

## **KBRA Assigns BBB Issuer and Senior Unsecured Debt Ratings with a Stable Outlook for FS KKR Capital Corporation II**

NEW YORK (January 23, 2020) – Kroll Bond Rating Agency (KBRA) assigns BBB issuer and senior unsecured debt ratings with a Stable Outlook for FS KKR Capital Corp. II (“FSK II”, “The Company”).

FS KKR Capital Corp. II was formed on December 18, 2019, with the merger of four non-traded business development companies managed by FS/KKR Advisor, a partnership between FS Investment and KKR Credit. The combined entity, FSK II, is the second largest business development company (BDC) with approximately \$9.2 billion in assets as of December 31, 2019. The Company intends to list its common stock on the New York Stock Exchange (NYSE) during the first half of 2020.

The Company benefits from its relationship with KKR & Co. Inc. (“KKR”), a leading global alternative investment firm managing \$208.4 billion in assets as of September 30, 2019. FSK II maintains exemptive relief for co-investing with KKR Credit, a subsidiary of KKR with a \$70.3 billion platform. KKR Credit has 125 investment professionals responsible for sourcing, underwriting, and managing credit investments.

As of December 31, 2019, FSK II had a diversified investment portfolio of approximately \$8.4 billion, comprised mostly of senior secured loans to 213 portfolio companies across 23 industries. The Company is focused on the senior debt of upper middle market companies which have EBITDA between \$25 million and \$100 million. However, the Company’s non-accruals as a percentage of debt was high at 4.9% at fair market value. KBRA expects FSK II’s credit quality to gradually improve as its legacy assets run-off over the next 3 to 4 years and are replaced with higher quality loans underwritten by KKR Credit.

As of December 31, 2019, FSK II’s leverage was approximately 0.77 times, within the current guidelines and appropriate given the investment portfolio’s high percentage of first lien loans. Once the Company lists publicly it will consider lowering asset coverage under the changes introduced under the Small Business Credit Availability Act that allows BDCs to effectively double their leverage. However, if adopted, KBRA expects FSK II to maintain leverage between 0.90 and 1.25 times within the next two years. As of December 31, 2019, FSK II had a fully secured funding profile. The Company expects to begin issuing unsecured debt to diversify its funding sources.

FSK II’s BBB issuer and senior unsecured debt ratings reflect the Company’s large and diversified investment portfolio, a solid external investment advisor which is an affiliate of KKR & Co. Inc., and appropriate leverage. These strengths are counter-balanced by the potential risks related to FSK II’s business as a regulated BDC, the illiquid nature of its assets and the high and increasing percentage of non-accrual loans.

The ratings are assigned using KBRA’s [Global Finance Company Rating Methodology](#), published November 28, 2017.

A report will be forthcoming.

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