Callidus Capital Corporation

Callidus Capital Reports 2016 Full Year and Fourth Quarter Results

Substantial Progress on Privatization While Positioning for Growth

All amounts in Canadian dollars unless otherwise indicated.

TORONTO, March 30, 2017 /CNW/ -

- In September 2016, Callidus announced that it would conduct a process to explore the privatization of the Company (the "Process"). Goldman, Sachs & Co. is acting as Financial Advisor to the Special Committee of the Board of Directors. In total 19 interested parties signed non-disclosure agreements to enter the first stage of the Process.
- Based on the expressions of interest in the first stage, the Process has now moved to its second stage, with a more limited number of parties, which will not exceed six in number. Preliminary discussions with the smaller, second-stage group are focused on both structure and value.
- Early expressions of interest support initial valuations that would translate into a price received by tendering shareholders tha is consistent with the previously disclosed valuation range provided by National Bank Financial ($18 to $22 per share) that accompanied the SIB in April 2016.
- As is typical of any process prior to a final and definitive agreement, there can be no certainty that a transaction can be concluded, what price may be offered or accepted, or if the Process will be concluded on the current timeline.
- The pipeline of potential borrowers, on a gross basis, is currently approximately $1.4 billion.
- Liquidity to shareholders was provided through a Substantial Issuer Bid ("SIB"), which ran from May to December 2016, resulting in the take-up and cancellation of approximately 2.8 million common shares at $16.50 per share.
- The dividend was increased twice in 2016, first from $0.70 per share to $1.00 per share per year in May 2016, and then to $1.20 per share in October 2016, representing a 70% increase since it was introduced in September 2015.
- The Company obtained a new, investment grade, low-cost, scalable, senior financing vehicle in December 2016 to fund futur growth. A C$167 million (US$125 million) securitization facility with four investment grade tranches, ranging from AAA(sf to BBB(sf), which represents approximately 60% of the initial issue size. The facility provides a lower cost of funds (by approximately 200 bps) than other facilities available to Callidus.
- In December 2016, a Normal Course Issuer Bid was announced and subsequently approved by the Toronto Stock Exchange for implementation in 2017. The program will allow Callidus to purchase up to approximately 2.5 million of its common shares, representing 5% of the approximately 49.9 million common shares issued and outstanding. The Company expects to initiate share purchases under the NCIB immediately, in accordance with the appropriate rules, after the implementation of ar Automatic Share Purchase Plan.

Callidus Capital Corporation (TSX:CBL), ("Callidus" or the "Company"), today announced its audited financial and operating results for the fourth quarter and year ended December 31, 2016.

2016 Highlights

The measures below contain IFRS and non-IFRS measures used by the Corporation to assess performance. A reconciliation betwee the relevant IFRS and non-IFRS measure is included at the end of the release.

- Total revenue for full-year 2016 of $188.1 million, was an increase of 10% ($16.8 million) from 2015.
- Key performance metrics before provisions and recognized yield enhancements but adding non-IFRS unrecognized yield enhancements were as follows: ROE for full-year 2016 was 31.0% (ROE as reported was 0.2%) compared to 17.7% for full-year 2015 (ROE as reported was 12.9%); net income for full-year 2016 was $180.1 million (net income as reported was $1.2 million) compared to $88.2 million for full-year 2015 (net income as reported was $62.0 million); and, earnings per share (diluted) for full-year 2016 of $3.58 per share (earnings per share (diluted) as reported was $0.02) compared to $1.74 per shar for full-year 2015 (earnings per share (diluted) as reported was $1.22).
- Gross yield for the year was 19.5%, an increase of 60 bps (3%) compared to 2015.
- Gross loans receivable before derecognition was $1,314 million at year-end, up 8% ($93 million) from December 31, 2015.
- The loan portfolio at the end of 2016 contained 24 loans, a reduction of 15 loans during the year that generated $243.7 millio in cash from the repayments.
- The leverage ratio of 40.4% at the end of 2016 was 1,050 bps lower than 2015. The decrease largely resulted from the application of the proceeds of the borrower loan repayments to reduce amounts outstanding under Callidus' current financing facilities, primarily the revolving credit facility.

