

# Saratoga Investment Corp.

**Fiscal Second Quarter 2021  
Shareholder Presentation**

October 8, 2020



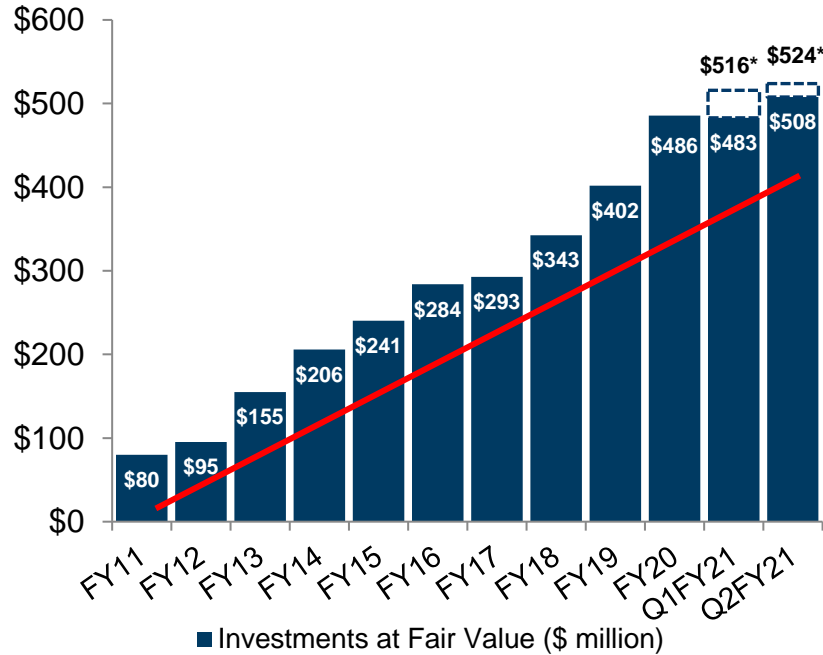
# Continued Strong Performance in Q2

## Fiscal Second Quarter 2021 Highlights:

- Continued high quality portfolio and strong performance
  - Investment quality remains strong
    - 92.1% of loan investments with highest internal rating as of August 31, 2020, up from 90% at Q1
    - Valuations reflect impact of changes to market spreads, EBITDA multiples and/or revised portfolio company performance related to COVID-19
  - Return on equity of 14.3% for LTM Q2, beating BDC industry median of -8.5% and highest ROE in industry
    - Unrealized appreciation of \$16.6m reflects recovery of over half of Q1 reduction in fair value
  - Gross Unlevered IRR of 16.6 % on total realizations of \$505.9 million
- Consistent strong long-term originations contribute to growing assets under management
  - AUM up 5.2% since last quarter
  - Net originations of \$8.5 million
- Base of liquidity and capital solid as of August 31, 2020
  - Regulatory leverage of 376% versus 150% requirement
  - New \$43.1m 7.25% 5-year baby bond trading as “SAK” issued in Q2
  - Madison credit facility commitment extended by twelve months, no change to September 2025 maturity
- Increasing dividend by \$0.01 to \$0.41 per share for Q2 – to be prospectively reassessed on a quarterly basis
  - Continued focus on retaining liquidity and preserving NAV due to economic uncertainty and to support existing portfolio companies
- Key performance indicators of Q2 remain strong in COVID-19 environment as compared to last year
  - Adjusted NII of \$5.5 million is down 2.5%, Adjusted NII per share of 49c is down from 68c on 34.5% increased shares, LTM ROE of 14.3% and NAV per share of \$26.68 is up 9.0% or \$2.21 per share

# Continued Asset Growth and Strong Credit Quality

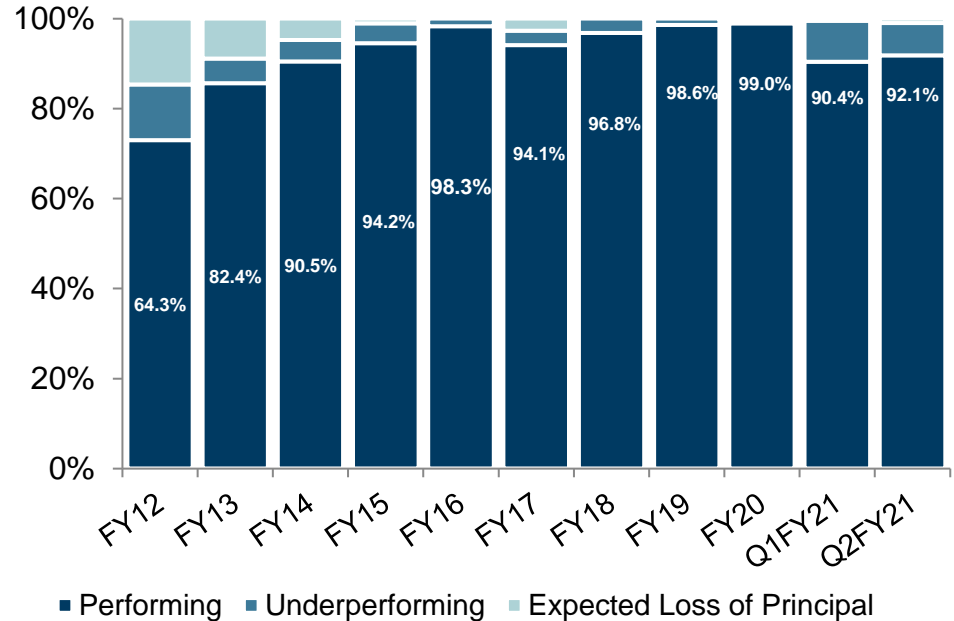
## Asset Base Expansion Trend



**Fair value of AUM increased 5% from both year-end and last quarter – more than half of the Q1FY21 unrealized reduction in fair value was recovered this quarter.**

\*Cost increased to \$524m, up 8% since year-end and up 2% from last quarter

## Overall Credit Quality Remains Strong



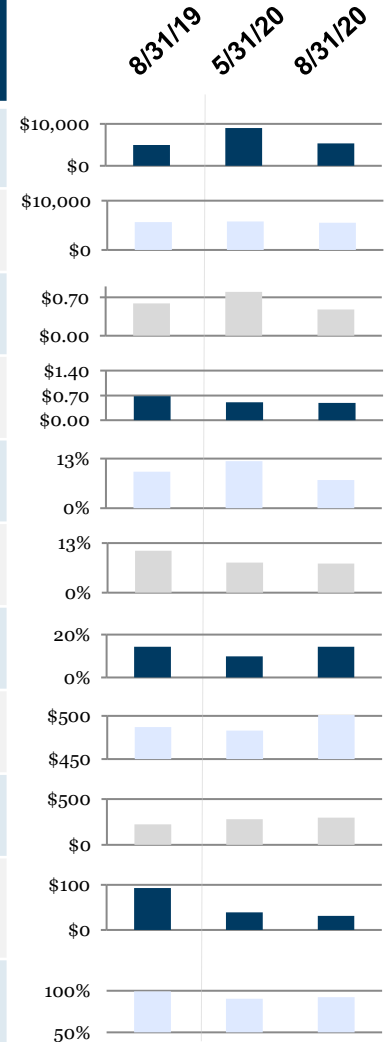
**Over 92% of our SAR loan investments hold our highest internal rating; three on non-accrual at quarter-end\***

\* Excludes our investment in our CLO, and our equity and written-off legacy investments.

# Q2 FY21: Strong Financial Foundation

## Key Performance Metrics for the Fiscal Quarter

For the quarter ended and as of (\$ in millions except per share)	Aug 31, 2019	May 31, 2020	Aug 31, 2020
Net investment income	\$4,956	\$9,018	\$5,335
Adjusted net investment income*	\$5,633	\$5,768	\$5,491
Net investment income per share	\$0.59	\$0.80	\$0.48
Adjusted net investment income per share*	\$0.68	\$0.51	\$0.49
Net investment income yield	9.6%	12.3%	7.4%
Adjusted net investment income yield*	11.0%	7.9%	7.6%
Return on Equity – Last Twelve Months	14.3%	9.9%	14.3%
Fair value of investment portfolio	\$486.9	\$482.9	\$508.1
Total net assets	\$224.3	\$281.6	\$298.2
Investments in new/existing portfolio companies	\$93.2	\$39.0	\$31.7
Loan Investments held in “Performing” credit ratings	99.0%	90.4%	92.1%

