

Saratoga Investment Corp. Announces Fiscal Fourth Quarter and Year End 2014 Financial Results

NEW YORK, May 27, 2014 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2014 fiscal fourth quarter and year end.

Summary Financial Information

- Net investment income of \$9.1 million and \$1.5 million for the year and quarter ended February 28, 2014, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$8.8 million and \$2.0 million, respectively.
- Net investment income on a weighted average per share basis of \$1.85 and \$0.28 for the year and quarter ended February 28, 2014, respectively.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 8.1% and 5.2% for the year and quarter ended February 28, 2014, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 7.9% and 6.9%, respectively.
- Total return on equity for the year and quarter ended February 28, 2014, was 7.8% (offset 0.3% by net realized and unrealized depreciation on investments) and 13.2% (of which 7.8% was from net realized and unrealized appreciation on investments), respectively.
- Net asset value ("NAV") was \$114.9 million as of February 28, 2014, a \$6.2 million increase from a NAV of \$108.7 million as of February 28, 2013.
- NAV per share was \$21.36 as of February 28, 2014, compared to \$22.98 as of February 28, 2013 - while aggregate NAV increased by \$6.2 million, NAV per share was down due to the increased number of shares issued as part of the cash/stock dividend declared during the year.
- Investment portfolio activity for the quarter ended February 28, 2014
 - Cost of investments made during the period: \$11.0 million
 - Principal repayments during the period: \$6.6 million

Operating Results

For the fiscal year ended February 28, 2014, Saratoga Investment reported net investment income of \$9.1 million, or \$1.85 on a weighted average per share basis, and a net loss on investments of \$377,000, or \$0.08 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$8.7 million, or \$1.78 on a weighted average per share basis. The \$377,000 net loss on investments was comprised largely of \$1.6 million in net unrealized depreciation on investments. This compared to the fiscal year ended February 28, 2013 with net investment income of \$7.0 million, or \$1.71 on a weighted average per share basis, and a net gain on investments of \$7.6 million, or \$1.84 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$14.6 million, or \$3.55 on a weighted average per share basis. The \$7.5 million net gain on investments was comprised largely of \$7.0 million in net unrealized appreciation on investments and derivatives.

For the quarter ended February 28, 2014, Saratoga Investment reported net investment income of \$1.5 million, or \$0.28 on a weighted average per share basis, and a net gain on investments of \$2.2 million, or \$0.42 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.7 million, or \$0.69 on a weighted average per share basis. The \$2.2 million net gain on investments was comprised of \$2.1 million in net unrealized appreciation on investments.

Net Investment Income Yield was 8.1% and 5.2% for the year and quarter ended February 28, 2014, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 7.9% and 6.9% for the year and quarter ended February 28, 2014, respectively. Return on Equity was 7.8% and 13.2% for the year and quarter ended February 28, 2014, respectively.

Net Investment Income Yield was 6.8% and 7.4% for the year and quarter ended February 28, 2013, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 7.8% and 9.1% for the year and quarter ended February 28, 2013, respectively.

NAV was \$114.9 million as of February 28, 2014, a \$6.2 million increase from a NAV of \$108.7 million as of February 28, 2013. NAV per share was \$21.36 as of February 28, 2014, compared to \$22.98 as of February 28, 2013. While the aggregate NAV increased by \$6.2 million, the decrease in NAV per share from February 28, 2013 was mostly due to the issuance of 649,500 shares of common stock and a payment of \$2.5 million in cash in connection with the Company's \$12.5 million cash/stock dividend declared on October 30, 2013.

"We continue to pursue the long-term strategy of strengthening our financial foundation by expanding our assets under management, improving investment quality, broadening our investor base and adding quality senior management and professionals to our team," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "In 2014, we also completed a \$48.3 million, 7.5% fixed-rate note issuance ("Baby Bonds"), which significantly expanded our liquidity resources and investor base. Market conditions and competition remain challenging, but we continue to have a positive view of the demand for financing in the markets we address."

Michael J. Grisius, President and Chief Investment Officer, added, "We continue building our team to achieve greater size investments and capabilities. During fiscal year 2014, we invested almost twice the amount in new or existing investments as the previous year and achieved a marked increase in the percentage of the highest rated credits in our portfolio. More than three quarters of our portfolio bears the highest quality rating that we can award."

