

July 12, 2017

Saratoga Investment Corp. Announces Fiscal First Quarter 2018 Financial Results

NEW YORK, July 12, 2017 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2018 fiscal first quarter.

Summary Financial Information

The Company's summarized financial information is as follows:

	<u>For the quarter</u> <u>ended and as of</u> <u>May 31, 2017</u>	<u>For the quarter</u> <u>ended and as of</u> <u>February 28, 2017</u>	<u>For the quarter</u> <u>ended and as of</u> <u>May 31, 2016</u>
	(\$ in thousands except per share)		
AUM	329,690	292,661	264,427
NAV	127,609	127,295	127,129
Investment Income	8,707	8,358	7,908
Net Investment Income per share	0.60	0.19	0.44
Adjusted Net Investment Income per share	0.50	0.49	0.46
Earnings per share	0.17	0.22	0.57
Return on Equity - last twelve months	7.1%	9.0%	3.4%

"In the fiscal first quarter of 2018, we continued to make progress on our core objectives of expanding assets under management, maintaining strong investment quality, broadening our investor base, diversifying sources and extending maturities of cost effective and flexible liquidity, and increasing our pipeline of available deal sources," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "We are pleased with our 13% increase in AUM this quarter, reflecting our strong origination effort and benefitting from a light rate of repayments. Our performance metrics, including an increase in adjusted NII Yield to 9.2%, have already started benefitting from this and will continue to do so as the full impact of our increased asset base impacts our quarterly performance. Unrealized losses of \$2.5 million from portfolio depreciation did negatively affect our earnings and NAV, primarily related to one investment. We were also able to increase our dividend for the eleventh consecutive quarter, announcing a \$0.01 increase to \$0.47 per share, and we continue to out-earn our dividend payments, an important differentiator for us in the marketplace. Our year-over-year dividend growth has been 9.3% and we are one of only four BDCs to increase dividends this past year. This steady performance would not be possible without our business development and origination team, which enabled us to keep ahead of the heavy repayments we've seen during recent quarters. We also remain well structured for a potential higher interest rate environment, with over 85% of our investments having floating rate interest rates and all of our debt except for our revolving credit facility being fixed-rate."

Michael J. Grisius, President and Chief Investment Officer, added, "This fiscal quarter has demonstrated the continued demand for our financings and the reliability of our new business pipeline. In past quarters, originations have been strong, but the positive effects of these were partially masked by the high levels of repayment that have defined the marketplace for some time. With few repayments this quarter, this effort stands out in our AUM growth. Importantly, this quarter's increase in AUM size did not come at the expense of quality. The percentage of credits that bear our highest rating increased from 94% to 96% quarter-on-quarter. We believe our strength in quality originations will be a vital asset going forward, particularly as our competitive environment continues to intensify and upward pressure on valuation multiples and enterprise values persists."

As of May 31, 2017, Saratoga Investment increased its assets under management ("AUM") to \$329.7 million, an increase of 12.6% from \$292.7 million as of February 28, 2017, and an increase of 24.7% from \$264.4 million as of May 31, 2016. This increase reflects originations of \$45.0 million during the quarter ended May 31, 2017, offset by repayments of \$5.9 million, with a combined gross unlevered IRR of 12.2% on the overall unrealized portfolio. Gross unlevered IRR on our total repayments of \$209.6 million is 16.2%. Saratoga Investment's portfolio has continued to grow this quarter and remains strong, with a continued high level of investment quality in loan investments with 96.3% of our loans at our highest internal rating for this quarter.

As a result, total investment income increased to \$8.7 million for the quarter ended May 31, 2017, up 10.1% from \$7.9 million for the quarter ended May 31, 2016. This increased investment income was generated from an investment base that has grown significantly, resulting in both higher interest income and other income. The investment income increase was offset by (i) increased debt and financing expenses from higher outstanding Notes payable, revolving debt outstanding with Madison Capital Funding and SBA debentures this quarter reflective of the growing investment and asset base, (ii) increased base management fees generated from the management of this larger pool of investments, and (iii) increased total expenses, excluding interest and debt financing expenses, base management fees and incentive fees, reflecting primarily higher administrator fees.

Net investment income on a weighted average per share basis was \$0.60 for the quarter ended May 31, 2017. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income on a weighted average per share basis was \$0.50. This compares to adjusted net investment income per share of \$0.49 for the quarter ended February 28, 2017 and \$0.46 for the quarter ended May 31, 2016, reflecting an increase of 3.1% and 10.3%, respectively.

Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 11.0% for the quarter ended May 31, 2017. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 9.2%. In comparison, Net Investment Income Yield was 3.5% and 8.0% for the quarters ended February 28, 2017 and May 31, 2016, respectively. Adjusted Net Investment Income Yield was 8.8% and 8.3% for the same quarters, respectively.