Financial Highlights

($ 000s unless otherwise indicated)	Three Months Ended Dec 31, 2016	Sept 30, 2016	Dec 31, 2015	Year Ended Dec 31, 2016	Dec 31, 2015
Average loan portfolio outstanding [1]	**$ 1,282,593**	$ 1,217,965	$ 1,192,994	**$ 1,218,691**	$ 1,021,553
Total revenue (after derecognition)	**48,486**	44,169	48,467	**188,126**	171,306
Gross yield (%) [1]	**20.1%**	19.0%	19.1%	**19.5%**	18.9%
Net interest margin (%) [1]	**11.1%**	11.0%	12.2%	**11.7%**	13.0%
Before provisions and recognized yield enhancements:					
Net income [2]	**22,403**	22,053	26,314	**89,290**	88,157
Earnings per share (diluted)[2]	**$0.45**	$0.43	$0.53	**$1.77**	$1.74
ROE (%)[2]	**17.4%**	17.1%	20.9%	**16.7%**	17.7%
Leverage ratio (%)[1]	**40.4%**	40.3%	50.9%	**40.4%**	50.9%

(1) Refer to "Description of Non-IFRS Measures" in the MD&A. These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.

(2) Reported net income for Q4-2016 was -$58.5 million and for YTD-2016 was $1.2 million. Reported earnings per share (diluted) for Q4-2016 was a loss of $1.16 and for YTD-2016 was $0.02 . Reported ROE for Q4-2016 was -49.5% and for YTD 2016 was 0.3%.

The following are non-IFRS, forward-looking financial measures before derecognition used for illustrative purposes given the change in our capital structure.

- Had leverage remained consistent year-over-year, ROE, net income and EPS before provisions and recognized yield enhancements in 2016 would have been 14%, $82.2 million, and $1.63 per share.
- Given the new investment grade securitization vehicle now in place provides leverage of approximately 60% on a go-forward basis, had 60% leverage been available throughout 2016, ROE, net income and EPS before provisions and recognized yield enhancements would have been 16%, $78.8 million, and $1.56 per share.

Callidus Executive Chairman and CEO Newton Glassman commented "In 2016 we completed three parts of the four step capital markets plan to address the persistent disconnect between the value of our stock and its market price. While we are pleased with the response of our share price to the plan, we are disappointed with the impact that the diversion of resources required has had on the Company's ability to grow and execute its business plan. However, when we halted growth to focus on our capital markets plan, we utilized the opportunity to successfully implement several improvements to our underwriting processes that are directed at improving credit quality and augmenting gross yield and overall return. We are now looking forward to once again focusing on the growth of the business and what we believe is a very bright future."

Subsequent Events

Privatization Process – As of March 30, 2017, 19 interested parties signed non-disclosure agreements to enter the first stage of the Process. Based on the expressions of interest in the first stage, the Process has now moved to its second stage, with a more limited number of parties, which will not exceed six in number. Preliminary discussions with the smaller, second-stage group are focused on both structure and value. Early expressions of interest support initial valuations that would translate into a price received by tendering shareholders that is consistent with the previously disclosed valuation range provided by National Bank Financial ($18 to $22 per share) that accompanied the SIB in April 2016.

The Company remains optimistic that it will conclude a transaction on or about the end of the second quarter of 2017. However, there can be no certainty that a transaction will be concluded, what other price or terms may be offered or accepted, or if the Process will be concluded on the current timeline. The timing and/or successful conclusion of the Process could be influenced by the level of complexity of the structures presented, the time required to negotiate key agreements (such as the Shareholders' Agreement), and the number of parties that ultimately participate in the next stage of the Process.

Catalyst Capital Group Inc., which manages funds that own approximately 67% of the issued and outstanding shares of Callidus, is not a bidder, and remains firmly committed to completing a transaction on terms that will ensure the continued protection of the interests of its public shareholders.

Normal Course Issuer Bid – In January 2017, the Company announced that the Toronto Stock Exchange ("TSX"), had accepted the Corporation's notice of intention to undertake a normal course issuer bid ("NCIB"). Under the terms of the NCIB, Callidus may acquire up to 2,495,839 of its common shares, representing 5% of the 49,916,781 common shares comprising Callidus' total issued and outstanding common share as of January 16, 2017, and will be purchased only when and if the Company considers it advisable. The Company's directors and management believe that from time to time the market price of Callidus' common shares does not reflect the underlying value of the common shares and that the purchase of common shares for cancellation at such times is a prudent corporate measure that will both increase the proportionate interest in the Company of, and be advantageous to, all of the Company's remaining shareholders.

Callidus is planning to enter into an automatic share purchase plan ("ASPP"), immediately and in compliance with all applicable rules, under which a designated broker will purchase common shares pursuant to the NCIB on parameters established by the Company. The purpose of the ASPP is to permit Callidus to purchase shares under its NCIB during internal blackout periods when Callidus would not otherwise be permitted to trade in its shares, including regularly scheduled quarterly blackout periods.

