

MCG CAPITAL CORP  
Form 425  
April 29, 2015

PennantPark Floating Rate Capital  
Acquisition of MCG Capital Corporation  
Investor Presentation  
April 29, 2015  
Subject Company: MCG Capital Corporation

Edgar Filing: MCG CAPITAL CORP - Form 425

and deemed filed pursuant to Rule 14a-12 of the Securities Exchange Act of 1934  
(File No. 814-00239)

Filed by PennantPark Floating Rate Capital Ltd.

Pursuant to Rule 425 under the Securities Act of 1933

Forward-looking Statements and Risk Factors

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This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, relating to PennantPark Floating Rate Capital Ltd. ( PFLT ) and MCG Capital Corporation ( MCGC ). Statements other than statements of historical fact are forward-looking statements and are not guarantees of future performance or results and involve a number of risks and uncertainties. Actual results may differ from those stated in the forward-looking statements of a number of factors, including those described from time to time in filings with the Securities and Exchange Commission. No assurance can be given that any statement made herein. All forward-looking statements speak only as of the date of this presentation.

However, by their nature, these forward-looking statements involve numerous assumptions, uncertainties and opportunities, both known and unknown. We caution readers of this presentation not to place undue reliance on these forward-looking statements as a number of factors may cause actual results to differ from those stated in the forward-looking statements. Forward-looking statements may be influenced in particular by factors such as the ability of the parties to consummate the transaction, the failure of PFLT or MCGC stockholders to approve the proposed merger, the ability to realize the anticipated benefits of the transaction, the effect that the announcement or consummation of the merger may have on the trading price of the common stock of the companies, the other factors described from time to time in the companies' filings with the Securities and Exchange Commission, the areas in which we operate, and changes in economic, political and regulatory conditions. We caution that the foregoing list of factors is not intended to be exhaustive. When relying on forward-looking statements to make decisions, investors should carefully consider the aforementioned factors. This presentation represents past performance and does not guarantee future results. The performance stated may have been due to extraordinary circumstances and performance may be lower or higher than the performance data quoted.

We refer you to the list of risk factors set forth in PFLT's most recent Annual Report on Form 10-K, a copy of which may be obtained from [www.sec.gov](http://www.sec.gov). Specifically, an investment in PFLT's common stock involves significant risks, including the risk that the secondary market price of PFLT's common stock may be less than PFLT's net asset value per share, as well as the risk that the price of PFLT's common stock in the secondary market may be less than the price of PFLT's common stock in the primary market. For more information on the risks related to an investment in PFLT, please refer to the "Risks Relating to an Investment in Our Company" section of PFLT's most recent Annual Report on Form 10-K under Item 1A. This presentation contains certain information as is set forth in PFLT's reports on Form 10-K or 10-Q and we direct you to the SEC website for more information. **IMPORTANT ADDITIONAL INFORMATION AND WHERE TO FIND IT**

This communication is being made in respect of the proposed business combination involving PFLT and MCGC. In connection with the proposed business combination, PFLT and MCGC have filed a Registration Statement on Form N-14 that includes proxy statements of PFLT and MCGC and that also constitutes a prospectus of PFLT. The Registration Statement, Proxy Statement and Prospectus are being filed with the SEC. **INVESTORS AND SECURITY HOLDERS OF PFLT AND MCGC ARE URGED TO READ THE JOINT PROXY STATEMENT AND PROSPECTUS CAREFULLY IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.**

Investors and security holders will be able to obtain free copies of the Registration Statement and Joint Proxy Statement/Prospectus by contacting the following:

PFLT  
and  
MCGC  
through  
the  
web  
site  
maintained

by  
the  
SEC  
at  
[www.sec.gov](http://www.sec.gov).

Free  
copies

of  
the  
Registration  
Statement  
and  
Joint  
Proxy  
Statement/Prospectus  
(when  
available)  
and  
other

documents filed with the SEC can also be obtained on PFLT's website at [www.pennantpark.com](http://www.pennantpark.com) or on MCG's website at [www.mcg.com](http://www.mcg.com). PFLT and MCGC and their respective directors, executive officers and certain other members of management and employees may be deemed to be soliciting MCGC stockholders in respect of the acquisition. Information regarding the persons who may, under the rules of the SEC, be deemed to be acting in connection with the proposed acquisition will be set forth in the Joint Proxy Statement/Prospectus when it is filed with the SEC. The definitive proxy statement filed with the SEC on November 26, 2014. You can find information about MCGC's executive officers and directors as of December 31, 2014 filed with the SEC on April 29, 2015. You can obtain free copies of these documents from PFLT and MCGC. This presentation does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of securities until the registration or qualification under the securities laws of such jurisdiction. A registration statement relating to these securities may not be sold until the registration statement becomes effective. Investors are advised to carefully consider the investment opportunity.

