

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):

July 29, 2020

Hercules Capital, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction
of incorporation)

400 Hamilton Ave., Suite 310
Palo Alto, CA

(Address of principal executive offices)

814-00702

(Commission File No.)

74-3113410

(I.R.S. Employer
Identification No.)

94301

(Zip Code)

Registrant's telephone number, including area code: **(650) 289-3060**

Not Applicable

(Former name or address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|---|--------------------------|--|
| Common Stock, par value \$0.001 per share | HTGC | New York Stock Exchange |
| 5.25% Notes due 2025 | HCXZ | New York Stock Exchange |
| 6.25% Notes due 2033 | HCTX | New York Stock Exchange |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operation and Financial Condition

On July 30, 2020, Hercules Capital, Inc. (the “*Company*”) issued a press release announcing its earnings for the quarter ended June 30, 2020. The text of the press release is included as an exhibit to this Form 8-K.

This information disclosed under this Item 2.02 including Exhibit 99.1 hereto, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and shall not be deemed incorporated by reference into any filing made under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

Item 8.01 Other Events

On July 29, 2020, the Company announced that its Board of Directors has declared a quarterly dividend of \$0.32 per share payable in such amount and on such date to shareholders, as forth below. The text of the press release is included as an exhibit to this Form 8-K.

| Quarterly Dividend Payable in August 2020 | | | |
|--|--------------------|---------------------|-------------------------|
| <u>Ex-Dividend Date</u> | <u>Record Date</u> | <u>Payment Date</u> | <u>Amount Per Share</u> |
| August 7, 2020 | August 10, 2020 | August 17, 2020 | \$0.32 |

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 [Press Release dated July 30, 2020](#)

99.2 [Press Release dated July 29, 2020](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HERCULES CAPITAL, INC.

July 30, 2020

By: /s/ Melanie Grace
Melanie Grace
General Counsel and Secretary

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Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1



Hercules Capital Reports Second Quarter 2020 Financial Results

Record Available Liquidity of \$510.9 Million

Record Total Debt Investments of \$2.28 Billion, at Cost

New Debt and Equity Commitments of \$266.2 Million

Undistributed Earnings Spillover of \$73.2 Million, or \$0.64⁽¹⁾ per Ending Shares Outstanding

Surpassed \$1.0 Billion in Cumulative Shareholder Distributions since IPO in June 2005

Q2 2020 Financial Achievements and Highlights

- Net Investment Income "NII" of \$35.7 million, or \$0.32 per share
 - Provides 100% coverage of base distribution payout
- Total Investment Income of \$68.0 million
- \$510.9 million of available liquidity, subject to existing terms and covenants
- New debt and equity commitments of \$266.2 million
 - Total gross fundings of \$132.3 million
- Unscheduled early principal repayments or "early loan repayments" of \$85.4 million
- 12.7% Return on Average Equity "ROAE" (NII/Average Equity)
- 6.0% Return on Average Assets "ROAA" (NII/Average Assets)
- GAAP leverage of 110.0% and regulatory leverage of 100.5%⁽²⁾
- Net Asset Value "NAV" increased to \$10.19 from \$9.92, up 2.7% from Q1 2020
- 12.2% GAAP Effective Yield and 11.5% Core Yield⁽³⁾, a non-GAAP measure

Year-to-date ending June 30, 2020 Financial Highlights

- NII of \$76.3 million, or \$0.69 per share, an increase of 18.6%, compared to \$64.3 million for the six months ending June 30, 2019

- *Total investment income of \$141.6 million, an increase of 10.6%, compared to \$128.1 million for the six months ending June 30, 2019*
- *New equity and debt commitments of \$523.0 million*
 - *Total fundings of \$365.9 million*
- *Net debt investment portfolio growth of \$108.8 million*
- *Unscheduled early loan repayments of \$235.9 million*

Footnotes:

(1) *\$0.66 per Weighted Average Shares Outstanding*

(2) *Regulatory leverage represents debt-to-equity ratio, excluding our Small Business Administration "SBA" debenture*

(3) *Core Yield excludes early loan repayments and one-time fees, and includes income and fees from expired commitments*

PALO ALTO, Calif., July 30, 2020 - Hercules Capital, Inc. (NYSE: HTGC) ("Hercules" or the "Company"), the largest and leading specialty financing provider to innovative venture, growth and established stage companies backed by some of the leading and top-tier venture capital and select private equity firms, today announced its financial results for the second quarter ended June 30, 2020.

"During the second quarter, we originated total commitments of \$266.2 million which modestly grew our debt investment portfolio to a record \$2.28 billion at cost, and our net interest income fully covered our base shareholder distribution," stated Scott Bluestein, chief executive officer and chief investment officer of Hercules. "Further, core yields were within our targeted range of 11.0 to 12.0 percent, and fully reflected the Fed Funds cuts of 150 basis points."