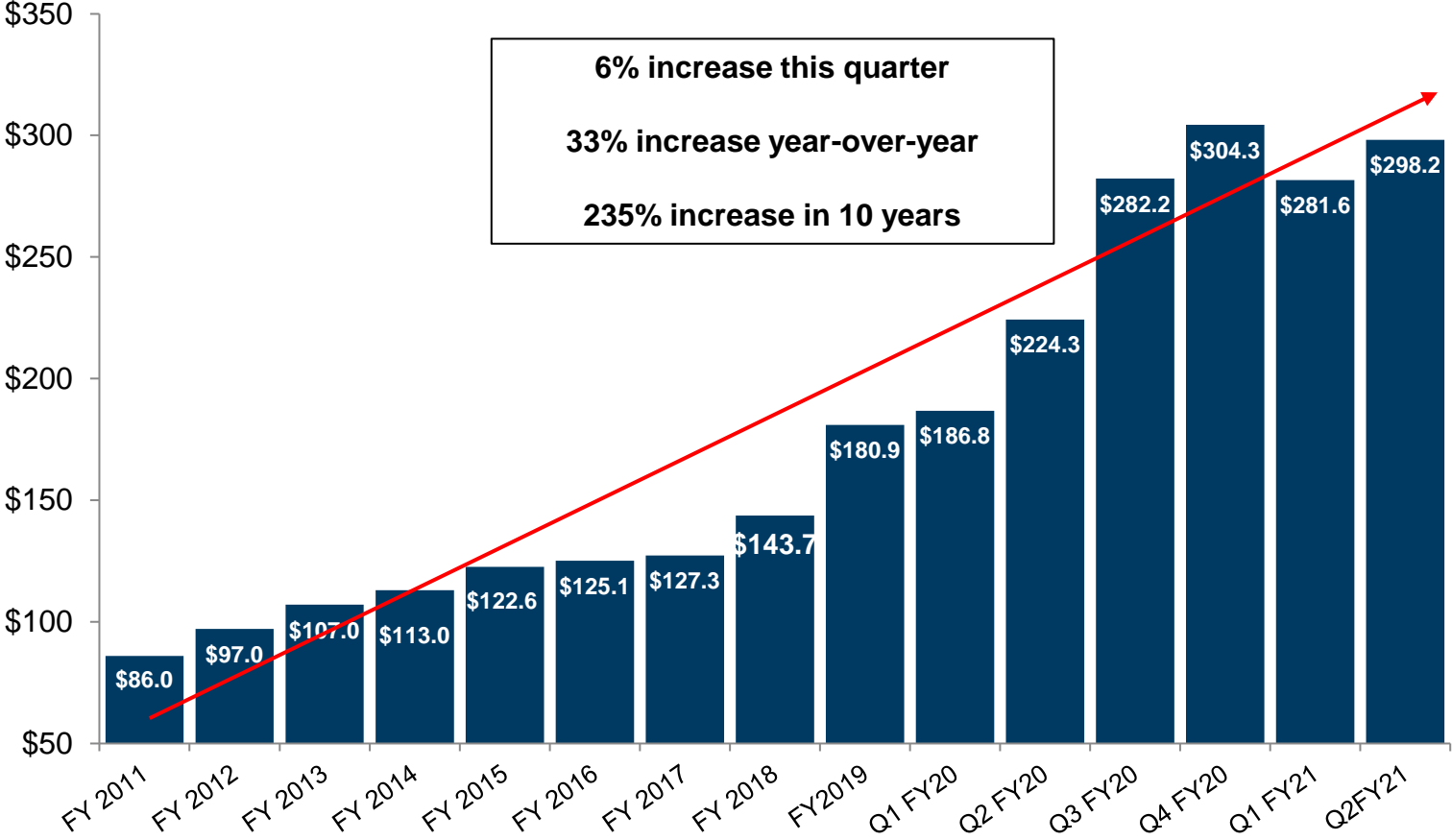


\*Adjusted for accrued capital gains incentive fee expense, reconciliation to GAAP net investment income included in our fiscal second quarter 2021 earnings release.

# Long-Term Accretive NAV Growth

## Net Asset Value (FY11 to Q2 FY21)

in millions

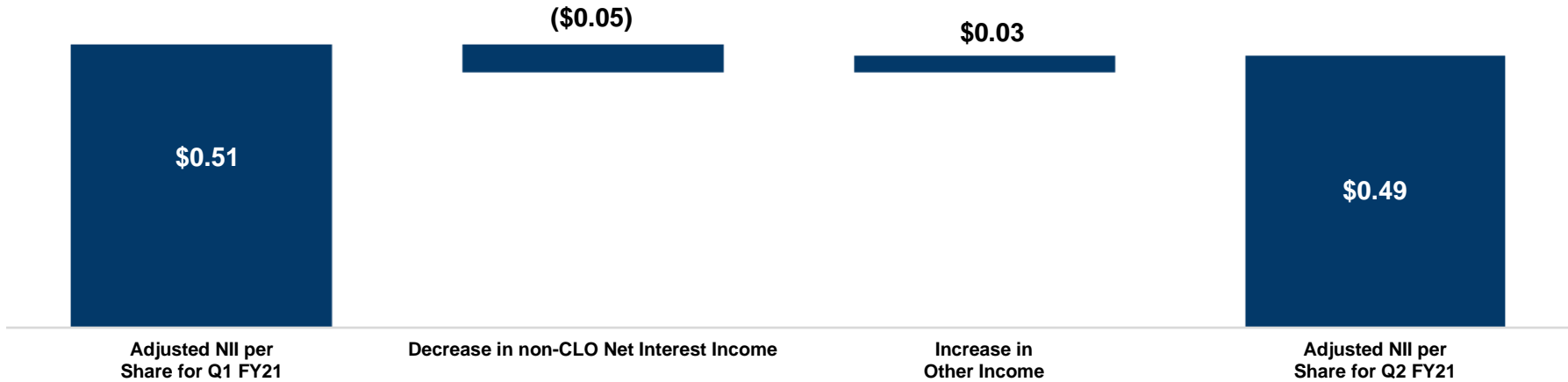


**6% increase this quarter**  
**33% increase year-over-year**  
**235% increase in 10 years**

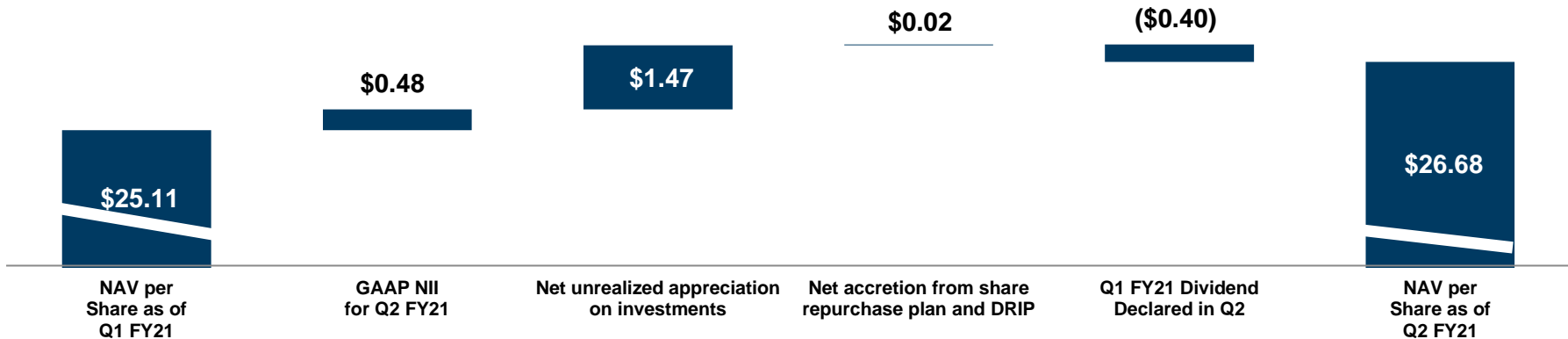
# Quarterly Reconciliation of NII and NAV per Share

- Impacts are shown net of incentive fee

## Reconciliation of Quarterly Adjusted NII per Share



## Reconciliation of Quarterly NAV per Share



# Dry Powder Remains Available

(As of Aug 31, 2020)		Total Borrowing Capacity	Outstanding	Available Liquidity	Remaining Maturity Period	Fixed / Floating Rate
Secured Revolving Credit Facility		\$45.0 million	\$0.0 million	\$45.0 million	4 Years	Floating
SBA Debentures	SBIC I	\$150.0 million	\$150.0 million	\$0.0 million	3-9 years	Fixed
	SBIC II	\$175.0 million	\$20.0 million	\$155.0 million	10 years	Fixed
Publicly-Traded Notes (at par value)	SAF	\$60.0 million	\$60.0 million	\$0.0 million	5 Years	Fixed
	SAK	\$43.1 million	\$43.1 million	\$0.0 million	5 Years	Fixed
Private Notes (at par value)		\$5.0 million	\$5.0 million	\$0.0 million	5 Years	Fixed
Cash and Cash Equivalents		\$65.4 million	\$0.0 million	\$65.4 million	-	-
<b>Total Available Liquidity (at quarter-end):</b>				<b>\$ 265.4 million</b>		

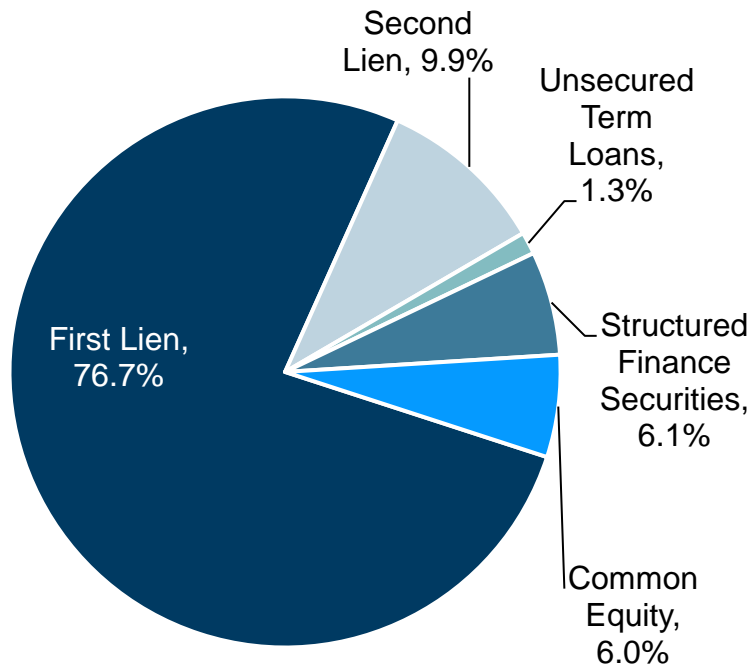
**Ability to grow AUM by 52% without any new external financing as of Aug 31, 2020**

- \$110m of SBIC II debentures currently available and undrawn on \$65m of capital for new and existing SBIC II investments. SBIC II debentures are generally not available to support existing BDC or SBIC I investments.

