

# Saratoga Investment Corp.

**Fiscal Second Quarter 2019  
Shareholder Presentation**

October 11, 2018



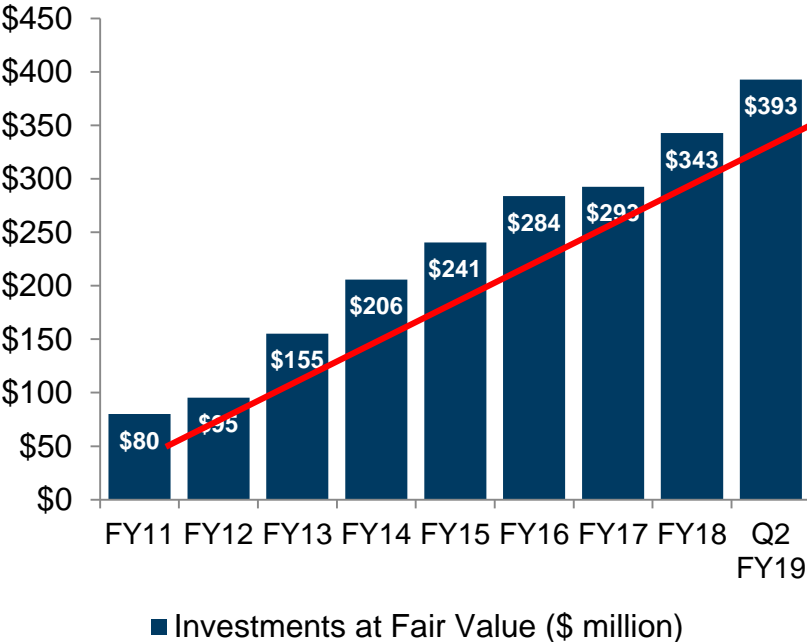
# Continued Growth and Outperformance in Q2 2019

## Fiscal Second Quarter 2019 Highlights:

- Continued strengthening of financial foundation
  - Investment quality remains strong
    - 99.4% of loan investments with highest internal rating
  - LTM ROE of 11.6% for Q2 FY19, up from 8.3% last year and beating BDC industry mean of 9.9%
  - Gross Unlevered IRR of 13.2% on total unrealized portfolio as of August 31, 2018
    - Gross Unlevered IRR of 13.4% on \$299.1 million of total realizations
- Consistent strong long-term originations contribute to growing assets under management
  - AUM up 14% since last quarter, up 154% over past five years
  - Four new portfolio companies this quarter, seven new platforms since May 2018
- Latest dividend of \$0.52 per share continued sixteenth increase in quarterly dividends
  - Over-earning our fully diluted Q2 NII pf \$0.64 per share by 23%
- Base of capital and liquidity remains strong
  - Issued \$28.75 million in new equity at 8.4% premium to NAV;
    - Increased share float by 1.15 million shares, or 43%
  - Raised \$40.0 million of new seven-year fixed rate notes, ticker “SAF”
  - Received ‘Green light’ letter from SBA for second SBIC license
- Key performance indicators up in Q2 versus last year
  - Adjusted NII of \$4.8 million is up 29%, Adjusted NII per share of 69c is up 7c, Adjusted NII yield of 11.9% is up 60bps and NAV per share of \$23.16 is up \$0.79, or 3.5%

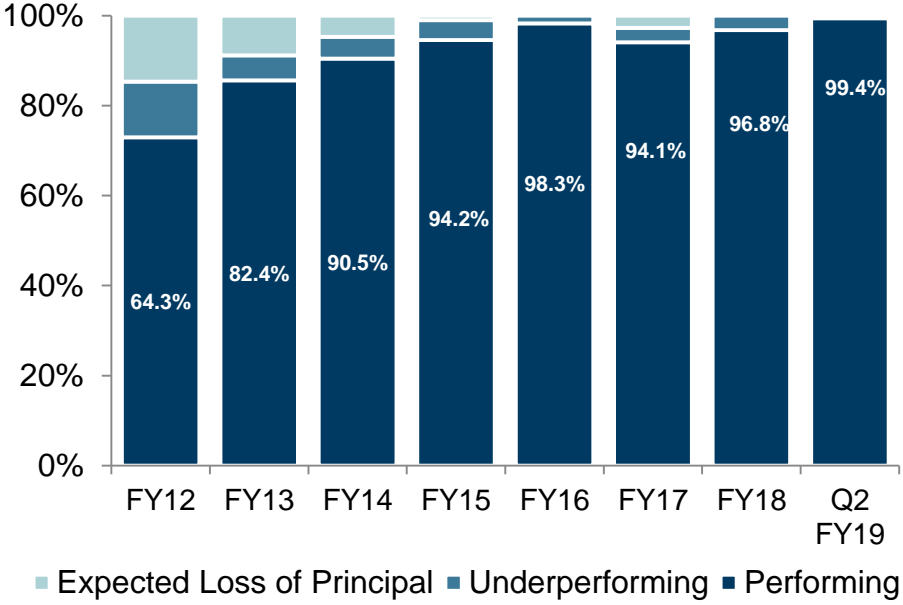
# Continued Asset Growth and Strong Credit Quality

**Asset Base Expansion Trend**



**Fair value of AUM increased 14% quarter-over-quarter and 391% since FY11**

**Overall Credit Quality Continues Strong**



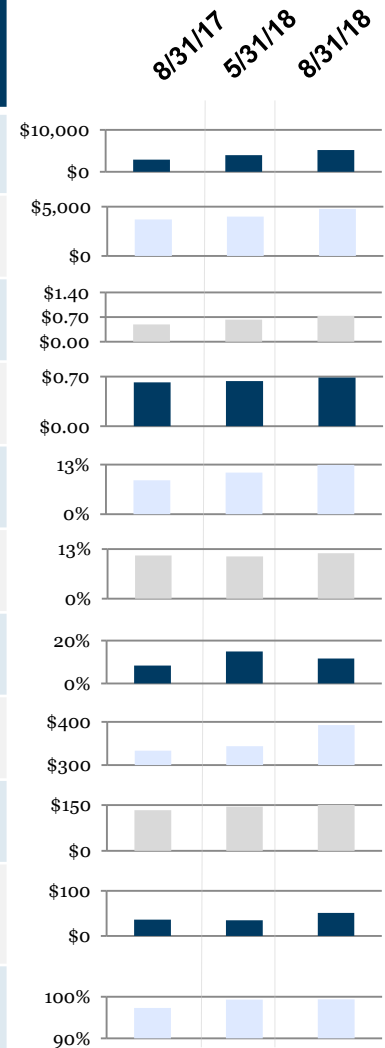
**Over 99% of our SAR loan investments hold our highest internal rating; highest level ever; two on non-accrual at quarter-end\***

\* Excludes our investment in our CLO, and our equity and written-off legacy investments.

# Q2 FY19: Strong Financial Foundation and Momentum

## Key Performance Metrics for the Fiscal Quarter

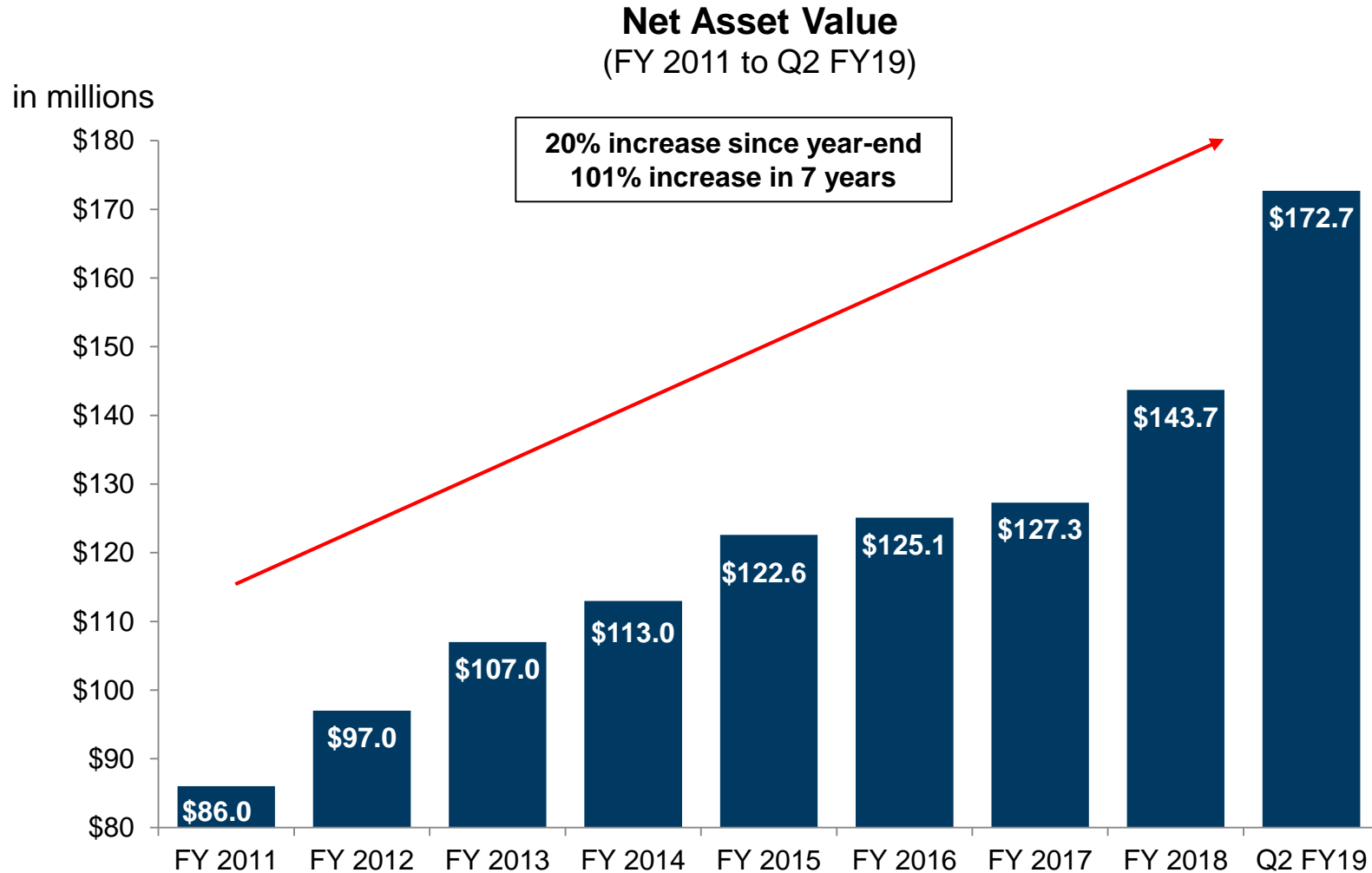
For the quarter ended and as of (\$ in millions except per share)	Aug 31, 2017	May 31, 2018	Aug 31, 2018
Net investment income	\$2,891	\$3,928	\$5,144
Adjusted net investment income*	\$3,680	\$4,000	\$4,761
Net investment income per share	\$0.49	\$0.63	\$0.74
Adjusted net investment income per share*	\$0.62	\$0.64	\$0.69
Net investment income yield	8.9%	10.9%	12.9%
Adjusted net investment income yield*	11.3%	11.1%	11.9%
Return on Equity – Last Twelve Months	8.3%	14.9%	11.6%
Fair value of investment portfolio	\$333.0	\$343.4	\$392.9
Total net assets	\$133.5	\$144.8	\$172.7
Investments in new/existing portfolio companies	\$36.7	\$35.2	\$51.7
Loan Investments held in “strong” credit ratings	97.3%	99.3%	99.4%



\*Adjusted for accrued capital gains incentive fee expense, reconciliation to GAAP net investment income included in our fiscal second quarter 2019 earnings release.

