

Saratoga Investment Corp. Announces Fiscal Year End and Fourth Quarter 2015 Financial Results

NEW YORK, May 20, 2015 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2015 fiscal year end and fourth quarter.

Summary Financial Information

- Net investment income on a weighted average per share basis of \$1.80 and \$0.53 for the year and quarter ended February 28, 2015, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income on a weighted per share basis was \$1.85 and \$0.50, respectively.
- Net investment income of \$9.7 million and \$2.9 million for the year and quarter ended February 28, 2015, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the net investment income was \$10.0 million and \$2.7 million, respectively.
- Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 8.2% and 9.5% for the year and quarter ended February 28, 2015, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 8.5% and 8.8%, respectively.
- Return on equity for the year and quarter ended February 28, 2015 was 9.3% and 8.9%, respectively.
- Earnings per share for the year and quarter ended February 28, 2015 was \$2.04 and \$0.50, respectively.
- Net asset value ("NAV") was \$122.6 million as of February 28, 2015, a \$9.2 million increase from a NAV of \$113.4 million as of February 28, 2014.
- NAV per share was \$22.70 as of February 28, 2015, compared to \$21.08 as of February 28, 2014.
- Investment portfolio activity for the year ended February 28, 2015
 - Cost of investments made during the period: \$104.9 million
 - Principal repayments during the period: \$73.3 million
- Investment portfolio activity for the quarter ended February 28, 2015
 - Cost of investments made during the period: \$20.9 million
 - Principal repayments during the period: \$20.5 million

Operating Results

For the fiscal year ended February 28, 2015, Saratoga Investment reported net investment income of \$9.7 million, or \$1.80 on a weighted average per share basis, and a net gain on investments of \$1.3 million, or \$0.24 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$11.0 million, or \$2.04 on a weighted average per share basis. The \$1.3 million net gain on investments was comprised largely of \$3.3 million in net realized gain on investments offset by \$1.9 million in net unrealized depreciation on investments. This compared to the fiscal year ended February 28, 2014 with net investment income of \$8.9 million, or \$1.80 on a weighted average per share basis, and a net loss on investments of \$377,281, or \$0.07 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$8.5 million, or \$1.73 on a weighted average per share basis. The \$377,281 net loss on investments consisted of \$1.6 million in net unrealized depreciation on investments, offset by \$1.3 million in net realized gains.

For the quarter ended February 28, 2015, Saratoga Investment reported net investment income of \$2.9 million, or \$0.53 on a weighted average per share basis, and a net loss on investments of \$0.2 million, or \$0.03 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$2.7 million, or \$0.50 on a weighted average per share basis. The \$183,622 net loss on investments was largely comprised of \$256,673 in net unrealized depreciation on investments. This compared to the quarter ended February 28, 2014 with net investment income of \$1.5 million, or \$0.28 on a weighted average per share basis, and a net gain on investments of \$2.2 million, or \$0.42 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$3.8 million, or \$0.70 on a weighted average per share basis. The \$2.2 million net gain on investments consisted of \$2.1 million in net unrealized appreciation on investments, as well as \$0.1 million in net realized gains.

The increase in net investment income of \$0.8 million and \$1.4 million for the year and quarter ended February 28, 2015, respectively, is primarily due to higher investment income, which has increased to \$27.4 million for the year ended February 28, 2015 from \$22.9 million for the year ended February 28, 2014, and to \$7.5 million from \$5.7 million for the same quarterly periods. This increased investment income was generated from an investment base that has grown by 17% since last year. The adjusted net investment income increase was partially offset by (i) increased debt and financing expenses from higher outstanding SBA debentures this year 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 \$3.7 million for the year ended February 28, 2014 to \$3.6 million for the year ended February 28, 2015, representing a decrease from 1.8% of Assets Under Management ("AUM") for the year ended February 28, 2014 to 1.5% for the year ended February 28, 2015. This reflects the continued benefit of increased scale.

Net Investment Income Yield was 8.2% and 9.5% for the year and quarter ended February 28, 2015, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 8.5% and 8.8% for the year and quarter ended February 28, 2015, respectively. Return on Equity was 9.3% and 8.9% for the year and quarter ended February 28, 2015, respectively.