Net Asset Value ("NAV") increased \$0.3 million from \$127.3 million as of February 28, 2017 to \$127.6 million as of May 31, 2017.

- For the three months ended May 31, 2017, \$2.7 million of dividends were declared, \$0.6 million of stock dividend distributions made through the Company's dividend reinvestment plan ("DRIP") and \$1.4 million of share sales sold through the Company's At-the-Market ("ATM") equity offering.

NAV per share was \$21.69 as of May 31, 2017, compared to \$21.97 as of February 28, 2017.

- During the three months, NAV per share decreased by \$0.28 per share, primarily reflecting the \$1.6 million, or \$0.29 per share decrease in net assets (net of the \$0.46 dividend paid during the first fiscal quarter 2018). This was slightly offset by the \$0.01 accretive impact of the quarter's share issuances, with 60,779 shares issued under the Company's ATM offering above net asset value offsetting the dilutive impact of the 29,096 shares issued under the DRIP.

Return on equity for the last twelve months ended May 31, 2017 was 7.1%, compared to 3.4% for the comparable period last year.

- Excluding the realized and unrealized gains and losses on our legacy investments in Targus Group International ("Targus") and Elyria Foundry Company, LLC ("Elyria") over the past twelve months, as well as the loss associated with the extinguishment of our 2020 notes and the interest on the 2020 notes during the call notice period, the return on equity for the last twelve months ended May 31, 2017 was 7.9%. Both Targus and Elyria are legacy investments that pre-date Saratoga's management of the Company.

Earnings per share for the quarter ended May 31, 2017 was \$0.17 (including \$2.5 million net unrealized loss on investments), compared to earnings per share of \$0.22 for the quarter ended February 28, 2017 and \$0.57 for the quarter ended on May 31, 2016.

Investment portfolio activity for the quarter ended May 31, 2017:

- Cost of investments made during the period: \$45.0 million
- Principal repayments during the period: \$5.9 million

Additional Financial Information

For the fiscal quarter ended May 31, 2017, Saratoga Investment reported net investment income of \$3.5 million, or \$0.60 on a weighted average per share basis, and a net loss on investments of \$2.5 million, or \$0.42 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$1.0 million, or \$0.17 on a weighted average per share basis. The \$2.5 million net loss on investments was comprised of \$2.6 million in net unrealized depreciation on investments offset by \$0.1 million in net realized gain on investments. The net unrealized loss was due primarily to \$5.3 million unrealized depreciation on our My Alarm Center, LLC investment reflecting increased leverage levels combined with declining market conditions in the sector, partially offset by \$1.4 million unrealized appreciation in our Saratoga CLO investment, \$1.1 million unrealized appreciation in our Mercury Network, LLC investment, and \$1.0 million unrealized appreciation in our legacy Elyria investment. This compared to the fiscal quarter ended May 31, 2016 with net investment income of \$2.5 million, or \$0.44 on a weighted average per share basis, and a net gain on investments of \$0.7 million, or \$0.13 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.3 million, or \$0.57 on a weighted average per share basis. The \$0.7 million net gain on investments consisted of \$6.1 million in net realized gains on investments and \$5.4 million in unrealized depreciation.

Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.9 million and \$2.6 million for the quarters ended May 31, 2017 and May 31, 2016, respectively - this is an increase of \$0.3 million year-over-year, or 12.7%.

Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, increased from \$1.05 million for the quarter ended May 31, 2016 to \$1.11 million for the quarter ended May 31, 2017, decreasing from 1.4% of average total assets last year to 1.3% this year.

Portfolio and Investment Activity

As of May 31, 2017, the fair value of Saratoga Investment's portfolio was \$329.7 million (excluding \$27.8 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 56.4% of first lien term loans, 29.1% of second lien term loans, 4.9% of subordinated notes in a CLO, 2.8% of syndicated loans, and 6.8% of common equity.

For the fiscal quarter ended May 31, 2017, Saratoga Investment invested \$45.0 million in new or existing portfolio companies and had \$5.9 million in aggregate amount of exits and repayments, resulting in net investments of \$39.1 million for the year.

As of May 31, 2017, the weighted average current yield on Saratoga Investment's portfolio for the twelve months ended was 11.4%, which was comprised of a weighted average current yield of 10.8% on first lien term loans, 12.4% on second lien term loans, 15.7% on CLO subordinated notes, 5.3% on syndicated loans and 4.0% on equity interests.

