

# STELLUS

## CAPITAL

INVESTMENT CORPORATION

March 10, 2017

### Stellus Capital Investment Corporation Reports Results for its Fourth Fiscal Quarter and Year Ended December 31, 2016.

HOUSTON, March 10, 2017 /PRNewswire/ -- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus" or "the Company") today announced financial results for its fourth fiscal quarter and year ended December 31, 2016.

#### HIGHLIGHTS

(\$ in millions, except data relating to per share amounts and number of portfolio companies)

Portfolio results	As of	
	December 31, 2016	
Total assets	\$379.9	
Investment portfolio, at fair value	\$365.6	
Net assets	\$170.9	
Weighted average yield on debt investments on accrual	11.0%	
Net asset value per share	\$13.69	
	Year ended	Quarter ended
	December 31, 2016	December 31, 2016
<u>Portfolio activity</u>		
Total investments made, at par	\$66.5	\$28.7
Number of new investments	10	3
Repayments and sale of investments, including amortization	\$56.0	\$16.8
Number of portfolio companies at end of period	45	45
<u>Operating results</u>		
Total investment income	\$39.5	\$10.2
Net investment income	\$17.3	\$4.7
Net investment income per share	\$1.39	\$0.37
Realized Loss per share	\$1.05	\$0.98
Regular dividends declared per share	\$1.36	\$0.34
Net increase in net assets from operations	\$23.2	\$5.7
Net increase in net assets from operations per share	\$1.86	\$0.46

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"We completed 2016 with net investment income of \$1.39 per share, which comfortably covered our dividends of \$1.36 per share, making 2016 the best year for net investment income in our Company's history. Net investment income for the fourth quarter of 2016 was \$0.37 per share, which covered fourth quarter dividends by \$0.03 per share," said Robert T. Ladd, Chief Executive Officer of Stellus.

#### *Portfolio and Investment Activity*

We completed the fourth quarter of 2016 with a portfolio of \$365.6 million (at fair value) invested in 45 companies. As of

December 31, 2016, our portfolio included approximately 31% of first lien debt, 45% of second lien debt, 19% of mezzanine debt and 5% of equity investments at fair value. Our debt portfolio consisted of 77% floating rate investments (subject to interest rate floors) and 23% fixed rate investments. The average size of our portfolio company investments was \$8.1 million and our largest aggregate investment in a portfolio company was approximately \$23 million at fair value. The weighted average yield on all of our debt investments as of December 31, 2016 was approximately 11.0%.

During the year ended December 31, 2016, we made \$28.7 million at par of investments in three new portfolio companies and received \$16.8 million in proceeds from amortization and repayments of certain other investments.

This compares to the portfolio as of December 31, 2015, which had a fair value of \$349.0 million invested in 39 companies, comprised 38% of first lien debt, 38% of second lien debt, 20% of mezzanine debt and 4% of equity investments at fair value. The weighted average yield on all of our debt investments as of December 31, 2015 was approximately 10.6%. The debt portfolio consisted of and 75% floating rate investments (subject to interest rate floors) and 25% fixed rate investments.

### *Results of Operations*

Investment income for the year ended December 31, 2016 and 2015, totaled \$39.5 million and \$35.2 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the year ended December 31, 2016 and 2015, totaled \$22.2 million and \$19.3 million, respectively. For the same respective periods, base management fees totaled \$6.3 million and \$5.8 million, incentive fees totaled \$4.3 million and \$4.0 million, fees and expenses related to our borrowings totaled \$8.0 million and \$6.2 million (including interest and amortization of deferred financing costs), administrative expenses totaled \$1.0 million for both periods and other expenses totaled \$2.6 million and \$2.2 million, respectively.

Net investment income was \$17.3 million and \$16.5 million, or \$1.39 and \$1.33 per common share based on weighted average common shares outstanding for the year ended December 31, 2016 and 2015, respectively.

For the year ended December 31, 2016 and 2015 the Company had a realized loss of (\$13.1) million and a realized gain of \$0.4 million, respectively. The Company's investment portfolio had a net change in unrealized appreciation (depreciation) for the year ended December 31, 2016 and 2015, of \$18.6 million and (\$9.2) million, respectively. Included in the realized loss and the unrealized gain for the year ended December 31, 2016 is the reclassification of the \$12.2 million loss on our term loan to Binder & Binder from an unrealized loss to a realized loss (refer to *Recent Portfolio Activity*, below).

