

# Saratoga Investment Corp.

**Fiscal Third Quarter 2019  
Shareholder Presentation**

January 10, 2019



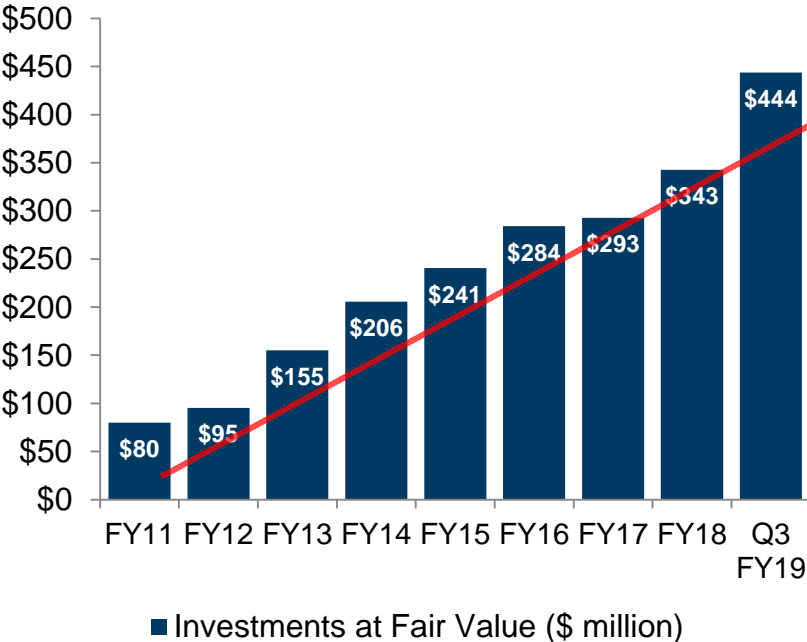
# Continued Growth and Outperformance in Q3 2019

## Fiscal Third Quarter 2019 Highlights:

- Continued strengthening of financial foundation
  - Investment quality remains strong
    - 98.6 % of loan investments with highest internal rating
  - LTM ROE of 10.1% for Q3 FY19, similar to last year's 10.2% and beating BDC industry mean of 9.6%
  - Gross Unlevered IRR of 12.9% on total unrealized portfolio as of November 30, 2018
    - Gross Unlevered IRR of 13.4% on \$299.1 million of total realizations
- Consistent strong long-term originations contribute to growing assets under management
  - AUM up 13% since last quarter, up 31% from last year
  - One new portfolio company this quarter, eight new platforms since May this year
- Latest dividend of \$0.53 per share continued seventeenth increase in quarterly dividends
  - Over-earning our adjusted Q3 NII per share of \$0.65 per share by 23%
- Saratoga CLO refinanced, extending reinvestment period to January 2021
  - CLO also upsized from \$300 million to \$500 million of assets
- Base of capital and liquidity remains strong
  - As of quarter-end, existing available liquidity of \$37.4 million without external financing
- Key performance indicators up in Q3 versus last year
  - Adjusted NII of \$4.8 million is up 49%, Adjusted NII per share of 65c is up 9c, Adjusted NII yield of 11.2% is up 160bps and NAV per share of \$23.13 is up \$0.55, or 2.4%

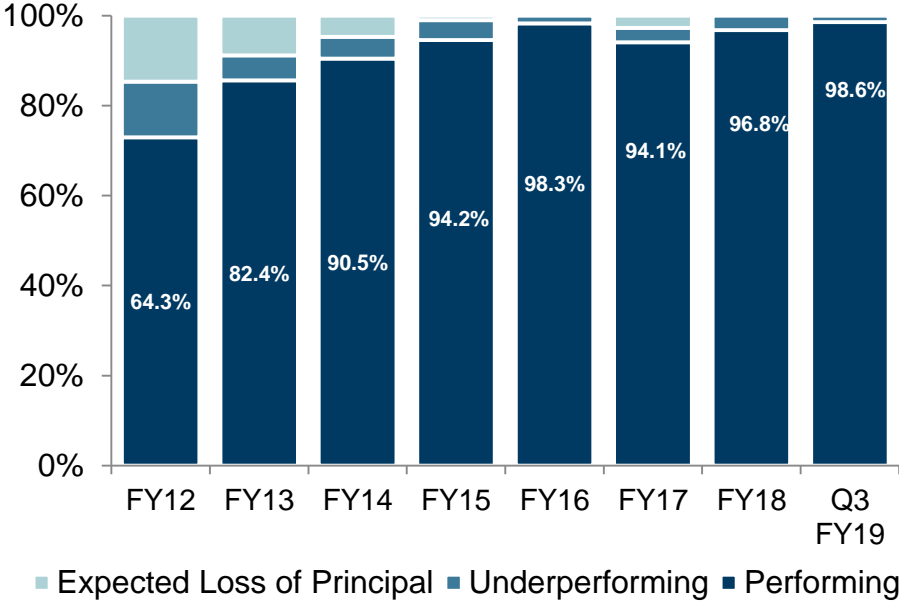
# Continued Asset Growth and Strong Credit Quality

**Asset Base Expansion Trend**



**Fair value of AUM increased 13% quarter-over-quarter, 30% since year-end, and 455% since FY11**

**Overall Credit Quality Continues Strong**



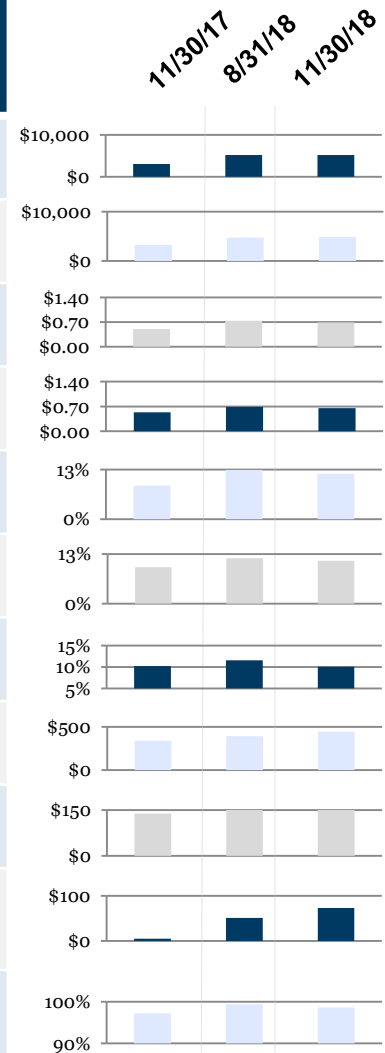
**Over 98% of our SAR loan investments hold our highest internal rating; highest level ever; two on non-accrual at quarter-end\***

\* Excludes our investment in our CLO, and our equity and written-off legacy investments.

# Q3 FY19: Strong Financial Foundation and Momentum

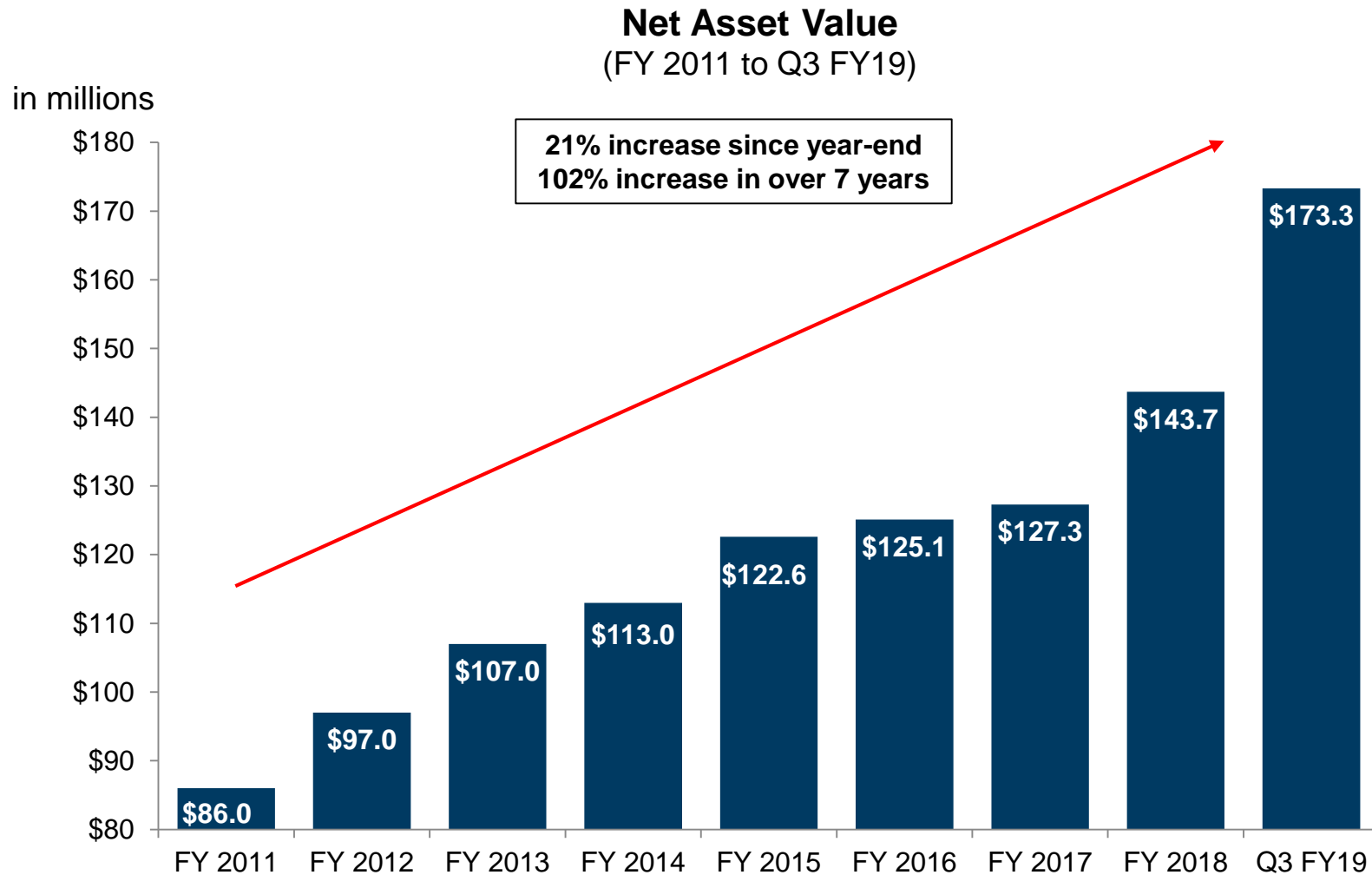
## Key Performance Metrics for the Fiscal Quarter

For the quarter ended and as of (\$ in millions except per share)	Nov 30, 2017	Aug 31, 2018	Nov 30, 2018
Net investment income	\$3,015	\$5,144	\$5,139
Adjusted net investment income*	\$3,264	\$4,761	\$4,850
Net investment income per share	\$0.50	\$0.74	\$0.69
Adjusted net investment income per share*	\$0.54	\$0.69	\$0.65
Net investment income yield	8.8%	12.9%	11.9%
Adjusted net investment income yield*	9.6%	11.9%	11.2%
Return on Equity – Last Twelve Months	10.2%	11.6%	10.1%
Fair value of investment portfolio	\$338.8	\$392.9	\$443.8
Total net assets	\$138.8	\$172.7	\$173.3
Investments in new/existing portfolio companies	\$5.2	\$51.7	\$73.7
Loan Investments held in “strong” credit ratings	97.2%	99.4%	98.6%



\*Adjusted for accrued capital gains incentive fee expense, reconciliation to GAAP net investment income included in our fiscal second quarter 2019 earnings release.  
NOTE: For calculation purposes, Q2 FY19 reflects the impact of the equity offering for half the quarter (to weighted average number of shares and yield/ROE calcs).

