## Saratoga Investment Corp.

Fiscal Q3 2017 Shareholder Presentation

January 12, 2017

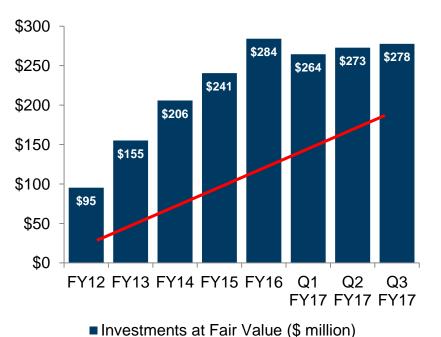


### Continued Progress in Q3 2017

#### **Fiscal third quarter highlights:**

- Continued strengthening of financial foundation
  - Investment quality remains strong
    - 96.7% of loan investments with highest rating
  - Return on equity of 7.7% LTM (12.1% excluding legacy), beating industry average of 1.1%
- Consistent originations sustain assets under management despite significant repayments
  - AUM up 193% from FY12, up 15% from last year Q3, and up 2% from last guarter
  - \$30.1 million originations this quarter offset repayments of \$23.8 million
- Two important refinancings recently completed
  - CLO refinanced for second time extends reinvestment period to October 2018
  - Baby bonds offering completed of \$74.5m extends maturity by over three years and reduces interest rate by 75 bps
- Latest dividend of \$0.45 per share continuing increase in quarterly dividends
  - Over-earning our current dividend by 13% \$0.53 adjusted NII/share for Q3 2017
- Base of liquidity remains strong
  - Existing available liquidity allows us to increase current AUM by 38%
- Exercised share repurchase plan
  - As of January 10, 2017, repurchased 218,491 shares weighted average price of \$16.87 per share VESTMENT C

#### Consistent Portfolio and Sustained Strong Credit Quality



Fair value of AUM increased 2%

quarter-over-quarter, and has

increased 193% since FY 2012

**Asset Base Expansion Trend** 

100% 96.7% 80% 99.9% 98.4% 98.3% 60% 94.2% 90.5% 82.4% 40% 64.3% 20% 0% FY12 FY13 FY14 FY15 FY16 Q1 Q2 Q3 FY17 FY17 FY17 Payment Default Risk Strong Satisfactory

> Over 96.7% of our SAR loan investments hold our highest internal rating; zero on nonaccrual at guarter-end\*

\* Excludes our investment in our CLO, and our equity investments.





**Overall Credit Quality Continues Strong** 

### **Strong Financial Foundation and Momentum**

#### Key Performance Metrics for the Fiscal Quarter

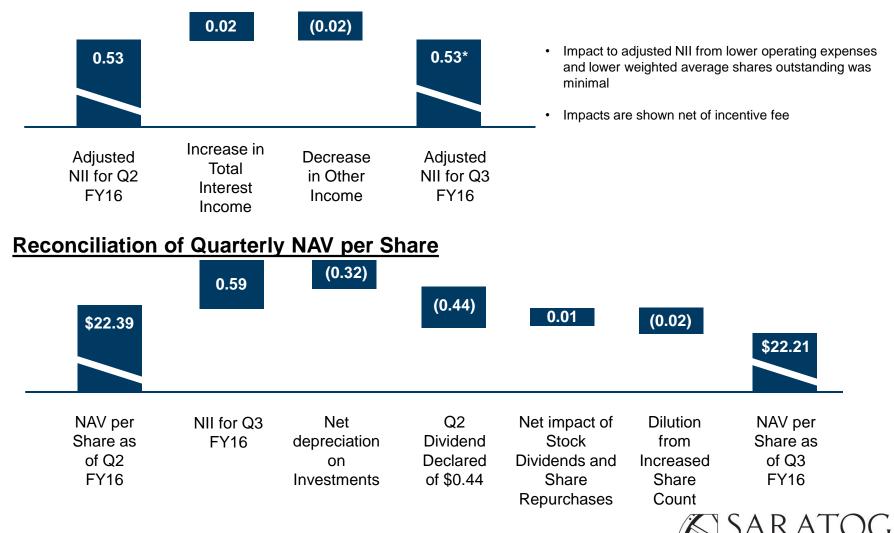
Ney renormance w		iscal guarter		
For the quarter ended and as of (\$ in millions except per share)	Nov 30, 2015	Aug 31, 2016	Nov 30, 2016	113015 0813111
Net investment income	\$2,150	\$2,604	\$3,419	\$5,000 \$0
Adjusted net investment income*	\$2,349	\$3,050	\$3,050	\$5,000 \$0
Net investment income per share	\$0.38	\$0.45	\$0.60	\$1.00
Adjusted net investment income per share*	\$0.42	\$0.53	\$0.53	\$1.00
Net investment income yield	6.8%	8.1%	10.7%	20%
Adjusted net investment income yield*	7.4%	9.5%	9.5%	10% 0%
Return on Equity – Last Twelve Months	11.9%	9.1%	7.7%	\$20 \$0
Fair value of investment portfolio	\$241.0	\$272.8	\$277.6	\$170
Total net assets	\$127.3	\$128.6	\$127.7	\$200 \$0
Investments in new/existing portfolio companies	\$15.3	\$55.7	\$30.1	\$100 \$0
Loan Investments held in "strong" credit ratings	97.3%	99.9%	96.7%	110% 100% 90%