Bluestein added, "Throughout the first half of the year, we have been vigilantly monitoring our portfolio companies and their future liquidity needs in the face of the economic uncertainty associated with the ongoing global health pandemic. Furthermore, we strategically tapped our equity ATM program to enhance our liquidity position to \$510.9 million and used the proceeds to deleverage the balance sheet. By implementing steps such as these we feel we are entering the second half of 2020 from a position of strength."

Q2 2020 Review and Operating Results

Debt Investment Portfolio

Hercules delivered new debt and equity commitments totaling \$266.2 million and gross fundings totaling \$132.3 million.

During the second quarter, Hercules realized early loan repayments of \$85.4 million, which along with normal scheduled amortization of \$16.3 million, resulted in total debt repayments of \$101.7 million.

The new debt investment origination and funding activities lead to net debt investment portfolio growth of \$36.0 million during the first quarter, on a cost basis.

The Company's total investment portfolio, (at cost and fair value) by category, quarter-over-quarter is highlighted below:

Total Investment Portfolio: Q2 2020 to Q1 2020

| (in millions) | Debt | Equity | Warrants | Total Portfolio |
|---|-------------------|-----------------|----------------|-------------------|
| Balances at Cost at 3/31/20 | \$ 2,242.9 | \$ 190.3 | \$ 33.1 | \$ 2,466.3 |
| New fundings ^(a) | 130.4 | 1.0 | 0.9 | 132.3 |
| Warrants not related to Q2 2020 fundings | — | — | (0.3) | (0.3) |
| Early payoffs ^(b) | (85.4) | — | — | (85.4) |
| Principal payments received on investments | (16.3) | — | — | (16.3) |
| Net changes attributed to conversions, liquidations, and fees | 7.3 | 0.4 | (2.9) | 4.8 |
| Net activity during Q2 2020 | 36.0 | 1.4 | (2.3) | 35.1 |
| Balances at Cost at 6/30/20 | \$ 2,278.9 | \$ 191.7 | \$ 30.8 | \$ 2,501.4 |
| Balances at Value at 3/31/20 | \$ 2,195.6 | \$ 94.5 | \$ 12.4 | \$ 2,302.5 |
| Net activity during Q2 2020 | 36.0 | 1.4 | (2.3) | 35.1 |
| Net change in unrealized appreciation (depreciation) | (15.3) | 29.8 | 11.4 | 25.9 |
| Total net activity during Q2 2020 | 20.7 | 31.2 | 9.1 | 61.0 |
| Balances at Value at 6/30/20 | \$ 2,216.3 | \$ 125.7 | \$ 21.5 | \$ 2,363.5 |

^(a)New fundings amount includes \$3.6 million of fundings associated with revolver loans during Q2 2020.

^(b)Early payoffs include \$575k of paydowns on revolvers during Q2 2020.

Debt Investment Portfolio Balances by Quarter

| (in millions) | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 |
|---------------------------------|------------|------------|------------|------------|------------|
| Ending Balance at Cost | \$ 2,278.9 | \$ 2,242.9 | \$ 2,170.1 | \$ 2,101.3 | \$ 2,077.2 |
| Weighted Average Balance | \$ 2,248.0 | \$ 2,178.0 | \$ 2,164.0 | \$ 2,061.0 | \$ 1,939.0 |

Debt Investment Portfolio Composition by Quarter

| (% of debt investment portfolio) | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 |
|----------------------------------|---------|---------|---------|---------|---------|
| First Lien Senior Secured | 83.5% | 83.0% | 84.0% | 84.8% | 81.8% |
| Floating Rate w/Floors | 97.9% | 97.8% | 97.4% | 97.6% | 97.7% |

Effective Portfolio Yield and Core Portfolio Yield ("Core Yield")

The effective yield on Hercules' debt investment portfolio was 12.2% during Q2 2020, as compared to 13.6% for Q1 2020. The Company realized \$85.4 million of early loan repayments in Q2 2020 compared to \$150.5 million in Q1 2020, or a decrease of 43.3%. Effective yields generally include the effects of fees and income accelerations attributed to early loan repayments, and other one-time events. Effective yields are materially impacted by the elevated or reduced levels of early loan repayments and derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the quarter, which excludes non-interest earning assets such as warrants and equity investments.

Core yield, a non-GAAP measure, was 11.5% during Q2 2020, within the Company's expected range of 11.0% to 12.0%, and decreased compared to 11.8% in Q1 2020. Hercules defines core yield as yields that generally exclude any benefit from income related to early repayments attributed to the acceleration of unamortized income and prepayment fees and includes income from expired commitments.

Income Statement

Total investment income decreased to \$68.0 million for Q2 2020, compared to \$69.3 million in Q2 2019, a decrease of 1.9% year-over-year. The decrease is primarily attributable to lower core yields due to the impact of the Fed Funds cut in March 2020 and a decrease in early loan repayments between periods.

