

## Saratoga Investment Corp. Announces Fiscal Second Quarter 2016 Financial Results

### Further Increases Quarterly Dividend to \$0.36 from \$0.33 per share Extends Share Repurchase Plan

NEW YORK, Oct. 13, 2015 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2016 fiscal second quarter.

#### Summary Financial Information

- Net asset value ("NAV") was \$125.3 million as of August 31, 2015, a \$1.8 million increase from an NAV of \$123.5 million as of May 31, 2015 and a \$2.7 million increase from an NAV of \$122.6 million as of February 28, 2015.
  - For the six months ended August 31, 2015, \$8.7 million of dividends declared was more than offset by \$5.4 million of net investment income, \$3.8 million of net realized gains and \$3.0 million of stock dividend distributions.
- NAV per share was \$22.42 as of August 31, 2015, compared to \$22.70 as of February 28, 2015.
- Net investment income on a weighted average per share basis of \$0.66 for the quarter ended August 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income on a weighted per share basis was \$0.52, an increase of \$0.09, or 21% from the quarter ended August 31, 2014.
  - Earnings per share for the quarter ended August 31, 2015 was \$0.22, a decrease of \$0.37 from the quarter ended August 31, 2014 - the increase in net investment income from \$2.1 million last year to \$3.7 million this year was offset by a net loss on investments of \$2.4 million this quarter as compared to a net gain of \$1.1 million last year. The \$2.4 million net loss for the quarter ended August 31, 2015 consists of \$3.7 million net realized gains offset by \$6.1 million net unrealized depreciation.
- Net investment income of \$3.7 million for the quarter ended August 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.9 million, an increase of \$0.6 million, or 26% from the quarter ended August 31, 2014.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 11.8% for the quarter ended August 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 9.3%, an increase of 150 bps from the quarter ended August 31, 2014.
- Return on equity for the quarter ended August 31, 2015 was 4.0%.
- Investment portfolio activity for the quarter ended August 31, 2015:
  - Cost of investments made during the period: \$18.9 million
  - Principal repayments during the period: \$27.4 million

#### Operating Results

For the fiscal quarter ended August 31, 2015, Saratoga Investment reported net investment income of \$3.7 million, or \$0.66 on a weighted average per share basis, and a net loss on investments of \$2.4 million, or \$0.43 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$1.2 million, or \$0.22 on a weighted average per share basis. The \$2.4 million net loss on investments was comprised largely of \$6.1 million in net unrealized losses on investments offset by \$3.7 million in net realized gains. This compared to the fiscal quarter ended August 31, 2014 with net investment income of \$2.1 million, or \$0.39 on a weighted average per share basis, and a net gain on investments of \$1.1 million, or \$0.20 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.2 million, or \$0.59 on a weighted average per share basis. The \$1.1 million net loss on investments consisted of \$0.4 million in net realized gains on investments, offset by \$0.7 million in net unrealized appreciation.

Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.9 million and \$2.3 million for the quarters ended August 31, 2015 and 2014, respectively. The increase in adjusted net investment income of \$0.6 million for the quarter ended August 31, 2015 as compared to the same period last year, is primarily due to higher investment income, which has increased to \$7.8 million for the quarter ended August 31, 2015 from \$6.5 million for the quarter ended August 31, 2014. This increased investment income was generated from an investment base that has grown by 7% since the same quarter last year. The adjusted net investment income increase was partially offset by (i) increased debt and financing expenses from higher outstanding SBA debentures and Notes this quarter reflective of the growing investment and asset base, and (ii) increased base and incentive management fees generated from the management of this larger pool of investments. Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, increased from \$766,214 for the quarter ended August 31, 2014 to \$842,960 for the quarter ended August 31, 2015, which remained unchanged at 1.3% of Assets Under Management ("AUM") for both quarters.

Net investment income yield was 11.8% for the quarter ended August 31, 2015. Adjusted for the incentive fee accrual related to

net unrealized capital gains, the net investment income yield was 9.3% for the quarter ended August 31, 2015. Return on equity was 4.0% for the same quarter.

