

Saratoga Investment Corp. Announces Fiscal First Quarter 2016 Financial Results

Further Increases Quarterly Dividend to \$0.33 from \$0.27 per share

NEW YORK, July 14, 2015 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2016 fiscal first quarter.

Summary Financial Information

- Net investment income on a weighted average per share basis of \$0.33 for the quarter ended May 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income on a weighted per share basis was \$0.53, an increase of \$0.13, or 33% from the quarter ended May 31, 2014.
- Net investment income of \$1.8 million for the quarter ended May 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.9 million, an increase of \$0.7 million, or 33% from the quarter ended May 31, 2014.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 5.8% for the quarter ended May 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 9.3%, an increase of 180 bps from the quarter ended May 31, 2014.
- Return on equity for the quarter ended May 31, 2015 was 24.0%.
- Earnings per share for the quarter ended May 31, 2015 was \$1.36, an increase of \$1.03 or 312% from the quarter ended May 31, 2014.
- Net asset value ("NAV") was \$123.5 million as of May 31, 2015, an \$8.3 million increase from an NAV of \$115.2 million as of May 31, 2014.
- NAV per share was \$22.75 as of May 31, 2015, compared to \$21.41 as of May 31, 2014.
- Investment portfolio activity for the quarter ended May 31, 2015:
 - Cost of investments made during the period: \$23.2 million
 - Principal repayments during the period: \$7.3 million

Operating Results

For the fiscal quarter ended May 31, 2015, Saratoga Investment reported net investment income of \$1.8 million, or \$0.33 on a weighted average per share basis, and a net gain on investments of \$5.6 million, or \$1.03 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$7.4 million, or \$1.36 on a weighted average per share basis. The \$5.6 million net gain on investments was comprised largely of \$5.5 million in net unrealized gains on investments and \$0.1 million in net realized gains. This compared to the fiscal quarter ended May 31, 2014 with net investment income of \$2.1 million, or \$0.38 on a weighted average per share basis, and a net loss on investments of \$0.3 million, or \$0.06 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 \$0.3 million net loss on investments consisted of \$0.1 million in net realized gains on investments, offset by \$0.4 million in net unrealized depreciation.

Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.9 million and \$2.2 million for the quarters ended May 31, 2015 and 2014, respectively. The increase in adjusted net investment income of \$0.7 million for the quarter ended May 31, 2015 as compared to the same period last year, is primarily due to higher investment income, which has increased to \$7.6 million for the quarter ended May 31, 2015 from \$6.1 million for the quarter ended May 31, 2014. This increased investment income was generated from an investment base that has grown by 20% since the same quarter last year. The adjusted net investment income increase was partially offset by (i) increased debt and financing expenses from higher outstanding SBA debentures this quarter 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. Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, decreased from \$946,662 for the quarter ended May 31, 2014 to \$904,681 for the quarter ended May 31, 2015, representing a decrease from 1.8% of Assets Under Management ("AUM") for the quarter ended May 31, 2014 to 1.4% for the quarter ended May 31, 2015. This reflects the continued benefit of increased scale, while continuing to be prudent in managing expenses.

Net investment income yield was 5.8% for the quarter ended May 31, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income yield was 9.3% for the quarter ended May 31, 2015. Return on equity was 24.0% for the same quarter.

Net investment income yield was 7.2% 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 7.5% for the quarter ended May 31, 2014.

NAV was \$123.5 million as of May 31, 2015, a \$0.9 million increase from an NAV of \$122.6 million as of February 28, 2015. NAV per share was \$22.75 as of May 31, 2015, compared to \$22.70 as of February 28, 2015. During these three months, NAV per share increased by \$0.05 per share, primarily reflecting \$1.36 earnings offset by the \$1.27 dividend declared during the quarter.

"During this quarter, we maintained our momentum of expanding our assets under management, improving investment quality and broadening our investor base," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "This continued progress is also reflected in our adjusted net investment income per share and yield going above \$0.50 per share and 9% this quarter, respectively. In addition, the 'green light' approval we received from the SBA for our second SBIC license continues to position us well for future sources of liquidity. We also announced the payment of our largest dividend to date under our new dividend policy, a special dividend of \$1.00 per share, and continue to increase our regular payments of quarterly cash dividends by another 22% this quarter to \$0.33 per share."