Non-interest and fee expenses were \$15.6 million in Q2 2020 versus \$18.8 million for Q2 2019. The decrease was due to lower compensation and benefits and a decrease in stock-based compensation expenses.

Interest expense and fees were \$16.7 million in Q2 2020, compared to \$15.2 million in Q2 2019. The increase was due to higher weighted-average borrowings between periods.

The Company had a weighted average cost of borrowings comprised of interest and fees, of 5.0% in Q2 2020, as compared to 5.2% for Q2 2019.

NII – Net Investment Income

NII for Q2 2020 was \$35.7 million, or \$0.32 per share, based on 111.6 million basic weighted average shares outstanding, compared to \$35.3 million, or \$0.36 per share, based on 98.2 million basic weighted average shares outstanding in Q2 2019, an increase of 1.2% year-over-year. The increase is attributable to a higher average debt investment balance between periods and a decrease in compensation and benefits and stock-based compensation expenses offset by lower core yields and a decrease in early loan repayments.

Continued Credit Discipline and Strong Credit Performance

Hercules' net cumulative realized gain/(loss) position, since its first origination activities in October 2004 through June 30, 2020, (including net loan, warrant and equity activity) on investments, totaled (\$16.5) million, on a GAAP basis, spanning over 15 years of investment activities.

When compared to total new debt investment commitments during the same period of over \$10.5 billion, the total realized gain/(loss) since inception of (\$16.5) million represents approximately 16 basis points "bps," or 0.16%, of cumulative debt commitments, or an effective annualized loss rate of 1.0 bps, or 0.01%.

Realized Gains/(Losses)

During Q2 2020, Hercules had net realized gains/(losses) of \$141,000 primarily from gross realized gains of \$2.5 million from the sale of our public equity holdings, partially offset by the gross realized losses of (\$2.4) million primarily from the liquidation or write-off of certain of our equity and warrant positions during the quarter.

Unrealized Appreciation/(Depreciation)

During Q2 2020, Hercules recorded \$25.9 million of net unrealized appreciation primarily related to the mark-to-market recovery of our public equity and warrant investments, as well as our private equity investments and debt investments.

Portfolio Asset Quality

As of June 30, 2020, the weighted average grade of the debt investment portfolio, at fair value, improved to 2.30, compared to 2.34 as of March 31, 2020, based on a scale of 1 to 5, with 1 being the highest quality. Hercules' policy is to generally adjust the credit grading down on its portfolio companies as they approach their expected need for additional growth equity capital to fund their respective operations for the next 9-14 months. Various companies in the Company's portfolio will require additional rounds of funding from time to time to maintain their operations.

Additionally, Hercules may selectively downgrade portfolio companies, from time to time, if they are not meeting the Company's financing criteria, or underperforming relative to their respective business plans.

As of June 30, 2020, grading of the debt investment portfolio at fair value, excluding warrants and equity investments, was as follows:

Credit Grading at Fair Value, Q2 2020 - Q2 2019 (\$ in millions)

| | Q2 2020 | | Q1 2020 | | Q4 2019 | | Q3 2019 | | Q2 2019 | |
|-----------------------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|
| Grade 1 - High | \$ 443.6 | 20.1% | \$ 390.4 | 17.7% | \$ 387.3 | 18.0% | \$ 237.9 | 11.4% | \$ 256.2 | 12.4% |
| Grade 2 | \$ 877.9 | 39.6% | \$ 818.1 | 37.3% | \$ 1,180.5 | 55.0% | \$ 1,331.2 | 64.0% | \$ 1,317.7 | 63.9% |
| Grade 3 | \$ 849.7 | 38.3% | \$ 917.2 | 41.8% | \$ 509.9 | 23.7% | \$ 479.0 | 23.1% | \$ 413.0 | 20.1% |
| Grade 4 | \$ 25.0 | 1.1% | \$ 54.3 | 2.5% | \$ 69.0 | 3.2% | \$ 29.7 | 1.4% | \$ 67.8 | 3.3% |
| Grade 5 - Low | \$ 20.1 | 0.9% | \$ 15.5 | 0.7% | \$ 1.8 | 0.1% | \$ 2.1 | 0.1% | \$ 6.9 | 0.3% |
| Weighted Avg. | 2.30 | | 2.34 | | 2.15 | | 2.17 | | 2.18 | |

Non-Accruals

Non-accruals increased as a percentage of the overall investment portfolio in the second quarter of 2020. As of June 30, 2020, the Company had five (5) debt investments on non-accrual with an investment cost and fair value of approximately \$61.1 million and \$11.5 million, respectively, or 2.4% and 0.5% as a percentage of the Company's total investment portfolio at cost and value, respectively.