# Portfolio Composition and Yield

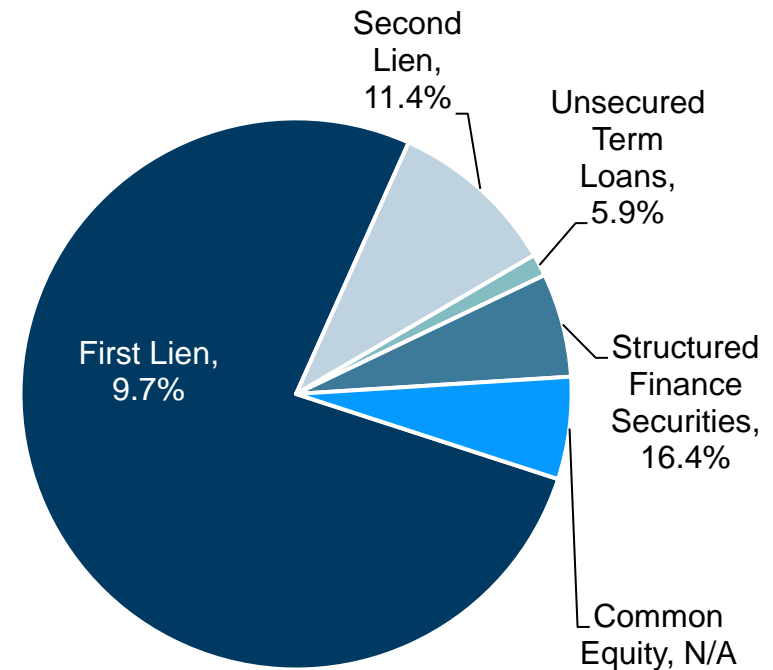
## Portfolio Composition – \$508.1 m

(Based on Fair Values  
as of Aug 31, 2020)



## Portfolio Yield – 9.6%

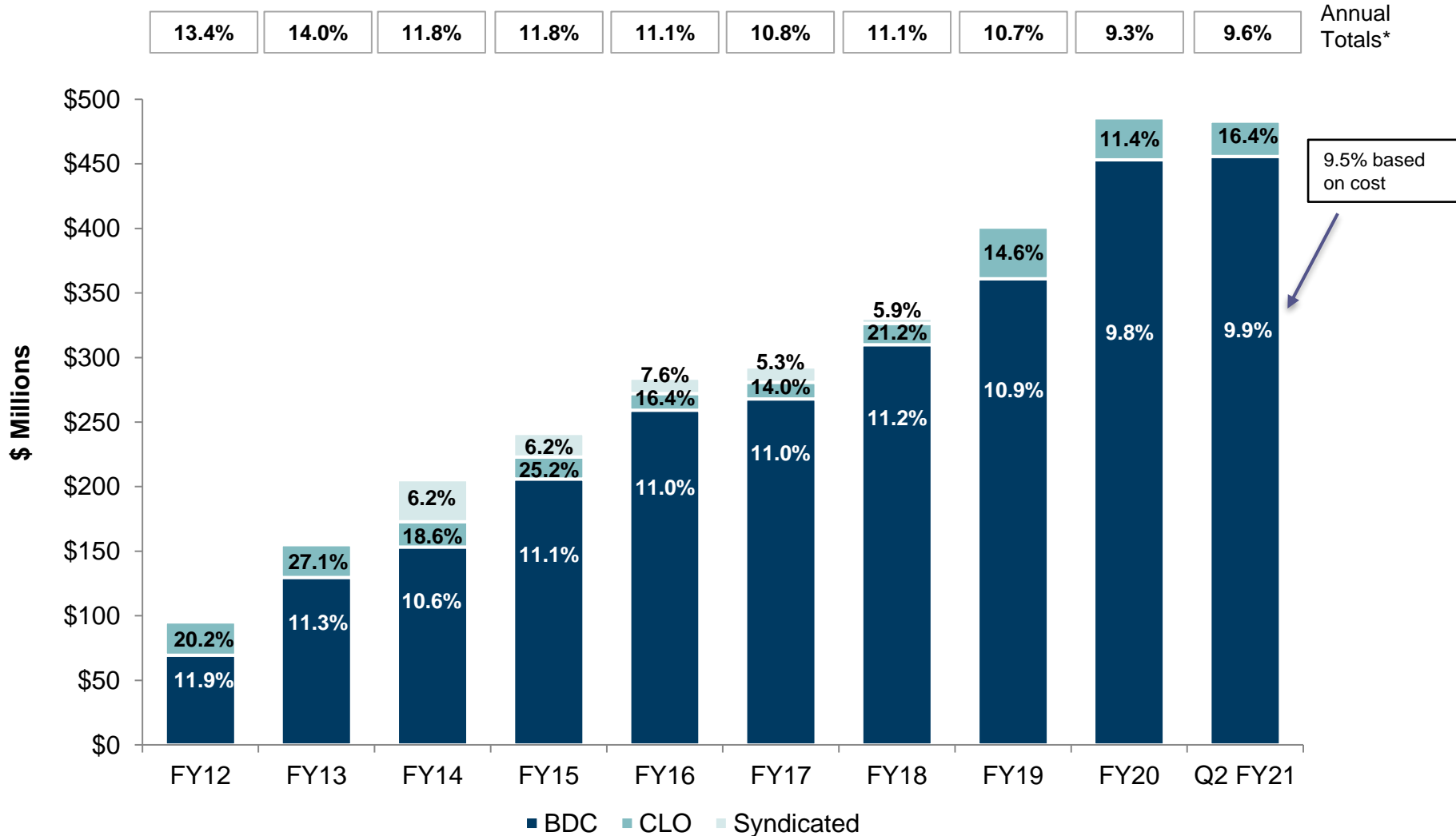
(Weighted Average  
Current Yield of Existing Portfolio)





# Yield of BDC Remains Healthy

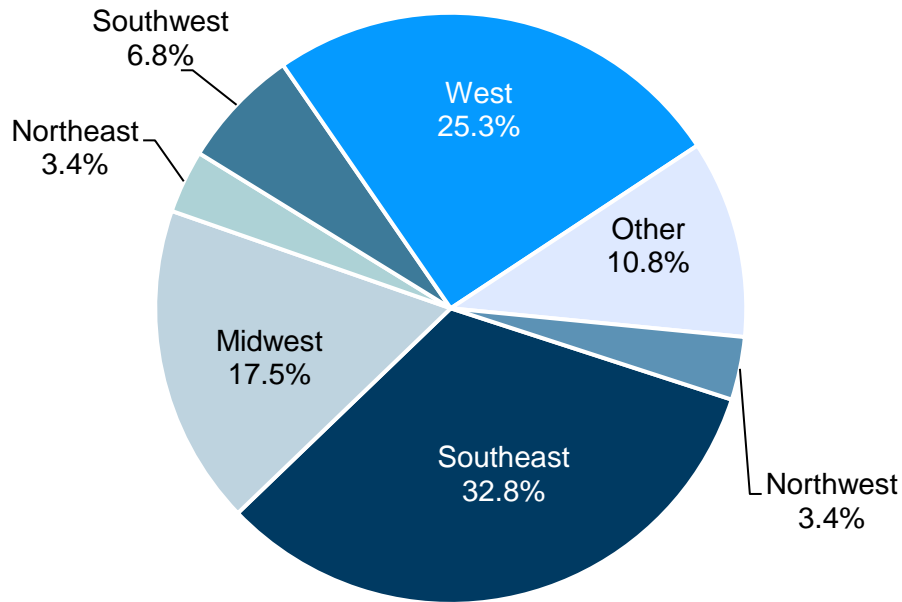
## Weighted Average Current Yields



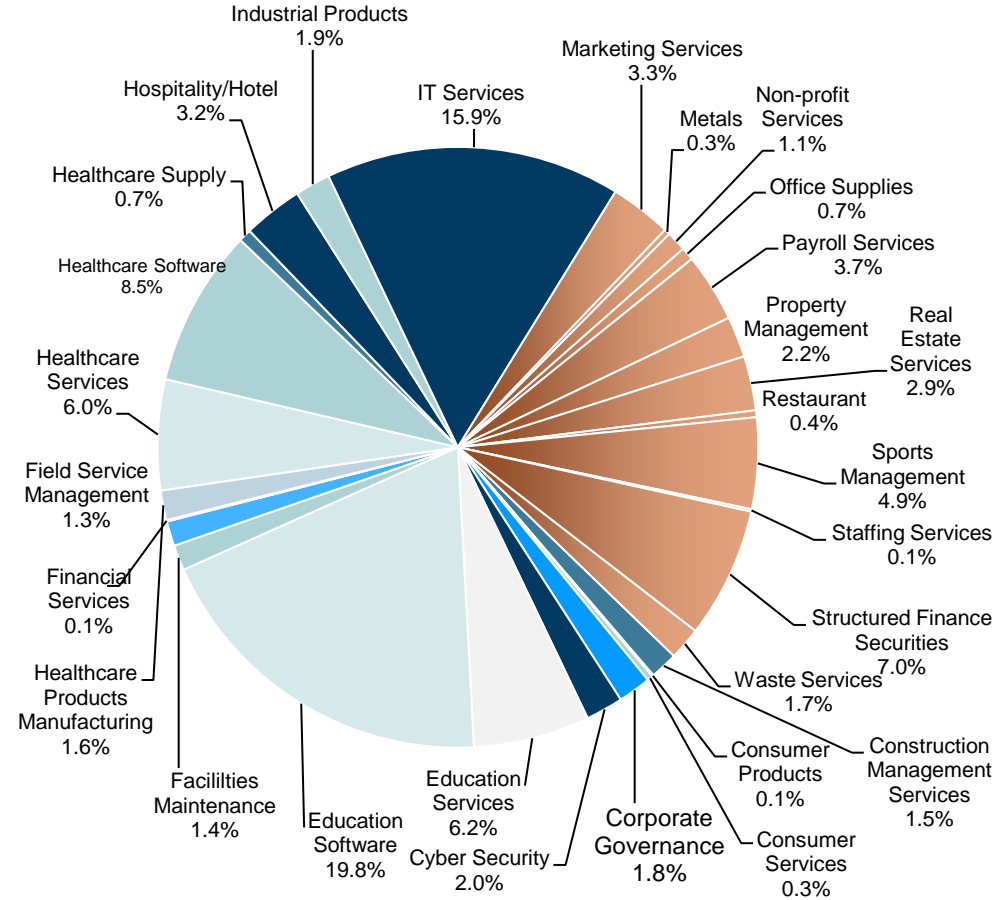
\* Annual total yields on full portfolio. BDC, CLO and Syndicated yields are annualized and calculated on fair value of interest earning assets.