Our net increase (decrease) in net assets resulting from operations totaled \$23.2 million and \$7.7 million, or \$1.86 and \$0.61 per common share based on weighted average common shares outstanding for the year ended December 31, 2016 and 2015, respectively.

### *Liquidity and Capital Resources*

Our liquidity and capital resources are derived from our credit facility and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from any future public and private offerings of securities to finance our investment activities.

As of December 31, 2016 and 2015, our credit facility provided for borrowings in an aggregate amount up to \$120 million on a committed basis. As of December 31, 2016 and 2015, we had \$116 million and \$109.5 million in outstanding borrowings under the credit facility, respectively.

For the year ended December 31, 2016, our operating activities provided cash of \$8.8 million primarily in connection with cash interest received and repayments of our investments, which was slightly offset by the purchase and origination of portfolio investments. For the same period, our financing activities used cash of \$10.5 million, due to distributions to stockholders paid during the period.

For the year ended December 31, 2015, our operating activities used cash of \$24.4 million, primarily in connection with the acquisition and origination of new investments. For the same period our financing activities provided cash of \$33.3 million, primarily from the draws under the SBA-guaranteed debenture program.

### *Distributions*

During the three and twelve months ended for both December 31, 2016 and 2015, we declared distributions of \$0.34 and

\$1.36 per share respectively. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year. None of these dividends are expected to include a return of capital.

### *Recent Portfolio Activity*

New investment transactions and repayments that occurred during the quarter ended December 31, 2016 are summarized as follows:

- l On October 11, 2016, we received full repayment on the second lien and unsecured term loans of NetMotion Wireless, Inc. at par plus a 1% prepayment premium for proceeds of \$10.2 million. Additionally, we received proceeds of \$1.0 million for the equity in Endpoint Security Holdings, LLC.
- l On October 21, 2016, we made a \$5.9 million investment in the second lien term loan of TFH Reliability, LLC. Additionally, we invested \$0.25 million in the company's equity.
- l On October 31, 2016, we made a \$9 million investment in the second lien term loan of Mobileum, Inc. Additionally, we invested \$0.75 million in the company's equity.
- l On November 28, 2016, we made a \$5 million investment in the first lien term loan of Madison Logic, Inc. Additionally, we invested \$0.5 million in the company's equity.
- l On December 22, 2016, we made an additional \$6.5 million investment in the second lien term loan of Keais Records Service, LLC. Additionally, we invested \$0.78 million in the company's equity.
- l In the fourth quarter of 2016, Binder & Binder emerged from Chapter 11 Bankruptcy in the U.S. Bankruptcy Court, Southern District of New York. The Company's investment in Binder & Binder was extinguished and has been replaced with a residual claim with a cost basis of \$1 million which reflects the court-approved unsecured claim distribution proceeds that have been awarded to the Company. As of this time we do not expect to receive any additional repayment other than what the court has awarded. As a result, the Company reclassified its previously-recorded unrealized loss in the investment to a realized loss.

### *Events Subsequent to December 31, 2016*

#### *Investment Portfolio*

On January 5, 2017, we sold our position in Securus Technologies Holdings, Inc. for proceeds of \$8.4 million. We realized a loss of \$41 thousand related to the sale.

On January 25, 2017, we received full repayment on the first lien term loan of Momentum Telecom, Inc. for proceeds of \$15.3 million, including a \$0.2 million premium.

On February 1, 2017, our first lien term loan in Glori Energy Production, Inc. was converted to an equity position at par plus accrued interest equal to \$1.7 million.

On February 3, 2017, we invested \$6.3 million in the unsecured term loan of Time Manufacturing, Inc., a global manufacturer of vehicle-mounted aerial lift equipment. Additionally, we invested \$0.5 million in the equity of the company.

On February 8, 2017, we received full repayment on the second lien term loan of MTC Intermediate Holdco for proceeds of \$10.4 million, including a \$0.1 million premium. Additionally, we received \$0.7 million in dividends for the equity in MTC Parent, LP.