Changes in Loan Portfolio – In the first quarter of 2017, six loan facilities were repaid. In January 2017, three loans were fully repaid, relating to facilities totaling $83.8 million which were originated between 45 and 57 months ago. The outstanding amounts, including fees and interest, were repaid in accordance with their original terms for total proceeds of $68.7 million, of which $58.8 million was Callidus' equity portion. In March 2017, three additional loans were fully repaid, relating to facilities of $318.3 million which were originated between 17 and 26 months ago and included the largest loan facility in Callidus' loan portfolio ($275 million). The outstanding amounts, including fees and interest, were repaid in accordance with their original terms for total proceec of $308.7 million, of which $80.9 million was Callidus' equity portion.

Changes to Credit Facilities and Liquidity - In early 2017, the Company extended the terms of three of its main credit facilities to dates beyond the expected conclusion of the Privatization Process under the current timeline. The facility extensions completed were as follows:

- In January 2017, the Company extended the revolving period of its revolving credit facility by six months to July 2017 and amended the amount of the facility to US$275 million with an expandable feature to increase it to US$325 million if requested, subject to lender approval. All other terms remain substantially unchanged.
- In March 2017, the Company extended the maturity of its senior debt from March 2017 to the earlier of September 2017, and the date when a privatization transaction closes.
- In March 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility from April 2017 t October 2017. All other terms remain substantially unchanged.

The Company monitors potential liquidity requirements to ensure that they can be readily funded by its available sources of short-term funding.

Operational Update

Loan Portfolio – As a result of ongoing, continuous process changes and improvements, we have revised our measure of growth prospects, referred to as our pipeline of potential borrowers, to capture a broader range of deals to better reflect the opportunities we are pursuing. This pipeline measure on a gross basis is currently approximately $1.4 billion.

If presented on a basis consistent with past reporting parameters, the pipeline measure at year-end was $630 million, and currently stands at $764 million, with $145 million in signed back term sheets.

During the year, 15 loans were fully repaid or written-off, generating $243.7 million in cash from the repayments.

As a result of our existing facilities, loan repayments, and the availability of funds from Catalyst Fund V under the Participation Agreement (assuming a participation rate of 75% and leverage ratio of 50%), total liquidity as at December 31, 2016 would be able to support approximately $300 million of new loans.

Yield Enhancements and Provision for Loan Losses – Yield enhancements include recognized yield enhancements (which are recorded in the financial statements) and non-IFRS unrecognized yield enhancements (which are not recorded in the financial statements). Recognized yield enhancements and provisions for loan losses contribute significant volatility to Callidus' results. Callidus conducts a rigorous, externally vetted process to determine its provision for loan losses. While there is limited room for subjective assessment in the estimates, the integrity of the review process is greatly enhanced by this extensive third-party participation. The process of determining the non-IFRS yield enhancements is greatly influenced by the complexity of the accounting standards under which the Company reports and judgements related to the future performance of the business and the industry within which it operates. To be clear, Callidus takes the unusual approach of engaging in a two-step, external valuation process; both its auditors and another third party review the Company's loan loss provisions. As a result, Callidus is confident of the veracity of its processes in determining these two estimates that are subject to significant fluctuation due to the applicable IFRS rule and greatly influence consolidated financial performance.

At December 31, 2016, non-IFRS unrecognized yield enhancements were estimated to be $122.7 million (or approximately $2.44 per share), compared to the initial estimate of $25.5 million to $51.0 million ($0.50 to $1.00 per share) contained in a third party valuation published in April 2016. In 2016, $3.1 million ($0.06 per share) of the total non-IFRS, unrecognized yield enhancement valuation was brought into income.

Provision for loan losses of $134.3 million was recorded in the statement of income for the year. The majority of this provision related to two primary factors. The first contributing factor (approximately one third of the total) was a decrease in appraisal values for hard assets such as land or machinery and equipment or "yellow metal" of borrowers. Appraisal values are also subject to volatility quarter-over-quarter particularly in the natural resource sector. The second contributing factor (approximately one fifth of the total) was an overall decrease in enterprise values used to assess loan loss provisions as a result of lower updated forecasts and market comparatives in specific industries including scrap metal and aluminum castings. These industries experience commodity-based and customer-base volatility quarter-over-quarter and as a result, enterprise values for these companies are subject to volatility. Both of these primary factors introduce a level of volatility in the loan loss estimation whereby the Company may experience higher than expected loan loss provisions which may result in reversals in future periods. In particular, the largest loan loss provision taken in the current year relates to a marine scrap metal salvaging business (Esco Marine Inc.) that was effectively dormant for a significant portion of 2016 and has recently restarted in 2017 achieving specific milestones that the Company believe provides upside potential from the provisions that have been taken. During the year, the Company recognized a recovery of $32.0 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the year.

