

## Saratoga Investment Corp. Announces Fiscal Third Quarter 2016 Financial Results

### Further Increases Quarterly Dividend to \$0.40 from \$0.36 per share

NEW YORK, Jan. 13, 2016 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2016 fiscal third quarter.

#### Summary Financial Information

Our assets under management ("AUM") was \$241.0 million as of November 30, 2015, a 4.4% decline from \$252.2 million as of August 31, 2015, and relatively unchanged from \$241.2 million as of February 28, 2015. The reduction in AUM, which is reflected in the decrease of adjusted net investment income per share from \$0.52 last quarter to \$0.42 this quarter, was primarily due to the timing of redemptions and new originations, with most redemptions occurring during the quarter, while many new originations occurred following quarter-end. This is demonstrated by new investments of \$31.2 million subsequent to quarter-end and as of January 12, 2016, versus \$3.0 million of redemptions. While we are continuously exposed to further redemptions, the timing this quarter of the redemptions and the subsequent originations were unusual.

Although these continued redemptions have slowed down the growth of our AUM, the positive impact of these redemptions are demonstrated through (i) the Company's return on equity of 10.8% for the quarter and 12.9% year-to-date, (ii) the consistent net realized gains generated by the redemptions, (iii) the growth in our net asset value by \$2.0 million from last quarter and \$4.7 million from year-end, that includes the positive net returns from these realizations, and (iv) increased available liquidity as a result of these redemptions allowing us to meet future potential opportunities in a changing credit and pricing environment.

The Company's summarized financial information is as follows:

- | Net asset value ("NAV") was \$127.3 million as of November 30, 2015, a \$2.0 million increase from an NAV of \$125.3 million as of August 31, 2015 and a \$4.7 million increase from an NAV of \$122.6 million as of February 28, 2015.
  - | For the nine months ended November 30, 2015, \$10.8 million of dividends were declared, \$7.6 million of net investment income and \$4.2 million of net realized gains were earned, and \$3.8 million of stock dividend distributions were made.
- | NAV per share was \$22.59 as of November 30, 2015, compared to \$22.42 as of August 31, 2015 and \$22.70 as of February 28, 2015.
- | Net investment income on a weighted average per share basis was \$0.38 for the quarter ended November 30, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income on a weighted average per share basis was \$0.42, a decrease of \$0.11, or 21.3% from the quarter ended November 30, 2014.
  - | This decrease was primarily due to (i) an increased number of dividends received for the quarter ended November 30, 2014, and (ii) higher interest and debt financing costs for the quarter ended November 30, 2015, without the corresponding increased interest income, as redemptions during the quarter generated cash that was awaiting asset deployment at quarter-end.
- | Earnings per share for the quarter ended November 30, 2015 was \$0.61, a decrease of \$0.02 from the quarter ended November 30, 2014 - the decrease in total investment income from \$7.3 million last year to \$6.9 million this year was offset by the increase in net gain from investments from \$0.8 million last year to \$1.3 million this year.
- | Net investment income was \$2.2 million for the quarter ended November 30, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.3 million, a decrease of \$0.5 million, or 18% from the quarter ended November 30, 2014, largely due to the decreased number of dividends received and the increased interest and debt financing costs outlined above.
- | Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 6.8% for the quarter ended November 30, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 7.4%, a decrease of 190 bps from the quarter ended November 30, 2014.
- | Return on equity was 10.8% and 12.9% for the quarter and nine months ended November 30, 2015, respectively.
- | Investment portfolio activity for the quarter ended November 30, 2015:
  - | Cost of investments made during the period: \$15.3 million
  - | Principal repayments during the period: \$27.9 million
- | Investment portfolio activity subsequent to quarter-end and as of January 12, 2016:
  - | Cost of investments made during the period: \$31.2 million
  - | Principal repayments during the period: \$3.0 million

#### Operating Results

For the fiscal quarter ended November 30, 2015, Saratoga Investment reported net investment income of \$2.2 million, or \$0.38 on a weighted average per share basis, and a net gain on investments of \$1.3 million, or \$0.23 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.4 million, or \$0.61 on a weighted average per share basis. The \$1.3 million net gain on investments was comprised largely of \$0.8 million in net unrealized gains on investments and \$0.4 million in net realized gains. This compared to the fiscal quarter ended November 30, 2014 with net investment income of \$2.6 million, or \$0.49 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 \$3.4 million, or \$0.63 on a weighted average per share basis. The \$0.8 million net gain on investments consisted of \$2.8 million in net realized gains on investments, offset by \$2.0 million in net unrealized appreciation.

Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.3 million and \$2.8 million for the quarters ended November 30, 2015 and 2014, respectively. The decrease in adjusted net investment income of \$0.5 million for the quarter ended November 30, 2015, as compared to the same period last year, is primarily due to (i) lower investment income, which has decreased to \$6.9 million for the quarter ended November 30, 2015 from \$7.3 million for the quarter ended November 30, 2014, and (ii) higher interest and debt financing expenses that has increased from \$1.9 million for the quarter ended November 30, 2014 to \$2.1 million for the quarter ended November 30, 2015. The lower investment income is due to other income that decreased by \$0.5 million due to an increased number of dividends received for the quarter ended November 30, 2014. The increased debt and financing expenses reflects higher outstanding Notes this quarter, despite an equivalent asset base and without the corresponding increased interest income, as redemptions this quarter generated cash that was awaiting asset deployment at quarter-end. Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, increased from \$0.8 million for the quarter ended November 30, 2014 to \$1.2 million for the quarter ended November 30, 2015, reflecting higher professional fees related to the issuance of the Notes this quarter, as well as increased administrator expenses and deal research fees.

Net investment income yield was 6.8% for the quarter ended November 30, 2015. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income yield was 7.4% for the quarter ended November 30, 2015. Return on equity was 10.8% for the same quarter.

Net investment income yield was 8.8% 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 9.5% for the quarter ended November 30, 2014.

NAV was \$127.3 million as of November 30, 2015, a \$4.7 million increase from an NAV of \$122.6 million as of February 28, 2015. During this period, \$10.8 million of dividends were declared, \$7.6 million of net investment income and \$4.2 million of net realized gains were earned, and \$3.8 million of stock dividend distributions were made. NAV per share was \$22.59 as of November 30, 2015, compared to \$22.70 as of February 28, 2015. During these nine months, NAV per share decreased by \$0.11 per share, primarily reflecting the \$4.7 million, or \$0.83 per share increase in net assets (net of the \$1.96 dividend paid during fiscal year 2016), offset by the dilutive impact of the 234,716 shares issued pursuant to the dividend reinvestment plan.

"During this fiscal third quarter of 2016, we maintained our disciplined approach to expanding our asset base and generating income yield, while continuing to prioritize credit quality," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "During this quarter, we saw early redemptions and capital redeployment post quarter-end, particularly within our SBIC, with lower quarterly Assets Under Management and earnings performance. On the positive side, these redemptions reflect the quality of our prior credit decisions that have realized positive returns for us, and

we've put that capital and more to work since quarter end."

Mr. Oberbeck continued, "In the quarter ended November 30, 2015, we continued to increase our regular quarterly cash dividend to \$0.40 per share, representing a 122% growth in dividend size since we launched the program in the fiscal second quarter of 2015. In addition, our net investment income per share - averaging \$0.46 per share per quarter in fiscal year 2016 - consistently over-earns our increased dividend payments. This long-term progress is reflected in our growing net asset value and a return on equity of 12.9% year-to-date that places us near the top of the industry. Overall, we are extremely pleased with the strong risk-adjusted investment performance we've delivered for our shareholders this year."

Michael J. Grisius, President and Chief Investment Officer, added, "During the fiscal quarter ended November 30, 2015, our portfolio credit quality remained strong with 97.3% of our interest-bearing portfolio holding our highest credit quality rating. Despite significant redemptions and tightening market conditions - which are affecting the entire BDC industry - our increased business development efforts have led to a growing and reliable investment pipeline. To illustrate this, since quarter end we have already redeployed and, in fact, exceeded the value of our third quarter redemptions through prudent and disciplined capital investment. We feel the substantial resources we committed to direct origination have served us well during a time when many of our competitors are struggling to maintain their asset base and quality."

#### Portfolio and Investment Activity

As of November 30, 2015, the fair value of Saratoga Investment's portfolio was \$241.0 million (excluding \$27.2 million in cash and cash equivalents), principally invested in 31 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 60.4% of first lien term loans, 18.1% of second lien term loans, 6.6% of subordinated notes in a CLO, 6.0% of syndicated loans, and 8.9% of common equity.

For the fiscal quarter ended November 30, 2015, Saratoga Investment invested \$15.3 million in new or existing portfolio companies and had \$27.9 million in aggregate amount of exits and repayments, resulting in net exits and repayments of \$12.6 million for the quarter.

