Callidus Capital Corporation

Callidus Capital Reports Third Quarter 2018 Results

Additions to senior management team, 2 new loans originated during quarter, letter of intent signed to sell commodity division of C&C Resources

All amounts in Canadian dollars unless otherwise indicated.

Highlights

- Subsequent to the end of the third quarter, Callidus Capital Corporation announced significant additions to its senior management to strengthen the tear support further growth of its loan portfolio and to continue unlocking value from its portfolio of operating companies. Patrick Dalton has joined Callidu as Interim Chief Executive Officer and Jim Hall has re-joined the Company as Senior Vice President. Mr. Dalton is an accomplished investment management executive with over 25 years of experience in private credit markets, and previously held senior management positions including CEO of Fifth Street Finance Corp., CEO of Gordon Brothers Finance Company, and President and COO of Apollo Investment Corporation. Mr. Hall is an accomplished and versatile entrepreneur, business operator, corporate investor, and director with expertise in finance, private equity, banking and medi: From 2014 to 2017, he was Vice President at Callidus where he was the Company's most successful Underwriter and Portfolio Manager in terms of interest and fee profitability. These appointments are part of ongoing recruitment efforts to position the company for growth in addition to managing th medical leave of absence of the Company's CEO, Newton Glassman.
- Callidus President and COO David Reese said "On behalf of my colleagues at Callidus, I am pleased to report that while Mr. Glassman's recent surgery was serious, it was successful and his physicians expect a full recovery. He will require intensive post-operative rehabilitation and physical therapy however, and therefore the length of his leave of absence remains uncertain. We all wish him a full and speedy recovery."
- On September 25, 2018 Callidus announced it had entered into a letter of intent with a strategic acquirer pursuant to which Callidus will sell the commodity division of C&C Resources Inc. for all-cash consideration. Under the terms, Callidus will realize the vast majority of the current carrying value of the assets of C&C, which it acquired in 2017. Callidus will continue to own C&C's growth-oriented, value-added operations. The transaction i: expected to close late in the fourth quarter of 2018 or early in the first quarter of 2019.
- The pipeline of potential borrowers at September 30, 2018 was $1.4 billion, and currently stands at approximately $1 billion with two signed back term sheets totaling approximately $105 million.
- During the third quarter of 2018, the Company originated two new loans with commitments totaling $162 million and a gross loans receivable and net loans receivable balance as of September 30, 2018 of $139 million before derecognition. In addition, the Company received full repayment of one loan with commitments totaling $26.3 million and gross loans receivable and net loans receivable balance of $11.1 million before derecognition, or $2.8 million after derecognition.
- Total revenue of $90.3 million in the third quarter of 2018 increased by $35.7 million from the same period in 2017, primarily due to the consolidation of three additional businesses, partially offset by lower interest and fees in the lending business.
- Provision for loan losses for Q3-2018 was $24.7 million primarily related to a $13.1 million provision on one specific loan concentrated in the energy sector as a result of lower expected recovery values and a delay in expected future cashflows. Provision for loan losses for the current year-to-date period of $61.0 million was recorded in the statements of income. For Q3-2018 and for the year-to-date period, the Company recorded a $5.5 million gain and a $7.6 million gain, respectively, in the change in fair value of financial instruments. These gains in the fair value of financial instruments would have been previously included in the provision for loan losses figure prior to the adoption of IFRS 9.
- In Q3-2018 Callidus recognized a recovery in the statements of comprehensive income of $13.1 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments. During the current year-to-date period, the Company recognized a recovery in the statements of comprehensive income of $50.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments and confirmation of coverage of the Catalyst guarantee related to a specific loan.
- During the year-to-date period, there were indications of impairment at one of the Company's businesses that reflected declines in forecasted performance due to market conditions and lower than expected economic performance of certain businesses. As a result, $15.5 million was recorded in the statements of comprehensive income as an impairment of goodwill for the year-to-date period.
- Net loss of $20.4 million in Q3-2018 compared to a loss of $17.6 million in the prior year period.
- Loss of $0.36 per share (diluted) for the third quarter of 2018 compared to a loss of $0.35 in the same period in 2017.
- Net loss of $68.2 million for the current year-to-date period compared to a loss of $46.9 million for the first nine months of 2017.
- Loss of $1.26 per share (diluted) for the current year-to-date period compared to a loss of $0.93 for the first nine months of 2017.

TORONTO, Nov. 14, 2018 /CNW/ - Callidus Capital Corporation (TSX:CBL) (the "Company" or "Callidus") today announced its unaudited financial and operating results for the quarter ended September 30, 2018.

