

Saratoga Investment Corp. Announces Fiscal Second Quarter 2015 Financial Results

NEW YORK, Oct. 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 second quarter.

Corporate Updates

- Adopted new dividend policy to pay regular quarterly cash dividends - declared dividends of \$0.18 per share for the most recently completed quarter, and \$0.22 per share for the quarter ended November 30, 2014
- Adopted new dividend reinvestment plan ("DRIP") that provides for reinvestment of dividends on behalf of shareholders
- Board of Directors approved an open market share repurchase plan that allows the Company to repurchase up to 200,000 of its common stock at prices below its net asset value ("NAV")
- Amended and extended its revolving credit facility maturity date through September 17, 2022, reducing the borrowing rate by 1.5%, as well as lowering the annual administration costs

Summary Financial Information

- Net investment income on a weighted average per share basis of \$0.39 for the quarter ended August 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income per share was \$0.43.
- Net investment income of \$2.1 million for the quarter ended August 31, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.3 million.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 7.0% 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 7.7%.
- Return on equity was 10.6% for the quarter ended August 31, 2014.
- NAV was \$119.8 million as of August 31, 2014, a \$4.9 million increase from an NAV of \$114.9 million as of February 28, 2014.
- NAV per share was \$22.27 as of August 31, 2014, compared to \$21.36 as of February 28, 2014.
- Investment portfolio activity for the quarter ended August 31, 2014 -
 - Cost of investments made during the period: \$31.8 million
 - Principal repayments during the period: \$15.7 million

Operating Results

For the quarter ended August 31, 2014, Saratoga Investment reported 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 \$0.19 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.1 million, or \$0.58 on a weighted average per share basis. The \$1.1 million net gain on investments was comprised largely of \$703,506 in net unrealized appreciation on investments. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.3 million, and the net investment income per share was \$0.43.

This compared to the quarter ended August 31, 2013 with net investment income of \$2.3 million, or \$0.48 on a weighted average per share basis, and a net loss on investments of \$2.3 million, or \$0.49 on a weighted average per share basis, resulting in a net decrease in net assets from operations of \$41,297, or \$0.01 on a weighted average per share basis. The \$2.3 million net loss on investments was comprised of \$2.9 million in net unrealized depreciation on investments offset by \$545,642 in net realized gains on investments. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.1 million, and the net investment income per share was \$0.45 last year.

The increase in adjusted net investment income for the year-over-year is primarily due to higher investment income generated from an investment base that has grown by 26% since last year, offset by a reduction in investment income from the CLO business following the refinancing of the CLO last year. This increase was offset by (i) increased debt and financing expenses from higher outstanding SBA debentures this year 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. In addition, the decrease in the adjusted net investment income per share reflects the increased share count from the cash/stock dividend declared in FY 2014.

Net Investment Income Yield was 7.0% 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 7.7% for the quarter ended August 31, 2014, as compared to 7.5% for the quarter ended August 31, 2013. Return on equity was 10.6% for the quarter ended August 31, 2014.

NAV was \$119.8 million as of August 31, 2014, a \$4.9 million increase from a NAV of \$114.9 million as of February 28, 2014. NAV per share was \$22.27 as of August 31, 2014, compared to \$21.36 as of February 28, 2014.

"Our commitment to a long-term strategy of improving financial strength by expanding the size and quality of our assets under management has achieved important positive results," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "We have recently accomplished important strategic objectives with the implementation of a quarterly cash dividend, a dividend reinvestment plan, a stock repurchase plan and the refinancing of our credit facility. Combined with our continued growth in assets and earnings, expansion of our management team and continued improvement in our corporate financing resources, we are confident that we are very well positioned to provide our portfolio companies with optimal financing solutions and to compete effectively for new investments."

Michael J. Grisius, President and Chief Investment Officer, added, "We continue to scale our abilities to support a growing asset base, while ensuring highest quality deal execution. During the second quarter of 2015, we continued to invest in new, high quality credits, while at the same time also increasing the size of our average investments. Excluding our CLO and equity-related investments, over 88% of our loan portfolio bears our highest quality rating that we designate."