Portfolio and Investment Activity

As of February 28, 2014, the fair value of Saratoga Investment's portfolio was \$205.8 million (excluding \$6.6 million in cash and cash equivalents), principally invested in 38 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 15.7% of middle market loans, 39.0% of first lien term loans, 13.5% of second lien term loans, 14.6% of senior secured notes, 2.7% of unsecured

notes, 9.5% of subordinated notes in a CLO and 5.0% of common equity.

During the fiscal year 2014, Saratoga Investment invested \$121.1 million in new or existing portfolio companies and had \$71.6 million in aggregate amount of exits and repayments, resulting in net investments of \$49.5 million for the year. For the quarter ended February 28, 2014, Saratoga Investment invested \$11.0 million in new or existing portfolio companies, and had \$6.6 million in aggregate amount of exits and repayments, resulting in net investments of \$4.4 million for the quarter.

As of February 28, 2014, the weighted average current yield on Saratoga Investment's portfolio for the twelve months ended February 28, 2014 was 11.8% which was comprised of a weighted average current yield of 10.7% on first lien term loans, 11.1% on second lien term loans, 13.8% on senior secured notes, 15.2% on unsecured notes, 18.6% on CLO subordinated notes, and 6.2% on middle market loans.

Liquidity and Capital Resources

As of February 28, 2014, Saratoga Investment had no outstanding borrowings under its \$45 million senior secured revolving credit facility with Madison Capital Funding LLC. At the same time, Saratoga Investment had \$50.0 million outstanding of SBA debentures, \$48.3 million of Baby Bonds and an aggregate of \$6.6 million in cash and cash equivalents.

With the \$45 million credit facility and the up to \$100 million additional borrowing capacity at the SBIC subsidiary, Saratoga Investment has a total of \$145 million of undrawn borrowing capacity available as of Feb. 28, 2014.

During fiscal year 2014, Saratoga Investment closed an underwritten public offering of Baby Bonds that, as of February 28, 2014, had a carrying amount and fair value of \$48.3 million and \$48.6 million, respectively.

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 better positioning the Company to generate current income and capital appreciation on an increasing scale in future periods. This is consistent with market commentators' classification of the Company being a growth/total return equity story. Therefore, the Company's board of directors determined in October 2013 to pay a 20% cash and 80% stock dividend with respect to a significant portion of the Company's taxable income for its 2014 fiscal year. This dividend maintains the Company's favorable regulated investment company tax status.

2014 Fiscal Fourth Quarter and Year End Conference Call/Webcast Information

When: Wednesday, May 28, 2014, 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 Wednesday, May 28, 2014 through 11:59 p.m. ET on Tuesday, June 3, 2014 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 46862972.

Webcast: Interested parties may access a simultaneous webcast of the call and find the FY 2014 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 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

<u>As of</u>	
<u>February 28, 2014</u>	<u>February 28, 2013</u>

ASSETS

Investments at fair value

Non-control/non-affiliate investments (amortized cost of \$185,266,607 and \$130,465,086, respectively)	\$ 186,275,106	\$ 129,563,428
Control investments (cost of \$16,555,808 and \$18,944,966 respectively)	<u>19,569,596</u>	<u>25,516,959</u>
Total investments at fair value (amortized cost of \$201,822,415 and \$149,410,052 respectively)	205,844,702	155,080,387
Cash and cash equivalents	3,293,898	149,025
Cash and cash equivalents, reserve accounts	3,293,113	12,086,142
Interest receivable, (net of reserve of \$150,058 and \$53,543, respectively)	2,571,853	2,889,358
Deferred debt financing costs, net	4,008,704	2,090,184
Management fee receivable	150,106	215,853
Other assets	14,461	83,407
Receivable from unsettled trades	-	1,817,074
Total assets	<u>\$ 219,176,837</u>	<u>\$ 174,411,430</u>
LIABILITIES		
Revolving credit facility	\$ -	\$ 24,300,000
SBA debentures payable	50,000,000	36,000,000
Notes payable	48,300,000	-
Management and incentive fees payable	3,856,962	4,509,322
Accounts payable and accrued expenses	824,568	435,038
Interest and debt fees payable	873,135	257,796
Due to manager	398,154	222,513
Total liabilities	<u>\$ 104,252,819</u>	<u>\$ 65,724,669</u>
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,379,616 and 4,730,116 common shares issued and outstanding, respectively	\$ 5,380	\$ 4,730
Capital in excess of par value	184,851,154	174,824,076
Distribution in excess of net investment income	(29,627,578)	(24,522,951)
Accumulated net realized loss from investments and derivatives	(44,327,225)	(47,289,427)
Net unrealized appreciation on investments and derivatives	4,022,287	5,670,333
Total Net Assets	<u>114,924,018</u>	<u>108,686,761</u>
Total liabilities and Net Assets	<u>\$ 219,176,837</u>	<u>\$ 174,411,430</u>
NET ASSET VALUE PER SHARE	<u>\$ 21.36</u>	<u>\$ 22.98</u>

