

Saratoga Investment Corp. Announces Fiscal Third Quarter 2015 Financial Results

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

Summary Financial Information

- Net investment income on a weighted average per share basis of \$0.50 for the quarter ended November 30, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income per share was \$0.53, an increase of \$0.10 per share since last quarter.
- Net investment income of \$2.7 million for the quarter ended November 30, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.8 million.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 9.0% for the quarter ended November 30, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 9.4% (including dividend income), an increase from 7.7% since last quarter.
- Return on equity was 11.5% for the quarter ended November 30, 2014, an increase from 10.6% since last quarter.
- Earnings per share was \$0.64, an increase from \$0.58 since last quarter.
- NAV was \$122.3 million as of November 30, 2014, a \$7.4 million increase from an NAV of \$114.9 million as of February 28, 2014.
- NAV per share was \$22.74 as of November 30, 2014, compared to \$21.36 as of February 28, 2014.
- Investment portfolio activity for the quarter ended November 30, 2014 -
 - Cost of investments made during the period: \$30.6 million
 - Principal repayments during the period: \$26.8 million

Operating Results

For the quarter ended November 30, 2014, Saratoga Investment reported net investment income of \$2.7 million, or \$0.50 on a weighted average per share basis, and a net gain on investments of \$0.8 million, or \$0.14 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.5 million, or \$0.64 on a weighted average per share basis. The \$0.8 million net gain on investments was comprised of \$2.8 million in net realized appreciation on investments offset by \$2.0 million of net unrealized depreciation on investments. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.8 million, and the net investment income per share was \$0.53.

This compared to the quarter ended November 30, 2013 with net investment income of \$2.9 million, or \$0.60 on a weighted average per share basis, and a net loss on investments of \$1.6 million, or \$0.34 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$1.3 million, or \$0.26 on a weighted average per share basis. The \$1.6 million net loss on investments was comprised of \$1.7 million in net unrealized depreciation on investments offset by \$82,882 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 \$0.43 last year.

The increase in adjusted net investment income from \$2.1 million for the quarter ended November 30, 2013 to \$2.8 million for the quarter ended November 30, 2014 is primarily due to higher investment income, which has increased from \$5.8 million last year to \$7.3 million for the same quarter this year. This increased investment income was generated from an investment base that has grown by 21% since last year. The adjusted net investment income 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. Included in net investment income for the quarter this year, was \$0.4 million in dividend income. Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, decreased from \$1.0 million for the quarter ended November 30, 2013 to \$0.8 million for the quarter ended November 30, 2014.

Net Investment Income Yield was 9.0% for the quarter ended November 30, 2014. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 9.4% for the quarter ended November 30, 2014, as compared to 7.5% for the quarter ended November 30, 2013. Return on equity was 11.5% for the quarter ended November 30, 2014.

NAV was \$122.3 million as of November 30, 2014, a \$7.4 million increase from a NAV of \$114.9 million as of February 28, 2014. NAV per share was \$22.74 as of November 30, 2014, compared to \$21.36 as of February 28, 2014.

"During this quarter, we achieved a number of important corporate milestones that demonstrate the effectiveness of our long-term commitment to improving our financial strength by expanding the size and quality of our assets under management," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "Our continued growth in assets and financial strength is reflected by increases in assets, net investment income, yield and return on equity, and our ability to commence the payment of recurring quarterly dividends to shareholders. In addition, both the expansion of our management team and the continued improvement in the cost and flexibility of our corporate financing resources the past couple of quarters, position us well to support our existing portfolio and compete effectively for new, high-quality investments."

Michael J. Grisius, President and Chief Investment Officer, added, "We continue to scale our abilities to support a growing asset base at a lower cost of capital, while ensuring highest quality deal execution. During the third quarter of 2015, we continued to invest in new, high quality credits by employing strong investment discipline and judgment when evaluating the credits in our pipeline. Excluding our CLO and equity-related investments, over 92% of our loan portfolio bears the highest quality rating that we designate."

Portfolio and Investment Activity

As of November 30, 2014, the fair value of Saratoga Investment's portfolio was \$241.2 million (excluding \$0.8 million in cash and cash equivalents), principally invested in 36 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 10.2% of syndicated loans, 50.0% of first lien term loans, 15.2% of second lien term loans, 10.3% of senior secured notes, 2.5% of unsecured notes, 8.0% of subordinated notes in a CLO and 3.8% of common equity.

During the quarter ended November 30, 2014, Saratoga Investment invested \$30.6 million in new or existing portfolio companies and had \$26.8 million in aggregate amount of exits and repayments, resulting in net investments of \$3.8 million for the quarter. The weighted average current yield on Saratoga Investment's portfolio for the three months ended November 30, 2014 was 11.9%, which was comprised of a weighted average current yield of 11.3% on first lien term loans, 11.3% on second lien term loans, 8.8% on senior secured notes, 14.2% on unsecured notes, 27.6% on CLO subordinated notes and 6.4% on syndicated loans.

Liquidity and Capital Resources

As of November 30, 2014, Saratoga Investment had \$4.9 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 \$79.0 million outstanding of SBA debentures, \$48.3 million outstanding of Baby Bonds (fair value of \$49.5 million) and an aggregate of \$0.8 million in cash and cash equivalents.

With \$40.1 million undrawn under the Madison Capital Funding credit facility and the \$71.0 million additional borrowing capacity at the SBIC subsidiary, Saratoga Investment has a total of \$111.1 million of undrawn borrowing capacity available as of November 30, 2014.

In addition, in December Saratoga Investment recently received a notice of effectiveness on a Form N-2 shelf registration statement.

