in November. I would now like to turn things back to the operator to begin Q&A. Operator?

Operator

We'll take our first question from Finian O'Shea with Wells Fargo Securities.

Finian O'Shea

Hey, everyone. Good morning. Just on the remarks related to equity rotation, I think you said you had a line of sight for some of those exposures. Any color you could put on that in terms of degree of, and number of names and sort of where you are in those processes?

John R. Kline

Sure. I would say on a couple of smaller positions that I referenced, we have high near-term – we have good optimism that over the near-term we can exit some of those positions. And when I say near term, I would say the next quarter or two. And then I think on a number of other positions, I think I would characterize as having a lot of irons in the fire as it relates to monetizing certain of our larger positions. And so on those, I think, it's tough to give you exact guidance as to what's going to happen, but I would say across a number of positions, there's a great degree of focus on executing some monetization events.

And I would certainly be hopeful that we could do so across the coming quarters. It's just tough to know which names will come first and which names will take a little longer. But I think the overarching theme is that a number of these positions are performing well. And we believe that we do have the near-term ability to exit in a value accretive manner to NMFC shareholders. So we're overall excited about that, but there's still a bit of work to do with regard to executing the deals that we have in mind.

Finian O'Shea

Appreciate that. And a follow-up and I know you get this one a fair amount on the borrowings, but the market changes, of course. So a lot of your unsecured stack turns over in the next couple of years. Any feel on what you might be able to achieve there on borrowing spreads into, through 2027, 2028?

Laura C. Holson

Yeah, absolutely. I do think we've talked in the past about how we view kind of the rotation of our liability stack as a real opportunity. Some of it ties to some of the comments that John just made around some of our strategic initiatives, which include monetizing some of our equity positions, getting more diverse, decreasing PIK. So, a little bit of a chicken and egg to some degree. But I think if we are able to execute and continue to execute on those strategic initiatives, I do think that'll pay benefits when we think about going back to the unsecured market in the relatively near future. And again, I think the good news is a lot of our maturing debt is not the most low cost debt. So when we think about the – going back to the unsecured market, we do view it as an opportunity hopefully to really reduce our cost of financing over time.

Finian O'Shea

Very good. I'll hop back in the queue. Thank you.

Operator

We'll move to our next question from Heli Sheth with Raymond James.

Heli Sheth

Good morning. Thanks for the question. So kind of continuing with the theme of rotating out of these equity and non-income producing assets. I know you mentioned some near-term opportunities. Are you looking for a more active M&A market to kind of rotate out of a majority of these? Or do you think for a majority is more achievable under these current market conditions?

John R. Kline

Yeah, it's funny, first of all, thank you for the question. We think the market for M&A is getting better. And so as we look forward to the fall, we think that's going to help our business in a lot of different ways. We'll be able to originate what we think will be good, fresh new loans into NMFC, but we'll also be able to take advantage of the – what we view as potentially a better M&A environment to exit some of these deals.

So I don't think we need help from the macro. I think we feel good about the environment. And then we also feel good about the underlying performance of a lot of our positions that we feel, that we have the opportunity to exit. And so that's probably the most

exciting part. It's no matter what the environment is like, if you have a well-performing business, it's a lot easier to exit than if you have a struggling businesses.

So, we really feel I just want to emphasize this, we feel like we're just a couple of moves away from delivering a portfolio that has really great diversity and much better income quality characteristics and performance characteristics. And so we just have to execute a couple of those moves and we're optimistic that we can do so. But the timing is still a bit uncertain, but we're very focused on it.

Heli Sheth

Got it. Thanks for the color. And a follow-up, any further insight into what we should expect in terms of pacing of both repayments and originations for the remainder of the year? Are there any catalysts outside of obviously the M&A market that you think will drive activity?

John R. Kline

Yeah, I think the biggest catalyst when we think about the back half of the year is just what we see as a better environment. So the first half of the year for direct lending was not a great environment, not a lot of M&A, there is just volatility around the SaaSpocalypse. And I think as we look forward into our pipeline, there's just more activity. There's no other way to put it. And that's just a really good thing.

In some cases within our portfolio, particularly around the equity positions, that involves a more proactive approach to the market with regard to selling full companies. And so that's a little bit of a different exercise. And again, we think that the environment is just fine for that as well.

Heli Sheth

Got it. Thanks. Appreciate the time.

Operator

It appears there are no further questions at this time. I'd like to turn the conference back over to John for any additional or closing remarks.

John R. Kline

Well, great. Well, thank you for the questions and thank you for your participation in our second quarter earnings call. And we look forward to speaking to you again in November.

Operator

This concludes today's call. Thank you again for your participation. You may now disconnect, and have a great day.