New Mountain Finance Corporation Third Quarter 2026 Earnings Call
November 3, 2026, at 10:00am 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:

Robert Dodd – Raymond James

Ethan Kaye – Lucid Capital Markets

Operator

Good day, and welcome to the New Mountain Finance Corporation Third 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 Third Quarter 2026 Earnings Call. On the line with me here today are Steve Klinsky, Chairman of NMFC and CEO of New Mountain Capital, and Laura Holson, COO and Interim CFO 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 November 2nd 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 third quarter was $0.26 per share, covering our $0.25 per share dividend that was paid in cash on September 30th.

Looking forward to Q4, we would like to announce a $0.25 dividend payable on December 31st to shareholders of record as of December 17th.

Our net asset value per share of $10.67 declined 2% compared to Q2, largely due to mark-to-market movement on a handful of idiosyncratic credits, particularly on some of our quoted assets.

Earnings in 2026 have grown at double-digit rates at some of our biggest positions, including Benevis, UniTek and the Novus Process Systems, formerly known as Permian. UniTek and Novus are also seeing new growth markets tied to the expansion of the electric grid and data centers.

We think the current environment is a good time to enter the credit markets, as risk-adjusted returns in direct lending appear to be attractive compared to the narrow market spreads of past years. As discussed in past calls, we have pledged to voluntarily and permanently reduce our fees, to be more shareholder-friendly.

Despite all these positives, and as I've said before, I believe NMFC continues to be oversold, with the stock trading at approximately 65% of book value. At these trading levels, NMFC's book value would have to depreciate nearly $345 million vs. our marks as of September 30th, or about 15% of our portfolio at fair value, to bring book value down to where the stock trades. At Friday's closing stock price, NMFC is paying a cash yield of 14%, roughly 6 percentage points above the average yield of the high-yield bond index, and we believe the dividend is sustainable.

Shareholders who have been with NMFC since its public offering have received $20.95 of total cash back, vs. their initial price of $13.75 per share, and also have the $10.67 of book value per share today. This equates to a 9.9% annualized return since NMFC's inception, or 8.9% at the current depressed stock price, all at an annualized realized total net loss rate of just 6 basis points. This 9.9% long-term return exceeds the high-yield bond index by approximately 4.5 percentage points. Long-term, loyal shareholders have received all their investment back in cash, plus 103%, assuming a hypothetical sale at the current depressed stock price. Returns made by reinvesting these past cash dividends would be in addition to this amount.

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 from approximately 14% last year to approximately 18% of total shares outstanding as of September 30th.

We thank you as always for your friendship and ownership, 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'll begin on page 7. Our direct lending strategy focuses on defensive sectors with sustainable tailwinds, and on businesses with recurring revenue, stable margins and strong cash flow across economic environments. Our strategy has been built to navigate current economic challenges like persistent inflation, supply chain volatility and weaker consumer confidence. We prioritize transparency and we seek to provide more granular disclosure of our industry niches, so investors can see exactly what we own.

Page 8 shows our long-term track record of delivering consistent, enhanced yield by minimizing credit losses and distributing virtually all of our excess income to shareholders. NMFC's loan-to-value ratio is 49%, which reflects our latest view of enterprise value at each portfolio company. We recalculate loan-to-value every quarter so it reflects current market conditions.

Turning to page 9, our strategic priorities include monetizing equity positions, reducing PIK income, and increasing position diversity. As Steve mentioned, many of our equity and PIK-yielding positions are performing well, and we continue to see potential catalysts for exits. We're focused on the right outcome for the portfolio, which sometimes requires patience. As opportunities materialize, our objective is to redeploy proceeds into first-lien, cash-paying investments to improve portfolio diversification and income quality. Our liability structure remains well positioned with further opportunity in 2027 to extend near-term maturities.

On page 10, 86% of the portfolio is rated green, compared to 88% last quarter. We saw an increase in the yellow category, from 10.2% to 11.7%, and our yellow and orange names carry a weighted average mark of approximately $0.70, reflecting meaningful de-risking already captured in current NAV. This heat map migration is reflective of modest stress on certain older vintage investments, which we continue to work through. We expect to make progress migrating to newer names in the upcoming quarters, which should be beneficial to overall portfolio quality.

Page 11 shows the NAV bridge. Book value per share ended the quarter at $10.67, down $0.22 from $10.89 in Q2. Approximately $0.12 of the decline reflected broader market movements, driven by higher discount rates on leveraged loan assets, while the remaining $0.10 reflected credit-specific movements on a handful of positions, including Insightsoftware, Deca Dental and RLG. While this is not the NAV result we want, we do see positive catalysts on certain of these names and other discounted names in the portfolio.