Net investment income yield was 7.2% for the quarter ended August 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income yield was 7.8% for the quarter ended August 31, 2014.

NAV was \$125.3 million as of August 31, 2015, a \$2.7 million increase from an NAV of \$122.6 million as of February 28, 2015. During this period, \$8.7 million of dividends declared was more than offset by \$5.4 million of net investment income, \$3.8 million of net realized gains and \$3.0 million of stock dividend distributions. NAV per share was \$22.42 as of August 31, 2015, compared to \$22.70 as of February 28, 2015. During these six months, NAV per share decreased by \$0.28 per share, primarily reflecting the \$2.7 million, or \$0.50 per share increase in net assets (net of the \$1.60 dividend paid during fiscal year 2016), offset by the dilutive impact of the 186,585 shares issued pursuant to the dividend reinvestment plan.

"During this quarter, we continued to make important gains towards our strategic and financial goals," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "Our absolute net asset value continued to grow and we generated strong quarterly results, despite a minor contraction in assets under management stemming from an unusual concentration of redemptions in the quarter. Our continued progress is also reflected in our adjusted net investment income per share and yield of \$0.52 per share and 9.3% this quarter, respectively. We remain committed to our dividend policy and continued to increase our regular quarterly cash dividend to \$0.36 per share, representing a doubling of our quarterly cash dividend over the past twelve months."

Michael J. Grisius, President and Chief Investment Officer, added, "During the second fiscal quarter 2016, we continued to exercise prudent investment judgment and disciplined capital deployment in spite of difficult market conditions and significant redemptions seen across the industry. Our portfolio credit quality remained high, with 97.4% of our interest-bearing portfolio now holding our highest credit quality rating and our debt-to-EBITDA multiples persisting at levels well below market averages. We continue to devote substantial resources towards direct origination and have a strong pipeline of new investments on the horizon."

#### Portfolio and Investment Activity

As of August 31, 2015, the fair value of Saratoga Investment's portfolio was \$252.2 million (excluding \$12.1 million in cash and cash equivalents), principally invested in 32 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 62.1% of first lien term loans, 16.7% of second lien term loans, 0.1% of unsecured notes, 6.6% of subordinated notes in a CLO, 6.6% of syndicated loans, and 7.9% of common equity.

For the fiscal quarter ended August 31, 2015, Saratoga Investment invested \$18.9 million in new or existing portfolio companies and had \$27.4 million in aggregate amount of exits and repayments, resulting in net exits and repayments of \$8.5 million for the quarter.

The weighted average current yield on Saratoga Investment's portfolio for the twelve months ended August 31, 2015 was 12.6%, which was comprised of a weighted average current yield of 11.1% on first lien term loans, 10.4% on second lien term loans, 10.0% on unsecured notes, 37.8% on CLO subordinated notes, and 7.0% on syndicated loans.

#### Liquidity and Capital Resources

As of August 31, 2015, Saratoga Investment had \$2.0 million in outstanding borrowings under its \$45 million senior secured revolving credit facility with Madison Capital Funding LLC. At the same time, Saratoga Investment had \$79.0 million outstanding of SBA debentures, \$57.2 million of Baby Bonds (fair value of \$57.5 million) and an aggregate of \$12.1 million in cash and cash equivalents.

With the \$43.0 million credit facility and the \$71.0 million additional borrowing capacity at the SBIC subsidiary, as well as the \$12.1 million of cash and cash equivalents, Saratoga Investment has a total of \$126.1 million of undrawn borrowing capacity and cash and cash equivalents available as of August 31, 2015.

Effective May 29, 2015, the Company entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. through which the Company may offer for sale, from time to time, up to \$20 million in aggregate principal amount of Baby Bonds through an At-the-Market ("ATM") offering. As of August 31, 2015, the Company sold 357,807 bonds with a principal of \$8,945,175 at an average price of \$25.36 for aggregate net proceeds of \$8,890,953 (net of transaction costs).