	For Three Months Ended			**For Nine Months Ended**	
($ 000s unless otherwise indicated)	**Sept 30, 2018**	Jun 30, 2018	Sept 30, 2017	**Sept 30, 2018**	Sept 30, 2017
Net loans receivable (before derecognition), end of period	**366,581**	244,688	482,896	**366,581**	482,896
Gross loans receivable (before derecognition), end of period (1)	**1,163,092**	1,131,482	1,038,592	**1,163,092**	1,038,592
Average loan portfolio outstanding (1)	**1,148,956**	1,119,327	1,024,383	**1,116,373**	1,090,760
Gross yield (%) (1)	**8.7%**	6.6%	10.7%	**7.2%**	14.7%
Total revenues(2)	**90,269**	89,437	54,539	**235,954**	113,002
Net interest margin (%) (1)	**-0.2%**	-0.5%	2.5%	**-0.4%**	4.7%
Net (loss) income	**(20,388)**	(40,825)	(17,569)	**(68,236)**	(46,887)
Earnings per share (diluted)	**($0.36)**	($0.75)	($0.35)	**($1.26)**	($0.93)
Recognized yield enhancements(3)	**-**	-	900	**-**	6,700
Leverage ratio (%)(1)	**38.8%**	40.5%	37.1%	**38.8%**	37.1%

2018 amounts are under IFRS 9 and 2017 amounts are under IAS 39.

(1) Refer to "Forward-Looking and Non-IFRS Measures" in this press release. 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) Certain comparative figures have been reclassified to conform with current period presentation.
(3) Recognized yield enhancements are recorded in the statements of income in total revenues (YTD Q3-2018 – nil; YTD Q3-2017 - $9.8 million) and in loss on derivative assets associated with loans (YTD Q3-2018 – nil; YTD Q3-2017 - loss of $3.1 million).
(4) Income statement data is after derecognition, unless otherwise indicated.

Business Update (As at November 14, 2018)

Loan Portfolio – The Company's pipeline at September 30, 2018 was $1.4 billion, and currently stands at approximately $1 billion with two signed back terr sheets totaling approximately $105 million.

During the third quarter, the Company originated two new loans with commitments totaling $162 million and a gross loans receivable balance as of Septembe 30, 2018 of $139 million before derecognition, or $39 million after derecognition.

As previously disclosed, Callidus undertakes extensive due diligence before closing on a loan transaction and there can be no assurance that the results of the due diligence will be satisfactory to Callidus.

As at September 30, 2018, net loans receivable increased 48% from December 31, 2017 due to loan originations and increased funding which was partially offset by higher provisions for loan losses and the consolidation of Midwest Asphalt Corporation in the first quarter of 2018 as this loan was removed from loans receivable and the company was consolidated in the financial statements.

Acquired Subsidiary Companies – A total of six loans which have been removed from loans receivable in order to protect collateral and have been consolidated in the financial statements.

Total non-interest revenues for these acquired subsidiary companies: (i) for the third quarter of 2018 was $91.0 million, an increase of $43.0 million or 90% from the same quarter last year and (ii) for the current year-to-date period was $239.1 million, an increase of $164.5 million or 221% from the same year-to-date period last year, primarily due to the consolidation and recognition, for accounting purposes, of non-interest revenues of the injection molding, forest products, and paving businesses since June 2017, November 2017 and January 2018 respectively.

Total gross margin for these acquired subsidiary companies for the third quarter of 2018 was 11.2%, a decrease from 13.0% in the same quarter last year. Gross margin for the current year-to-date period was 12.1%, a decrease from 13.9% in the same year-to-date period last year. The decreases in gross margin were due primarily to: (i) the aluminum castings business experiencing more negative gross margins in the quarter and year-to-date periods due to a reduction in volume from a major customer and (ii) a decrease in gross margin for the gaming business due to cost of sales in the third quarter of 2017 being impacted by a one-time inventory costing adjustment.

Callidus continues to work with these subsidiaries to implement strategic decisions and execute new business plans as part of their respective turnarounds.

Provision for Loan Losses –Provision for loan losses of $24.7 million was recorded in the statements of income for the third quarter of 2018. This primarily related to a $13.1 million provision on one specific loan concentrated in the energy sector as a result of a delay in expected future cashflows. Provision for loan losses of $61.0 million was recorded in the statements of income for the current year-to-date period. Of this total year-to-date provision, approximately $13.2 million is related to foreign exchange with the remainder primarily attributed to a $27.4 million provision on one specific loan concentrated in the energy sector.

During the third quarter of 2018 Callidus recognized a recovery in the statements of comprehensive income of $13.1 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the current quarter. During the current year-to-date period, the Company recognized a recovery in the statements of comprehensive income of $50.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions, other asset impairments and confirmation of coverage of the Catalyst guarantee related to a specific loan.

Normal Course Issuer Bid – In April 2018, the Toronto Stock Exchange accepted Callidus' notice of intention to undertake a normal course issuer bid ("NCIB"). Under the terms of the NCIB, Callidus may acquire up to 2,648,529 of its common shares, representing 5% of the 52,970,597 common shares comprising Callidus' total issued and outstanding common shares as of April 2, 2018, and will be purchased only when and if the Company considers it advisable. No purchases have been made to date under the current Normal Course Issuer Bid. As the Company continues to pursue a potential privatization transaction, it is maintaining a trading blackout and purchases under the Normal Course Issuer Bid may only be affected when that blackout ceases.