**PROXY SOLICITATION**

Section I.  
Proposed Transaction & Rationale  
2

The Acquisition

3

PFLT

was

founded

in

2011

to

provide

middle

market

senior

secured

floating

rate

loans

to

our  
sponsor  
and corporate clients and attractive and stable returns to investors  
PFLT has performed well since inception  
Since 2013 PFLT has had a total return of 33% compared to a total return of 18% for the BDC  
index

(1)  
and  
a  
total  
return  
of  
(2%)  
for  
the  
senior  
secured  
floating  
rate  
BDCs

(2)  
The  
acquisition  
of  
MCGC  
should  
enable  
PFLT  
to  
better  
capture  
the  
middle  
market  
opportunity  
for  
our  
borrowers and shareholders

More relevant for borrowers due to broader platform  
Larger float and liquidity for shareholders  
Economies of scale

Approximately 70% of MCGC's assets are cash as of April 1, 2015

PFLT has valued each of MCGC's four remaining investments and is comfortable with current marks  
All four investments are debt investments that have debt / EBITDA ratios below 4.0x, which is  
consistent with PFLT's existing portfolio

3

(1)  
Represents 51 publicly traded BDCs. Market data as of 4/24/15.

(2)  
Includes SUNS, FSFR and ACSF. Market data as of 4/24/15.

Transaction Summary

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Estimated Consideration

Mix at Closing:

\$167 million in PFLT common stock (\$4.521 per MCGC share)

\$8 million in cash contribution from PennantPark Investment Advisers, LLC (the Adviser ) (\$0.226 per MCGC share)

Aggregate

Consideration:

\$175 million



Exchange Ratio:

Floating, based on value of \$4.521 per share of MCGC common stock

PFLT common stock to be valued at the greater of NAV and the 10 day volume-weighted average price ( VWAP ) per share of PFLT common stock prior to the second trading day prior to closing

Cash Consideration:

\$0.226 per share of MCGC common stock (approximately \$8 million in the aggregate), paid by the Adviser

The Adviser will contribute up to an additional \$0.25 per PFLT share issued in this transaction to the extent PFLT s 10 day VWAP as calculated above is less than PFLT NAV

Governance:

The Adviser to remain as external manager of the combined company

Two  
members  
of  
the  
MCGC  
Board  
of  
Directors  
expected  
to  
join  
PFLT  
Board  
of  
Directors  
at closing  
Expected Closing:

Q3 2015  
Required Approvals:

Approval of both MCGC and PFLT stockholders

Key Benefits of Combination and Synergies

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Almost doubles market capitalization, creating more float and liquidity for shareholders

Elimination of duplicative public company expenses

Increases scale and competitive relevance with financial sponsors and other borrowers

Larger asset base enables greater diversification within the overall portfolio as well as economies of scale

Enhanced scale benefiting float and liquidity while spreading fixed costs over a larger asset base

Serves

as

a

synthetic

equity

raise

without

NAV

dilution

to

PFLT

shareholders

(before

typical

deal

expenses)

Permits MCGC stockholders to maintain ongoing participation in the combined company and resume monthly dividend participation

5

Shareholders will continue to benefit from a proven credit manager that has had a track record of consistent and growing dividends

6

PFLT and MCGC Combined

Externally managed by PennantPark

\$343 million investment portfolio at value on balance sheet

(1)

72 portfolio companies across 21 different industries on balance sheet

(1)

Average investment size of \$4.8 million

(1)

95% floating rate investments

(1)

PennantPark Investment Advisers, LLC has deployed over \$4.3 billion across nearly 350 companies since 2007

(1)

\$200 million five-year credit facility at L+200

(1)

Monthly dividends of \$0.095 per share

Leader in the externally managed BDC space as measured by expense ratio and efficiency ratio

(1)

PFLT

MCGC

Internally managed

\$50

million

investment

portfolio

on

balance

sheet

(2)

Cash position of \$116 million

(2)

Portfolio of 4 debt securities with debt / EBITDA ratios under 4.0x

(2)

Has been in the process of liquidating its portfolio and buying back stock via a December 2014 tender offer

Announced that it is exploring strategic alternatives on February 9, 2015

Founded in 1998, went public in 2001 and is

headquartered in Arlington, VA

PFLT and MCGC

Larger market capitalization and greater trading liquidity for investors

Continued focus on middle market senior loans

Elimination of MCGC's cost burden associated with being a standalone public entity

Externally managed by PennantPark

1)

As of 12/31/14.

2)

As of 3/31/15.