Page 12 covers credit performance. Non-accruals at fair value were 1.8%, up 30 basis points from last quarter as a very small position was added to the list. On the flip side, we exited Convey early in Q4 which will reduce non-accruals next quarter by 0.1% at fair market value and 0.6% at cost, all things equal. On the right side of the page is our cumulative record since IPO, where we have invested $10.6 billion across 358 companies, with net realized losses of approximately $101 million. We remain focused on recovering unrealized losses through pull-to-par on certain loans and through equity exits I mentioned.

I'll now turn the call over to Laura to discuss the current market environment and provide more details on the quarter.

Laura C. Holson

Thanks, John.

Turning to page 13, M&A activity to date in 2026 remains below 2025 levels, with industry-wide direct lending volume down approximately 28% year-to-date according to PitchBook. We still believe M&A activity will pick up at some point given the backlog of PE exits and pressure to return capital, but the current investment environment is full of cross-currents. 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. While we haven't seen the meaningful pick-up that we've been predicting, our deal flow has been steady, particularly in the defensive growth sectors where we focus.

We continue to think that direct lending offers attractive returns and compelling enhanced yield. As a floating rate asset class, our all-in return benefits from rising base rates. At the start of 2026, the forward curve was actually predicting base rate cuts. Today, base rates have remained higher for longer and the forward curve is now pricing in rate increases over the next twelve months. We believe this creates a tailwind.

Additionally, we're seeing what we believe is a healthy bifurcation in the market around spreads. Throughout 2025, we noted on several of our earnings calls that most direct lending deals priced at SOFR+ 450-475 regardless of size, sponsor, or asset quality. That made for a challenging investing environment, and our strategy was really focused on staying safe. Today, spreads range from SOFR+ 475 on the tight end to SOFR+ 600s on the wider end. Note that this is the case even in an environment where M&A

remains somewhat muted. I'd attribute this to a more balanced supply-and-demand dynamic: even as deal flow is lower, less direct lending capital is available to chase deals, particularly on the heels of recent industry-wide redemptions. We've also seen this translate into more attractive capital structures with lower leverage and tighter documentation.

To summarize, we think the combination of higher base rates, more discerning spreads, and safer capital structures provides attractive risk-adjusted returns in direct lending.

Turning to slide 14, origination activity was intentionally light in the quarter, as we remained fully invested. We originated $10 million of investments, offset by $44 million of sales and repayments.

Slide 15 shows that the average yield of NMFC's portfolio increased to 12.0% during the quarter, largely due to the upward shift in the forward curve. Although portfolio activity was modest, yields on new investments exceeded those on repayments. We continue to believe these yields are attractive for the risk.

Turning to slide 16, approximately 80% of the portfolio—including first-lien investments, SLPs and net lease investments—is senior in nature, consistent with the prior quarter. Equity positions represent approximately 6% of the portfolio, with the largest positions shown on the right side of the page.

Slide 17 highlights the diversification of our portfolio across 110 companies. Excluding investments in the SLPs and net lease funds, our top 10 single-name issuers represent 24.8% of total fair value. As John mentioned earlier, increasing portfolio diversification remains an important priority and 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 third quarter, total investment income was $60 million, down 1.8% from the prior quarter.

Total net expenses were approximately $36 million, down 1.4% from the prior quarter. NMFC's effective incentive fee rate for Q3 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 third-quarter dividend. For the fourth quarter, our board has declared a dividend of $0.25 per share.

Slide 19 provides additional detail on cash and PIK income. PIK income from assets structured with PIK at origination represented 15% of total investment income. Modified PIK resulting from amendments or restructurings represented 5% of total investment income, up slightly from the prior quarter.

The increase in total PIK income as a percentage of investment income reflects PIK compounding and one loan moving from cash pay to PIK in the quarter. Importantly, investments generating non-cash income during the quarter are marked at a weighted-average fair value of approximately 94% of par, and 81% of this income is generated by names rated green on our heat map. Reducing PIK income remains a strategic priority, and we continue to focus on improving the cash-paying composition of our portfolio over time.

Moving to the balance sheet on slide 20, as of September 30, the portfolio had total assets of $2.4 billion, total liabilities of $1.3 billion and net asset value of $1.0 billion, or $10.67 per share. Our net debt-to-equity ratio was 1.15 times, within our target range of 1 to 1.25 times. Shortly after quarter-end, we received a few sizable repayments – namely Thorne and Mercer Advisors. Pro forma for those repayments, our statutory net debt-to-equity ratio decreased to 1.09 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 $760 million available under our credit facilities, subject to borrowing-base limitations.

This capacity more than covers our approximately $145 million of unfunded commitments as well as our 2027 maturities. During the second quarter, we priced a $150 million private placement with a delayed funding date, which funded on October 1st. We expect to remain active in the unsecured debt market in line with our strategic priorities.