On March 1, 2017, we received full repayment on the first lien term loan of 360 Holdings III Corp for proceeds of \$4.0 million, including a small premium.

#### *Credit Facility*

The outstanding balance under the Credit Facility as of March 8, 2017 was \$103.8 million.

#### *Dividend Declared*

On January 13, 2017, the Company's board of directors declared a regular monthly dividend for each of January, February and March 2017 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount Per Share
1/13/2017	1/27/2017	1/31/2017	2/15/2017	\$0.1133
1/13/2017	2/24/2017	2/28/2017	3/15/2017	\$0.1133
1/13/2017	3/29/2017	3/31/2017	4/14/2017	\$0.1133

## Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on March 10, 2017, at 10:00 a.m. Central Daylight Time. The conference call will be led by Robert T. Ladd, chief executive officer, and W. Todd Huskinson, chief financial officer, chief compliance officer, treasurer, and secretary.

For those wishing to participate by telephone, please dial 888-224-1145 (domestic). Use passcode 4933699. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through March 18, 2017 by dialing (888) 203-1112 and entering passcode 4933699. The replay will also be available on the company's website.

### Contact

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## STELLUS CAPITAL INVESTMENT CORPORATION CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
Non-controlled, non-affiliated investments, at fair value(amortized cost of \$362,217,251 and \$364,212,459, respectively)	\$ 365,625,891	\$ 349,017,697
Cash and cash equivalents	9,194,129	10,875,790
Receivable for sales and repayments of investments	—	10,000
Interest receivable	4,601,742	4,720,031
Deferred offering costs	—	261,761
Accounts receivable	748	7,684
Prepaid expenses	456,219	475,449
<b>Total Assets</b>	<b>\$ 379,878,729</b>	<b>\$ 365,368,412</b>
<b>LIABILITIES</b>		
Notes Payable	\$ 24,565,891	\$ 24,381,108
Credit facility payable	115,171,208	108,197,373
SBA Debentures	63,342,036	63,015,846
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,608,295	1,518,779
Incentive fees payable	1,353,271	607,956
Interest payable	973,812	570,189
Unearned revenue	19,955	36,877
Administrative services payable	272,511	397,799
Deferred tax liability	8,593	381,723
Other accrued expenses and liabilities	267,390	195,676
<b>Total Liabilities</b>	<b>\$ 208,996,944</b>	<b>\$ 200,717,308</b>
<b>Commitments and contingencies</b>		
<b>Net Assets</b>	<b>\$ 170,881,785</b>	<b>\$ 164,651,104</b>
<b>NET ASSETS</b>		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,959 and 12,479,960 shares issued and outstanding, respectively)	\$ 12,480	\$ 12,480
Paid-in capital	180,994,723	180,994,752
Accumulated undistributed net realized loss	(13,089,671)	—
Distributions in excess of net investment income	(435,794)	(779,643)
Net unrealized appreciation (depreciation) on investments and cash equivalents, net of provision for taxes of \$8,593 and \$381,723 as of December 31, 2016 and 2015 respectively.	3,400,047	(15,576,485)
<b>Net Assets</b>	<b>\$ 170,881,785</b>	<b>\$ 164,651,104</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 379,878,729</b>	<b>\$ 365,368,412</b>
<b>Net Asset Value Per Share</b>	<b>\$ 13.69</b>	<b>\$ 13.19</b>