Compared to March 31, 2020, the Company had four (4) debt investments on non-accrual with an investment cost and fair value of approximately \$20.4 million and \$0.4 million, respectively, or 0.8% and 0.0% as a percentage of the total investment portfolio at cost and value, respectively.

| | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 |
|--|------------|------------|------------|------------|------------|
| Total Investments at Cost | \$ 2,501.4 | \$ 2,466.3 | \$ 2,402.0 | \$ 2,336.3 | \$ 2,315.7 |
| Loans on non-accrual as a % of Total Investments at Value | 0.5% | 0.0% | 0.0% | 0.1% | 0.2% |
| Loans on non-accrual as a % of Total Investments at Cost | 2.4% | 0.8% | 0.4% | 0.4% | 0.4% |

Liquidity and Capital Resources

In February 2020, the Company announced a private offering totaling \$120.0 million in aggregate principal amount of \$50.0 million 4.28% Notes due February 2025 (the “February Notes”) and \$70.0 million 4.31% Notes due June 2025 (the “June Notes”). The issuance of \$50.0 million of the February Notes occurred on February 5, 2020 and the issuance of \$70.0 million of the June Notes occurred on June 3, 2020.

The Company ended Q2 2020 with \$510.9 million in available liquidity, including \$35.9 million in unrestricted cash and cash equivalents, and \$475.0 million in available credit facilities, subject to existing terms and advance rates and regulatory and covenant requirements.

During the three months ending June 30, 2020, the Company sold 3.6 million shares of common stock under the equity ATM program, for total accumulated net proceeds of approximately \$38.7 million, including \$352,000 of offering expenses, all accretive to net asset value. During the six months ending June 30, 2020, the Company sold approximately 5.97 million shares of common stock, which were issued under the equity ATM program, for total accumulated net proceeds of approximately \$73.9 million, including \$714,000 of offering expenses, all accretive to net asset value. As of July 29, 2020, approximately 16.5 million shares remain available for issuance and sale under the Equity Distribution Agreement.

Bank Facilities

As of June 30, 2020, there were no outstanding borrowings under the Hercules’ \$400.0 million committed credit facility with Union Bank as Agent and no outstanding borrowings under the Hercules’ \$75.0 million committed credit facility with Wells Fargo Capital Finance.

Leverage

As of June 30, 2020, Hercules’ GAAP leverage ratio, including its Small Business Administration “SBA” debentures, was 110.0%. Hercules’ regulatory leverage, or debt-to-equity ratio, excluding its SBA debentures, was 100.5% and net regulatory leverage, a non-GAAP measure (excluding cash of approximately \$35.9 million), was 97.4%. Hercules’ net leverage ratio, including its SBA debentures, was 106.9%.

Available Unfunded Commitments – Representing 6.7% of Total Assets

The Company’s unfunded commitments and contingencies consist primarily of unused commitments to extend credit in the form of loans to select portfolio companies. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones in order to gain access to additional funding. Furthermore, our credit agreements contain customary lending provisions that allow us relief from funding obligations for previously made commitments. In addition, since a portion of these commitments may also expire without being drawn, unfunded contractual commitments do not necessarily represent future cash requirements.

As of June 30, 2020, the Company had \$165.1 million of available unfunded commitments at the request of the portfolio company and unencumbered by any milestones, including undrawn revolving facilities, representing 6.7% of Hercules' total assets. This increased from the previous quarter of \$134.7 million of available unfunded commitments or 5.6% of Hercules' total assets.

Existing Pipeline and Signed Term Sheets

After closing \$266.2 million in new debt and equity commitments in Q2 2020, Hercules has pending commitments of \$150.3 million in signed non-binding term sheets outstanding as of July 28, 2020. Since the close of Q2 2020 and as of July 28, 2020, Hercules has closed new debt and equity commitments of \$10.0 million and funded \$15.0 million.

Signed non-binding term sheets are subject to satisfactory completion of Hercules' due diligence and final investment committee approval process as well as negotiations of definitive documentation with the prospective portfolio companies. These non-binding term sheets generally convert to contractual commitments in approximately 90 days from signing. It is important to note that not all signed non-binding term sheets are expected to close and do not necessarily represent future cash requirements or investments.

Net Asset Value

As of June 30, 2020, the Company's net assets were \$1.16 billion, compared to \$1.10 billion at the end of Q1 2020. NAV per share increased 2.7% to \$10.19 on 114.2 million outstanding shares of common stock as of June 30, 2020, compared to \$9.92 on 110.6 million outstanding shares of common stock as of March 31, 2020. The increase in NAV per share was primarily attributed to the unrealized appreciation due to the market-to-market recovery on our public equity and warrant investments, as well as our private equity, warrant and debt investments, plus net accretion of \$0.04 per share to NAV on ATM offering and stock-based compensation.

Interest Rate Sensitivity

Hercules has an asset sensitive debt investment portfolio with 97.9% of our debt investment portfolio being priced at floating interest rates as of June 30, 2020, with a Prime or LIBOR-based interest rate floor, combined with 100% of our outstanding debt borrowings bearing fixed interest rates, leading to higher net investment income sensitivity.