#### Share Repurchase Plan

During the previous fiscal year, the Company announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of its common stock at prices below its NAV as reported in its then most recently published financial statements. This share repurchase plan has been extended for another year, and increased to 400,000 shares. During this quarter and as part of this formal plan and its existing terms, the Company repurchased 2,500 shares.

## Dividend

During fiscal year 2015, Saratoga Investment announced the decision made by its Board of Directors to adopt a new dividend policy to pay a regular quarterly cash dividend to shareholders. Since then, the Company has paid quarterly dividends of \$0.18 per share for the quarter ended August 31, 2014, \$0.22 per share for the quarter ended November 30, 2014, \$0.27 per share for the quarter ended February 28, 2015, \$0.33 per share for the quarter ended May 31, 2015, and a special dividend of \$1.00 per share in the first quarter of fiscal year 2016.

On October 7, 2015, Saratoga Investment's Board of Directors declared a dividend to shareholders of \$0.36 per share for the quarter ended August 31, 2015, payable on November 30, 2015 to all stockholders of record at the close of business on November 2, 2015. Shareholders have the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's dividend reinvestment plan ("DRIP"), which Saratoga Investment adopted in conjunction with the new dividend policy, and provides for the reinvestment of dividends on behalf of its stockholders.

Saratoga Investment shareholders who hold their shares with a broker must affirmatively instruct their brokers prior to the record date if they prefer to receive this dividend and future dividends in common stock. The number of shares of Common Stock to be delivered shall be determined by dividing the total dollar amount by 95% of the average of the market prices per share at the close of trading on the ten (10) trading days immediately preceding (and including) the payment date.

## 2016 Fiscal Second Quarter Conference Call/Webcast Information

**When:** Wednesday, October 14, 2015, 10:00 a.m. Eastern Time (ET)

**Call:** Interested parties may participate by dialing (877) 312-9208 (U.S. and Canada) or (678) 224-7872 (outside U.S. and Canada). A replay of the call will be available from 1:00 p.m. ET on Wednesday, October 14, 2015 through 11:59 p.m. ET on Wednesday, October 21, 2015 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 48340801.

**Webcast:** Interested parties may access a simultaneous webcast of the call and find the Q2 2016 presentation by going to the "Events & Presentations" section of Saratoga Investment's investor relations website, <http://www.saratogainvestmentcorp.com/investor.html>

## About Saratoga Investment Corp.

Saratoga Investment Corp. is a specialty finance company that provides customized financing solutions to U.S. middle-market businesses. The Company invests primarily in mezzanine debt, senior and unitranche leveraged loans and, to a lesser extent, equity to provide financing for change of ownership transactions, strategic acquisitions, recapitalizations and growth initiatives in partnership with business owners, management teams and financial sponsors. Saratoga Investment Corp.'s objective is to create attractive risk-adjusted returns by generating current income and long-term capital appreciation from its debt and equity investments. Saratoga Investment Corp. has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 and is externally-managed by Saratoga Investment Advisors, LLC, an SEC-registered investment advisor focusing on credit-driven strategies. Saratoga Investment Corp. owns an SBIC-licensed subsidiary and manages a \$300 million Collateralized Loan Obligation (CLO) fund. It also owns 100% of the subordinated notes of the CLO. These diverse funding sources, combined with a permanent capital base, enable Saratoga Investment Corp. to provide a broad range of financing solutions.