As of May 31, 2017, 85.1% of Saratoga Investment's portfolio is in floating rate debt, with many of these investments having floors. For most of these investments, the relevant 1-month or 3-month LIBOR rate is currently above the floors. Saratoga Investment has analyzed the potential impact of changes in interest rates on interest income from investments, and assuming that the investments as of May 31, 2017 were to remain constant for a full fiscal year and no actions were taken to alter the existing interest rate terms, a hypothetical change of 1.0% in interest rates would cause a corresponding increase of approximately \$2.5 million to interest income over twelve months.

Portfolio Update:

During the quarter ended February 28, 2017, Saratoga Investment increased its first lien investment in Easy Ice, LLC to \$26.7 million to facilitate a change of control transaction at the company. Concurrent with this transaction, it also invested \$8.0 million in a significant preferred equity position. As part of a further recapitalization that is currently in advanced stages, there is expected to be a repayment of a significant portion of the first lien investment in the near term.

Liquidity and Capital Resources

As of May 31, 2017, Saratoga Investment had \$24.5 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 \$134.7 million outstanding of SBA debentures, \$74.5 million of Baby Bonds (fair value of \$78.1 million) and an aggregate of \$27.8 million in cash and cash equivalents.

With \$20.5 million available under the credit facility and the \$15.3 million additional borrowing capacity at the SBIC subsidiary, as well as the \$27.8 million of cash and cash equivalents, Saratoga Investment has a total of \$63.6 million of undrawn borrowing capacity and cash and cash equivalents available as of May 31, 2017. The proceeds from the DRIP and ATM program totaled \$2.0 million of equity investments in the first fiscal quarter of 2018. Saratoga Investment also has the ability to issue additional baby bonds through the existing shelf registration statement.

On March 16, 2017, we entered into an equity distribution agreement with Ladenburg Thalmann & Co. Inc., through which Saratoga may offer for sale, from time to time, up to \$30.0 million of its common stock through an ATM offering. As of July 11, 2017, the Company sold 117,354 shares for gross proceeds of \$2.6 million at an average price of \$22.49 for aggregate net proceeds of \$2.6 million (net of transaction costs).

On May 18, 2017, we entered into an amendment to our senior secured revolving credit facility with Madison Capital Funding LLC which, among other things, (1) extended the commitment termination date from September 17, 2017 to September 17, 2020, (2) extended the maturity date from September 17, 2022 to September 17, 2025, (3) kept the rate unchanged at LIBOR plus 4.75% (4) reduced the floor on LIBOR borrowings from 1.25% to 1.00%, and (5) reduced the unused commitment fee from 0.75% to 0.50% if utilization is greater than 50%.

Share Repurchase Plan

In fiscal year 2015, 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. During fiscal year 2017, this share repurchase plan was extended for another year, through October 2017, and increased to 600,000 of common stock.

There were no share repurchases during the quarter ended May 31, 2017.

Dividend

During fiscal year 2017, Saratoga Investment declared and paid dividends of \$1.93 per share, composed of \$0.41 for the quarter ended February 29, 2016, \$0.43 per share for the quarter ended May 31, 2016, \$0.44 per share for the quarter

ended August 31, 2016, \$0.45 per share for the quarter ended November 30, 2016, and a special dividend of \$0.20 per share in the second quarter of fiscal year 2017.

Saratoga Investment has continued to pay quarterly dividends regularly throughout fiscal year 2018, including \$0.46 per share for the quarter ended February 28, 2017 and \$0.47 per share for the quarter ended May 31, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant the Company's DRIP.

2018 Fiscal First Quarter Conference Call/Webcast Information

When: Thursday, July 13, 2017, 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 Thursday, July 13, 2017 through 1:00 p.m. ET on Thursday, July 20, 2017 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 40872449.

Webcast: Interested parties may access a simultaneous webcast of the call and find the Q1 FY2018 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 senior and unitranche leveraged loans, mezzanine debt, 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

	As of	
	May 31, 2017 (unaudited)	February 28, 2017
ASSETS		
Investments at fair value		
Non-control/Non-affiliate investments (amortized cost of \$291,471,679 and \$251,198,896, respectively)	\$ 278,767,064	\$ 242,531,514
Control investments (cost of \$48,625,339 and \$49,283,536, respectively)	50,922,884	50,129,799
Total investments at fair value (amortized cost of \$340,097,018 and \$300,482,432, respectively)	329,689,948	292,661,313
Cash and cash equivalents	1,246,815	9,306,543
Cash and cash equivalents, reserve accounts	26,526,889	12,781,425
Interest receivable (net of reserve of \$817,374 and \$157,560, respectively)	3,652,935	3,294,450
Management and incentive fee receivable	276,484	171,106
Other assets	278,376	183,346
Receivable from unsettled trades	253,041	253,041
Total assets	<u>\$ 361,924,488</u>	<u>\$ 318,651,224</u>
LIABILITIES		
Revolving credit facility	\$ 24,500,000	\$ -
Deferred debt financing costs, revolving credit facility	(760,150)	(437,183)
SBA debentures payable	134,660,000	112,660,000
Deferred debt financing costs, SBA debentures payable	(2,924,288)	(2,508,280)