\*Adjusted for accrued capital gains incentive fee expense, reconciliation to net investment income included in our fiscal second guarter 2017 earnings release.



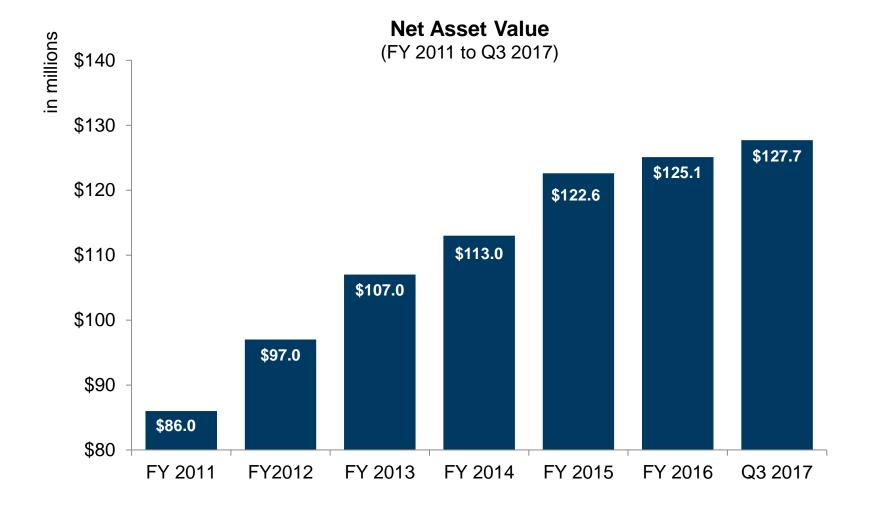
### Reconciliation of NII and NAV per Share

#### **Reconciliation of Quarterly NII per Share**



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### NAV Continues to Benefit from Realizations





### Significant Dry Powder Available

(As of November 30, 2016)	Total Borrowing Capacity	Outstanding	Available Liquidity
Secured Revolving Credit Facility	\$45.0 million	\$0.0 million	\$45.0 million
SBA Debentures	\$150.0 million	\$112.7 million	\$37.3 million
Publicly-Traded Notes (at fair value)	\$62.3 million	\$62.3 million	\$0.0 million
Cash and Cash Equivalents	\$23.3 million	\$23.3 million	
-	\$ 105.6 million		
Incremental cash fi	\$10.0 million		
Total Availab	\$ 115.6 million*		