# Diversified Across Industry and Geography

Investments diversified geographically

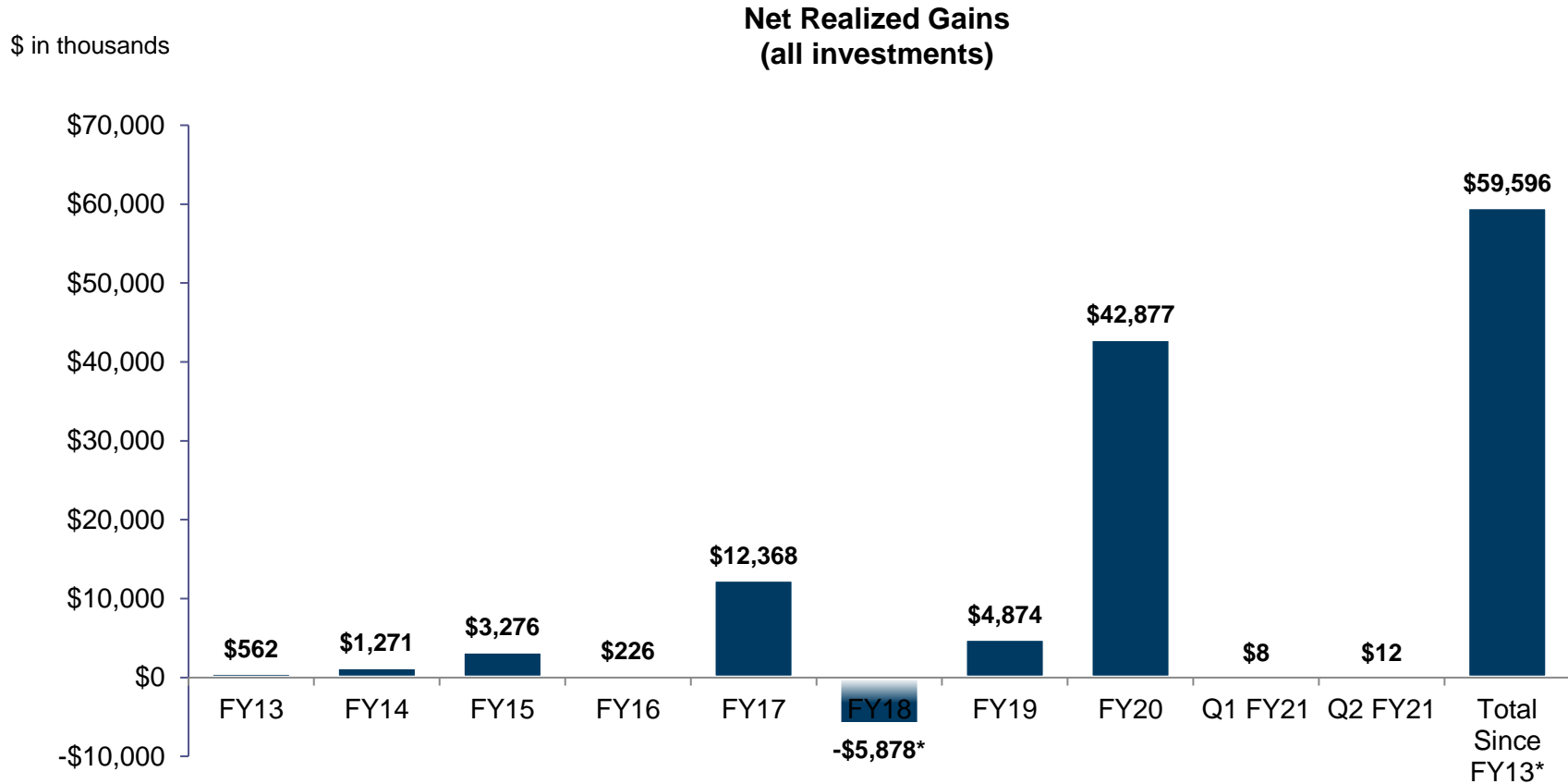


Investments across 29 distinct industries



# Net Realized Gains Help Protect Shareholder Capital

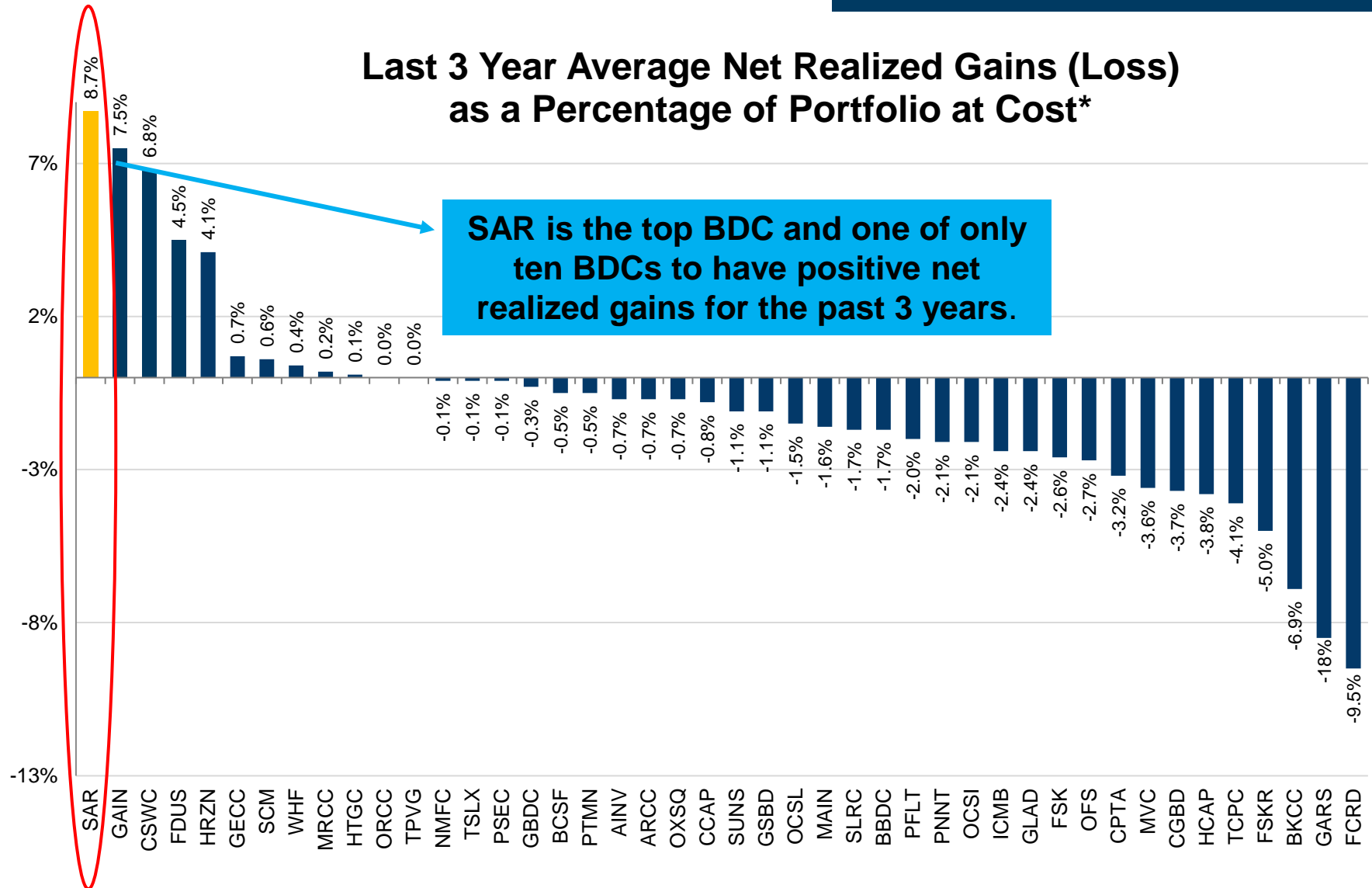
## Cumulative net realized gains reflect portfolio credit quality



\* Reflects realized loss on My Alarm Center investment of \$7.7m less \$1.8m in other realized gains in FY18.  
Reflects investments under Saratoga management

# Strong Net Realized Gains Flow from Disciplined Underwriting

## Last 3 Year Average Net Realized Gains (Loss) as a Percentage of Portfolio at Cost\*

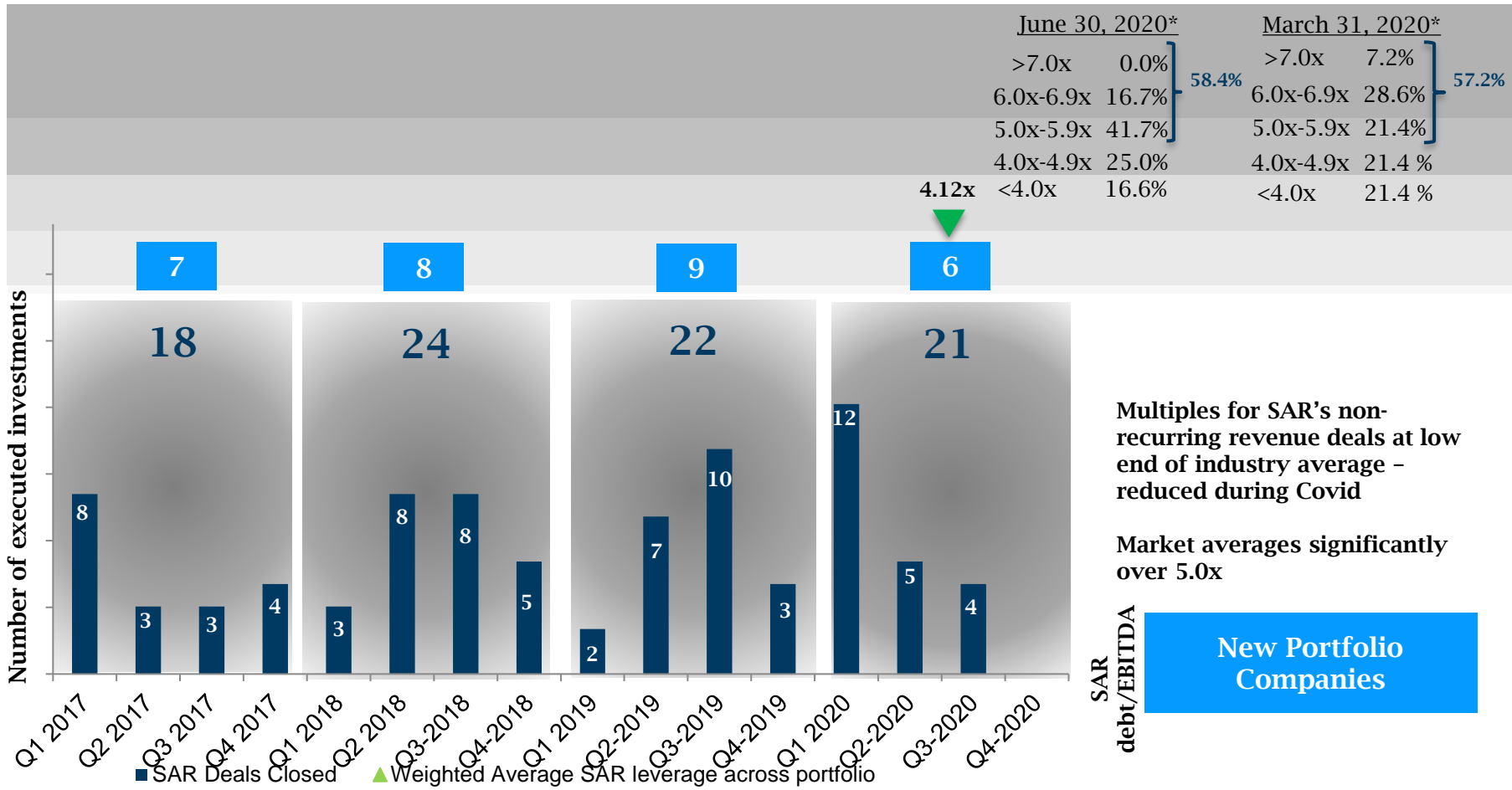


Source: Ladenburg Thalmann - calculated as three year average realized gains as proportion of average cost

# Exercising Disciplined Investment Judgment While Growing Origination Pace

## SAR Debt Multiples/Deals Closed (2017-2020)

Portfolio leverage with non-recurring revenue underwriting is 4.12x<sup>1</sup>



Multiples for SAR's non-recurring revenue deals at low end of industry average - reduced during Covid

Market averages significantly over 5.0x

SAR debt/EBITDA

**New Portfolio Companies**

\*Calendar quarters, not fiscal

<sup>1</sup>Excludes 19 loans underwritten using recurring revenue metrics. These recurring revenue loans would have significantly different portfolio leverage statistics.