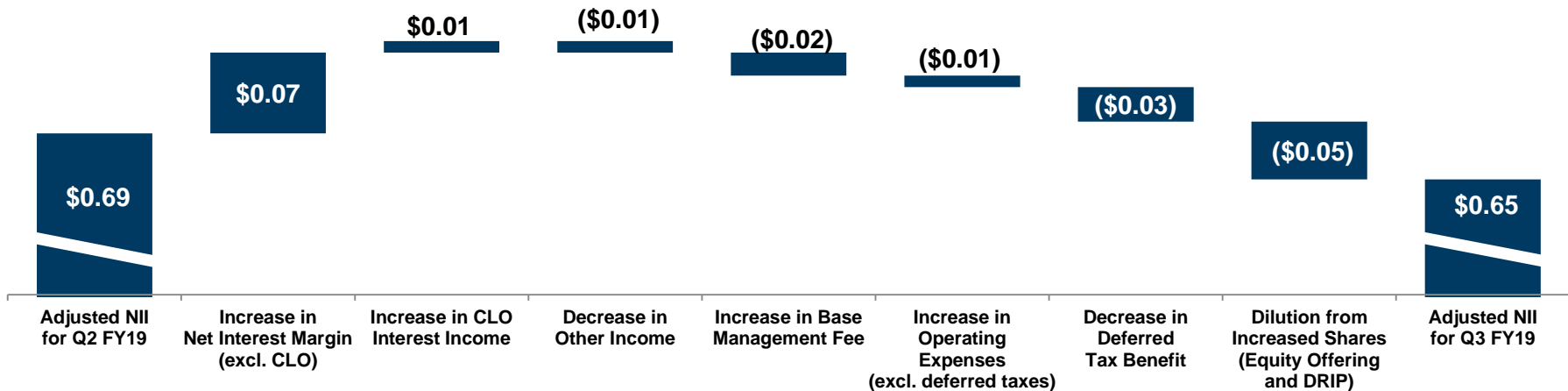
# NAV Continues to Benefit from Performance



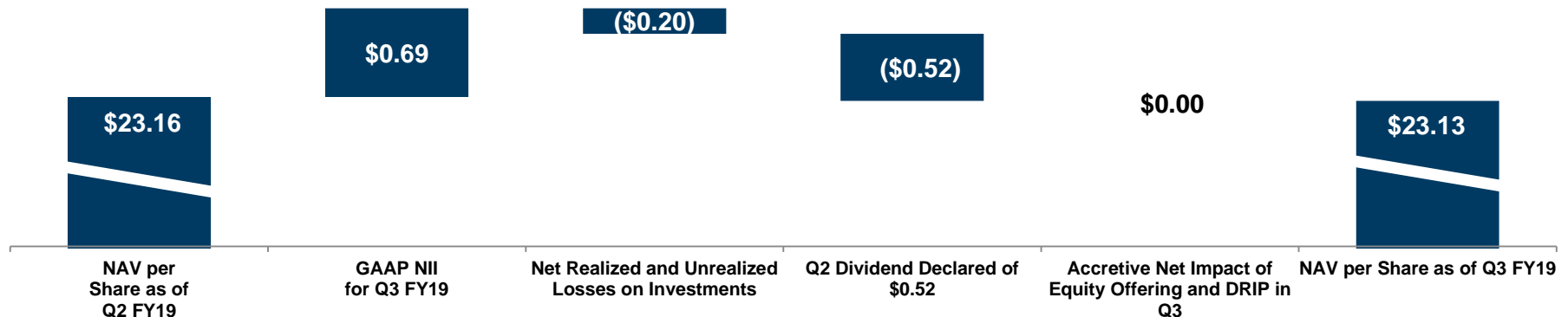
# Quarterly Reconciliation of NII and NAV per Share

- Impacts are shown net of incentive fee

## Reconciliation of Quarterly Adjusted NII per Share



## Reconciliation of Quarterly NAV per Share



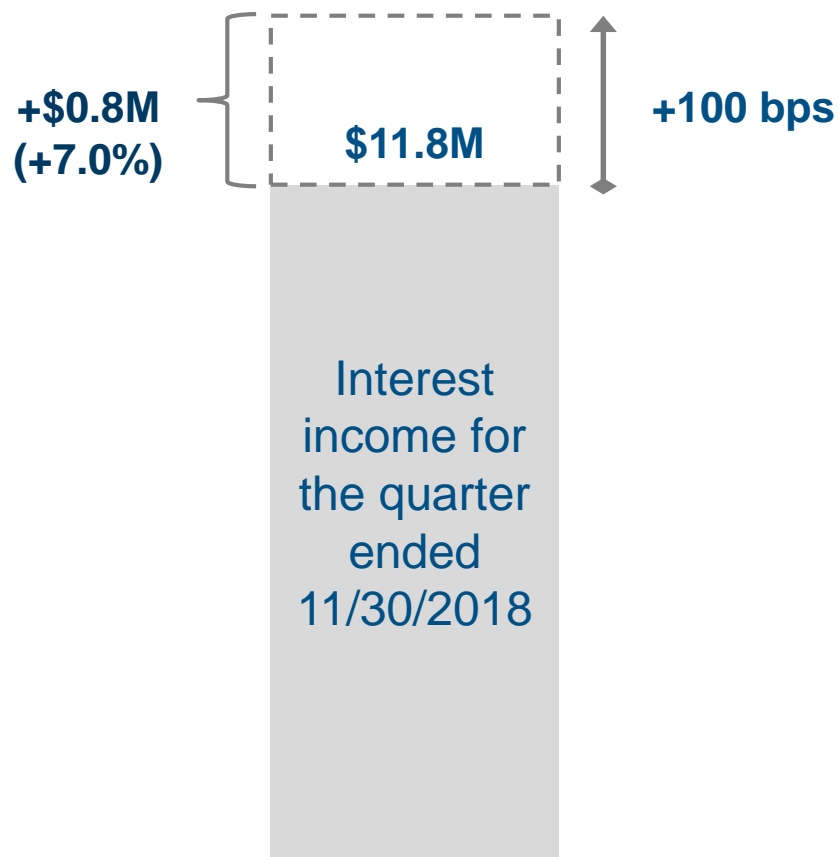
# Dry Powder Remains Available

(As of Nov 30, 2018)		Total Borrowing Capacity	Outstanding	Available Liquidity	Remaining Maturity Period	Fixed / Floating Rate
Secured Revolving Credit Facility		\$45.0 million	\$11.8 million	\$33.2 million	7 Years	Floating
SBA Debentures		\$150.0 million	\$150.0 million	\$0.0 million	5-10 years	Fixed
Publicly-Traded Notes (at fair value)	SAB	\$76.7 million	\$76.7 million	\$0.0 million	5 Years	Fixed
	SAF	\$40.0 million	\$40.0 million	\$0.0 million	7 Years	Fixed
Cash and Cash Equivalents		\$4.2 million	\$0.0 million	\$4.2 million	-	-
<b>Total Available Liquidity (at quarter-end):</b>				<b>\$ 37.4 million</b>		

- Ability to grow AUM by 8% without any new external financing

# SAR Benefits from Increased Interest Rates

## Interest Income Grows with Higher Interest Rates



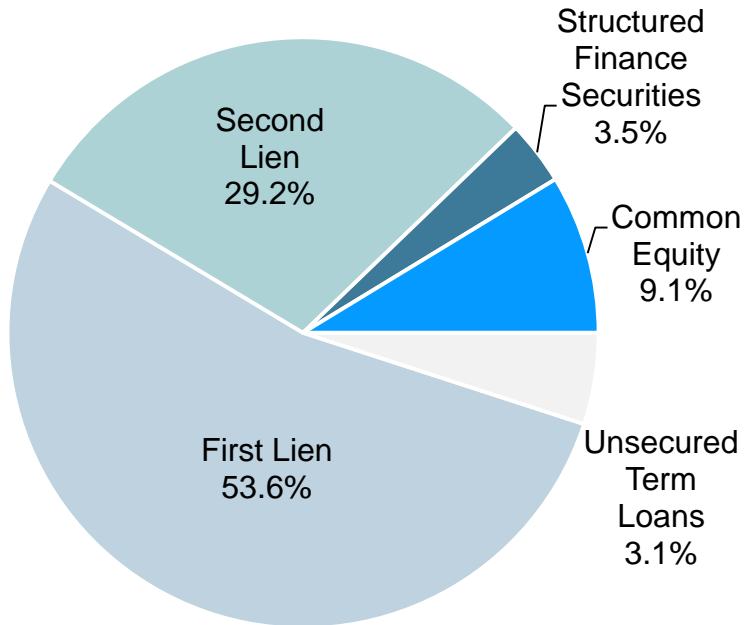
- 82.6% of SAR lending at floating rates
- Hypothetical 1% change in interest rates would result in ~\$0.8 million increase in interest income over the quarter (\$3.3 million per year)
  - Assumes investments as of 11/30/2018 outstanding for full quarter and no change to existing rate terms



# Portfolio Composition and Yield

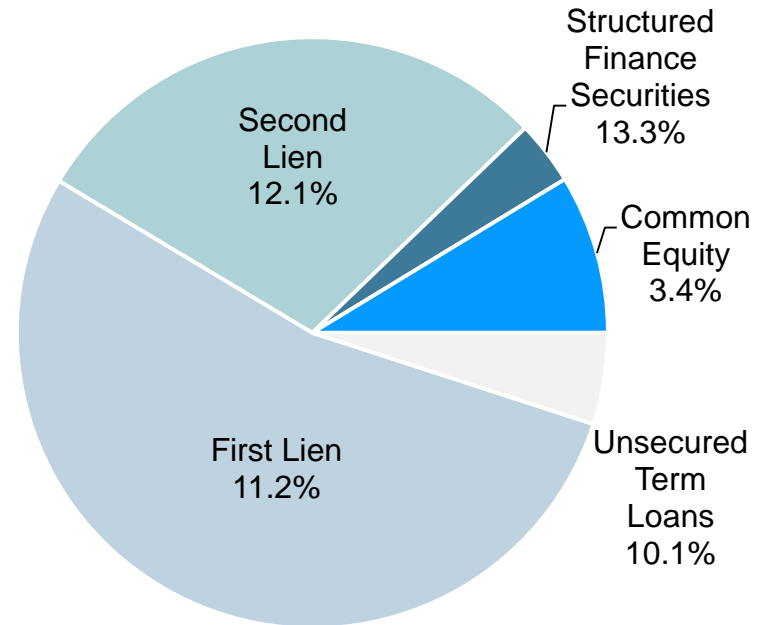
## Portfolio Composition – \$443.8 m

(Based on Fair Values  
as of November, 2018)