\* Ability to grow AUM by 41.6% without any new external financing



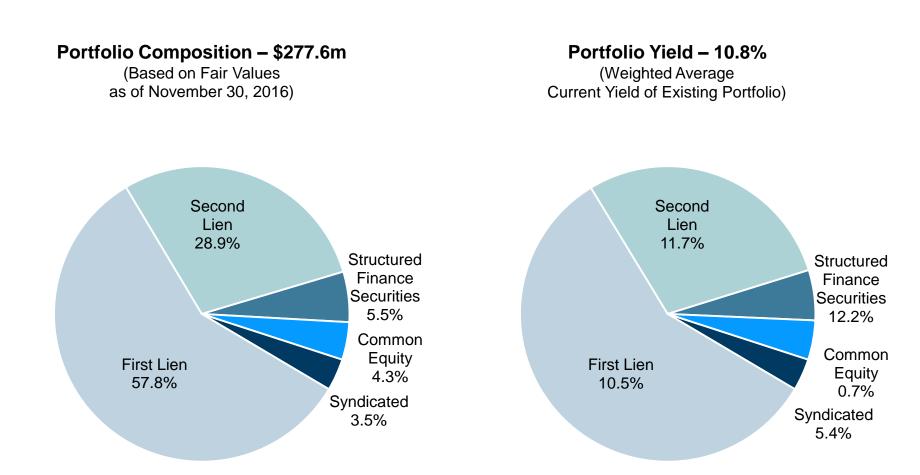
### Impact of Baby Bonds Refinancing

## Two non-recurring financial impacts related to Q4 baby bonds refinancing:

- 1. Write-down of deferred financing costs related to 2020 baby bonds
  - Approx. \$1.6 million as of November 30, 2016
  - To be disclosed as loss on extinguishment of debt, non-recurring
- 2. Additional interest expense related to capital decision to only call the 2020 bonds once the 2023 bonds have been issued:
  - Prudent cash management
  - Standard call period of 30 days
  - Approximate impact of additional interest on 2020 baby bonds is \$0.4 million in Q4 2017

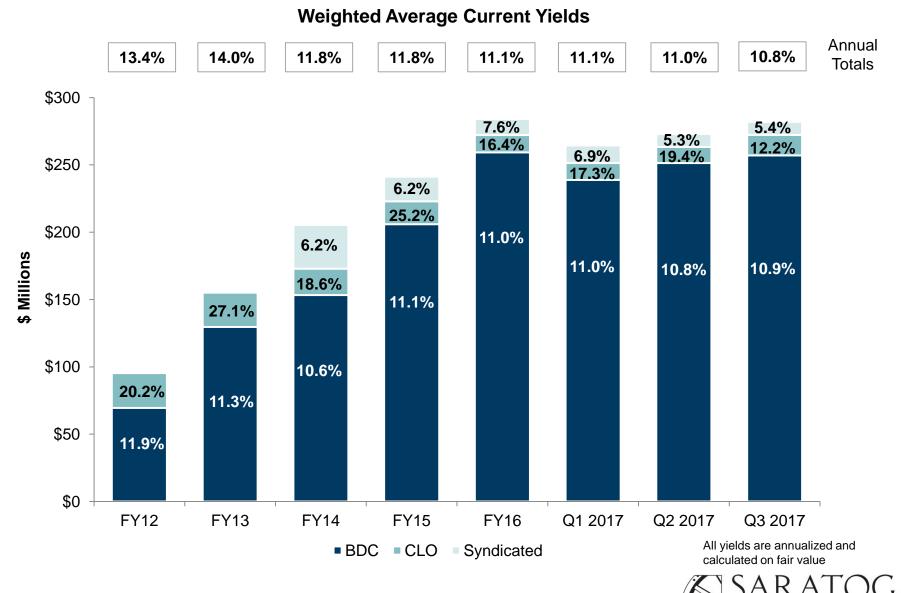


#### Portfolio Composition and Yield





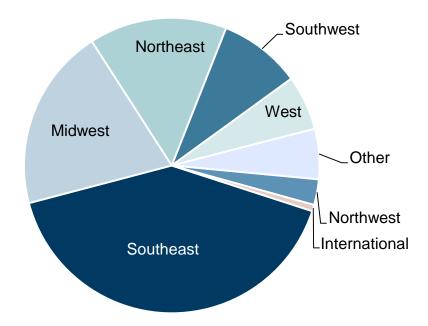
#### Yield of BDC Remains Strong and Consistent