Dividend Policy and Declaration

On September 24, 2014, 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. The Company will pay a quarterly dividend of \$0.22 per share for the quarter ended November 30, 2014, payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015. In conjunction with the new dividend policy, Saratoga Investment 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.

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.

On November 28, 2014, Saratoga Investment paid a dividend of \$0.18 per share for the quarter ended August 31, 2014. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's DRIP. Based on shareholder elections, the dividend consisted of \$0.6 million in cash and 22,283 of newly issued shares of common stock.

2015 Fiscal Third Quarter Conference Call/Webcast Information

When: Thursday, January 15, 2015
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 Thursday, January 15, 2015 through 11:59 p.m. ET on Thursday, January 22, 2015 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 54484365.

Webcast: Interested parties may access a simultaneous webcast of the call and find the Q3 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 November 30, 2014 will be filed on January 14, 2015 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

	<u>As of</u>	
	<u>November 30, 2014</u>	<u>February 28, 2014</u>
	(unaudited)	
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$222,452,952 and \$185,266,607, respectively)	\$ 221,740,190	\$ 186,275,106
Control investments (cost of \$16,384,467 and \$16,555,808 respectively)	19,433,253	19,569,596
Total investments at fair value (amortized cost of \$238,837,419 and \$201,822,415 respectively)	<u>241,173,443</u>	<u>205,844,702</u>
Cash and cash equivalents	809,245	3,293,898
Cash and cash equivalents, reserve accounts	10,738,075	3,293,113
Interest receivable, (net of reserve of \$411,334 and \$150,058, respectively)	3,170,976	2,571,853
Deferred debt financing costs, net	4,921,925	4,008,704
Management fee receivable	178,234	150,106
Other assets	8,583	14,461
Total assets	<u>\$ 261,000,481</u>	<u>\$ 219,176,837</u>
LIABILITIES		
Revolving credit facility	\$ 4,900,000	\$ -
SBA debentures payable	79,000,000	50,000,000
Notes payable	48,300,000	48,300,000
Dividend payable	320,189	-
Management and incentive fees payable	4,551,236	3,856,962
Accounts payable and accrued expenses	550,565	824,568
Interest and debt fees payable	725,301	873,135
Due to manager	337,433	398,154
Total liabilities	<u>\$ 138,684,724</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	(23,752,974)	(29,627,578)
Accumulated net realized loss from investments and derivatives	(41,123,827)	(44,327,225)
Net unrealized appreciation on investments and derivatives	2,336,024	4,022,287
Total Net Assets	<u>122,315,757</u>	<u>114,924,018</u>
Total liabilities and Net Assets	<u>\$ 261,000,481</u>	<u>\$ 219,176,837</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.74</u>	<u>\$ 21.36</u>

Saratoga Investment Corp.

Consolidated Statements of Operations

(unaudited)

	For the three months ended November 30		For the nine months ended November 30	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest from investments				
Non-control/Non-affiliate investments	\$ 5,038,877	\$ 4,279,445	\$ 14,794,342	\$ 11,534,271
Payment-in-kind interest income from Non-control/Non-affiliate investments	319,994	161,485	902,536	634,408
Control investments	694,641	556,291	1,996,010	2,791,830
Total interest income	6,053,512	4,997,221	17,692,888	14,960,509
Interest from cash and cash equivalents	1,024	1,316	2,738	7,181
Management fee income	383,012	421,198	1,150,505	1,400,039
Other income	867,409	381,480	1,078,239	838,956
Total investment income	7,304,957	5,801,215	19,924,370	17,206,685
EXPENSES				
Interest and debt financing expenses	1,869,176	1,611,221	5,466,279	4,342,657
Base management fees	1,087,734	876,345	3,093,399	2,424,167
Professional fees	225,776	312,992	937,083	879,247
Administrator expenses	250,000	250,000	750,000	750,000
Incentive management fees	851,806	(561,539)	2,022,423	219,813
Insurance	83,388	117,955	252,002	357,184
Directors fees and expenses	51,000	35,978	159,761	131,978
General & administrative	176,293	251,058	400,487	440,844
Other expense	-	9,172	-	21,207
Total expenses	4,595,173	2,903,182	13,081,434	9,567,097
NET INVESTMENT INCOME	2,709,784	2,898,033	6,842,936	7,639,588
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain from investments	2,761,558	82,882	3,203,399	1,157,824
Net unrealized depreciation on investments	(2,005,072)	(1,713,025)	(1,686,263)	(3,770,968)
Net gain/(loss) on investments	756,486	(1,630,143)	1,517,136	(2,613,144)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 3,466,270	\$ 1,267,890	\$ 8,360,072	\$ 5,026,444
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.64	\$ 0.26	\$ 1.55	\$ 1.05
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,379,616	4,851,451	5,379,616	4,770,267

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 November 30, 2014 and 2013.

	For the three months ended November 30	
	2014	2013
Net Investment Income	\$ 2,709,784	\$ 2,898,033
Changes in accrued capital gains incentive fee expense/reversal	139,248	(789,682)

Adjusted net investment income	2,849,032	2,108,351
Net investment income yield	9.0%	10.4%
Changes in accrued capital gains incentive fee expense/reversal	0.4%	(2.9)%
Adjusted net investment income yield ⁽¹⁾	9.4%	7.5%
Net investment income per share	\$ 0.50	\$ 0.60
Changes in accrued capital gains incentive fee expense/reversal	0.03	(0.17)
Adjusted net investment income per share ⁽²⁾	0.53	0.43

(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.

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/saratoga-investment-corp-announces-fiscal-third-quarter-2015-financial-results-300020874.html>

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