Net Investment Income Yield was 8.0% and 5.5% for the year and quarter ended February 28, 2014, respectively. Adjusted for the incentive fee accrual related to net unrealized capital gains, the Net Investment Income Yield was 8.0% and 7.0% for the year and quarter ended February 28, 2014, respectively.

NAV was \$122.6 million as of February 28, 2015, a \$9.2 million increase from a NAV of \$113.4 million as of February 28, 2014. NAV per share was \$22.70 as of February 28, 2015, compared to \$21.08 as of February 28, 2014.

"In fiscal year 2015, we have achieved important goals by expanding our assets under management, improving investment quality, broadening our investor base and adding talented senior management and professionals to our team," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "In 2015, we successfully deployed a significant amount of the capital available to us through our SBIC license and received the 'green light' approval from the SBA for our second SBIC license. We also moved to strengthen our shareholder base by commencing regular quarterly dividends, which have increased every consecutive quarter, as well as declaring a recent special dividend, while adopting a dividend reinvestment plan that enables our investors to reinvest in Saratoga's growth. We anticipate another increase to our dividend next quarter."

Michael J. Grisius, President and Chief Investment Officer, added, "We continue building our team to achieve greater size investments and capabilities. During fiscal year 2015, we saw a year-on-year increase of our assets under management, while the overall credit quality in the portfolio continues to be excellent. Over 94% of our portfolio bears our highest credit quality rating. In addition, we deployed capital at multiples far below market averages, even though market conditions and competition remain challenging. Despite a tighter market, we continue to have a positive view of our pipeline of new investment opportunities and the demand for financing in the markets we address."

Portfolio and Investment Activity

As of February 28, 2015, the fair value of Saratoga Investment's portfolio was \$240.5 million (excluding \$20.1 million in cash and cash equivalents), principally invested in 34 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 60.3% of first lien term loans, 14.8% of second lien term loans, 1.8% of unsecured notes, 7.1% of subordinated notes in a CLO, 7.6% of syndicated loans, and 8.4% of common equity.

For the fiscal year ended February 28, 2015, Saratoga Investment invested \$104.9 million in new or existing portfolio companies and had \$73.3 million in aggregate amount of exits and repayments, resulting in net investments of \$31.6 million for the year. For the quarter ended February 28, 2015, Saratoga Investment invested \$20.9 million in new or existing portfolio companies, and had \$20.5 million in aggregate amount of exits and repayments, resulting in net investments of \$0.4 million for the quarter.

As of February 28, 2015, the weighted average current yield on Saratoga Investment's portfolio for the twelve months ended February 28, 2015 was 11.8%, which was comprised of a weighted average current yield of 11.0% on first lien term loans, 11.2% on second lien term loans, 13.7% on unsecured notes, 25.2% on CLO subordinated notes, and 6.2% on syndicated loans.

Liquidity and Capital Resources

As of February 28, 2015, Saratoga Investment had \$9.6 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 \$49.5 million) and an aggregate of \$20.1 million in cash and cash equivalents.

With the \$35.4 million credit facility and the \$71.0 million additional borrowing capacity at the SBIC subsidiary, as well as the \$20.1 million of cash and cash equivalents, Saratoga Investment has a total of \$126.6 million of undrawn borrowing capacity and cash and cash equivalents available as of February 28, 2015.

On April 6, 2015, Saratoga Investment also 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.

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, and \$0.22 per share for the quarter ended November 30, 2014.

On April 9, 2015, Saratoga Investment announced a dividend of \$0.27 per share for the fiscal quarter ended February 28, 2015, payable on May 29, 2015 to all stockholders of record at the close of business on May 4, 2015. Shareholders will 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.

On May 14, 2015, Saratoga Investment announced that its Board of Directors has declared a special dividend to shareholders of \$1.00 per share, payable on June 5, 2015 to all stockholders of record at the close of business on May 26, 2015. Shareholders will 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.

2015 Fiscal Year End and Fourth Quarter Conference Call/Webcast Information

When: Thursday, May 21, 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 Thursday, May 21, 2015 through 11:59 p.m. ET on Thursday, May 28, 2015 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 30751015.