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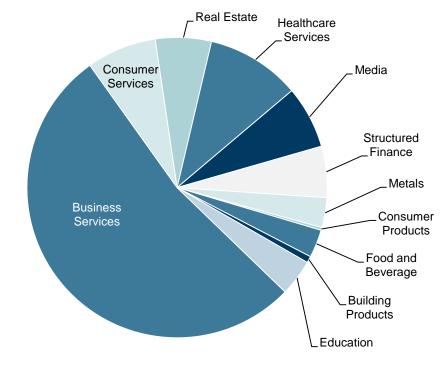
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### **Diversified Across Industry and Geography**



#### Investments diversified geographically Invest

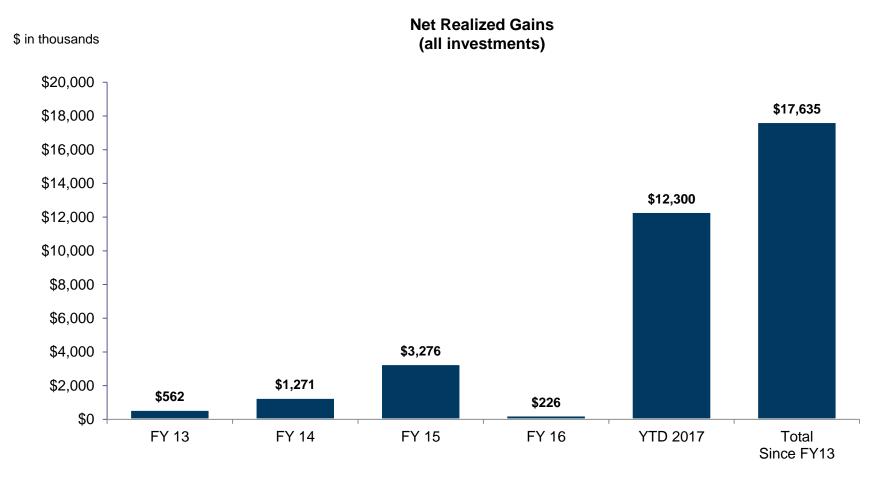
#### Investments across 11 distinct industries





### Net Realized Gains Help Protect Shareholder Capital

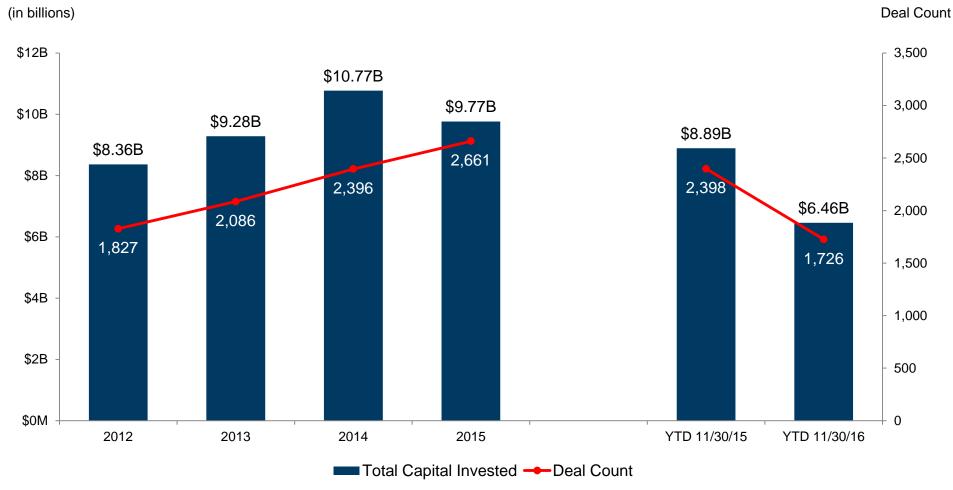
#### Cumulative net realized gains reflect portfolio credit quality