NOTE: For calculation purposes, Q2 FY19 reflects the impact of the equity offering for half the quarter (to weighted average number of shares and yield/ROE calcs),.

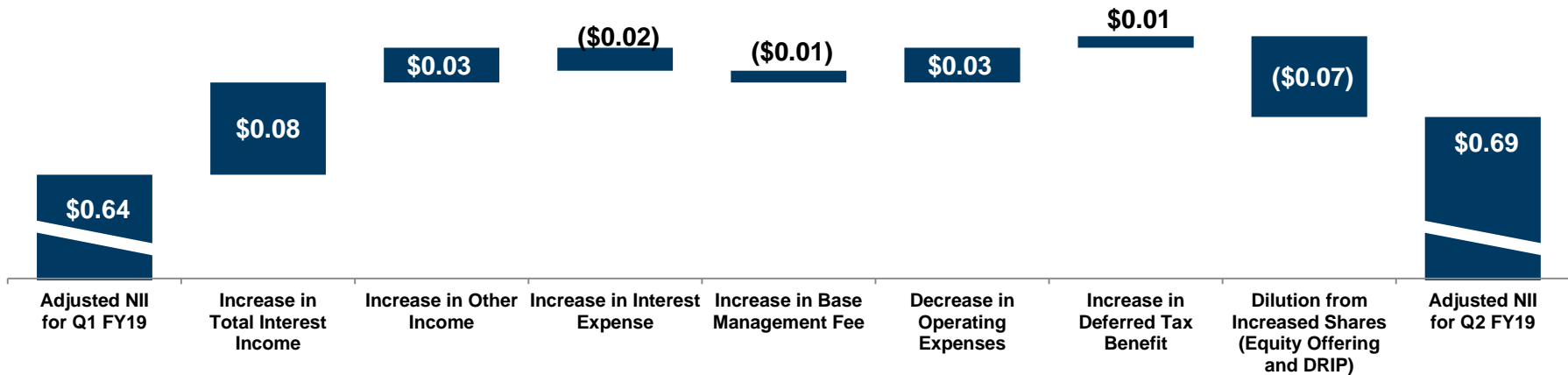
# NAV Continues to Benefit from Performance



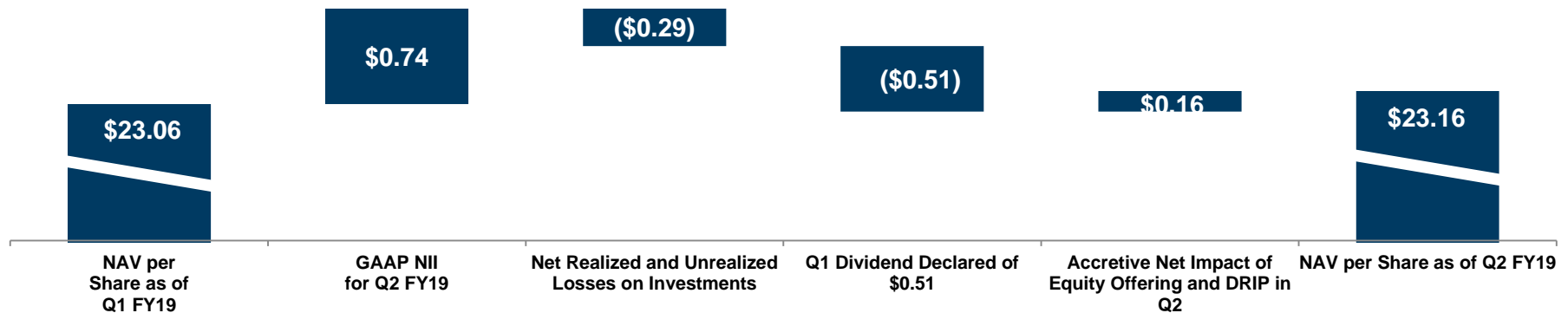
# Quarterly Reconciliation of NII and NAV per Share

- Impacts are shown net of incentive fee

## Reconciliation of Quarterly Adjusted NII per Share



## Reconciliation of Quarterly NAV per Share



# Significant Dry Powder Available

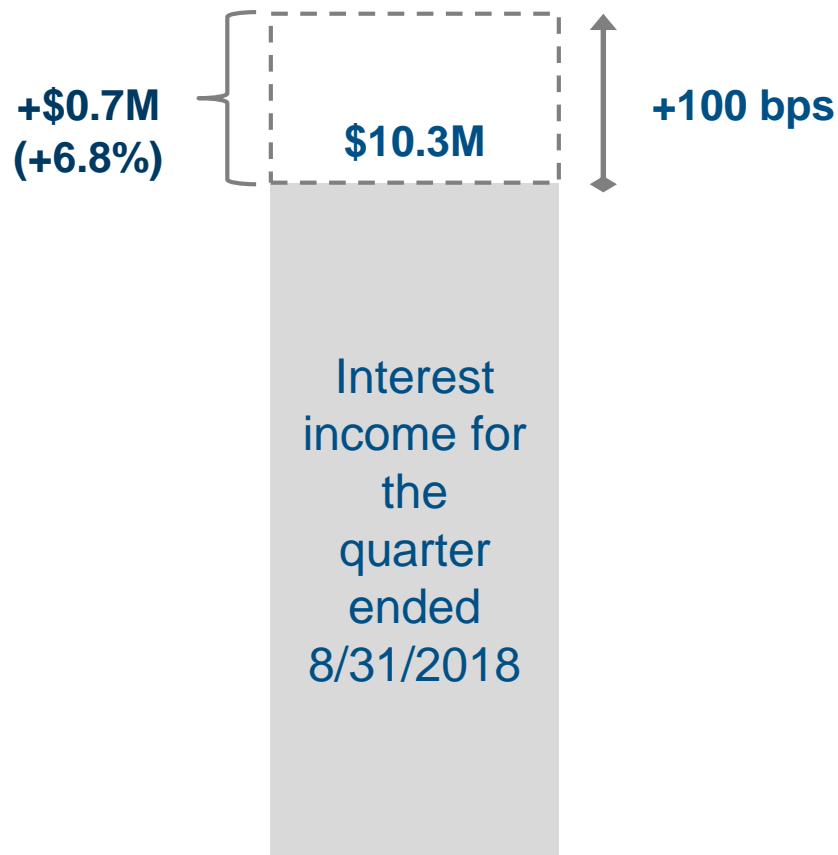
(As of Aug 31, 2018)		Total Borrowing Capacity	Outstanding	Available Liquidity	Remaining Maturity Period	Fixed / Floating Rate
Secured Revolving Credit Facility		\$45.0 million	\$0.0 million	\$45.0 million	7 Years	Floating
SBA Debentures		\$150.0 million	\$150.0 million	\$0.0 million	5-10 years	Fixed
Publicly-Traded Notes (at fair value)	SAB	\$77.7 million	\$77.7 million	\$0.0 million	5 Years	Fixed
	SAF	\$40.5 million	\$40.5 million	\$0.0 million	7 Years	Fixed
Cash and Cash Equivalents		\$43.3 million	\$0.0 million	\$43.3 million	-	-

**Total Available Liquidity (at quarter-end): \$ 88.3 million**

- Ability to grow AUM by 22% without any new external financing
- Subsequent to quarter-end, most of the cash and cash equivalents has been invested

# SAR Benefits from Increased Interest Rates

## Interest Income Grows with Higher Interest Rates



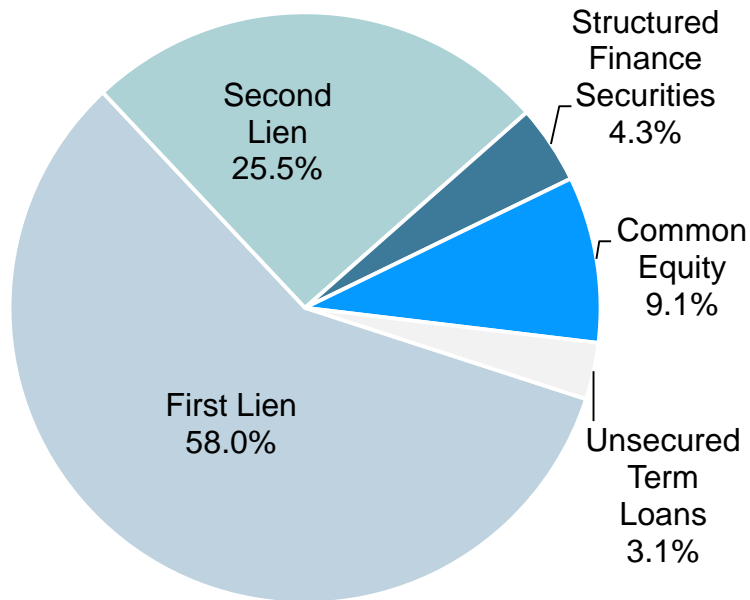
- 81.5% of SAR lending at floating rates
- Hypothetical 1% change in interest rates would result in ~\$0.7 million increase in interest income over the quarter (\$2.8 million per year)
  - Assumes investments as of 8/31/2018 outstanding for full quarter and no change to existing rate terms



# Portfolio Composition and Yield

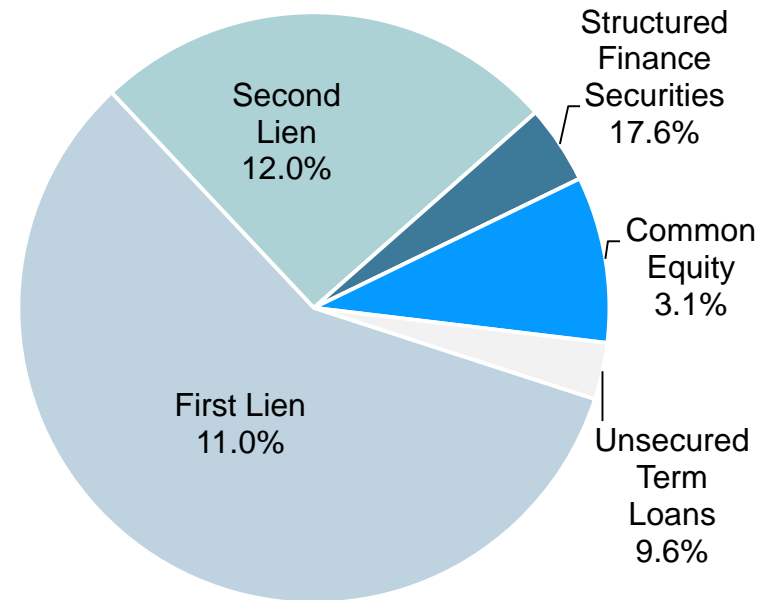
## Portfolio Composition – \$392.9 m

(Based on Fair Values  
as of August 31, 2018)