Michael J. Grisius, President and Chief Investment Officer, added, "During the first fiscal quarter 2016, we continued to exercise prudent investment judgment and disciplined capital deployment. Despite frothy market conditions, with high multiples and depressed yields, we have maintained the quality of our portfolio credits, while continuing to grow assets under management by a further 9% since year-end. In addition, 95.6% of our interest-bearing portfolio holds our highest credit quality rating and our debt-to-EBITDA multiples persist at levels well below market averages. Even in the tight market we currently face, solid investment judgment and discipline can still generate positive results."

Portfolio and Investment Activity

As of May 31, 2015, the fair value of Saratoga Investment's portfolio was \$262.7 million (excluding \$6.6 million in cash and cash equivalents), principally invested in 35 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 59.8% of first lien term loans, 15.4% of second lien term loans, 2.2% of unsecured notes, 6.4% of subordinated notes in a CLO, 6.8% of syndicated loans, and 9.4% of common equity.

For the fiscal quarter ended May 31, 2015, Saratoga Investment invested \$23.2 million in new or existing portfolio companies and had \$7.3 million in aggregate amount of exits and repayments, resulting in net investments of \$15.9 million for the quarter.

The weighted average current yield on Saratoga Investment's portfolio for the twelve months ended May 31, 2015 was 12.0%, which was comprised of a weighted average current yield of 11.2% on first lien term loans, 11.0% on second lien term loans, 10.8% on unsecured notes, 28.8% on CLO subordinated notes, and 6.3% on syndicated loans.

Liquidity and Capital Resources

As of May 31, 2015, Saratoga Investment had \$11.8 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 of Baby Bonds (fair value of \$49.7 million) and an aggregate of \$6.6 million in cash and cash equivalents.

With the \$33.2 million credit facility and the \$71.0 million additional borrowing capacity at the SBIC subsidiary, as well as the \$6.6 million of cash and cash equivalents, Saratoga Investment has a total of \$110.8 million of undrawn borrowing capacity and cash and cash equivalents available as of May 31, 2015.

On April 6, 2015, Saratoga Investment announced that the U.S. Small Business Administration ("SBA") issued a "green light" or "go forth" letter inviting Saratoga Investment to continue its application process to obtain a license to form and operate a second Small Business Investment Company ("SBIC") subsidiary. A second license, if ultimately granted by the SBA, will allow Saratoga Investment to grow its asset base by an additional \$112.5 million.

Effective May 29, 2015, the Company entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. through which the Company may offer for sale, from time to time, up to \$20 million in aggregate principal amount of Baby Bonds through an At-the-Market ("ATM") offering. As of July 14, 2015, the Company sold 227,863 bonds with a principal of \$5,696,575 at an average price of \$25.32 for aggregate net proceeds of \$5,653,305 (net of transaction costs).

Dividend

During fiscal year 2015, 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. Since then, the Company has paid quarterly dividends of \$0.18 per share for the quarter ended August 31, 2014, \$0.22 per share for the quarter ended November 30, 2014, \$0.27 per share

for the quarter ended February 28, 2015, and a special dividend of \$1.00 per share.

On July 8, 2015, Saratoga Investment's Board of Directors declared a dividend to shareholders of \$0.33 per share for the quarter ended May 31, 2015, payable on August 31, 2015 to all stockholders of record at the close of business on August 3, 2015. Shareholders have the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's dividend reinvestment plan ("DRIP"), which Saratoga Investment adopted in conjunction with the new dividend policy, and provides for the reinvestment of dividends on behalf of its stockholders.

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.

2016 Fiscal First Quarter Conference Call/Webcast Information

When: Wednesday, July 15, 2015, 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, July 15, 2015 through 11:59 p.m. ET on Wednesday, July 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: 71900179.