Callidus Executive Chairman and CEO Newton Glassman added "We understand and comply with all technical accounting requirements. We are also cognizant that the technical rules, particularly those pertaining to loan loss provisioning and the reportin of yield enhancements (recognized and non-IFRS unrecognized), create a great deal of complexity in our results that makes it difficult for the public shareholder to distill the true performance of the business. For example, one recent borrower that went into bankruptcy, utilized that time to create tremendous value by streamlining operations and restructuring their management, and as a result emerged from the bankruptcy process with a tremendous increase in Enterprise Value. A great benefit to our shareholders. However, under technical accounting rules, because we now control 100% of the business we cannot report any of the improved value in our results until we dispose of our interest in the business. That unnecessarily diminishes the value of a tremendous asset i the portfolio."

Quarterly Highlights

- Our Annual 2016 MD&A and Audited Financial Statements are available on our website (www.calliduscapital.ca) or on SEDAR (www.sedar.com).
- Average loan portfolio outstanding was $1,283 million, an increase of 5% ($65 million) from the prior quarter, and an increase of 8% ($90 million) from the same quarter last year.
- Revenue of $48.5 million, increased 10% ($4.3 million) from the prior quarter and flat from the same quarter last year.
- Gross yield for the quarter was 20.1%, an increase from 19.0% in the prior quarter, and from 19.1% in the same quarter last year. As noted previously, gross yields can be "lumpy" quarter to quarter.
- The loan portfolio at the end of fourth-quarter 2016 was comprised of 24 loans, a decrease of four loans during the quarter. The four loans, representing $61.2 million outstanding at repayment, were fully repaid. Callidus utilized those proceeds to reduce outstanding amounts under its own financing facilities, primarily the revolving credit facility.
- Key performance metrics before provisions and recognized yield enhancements were as follows:
  - ROE was 17.4%, an increase from 17.1% in the prior quarter and a decrease from 20.9% in same quarter last year;
  - net income was $22.4 million, an increase of 2% ($0.2 million) from the prior quarter and a decrease of 15% ($3.9 million) from the prior year period; and
  - earnings per share (diluted) of $0.45 per share, was an increase of 5% ($0.02 per share) from last quarter and 13% ($0.0 per share) from the same quarter last year.
- Key performance metrics after provisions and recognized yield enhancements were as follows: ROE was (49.5)%, the net los was $58.5 million, and the loss per share (diluted) was $1.16 per share.
- Leverage ratio of 40.4% at the end of the current quarter, which was relatively consistent with the prior quarter, but down 10.5% from 50.9% in the fourth quarter of 2015. Leverage was lower than is normally targeted, as cash was held to support the outstanding Substantial Issuer Bid.
- If leverage had been 60%, the key performance metrics would have been as follows: ROE would have been 17.4%, net incon would have been $22.4 million, and earnings per share (diluted) would have been $0.45 per share.
- As at December 31, 2016, the estimated collateral value across aggregate net loans receivable was approximately 116%. It should be noted that there is no cross-collateralization of the asset coverage as between borrowers.
- Provision for loan losses for the fourth quarter was $86.3 million.

Forward-Looking and Non-IFRS Statements

Certain statements made herein contain forward-looking information. Although Callidus believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. Furthermore, the forward-looking statements contained in th press release are made as at the date of this press release and Callidus does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

The following table outlines certain significant forward-looking statements contained in this release and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