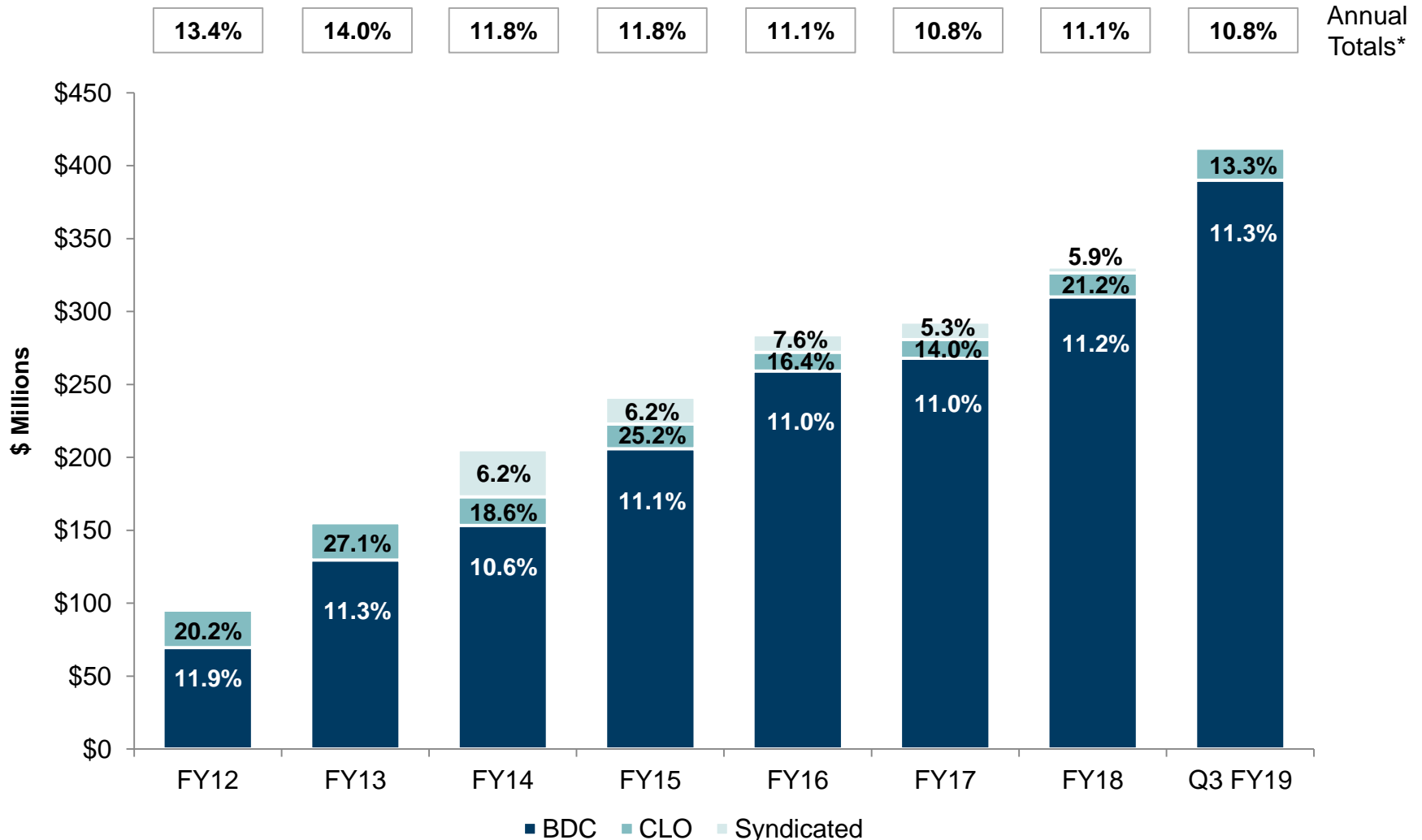
## Portfolio Yield – 10.8%

(Weighted Average Current  
Yield of Existing Total Portfolio)



# Yield of BDC Remains Strong and Consistent

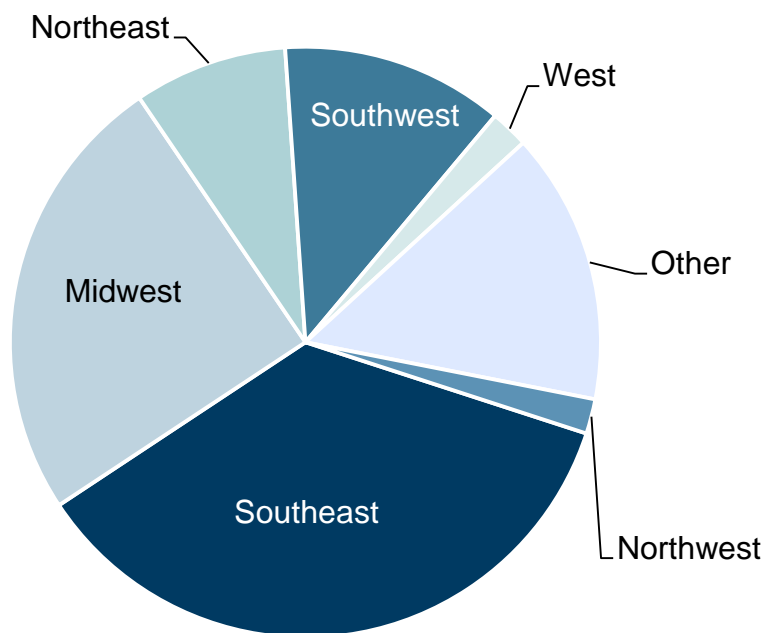
## Weighted Average Current Yields



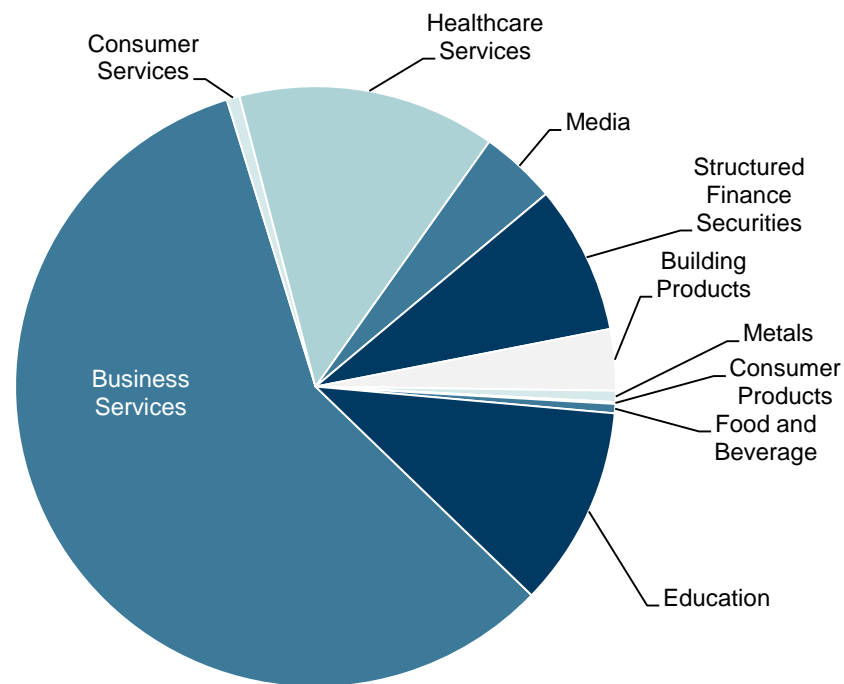
Annual total yields on full portfolio. BDC, CLO and Syndicated yields are annualized and calculated on fair value of interest earning assets.