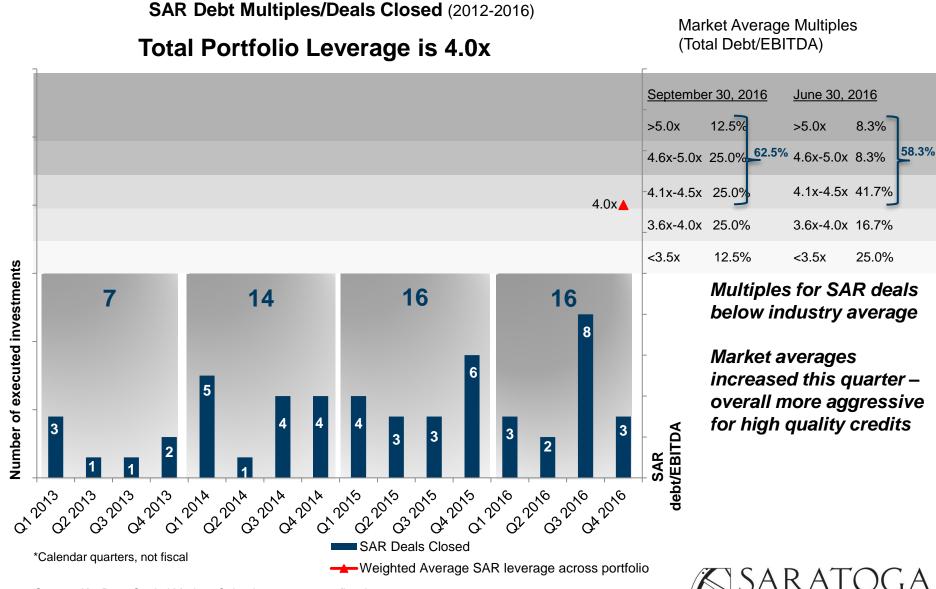
### US Deal Activity Below \$25m Continues to Decrease

- 2015 transactions for US deals below \$25 million was up 11% from 2014
- YTD 2016 trending much lower down 28% year-over-year (11 months)



Source: Pitchbook 2016, Calendar years.

#### Exercising Disciplined Investment Judgment While Growing Origination Pace



Source: KeyBanc Capital Markets Calendar quarters, not fiscal

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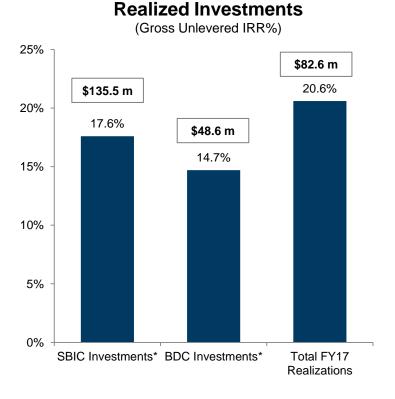
### Robust Pipeline During Tough Execution Market

Despite a difficult market to close deals, the number of new business opportunities is increasing for us, yet we remain as disciplined as ever.

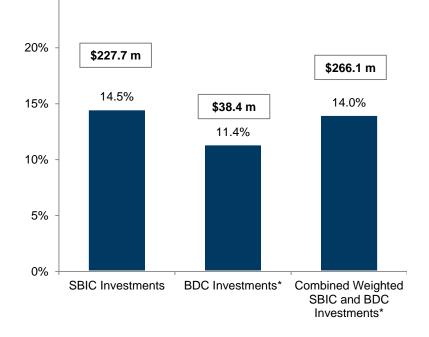
Calendar	2013	$\Delta$	2014	$\Delta$	2015	Δ	2016	
Deals Sourced	448	7%	480	28%	613	5%	645	<ul> <li>50% of deal flow from private equity sponsors</li> <li>50% of deals from private companies without institutional ownership</li> </ul>
Term Sheets	50	(2%)	48	40%	67	(28%)	48	<ul> <li>Saratoga issues an average of 13 terms sheets per quarter</li> <li>~ 80% of term sheets are issued for transactions involving a private equity sponsor.</li> <li>Decrease reflects inconsistent quality</li> </ul>
Deals Executed	7	100%	14	14%	16	-	16	<ul> <li>Saratoga closes an average of 4 deals per quarter, 2.5% of deals reviewed</li> <li>Unchanged volume despite more deals being sourced reflects inconsistent quality</li> </ul>



#### **Demonstrated Strong Track Record**



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



#### Track Records as of 11/30/16

<sup>1</sup> IRRs for unrealized investments include fair value through 11/30/16 and interest through 12/31/16

\* SBIC investments represent all investments in the first license. BDC investments exclude investments existing

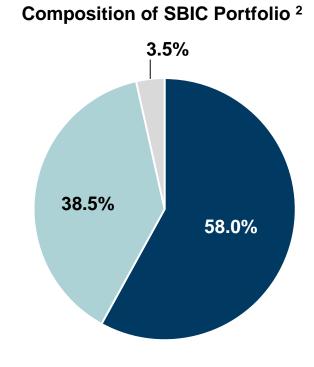
when Saratoga management took over, and corporate financing investments.