Liquidity – The Company's primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. Assuming a participation rate for Catalyst Fund Limited Partnership V of approximately 75%, total liquidity as at September 30, 2018 would be able to support in excess of $200 million of new loans. In addition, as business acquisitions are rehabilitated, we will pursue opportunities to monetize these investments where and when we believe capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

Privatization Process – The Company continues to pursue a privatization and has no material facts or changes to report.

Strategy for restoring and building shareholder value - Callidus reaffirmed its previously announced six strategies for restoring and building shareholder value, the first of which is prudently growing the loan portfolio, which management believes it is moving forward with, as indicated in this press release. The other strategies the Company continues to pursue and remains committed to are: actively managing the loan portfolio to minimize realized losses and with a goal of maximizing recovery of the loan loss provisions recorded to date; maximizing the cash-flow and value of businesses consolidated; prudently increasing leverage, including seeking external sources of financing at the subsidiary level; enhancing the management team as appropriate; and considering other transactions that could support and / or benefit the Corporation.

IFRS and non-IFRS Measures- Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Company's operations. Throughout this press release, Management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

Average loan portfolio outstanding is calculated before derecognition for the annual periods using daily loan balances outstanding. The average loan portfolio outstanding grosses up the loans receivable for (i) businesses acquired, (ii) the allowance for loan losses, and (iii) discounted facilities. This information is presented to enable readers to see, at a glance, trends in the size of the loan portfolio.

Gross yield is defined as total revenues before derecognition divided by the average net loan portfolio outstanding after adjusting for loans classified as businesses acquired. While gross yield is sensitive to non-recurring fees and yield enhancements earned (for example, as a result of early repayment), the Company has included this information as it believes the information to be instructive given the frequency of receipt of non-recurring fees and enables reader to see, at a glance, trends in the yield of the loan portfolio

Gross loans receivable is defined as the sum of (i) the aggregate amount of loans receivable on the relevant date, (ii) the loan loss allowance on such date, (iii the book value of businesses acquired as they appear on the balance sheet, and (iv) discounts on loan acquisitions. The following is a reconciliation, before and after derecognition, of gross loans receivable to net loans receivable in the statements of financial position and a summary of gross loans receivable as at September 30, 2018 and December 31, 2017.

($ 000s)	**After Derecognition** **September 30, 2018**	**Before Derecognition** **September 30, 2018**	After Derecognition December 31, 2017	Before Derecognition December 31, 2017
Loan facilities	**$ 1,204,982**	**$ 1,372,704**	$ 1,096,888	$ 1,162,483
Gross loans receivable	**1,041,894**	**1,163,092**	1,022,193	1,046,983
Less: Discounted facilities	**-**	**-**	(7,575)	(7,575)
Less: Allowance for loan losses	**(265,698)**	**(267,347)**	(358,217)	(359,079)
Less: Cumulative change in fair value of financial instruments[(1)]	**(42,056)**	**(42,056)**	-	-
Less: Impairment on goodwill and businesses acquired[(2)]	**(87,058)**	**(87,058)**	(57,421)	(57,421)
Less: Businesses acquired[(2)]	**(400,050)**	**(400,050)**	(375,602)	(375,602)
Net loans receivable	**$ 247,032**	**$ 366,581**	$ 223,378	$ 247,306

2018 amounts are under IFRS 9 and 2017 amounts are under IAS 39.

(1) Certain loans receivable have been reclassified from loans receivables at amortised cost under IAS 39 to loans receivables measured at FVTPL under IFRS 9.

(2) Businesses acquired are presented in the statements of financial position by their respective assets and liabilities.

Return on equity ("ROE") is defined as net income after derecognition divided by quarterly average shareholders' equity. Return on equity is a profitability measure that presents the annualized net income as a percentage of the capital deployed to earn the income.

Yield enhancement is defined as a component of a lending arrangement that Callidus negotiates in addition to the original loan agreement including additional fees, profit participation arrangements and equity and equity like instruments. Should a value be determined for the enhancement and depending on its contractual nature, the related amount may be recognized in the statements of comprehensive income as a part of interest income, fee income or as a financial instrument at fair value through profit or loss ("recognized yield enhancements") or may be unrecognized, which includes yield enhancements relating to controlling interests, depending on the appropriate accounting treatment under IFRS. The Company has discontinued disclosure of unrecognized yield enhancements in light of comments expressed by the Ontario Securities Commission.

Total gross margin is defined as total non-interest revenues less cost of total cost of sales, divided by total non-interest revenues, expressed as a percentage.

Leverage ratio is defined as total debt (net of unrestricted cash and cash equivalents) divided by gross loans receivable before derecognition. Total debt consists of the senior debt, revolving credit facilities, collateralized loan obligation and subordinated bridge facility.

The non-IFRS measures should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, analysis of the Company's financial statements.

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 ar 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 the third quarter 2018 results on Thursday, November 15, 2018 at 10.30 a.m. Eastern Time. The dial in numbe for the call is (647) 427-7450 or (888) 231-8191 (Conference ID: 4198629). A taped replay of the call will be available until November 22, 2018 at (416) 849 0833 or (855) 859-2056.

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For further information: Investor Relations | (416) 945-3240 | investor@calliduscapital.ca

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