Value to MCGC Shareholders

7

7

Receiving PFLT shares represents attractive currency as the company provides investors with capital preservation and current income

MCGC shareholders can benefit from appreciation of stock price and PFLT has increased dividends since inception

15.8%

premium to MCGC's stock price on April 28, 2015

Partnership with Best

In-Class Manager

PFLT has a shareholder friendly expense structure

One of the lowest cost BDCs relative to asset base

(1)  
PFLT has the highest annual and total returns among the floating rate-focused BDCs

(2)

Since 2013, PFLT has had a total return of 33% compared to a total return of 18% for the BDC index

(3)  
and a total return of (2%) for the senior secured floating rate BDCs

(4)

Was the only floating rate BDC in 2014 to have positive returns at 8%  
PFLT's external manager has experience with public vehicles since 2007 (PNNT's IPO)

Funded \$4.3 billion in 350 companies since inception across PennantPark entities

(5)

145 different sponsor clients since inception across PennantPark entities

(5)

Attractive Entry Point

into PFLT from

Valuation Perspective

Strategic Reorientation

into Attractive Floating

Rate Market

Floating rate loans help protect against inflation and rising interest rates

PFLT has a diversified and defensive portfolio with a weighted average cash interest coverage of 3.2x

(5)

Senior secured loans have strong capital preservation attributes

PFLT has a solid dividend track record, paying monthly dividends of \$0.095 per share

1)

SNL Financial as of most recent quarterly financials.

2)

SNL Financial as of 4/24/15.

3)

Represents 51 publicly traded BDCs.

4)

Includes SUNS, FSFR and ACSF.

5)

As of 12/31/14.

Demonstrated Ability to Deploy Capital

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PFLT has demonstrated an ability to quickly ramp assets, while maintaining strong credit quality, after equity offerings

PFLT Portfolio Size and Debt Yield

(\$ in millions)

Ramp after \$100mm IPO

Ramp after two follow-on offerings

1%

2%

3%

4%

5%



6%  
7%  
8%  
9%  
10%  
\$0  
\$50  
\$100  
\$150  
\$200  
\$250  
\$300  
\$350  
\$400  
\$450  
Jun  
-11  
Sep-11  
Dec-11  
Mar-12  
Jun  
-12  
Sep-12  
Dec-12  
Mar-13  
Jun  
-13  
Sep-13  
Dec-13  
Mar-14  
Jun  
-14  
Sep-14  
Dec-14  
Total Portfolio Size  
Yield on Portfolio

Increased Relevance in Senior Secured Middle Market

9

Through the proposed acquisition of MCGC, PFLT will be able to become more relevant with financial sponsors and borrowers and have a greater opportunity to identify high quality assets in a large market

9

Middle Market Origination Volume by Quarter vs. PFLT Portfolio Size

Note: Mid-market defined as issuers with EBITDA of \$50 million or less.

Source: S&P, represents senior secured loans.

\$0

\$1,000

\$2,000

\$3,000

\$4,000

\$5,000

\$6,000

2Q11

3Q11

4Q11

1Q12

2Q12

3Q12

4Q12

1Q13

2Q13

3Q13

4Q13

1Q14

2Q14

3Q14

4Q14

Mid-Market Volume

PFLT Portfolio Size

Efficiency Ratio

Expense Ratio

Expense Ratio Comparisons

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PFLT offers current MCGC shareholders a friendly expense structure

In terms of non-interest expense efficiencies, PFLT is a leader in the externally managed BDC space as measured by expense ratio and efficiency ratio

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Non-Interest Expenses

Average Assets

Expense

Ratio

=

Non-Interest Expenses

Non-Interest

Income

+

=

Efficiency

Ratio

Net Interest

Income

Note: Includes all externally-managed BDCs that are paying a regular cash dividend. Excludes BDCs that have not filed quarterly

Source: SNL Financial as of most recent quarterly financials.

0%

10%

20%

30%

40%

50%

60%

70%

80%

90%

100%

Mkt. Cap. Between \$500M and \$1B

Mkt. Cap. Between \$200M and \$500M

Mkt. Cap. Less Than \$200M

Floating Rate Snr. Secured Vehicles

0%

1%

2%

3%

4%

5%

6%

7%

8%

9%

10%

Mkt. Cap. Between \$500M and \$1B

Mkt. Cap. Between \$200M and \$500M

Mkt. Cap. Less Than \$200M

Floating Rate Snr. Secured Vehicles

Higher

Cost

Structures

Higher

Cost

Structures

Section II.  
PFLT's Value Proposition  
11

Value Oriented Investment Philosophy  
PennantPark Investment Advisers, LLC  
Established Credit Platform  
12  
As of 12/31/14  
The Adviser founded in 2007  
Deep expertise in the middle market  
Longer investment horizon with attractive  
publicly traded model  
Value oriented with a focus on capital preservation  
Disciplined investment approach with strong credit  
performance