Webcast: Interested parties may access a simultaneous webcast of the call and find the FY 2015 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	
	February 28, 2015	February 28, 2014
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$222,505,383 and \$185,266,607, respectively)	\$ 223,506,589	\$ 186,275,106
Control investments (cost of \$15,953,001 and \$16,555,808, respectively)	17,031,146	19,569,596
Total investments at fair value (amortized cost of \$238,458,384 and \$201,822,415, respectively)	240,537,735	205,844,702
Cash and cash equivalents	1,888,158	3,293,898
Cash and cash equivalents, reserve accounts	18,175,214	3,293,113
Interest receivable, (net of reserve of \$309,498 and \$150,058, respectively)	2,469,398	2,571,853
Management fee receivable	171,913	150,106
Other assets	317,637	14,461
Total assets	<u>\$ 263,560,055</u>	<u>\$ 215,168,133</u>
LIABILITIES		
Revolving credit facility	\$ 9,600,000	\$ -
Deferred debt financing costs, revolving credit facility	(594,845)	(396,898)
SBA debentures payable	79,000,000	50,000,000
Deferred debt financing costs, SBA debentures payable	(2,340,894)	(1,412,829)
Notes payable	48,300,000	48,300,000
Deferred debt financing costs, notes payable	(1,847,564)	(2,198,977)
Dividend payable	402,200	-
Base management and incentive fees payable	5,835,941	5,353,051
Accounts payable and accrued expenses	835,189	824,568
Interest and debt fees payable	1,405,466	873,135
Due to manager	365,820	398,154
Total liabilities	<u>\$ 140,961,313</u>	<u>\$ 101,740,204</u>

Commitments and contingencies (See Note 8)

NET ASSETS

Common stock, par value \$.001, 100,000,000 common shares		
authorized, 5,401,899 and 5,379,616 common shares issued and outstanding, respectively	\$ 5,402	\$ 5,380
Capital in excess of par value	184,877,680	184,851,154
Distribution in excess of net investment income	(23,905,603)	(31,123,667)
Accumulated net realized loss from investments and derivatives	(40,458,088)	(44,327,225)

Accumulated net unrealized appreciation on investments and derivatives	2,079,351	4,022,287
Total net assets	<u>122,598,742</u>	<u>113,427,929</u>
Total liabilities and net assets	<u>\$ 263,560,055</u>	<u>\$ 215,168,133</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.70</u>	<u>\$ 21.08</u>
Asset Coverage Ratio	321.1%	348.2%

Saratoga Investment Corp.

Consolidated Statements of Operations

	<u>For the year ended February 28, 2015</u>	<u>For the year ended February 28, 2014</u>	<u>For the year ended February 28, 2013</u>
INVESTMENT INCOME			
Interest from investments			
Non-control/Non-affiliate investments	\$ 20,790,324	\$ 15,832,083	\$ 9,176,156
Payment-in-kind interest income from Non-control/Non-affiliate investments	1,186,657	936,208	1,062,687
Control investments	<u>2,707,230</u>	<u>3,410,868</u>	<u>4,205,509</u>
Total interest income	24,684,211	20,179,159	14,444,352
Interest from cash and cash equivalents	3,801	7,932	5,956
Management fee income	1,520,205	1,775,141	2,000,072
Other income	<u>1,167,144</u>	<u>931,513</u>	<u>556,427</u>
Total investment income	<u>27,375,361</u>	<u>22,893,745</u>	<u>17,006,807</u>
EXPENSES			
Interest and debt financing expenses	7,375,022	6,083,891	2,540,413
Base management fees	4,156,955	3,326,879	2,107,378
Professional fees	1,301,713	1,211,836	1,190,587
Administrator expenses	1,000,000	1,000,000	1,000,000
Incentive management fees	2,547,773	938,694	2,602,647
Insurance	337,335	442,977	516,121
Directors fees and expenses	210,761	204,607	206,705
General & administrative	478,299	789,208	368,815
Excise tax expense	293,653	-	-
Other expense	-	21,207	4,434
Total expenses	<u>17,701,511</u>	<u>14,019,299</u>	<u>10,537,100</u>
NET INVESTMENT INCOME	<u>9,673,850</u>	<u>8,874,446</u>	<u>6,469,707</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain from investments	3,276,450	1,270,765	561,700
Net realized loss from derivatives	-	-	(131,000)
Net unrealized appreciation/(depreciation) on investments	(1,942,936)	(1,648,046)	7,012,726
Net unrealized appreciation on derivatives	-	-	130,925
Net gain/(loss) on investments	<u>1,333,514</u>	<u>(377,281)</u>	<u>7,574,351</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 11,007,364</u>	<u>\$ 8,497,165</u>	<u>\$ 14,044,058</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 2.04	\$ 1.73	\$ 3.42
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,385,049	4,920,517	4,110,484