Forward-looking Statements	Assumptions	Risk Factors	Significant Future Events/Milestone Assumptions to Support the Top End of the Valuations	Updates for the Current Year
The fair value of the derivative asset associated with loans represents a warrant to acquire a 10% equity interest in a borrower with a total fair value of $15.1 million on December 31, 2016.	The valuation technique primarily used a discounted cash flow on an anticipated project that the borrower secured with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate (contract): 17% (2) Risk adjusted discount rate (terminal): 21% (3) Annual average EBITDA (EBITDA margin): US$79.0 million (21%) (4) Contract probability: 95% (5) Capital injection of US$32 million assumed to occur in 2017	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation of the warrant include: the borrower's ability to secure the project contract, the borrower's ability to complete an equity transaction, achieve the forecasted EBITDA targets, unexpected changes in working capital requirements, political risk associated with the country of operations, competitor risk and execution risk. A 10% decrease or increase in the cashflows would result in a valuation range between $12.1 million to $18.2 million.	(1) Borrower completes are required documentation related to contract without material delays (2) Borrower completes capital injection transaction in 2017 (3) Borrower is able to execute project and achieve forecasted results (4) Political risk does not materially disrupt contract cashflows	(1) Borrower has executed key contract related to project (2) Firm has been engaged by borrower to assist in completion of capital injection transaction
Fair value of expected controlling interest in borrower expected to recognize into income upon disposition are estimated at $110.7 million on December 31, 2016.	The valuation technique used a discounted cash flow with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate: 17.1% (2) Long term growth rate: 10.0% (3) Annual average EBITDA: $30.4 million (4) Significant new business from a large diversified gaming company in Canada that is commonly controlled by the Catalyst Capital Group Inc.	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation include the borrower's ability to secure new business from a large diversified gaming company in Canada, achieve the forecasted EBITDA targets, competitor risk and unexpected changes in working capital requirements. A 10% decrease or increase in the cashflows would result in a valuation range between $88.5 million to $132.8 million.	(1) Callidus obtains controls of the underlying borrower (2) A commonly controlled enterprise is awarded contracts (3) Callidus and commonly controlled enterprise are able to reach an agreement for deployment of 7,000 slot machines	(1) Subsequent to year end, Callidus obtained control of the underlying borrower (2) Commonly controlled enterprise was awarded contract

The Corporation provides a reconciliation between IFRS and non-IFRS measures in the table below:

($ millions, unless otherwise indicated)	Three Months Ended		Year Ended	
	Dec 31, 2016	Dec 31, 2015	**2016**	2015
Net income (as reported)	**$ (58.5)**	$ 7.6	**$ 1.2**	$ 62.0
Less: Recognized yield enhancements @ 26.5% tax rate	**17.5**	-	**(10.5)**	-
Add back: Provisions @ 26.5% tax rate	**63.5**	18.7	**98.7**	26.2
Net income (excluding provisions and recognized yield enhancements)	**22.4**	26.3	**89.3**	88.2
Net income (excluding recognized yield enhancements)	**(41.0)**	7.6	**(9.4)**	62.0
Net income (excluding loan loss provisions)	**4.9**	26.3	**99.9**	88.2
EPS ($ per share)				
EPS - diluted (as reported)	**$ (1.16)**	$ 0.15	**$ 0.02**	$ 1.22
EPS - diluted (excluding provisions and recognized yield enhancements)	**0.45**	0.53	**1.77**	1.74
EPS - diluted (excluding recognized yield enhancements)	**(0.83)**	0.15	**(0.19)**	1.22
EPS - diluted (excluding loan loss provisions)	**0.10**	0.53	**1.98**	1.74
ROE (%)				
ROE (as reported)	**-49.5%**	6.2%	**0.2%**	12.9%
ROE (excluding provisions and recognized yield enhancements)	**17.4%**	20.9%	**16.7%**	17.7%
ROE (excluding recognized yield enhancements)	**-34.0%**	6.2%	**-1.9%**	12.8%
ROE (excluding loan loss provisions)	**3.9%**	20.9%	**18.5%**	17.7%

About Callidus Capital Corporation

Established in 2003, Callidus Capital Corporation is a Canadian company that specializes in innovative and creative financing solutions for companies that are unable to obtain adequate financing from conventional lending institutions. Unlike conventional lending institutions who demand a long list of covenants and make credit decisions based on cash flow and projections, Callidus credit facilities have few, if any, covenants and are based on the value of the borrower's assets, its enterprise value and borrowing needs. Callidus employs a proprietary system of monitoring collateral and exercising control over the cash inflows and outflows of each borrower, enabling Callidus to very effectively manage risk of loss. Further information is available on our website, www.calliduscapital.ca.

Conference call

Callidus will host a conference call to discuss Q4 and full-year 2016 results on Friday, March 31, 2017 at 8:00 a.m. Eastern Time. The dial in number for the call is (647) 427-7450 or (888) 231-8191 (reference number: 40022254). A taped replay of the call will be available until April 6, 2017 at (416) 849-0833 or (855) 859-206 (reference number: 40022254).

SOURCE Callidus Capital Corporation

For further information: Paula Myson | (416) 945-3226 | pmyson@calliduscapital.ca

---