Since quarter-end and as of January 12, 2016, Saratoga Investment invested \$31.2 million in new or existing portfolio companies and had exits and repayments of \$3.0 million.

For the fiscal quarter ended November 30, 2015, the weighted average current yield on Saratoga Investment's portfolio for the twelve months ended November 30, 2015 was 11.2%, which was comprised of a weighted average current yield of 10.9% on first lien term loans, 10.6% on second lien term loans, 18.9% on CLO subordinated notes, and 7.2% on syndicated loans.

#### Liquidity and Capital Resources

As of November 30, 2015, Saratoga Investment had no outstanding borrowings under its \$45 million secured revolving credit facility with Madison Capital Funding LLC. At the same time, Saratoga Investment had \$79.0 million outstanding of SBA debentures, \$61.4 million of Baby Bonds (fair value of \$61.5 million) and an aggregate of \$27.2 million in cash and cash equivalents.

With the \$45.0 million credit facility and the \$71.0 million additional borrowing capacity at the SBIC subsidiary, as well as the \$27.2 million of cash and cash equivalents, Saratoga Investment has a total of \$143.2 million of undrawn borrowing capacity and cash and cash equivalents available as of November 30, 2015.

Effective May 29, 2015, Saratoga Investment 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 November 30, 2015, the Company sold 522,981 bonds with a principal of \$13,074,525 at an average price of \$25.31 for aggregate net proceeds of \$12,973,084 (net of transaction costs).

#### Share Repurchase Plan

During the previous fiscal year, the Company announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of its common stock at prices below its NAV as reported in its then most recently published financial statements. This share repurchase plan has been extended for another year during this quarter, and increased to 400,000 shares. No shares were repurchased under this plan during this quarter.

#### 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, \$0.33 per share for the quarter ended May 31, 2015, \$0.36 per share for the quarter ended August 31, 2015 and a special dividend of \$1.00 per share in the first quarter of fiscal year 2016.

On January 12, 2016, Saratoga Investment's Board of Directors declared a dividend to shareholders of \$0.40 per share for the quarter ended November 30, 2015, payable on February 29, 2016 to all stockholders of record at the close of business on February 1, 2016. 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 Third Quarter Conference Call/Webcast Information

**When:** Thursday, January 14, 2016, 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 Thursday, January 14, 2016 through 1:00 p.m. ET on Thursday, January 21, 2016 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 9568370.

**Webcast:** Interested parties may access a simultaneous webcast of the call and find the Q3 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	
	November 30, 2015	February 28, 2015
	(unaudited)	
<b>ASSETS</b>		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$225,051,428 and \$222,505,383, respectively)	\$ 225,261,956	\$ 223,506,589
Control investments (cost of \$13,667,666 and \$15,953,001, respectively)	15,775,843	17,031,146
Total investments at fair value (amortized cost of \$238,719,094 and \$238,458,384, respectively)	241,037,799	240,537,735
Cash and cash equivalents	6,019,448	1,888,158
Cash and cash equivalents, reserve accounts	21,145,241	18,175,214
Interest receivable, (net of reserve of \$537,847 and \$309,498, respectively)	2,973,737	2,469,398
Management fee receivable	170,256	171,913
Other assets	396,659	317,637
Total assets	<u>\$ 271,743,140</u>	<u>\$ 263,560,055</u>
<b>LIABILITIES</b>		
Revolving credit facility	\$ -	\$ 9,600,000
Deferred debt financing costs, revolving credit facility	(535,533)	(594,845)
SBA debentures payable	79,000,000	79,000,000
Deferred debt financing costs, SBA debentures payable	(2,014,360)	(2,340,894)
Notes payable	61,374,625	48,300,000
Deferred debt financing costs, notes payable	(1,760,041)	(1,847,564)
Dividend payable	886,817	402,200
Base management and incentive fees payable	5,657,867	5,835,941
Accounts payable and accrued expenses	648,275	835,189
Interest and debt fees payable	850,362	1,405,466
Due to manager	361,862	365,820
Total liabilities	<u>\$ 144,469,774</u>	<u>\$ 140,961,313</u>
Commitments and contingencies		
<b>NET ASSETS</b>		
Common stock, par value \$ .001, 100,000,000 common shares authorized, 5,634,115 and 5,401,899 common shares issued and outstanding, respectively	\$ 5,634	\$ 5,402
Capital in excess of par value	188,270,413	184,877,680
Distribution in excess of net investment income	(27,094,304)	(23,905,603)
Accumulated net realized loss from investments and derivatives	(36,227,082)	(40,458,088)
Accumulated net unrealized appreciation on investments and derivatives	2,318,705	2,079,351
Total net assets	<u>127,273,366</u>	<u>122,598,742</u>
Total liabilities and net assets	<u>\$ 271,743,140</u>	<u>\$ 263,560,055</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.59</u>	<u>\$ 22.70</u>
Asset Coverage Ratio	307.4%	311.7%