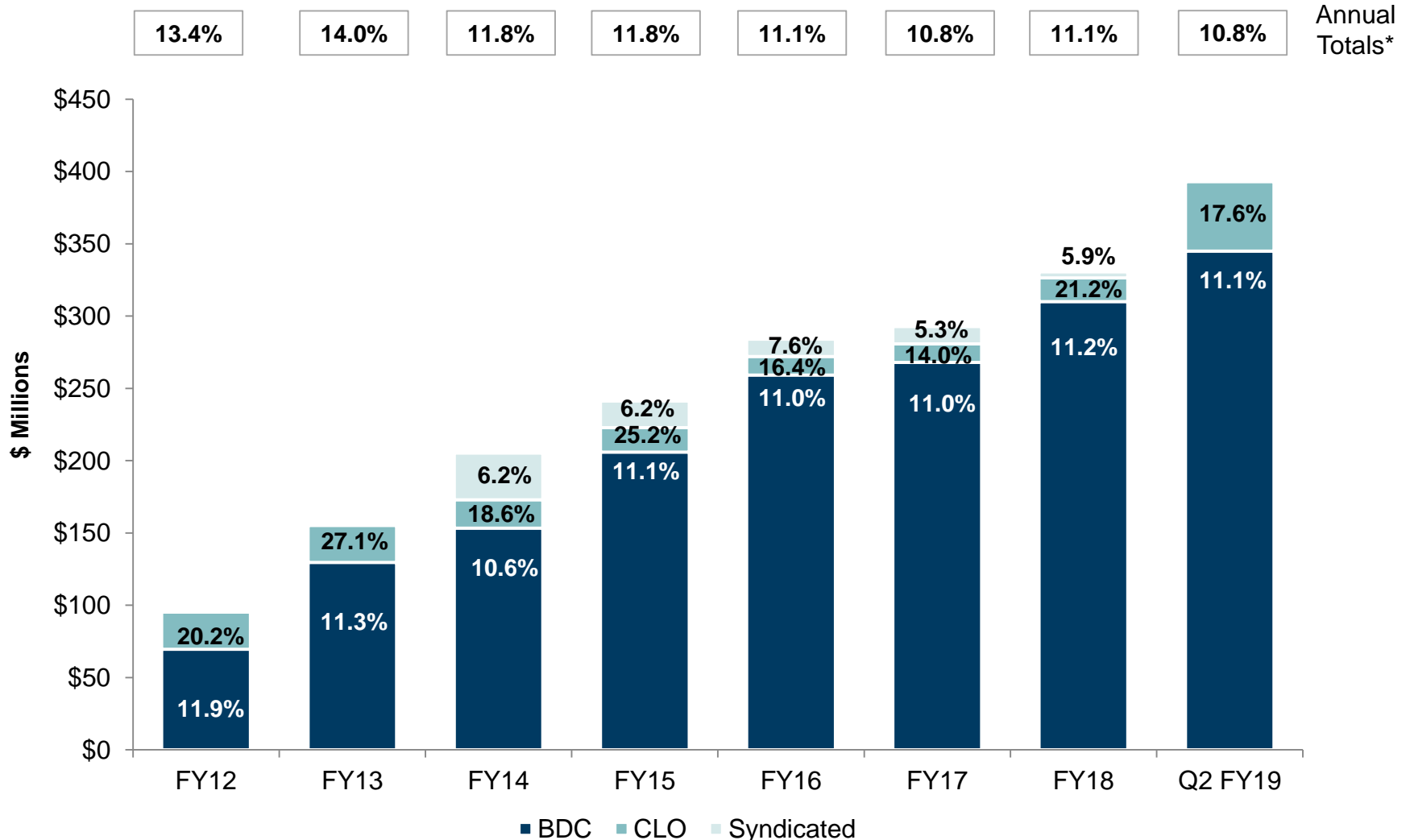
## Portfolio Yield – 10.8%

(Weighted Average Current  
Yield of Existing Total Portfolio)



# Yield of BDC Remains Strong and Consistent

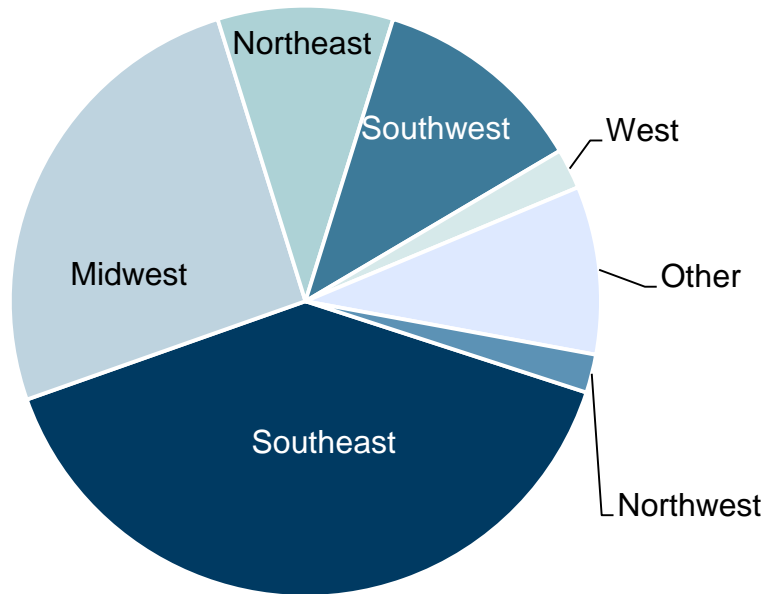
## Weighted Average Current Yields



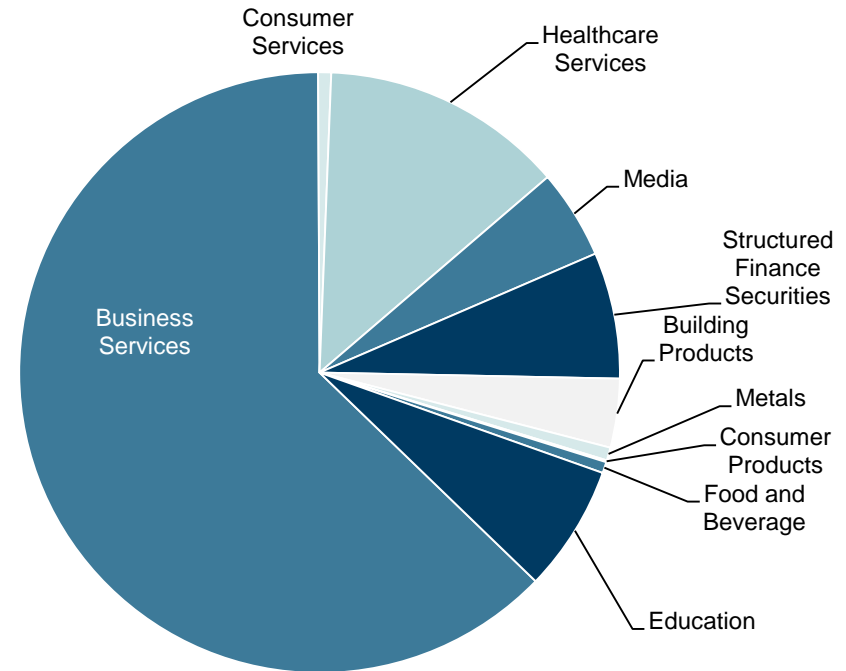
Annual total yields on full portfolio. BDC, CLO and Syndicated yields are annualized and calculated on fair value of interest earning assets.