# Pipeline Growth Interrupted by COVID-19

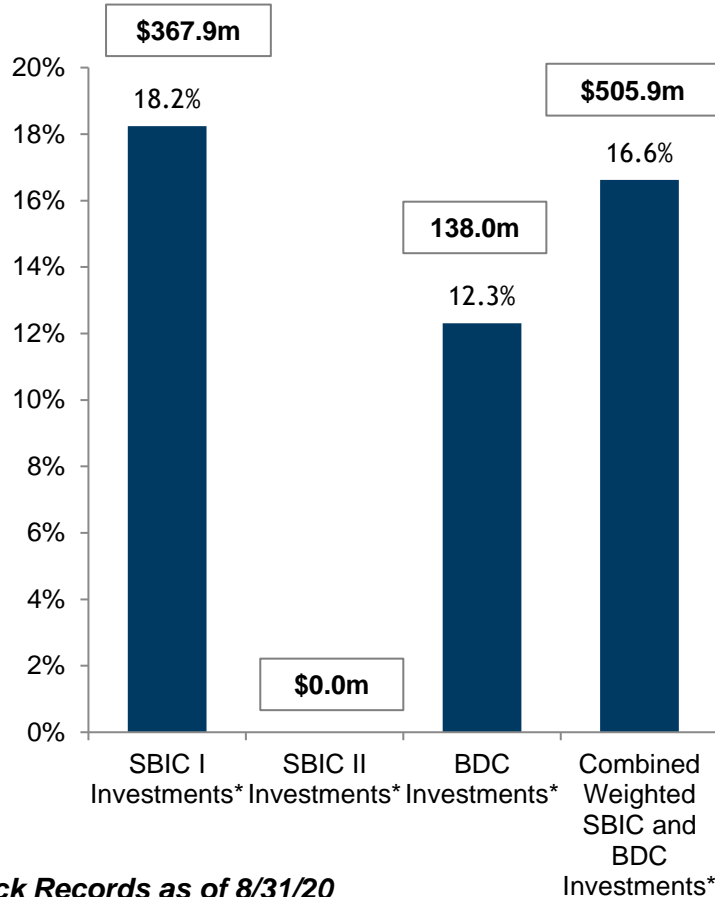
New business opportunities severely impacted by COVID-19 but seeing some rebound in inquiries

Calendar*	2017	Δ	2018	Δ	2019	Δ	LTM Q3 2020	
<b>Deals Sourced</b>	722	17%	846	2%	863	-15%	736	<ul style="list-style-type: none"> <li>60% of deal flow from private equity sponsors</li> <li>40% of deals from private companies without institutional ownership</li> <li>Saratoga maintains investment discipline which is demonstrated by passing on ~36 deals a year that other firms close</li> </ul>
<b>Term Sheets</b>	49	49%	73	5%	77	-55%	35	<ul style="list-style-type: none"> <li>Saratoga currently issues an average of 9 term sheets per quarter, or 5% of deals reviewed</li> <li>~60% of term sheets are issued for transactions involving a private equity sponsor</li> </ul>
<b>Deals Executed (new and follow-on)</b>	18	33%	24	-8%	22	9%	24	<ul style="list-style-type: none"> <li>Includes follow-on investments which reliably augment portfolio growth</li> </ul>
<b>New Portfolio Companies</b>	7		8		9		7	<ul style="list-style-type: none"> <li>Seven new portfolio companies during LTM Q3 2020</li> <li>Saratoga new portfolio company Investments average ~1% of deals reviewed</li> </ul>

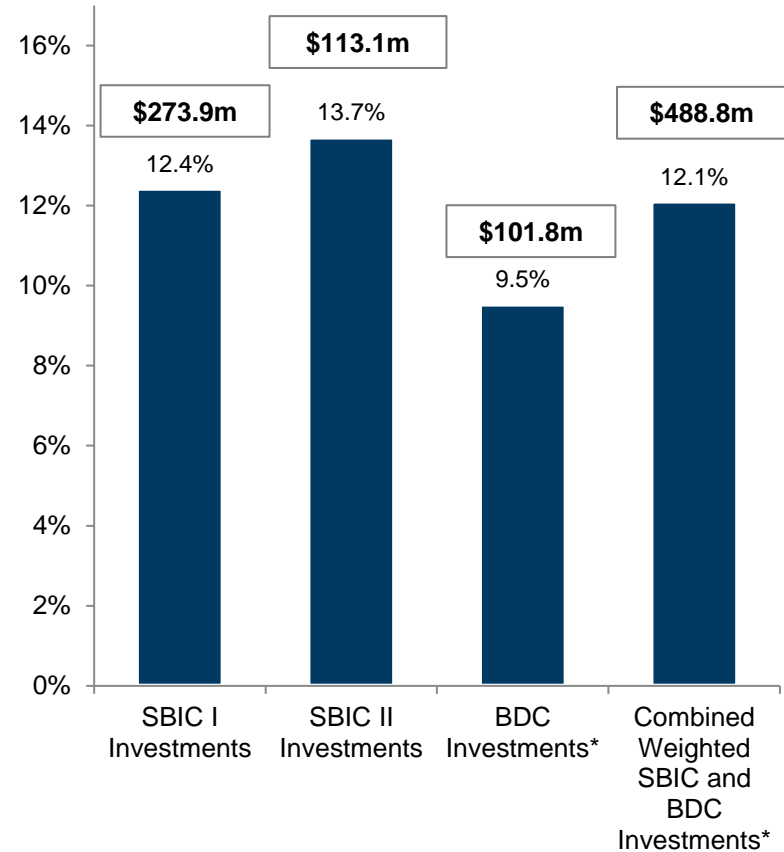
\*Calendar quarters, not fiscal quarters.

# Demonstrated Strong Track Record

## Realized Investments (Gross Unlevered IRR%)



## Unrealized Investments <sup>1</sup> (Gross Unlevered IRR%)

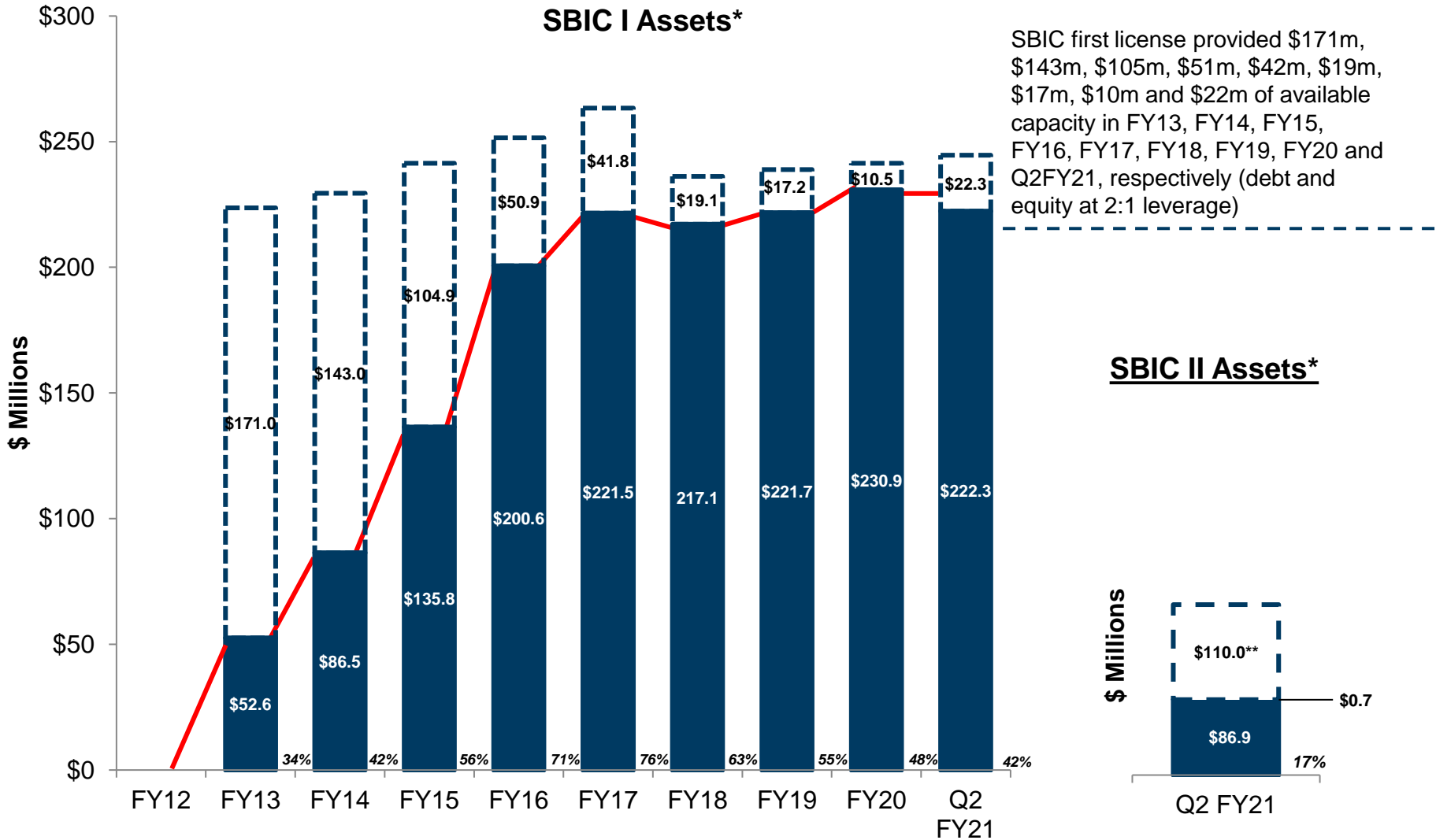


### Track Records as of 8/31/20

<sup>1</sup> IRRs for unrealized investments include fair value and accrued interest as of 8/31/20

\* SBIC I and SBIC II investments represent all investments in the specific funds. BDC investments exclude investments existing when Saratoga management took over, and corporate financing investments.

