

July 14, 2014

Saratoga Investment Corp. Announces Fiscal First Quarter 2015 Financial Results

NEW YORK, July 14, 2014 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2015 fiscal first quarter.

Summary Financial Information

- Net investment income on a weighted average per share basis of \$0.38 for the quarter ended May 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income per share was \$0.40.
- Net investment income of \$2.1 million for the quarter ended May 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.2 million.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 7.1% for the quarter ended May 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 7.4%.
- Net asset value ("NAV") was \$116.7 million as of May 31, 2014, a \$1.8 million increase from an NAV of \$114.9 million as of February 28, 2014.
- NAV per share was \$21.69 as of May 31, 2014, compared to \$21.36 as of February 28, 2014.
- Investment portfolio activity for the quarter ended May 31, 2014
 - Cost of investments made during the period: \$21.9 million
 - Principal repayments during the period: \$8.7 million

Operating Results

For the quarter ended May 31, 2014, Saratoga Investment reported net investment income of \$2.1 million, or \$0.38 on a weighted average per share basis, and a net loss on investments of \$303,000, or \$0.05 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$1.8 million, or \$0.33 on a weighted average per share basis. The \$303,000 net loss on investments was comprised largely of \$384,697 in net unrealized depreciation on investments. This compared to the quarter ended May 31, 2013 with net investment income of \$2.5 million, or \$0.52 on a weighted average per share basis, and a net gain on investments of \$1.3 million, or \$0.28 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.8 million, or \$0.80 on a weighted average per share basis. The \$1.3 million net gain on investments was comprised of \$0.8 million in net unrealized appreciation on investments and \$0.5 million in net realized gain on investments. The reduction year-over-year is primarily due to the increased interest and debt financing expenses from the issuance of the \$48.3 million notes at the end of the three months ended May 31, 2013, as well as an increased share count from the cash/stock dividend declared in FY 2014.

Net Investment Income Yield was 7.1% for the quarter ended May 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 7.4% for the quarter ended May 31, 2014. Return on equity was 6.1% for the quarter ended May 31, 2014.

NAV was \$116.7 million as of May 31, 2014, a \$1.8 million increase from a NAV of \$114.9 million as of February 28, 2014. NAV per share was \$21.69 as of May 31, 2014, compared to \$21.36 as of February 28, 2014.

"We continue to pursue a long-term strategy of expanding the size and quality of our assets under management, attracting new investors and adding talented senior management and professionals to our team," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "Market conditions, competition and asset pricing remain challenging, but the outlook for future financing demand in our markets remains positive."

Michael J. Grisius, President and Chief Investment Officer, added, "We continue to expand the human resource infrastructure and capabilities necessary to support an overall larger asset base, while focusing on best-in-class deal execution. During the first quarter of 2015, we continued to invest in new, high quality credits. Including our CLO investment, more than 85% of our portfolio bears our highest quality rating that we award."

Portfolio and Investment Activity

As of May 31, 2014, the fair value of Saratoga Investment's portfolio was \$218.7 million (excluding \$12.7 million in cash and cash equivalents), principally invested in 40 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 14.7% of middle market loans, 40.1% of first lien term loans, 15.0% of second lien term loans, 13.4% of senior secured notes, 2.5% of unsecured notes, 9.2% of subordinated notes in a CLO and 5.1% of

common equity.

During the quarter ended May 31, 2014, Saratoga Investment invested \$21.6 million in new or existing portfolio companies and had \$8.7 million in aggregate amount of exits and repayments, resulting in net investments of \$12.9 million for the year. The weighted average current yield on Saratoga Investment's portfolio for the three months ended May 31, 2014 was 12.3%, which was comprised of a weighted average current yield of 11.8% on first lien term loans, 11.1% on second lien term loans, 14.2% on senior secured notes, 16.0% on unsecured notes, 22.0% on CLO subordinated notes, and 6.3% on middle market loans.

Liquidity and Capital Resources

As of May 31, 2014, Saratoga Investment had \$4.7 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 \$64.0 million outstanding of SBA debentures, \$48.3 million outstanding of Baby Bonds (fair value of \$49.0 million) and an aggregate of \$12.7 million in cash and cash equivalents.

With \$40.3 million undrawn under the Madison Capital Funding credit facility and the \$86 million additional borrowing capacity at the SBIC subsidiary, Saratoga Investment has a total of \$126.3 million of undrawn borrowing capacity available as of May 31, 2014.

Dividend

Given the size of the Company's asset base and its pipeline of high-quality investments, the Company's board of directors believes that retaining its capital resources currently to build and diversify its portfolio further serves stockholders' interests best by enabling the Company to generate current income and capital appreciation on an increasing scale in future periods. This better positions the Company to start paying quarterly cash dividends. This is consistent with market commentators' classification of the Company being a growth/total return equity story.

2015 Fiscal First Quarter Conference Call/Webcast Information

When: Tuesday, July 15, 2014
10:00 a.m. Eastern Time (ET)

How: **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 Tuesday, July 15, 2014 through 11:59 p.m. ET on Monday, July 21, 2014 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 65718738.