# Diversified Across Industry and Geography

Investments diversified geographically

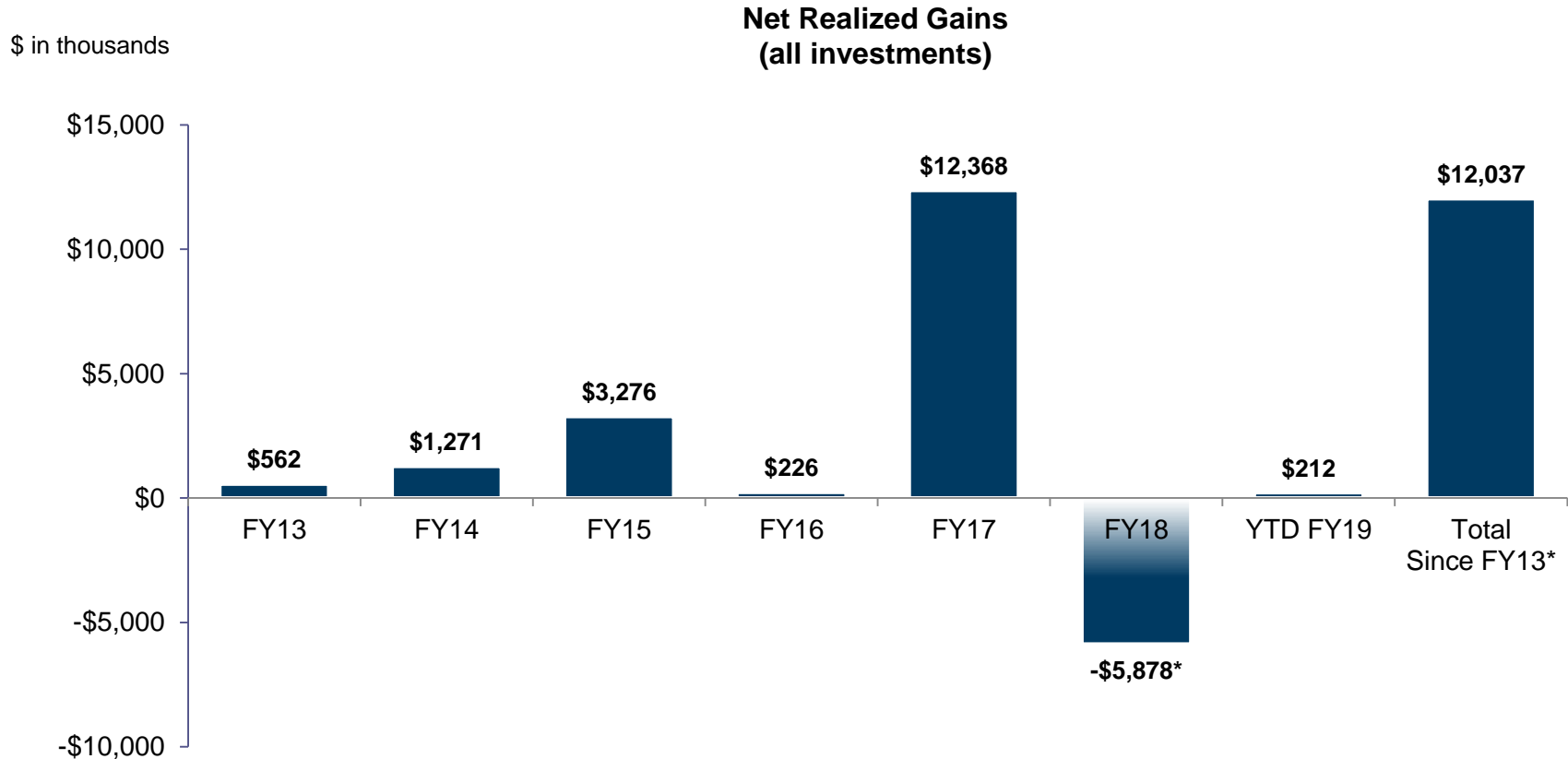


Investments across 10 distinct industries



# Net Realized Gains Help Protect Shareholder Capital

Cumulative net realized gains reflect portfolio credit quality



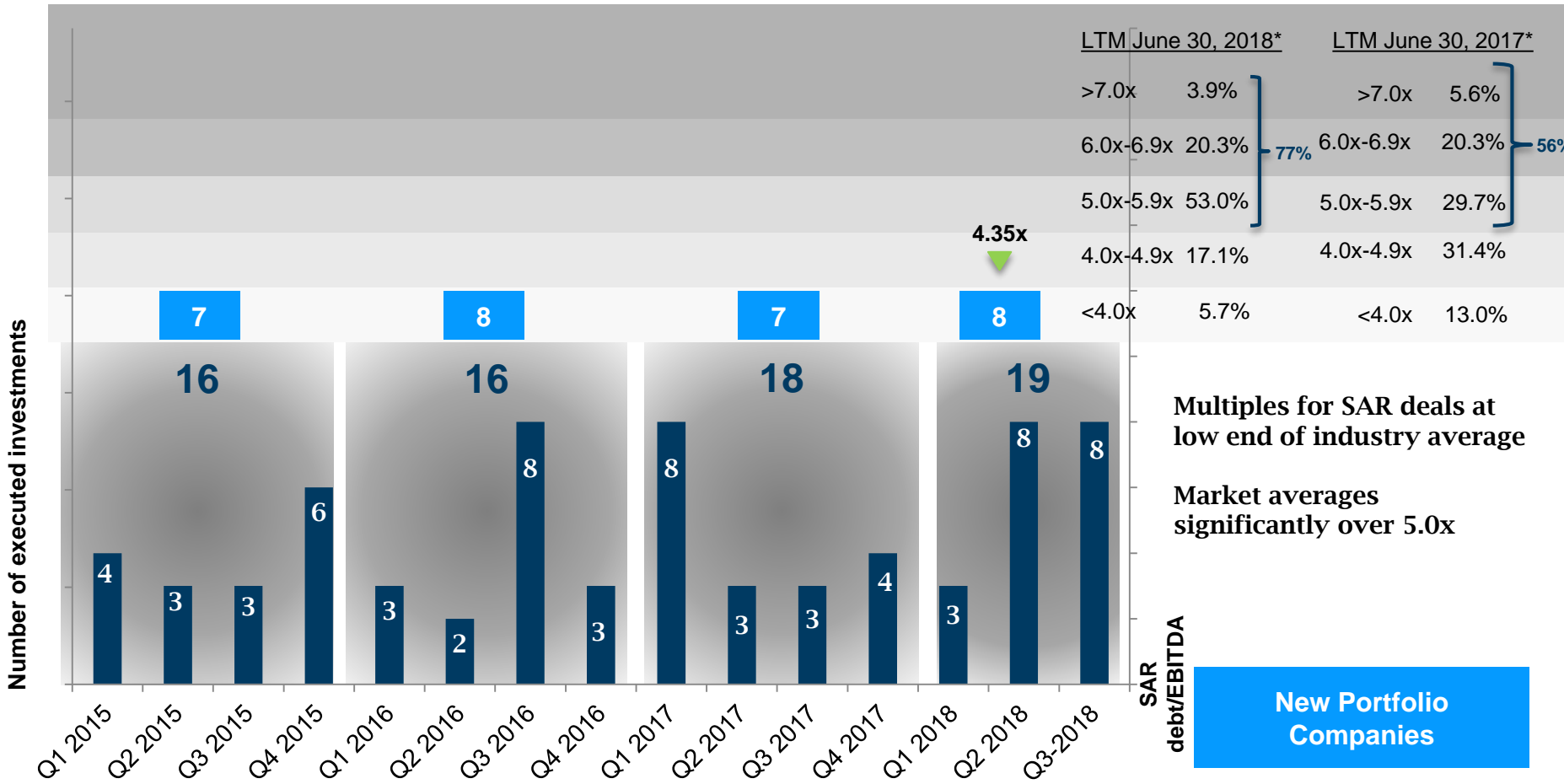
\* Reflects realized loss on My Alarm Center investment of \$7.7m less \$1.8m in other realized gains in FY18.

# Exercising Disciplined Investment Judgment While Growing Origination Pace

## SAR Debt Multiples/Deals Closed (2015-2018)

**Total Portfolio Leverage is 4.35x<sup>1</sup>**

Market Average Multiples  
(Total Debt/EBITDA)



Multiples for SAR deals at low end of industry average  
Market averages significantly over 5.0x

**New Portfolio Companies**

\*Calendar quarters, not fiscal

■ SAR Deals Closed ▲ Weighted Average SAR leverage across portfolio

Source: S&P Global market Intelligence US:Q2 2018, issuers with EBITDA less than or equal to \$50m. The data has limitations due to a small sample size but that it does reflect trend toward increasing leverage.

<sup>1</sup>Excludes nine loans underwritten using recurring revenue metrics.



# Robust and Growing Pipeline During Tough Execution Market

The number of new business opportunities is increasing for us, yet we remain as disciplined as ever.

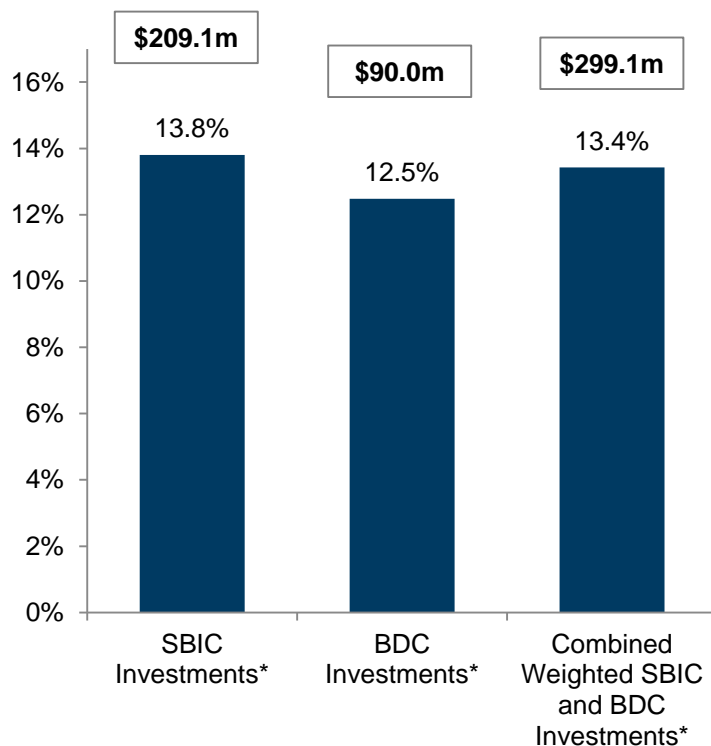
Calendar*	2015	Δ	2016	Δ	2017	Δ	LTM Sept 2018	
Deals Sourced	613	5%	645	28%	722	20%	866	<ul style="list-style-type: none"> <li>• 50% of deal flow from private equity sponsors</li> <li>• 50% of deals from private companies without institutional ownership</li> <li>• Saratoga maintains investment discipline which is demonstrated by passing on ~65 deals a year that other firms close</li> </ul>
Term Sheets	67	(28%)	48	2%	49	53%	75	<ul style="list-style-type: none"> <li>• Saratoga issues an average of 18 term sheets per quarter, or 8% of deals reviewed</li> <li>• ~ 80% of term sheets are issued for transactions involving a private equity sponsor</li> </ul>
Deals Executed (new and follow-on)	16	-	16	13%	18	22%	22	<ul style="list-style-type: none"> <li>• Saratoga closes an average of 5 new deals or follow-ons per quarter, ~2% of deals reviewed</li> </ul>
New portfolio companies	7		8		7		9	<ul style="list-style-type: none"> <li>• Nine new portfolio companies in the past twelve months</li> </ul>

\*Calendar quarters, not fiscal quarters.

# Demonstrated Strong Track Record

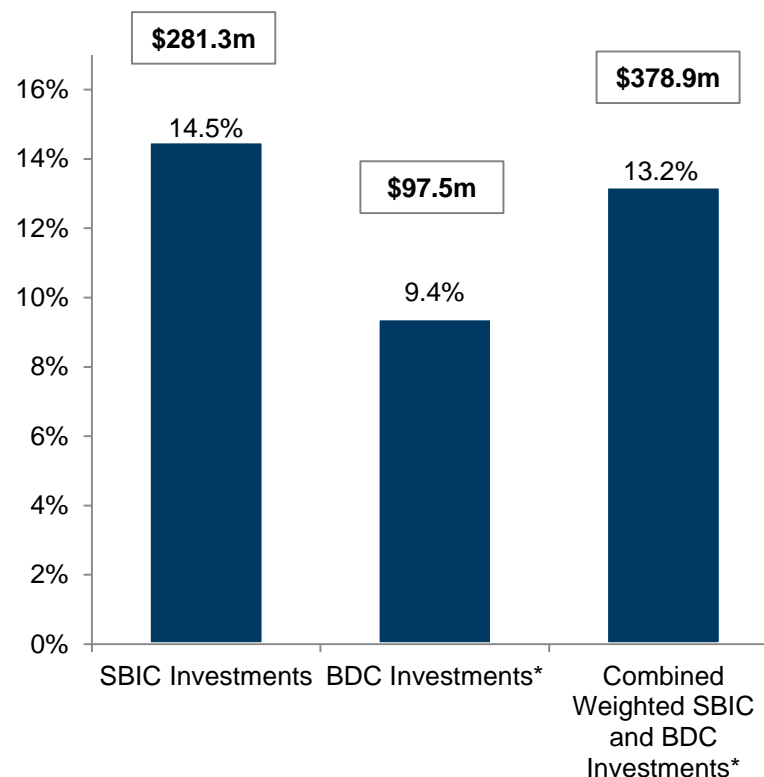
## Realized Investments

(Gross Unlevered IRR%)



## Unrealized Investments <sup>1</sup>

(Gross Unlevered IRR%)



### Track Records as of 8/31/18

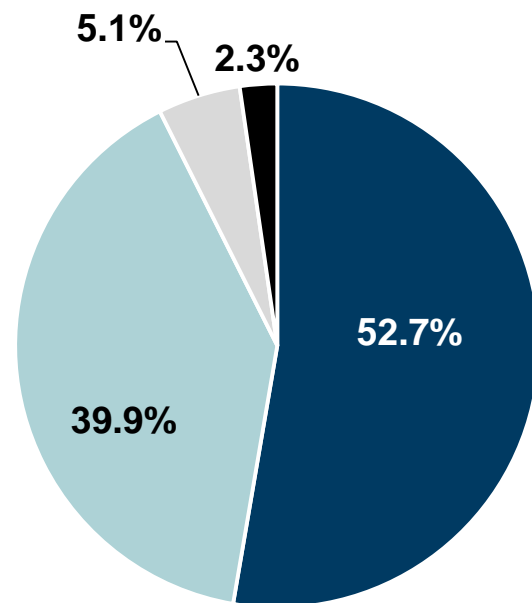
<sup>1</sup> IRRs for unrealized investments include fair value and accrued interest as of 8/31/18

\* SBIC investments represent all investments in the first license. BDC investments exclude investments existing when Saratoga management took over, and corporate financing investments.