# SBIC I Fully Funded - SBIC II Mostly Available



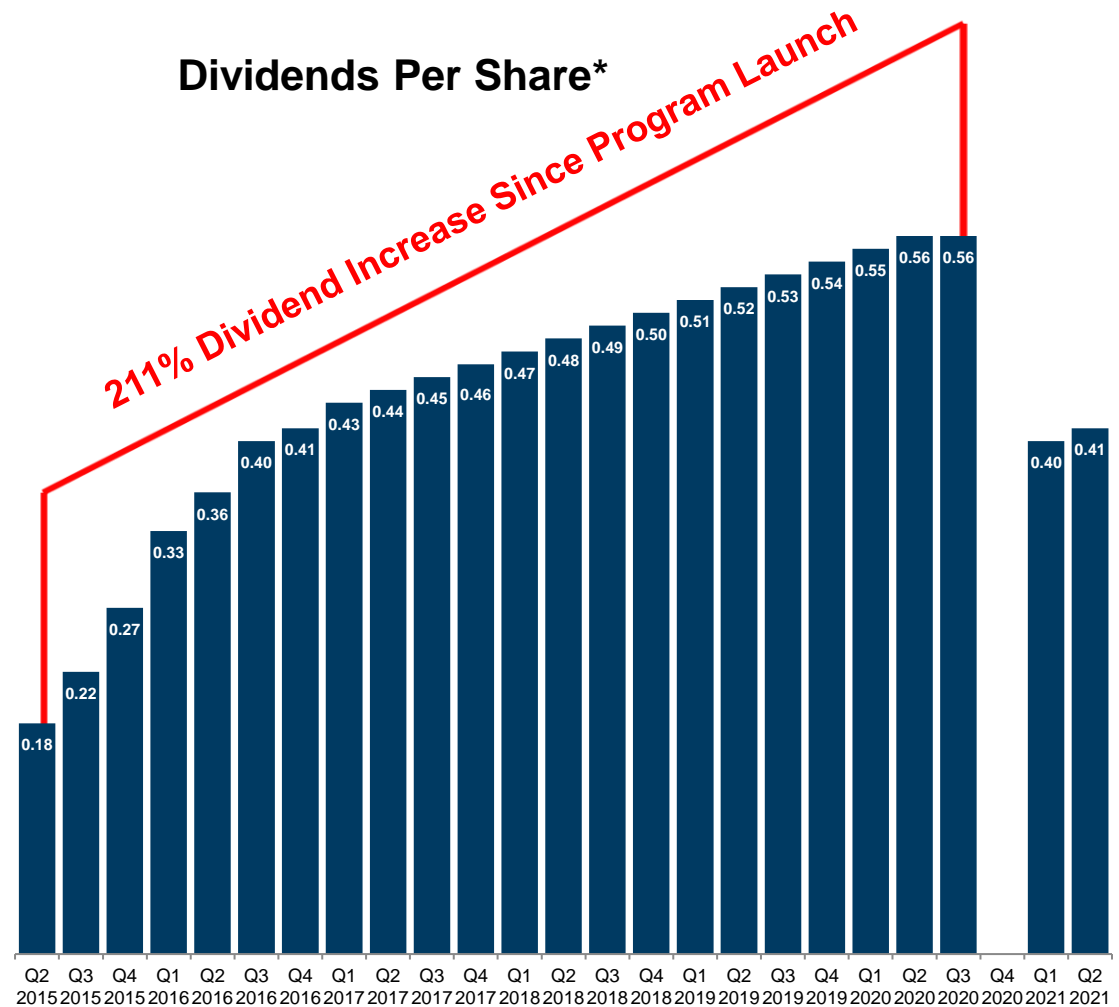
\* At Fair Value for SBIC I and II assets, except for Q2 FY21 which is at cost

\*\* Represents current debenture capacity based on \$65.0m capital in SBIC II



# Long-Term Dividend Growth

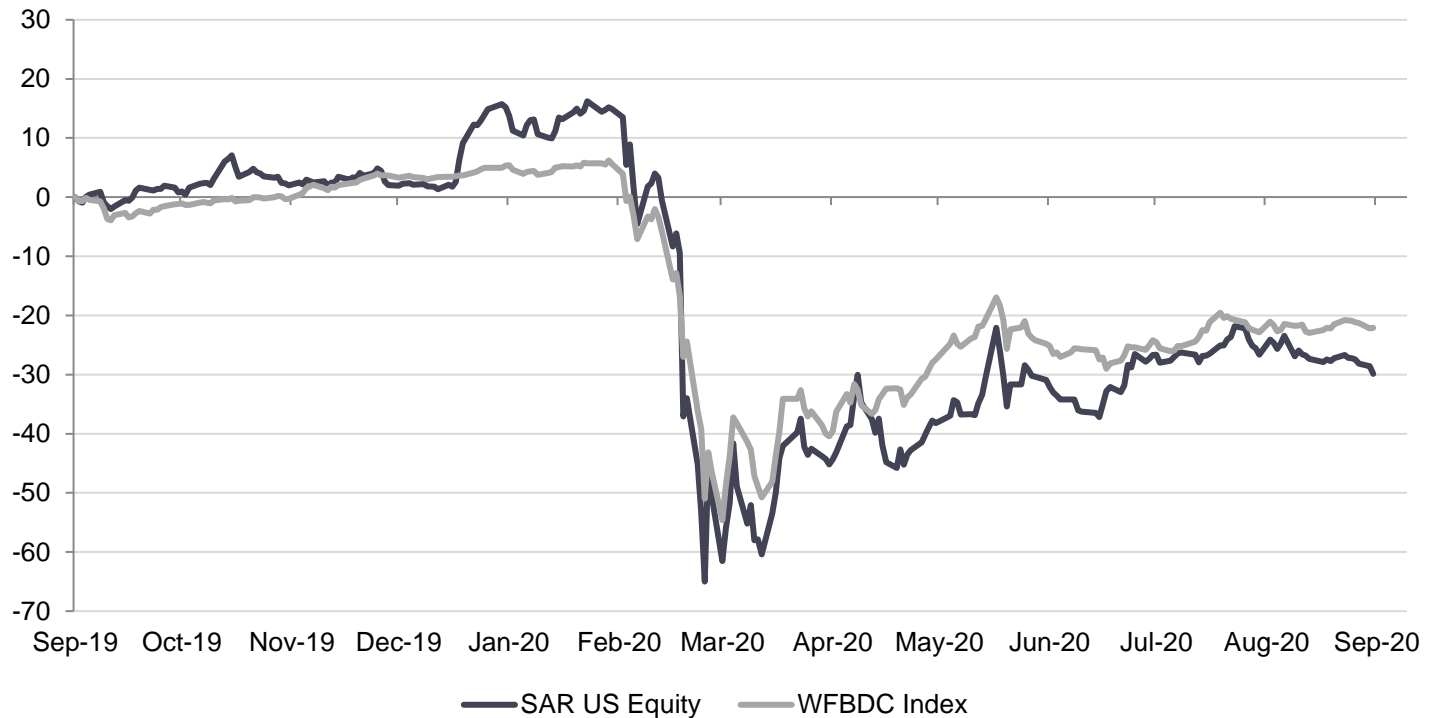
- Established dividend policy to pay regular quarterly cash dividends to stockholders pursuant to dividend reinvestment plan (“DRIP”) in 2014
- Increased dividend by 211% since program launch until year-end deferral
- Q2 FY21 dividend of \$0.41 declared for the quarter ended Aug 31, 2020, an increase of \$0.01



\*Excludes special dividend of \$0.20 per share paid on September 5, 2016

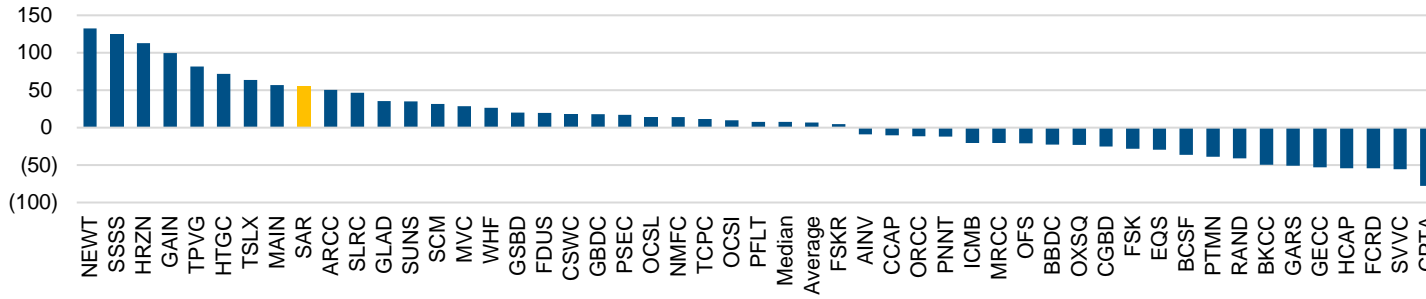
# SAR LTM Total Return In Line with BDC Index