Based on Hercules' Consolidated Statement of Assets and Liabilities as of June 30, 2020, the following table shows the approximate annualized increase/(decrease) in components of net income resulting from operations of hypothetical base rate changes in interest rates, such as Prime Rate, assuming no changes in Hercules' debt investments and borrowings. These estimates are subject to change due to the impact from active participation in the Company's equity ATM program and any future equity offerings.

| (in thousands) Basis Point Change | Interest Income ⁽¹⁾ | Interest Expense | Net Income | EPS ⁽²⁾ |
|--------------------------------------|-----------------------------------|---------------------|---------------|--------------------|
| (75) | \$ (650) | \$ (180) | \$ (470) | \$ - |
| (50) | \$ (492) | \$ (120) | \$ (372) | \$ - |
| (25) | \$ (307) | \$ (60) | \$ (247) | \$ - |
| 25 | \$ 1,663 | \$ 60 | \$ 1,603 | \$ 0.01 |
| 50 | \$ 3,363 | \$ 120 | \$ 3,243 | \$ 0.03 |
| 75 | \$ 5,062 | \$ 180 | \$ 4,882 | \$ 0.04 |
| 100 | \$ 6,888 | \$ 240 | \$ 6,648 | \$ 0.06 |
| 200 | \$ 17,051 | \$ 479 | \$ 16,572 | \$ 0.15 |

⁽¹⁾ Source: Hercules Capital Form 10-Q for Q2 2020

⁽²⁾ EPS calculated on basic weighted shares outstanding of 111,588. Estimates are subject to change due to impact from active participation in the Company's equity ATM program and any future equity offerings.

Existing Equity and Warrant Portfolio

Equity Portfolio

Hercules held equity positions in 53 portfolio companies with a fair value of \$125.7 million and a cost basis of \$191.6 million as of June 30, 2020. On a fair value basis, 19.1% or \$23.9 million is related to existing public equity positions.

Warrant Portfolio

Hercules held warrant positions in 103 portfolio companies with a fair value of \$21.5 million and a cost basis of \$30.8 million as of June 30, 2020. On a fair value basis, 32.6% or \$7.0 million is related to existing public warrant positions.

Portfolio Company IPO and M&A Activity in Q2 2020

IPO Activity

As of July 27, 2020, Hercules held debt, warrant or equity positions in five (5) portfolio companies that had filed Registration Statements in contemplation of a potential IPO, including:

- Four (4) portfolio companies filed confidentially under the JOBS Act.
- In July 2020, Hercules portfolio company **Oak Street Health, Inc.**, a fast-growing network of value-based, primary care centers for adults on Medicare, filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission for a proposed initial public offering of shares of its common stock and intends to list its common stock on the New York Stock Exchange under the symbol "OSH." Oak Street Health had previously filed confidentially under the JOBS Act.

There can be no assurances that companies that have yet to complete their IPOs will do so.

M&A Activity

- In May 2020, Hercules' portfolio company **Machine Zone**, a game developer best known as the developer of top-grossing mobile games including Game of War: Fire Age, Mobile Strike and Final Fantasy XV: A New Empire, announced that it has entered into a definitive agreement to be acquired by AppLovin, a mobile games company that fuels many of the world's most popular mobile games through its game studios and marketing technology. Terms of the acquisition were not disclosed. Hercules initially committed \$100.0 million in venture debt financing in April 2015.
- In May 2020, Hercules' portfolio company **Metuchen Pharmaceuticals, LLC**, a privately held biopharmaceutical company focused on identifying, developing, acquiring, and commercializing innovative therapeutics for men's health conditions, announced that they have entered into a definitive merger agreement with Neurotrope Bioscience, Inc. (NASDAQ: NTRP), a clinical-stage biopharmaceutical company that has historically worked to develop novel therapies for neurodegenerative diseases, to form a new holding company to be renamed Petros Pharmaceuticals, Inc. Petros is expected to become a Nasdaq traded company focused solely on men's health conditions. The transaction has been approved by the boards of directors of both companies. The merger is expected to close during the third quarter of 2020, subject to customary closing conditions, including the approval of the merger agreement by the shareholders of Neurotrope. Hercules initially committed \$45.6 million in venture debt financing in September 2016.
- In June 2020, Hercules' portfolio company **Lastline Inc.**, the leader in AI-powered network detection and response, was acquired by VMware, Inc. (NYSE: VMW), a leading innovator in enterprise software. Terms of the acquisition were not disclosed. Hercules initially committed \$6.0 million in venture debt financing in June 2019.
- In July 2020, Hercules' portfolio company **Postmates Inc.**, a leader in on-demand food delivery, announced that they have reached a definitive agreement to be acquired by Uber Technologies, Inc. (NYSE: UBER), a ride-hailing company offering services that include peer-to-peer ridesharing, ride service hailing, and food delivery, for approximately \$2.65 billion in an all-stock transaction. Hercules initially committed \$20.0 million in venture debt financing in July 2018 and currently holds warrants for 189,865 shares of common stock as of June 30, 2020.