25%

### SBIC Portfolio Primarily Senior Debt

- SBIC portfolio consists of 20 investments across a range of industries. Compared to the broader loan market tracked by S&P and Thomson Reuters, SAR's leverage levels are lower.
- The weighted average leverage for all SBIC debt investments is 3.7x<sup>1</sup>.
  - 58.0% of the SBIC portfolio consists of senior debt investments, up from 54.6% in August 2016
  - 38.5% of the SBIC portfolio consists of first lien, last out or second lien/subordinated debt investments, down from 41.9% in August 2016



Senior Debt

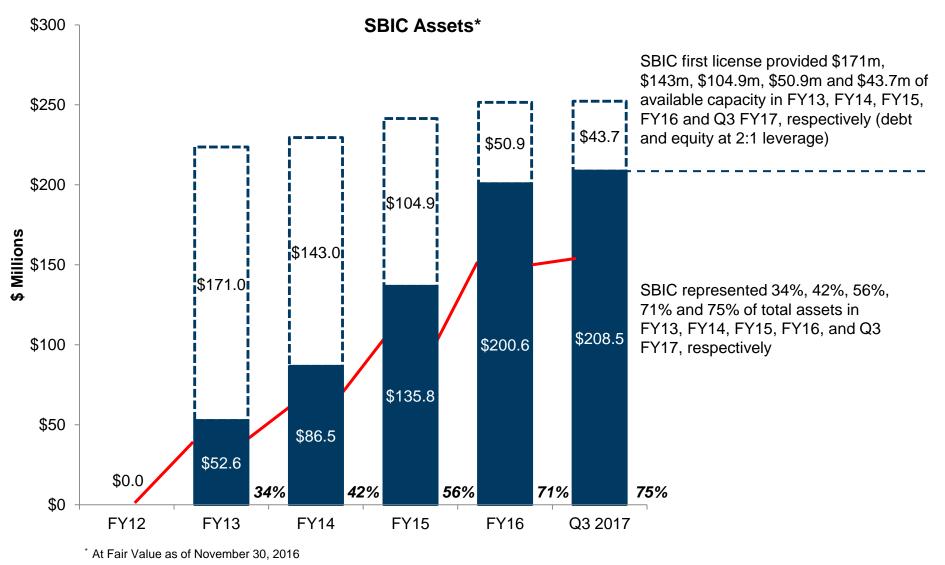
- First Lien Last Out/Second Lien/Subordinated Debt
- Equity/Warrants



<sup>1</sup>Excludes two loans underwritten using recurring revenue metrics <sup>2</sup>Based on market value as of November 30, 2016

#### SBIC Assets Continue to Grow

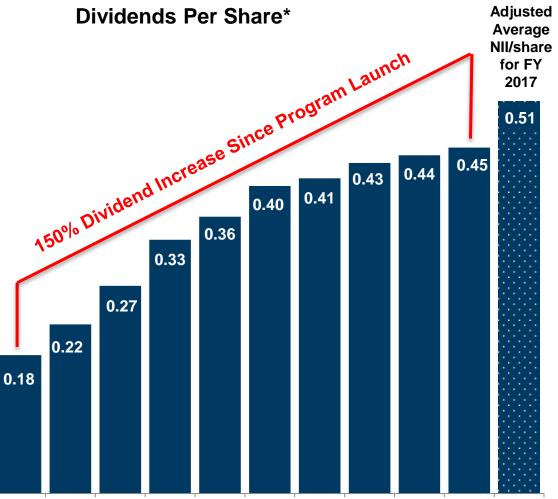






### **Dividends Continue to Increase**

- Established dividend policy to pay regular quarterly cash dividends to stockholders pursuant to dividend reinvestment plan ("DRIP")
- Increased dividend by 150% since program launch
- Declared Q3 2017 dividend of \$0.45, an increase of \$0.01 (2%)
- Overearning our dividend currently (13% on average FY 2017)