Turning to slide 22, we show our debt maturity schedule. As mentioned, we have already covered our 2027 maturities through our recent unsecured issuance and existing liquidity. 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 September 30, 88% of the NMFC loan portfolio was floating rate and 12% was fixed rate. Our liabilities were 77% floating rate and 23% fixed rate, compared to 74% floating rate last quarter. This represents an important milestone, as we have now exceeded our target of more than 75% floating rate liabilities. We intend to continue optimizing our liability mix to reduce potential asset-liability mismatches.

With that, I will 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 fourth quarter 2026 earnings call in February. I will now turn things back to the operator to begin Q&A. Operator?

Operator

We'll take our first question from Robert Dodd with Raymond James.

Robert Dodd

Hi, guys. Couple of questions. So, I mean, one of the things you pointed out, obviously, you're seeking monetizations on the equity, which has been a theme, and yeah, it takes a while. Is the market just extremely uncooperative right now? To your point, M&A activity in general is down substantially. Is it realistic that we're only going to see these monetizations and rotation to income-producing assets if the market is substantially more cooperative? Obviously, these are case-by-case assets, but still, the market doesn't seem to be helping you out here. So, is that what we need to look for? Be more optimistic if the market picks up that that monetization could actually happen? Otherwise, sit back and be patient?

Laura C. Holson

I don't think it's so directly tied to the overall volume of M&A environment. Certainly, a more robust M&A environment is more constructive, of course, but it's not like there's no M&A happening right now. I think, in some of our prepared remarks, we talked about seeing steady opportunities for us in direct lending, and so I think that is a result of steady M&A activity, which is not as robust as maybe we've seen in years past. I think it's most important, how the underlying companies are performing. That's really what we've been focused on and as Steve talked about in his remarks, we feel like those underlying companies are performing well. So, I think that's a good place to start. And then, we'll obviously, as John said, have to be a little bit patient to just find the right opportunities. But overall, we don't think that we need to wait for a prolific M&A environment in order to execute some of those strategic priorities.

Robert Dodd

Got it, thank you. Sort of related follow-on. As you pointed out, there's a lot of cross-currents out there right now and rates are now, seem to be, on the way back up, which would be positive for earnings if there's no secondary effects. When we look at one of your larger markdowns on the credit side, this quarter was Deca Dental. That's been a theme in this space, not just you, there's a lot

of dental that's been having issues, there's a lot of veterinary, and you've got exposure there as well. Is there an issue with how the consumer is right now, mixed messages there as well, is there an issue that there's only so much pricing power some of these businesses, be it dental or veterinary or others, can pass through to a consumer, but their cost structure and their interest expenses are still going through the same pressures? And so, are we just going to see more and more of those consumer, thought to be more robust businesses, but ones that have passed through the pricing power they can? Are we just going to see more and more problems in that segment of your, and frankly, other people's portfolio?

John R. Kline

Sure. It's a great question. From what we see across the consumer is a bit of weakness on the low end and strength on the higher end. In general, when we think about the consumer exposure we have in NMFC, we think it's more on the defensive side because it's not overly discretionary. When we think about pet, we have some first lien exposure to veterinary and pet in general we think that while there's some discretionary aspects, it's relatively stable from a top line perspective, even in a weaker consumer environment. So, we feel okay about that. On the dental side, I think the issues are less consumer and more operational. And so, any dental exposure that we have, we'd be very focused on making sure the operations are running as smoothly and crisply as possible. And then, just more broadly, when we think about the rest of our portfolio, the only other area that I can think of where there's material consumer exposure would be car wash, which we see as being pretty low ticket and pretty stable when we look at the best car wash platforms out there. And we think we have good exposure to that niche. So that'd be the way I would answer it.

Robert Dodd

Got it. Thank you.

Operator

We'll move to our next question from Ethan Kaye with Lucid Capital Markets.

Ethan Kaye

Hey, guys. Thanks for taking the question. You indicated there's some improving performance across some of the larger portfolio positions, which I think you just touched on. Can you elaborate on that any further? And does that change the pressure or timeline maybe with which you look to exit these positions?

John R. Kline

I would say it's supportive of the timeline that we seek to exit some of these positions. So, I just think, as Laura said, it's good that we have momentum in some of our larger positions, some of our PIK-yielding positions, some of our equity positions. And we think that will give us an opportunity to exit at a good value.

Ethan Kaye

Okay, and then notice there was a bit of a decline in income from the senior loan programs and the net lease. Can you just talk about maybe what drove that this quarter?

Laura C. Holson

Sure, I mean these vehicles generally produce pretty consistent income. We find that there is a little bit of volatility quarter to quarter, just based on underlying realizations or activity at those funds themselves. So, we would expect to see a little bit of movement quarter over quarter. So nothing in particular that I would call out. Just normal quarter-to-quarter volatility.

Ethan Kaye

Okay, thank you.

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

Great. Well, thank you, everyone, for joining our third quarter call, and we look forward to speaking to you again in the new year. Thank you.

Operator

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