Portfolio and Investment Activity

As of August 31, 2014, the fair value of Saratoga Investment's portfolio was \$236.3 million (excluding \$3.5 million in cash and cash equivalents), principally invested in 39 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 11.3% of middle market loans, 48.9% of first lien term loans, 12.4% of second lien term loans, 10.6% of senior secured notes, 2.5% of unsecured notes, 8.5% of subordinated notes in a CLO and 5.8% of common equity.

During the quarter ended August 31, 2014, Saratoga Investment invested \$31.8 million in new or existing portfolio companies and had \$15.7 million in aggregate amount of exits and repayments, resulting in net investments of \$16.1 million for the quarter. The weighted average current yield on Saratoga Investment's portfolio for the three months ended August 31, 2014 was 12.2%, which was comprised of a weighted average current yield of 11.0% on first lien term loans, 11.5% on second lien term loans, 14.7% on senior secured notes, 14.2% on unsecured notes, 23.9% on CLO subordinated notes and 6.5% on middle market loans.

Liquidity and Capital Resources

As of August 31, 2014, Saratoga Investment had \$8.9 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 \$49.4 million) and an aggregate of \$3.5 million in cash and cash equivalents.

With \$36.1 million undrawn under the Madison Capital Funding credit facility and the \$86.0 million additional borrowing capacity at the SBIC subsidiary, Saratoga Investment has a total of \$122.1 million of undrawn borrowing capacity available as of August 31, 2014.

On September 17, 2014, Saratoga Investment entered into a second amendment to its Madison Capital Funding credit facility which extended the commitment termination date to September 17, 2017, and the maturity date to September 17, 2022. The amendment also reduced the applicable margin rate and floor on both base rate and LIBOR borrowings by a combined 1.5%.

Dividend Policy and Declaration

On September 24, 2014, Saratoga Investment announced that its Board of Directors has adopted a new dividend policy to pay a regular quarterly cash dividend to shareholders. The Company will pay a quarterly dividend of \$0.18 per share for the quarter ended August 31, 2014, which will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014. The second dividend of \$0.22 per share for the quarter ended November 30, 2014, will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

Saratoga Investment has also adopted a new dividend reinvestment plan ("DRIP") that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. If Saratoga Investment declares a dividend, its stockholders who have not "opted out" of the DRIP by the dividend record date will have their dividend automatically reinvested into additional shares of its common stock. For more information, see the "Stock Information" section of the Company's investor relations website.

Share Repurchase Plan

On September 24, 2014, Saratoga Investment announced the approval of an open market share repurchase plan that allows the Company 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.

2014 Annual Meeting of Stockholders

At Saratoga Investment's Annual Meeting of Stockholders held September 30, 2014, Messrs. Michael J. Grisius and G. Cabell Williams were elected to serve on the Board until the 2017 Annual Meeting of Stockholders. Also approved at the meeting was the proposal to reauthorize the Company to issue its common stock at an offering price per share not less than 85% of the Company's then current NAV per share.

2015 Fiscal Second Quarter Conference Call/Webcast Information

When: Wednesday, October 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 Wednesday, October 15, 2014 through 11:59 p.m. ET on Tuesday, October 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: 11687517.

Webcast: Interested parties may access a simultaneous webcast of the call and find the Q2 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 August 31, 2014 will be filed on October 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 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	
	August 31, 2014	February 28, 2014
	<small>(unaudited)</small>	
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$215,422,798 and \$185,266,607, respectively)	\$ 216,229,627	\$ 186,275,106
Control investments (cost of \$16,555,808 and \$16,555,808 respectively)	20,090,075	19,569,596
Total investments at fair value (amortized cost of \$231,978,606 and \$201,822,415 respectively)	236,319,702	205,844,702