# Diversified Across Industry and Geography

Investments diversified geographically

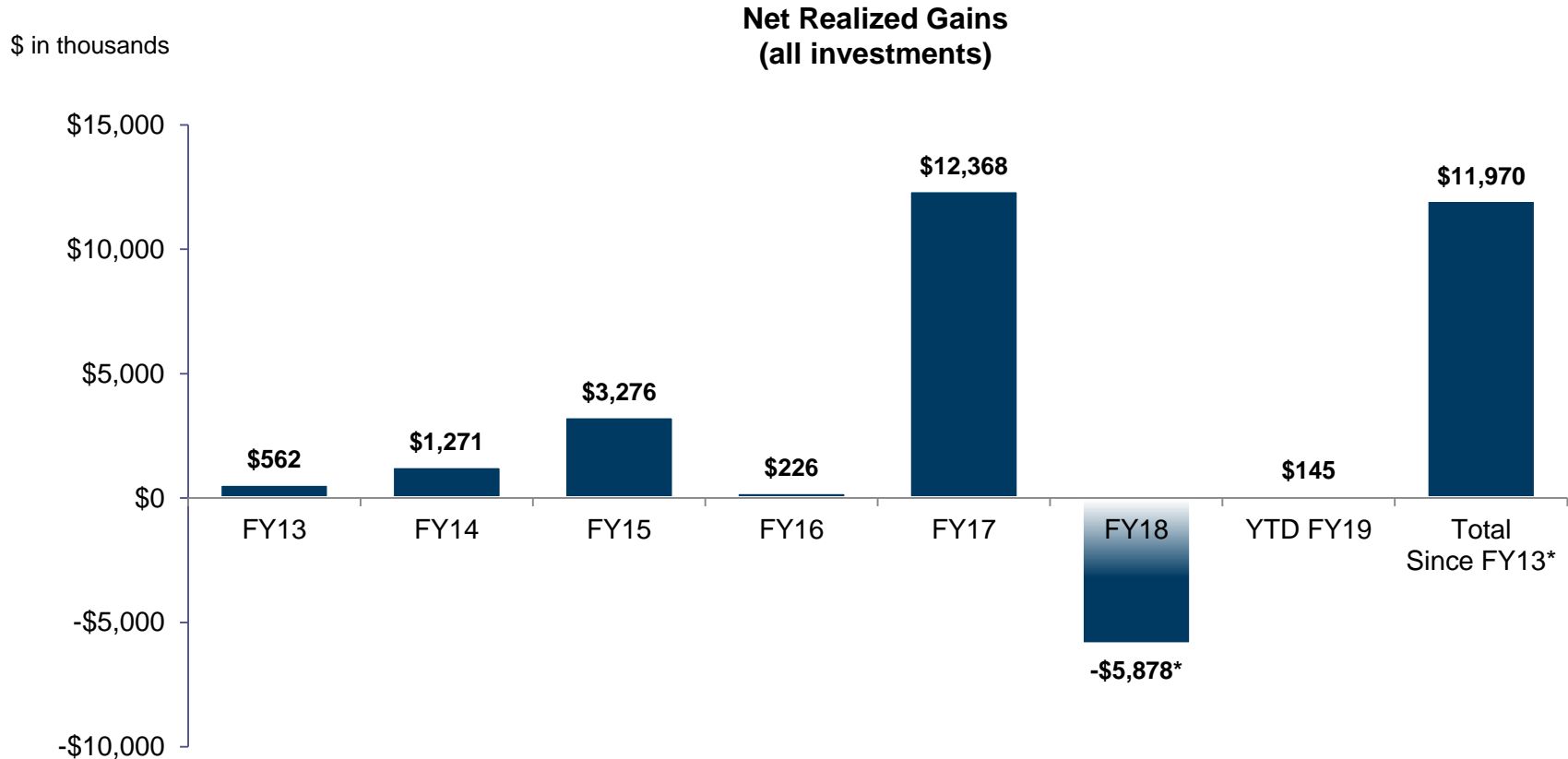


Investments across 10 distinct industries



# Net Realized Gains Help Protect Shareholder Capital

## Cumulative net realized gains reflect portfolio credit quality



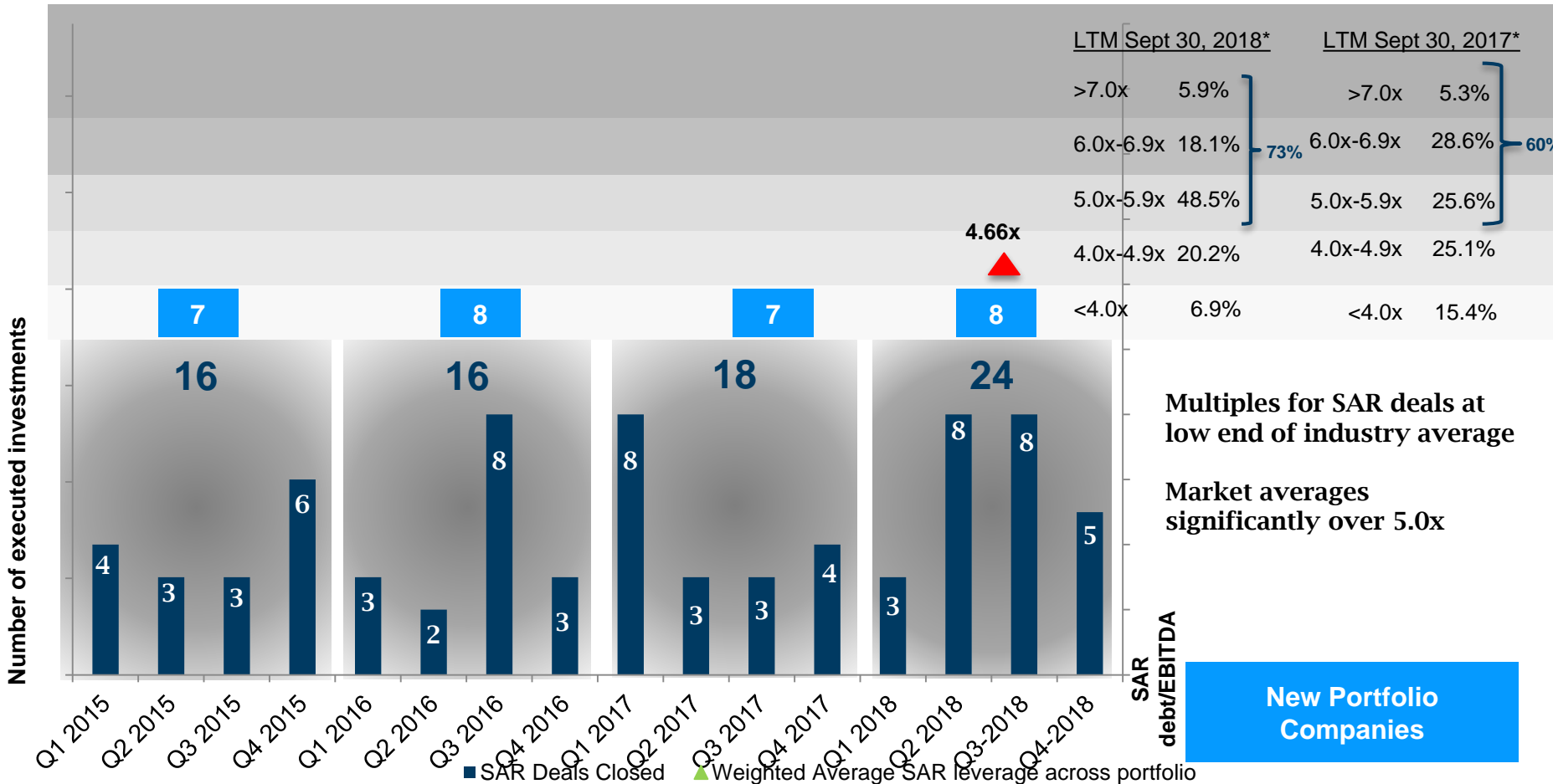
\* Reflects realized loss on My Alarm Center investment of \$7.7m less \$1.8m in other realized gains in FY18.

# Exercising Disciplined Investment Judgment While Growing Origination Pace

**SAR Debt Multiples/Deals Closed (2015-2018)**

**Total Portfolio Leverage is 4.66x<sup>1</sup>**

Market Average Multiples  
(Total Debt/EBITDA)



Multiples for SAR deals at low end of industry average  
Market averages significantly over 5.0x

**New Portfolio Companies**

\*Calendar quarters, not fiscal

Source: S&P Global market Intelligence US:Q3 2018, issuers with EBITDA less than or equal to \$50m. The data has limitations due to a small sample size but that it does reflect trend toward increasing leverage.

<sup>1</sup>Excludes nine loans underwritten using recurring revenue metrics.

# Robust and Growing Pipeline During Tough Execution Market

The number of new business opportunities is increasing for us, yet we remain as disciplined as ever.

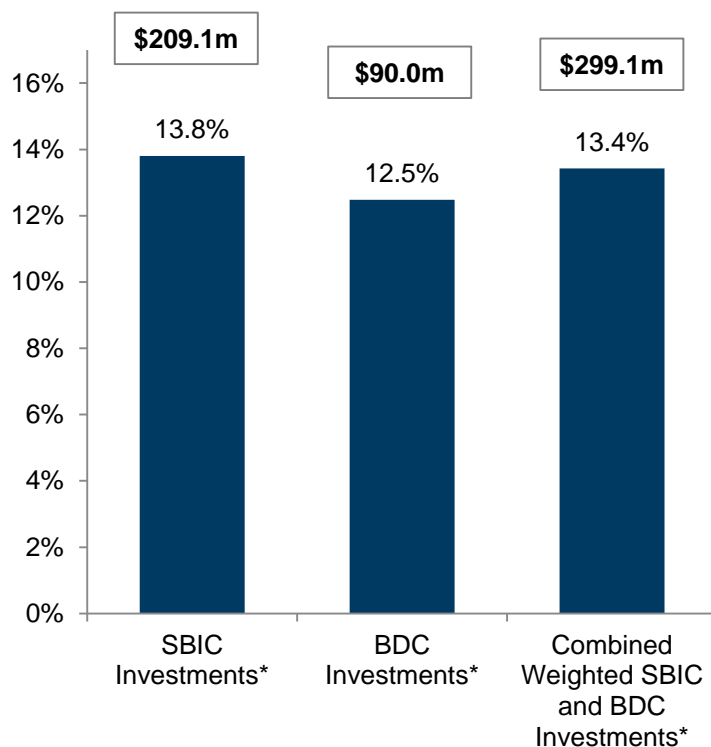
Calendar*	2015	Δ	2016	Δ	2017	Δ	2018	
Deals Sourced	613	5%	645	28%	722	17%	846	<ul style="list-style-type: none"> <li>• 50% of deal flow from private equity sponsors</li> <li>• 50% of deals from private companies without institutional ownership</li> <li>• Saratoga maintains investment discipline which is demonstrated by passing on ~65 deals a year that other firms close</li> </ul>
Term Sheets	67	(28%)	48	2%	49	49%	73	<ul style="list-style-type: none"> <li>• Saratoga issues an average of 18 term sheets per quarter, or 9% of deals reviewed</li> <li>• ~ 80% of term sheets are issued for transactions involving a private equity sponsor</li> </ul>
Deals Executed (new and follow-on)	16	-	16	13%	18	33%	24	<ul style="list-style-type: none"> <li>• Saratoga closes an average of 6 new deals or follow-ons per quarter, ~2.5% of deals reviewed</li> </ul>
New portfolio companies	7		8		7		8	<ul style="list-style-type: none"> <li>• Eight new portfolio companies in the past twelve months</li> </ul>

\*Calendar quarters, not fiscal quarters.