**LTM Total Return (%)**  
(Sept 2019 to Sept 2020)  
**SAR -30.0% v BDC Index -22.1%**

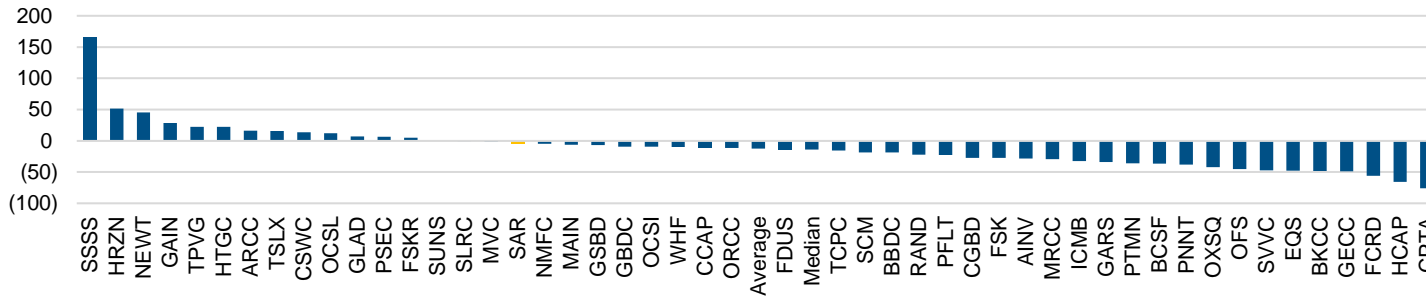


# Long-Term Performance at Top of BDC Industry

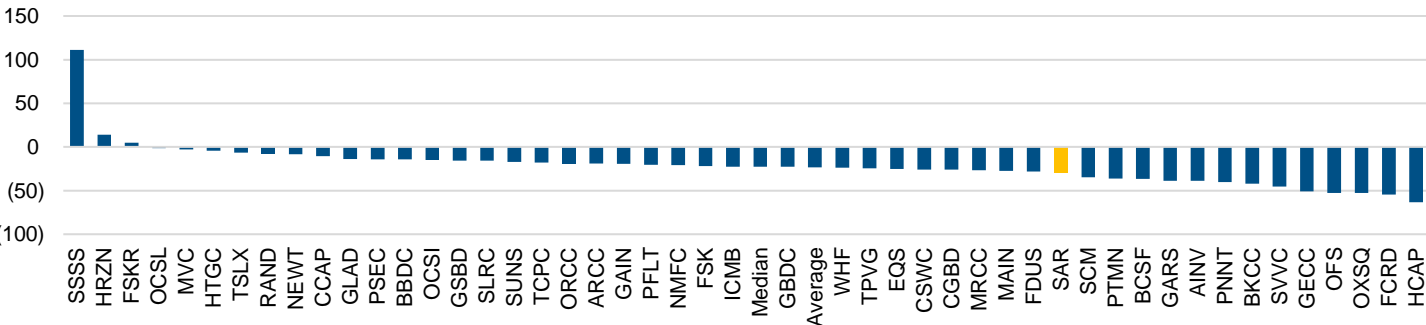
## BDC Total Return (%)



**Last 5 years:  
55%**

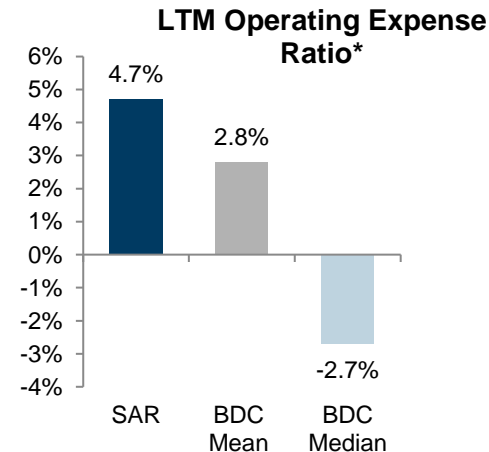
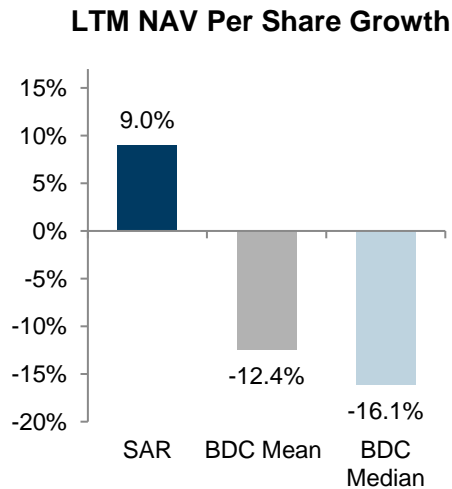
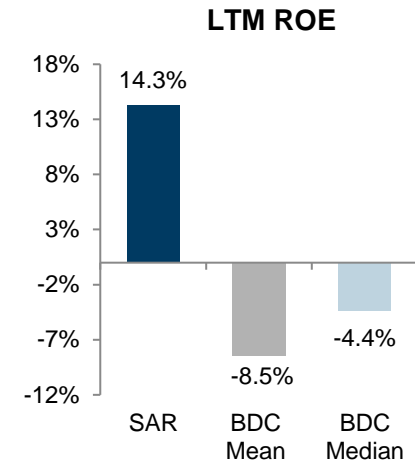
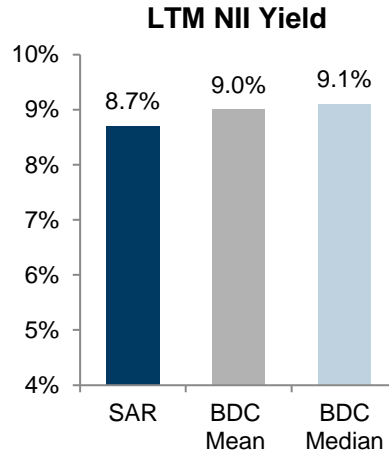
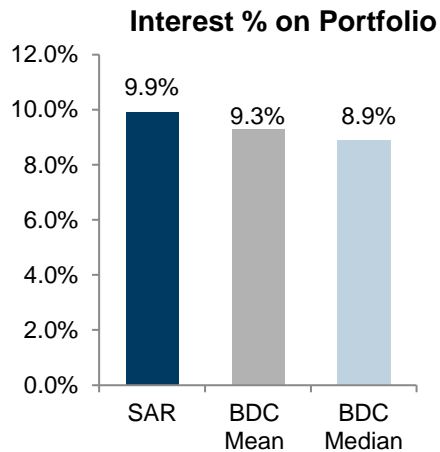


**Last 3 years:  
-4%**



**Last 12 months:  
-30%**

# Strongly Differentiated Outperformance



Source: SNL Financial / Company Filings / Raymond James report as of 9/11/20

\* LTM Operating Expense Ratio defined as total operating expenses, net of interest and debt financing expenses, divided by average total assets. Total operating expenses divided by net assets is 7.1%.

# Establishing Competitive Edge vs. Other BDCs

## Outstanding performance characteristics

▶ **Strong long-term dividend**

Increased quarterly dividend by 211% since program launched until recent deferral; Latest dividend declared of \$0.41c for the quarter ended August 31, 2020 representing current dividend yield of 9.6% and up \$0.01 from last quarter; significant management ownership of 14.7%

▶ **Strong return on equity**

LTM ROE of 14.3% factors in both investment income and net gains/losses, top ROE in the BDC industry; NAV per share increased 9% versus last year, highest in BDC industry

▶ **Low-cost available liquidity**

Borrowing capacity still at hand through SBIC II debentures, credit facility and cash – can grow current asset base by 52% as of quarter ended August 31, 2020 with most of it in cash or sub-2% cost liquidity (SBIC II debentures) that will be very accretive to earnings. Completed first post-COVID SAK baby bond offering in June 2020, raising \$43.1m, and private baby bond offering in July 2020, raising \$5m

▶ **Solid earnings per share and NII Yield**

Attractive and growing NII per share generated from strong risk-adjusted portfolio returns and favorable capital structure

▶ **Commitment to AUM expansion**

Fair value of AUM increased 5% from both year-end and last quarter – more than half of the Q1FY21 fair value reduction was recovered this quarter.

▶ **Well-positioned for changes in interest rates**

Approx. 93% of our investments have floating interest rates but all with floors of 1.0% or higher. Floors of new investments reset at higher levels than current rates this year. Debt primarily at fixed rates and long-term. Obtained “BBB” investment grade rating.

▶ **Limited oil & gas exposure**

Will not be facing significant write-downs as a result of major direct exposure to energy/oil/gas investments

▶ **Attractive risk profile**

SAR and SBIC leverage is below market averages, 92% of credits are the highest quality, 77% of investments are first lien

# Objectives for the Future

- Expand our asset base without sacrificing credit quality while benefitting from scale
- Increase our capacity to source, analyze, close and manage our investments by adding to our management team and processes
- Utilize benefits of fully deploying available financing to build scale and increase our AUM and net investment income/yield, enabling us to achieve growth in:
  - Net Asset Value and Net Asset Value per share
  - Return on Equity
  - Earnings per Share
  - Stock Values

Questions?



SARATOGA  
INVESTMENT CORP.



SARATOGA  
INVESTMENT CORP.



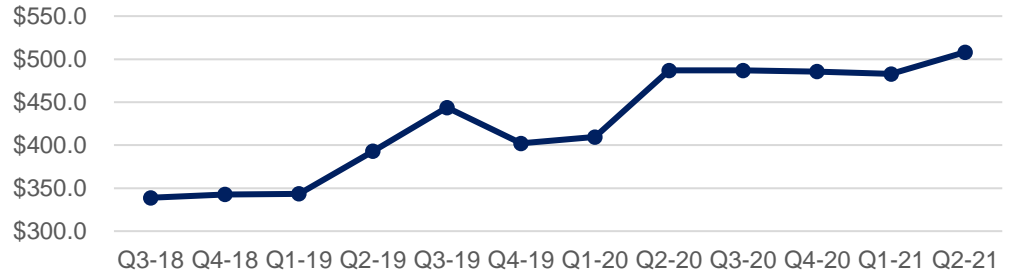
# KPIs – Balance Sheet – Q2 FY21

Period	FMV Investment Portfolio (in millions)
Q3-18	\$ 338.8
Q4-18	\$ 342.7
Q1-19	\$ 343.4
Q2-19	\$ 392.9
Q3-19	\$ 443.8
Q4-19	\$ 402.0
Q1-20	\$ 409.5
Q2-20	\$ 486.9
Q3-20	\$ 487.0
Q4-20	\$ 485.6
Q1-21	\$ 482.9
Q2-21	\$ 508.1