Saratoga Investment Corp.

Consolidated Statements of Operations

	For the three months ended		For the year ended	
	February 28		February 28	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest from investments				
Non-control/Non-affiliate investments	\$ 4,297,812	\$ 3,046,648	\$ 15,832,083	\$ 9,176,156
Payment-in-kind interest income from Non-control/Non-affiliate investments	301,800	240,857	936,208	1,062,687
Control investments	619,038	1,018,758	3,410,868	4,205,509
Total interest income	<u>5,218,650</u>	<u>4,306,263</u>	<u>20,179,159</u>	<u>14,444,352</u>
Interest from cash and cash equivalents	751	588	7,932	5,956
Management fee income	375,102	499,553	1,775,141	2,000,072
Other income	92,557	384,117	931,513	556,427
Total investment income	<u>5,687,060</u>	<u>5,190,521</u>	<u>22,893,745</u>	<u>17,006,807</u>
EXPENSES				
Interest and debt financing expenses	1,741,234	731,827	6,083,891	2,540,413
Base management fees	902,712	615,033	3,326,879	2,107,378
Professional fees	332,589	203,806	1,211,836	1,190,587
Administrator expenses	250,000	250,000	1,000,000	1,000,000
Incentive management fees	471,679	1,157,767	691,492	2,044,788
Insurance	85,793	126,615	442,977	516,121
Directors fees and expenses	72,629	51,000	204,607	206,705
General & administrative	348,364	103,095	789,208	368,815
Other expense	-	-	21,207	4,434
Total expenses	<u>4,205,000</u>	<u>3,239,143</u>	<u>13,772,097</u>	<u>9,979,241</u>
NET INVESTMENT INCOME	<u>1,482,060</u>	<u>1,951,378</u>	<u>9,121,648</u>	<u>7,027,566</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain from investments	112,941	18,980	1,270,765	561,700
Net realized loss from derivatives	-	-	-	(131,000)
Net unrealized appreciation (depreciation) on investments	2,122,922	3,824,183	(1,648,046)	7,012,726

Net unrealized appreciation on derivatives	-	-	-	130,925
Net gain/(loss) on investments	2,235,863	3,843,163	(377,281)	7,574,351
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 3,717,923	\$ 5,794,541	\$ 8,744,367	\$ 14,601,917
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	\$ 0.69	\$ 1.23	\$ 1.78	\$ 3.55
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,379,616	4,730,116	4,920,517	4,110,484

Supplemental Information Regarding Adjusted Net Investment Income and Adjusted Net Investment Income Yield

On a supplemental basis, we provide information relating to adjusted net investment income and adjusted net investment income yield, which are non-GAAP measures. These measures are provided in addition to, but not as a substitute for, net investment income and net investment income yield. 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 and adjusted net investment income yield 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 and net investment income yield to adjusted net investment income yield for the three and twelve months ended February 28, 2014 and 2013.

	For the three months ended February 28		For the year ended February 28	
	2014	2013	2014	2013
Net Investment Income	\$ 1,482,060	\$ 1,951,378	\$ 9,121,648	\$ 7,027,566
Changes in accrued capital gains incentive fee expense/reversal	471,678	453,535	(318,004)	1,025,346
Adjusted net investment income	1,953,738	2,404,913	8,803,644	8,052,912
Net investment income yield	5.2%	7.4%	8.1%	6.8%
Changes in accrued capital gains incentive fee expense/reversal	1.7%	1.7%	(0.3)%	1.0%
Adjusted net investment income yield ⁽¹⁾	6.9%	9.1%	7.9%	7.8%

(1) Adjusted net investment income is calculated as adjusted net investment income divided by average net asset value.

SOURCE Saratoga Investment Corp.

News Provided by Acquire Media