# Demonstrated Strong Track Record

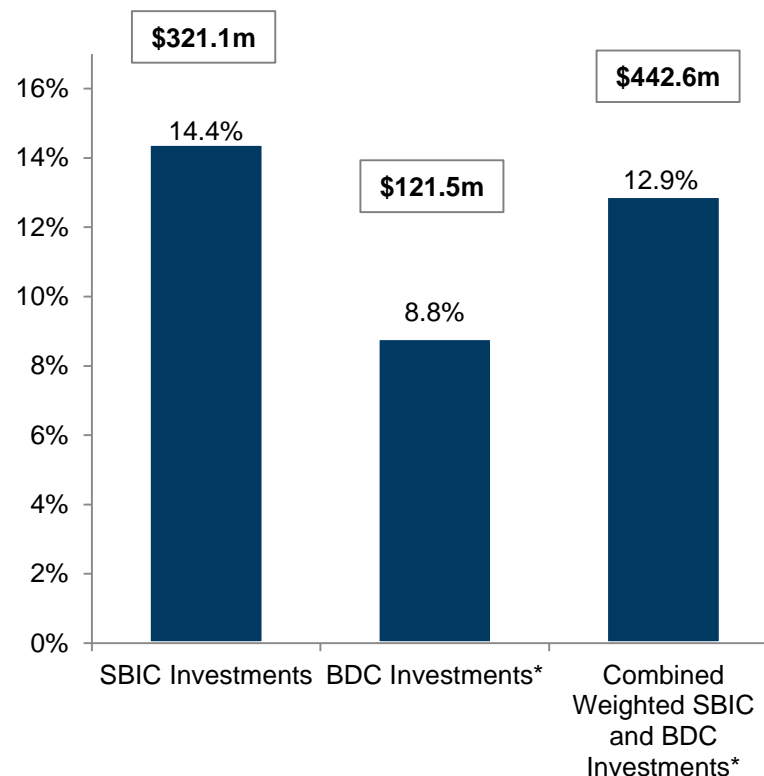
## Realized Investments

(Gross Unlevered IRR%)



## Unrealized Investments <sup>1</sup>

(Gross Unlevered IRR%)



### Track Records as of 11/30/18

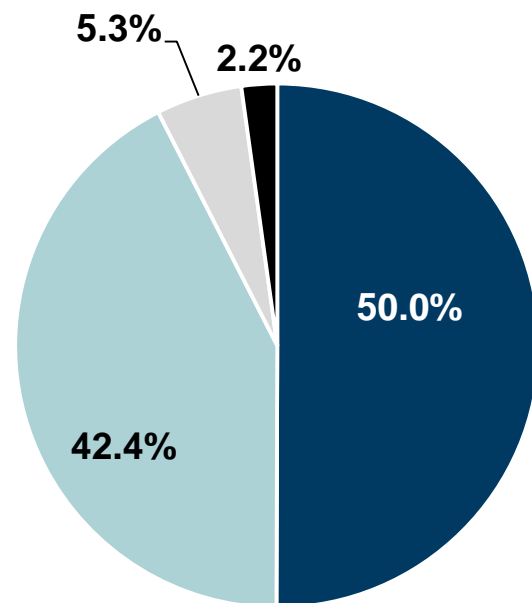
<sup>1</sup> IRRs for unrealized investments include fair value and accrued interest as of 11/30/18

\* SBIC investments represent all investments in the first license. BDC investments exclude investments existing when Saratoga management took over, and corporate financing investments.

# SBIC Portfolio Primarily Senior Debt

- SBIC portfolio consists of investments in 23 portfolio companies 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 4.73x<sup>1</sup>.
  - 50.0% of the SBIC portfolio consists of senior debt investments, down from 52.7% in August 2018.
  - 42.4% of the SBIC portfolio consists of first lien, last out or second lien/subordinated debt investments, up from 39.9% in August 2018.

Composition of SBIC Portfolio<sup>2</sup>



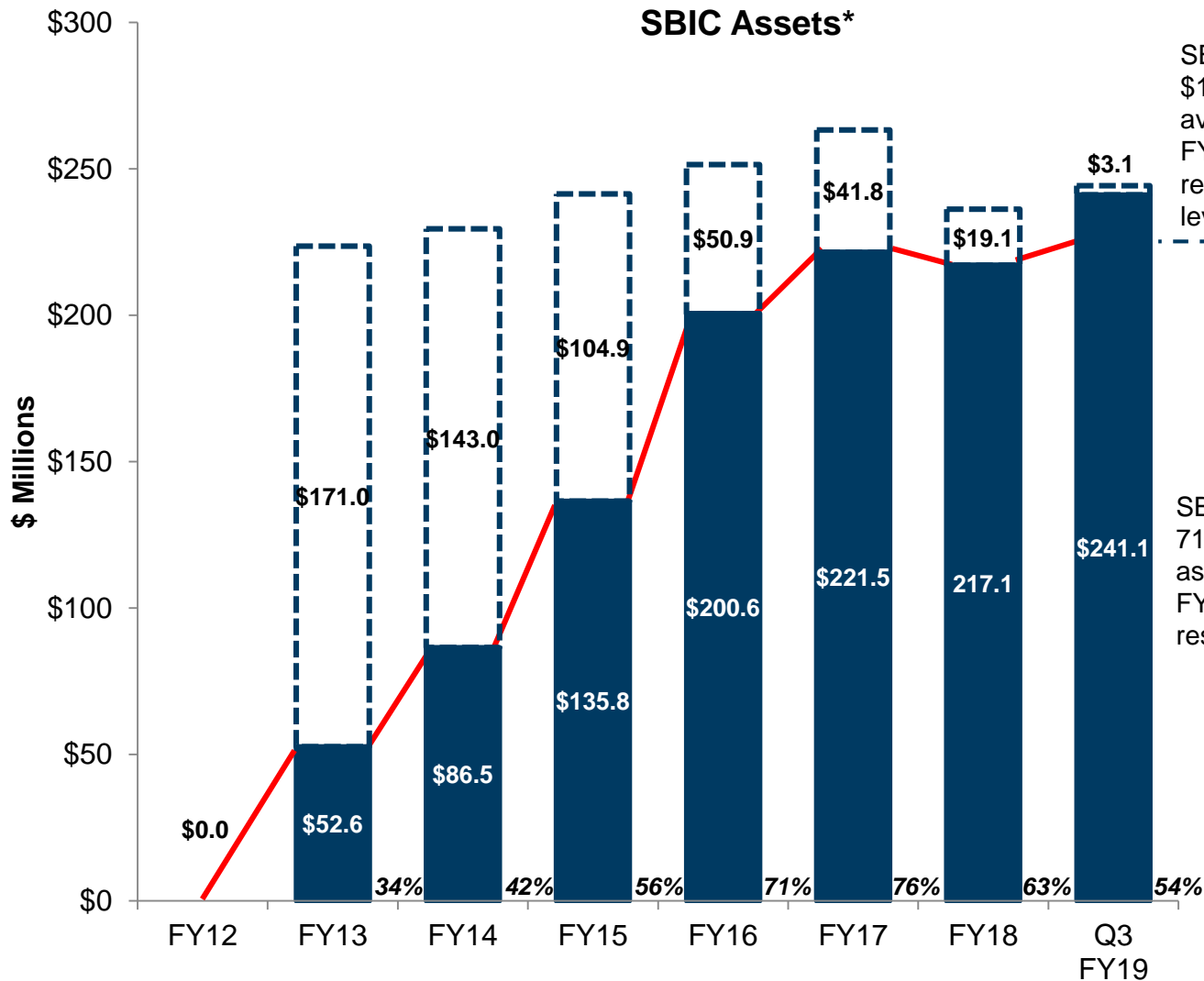
- Senior Debt First Lien
- First Lien Last Out/Second Lien/Subordinated Debt
- Equity/Warrants
- Unsecured/Subordinated

<sup>1</sup>Excludes six loans underwritten using recurring revenue metrics.

<sup>2</sup>Based on market value as of November 30, 2018.



# SBIC Assets Fully Funded



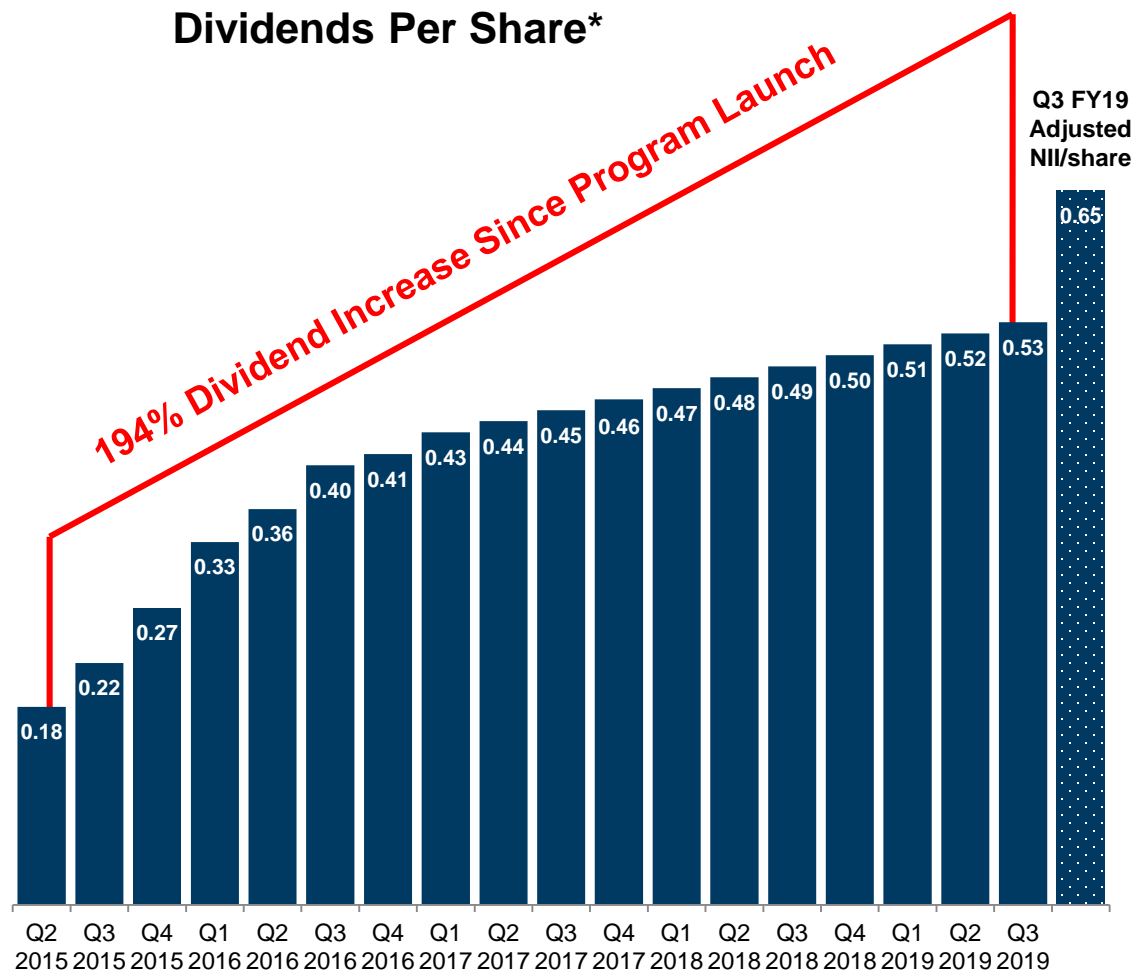
SBIC first license provided \$171m, \$143m, \$105m, \$51m, \$42m, \$19m and \$3m of available capacity in FY13, FY14, FY15, FY16, FY17, FY18 and Q3FY19, respectively (debt and equity at 2:1 leverage)

SBIC represented 34%, 42%, 56%, 71%, 76%, 63% and 54% of total assets in FY13, FY14, FY15, FY16, FY17, FY18 and Q3 FY19, respectively

\* At Fair Value as of November 30, 2018.