## Forward Looking Statements

This press release contains certain forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors enumerated in this press release and the filings Saratoga Investment Corp. makes with the SEC. Saratoga Investment Corp. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Financials

### **Saratoga Investment Corp.**

#### **Consolidated Statements of Assets and Liabilities**

	<b>As of</b>	
	<u>August 31, 2015</u>	<u>February 28, 2015</u>
	(unaudited)	
<b>ASSETS</b>		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$236,385,079 and \$222,505,383, respectively)	\$ 235,430,731	\$ 223,506,589
Control investments (cost of \$14,304,200 and \$15,953,001, respectively)	16,754,160	17,031,146
Total investments at fair value (amortized cost of \$250,689,279 and \$238,458,384, respectively)	252,184,891	240,537,735

Cash and cash equivalents	504,283	1,888,158
Cash and cash equivalents, reserve accounts	12,089,017	18,175,214
Interest receivable, (net of reserve of \$393,447 and \$309,498, respectively)	2,689,454	2,469,398
Management fee receivable	174,432	171,913
Other assets	571,358	317,637
Receivable from unsettled trades	100,000	-
<b>Total assets</b>	<b>\$ 268,313,435</b>	<b>\$ 263,560,055</b>
<b>LIABILITIES</b>		
Revolving credit facility	\$ 2,000,000	\$ 9,600,000
Deferred debt financing costs, revolving credit facility	(555,160)	(594,845)
SBA debentures payable	79,000,000	79,000,000
Deferred debt financing costs, SBA debentures payable	(2,122,413)	(2,340,894)
Notes payable	57,245,175	48,300,000
Deferred debt financing costs, notes payable	(1,752,164)	(1,847,564)
Dividend payable	731,440	402,200
Base management and incentive fees payable	6,037,226	5,835,941
Accounts payable and accrued expenses	572,960	835,189
Interest and debt fees payable	1,545,272	1,405,466
Due to manager	352,679	365,820
<b>Total liabilities</b>	<b>\$ 143,055,015</b>	<b>\$ 140,961,313</b>
Commitments and contingencies		
<b>NET ASSETS</b>		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,586,254 and 5,401,899 common shares issued and outstanding, respectively	\$ 5,586	\$ 5,402
Capital in excess of par value	187,648,418	184,877,680
Distribution in excess of net investment income	(27,216,301)	(23,905,603)
Accumulated net realized loss from investments and derivatives	(36,674,895)	(40,458,088)
Accumulated net unrealized appreciation on investments	1,495,612	2,079,351
<b>Total net assets</b>	<b>125,258,420</b>	<b>122,598,742</b>
<b>Total liabilities and net assets</b>	<b>\$ 268,313,435</b>	<b>\$ 263,560,055</b>
<b>NET ASSET VALUE PER SHARE</b>	<b>\$ 22.42</b>	<b>\$ 22.70</b>

See accompanying notes to consolidated financial statements in Form 10-Q

Asset Coverage Ratio	311.4%	311.7%
----------------------	--------	--------

**Saratoga Investment Corp.**

**Consolidated Statements of Operations  
(unaudited)**

	<b>For the three months ended August 31</b>	
	<b>2015</b>	<b>2014</b>
<b>INVESTMENT INCOME</b>		
Interest from investments		
Non-control/Non-affiliate investments	\$ 5,877,682	\$ 5,047,571
Payment-in-kind interest income from Non-control/Non-affiliate investments	262,991	329,614
Control investments	678,706	660,031
Total interest income	6,819,379	6,037,216
Interest from cash and cash equivalents	731	1,120
Management fee income	373,152	375,459
Other income	565,055	61,495
<b>Total investment income</b>	<b>7,758,317</b>	<b>6,475,290</b>
<b>EXPENSES</b>		
Interest and debt financing expenses	2,147,976	1,809,516
Base management fees	1,151,236	1,037,186
Professional fees	349,533	275,933
Administrator expenses	275,000	250,000

Incentive management fees	(41,279)	768,878
Insurance	87,316	84,127
Directors fees and expenses	51,000	55,586
General & administrative	203,449	100,568
Excise tax expense (credit)	(123,338)	-
Total expenses	<u>4,100,893</u>	<u>4,381,794</u>
NET INVESTMENT INCOME	<u>3,657,424</u>	<u>2,093,496</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	3,709,947	360,161
Net unrealized appreciation/(depreciation) on investments	(6,124,708)	703,506
Net gain/(loss) on investments	<u>(2,414,761)</u>	<u>1,063,667</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 1,242,663</u>	<u>\$ 3,157,163</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.22	\$ 0.59
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,583,795	5,379,616