Q2 2015 Q3 2015 Q4 2015 Q1 2016 Q2 2016 Q3 2016 Q4 2016 Q1 2017 Q2 2017 Q3 2017

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

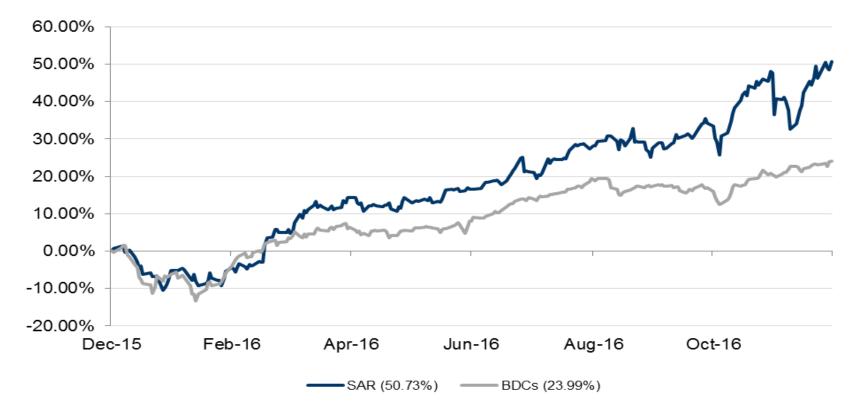


#### SAR LTM Total Return Outperforms BDC Index

#### LTM Total Return (%)

(December 2015 to December 2016)