# Dividends Continue to Increase

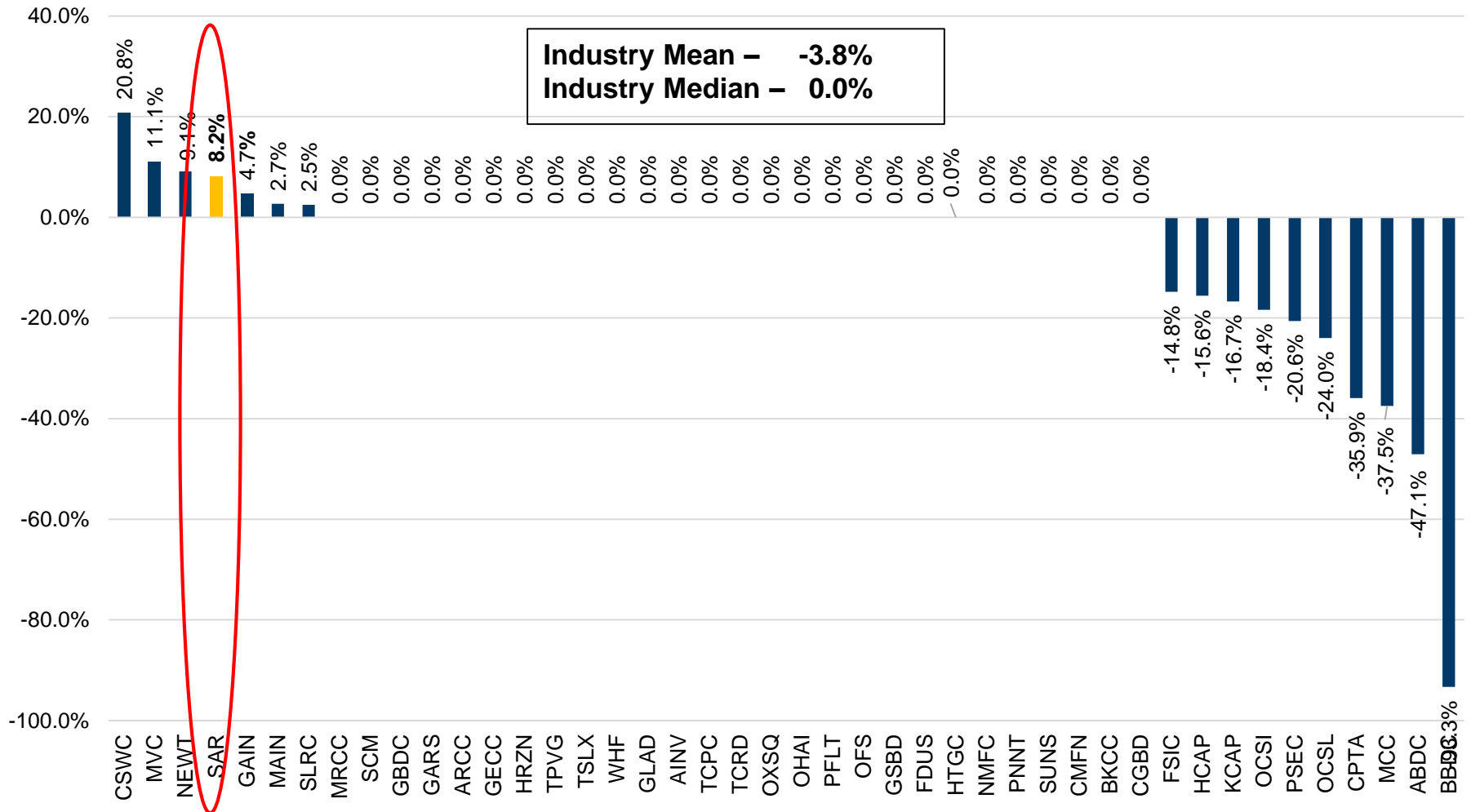
- Established dividend policy to pay regular quarterly cash dividends to stockholders pursuant to dividend reinvestment plan (“DRIP”)
- Increased dividend by 194% since program launch
- Declared Q3 2019 dividend of \$0.53, an increase of \$0.01 (2%)
- Overearning our dividend currently (23.0% on adjusted Q3 FY19 NII per share)



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

# Saratoga Growing Dividends the Past Seventeen Quarters

## Year-Over-Year Quarterly Dividend Growth at Top of Industry



Source: Raymond James report as of 12/14/18

# SAR LTM Total Return Outperforms BDC Index

**LTM Total Return (%)**  
(January 2018 to January 2018)

**SAR +5% vs. BDC Index -5%**

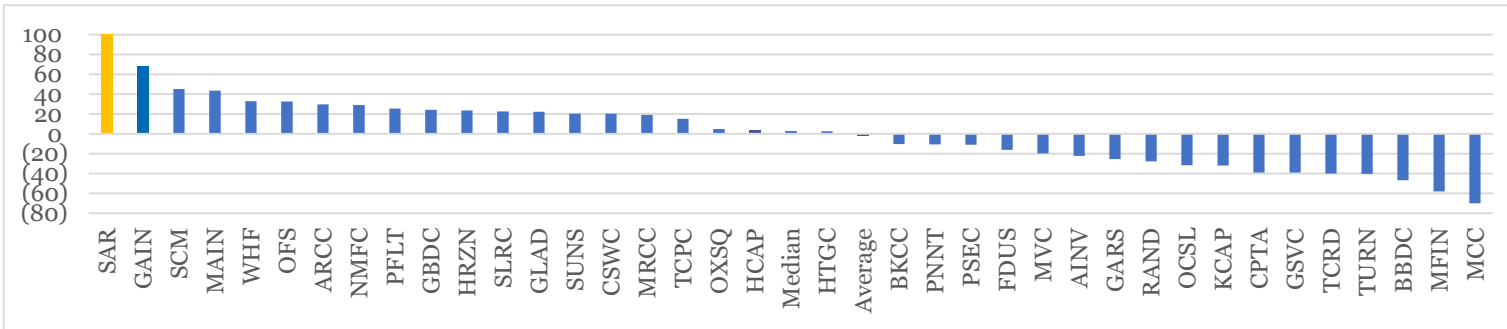


Source: WFBDC Index

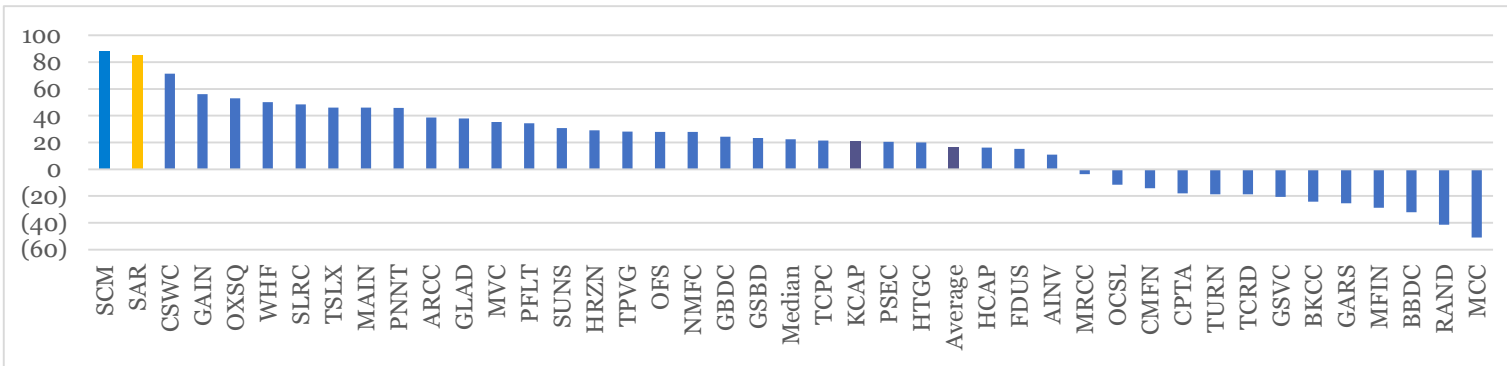
— SAR US Equity — WFBDC Index

# SAR Performance at Top of BDC Industry

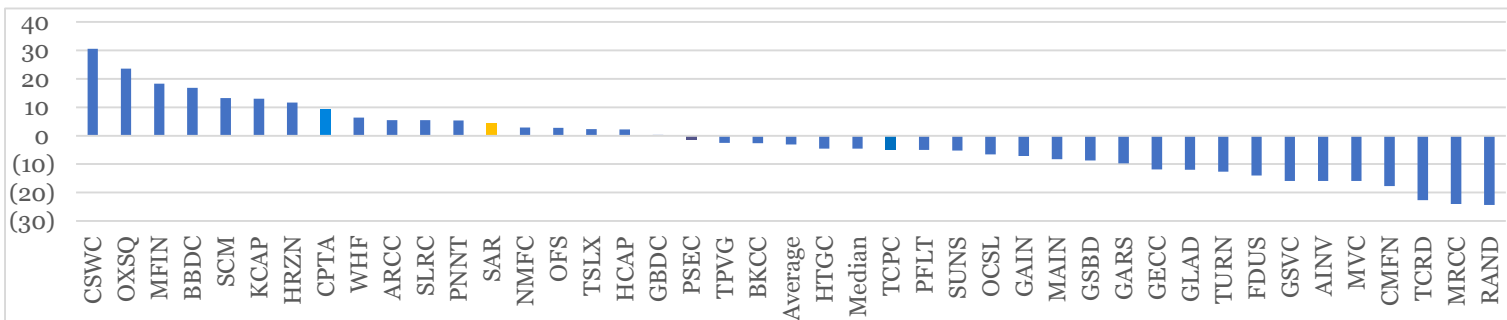
## BDC Total Return (%)