Notes payable	74,450,500	74,450,500
Deferred debt financing costs, notes payable	(2,578,509)	(2,689,511)
Base management and incentive fees payable	3,992,960	5,814,692
Accounts payable and accrued expenses	773,025	852,987
Interest and debt fees payable	1,805,492	2,764,237
Directors fees payable	51,500	51,500
Due to manager	345,305	397,505
Total liabilities	<u>\$ 234,315,835</u>	<u>\$ 191,356,447</u>

NET ASSETS

Common stock, par value \$.001, 100,000,000 common shares authorized, 5,884,475 and 5,794,600 common shares issued and outstanding, respectively	\$ 5,884	\$ 5,795
Capital in excess of par value	192,449,147	190,483,931
Distribution in excess of net investment income	(26,898,415)	(27,737,348)
Accumulated net realized loss from investments and derivatives	(27,540,893)	(27,636,482)
Accumulated net unrealized depreciation on investments and derivatives	(10,407,070)	(7,821,119)
Total net assets	<u>127,608,653</u>	<u>127,294,777</u>
Total liabilities and net assets	<u>\$ 361,924,488</u>	<u>\$ 318,651,224</u>

NET ASSET VALUE PER SHARE

	<u>\$ 21.69</u>	<u>\$ 21.97</u>
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Asset Coverage Ratio	229.0%	271.0%
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Saratoga Investment Corp.

Consolidated Statements of Operations
(unaudited)

	For the three months ended May 31, 2017	For the three months ended May 31, 2016
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 5,920,433	\$ 6,620,113
Payment-in-kind interest income from Non-control/Non-affiliate investments	223,273	129,090
Control investments	1,335,386	532,126
Payment-in-kind interest income from Control investments	262,109	-
Total interest income	<u>7,741,201</u>	<u>7,281,329</u>
Interest from cash and cash equivalents	7,081	3,786
Management fee income	375,681	373,684
Incentive fee income	105,295	-
Other income	478,190	249,596
Total investment income	<u>8,707,448</u>	<u>7,908,395</u>
OPERATING EXPENSES		
Interest and debt financing expenses	2,523,606	2,368,056
Base management fees	1,391,027	1,227,157
Professional fees	384,331	359,299
Administrator expenses	375,000	325,000
Incentive management fees	176,096	728,280
Insurance	66,165	70,658
Directors fees and expenses	51,000	66,000
General & administrative	197,243	212,209
Other expense	38,531	13,187
Total operating expenses	<u>5,202,999</u>	<u>5,369,846</u>
NET INVESTMENT INCOME	<u>3,504,449</u>	<u>2,538,549</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	95,589	6,102,905
Net unrealized depreciation on investments	(2,585,951)	(5,353,867)
Net gain (loss) on investments	<u>(2,490,362)</u>	<u>749,038</u>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,014,087	\$ 3,287,587
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.17	\$ 0.57
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	5,861,654	5,737,496

Supplemental Information Regarding Adjusted Net Investment Income, Adjusted Net Investment Income Yield and Adjusted Net Investment Income per share

On a supplemental basis, we provide information relating to adjusted net investment income, adjusted net investment income yield and adjusted net investment income per share, which are non-GAAP measures. These measures are provided in addition to, but not as a substitute for, net investment income, net investment income yield and net investment income per share. 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, adjusted net investment income yield and adjusted net investment income per share 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, net investment income yield to adjusted net investment income yield and net investment income per share to adjusted net investment income per share for the three months ended May 31, 2017 and May 31, 2016.

	<u>For the three months ended May 31</u>	
	<u>2017</u>	<u>2016</u>
Net Investment Income	\$ 3,504,449	\$ 2,538,549
Changes in accrued capital gains incentive fee expense/reversal	<u>(\$ 560,267)</u>	<u>\$ 74,664</u>
Adjusted net investment income	\$ 2,944,182	\$ 2,613,213
Net investment income yield	11.0%	8.0%
Changes in accrued capital gains incentive fee expense/reversal	<u>(1.8%)</u>	<u>0.3%</u>
Adjusted net investment income yield ⁽¹⁾	9.2%	8.3%
Net investment income per share	\$ 0.60	\$ 0.44
Changes in accrued capital gains incentive fee expense/reversal	<u>(\$ 0.10)</u>	<u>\$ 0.02</u>
Adjusted net investment income per share ⁽²⁾	\$ 0.50	\$ 0.46

(1) Adjusted net investment income yield 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.

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