Webcast: Interested parties may access a simultaneous webcast of the call and find the Q1 2016 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

	As of	
	May 31, 2015	February 28, 2015
	(unaudited)	
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$239,950,830 and \$222,505,383, respectively)	\$ 245,883,731	\$ 223,506,589
Control investments (cost of \$15,172,837 and \$15,953,001, respectively)	16,860,256	17,031,146
Total investments at fair value (amortized cost of \$255,123,667 and \$238,458,384, respectively)	262,743,987	240,537,735
Cash and cash equivalents	699,127	1,888,158
Cash and cash equivalents, reserve accounts	5,863,893	18,175,214

Interest receivable, (net of reserve of \$354,144 and \$309,498, respectively)	2,793,526	2,469,398
Management fee receivable	174,527	171,913
Other assets	475,257	317,637
Total assets	<u>\$ 272,750,317</u>	<u>\$ 263,560,055</u>
LIABILITIES		
Revolving credit facility	\$ 11,800,000	\$ 9,600,000
Deferred debt financing costs, revolving credit facility	(575,002)	(594,845)
SBA debentures payable	79,000,000	79,000,000
Deferred debt financing costs, SBA debentures payable	(2,231,653)	(2,340,894)
Notes payable	48,300,000	48,300,000
Deferred debt financing costs, notes payable	(1,758,989)	(1,847,564)
Dividend payable	5,995,489	402,200
Base management and incentive fees payable	6,765,317	5,835,941
Accounts payable and accrued expenses	675,383	835,189
Interest and debt fees payable	912,628	1,405,466
Due to manager	375,820	365,820
Total liabilities	<u>\$ 149,258,993</u>	<u>\$ 140,961,313</u>
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,428,758 and 5,401,899 common shares issued and outstanding, respectively	\$ 5,429	\$ 5,402
Capital in excess of par value	185,279,853	184,877,680
Distribution in excess of net investment income	(29,029,436)	(23,905,603)
Accumulated net realized loss from investments and derivatives	(40,384,842)	(40,458,088)
Accumulated net unrealized appreciation on investments and derivatives	7,620,320	2,079,351
Total net assets	<u>123,491,324</u>	<u>122,598,742</u>
Total liabilities and net assets	<u>\$ 272,750,317</u>	<u>\$ 263,560,055</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.75</u>	<u>\$ 22.70</u>
Asset Coverage Ratio	313.8%	321.1%

Saratoga Investment Corp.

**Consolidated Statements of Operations
(unaudited)**

	<u>For the three months ended May 31, 2015</u>	<u>For the three months ended May 31, 2014</u>
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 5,648,979	\$ 4,707,894
Payment-in-kind interest income from Non-control/Non-affiliate investments	691,152	252,928
Control investments	590,990	641,338
Total interest income	6,931,121	5,602,160
Interest from cash and cash equivalents	736	594
Management fee income	378,746	392,034
Other income	250,564	149,335
Total investment income	<u>7,561,167</u>	<u>6,144,123</u>
EXPENSES		
Interest and debt financing expenses	1,963,865	1,787,587
Base management fees	1,124,098	968,479
Professional fees	333,444	435,374
Administrator expenses	250,000	250,000
Incentive management fees	1,797,833	378,489
Insurance	87,317	84,487
Directors fees and expenses	51,000	53,175

General & administrative	182,920	123,626
Total expenses	<u>5,790,477</u>	<u>4,081,217</u>
 NET INVESTMENT INCOME	 <u>1,770,690</u>	 <u>2,062,906</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	73,246	81,680
Net unrealized appreciation/(depreciation) on investments	<u>5,540,969</u>	<u>(384,697)</u>
Net gain/(loss) on investments	<u>5,614,215</u>	<u>(303,017)</u>
 NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	 <u>\$ 7,384,905</u>	 <u>\$ 1,759,889</u>
 WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	 \$ 1.36	 \$ 0.33
 WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	 5,422,491	 5,379,616

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 months ended May 31, 2015 and 2014.

	For the three months ended May 31	
	2015	2014
Net Investment Income	\$ 1,770,690	\$ 2,062,906
Changes in accrued capital gains incentive fee expense/reversal	<u>1,083,883</u>	<u>91,919</u>
Adjusted net investment income	2,854,573	2,154,825
 Net investment income yield	 5.8%	 7.2%
Changes in accrued capital gains incentive fee expense/reversal	3.5%	0.3%
Adjusted net investment income yield ⁽¹⁾	<u>9.3%</u>	<u>7.5%</u>
 Net investment income per share	 \$ 0.33	 \$ 0.38
Changes in accrued capital gains incentive fee expense/reversal	<u>\$ 0.20</u>	<u>\$ 0.02</u>
Adjusted net investment income per share ⁽²⁾	\$ 0.53	\$ 0.40

(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.

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/saratoga-investment-corp-announces-fiscal-first-quarter-2016-financial-results-300113266.html>

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