**Past 5 years:  
101%  
Top 1**

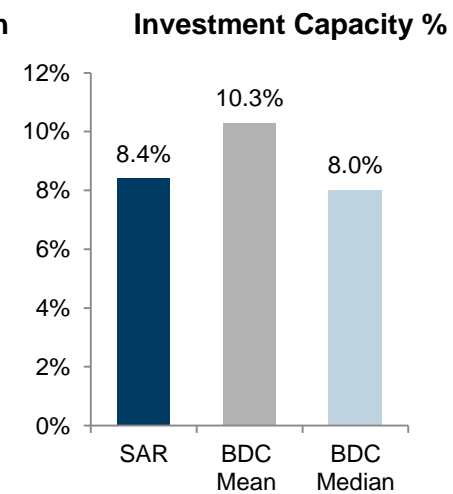
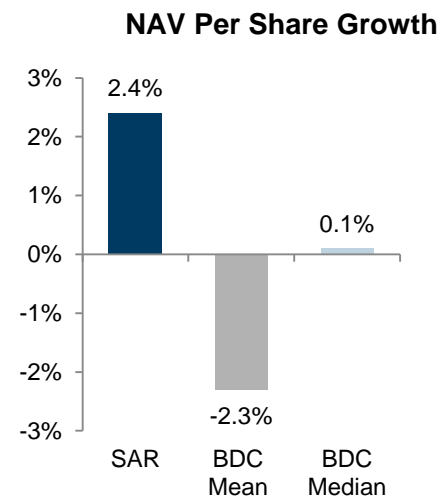
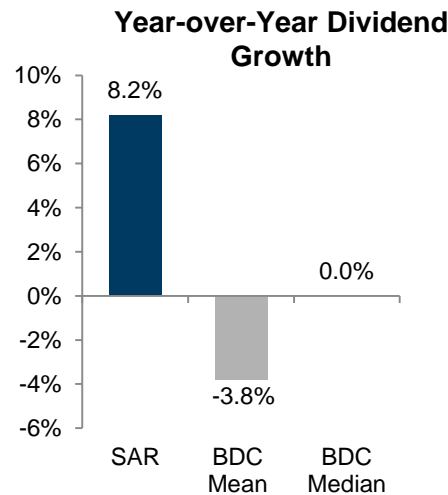
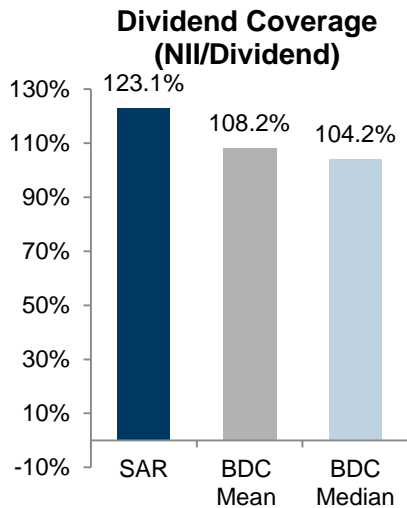
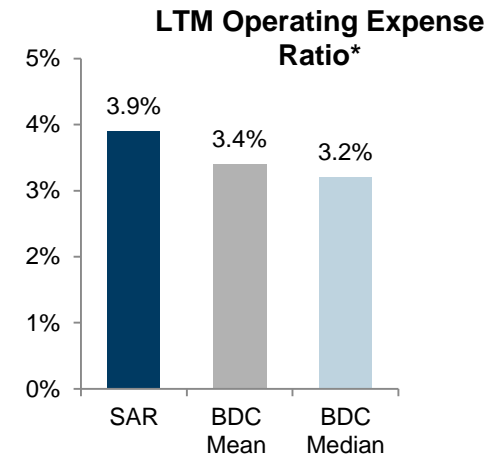
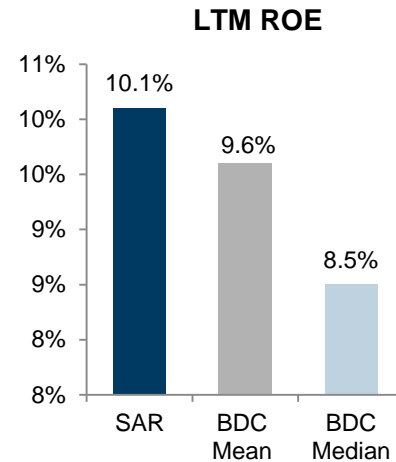
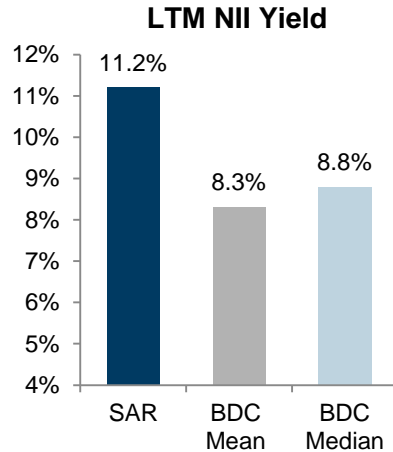
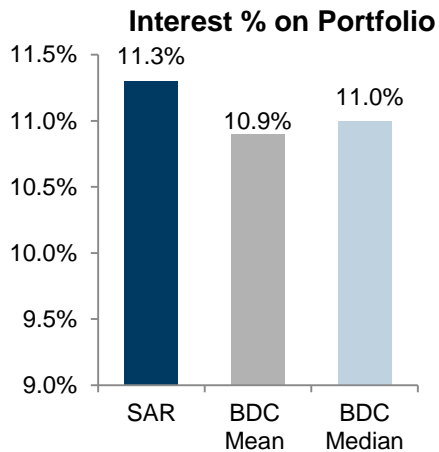


**Last 3 years:  
85%  
Top 2**



**LTM:  
5%  
Top 13**

# Strongly Differentiated Outperformance



Source: SNL Financial / Company Filings / Raymond James report as of 12/14/18

\* LTM Operating Expense Ratio defined as total operating expenses, net of interest and debt financing expenses, divided by average total assets.

Total operating expenses divided by net assets is 17.1%.

# Establishing Competitive Edge vs. Other BDCs

## Outstanding performance characteristics

▶ **Strong and growing dividend**

Paying a current dividend yield of approx. 10.0%; increased quarterly dividend by 194% over past four years; over-earning dividend by 23% (based Q3 adjusted NII per share); significant management ownership of 21%

▶ **Strong return on equity**

LTM ROE of 10.1% factors in both investment income and net gains/losses

▶ **Low-cost available liquidity**

Borrowing capacity still at hand through both credit facility and cash – can grow current asset base by 8% as of quarter ended November 30, 2018

▶ **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 455% since FY 2011, 30% since year end and 13% since quarter end with strong originations offsetting significant repayments

▶ **Well-positioned for higher interest rates**

Approx. 83% of our investments have floating interest rates, with all of our investments through their floors. Debt primarily at fixed rates and long-term, with new \$40.0m 7-year baby bond issued last quarter. Obtained “BBB” investment grade rating.

▶ **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, 99% of credits are the highest quality, 54% of investments are first lien, protected against potential risk of rising interest rates

# Objectives for the Future

- 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



Questions?



SARATOGA  
INVESTMENT CORP.



SARATOGA  
INVESTMENT CORP.

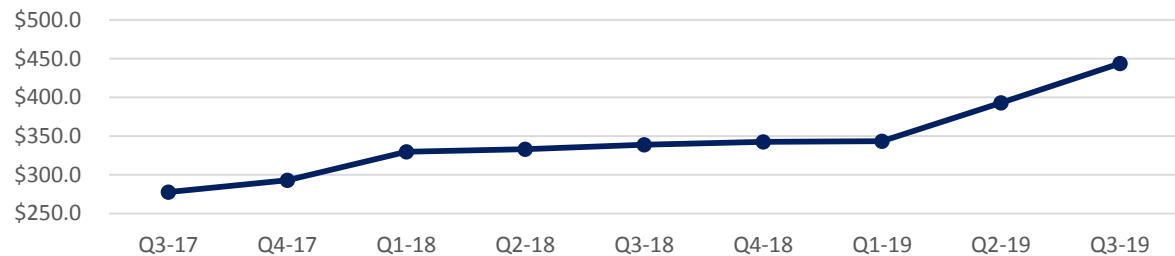
# KPIs – Balance Sheet – Q3 FY 2019

Period	FMV Investment Portfolio (in millions)	
Q3-17	\$	277.6
Q4-17	\$	292.7
Q1-18	\$	329.7
Q2-18	\$	333.0
Q3-18	\$	338.8
Q4-18	\$	342.7
Q1-19	\$	343.4
Q2-19	\$	392.9
Q3-19	\$	443.8

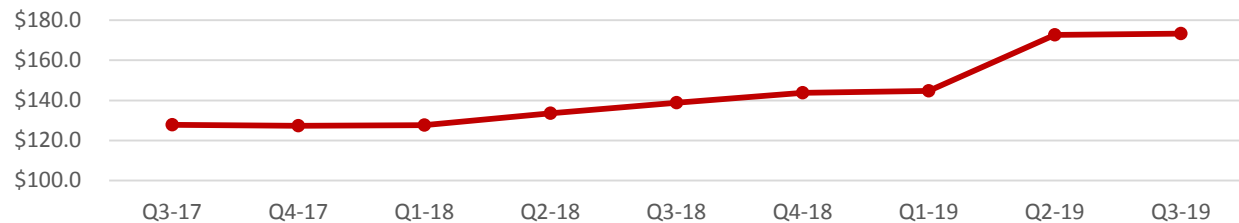
Period	NAV (in millions)	
Q3-17	\$	127.7
Q4-17	\$	127.3
Q1-18	\$	127.6
Q2-18	\$	133.5
Q3-18	\$	138.8
Q4-18	\$	143.7
Q1-19	\$	144.8
Q2-19	\$	172.7
Q3-19	\$	173.3

Period	NAV Per Share	
Q3-17	\$	22.21
Q4-17	\$	21.97
Q1-18	\$	21.69
Q2-18	\$	22.37
Q3-18	\$	22.58
Q4-18	\$	22.96
Q1-19	\$	23.06
Q2-19	\$	23.16
Q3-19	\$	23.13

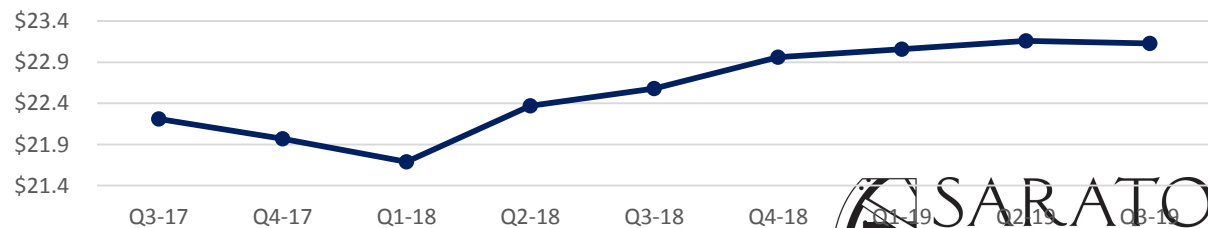
## FMV Investment Portfolio (in millions)



## NAV (in millions)



## NAV Per Share



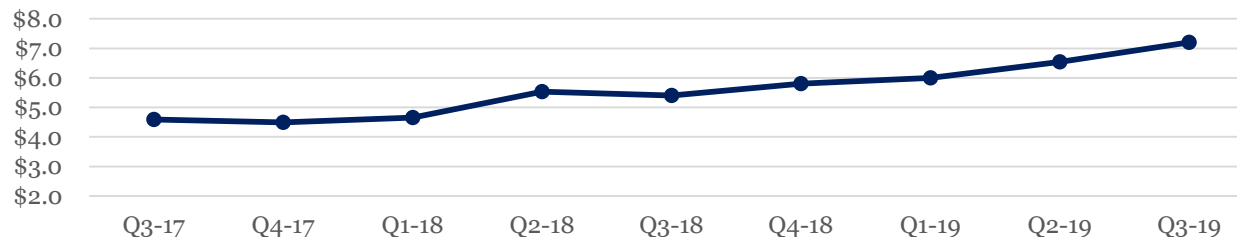
# KPIs – Income Statement – Q3 FY 2019

Period	Net Interest Margin (in millions)
Q3-17	\$ 4.6
Q4-17	\$ 4.5
Q1-18	\$ 4.7
Q2-18	\$ 5.5
Q3-18	\$ 5.4
Q4-18	\$ 5.8
Q1-19	\$ 6.0
Q2-19	\$ 6.5
Q3-19	\$ 7.2