Subsequent Events

1. As of July 28, 2020, Hercules has:
 - a. Funded \$15.0 million to new and existing commitments since the close of the second quarter 2020.
 - b. Pending commitments (signed non-binding term sheets) of \$150.3 million.

The table below summarizes our year-to-date closed and pending commitments as follows:

| Closed Commitments and Pending Commitments (in millions) | |
|--|-----------------|
| January 1 – June 30, 2020 Closed Commitments ^(a) | \$ 523.0 |
| Q3 2020 Closed Commitments (as of July 28, 2020) ^(a) | \$ 10.0 |
| Year-to-Date 2020 Closed Commitments | \$ 533.0 |
| Q3 2020 Pending Commitments (as of July 28, 2020) ^(b) | \$ 150.3 |
| Year-to-Date 2020 Closed and Pending Commitments | \$ 683.3 |

Notes:

- a. Closed Commitments may include renewals of existing credit facilities. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.
- b. Not all pending commitments (signed non-binding term sheets) are expected to close and do not necessarily represent any future cash requirements.

Conference Call

Hercules has scheduled its second quarter 2020 financial results conference call for July 30, 2020 at 2:00 p.m. PT (5:00 p.m. ET). To listen to the call, please dial (877) 304-8957 (or (408) 427-3709 internationally) and reference Conference ID: 1268909 if asked, approximately 10 minutes prior to the start of the call. A taped replay will be made available approximately three hours after the conclusion of the call and will remain available for seven days. To access the replay, please dial (855) 859-2056 or (404) 537-3406 and enter the passcode 1268909.

About Hercules Capital, Inc.

Hercules Capital, Inc. (NYSE: HTGC) is the leading and largest specialty finance company focused on providing senior secured venture growth loans to high-growth, innovative venture capital-backed companies in a broad variety of technology, life sciences and sustainable and renewable technology industries. Since inception (December 2003), Hercules has committed more than \$10.5 billion to over 500 companies and is the lender of choice for entrepreneurs and venture capital firms seeking growth capital financing. Companies interested in learning more about financing opportunities should contact info@htgc.com, or call 650.289.3060.

Hercules' common stock trades on the New York Stock Exchange (NYSE) under ticker symbol HTGC. In addition, Hercules has two retail bond issuances of 5.25% Notes due 2025 (NYSE: HCXZ) and 6.25% Notes due 2033 (NYSE: HCXY).

Forward-Looking Statements

This press release may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You should understand that under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

The information disclosed in this press release is made as of the date hereof and reflects Hercules' most current assessment of its historical financial performance. Actual financial results filed with the SEC may differ from those contained herein due to timing delays between the date of this release and confirmation of final audit results. These forward-looking statements are not guarantees of future performance and are subject to uncertainties and other factors that could cause actual results to differ materially from those expressed in the forward-looking statements including, without limitation, the risks, uncertainties, including the uncertainties surrounding the current market volatility, and other factors the Company identifies from time to time in its filings with the SEC. Although Hercules believes that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions also could be incorrect. You should not place undue reliance on these forward-looking statements. The forward-looking statements contained in this release are made as of the date hereof, and Hercules assumes no obligation to update the forward-looking statements for subsequent events.

Contact:

Michael Hara
Investor Relations and Corporate Communications
Hercules Capital, Inc.
650-433-5578
mhara@htgc.com

HERCULES CAPITAL, INC.
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(dollars in thousands, except per share data)

