

July 13, 2016

Saratoga Investment Corp. Announces Fiscal First Quarter 2017 Financial Results

Increases Quarterly Dividend to \$0.43 from \$0.41 per share

NEW YORK, July 13, 2016 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2017 fiscal first quarter.

Summary Financial Information

For the quarter ended May 31, 2016, Saratoga Investment's assets under management ("AUM") was \$264.4 million, an increase of 0.6% from \$262.7 million as of May 31, 2015, and a decrease of 6.9% from \$284.0 million as of February 29, 2016. This decrease from year-end reflects redemptions of \$20.6 million during the quarter. Our portfolio remains strong, with no investments on a non-accrual status as of quarter-end and a continued high level of investment quality - the highest quality rating since the inception of this rating system.

The quarter ended May 31, 2016 benefitted from higher investment income as compared to previous quarters - investment income increased to \$7.9 million for the quarter ended May 31, 2016, up from \$7.6 million for the quarter ended May 31, 2015.

Net Asset Value ("NAV") increased \$2.0 million from \$125.1 million as of February 29, 2016 to \$127.1 million as of May 31, 2016, and return on equity for the quarter ended May 31, 2016 was 10.4% annualized.

The Company's summarized financial information is as follows:

	For the quarter ended May 31, 2016	For the quarter ended Feb 29, 2016	For the quarter ended May 31, 2015
	(\$ in thousands except per share)		
AUM	264,427	283,996	262,743
NAV	127,129	125,150	123,491
Investment Income	7,908	7,795	7,561
Net Investment Income per share	\$0.44	\$0.54	\$0.33
Adjusted Net Investment Income per share	0.46	0.45	0.53
Earnings per share	0.57	(0.07)	1.36
Return on equity - quarter	10.4%	(1.3%)	24.0%
- last twelve months	3.4%	9.4%	13.9%

- | NAV was \$127.1 million as of May 31, 2016, a \$2.0 million increase from an NAV of \$125.1 million as of February 29, 2016, and a \$3.6 million increase from an NAV of \$123.5 million as of May 31, 2015.
 - | For the quarter ended May 31, 2016, \$2.3 million of dividends were declared, while \$2.5 million of net investment income and \$0.75 million of net realized and unrealized gains were earned. There were also \$1.75 million of stock dividend distributions made, representing two quarter's dividend payments of \$0.9 million and \$0.9 million respectively, offset by \$0.7 million of share repurchases.
- | NAV per share was \$22.11 as of May 31, 2016, compared to \$22.06 as of February 29, 2016.
- | Net investment income on a weighted average per share basis was \$0.44 and \$0.33 for the quarters ended May 31, 2016 and 2015, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income on a weighted average per share basis was \$0.46 and \$0.53, respectively.
- | Net investment income was \$2.5 million for the quarter ended May 31, 2016. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.6 million - this is a decrease of \$0.2 million, or 8.6% from the quarter ended May 31, 2015.
- | Earnings per share for the quarter ended May 31, 2016 was \$0.57 per share (including \$0.75 million of net gains on investments) compared to \$1.36 per share (including \$5.6 million of net gains on investments) for the quarter ended May 31, 2015.
- | Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 8.0% for the quarter ended May 31, 2016. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 8.3%.

- ┆ Return on equity for the quarters ended May 31, 2016 and 2015 was 10.4% and 24.0%, respectively.
- ┆ Investment portfolio activity for the quarter ended May 31, 2016:
 - ┆ Cost of investments made during the period: \$0.0 million
 - ┆ Principal repayments during the period: \$20.6 million

Operating Results

For the quarter ended May 31, 2016, Saratoga Investment reported net investment income of \$2.5 million, or \$0.44 on a weighted average per share basis, and a net gain on investments of \$0.7 million, or \$0.13 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.3 million, or \$0.57 on a weighted average per share basis. The \$0.7 million net gain on investments was comprised largely of \$6.1 million in net realized gain on investments, offset by \$5.4 million in net unrealized depreciation on investments. This compared to the quarter ended May 31, 2015 with 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 \$1.04 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 consisted of \$0.07 million in net realized gains on investments and \$5.5 million of unrealized appreciation.

Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$2.6 million - this is a decrease of approximately \$0.2 million, or 8.6% from the quarter ended May 31, 2015.

The quarter ended May 31, 2016 benefitted from higher investment income as compared to the quarter ended May 31, 2015 - investment income increased to \$7.9 million for the quarter ended May 31, 2016 from \$7.6 million for the quarter ended May 31, 2015. This steady increase in investment income was generated from an investment base that increased slightly by 0.6% since the quarter ended May 31, 2015. The investment income increase was offset by (i) increased debt and financing expenses from higher outstanding Notes payable and SBA debentures this year reflective of the growing average investment and asset base, (ii) increased base management fees generated from the management of this larger pool of investments, and (iii) increased total expenses, excluding interest and debt financing expenses, base management fees and incentive fees, reflecting primarily higher administrator expenses.

Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, increased from \$0.9 million for the quarter ended May 31, 2015 to \$1.0 million for the quarter ended May 31, 2016, but remained unchanged at 1.4% of average total assets for both quarters.

Net Investment Income Yield was 8.0% for the quarter ended May 31, 2016. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 8.3% for the quarter ended May 31, 2016. 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 10.4% for the quarter ended May 31, 2016.

NAV was \$127.1 million as of May 31, 2016, a \$2.0 million increase from an NAV of \$125.1 million as of February 29, 2016. During this period, \$2.3 million of dividends were declared, while \$2.5 million of net investment income and \$0.75 million of net realized and unrealized gains were earned. There were also \$1.75 million of stock dividend distributions made, representing two quarter's dividend payments of \$0.9 million and \$0.9 million respectively, offset by \$0.7 million of share repurchases.

NAV per share was \$22.11 as of May 31, 2016, compared to \$22.06 as of February 29, 2016. During this past quarter, NAV per share increased by \$0.05 per share, primarily reflecting the \$0.9 million, or \$0.16 per share increase in net assets (net of the \$0.41 per share dividend paid during the quarter), offset by the dilutive impact of the net 77,995 shares issued during the quarter (1.4% of shares outstanding). These shares consisted of 123,492 shares issued pursuant to the dividend reinvestment plan representing two quarter's dividend payments, offset by 45,497 shares that were repurchased.

"In the midst of continued market volatility, we remain committed to pursuing the strategic objectives of achieving portfolio growth and quality that have guided us successfully since our initial investment in Saratoga, and are proud of our continued outperformance and high credit quality of our existing portfolio," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "Our \$20.6 million of redemptions this quarter represent strong returns on our investments as can be seen by our increase in investment income. While we did not add to our investments this quarter, our pipeline is strong and we expect solid additions during our second quarter. In addition, while bank and BDC non-accrual rates are on the rise, we have no investments on non-accrual. We feel that our disciplined investment approach has been rewarded with our double digit return on equity."

Michael J. Grisius, President and Chief Investment Officer, added, "We have been very prudent in deploying capital over the years and have remained so despite an increasingly difficult sourcing market. We have always highlighted that originations

will be lumpy, and to date, our portfolio remains high performing with strong quality ratings. Over 98% of our debt portfolio bears our highest credit quality rating. During this quarter, our return on equity was again strong reflecting some of the realizations we have had. This has helped us outperform the BDC space. We are confident that our investments in new business development capabilities will continue our sourcing productivity and growth."

Portfolio and Investment Activity

As of May 31, 2016, the fair value of Saratoga Investment's portfolio was \$264.4 million (excluding \$27.5 million in cash and cash equivalents), principally invested in 32 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 49.7% of first lien term loans, 33.9% of second lien term loans, 4.7% of subordinated notes in a CLO, 4.9% of syndicated loans, and 6.8% of common equity.