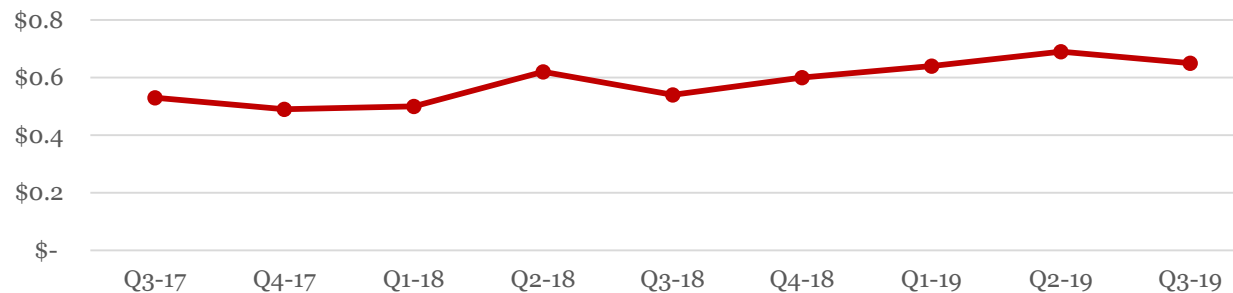
Period	NII Per Share
Q3-17	\$ 0.53
Q4-17	\$ 0.49
Q1-18	\$ 0.50
Q2-18	\$ 0.62
Q3-18	\$ 0.54
Q4-18	\$ 0.60
Q1-19	\$ 0.64
Q2-19	\$ 0.69
Q3-19	\$ 0.65

Period	NII Yield
Q3-17	9.5%
Q4-17	8.8%
Q1-18	9.2%
Q2-18	11.3%
Q3-18	9.6%
Q4-18	10.7%
Q1-19	11.1%
Q2-19	11.9%
Q3-19	11.2%

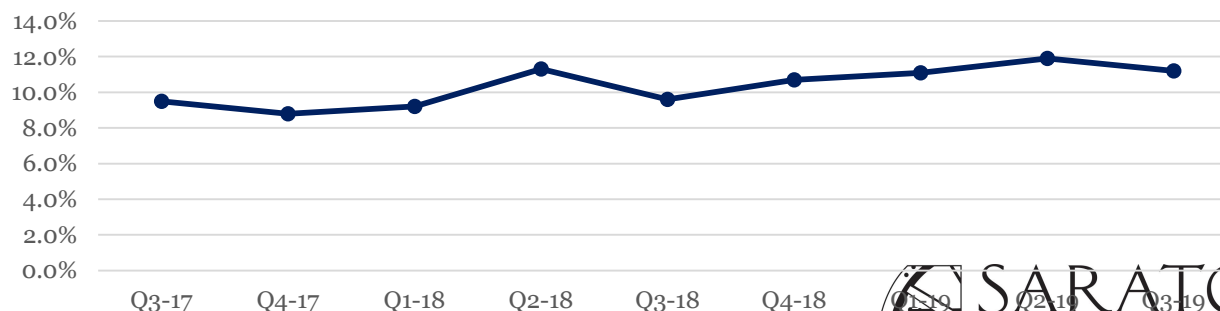
## Net Interest Margin Excluding CLO (in millions)



## NII Per Share

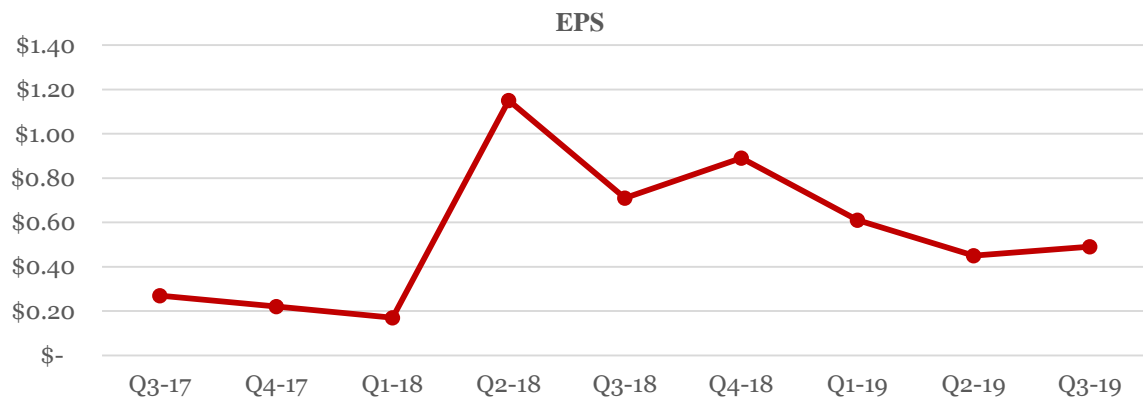


## NII Yield

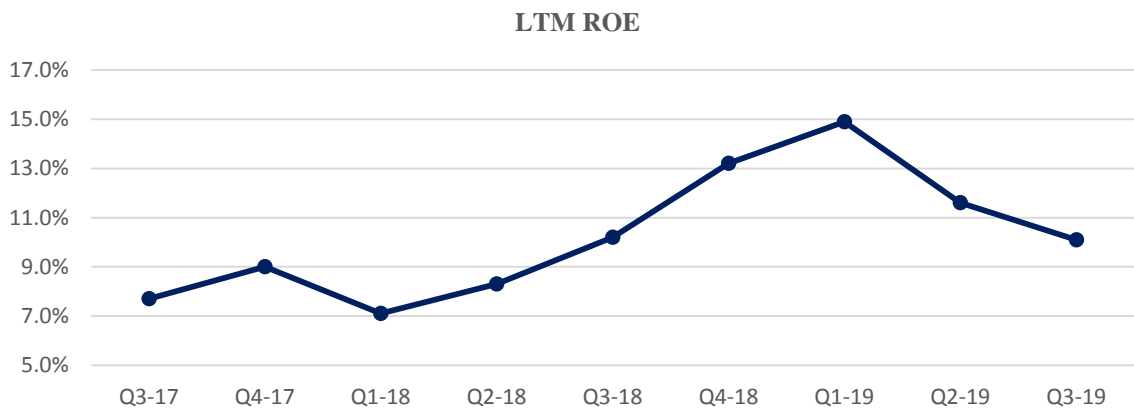


# KPIs –Income Statement– Q3 FY 2019 (continued)

Period	EPS
Q3-17	\$ 0.27
Q4-17	\$ 0.22
Q1-18	\$ 0.17
Q2-18	\$ 1.15
Q3-18	\$ 0.71
Q4-18	\$ 0.89
Q1-19	\$ 0.61
Q2-19	\$ 0.45
Q3-19	\$ 0.49



Period	LTM ROE
Q3-17	7.7%
Q4-17	9.0%
Q1-18	7.1%
Q2-18	8.3%
Q3-18	10.2%
Q4-18	13.2%
Q1-19	14.9%
Q2-19	11.6%
Q3-19	10.1%



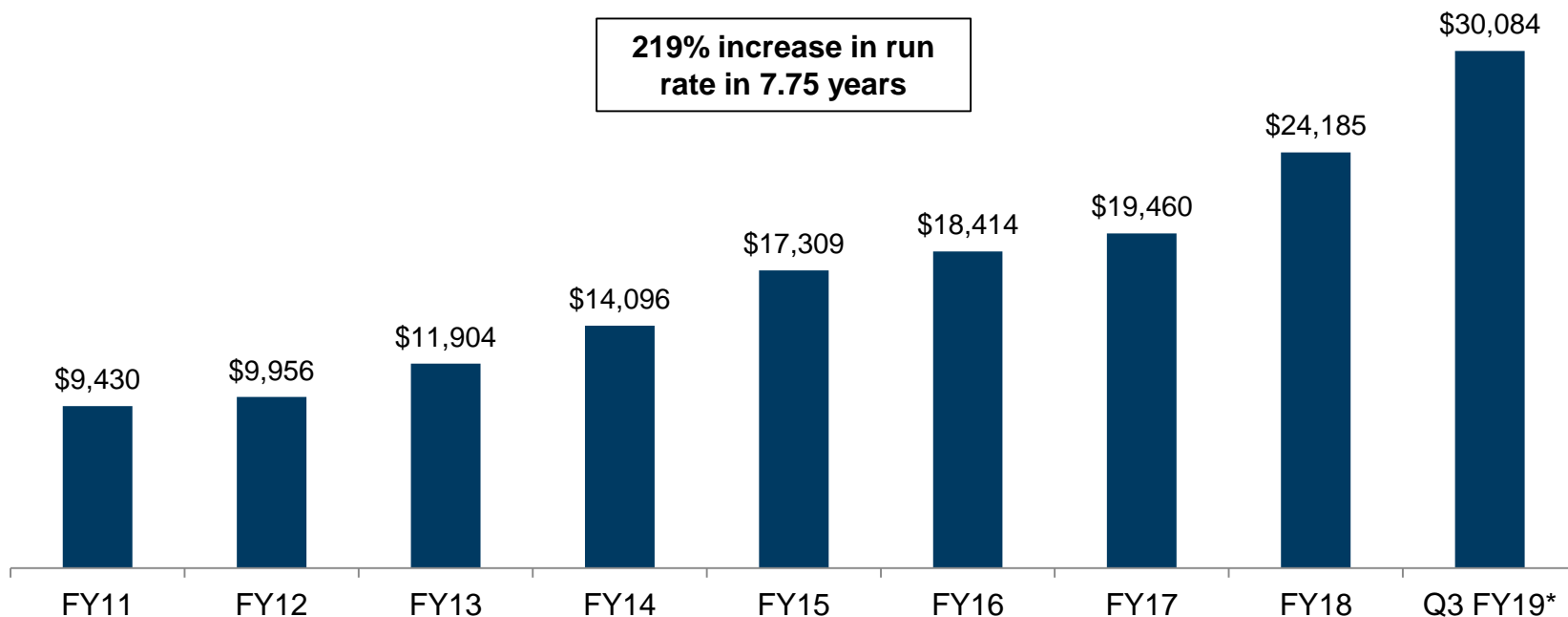
# KPIs - SAR Net Interest Margin

**SAR has more than tripled its Net Interest Margin since taking over management**

**This increase despite the contribution of the CLO shrinking**

## Net Interest Margin

**219% increase in run rate in 7.75 years**



\*Q3 FY19 is a simple annualization of the nine months ended November 30, 2018. Actual FY19 results might differ.