# SBIC Portfolio Primarily Senior Debt

- SBIC portfolio consists of investments in 23 portfolio companies across a range of industries. Compared to the broader loan market tracked by S&P and Thomson Reuters, SAR's leverage levels are lower.
- The weighted average leverage for all SBIC debt investments is 4.53x<sup>1</sup>.
  - 52.7% of the SBIC portfolio consists of senior debt investments, down from 53.4% in May 2018.
  - 39.9% of the SBIC portfolio consists of first lien, last out or second lien/subordinated debt investments, down from 43.2% in May 2018.

Composition of SBIC Portfolio<sup>2</sup>



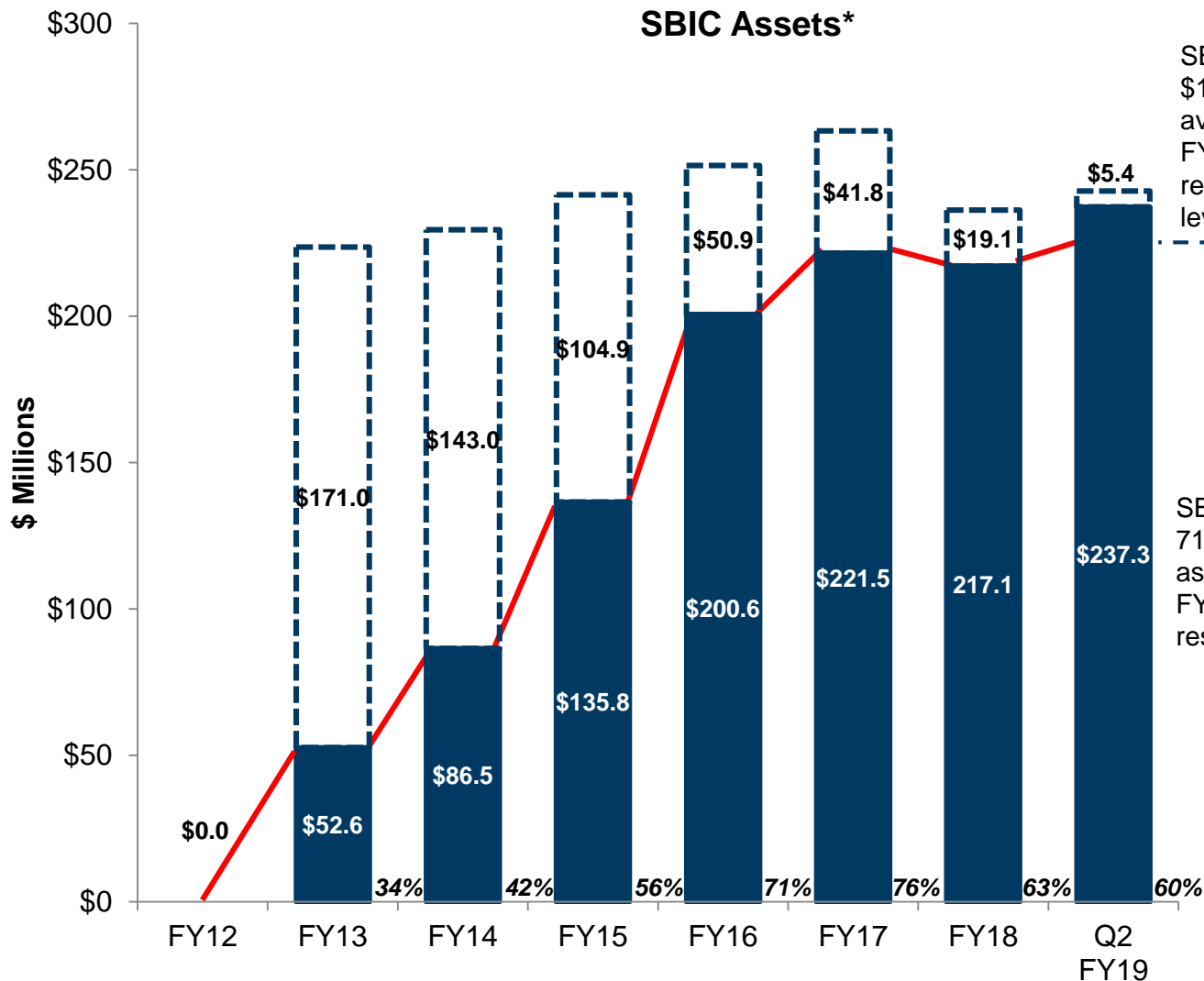
- Senior Debt First Lien
- First Lien Last Out/Second Lien/Subordinated Debt
- Equity/Warrants
- Unsecured/Subordinated

<sup>1</sup>Excludes six loans underwritten using recurring revenue metrics.

<sup>2</sup>Based on market value as of August 31, 2018.



# SBIC Assets Fully Funded



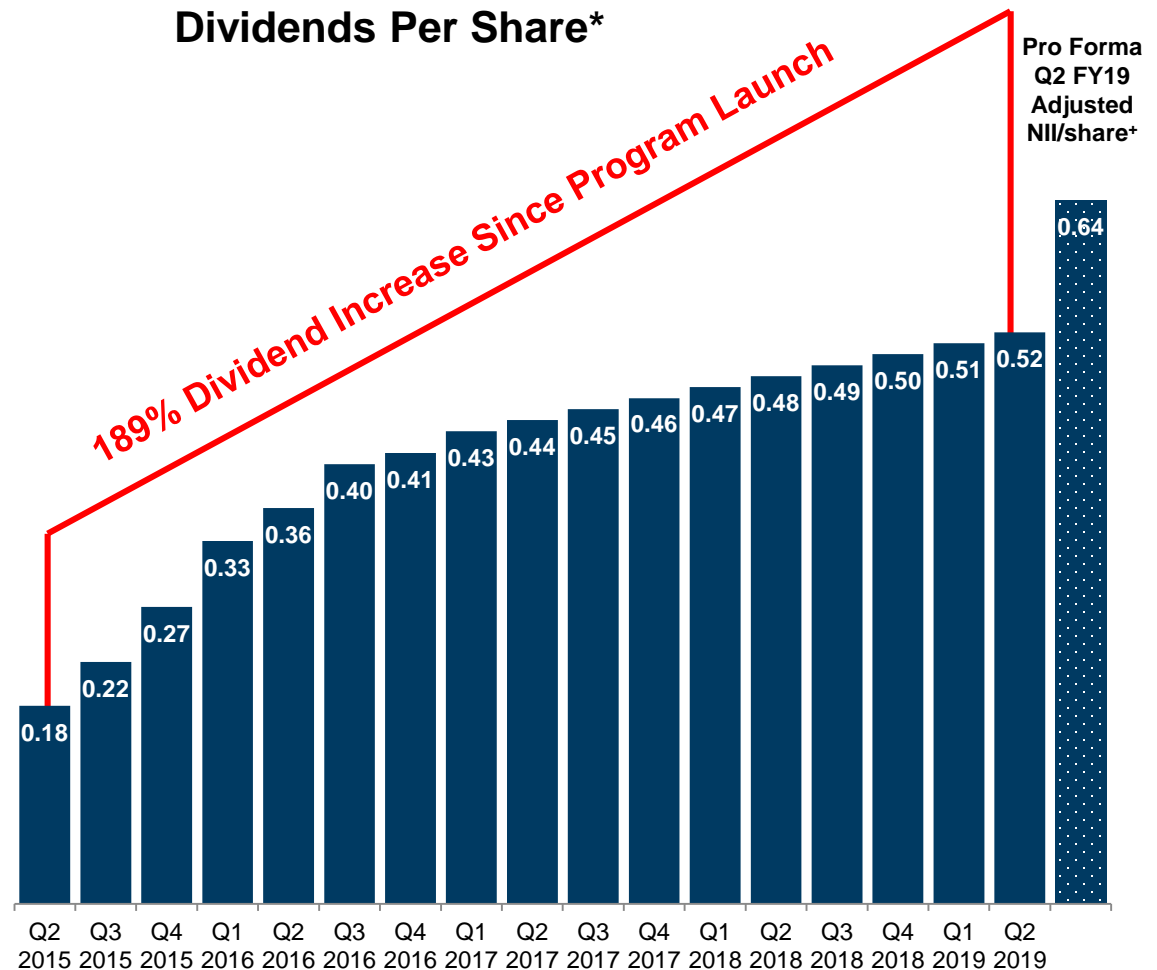
SBIC first license provided \$171m, \$143m, \$105m, \$51m, \$42m, \$19m and \$5m of available capacity in FY13, FY14, FY15, FY16, FY17, FY18 and Q2 FY19, respectively (debt and equity at 2:1 leverage)

SBIC represented 34%, 42%, 56%, 71%, 76%, 63% and 60% of total assets in FY13, FY14, FY15, FY16, FY17, FY18 and Q2 FY19, respectively

\* At Fair Value as of August 31, 2018.