For the quarter ended May 31, 2016, Saratoga Investment invested in no new or existing portfolio companies and had \$20.6 million in aggregate amount of exits and repayments, resulting in a net decrease in investments of \$19.6 million for the quarter.

As of May 31, 2016, the weighted average current yield on Saratoga Investment's portfolio was 11.1%, which was comprised of a weighted average current yield of 10.7% on first lien term loans, 11.3% on second lien term loans, 17.3% on CLO subordinated notes, and 6.9% on syndicated loans.

Liquidity and Capital Resources

As of May 31, 2016, 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 \$103.7 million outstanding of SBA debentures, \$61.8 million of Baby Bonds (fair value of \$62.8 million) and an aggregate of \$27.5 million in cash and cash equivalents.

With the \$45.0 million credit facility and the \$46.3 million additional borrowing capacity at the SBIC subsidiary, as well as the \$27.5 million of cash and cash equivalents, Saratoga Investment has a total of \$118.8 million of undrawn borrowing capacity and cash and cash equivalents available as of May 31, 2016. The proceeds from the Dividend Reinvestment Program totaled \$1.75 million of equity investments in the first quarter 2017. Saratoga Investment also has the ability to issue additional baby bonds through the At-the-Market program outlined below.

On 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 \$20.0 million in aggregate principal amount of the Notes through an At-the-Market ("ATM") offering. As of May 31, 2016, the Company sold 539,725 bonds with a principal of \$13,493,125 at an average price of \$25.31 for aggregate net proceeds of \$13,385,766 (net of transaction costs).

Share Repurchase Plan

In fiscal year 2015, 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. In the third quarter of fiscal year 2016, the Company extended its existing share repurchase plan for another year, and increased it to 400,000 shares through October, 2016. As of July 12, 2016, Saratoga has repurchased 79,224 shares at a weighted average price of \$15.23 per share under this plan.

Dividend

During fiscal year 2016, Saratoga Investment declared and paid dividends of \$2.36 per share, composed of \$0.27 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, \$0.40 per share for the quarter ended November 30, 2015, and a special dividend of \$1.00 per share in the first quarter of fiscal year 2016. During the quarter ended May 31, 2016, Saratoga Investment declared and paid a dividend of \$0.41 per share for the quarter ended February 29, 2016.

On July 7, 2016, Saratoga Investment's Board of Directors declared a dividend of \$0.43 per share for the fiscal quarter ended May 31, 2016, to be paid on August 9, 2016 to all stockholders of record at the close of business on July 29, 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.

2017 Fiscal First Quarter Conference Call/Webcast Information

When: Thursday, July 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, July 14, 2016 through 1:00 p.m. ET on Thursday, July 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: 32861778.

Webcast: Interested parties may access a simultaneous webcast of the call and find the Q1 2017 presentation by going to the "Events & Presentations" section of Saratoga Investment Corp.'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 senior and unitranche leveraged loans, mezzanine debt, 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, 2016 (unaudited)	February 29, 2016
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$254,888,356 and \$268,145,090, respectively)	\$ 251,975,004	\$ 271,168,186
Control investments (cost of \$12,072,644 and \$13,030,751, respectively)	12,452,454	12,827,980
Total investments at fair value (amortized cost of \$266,961,000 and \$281,175,841, respectively)	264,427,458	283,996,166
Cash and cash equivalents	1,309,111	2,440,277
Cash and cash equivalents, reserve accounts	26,164,331	4,594,506
Interest receivable, (net of reserve of \$0 and \$728,519, respectively)	3,442,047	3,195,919
Management fee receivable	170,494	170,016
Other assets	360,202	350,368
Receivable from unsettled trades	-	300,000
Total assets	<u>\$ 295,873,643</u>	<u>\$ 295,047,252</u>
LIABILITIES		
Revolving credit facility	\$ -	\$ -
Deferred debt financing costs, revolving credit facility	(496,064)	(515,906)

