

# Merger of FS KKR Capital Corp. (FSK) & FS KKR Capital Corp. II (FSKR)

## Overview

### 1. What are the details of the merger?

- On June 16, 2021, FS/KKR Advisor announced the closing of the merger of FS KKR Capital Corp. (NYSE: FSK) and FS KKR Capital Corp. II (NYSE: FSKR), creating one of the largest public business development companies (BDCs) in the industry, with approximately \$14.9 billion in combined assets as of March 31, 2021.
- The combined company will trade under the ticker symbol FSK on the New York Stock Exchange (NYSE).
- **NAV-for-NAV merger:** FSK served as the surviving entity in the NAV-for-NAV merger and acquired 100% of FSKR's common shares in a stock-for-stock transaction.
  - Based on the merger exchange ratio, FSKR stockholders received 0.9498 shares for each share of FSK held.
  - The exchange ratio was determined based on the closing net asset value (NAV) per share of \$26.77 and \$25.42 for FSK and FSKR, respectively as of June 14, 2021, and ensures that the NAV of shares investors will own in FSK will be equal to the NAV of the shares they held in FSKR. As part of the closing, no cash is being paid in lieu of fractional shares.
- **\$100 million stock repurchase program:** In addition, as previously announced, in connection with the closing of the merger, the board of directors of FSK (the "Board") has authorized a share repurchase program. Under the program, FSK may repurchase up to \$100 million in the aggregate of its outstanding common stock in the open market at prices before the current net asset value per share.

The timing, manner, price and amount of any share repurchases will be determined by FSK, based upon the evaluation of economic and market conditions, FSK's stock price, applicable legal and regulatory requirements and other factors. The program will be in effect for one year from its effective date, unless extended, or until the aggregate repurchase amount that has been approved by the Board has been expended. The program may be suspended, extended, modified or discontinued at any time.

## Distributions

### 2. Will there be any interruption to the payment of distributions?

- On May 10, 2021, FSK and FSKR announced regular cash distributions of \$0.60 per share and \$0.55 per share, respectively, which will be paid on or about July 2, 2021 to stockholders of record as of the close of business on June 11, 2021. For FSKR stockholders who participated in the distribution reinvestment plan (DRP), this distribution will be paid in cash.
- We currently expect that the combined company's board will continue to declare and pay distributions on a quarterly basis. We also expect the combined company's targeted

distribution yield of 9% based on NAV will be in line with prior guidance.

- We expect the board to declare FSK's third quarter distribution in early-to-mid August.

## Tax impact

### 3. Is the merger expected to be taxable to FSK stockholders?

- No. The merger is not expected to be a taxable event for FSK stockholders.

### 4. Is the merger expected to be taxable to FSKR stockholders?

- No. The merger is intended to qualify as tax-free for U.S. federal income tax purposes, and it is a condition of the fund's respective obligations to complete the merger that it receives a legal opinion to that effect.
- Stockholders of FSKR are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of their shares of FSKR for shares of FSK pursuant to the merger.
- Tax matters can be complicated, and the tax consequences of the merger for FSK and FSKR stockholders will depend on the particular tax situation of such stockholder. Stockholders should consult with their own tax advisors to determine the tax consequences of the merger.

## Fees & expenses

### 5. What will be the investment advisory fees of the combined company?

- In connection with the approval of the merger, the board of FSK approved an amended investment advisory agreement (the "Amended Advisory Agreement"), which was approved by stockholders of FSK as part of the proposals related to the merger.
- **Base management fee:** The base management fee of the combined company will be consistent with the current investment advisory agreements for FSK and FSKR. Under the current investment advisory agreements, the base management fee is calculated at an annual rate of 1.50% of the average weekly value of the respective fund's gross assets (excluding cash and cash equivalents) on all assets financed using leverage less than 1.0x debt-to-equity and 1.00% on all assets financed using leverage over 1.0x debt-to-equity.
- **Incentive fee amendments:** The amendments are generally intended to result in incremental projected accretion to stockholders of FSK and FSKR, better align FSK's advisory agreement with core market peers, and result in a more consistent and predictable pro forma earnings profile following the merger. In particular, the Amended Advisory Agreement, which will be executed upon the closing of the merger, will (i) reduce the subordinated income incentive fee rate from 20.0% to 17.5%; (ii) remove the total return "lookback" provision currently applicable to FSK, and (iii) FS/KKR Advisor will separately agree to waive an aggregate of \$90 million of income incentive fees for the first six full fiscal quarters of operations post-merger (\$15 million per quarter).

## Contacts

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**Forward-Looking Statements**

Statements included herein may constitute “forward-looking” statements as that term is defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995, including statements with regard to future events or the future performance or operations of FSK. Words such as “believes,” “expects,” “projects,” and “future” or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements. Factors that could cause actual results to differ materially include changes in the economy, risks associated with possible disruption to FSK’s operations or the economy generally due to terrorism, natural disasters or pandemics such as COVID-19, future changes in laws or regulations and conditions in FSK’s operating area, costs, charges or expenses resulting from the business combination transaction involving the FSK and FSKR (collectively, the “Funds”), and failure to realize the anticipated benefits of the business combination transaction involving the Funds. Some of these factors are enumerated in the filings the Funds made with the Securities and Exchange Commission (the “SEC”). The inclusion of forward-looking statements should not be regarded as a representation that any plans, estimates or expectations will be achieved. Any forward-looking statements speak only as of the date of this communication. Except as required by federal securities laws, FSK undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any of these forward-looking statements.