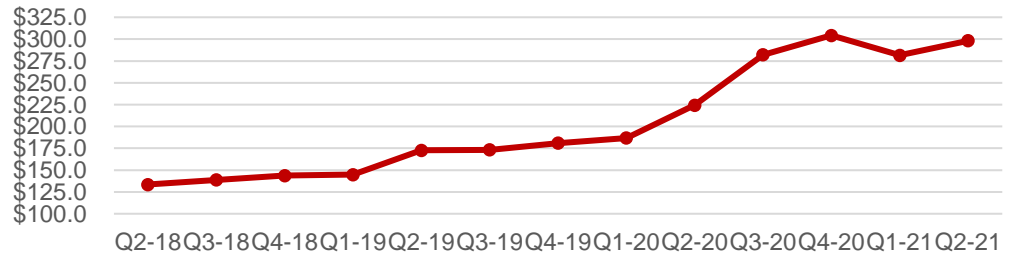
Period	NAV (in millions)
Q2-18	\$ 133.5
Q3-18	\$ 138.8
Q4-18	\$ 143.7
Q1-19	\$ 144.8
Q2-19	\$ 172.7
Q3-19	\$ 173.3
Q4-19	\$ 180.9
Q1-20	\$ 186.8
Q2-20	\$ 224.3
Q3-20	\$ 282.2
Q4-20	\$ 304.3
Q1-21	\$ 281.6
Q2-21	\$ 298.2

Period	NAV Per Share
Q2-18	\$ 22.40
Q3-18	\$ 22.60
Q4-18	\$ 23.00
Q1-19	\$ 23.10
Q2-19	\$ 23.20
Q3-19	\$ 23.10
Q4-19	\$ 23.60
Q1-20	\$ 24.10
Q2-20	\$ 24.50
Q3-20	\$ 25.30
Q4-20	\$ 27.13
Q1-21	\$ 25.11
Q2-21	\$ 26.68

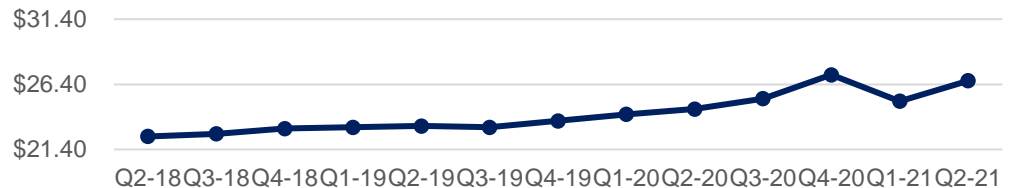
FMV Investment Portfolio (in millions)



NAV (in millions)



NAV Per Share



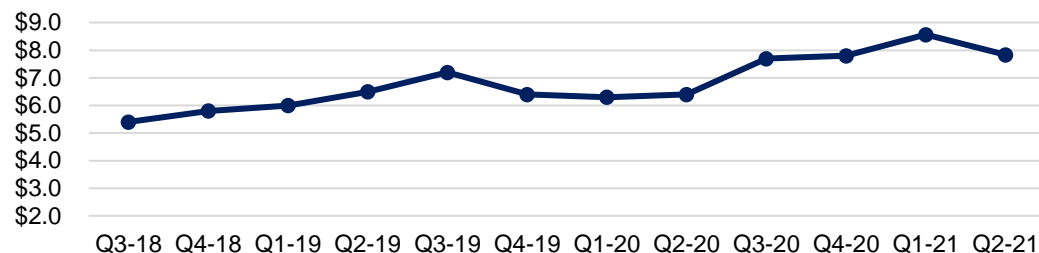
# KPIs – Income Statement – Q2 FY21

Period	Net Interest Margin (in millions)
Q3-18	\$ 5.4
Q4-18	\$ 5.8
Q1-19	\$ 6.0
Q2-19	\$ 6.5
Q3-19	\$ 7.2
Q4-19	\$ 6.4
Q1-20	\$ 6.3
Q2-20	\$ 6.4
Q3-20	\$ 7.7
Q4-20	\$ 7.8
Q1-21	\$ 8.6
Q2-21	\$ 7.8

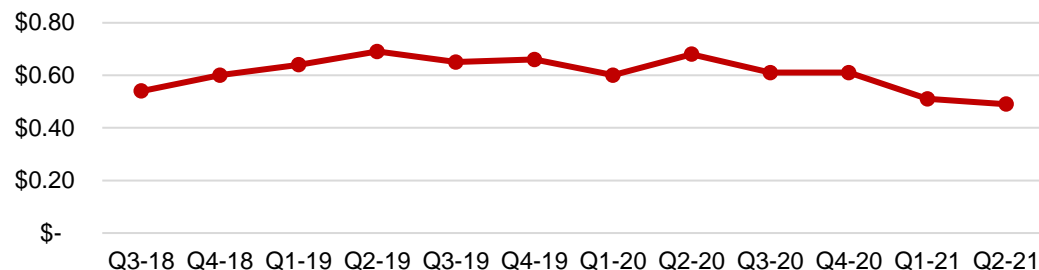
Period	NII Per Share
Q3-18	\$ 0.54
Q4-18	\$ 0.60
Q1-19	\$ 0.64
Q2-19	\$ 0.69
Q3-19	\$ 0.65
Q4-19	\$ 0.66
Q1-20	\$ 0.60
Q2-20	\$ 0.68
Q3-20	\$ 0.61
Q4-20	\$ 0.61
Q1-21	\$ 0.51
Q2-21	\$ 0.49

Period	NII Yield
Q3-18	9.6%
Q4-18	10.7%
Q1-19	11.1%
Q2-19	11.9%
Q3-19	11.2%
Q4-19	11.2%
Q1-20	10.1%
Q2-20	11.0%
Q3-20	9.7%
Q4-20	9.3%
Q1-21	7.9%
Q2-21	7.6%

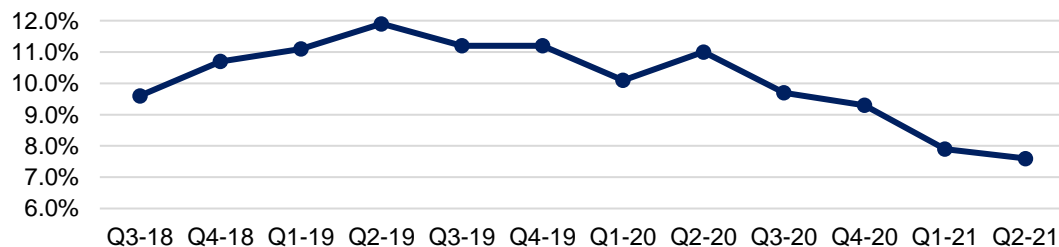
Net Interest Margin Excluding CLO  
(in millions)



NII Per Share

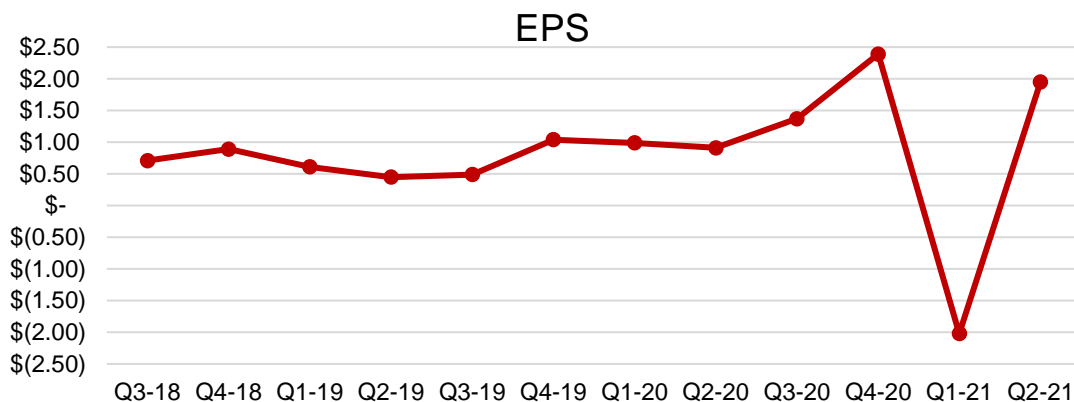


NII Yield

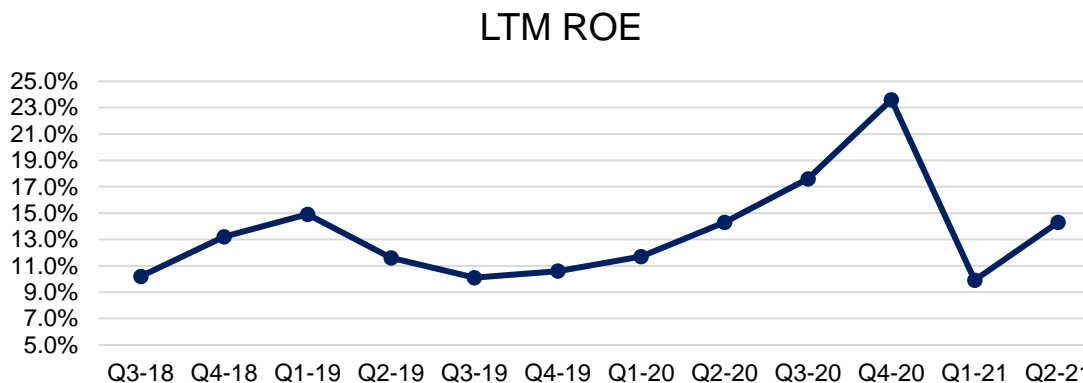


# KPIs –Income Statement– Q2 FY21 (continued)

Period	EPS
Q3-18	\$ 0.71
Q4-18	\$ 0.89
Q1-19	\$ 0.61
Q2-19	\$ 0.45
Q3-19	\$ 0.49
Q4-19	\$ 1.04
Q1-20	\$ 0.99
Q2-20	\$ 0.91
Q3-20	\$ 1.37
Q4-20	\$ 2.39
Q1-21	\$ (2.02)
Q2-21	\$ 1.95



Period	LTM ROE
Q3-18	10.2%
Q4-18	13.2%
Q1-19	14.9%
Q2-19	11.6%
Q3-19	10.1%
Q4-19	10.6%
Q1-20	11.7%
Q2-20	14.3%
Q3-20	17.6%
Q4-20	23.6%
Q1-21	9.9%
Q2-21	14.3%



# KPIs - SAR Net Interest Margin

**SAR has almost quadrupled its Net Interest Margin since taking over management**

## Net Interest Margin

**17% increase in LTM**  
**287% increase in 10 years**