Webcast: Interested parties may access a simultaneous webcast of the call and find the Q1 2015 presentation by going to the "Events & Presentations" section of Saratoga Investment Corp.'s investor relations website, <http://www.saratogainvestmentcorp.com/investor.html>

Information: Saratoga Investment Corp.'s Form 10-Q for the fiscal quarter ended May 31, 2014 will be filed on July 14, 2014 with the Securities and Exchange Commission.

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

	As of	
	May 31, 2014 (unaudited)	February 28, 2014
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$198,520,606 and \$185,266,607, respectively)	\$ 198,595,113	\$ 186,275,106
Control investments (cost of \$16,555,808 and \$16,555,808 respectively)	20,118,891	19,569,596
Total investments at fair value (amortized cost of \$215,076,414 and \$201,822,415 respectively)	218,714,004	205,844,702
Cash and cash equivalents	2,974,111	3,293,898
Cash and cash equivalents, reserve accounts	9,725,613	3,293,113
Interest receivable, (net of reserve of \$296,091 and \$150,058, respectively)	3,506,476	2,571,853
Deferred debt financing costs, net	4,125,345	4,008,704
Management fee receivable	166,876	150,106
Other assets	21,336	14,461
Total assets	<u>\$ 239,233,761</u>	<u>\$ 219,176,837</u>
LIABILITIES		
Revolving credit facility	\$ 4,700,000	\$ -
SBA debentures payable	64,000,000	50,000,000
Notes payable	48,300,000	48,300,000
Management and incentive fees payable	3,649,739	3,856,962
Accounts payable and accrued expenses	896,106	824,568
Interest and debt fees payable	658,269	873,135
Due to manager	348,154	398,154
Total liabilities	<u>\$ 122,552,268</u>	<u>\$ 104,252,819</u>
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,379,616 and 5,379,616 common shares issued and outstanding, respectively	\$ 5,380	\$ 5,380
Capital in excess of par value	184,851,154	184,851,154
Distribution in excess of net investment income	(27,567,086)	(29,627,578)
Accumulated net realized loss from investments and derivatives	(44,245,545)	(44,327,225)
Net unrealized appreciation on investments and derivatives	3,637,590	4,022,287
Total Net Assets	<u>116,681,493</u>	<u>114,924,018</u>
Total liabilities and Net Assets	<u>\$ 239,233,761</u>	<u>\$ 219,176,837</u>
NET ASSET VALUE PER SHARE	<u>\$ 21.69</u>	<u>\$ 21.36</u>

Saratoga Investment Corp.

Consolidated Statements of Operations

(unaudited)

	For the three months ended May 31, 2014	For the three months ended May 31, 2013
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 4,707,894	\$ 3,756,830
Payment-in-kind interest income from Non-control/Non-affiliate investments	252,928	288,755
Control investments	641,338	1,126,004
Total interest income	5,602,160	5,171,589
Interest from cash and cash equivalents	594	1,906
Management fee income	392,034	498,091
Other income	149,335	346,176
Total investment income	<u>6,144,123</u>	<u>6,017,762</u>

EXPENSES			
Interest and debt financing expenses		1,787,587	1,127,855
Base management fees		968,479	736,716
Professional fees		435,374	331,064
Administrator expenses		250,000	250,000
Incentive management fees		380,903	821,122
Insurance		84,487	119,995
Directors fees and expenses		53,175	51,000
General and administrative		123,626	98,361
Other expense		-	11,960
Total expenses		<u>4,083,631</u>	<u>3,548,073</u>
NET INVESTMENT INCOME		<u>2,060,492</u>	<u>2,469,689</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain from investments		81,680	529,300
Net unrealized appreciation (depreciation) on investments		<u>(384,697)</u>	<u>800,862</u>
Net gain/(loss) on investments		<u>(303,017)</u>	<u>1,330,162</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		<u>\$ 1,757,475</u>	<u>\$ 3,799,851</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE		\$ 0.33	\$ 0.80

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 adjusted 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, 2013 and 2014.

	For the three months ended	
	May 31	
	2014	2013
Net Investment Income	\$ 2,060,492	\$ 2,469,689
Changes in accrued capital gains incentive fee expense/reversal	94,334	162,743
Adjusted net investment income	<u>2,154,826</u>	<u>2,632,432</u>
Net investment income yield	7.1%	8.9%
Changes in accrued capital gains incentive fee expense/reversal	0.3%	0.6%
Adjusted net investment income yield ⁽¹⁾	<u>7.4%</u>	<u>9.5%</u>
Net investment income per share	\$ 0.38	\$ 0.52
Changes in accrued capital gains incentive fee expense/reversal	0.02	0.04
Adjusted net investment income per share ⁽²⁾	<u>0.40</u>	<u>0.56</u>

(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.

SOURCE Saratoga Investment Corp.

News Provided by Acquire Media