Cash and cash equivalents	271,378	3,293,898
Cash and cash equivalents, reserve accounts	3,215,671	3,293,113
Interest receivable, (net of reserve of \$184,818 and \$150,058, respectively)	3,314,407	2,571,853
Deferred debt financing costs, net	3,879,035	4,008,704
Management fee receivable	167,031	150,106
Other assets	62,769	14,461
Total assets	<u>\$ 247,229,993</u>	<u>\$ 219,176,837</u>
LIABILITIES		
Revolving credit facility	\$ 8,900,000	\$ -
SBA debentures payable	64,000,000	50,000,000
Notes payable	48,300,000	48,300,000
Management and incentive fees payable	4,221,591	3,856,962
Accounts payable and accrued expenses	536,355	824,568
Interest and debt fees payable	1,036,073	873,135
Due to manager	418,154	398,154
Total liabilities	<u>\$ 127,412,173</u>	<u>\$ 104,252,819</u>
Commitments and contingencies		
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	(25,494,426)	(29,627,578)
Accumulated net realized loss from investments and derivatives	(43,885,384)	(44,327,225)
Net unrealized appreciation on investments and derivatives	4,341,096	4,022,287
Total Net Assets	<u>119,817,820</u>	<u>114,924,018</u>
Total liabilities and Net Assets	<u>\$ 247,229,993</u>	<u>\$ 219,176,837</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.27</u>	<u>\$ 21.36</u>

Saratoga Investment Corp.

Consolidated Statements of Operations

(unaudited)

	For the three months ended August 31		For the six months ended August 31	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest from investments				
Non-control/Non-affiliate investments	\$ 5,047,571	\$ 3,385,362	\$ 9,755,465	\$ 7,254,826
Payment-in-kind interest income from Non-control/Non-affiliate investments	329,614	296,802	582,542	472,923
Control investments	660,031	1,109,535	1,301,369	2,235,539
Total interest income	6,037,216	4,791,699	11,639,376	9,963,288
Interest from cash and cash equivalents	1,120	3,959	1,714	5,865
Management fee income	375,459	480,750	767,493	978,841
Other income	61,495	111,300	210,830	457,476
Total investment income	<u>6,475,290</u>	<u>5,387,708</u>	<u>12,619,413</u>	<u>11,405,470</u>
EXPENSES				
Interest and debt financing expenses	1,809,516	1,603,581	3,597,103	2,731,436
Base management fees	1,037,186	811,106	2,005,665	1,547,822
Professional fees	275,933	235,191	711,307	566,255
Administrator expenses	250,000	250,000	500,000	500,000
Incentive management fees	789,714	(39,770)	1,170,617	781,352
Insurance	84,127	119,234	168,614	239,229
Directors fees and expenses	55,586	45,000	108,761	96,000
General & administrative	100,568	91,425	224,194	189,786
Other expense	-	75	-	12,035
Total expenses	<u>4,402,630</u>	<u>3,115,842</u>	<u>8,486,261</u>	<u>6,663,915</u>
NET INVESTMENT INCOME	<u>2,072,660</u>	<u>2,271,866</u>	<u>4,133,152</u>	<u>4,741,555</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain from investments	360,161	545,642	441,841	1,074,942
Net unrealized appreciation (depreciation) on investments	703,506	(2,858,805)	318,809	(2,057,943)
Net gain/(loss) on investments	<u>1,063,667</u>	<u>(2,313,163)</u>	<u>760,650</u>	<u>(983,001)</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 3,136,327</u>	<u>\$ (41,297)</u>	<u>\$ 4,893,802</u>	<u>\$ 3,758,554</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	\$ 0.58	\$ (0.01)	\$ 0.91	\$ 0.79
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,379,616	4,730,116	5,379,616	4,730,116

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 August 31, 2014 and 2013.

	For the three months ended August 31	
	2014	2013
Net Investment Income	\$ 2,072,660	\$ 2,271,866
Changes in accrued capital gains incentive fee expense/reversal	217,006	(162,742)
Adjusted net investment income	2,289,666	2,109,124
Net investment income yield	7.0%	8.1%
Changes in accrued capital gains incentive fee expense/reversal	0.7%	(0.6)%
Adjusted net investment income yield ⁽¹⁾	7.7%	7.5%
Net investment income per share	\$ 0.39	\$ 0.48
Changes in accrued capital gains incentive fee expense/reversal	0.04	(0.03)
Adjusted net investment income per share ⁽²⁾	0.43	0.45

(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.

SOURCE Saratoga Investment Corp.

News Provided by Acquire Media