#### SAR +50.8% v BDC Index +24.0%

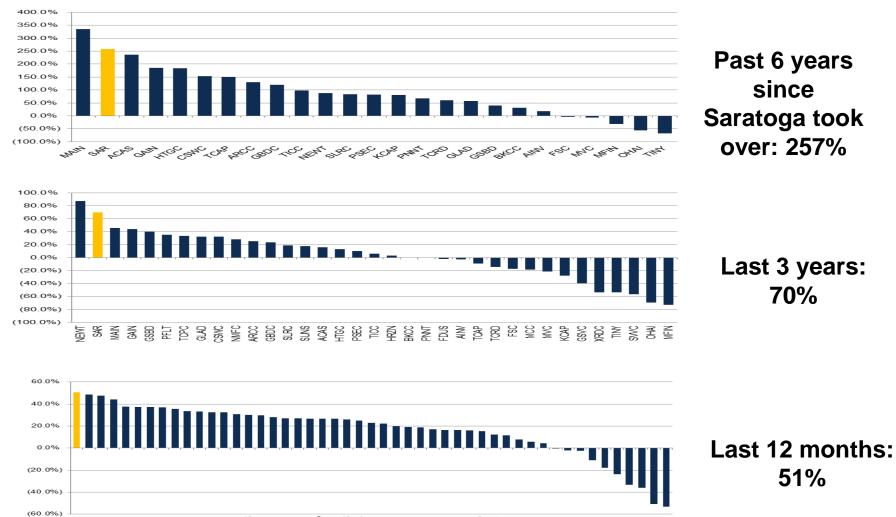


Source: Keefe, Bruyette & Woods



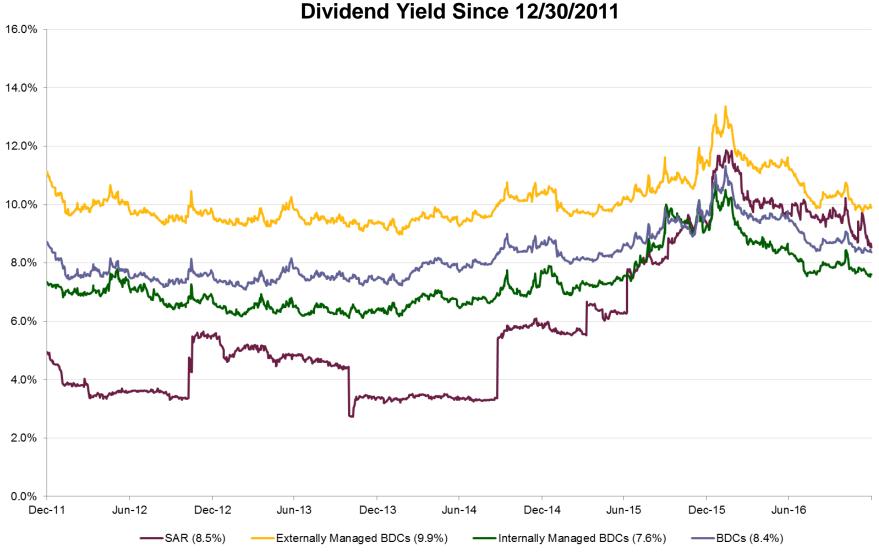
#### Performance at Top of BDC Industry

**BDC Total Return (%)** 



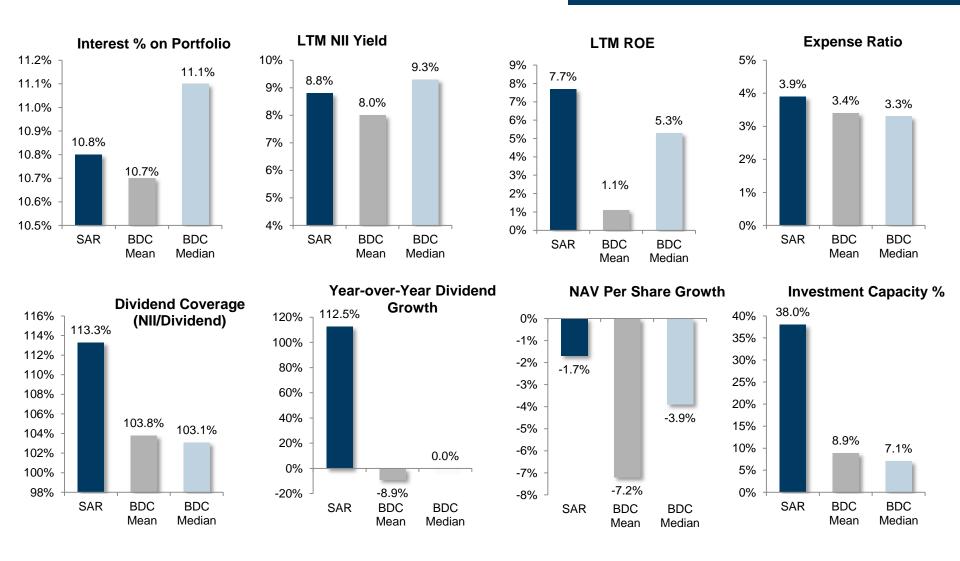


#### SAR Dividend Yield Last 5 Years





### Strongly Differentiated Outperformance



Source: SNL Financial / Company Filings / Raymond James report as of 12/13/16 / Wells Fargo BDC Scorecard 9-1-2016



### Establishing Competitive Edge vs. Other BDCs

#### **Outstanding performance characteristics**

Growing dividend	Paying a current dividend yield of approx. 9.0%; increased quarterly dividend by 150% over past two years
Industry-leading return on equity	LTM ROE of 7.7% factors in both investment income and net gains/losses and significantly beats BDC LTM average of 1.1% - excluding legacy investments, LTM ROE is 12.1%
Ample low-cost, liquidity available	Large borrowing capacity still at hand through both credit facility and SBA debentures relative to competitors – can grow current asset base by 38%; maturity extended through recent successful baby bond offering
Solid earnings per share and NII Yield	Attractive NII per share generated from strong risk-adjusted portfolio returns and favorable capital structure
Commitment to AUM expansion	Assets under management has steadily grown 193% since FY 2012 with strong originations offsetting significant repayments
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, 96.7% of credits are the highest quality, 58% of SBIC investments are senior debt, protected against potential interest rate risk with 82% floating rate assets and debt mainly fixed rate 24
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- 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
  - Return on Equity
  - Earnings per Share
  - Stock Values





# SARATOGA INVESTMENT CORP.