| | June 30, 2020 | December 31, 2019 |
|--|---------------------|----------------------|
| Assets | | |
| Investments: | | |
| Non-control/Non-affiliate investments (cost of \$2,347,547 and \$2,248,524, respectively) | \$ 2,297,180 | \$ 2,232,972 |
| Control investments (cost of \$65,227 and \$65,333, respectively) | 54,431 | 59,746 |
| Affiliate investments (cost of \$88,584 and \$88,175, respectively) | 11,910 | 21,808 |
| Total investments in securities, at value (cost of \$2,501,357 and \$2,402,032, respectively) | 2,363,521 | 2,314,526 |
| Cash and cash equivalents | 35,884 | 64,393 |
| Restricted cash | 33,599 | 50,603 |
| Interest receivable | 19,458 | 20,207 |
| Right of use asset | 10,492 | 11,659 |
| Other assets | 5,547 | 580 |
| Total assets | \$ 2,468,501 | \$ 2,461,968 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 29,162 | \$ 30,306 |
| Operating lease liability | 10,178 | 11,538 |
| SBA Debentures, net (principal of \$110,250 and \$149,000, respectively) ⁽¹⁾ | 109,808 | 148,165 |
| 2022 Notes, net (principal of \$150,000 and \$150,000, respectively) ⁽¹⁾ | 148,776 | 148,514 |
| July 2024 Notes, net (principal of \$105,000 and \$105,000, respectively) ⁽¹⁾ | 103,795 | 103,685 |
| February 2025 Notes, net (principal of \$50,000 and \$0, respectively) ⁽¹⁾ | 49,465 | — |
| 2025 Notes, net (principal of \$75,000 and \$75,000, respectively) ⁽¹⁾ | 73,161 | 72,970 |
| June 2025 Notes, net (principal of \$70,000 and \$0, respectively) ⁽¹⁾ | 69,217 | — |
| 2033 Notes, net (principal of \$40,000 and \$40,000, respectively) ⁽¹⁾ | 38,555 | 38,501 |
| 2027 Asset-Backed Notes, net (principal of \$200,000 and \$200,000 respectively) ⁽¹⁾ | 197,448 | 197,312 |
| 2028 Asset-Backed Notes, net (principal of \$250,000 and \$250,000, respectively) ⁽¹⁾ | 247,511 | 247,395 |
| 2022 Convertible Notes, net (principal of \$230,000 and \$230,000, respectively) ⁽¹⁾ | 227,395 | 226,614 |
| Credit Facilities | — | 103,919 |
| Total liabilities | \$ 1,304,471 | \$ 1,328,919 |
| Net assets consist of: | | |
| Common stock, par value | 115 | 108 |
| Capital in excess of par value | 1,223,263 | 1,145,106 |
| Total distributable earnings (loss) | (59,348) | (12,165) |
| Total net assets | \$ 1,164,030 | \$ 1,133,049 |
| Total liabilities and net assets | \$ 2,468,501 | \$ 2,461,968 |
| Shares of common stock outstanding (\$0.001 par value, 200,000,000 authorized) | 114,230 | 107,364 |
| Net asset value per share | \$ 10.19 | \$ 10.55 |

(1) The Company's SBA Debentures, February 2025 Notes, June 2025 Notes, 2033 Notes, 2025 Notes, 2022 Notes, 2027 Asset-Backed Notes, 2028 Asset-Backed Notes, 2022 Convertible Notes, and July 2024 Notes, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument.

HERCULES CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|--|------------------------------------|------------------|----------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Investment income: | | | | |
| Interest income | | | | |
| Non-control/Non-affiliate investments | \$ 62,667 | \$ 59,932 | \$ 128,005 | \$ 113,872 |
| Control investments | 731 | 1,040 | 1,377 | 2,064 |
| Affiliate investments | 157 | 738 | 377 | 1,247 |
| Total interest income | 63,555 | 61,710 | 129,759 | 117,183 |
| Fee income | | | | |
| Commitment, facility and loan fee income | | | | |
| Non-control/Non-affiliate investments | 3,511 | 5,028 | 7,707 | 7,478 |
| Control investments | 5 | 4 | 10 | 8 |
| Affiliate investments | — | 72 | — | 160 |
| Total commitment, facility and loan fee income | 3,516 | 5,104 | 7,717 | 7,646 |
| One-time fee income | | | | |
| Non-control/Non-affiliate investments | 897 | 2,450 | 4,111 | 3,230 |
| Total one-time fee income | 897 | 2,450 | 4,111 | 3,230 |
| Total fee income | 4,413 | 7,554 | 11,828 | 10,876 |
| Total investment income | 67,968 | 69,264 | 141,587 | 128,059 |
| Operating expenses: | | | | |
| Interest | 15,076 | 13,515 | 29,608 | 26,070 |
| Loan fees | 1,650 | 1,646 | 3,444 | 4,655 |
| General and administrative | | | | |
| Legal expenses | 991 | 1,963 | 1,860 | 2,626 |
| Tax expenses | 899 | 593 | 2,034 | 891 |
| Other expenses | 3,973 | 3,239 | 7,998 | 6,431 |
| Total general and administrative | 5,863 | 5,795 | 11,922 | 9,948 |
| Employee compensation | | | | |
| Compensation and benefits | 7,180 | 9,190 | 15,394 | 15,813 |
| Stock-based compensation | 2,515 | 3,851 | 4,955 | 7,273 |
| Total employee compensation | 9,695 | 13,041 | 20,349 | 23,086 |
| Total operating expenses | 32,284 | 33,997 | 65,323 | 63,759 |
| Net investment income | 35,684 | 35,267 | 76,264 | 64,300 |
| Net realized gain (loss) on investments | | | | |
| Non-control/Non-affiliate investments | 141 | 4,271 | 7,108 | 8,826 |
| Total net realized gain (loss) on investments | 141 | 4,271 | 7,108 | 8,826 |
| Net change in unrealized appreciation (depreciation) on investments | | | | |
| Non-control/Non-affiliate investments | 23,613 | 9,794 | (34,816) | 41,884 |
| Control investments | 2,642 | 808 | (5,209) | (2,068) |
| Affiliate investments | (315) | (2,009) | (10,305) | (3,226) |
| Total net unrealized appreciation (depreciation) on investments | 25,940 | 8,593 | (50,330) | 36,590 |
| Total net realized and unrealized gain(loss) | 26,081 | 12,864 | (43,222) | 45,416 |
| Net increase(decrease) in net assets resulting from operations | \$ 61,765 | \$ 48,131 | \$ 33,042 | \$ 109,716 |
| Net investment income before investment gains and losses per common share: | | | | |
| Basic | \$ 0.32 | \$ 0.36 | \$ 0.69 | \$ 0.66 |
| Change in net assets resulting from operations per common share: | | | | |
| Basic | \$ 0.55 | \$ 0.49 | \$ 0.29 | \$ 1.13 |
| Diluted | \$ 0.55 | \$ 0.49 | \$ 0.29 | \$ 1.12 |
| Weighted average shares outstanding: | | | | |
| Basic | 111,558 | 98,223 | 110,256 | 97,226 |
| Diluted | 111,729 | 98,737 | 110,504 | 97,630 |
| Distributions paid per common share: | | | | |
| Basic | \$ 0.32 | \$ 0.33 | \$ 0.72 | \$ 0.64 |