Saratoga Investment Corp.

Consolidated Statements of Operations

	<u>For the three months ended February 28, 2015</u>	<u>For the three months ended February 28, 2014</u>
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 5,995,982	\$ 4,297,812
Payment-in-kind interest income from Non-control/Non-affiliate investments	284,121	301,800

Control investments	711,220	619,038
Total interest income	6,991,323	5,218,650
Interest from cash and cash equivalents	1,063	751
Management fee income	369,700	375,102
Other income	88,905	92,557
Total investment income	7,450,991	5,687,060
EXPENSES		
Interest and debt financing expenses	1,908,743	1,741,234
Base management fees	1,063,556	902,712
Professional fees	364,630	332,589
Administrator expenses	250,000	250,000
Incentive management fees	467,797	428,858
Insurance	85,333	85,793
Directors fees and expenses	51,000	72,629
General & administrative	77,812	348,364
Excise tax expense	293,653	-
Other expense	-	-
Total expenses	4,562,524	4,162,179
NET INVESTMENT INCOME	2,888,467	1,524,881
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	73,051	112,941
Net realized loss from derivatives	-	-
Net unrealized appreciation/(depreciation) on investments	(256,673)	2,122,922
Net unrealized appreciation on derivatives	-	-
Net gain/(loss) on investments	(183,622)	2,235,863
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 2,704,845	\$ 3,760,744
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.50	\$ 0.70
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED	5,401,651	5,379,616

Correction of Immaterial Errors Related to Prior Period

During the year ended February 28, 2015, the Company identified errors related to the accounting for the capital gains portion of the incentive fee for the years ended February 28, 2014, 2013, 2012 and 2011, as well as the cumulative impact of these errors as of February 28, 2014.

The Company assessed the materiality of these errors and concluded that they were not material to any prior annual periods, but the cumulative impact of correcting them in the current period would be quantitatively material to the results of operations of the Company for the year ended February 28, 2015, if the entire adjustment was recorded in that period. Therefore, the consolidated financial statements as of and for the years ended February 28, 2014 and 2013 have been corrected.

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 twelve months ended February 28, 2015 and 2014.

	For the three months ended February 28		For the year ended February 28	
	2015	2014	2015	2014
Net Investment Income	\$ 2,888,467	\$ 1,524,881	\$ 9,673,850	\$ 8,874,446
Changes in accrued capital gains incentive fee expense/reversal	(203,701)	428,861	304,440	(70,802)
Adjusted net investment income	2,684,766	1,953,742	9,978,290	8,803,644

Net investment income yield	9.5%	5.5%	8.2%	8.0%
Changes in accrued capital gains incentive fee expense/reversal	<u>(0.7%)</u>	<u>1.5%</u>	<u>0.3%</u>	<u>0.0%</u>
Adjusted net investment income yield ⁽¹⁾	8.8%	7.0%	8.5%	8.0%
Net investment income per share	\$ 0.53	\$0.28	\$ 1.80	\$ 1.80
Changes in accrued capital gains incentive fee expense/reversal	<u>(\$ 0.03)</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>	<u>(\$ 0.01)</u>
Adjusted net investment income per share ⁽²⁾	\$ 0.50	\$ 0.34	\$ 1.85	\$ 1.79

(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-year-end-and-fourth-quarter-2015-financial-results-300086807.html>

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