As of

Saratoga Investment Corp.  
Consolidated Statements of Operations  
(unaudited)

	For the three months ended		For the nine months ended	
	November 30		November 30	
	2015	2014	2015	2014
<b>INVESTMENT INCOME</b>				
Interest from investments				
Non-control/Non-affiliate investments	\$ 5,435,083	\$ 5,038,877	\$ 16,961,744	\$ 14,794,342
Payment-in-kind interest income from Non-control/Non-affiliate investments	41,322	319,994	995,465	902,536
Control investments	750,605	694,641	2,020,301	1,996,010
Total interest income	6,227,010	6,053,512	19,977,510	17,692,888
Interest from cash and cash equivalents	1,307	1,024	2,774	2,738
Management fee income	369,388	383,012	1,121,286	1,150,505
Other income	338,219	867,409	1,153,838	1,078,239
Total investment income	<u>6,935,924</u>	<u>7,304,957</u>	<u>22,255,408</u>	<u>19,924,370</u>
<b>EXPENSES</b>				
Interest and debt financing expenses	2,129,105	1,869,176	6,240,946	5,466,279
Base management fees	1,091,405	1,087,734	3,366,739	3,093,399
Professional fees	347,639	225,776	1,030,616	937,083
Administrator expenses	325,000	250,000	850,000	750,000
Incentive management fees	404,218	932,609	2,160,772	2,079,976
Insurance	85,262	83,388	259,895	252,002
Directors fees and expenses	51,000	51,000	153,000	159,761
General & administrative	351,875	176,293	738,244	400,487
Excise tax expense (credit)	-	-	(123,338)	-
Total expenses	<u>4,785,504</u>	<u>4,675,976</u>	<u>14,676,874</u>	<u>13,138,987</u>
NET INVESTMENT INCOME	<u>2,150,420</u>	<u>2,628,981</u>	<u>7,578,534</u>	<u>6,785,383</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>				
Net realized gain from investments	447,813	2,761,558	4,231,006	3,203,399
Net unrealized appreciation/(depreciation) on investments	823,093	(2,005,072)	239,354	(1,686,263)
Net gain on investments	<u>1,270,906</u>	<u>756,486</u>	<u>4,470,360</u>	<u>1,517,136</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 3,421,326</u>	<u>\$ 3,385,467</u>	<u>\$ 12,048,894</u>	<u>\$ 8,302,519</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.61	\$ 0.63	\$ 2.18	\$ 1.54
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,632,011	5,379,616	5,533,094	5,379,616

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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 nine months ended November 30, 2015 and 2014.

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	For the three months ended November 30		For the nine months ended November 30	
	2015	2014	2015	2014
Net Investment Income	\$ Ä Ä 2,150,420	\$ Ä Ä 2,628,981	\$ Ä Ä 7,578,534	\$ Ä Ä 6,785,383
Changes in accrued capital gains incentive fee expense/reversal	198,176	220,052	517,034	508,141
Adjusted net investment income	2,348,596	2,849,033	8,095,568	7,293,524
Net investment income yield	6.8%	8.8%	8.1%	7.7%
Changes in accrued capital gains incentive fee expense/reversal	0.6%	0.7%	0.5%	0.6%
Adjusted net investment income yield <sup>(1)</sup>	7.4%	9.5%	8.6%	8.3%
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Net investment income per share	\$ 0.38	\$0.49	\$ 1.37	\$1.26
Changes in accrued capital gains incentive fee expense/reversal	\$ 0.04	\$ 0.04	\$ 0.09	\$ 0.10
Adjusted net investment income per share <sup>(2)</sup>	\$ 0.42	\$ 0.53	\$ 1.46	\$ 1.36

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

(2) Ä Ä Adjusted net investment income per share is calculated as adjusted net investment income divided by weighted average common shares outstanding.

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To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/saratoga-investment-corp-announces-fiscal-third-quarter-2016-financial-results-300204126.html>

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