Hercules Capital Surpasses \$1.0 Billion in Cumulative Distributions to Shareholders since IPO

Declares Cash Distribution of \$0.32 per Share for the Second Quarter of 2020

PALO ALTO, Calif., July 29, 2020 – Hercules Capital, Inc. (NYSE: HTGC) (“Hercules” or the “Company”), the largest and leading specialty finance provider to innovative, venture, growth and established stage companies backed by some of the leading and top-tier venture capital and select private equity firms, today announced that its Board of Directors has declared a second quarter 2020 cash distribution of \$0.32 per share.

“We are proud of the fact that this cash distribution payment marks a significant milestone for the Company and its shareholders,” said Scott Bluestein, chief executive officer and chief investment officer of Hercules Capital. “Since June 2005, we have paid 60 consecutive quarterly base distributions on our common shares totaling in excess of \$1.0 billion. The ability to do this is a true testament to the resiliency of our venture lending platform and discipline of our seasoned investment team especially when considering the multiple credit cycles, interest rate changes and varying economic conditions the portfolio has been able to successfully navigate over the last 15 years.”

The following shows the key dates of the second quarter 2020 distribution payment:

| | |
|--------------|-----------------|
| Record Date | August 10, 2020 |
| Payment Date | August 17, 2020 |

Hercules' Board of Directors maintains a variable distribution policy with the objective of distributing four quarterly distributions in an amount that approximates 90% to 100% of the Company's taxable quarterly income or potential annual income for a particular year. In addition, during the year, the Company's Board of Directors may choose to pay additional supplemental distributions, so that the Company may distribute approximately all its annual taxable income in the year it was earned, or it can elect to maintain the option to spill over the excess taxable income into the coming year for future distribution payments.

The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. Of the distributions declared during the quarter ended June 30, 2020, 100% were distributions derived from the Company's current and accumulated earnings and profits. There can be no certainty to stockholders that this determination is representative of the tax attributes of the Company's 2020 full year distributions to stockholders.

About Hercules Capital, Inc.

Hercules Capital, Inc. (NYSE: HTGC) is the leading and largest specialty finance company focused on providing senior secured venture growth loans to high-growth, innovative venture capital-backed companies in a broad variety of technology, life sciences and sustainable and renewable technology industries. Since inception (December 2003), Hercules has committed more than \$10.2 billion to over 500 companies and is the lender of choice for entrepreneurs and venture capital firms seeking growth capital financing. Companies interested in learning more about financing opportunities should contact info@htgc.com, or call (650) 289-3060.

Hercules' common stock trades on the New York Stock Exchange (NYSE) under ticker symbol HTGC. In addition, Hercules has two retail bond issuances of 5.25% Notes due 2025 (NYSE: HCXZ) and 6.25% Notes due 2033 (NYSE: HCXY).

Forward-Looking Statements

This press release may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You should understand that under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

The information disclosed in this press release is made as of the date hereof and reflects Hercules' most current assessment of its historical financial performance. Actual financial results filed with the SEC may differ from those contained herein due to timing delays between the date of this release and confirmation of final audit results. These forward-looking statements are not guarantees of future performance and are subject to uncertainties and other factors that could cause actual results to differ materially from those expressed in the forward-looking statements including, without limitation, the risks, uncertainties, including the uncertainties surrounding the current market volatility, and other factors the Company identifies from time to time in its filings with the SEC. Although Hercules believes that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions also could be incorrect. You should not place undue reliance on these forward-looking statements. The forward-looking statements contained in this release are made as of the date hereof, and Hercules assumes no obligation to update the forward-looking statements for subsequent events.

Contact:

Michael Hara
Investor Relations and Corporate Communications
Hercules Capital, Inc.
(650) 433-5578
mhara@htgc.com

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