SBA debentures payable	103,660,000	103,660,000
Deferred debt financing costs, SBA debentures payable	(2,669,276)	(2,493,303)
Notes payable	61,793,125	61,793,125
Deferred debt financing costs, notes payable	(1,589,192)	(1,694,586)
Dividend payable	-	875,599
Base management and incentive fees payable	5,753,045	5,593,956
Accounts payable and accrued expenses	938,257	855,873
Interest and debt fees payable	1,038,923	1,552,069
Payable for repurchases of common stock	36,887	20,957
Directors fees payable	54,000	31,500
Due to manager	225,070	218,093
Total liabilities	<u>\$ 168,744,775</u>	<u>\$ 169,897,377</u>

NET ASSETS

Common stock, par value \$.001, 100,000,000 common shares authorized, 5,750,222 and 5,672,227 common shares issued and outstanding, respectively	\$ 5,750	\$ 5,672
Capital in excess of par value	189,751,969	188,714,329
Distribution in excess of net investment income	(26,025,665)	(26,217,902)
Accumulated net realized loss from investments and derivatives	(34,069,644)	(40,172,549)
Accumulated net unrealized appreciation (depreciation) on investments and derivatives	(2,533,542)	2,820,325
Total net assets	<u>127,128,868</u>	<u>125,149,875</u>
Total liabilities and net assets	<u>\$ 295,873,643</u>	<u>\$ 295,047,252</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.11</u>	<u>\$ 22.06</u>

Saratoga Investment Corp.

Consolidated Statements of Operations (unaudited)

	<u>For the three months ended May 31, 2016</u>	<u>For the three months ended May 31, 2015</u>
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 6,620,113	\$ 5,648,979
Payment-in-kind interest income from Non-control/Non-affiliate investments	129,090	691,152
Control investments	532,126	590,990
Total interest income	<u>7,281,329</u>	<u>6,931,121</u>
Interest from cash and cash equivalents	3,786	736
Management fee income	373,684	378,746
Other income	249,596	250,564
Total investment income	<u>7,908,395</u>	<u>7,561,167</u>
EXPENSES		
Interest and debt financing expenses	2,368,056	1,963,865
Base management fees	1,227,157	1,124,098
Professional fees	359,299	333,444
Administrator expenses	325,000	250,000
Incentive management fees	728,280	1,797,833
Insurance	70,658	87,317
Directors fees and expenses	66,000	51,000
General & administrative	212,209	182,920
Other expense	13,187	-
Total expenses	<u>5,369,846</u>	<u>5,790,477</u>
NET INVESTMENT INCOME	<u>2,538,549</u>	<u>1,770,690</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	6,102,905	73,246
Net unrealized appreciation (depreciation) on investments	<u>(5,353,867)</u>	<u>5,540,969</u>

Net gain on investments	749,038	5,614,215
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 3,287,587</u>	<u>\$ 7,384,905</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.57	\$ 1.36
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	5,737,496	5,422,491

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, net investment income yield to adjusted net investment income yield and net investment income per share to adjusted net investment income per share for the three months ended May 31, 2016 and May 31, 2015.

	<u>For the three months ended May 31</u>	
	<u>2016</u>	<u>2015</u>
Net Investment Income	\$ 2,538,549	\$ 1,770,690
Changes in accrued capital gains incentive fee expense/reversal	<u>\$ 74,664</u>	<u>\$ 1,086,883</u>
Adjusted net investment income	\$ 2,613,213	\$ 2,857,573
Net investment income yield	8.0%	5.8%
Changes in accrued capital gains incentive fee expense/reversal	<u>0.3%</u>	<u>3.5%</u>
Adjusted net investment income yield ⁽¹⁾	8.3%	9.3%
Net investment income per share	\$ 0.44	\$ 0.33
Changes in accrued capital gains incentive fee expense/reversal	<u>\$ 0.02</u>	<u>\$ 0.20</u>
Adjusted net investment income per share ⁽²⁾	\$ 0.46	\$ 0.53

(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-2017-financial-results-300298379.html>

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