# Dividends Continue to Increase

- Established dividend policy to pay regular quarterly cash dividends to stockholders pursuant to dividend reinvestment plan (“DRIP”)
- Increased dividend by 189% since program launch
- Declared Q2 2019 dividend of \$0.52, an increase of \$0.01 (2%)
- Overearning our dividend currently (23.1% on pro forma adjusted Q2 FY19 NII per share)

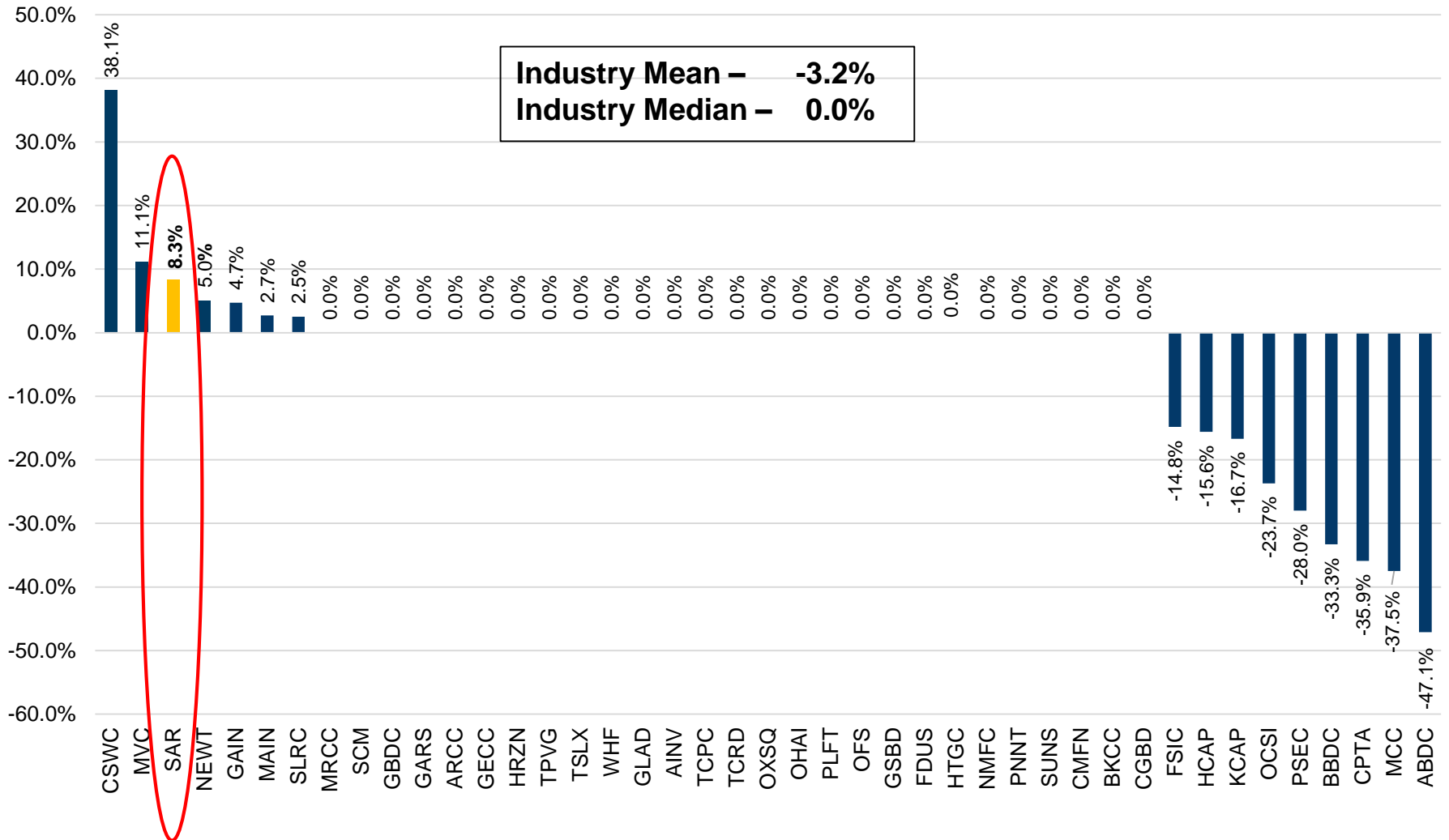


\*Excludes special dividend of \$0.20 per share paid on September 5, 2016

+Pro forma reflects full impact of outstanding shares as of August 31, 2018

# Saratoga Growing Dividends the Past Sixteen Quarters

## Year-Over-Year Quarterly Dividend Growth at Top of Industry



Source: Raymond James report as of 9/28/18

# SAR LTM Total Return Outperforms BDC Index

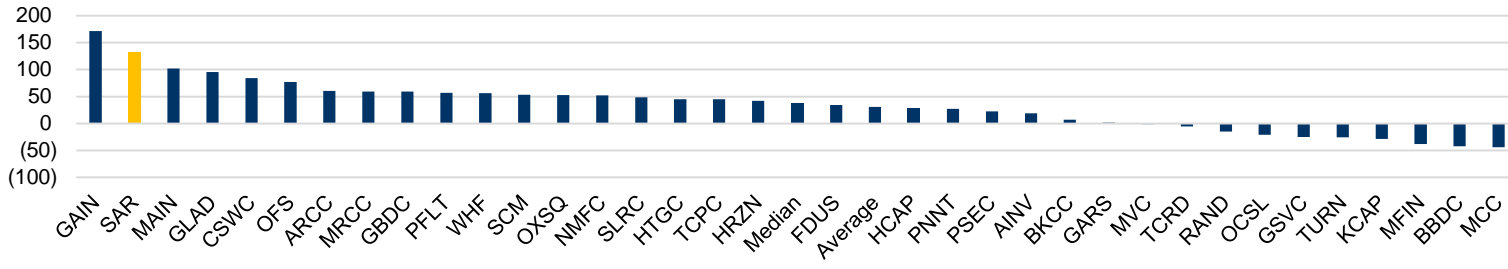
**LTM Total Return (%)**  
(September 2017 to September 2018)

**SAR +28% vs. BDC Index +9%**

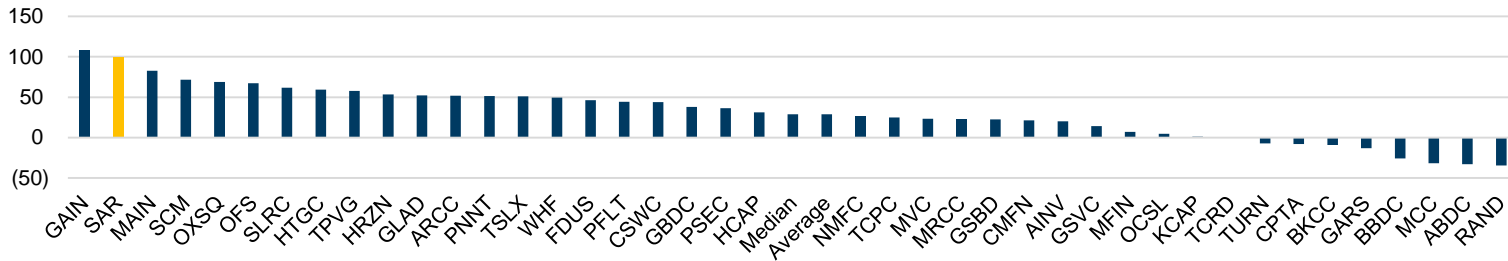


# SAR Performance at Top of BDC Industry

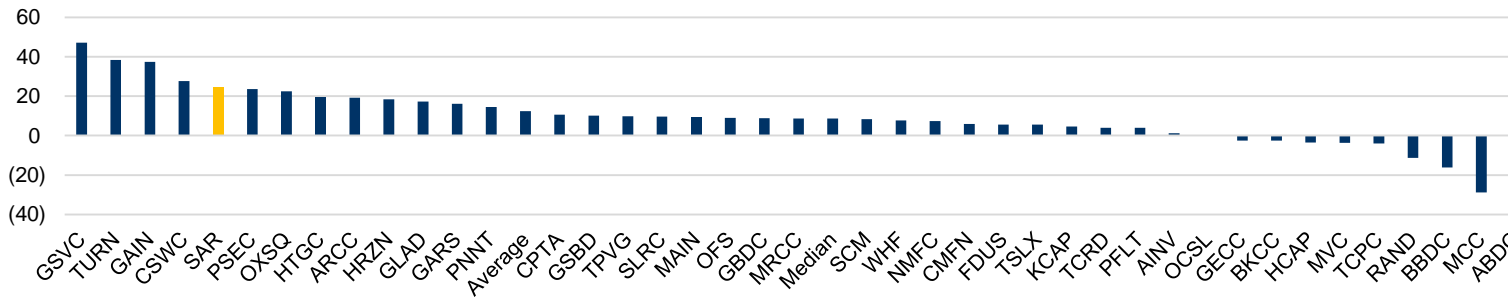
## BDC Total Return (%)