**Saratoga Investment Corp.**

**Consolidated Statements of Operations  
(unaudited)**

	For the six months ended August 31	
	2015	2014
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 11,526,661	\$ 9,755,465
Payment-in-kind interest income from Non-control/Non-affiliate investments	954,143	582,542
Control investments	<u>1,269,696</u>	<u>1,301,369</u>
Total interest income	13,750,500	11,639,376
Interest from cash and cash equivalents	1,467	1,714
Management fee income	751,898	767,493
Other income	<u>815,619</u>	<u>210,830</u>
Total investment income	<u>15,319,484</u>	<u>12,619,413</u>
EXPENSES		
Interest and debt financing expenses	4,111,841	3,597,103
Base management fees	2,275,334	2,005,665
Professional fees	682,977	711,307
Administrator expenses	525,000	500,000
Incentive management fees	1,756,554	1,147,367
Insurance	174,633	168,614
Directors fees and expenses	102,000	108,761
General & administrative	386,369	224,194
Excise tax expense (credit)	(123,338)	-
Total expenses	<u>9,891,370</u>	<u>8,463,011</u>
NET INVESTMENT INCOME	<u>5,428,114</u>	<u>4,156,402</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	3,783,193	441,841
Net unrealized appreciation/(depreciation) on investments	(583,739)	318,809
Net gain/(loss) on investments	<u>3,199,454</u>	<u>760,650</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 8,627,568</u>	<u>\$ 4,917,052</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 1.57	\$ 0.91
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,492,491	5,379,616

### Supplemental Information Regarding Adjusted Net Investment Income and Adjusted Net Investment Income Yield

On a supplemental basis, we provide information relating to adjusted net investment income and adjusted net investment income yield, which are non-GAAP measures. These measures are provided in addition to, but not as a substitute for, net investment income and net investment income yield. Adjusted net investment income represents net investment income excluding any capital gains incentive fee expense or reversal attributable to unrealized gains. The management agreement with our advisor provides that a capital gains incentive fee is determined and paid annually with respect to cumulative realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized losses for such year. In addition, we accrue, but do not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. As such, we believe that adjusted net investment income and adjusted net investment income yield is a useful indicator of operations exclusive of any capital gains incentive fee expense or reversal attributable to unrealized gains. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. The following table provides a reconciliation of net investment income to adjusted net investment income and net investment income yield to adjusted net investment income yield for the three and six months ended August 31, 2015 and 2014.

	For the three months ended August 31		For the six months ended August 31	
	2015	2015	2015	2014
Net Investment Income	\$ 3,657,424	\$ 2,093,496	\$ 5,428,114	\$ 4,156,402
Changes in accrued capital gains incentive fee expense/reversal	(764,755)	216,985	319,128	311,616
Adjusted net investment income	2,892,669	2,310,481	5,747,242	4,467,718
Net investment income yield	11.8%	7.2%	8.8%	7.2%
Changes in accrued capital gains incentive fee expense/reversal	(2.5%)	0.6%	0.5%	0.5%
Adjusted net investment income yield <sup>(1)</sup>	9.3%	7.8%	9.3%	7.7%
Net investment income per share	\$ 0.66	\$ 0.39	\$ 0.99	\$ 0.77
Changes in accrued capital gains incentive fee expense/reversal	\$ (0.14)	\$ 0.04	\$ 0.06	\$ 0.05
Adjusted net investment income per share <sup>(2)</sup>	\$ 0.52	\$ 0.43	\$ 1.05	\$ 0.82

(1) Adjusted net investment income is calculated as adjusted net investment income divided by average net asset value.

(2) Adjusted net investment income per share is calculated as adjusted net investment income divided by weighted average common shares outstanding.

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/saratoga-investment-corp-announces-fiscal-second-quarter-2016-financial-results-300159177.html>

SOURCE Saratoga Investment Corp.

News Provided by Acquire Media