Proprietary origination, research and evaluation  
Team approach  
institutionalized investment process  
and relationships  
Established long-term trust with clients and investors  
NASDAQ: PNNT  
IPO Date: April 2007  
NASDAQ: PFLT  
IPO Date: April 2011

12  
Established Investment Platform

2nd Lien

Secured Debt

13%

1st Lien Senior

Secured Debt

84%

Subordinated

Debt, Common

and Preferred

Equity

3%

Common and

Preferred

Equity

8%

1st Lien

Senior

Secured

Debt

32%

Subordinated

Debt

16%

2nd Lien

Secured

Debt

44%



PFLT has a Compelling Track Record

13

Shareholders will continue to benefit from a proven credit manager that has had consistent and growing dividends

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Portfolio Size (\$ in millions) and Debt Yield

Total Portfolio Size

Yield on Portfolio

5.00

6.00

7.00

7.50  
8.00  
8.25  
8.50  
8.75  
9.00  
9.50  
0  
1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
1%  
2%  
3%  
4%  
5%  
6%  
7%  
8%  
9%  
10%  
\$0  
\$50  
\$100  
\$150  
\$200  
\$250  
\$300  
\$350  
\$400  
\$450

Monthly Dividends (cents per share)

The PFLT Advantage

14

14

Conservative Risk Management

Weighed

Average

cash

interest

coverage

of

3.2x

(1)

Weighted

Average

debt

/

EBITDA

through

PFLT

security

of

3.8x

(1)

84%

of

PFLT

portfolio  
is  
1st  
Lien  
Senior  
Secured  
Debt

(1)  
Since inception four years ago, PFLT has had only one non-accrual at a cost of \$2.2 million. So far, PFLT has recovered 97 cents on the dollar on this investment

PennantPark entities have had only 9 non-accruals out of 350 investments since inception eight years ago despite the recession and credit crisis

(1)  
As of 12/31/14.

Pro-Forma Overall Portfolio as of 12/31/2014

Highly

Diversified

Industry

Mix

(1)

Portfolio Overview

94% Floating rate investments

(including 88% with a floor)

Annualized Dividend Yield of 8.1%

(2)

Total Portfolio: \$393 million

Source: Company Financial Statements.

Note: Portfolio companies from MCGC include: C7 Data Centers, GMC Television Broadcasting, RadioPharmacy Investors, S

(1)  
Total  
of  
21  
industries.

Other  
includes:  
Beverage,  
Foodand  
Tobacco  
/MetalsandMining  
/  
Telecommunications.

(2)  
Based on a \$0.095 monthly dividend and closing price on 3/31/15.  
Average Investment Size: \$5.1 million  
77 Different Companies  
Portfolio Mix  
Yield at Cost on Debt Portfolio: 8.9%

15  
MEDIA: DIVERSIFIED AND  
PRODUCTION  
1%  
CHEMICALS, PLASTICS AND  
RUBBER  
1%  
OTHER  
2%  
ENERGY: OIL AND GAS  
2%  
WHOLESALE  
3%  
AUTOMOTIVE  
3%  
CONSTRUCTION AND  
BUILDING  
3%  
AEROSPACE AND DEFENSE  
3%  
CONSUMER GOODS:  
NON -  
3%  
MEDIA: BROADCASTING  
AND SUBSCRIPTION  
4%  
BANKING, FINANCE,  
INSURANCE & REAL  
ESTATE

4%  
CONSUMER GOODS:  
DURABLE  
5%  
RETAIL  
5%  
MEDIA: ADVERTISING,  
PRINTING AND  
PUBLISHING  
6%  
HOTEL, GAMING AND  
LEISURE  
7%  
CONSUMER SERVICES  
7%  
BUSINESS SERVICES  
13%  
HIGH TECH INDUSTRIES  
13%  
PHARMACEUTICALS  
15%  
0  
SUBORDINATED  
DEBT, PREFERRED  
AND COMMON  
EQUITY  
5%  
2ND LIEN SECURED  
DEBT  
11%  
1ST LIEN SENIOR  
SECURED DEBT  
84%  
DURABLE  
HEALTHCARE AND

PFLT Post Acquisition

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A leader in middle market senior secured loans

An ability to leverage a proven track record of capital preservation and current income for shareholders

Ability to capture more share and become more relevant to our clients

Ramp up in a prudent manner consistent with historical performance and market opportunity

Combined business will have low fees and eliminate duplicative public company costs

Greater liquidity and float for shareholders