Past 5 years:  
133%  
Top 2

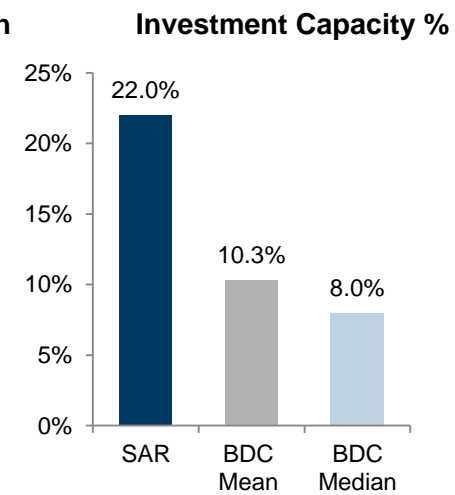
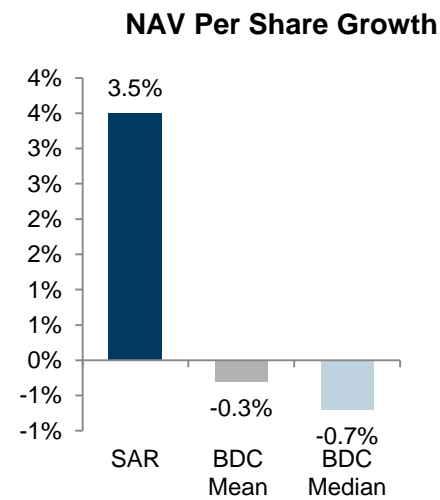
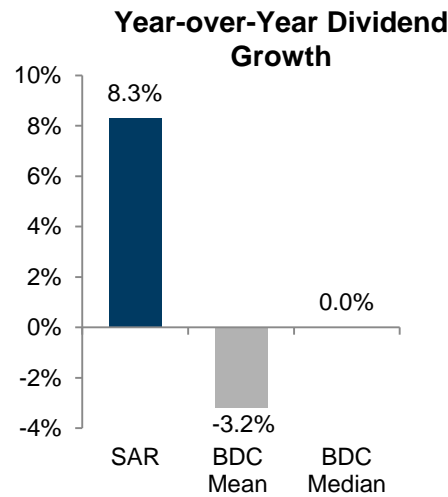
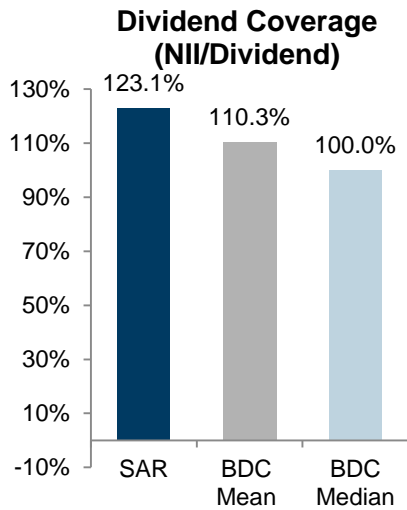
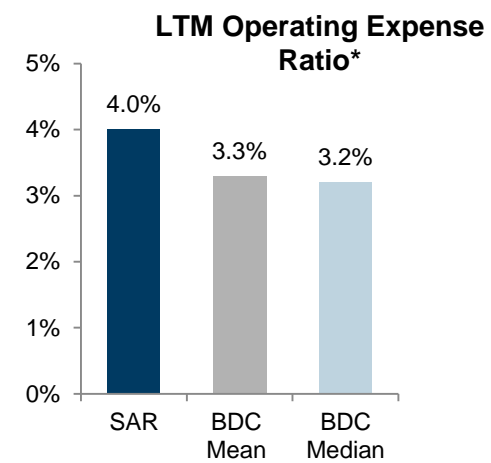
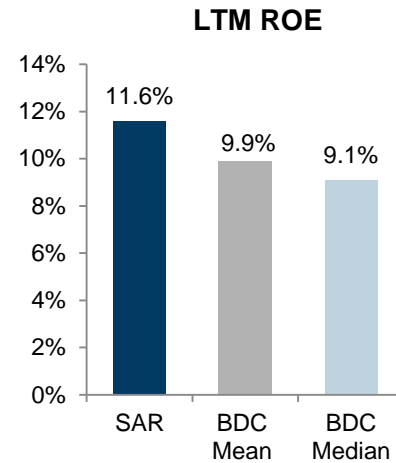
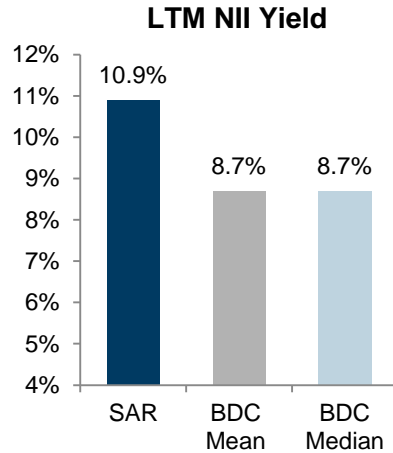
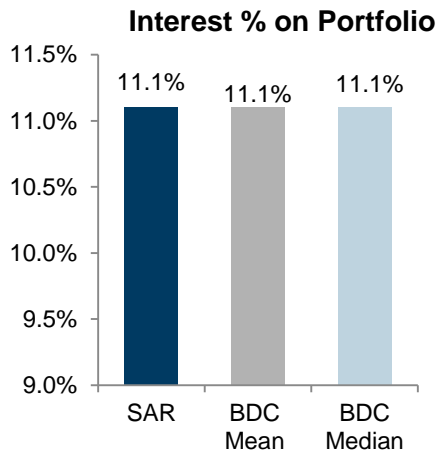


Last 3 years:  
99%  
Top 2



LTM:  
28%  
Top 5

# Strongly Differentiated Outperformance



Source: SNL Financial / Company Filings / Raymond James report as of 09/14/18

\* LTM Operating Expense Ratio defined as total operating expenses, net of interest and debt financing expenses, divided by average total assets.

Total operating expenses divided by net assets is 18.0%.

# Establishing Competitive Edge vs. Other BDCs

## Outstanding performance characteristics

▶ **Strong and growing dividend**

Paying a current dividend yield of approx. 8.9%; increased quarterly dividend by 189% over past four years; over-earning dividend by 23% (based on pro forma Q2 FY19 earnings); significant management ownership of 20%

▶ **Strong return on equity**

LTM ROE of 11.6% factors in both investment income and net gains/losses

▶ **Low-cost available liquidity**

Ample borrowing capacity still at hand through both credit facility and cash relative to competitors – can grow current asset base by 22% as of quarter ended August 31, 2018

▶ **Solid earnings per share and NII Yield**

Attractive NII per share generated from strong risk-adjusted portfolio returns and favorable capital structure

▶ **Commitment to AUM expansion**

Assets under management has steadily grown 491% since FY 2011 and 15% since year end with strong originations offsetting significant repayments

▶ **Well-positioned for higher interest rates**

Approx. 82% of our investments have floating interest rates, with all of our investments through their floors. Debt primarily at fixed rates and long-term, with new \$40.0m 7-year baby bond issued this past quarter. Obtained “BBB” investment grade rating.

▶ **Limited oil & gas exposure**

Will not be facing significant write-downs as a result of major direct exposure to energy/oil/gas investments

▶ **Attractive risk profile**

SAR and SBIC leverage is below market averages, 99% of credits are the highest quality, 58% of investments are first lien, protected against potential risk of rising interest rates

# Objectives for the Future

- Expand our asset base without sacrificing credit quality while benefitting from scale
- Increase our capacity to source, analyze, close and manage our investments by adding to our management team and processes
- Utilize benefits of fully deploying available financing to build scale and increase our AUM and net investment income/yield, enabling us to achieve growth in:
  - Net Asset Value
  - Return on Equity
  - Earnings per Share
  - Stock Values



Questions?



SARATOGA  
INVESTMENT CORP.



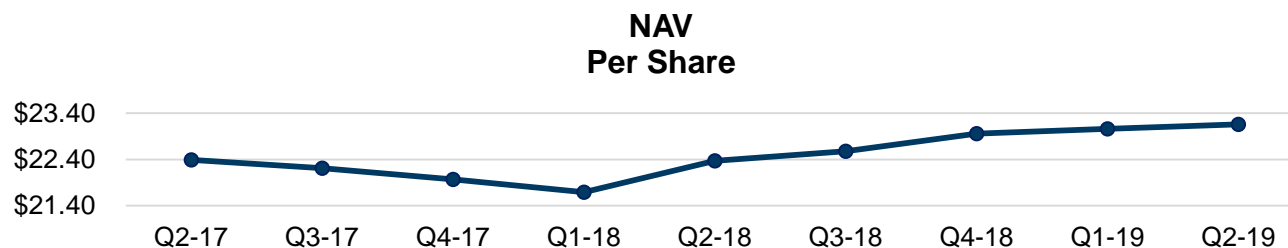
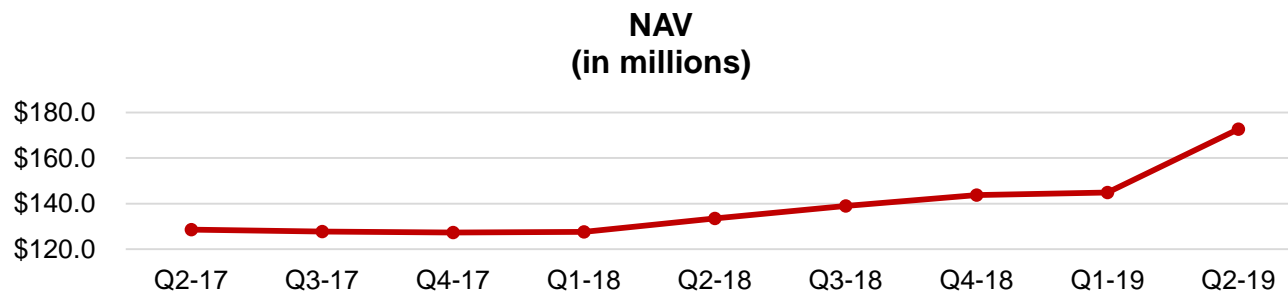
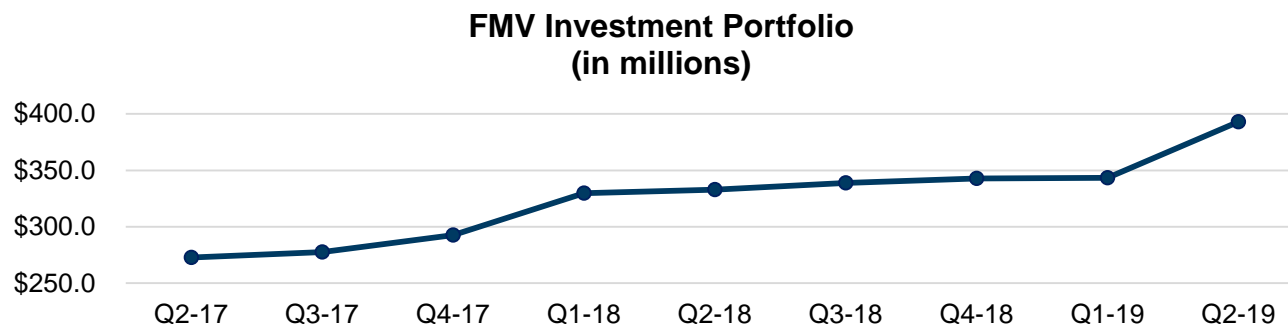
SARATOGA  
INVESTMENT CORP.

# KPIs – Balance Sheet

Period	FMV Investment Portfolio (in millions)
Q2-17	\$ 272.8
Q3-17	\$ 277.6
Q4-17	\$ 292.7
Q1-18	\$ 329.7
Q2-18	\$ 333.0
Q3-18	\$ 338.8
Q4-18	\$ 342.7
Q1-19	\$ 343.4
Q2-19	\$ 392.9

Period	NAV (in millions)
Q2-17	\$ 128.6
Q3-17	\$ 127.7
Q4-17	\$ 127.3
Q1-18	\$ 127.6
Q2-18	\$ 133.5
Q3-18	\$ 138.9
Q4-18	\$ 143.7
Q1-19	\$ 144.8
Q2-19	\$ 172.7

Period	NAV Per Share
Q2-17	\$ 22.39
Q3-17	\$ 22.21
Q4-17	\$ 21.97
Q1-18	\$ 21.69
Q2-18	\$ 22.37
Q3-18	\$ 22.58
Q4-18	\$ 22.96
Q1-19	\$ 23.06
Q2-19	\$ 23.16



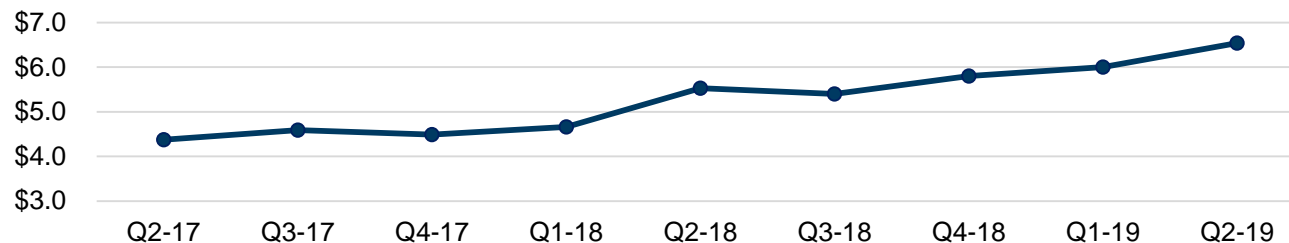
# KPIs – Income Statement

Period	Net Interest Margin (in millions)
Q1-17	\$ 4.4
Q2-17	\$ 4.4
Q3-17	\$ 4.6
Q4-17	\$ 4.5
Q1-18	\$ 4.7
Q2-18	\$ 5.5
Q3-18	\$ 5.4
Q4-18	\$ 5.8
Q1-19	\$ 6.0
Q2-19	\$ 6.5

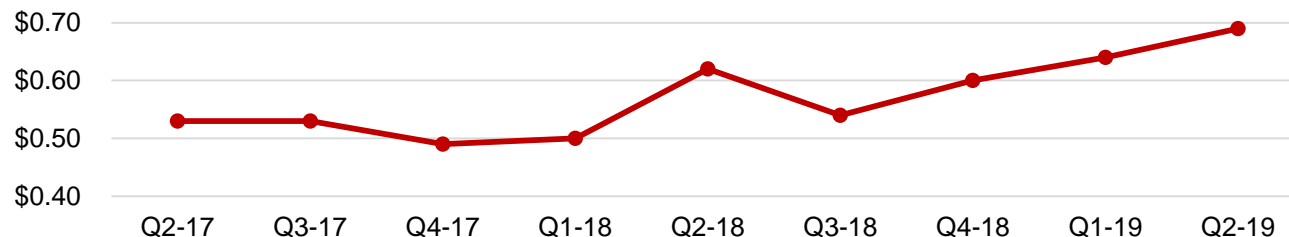
Period	NII Per Share
Q1-17	\$ 0.46
Q2-17	\$ 0.53
Q3-17	\$ 0.53
Q4-17	\$ 0.49
Q1-18	\$ 0.50
Q2-18	\$ 0.62
Q3-18	\$ 0.54
Q4-18	\$ 0.60
Q1-19	\$ 0.64
Q2-19	\$ 0.69

Period	NII Yield
Q1-17	8.3%
Q2-17	9.5%
Q3-17	9.5%
Q4-17	8.8%
Q1-18	9.2%
Q2-18	11.3%
Q3-18	9.6%
Q4-18	10.7%
Q1-19	11.1%
Q2-19	11.9%

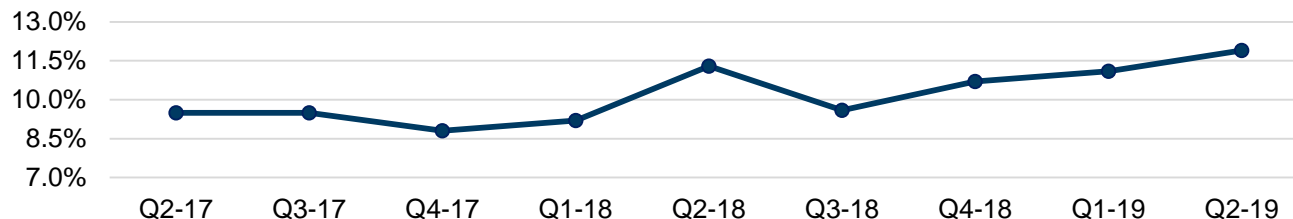
**Net Interest Margin Excluding CLO**  
(in millions)



**NII Per Share**

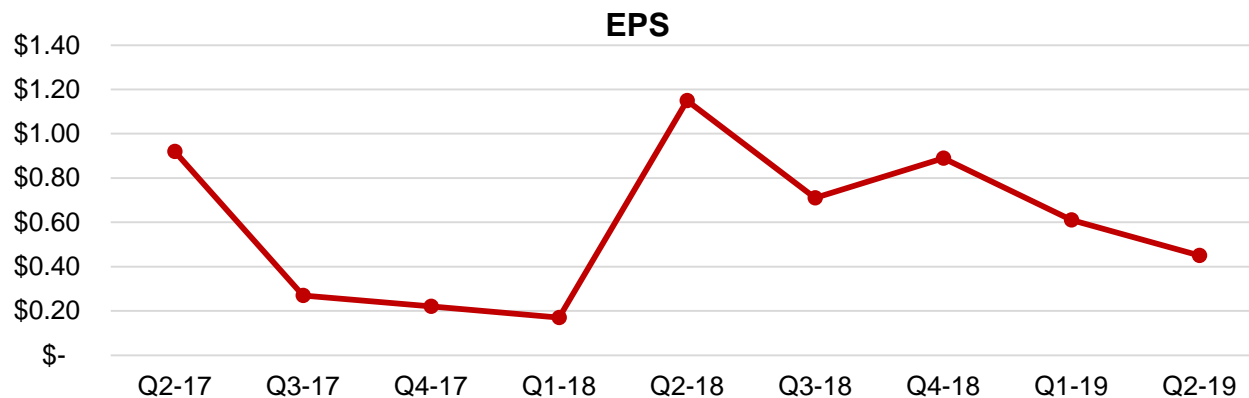


**NII Yield**

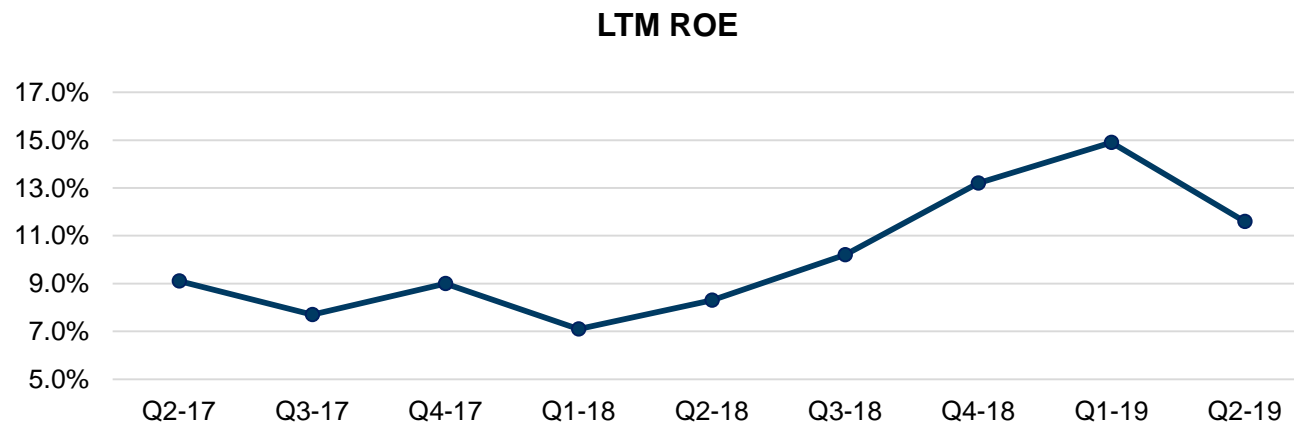


# KPIs – Income Statement (continued)

Period	EPS
Q1-17	\$ 0.57
Q2-17	\$ 0.92
Q3-17	\$ 0.27
Q4-17	\$ 0.22
Q1-18	\$ 0.17
Q2-18	\$ 1.15
Q3-18	\$ 0.71
Q4-18	\$ 0.89
Q1-19	\$ 0.61
Q2-19	\$ 0.45



Period	LTM ROE
Q1-17	10.4%
Q2-17	9.1%
Q3-17	7.7%
Q4-17	9.0%
Q1-18	7.1%
Q2-18	8.3%
Q3-18	10.2%
Q4-18	13.2%
Q1-19	14.9%
Q2-19	11.6%



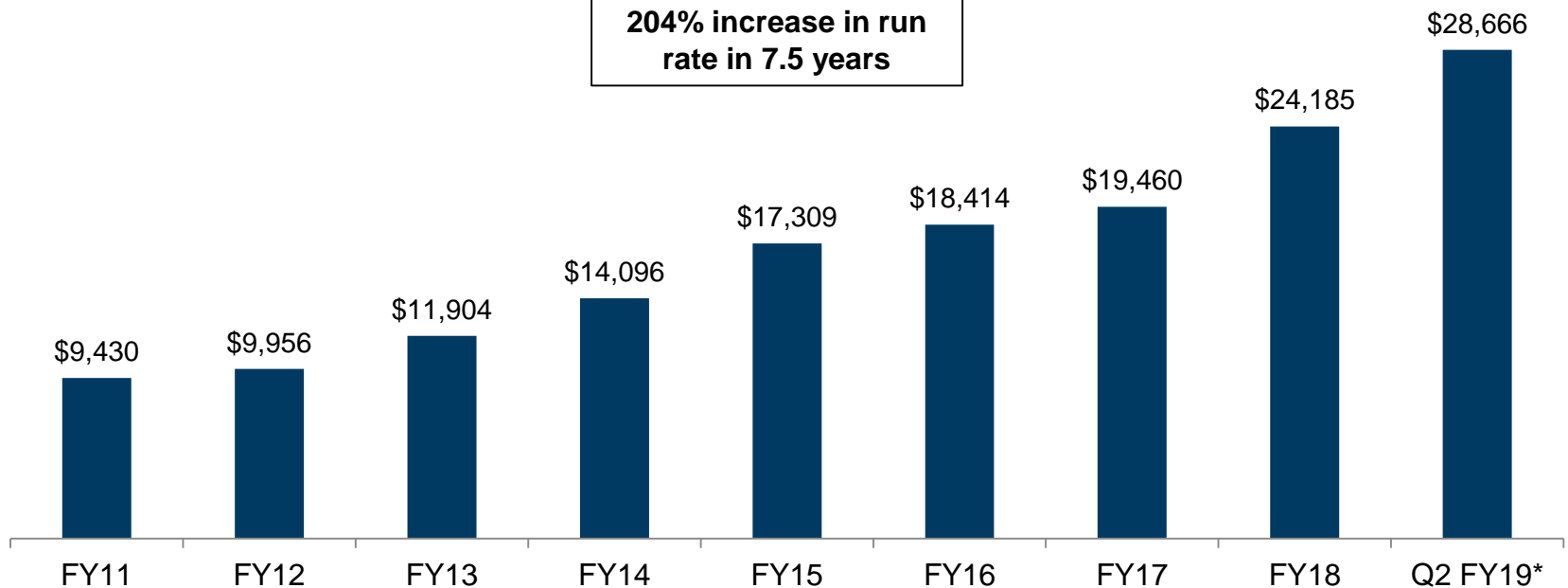
# KPIs - SAR Net Interest Margin

**SAR has more than tripled its Net Interest Margin since taking over management**

**This increase despite the contribution of the CLO shrinking**

## Net Interest Margin

**204% increase in run rate in 7.5 years**



\*Q2 FY19 is a simple annualization of the six months ended August 31, 2018. Actual FY19 results might differ.