## STELLUS CAPITAL INVESTMENT CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS

For the year

For the year

For the year

	ended December 31, 2016	ended December 31, 2015	ended December 31, 2014
<b>INVESTMENT INCOME</b>			
Interest income	\$ 38,176,617	\$ 34,643,791	\$ 31,637,094
Other income	1,313,580	514,768	687,753
<b>Total Investment Income</b>	<b>\$ 39,490,197</b>	<b>\$ 35,158,559</b>	<b>\$ 32,324,847</b>
<b>OPERATING EXPENSES</b>			
Management fees	\$ 6,281,863	5,841,267	5,202,990
Valuation fees	397,330	356,971	384,957
Administrative services expenses	1,045,648	1,029,368	1,195,566
Incentive fees	4,275,436	3,975,198	3,122,890
Professional fees	712,524	596,357	744,547
Directors' fees	324,000	333,000	373,000
Insurance expense	471,427	473,963	482,963
Interest expense and other fees	7,992,185	6,177,015	5,315,325
Deferred offering costs	261,761	—	—
Other general and administrative expenses	415,822	474,625	389,738
<b>Total Operating Expenses</b>	<b>\$ 22,177,996</b>	<b>\$ 19,257,764</b>	<b>\$ 17,211,976</b>
Waiver of Incentive Fees	—	(646,333)	(1,399,226)
<b>Total expenses, net of fee waiver</b>	<b>22,177,996</b>	<b>18,611,431</b>	<b>15,812,750</b>
<b>Net Investment Income</b>	<b>\$ 17,312,201</b>	<b>\$ 16,547,128</b>	<b>\$ 16,512,097</b>
<b>Net Realized Gain (Loss) on Investments and Cash Equivalents</b>	<b>(13,089,671)</b>	<b>421,726</b>	<b>445,157</b>
<b>Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents</b>	<b>18,603,401</b>	<b>(9,204,717)</b>	<b>(6,489,990)</b>
<b>Benefit (provision) for taxes on unrealized gain on investments</b>	<b>373,131</b>	<b>(93,601)</b>	<b>(288,122)</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 23,199,062</b>	<b>\$ 7,670,536</b>	<b>\$ 10,179,142</b>
<b>Net Investment Income Per Share</b>	<b>\$ 1.39</b>	<b>\$ 1.33</b>	<b>\$ 1.34</b>
<b>Net Increase in Net Assets Resulting from Operations Per Share</b>	<b>\$ 1.86</b>	<b>\$ 0.61</b>	<b>\$ 0.83</b>
<b>Weighted Average Shares of Common Stock Outstanding</b>	<b>12,479,959</b>	<b>12,479,961</b>	<b>12,281,178</b>
<b>Distributions Per Share</b>	<b>\$ 1.36</b>	<b>\$ 1.36</b>	<b>\$ 1.43</b>

**STELLUS CAPITAL INVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014
<b>Increase in Net Assets Resulting from Operations</b>			
Net investment income	\$ 17,312,201	\$ 16,547,128	\$ 16,512,097
Net realized gain (loss) on investments and cash equivalents	(13,089,671)	421,726	445,157
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	18,603,401	(9,204,717)	(6,489,990)
Benefit (provision) for taxes on net realized loss or unrealized depreciation (appreciation) on investments at Taxable Subsidiaries	373,131	(93,601)	(288,122)
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 23,199,062</b>	<b>\$ 7,670,536</b>	<b>\$ 10,179,142</b>
<b>Stockholder distributions from:</b>			
Net investment income	(16,968,350)	(16,547,158)	(16,029,081)
Net realized capital gains	—	(421,726)	(1,472,549)
<b>Total Distributions</b>	<b>\$ (16,968,350)</b>	<b>\$ (16,968,884)</b>	<b>\$ (17,501,630)</b>
<b>Capital share transactions</b>			
Issuance of common stock	—	—	5,087,335
Reinvestments of stockholder distributions	—	—	398,505
Sales load	—	—	(75,510)
Offering costs	—	—	(29,904)
Partial Share Redemption	(31)	—	—
<b>Net increase in net assets resulting from capital share transactions</b>	<b>\$ (31)</b>	<b>\$ —</b>	<b>\$ 5,380,426</b>
<b>Total increase (decrease) in net assets</b>	<b>\$ 6,230,681</b>	<b>\$ (9,298,348)</b>	<b>\$ (1,942,062)</b>
<b>Net assets at beginning of year/period</b>	<b>\$ 164,651,104</b>	<b>\$ 173,949,452</b>	<b>\$ 175,891,514</b>
<b>Net assets at end of year/period (includes \$435,794 and \$779,643 and \$779,643 of distributions in excess of net investment income,</b>			

respectively)

\$ 170,881,785      \$ 164,651,104      \$ 173,949,452

**STELLUS CAPITAL INVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014
<b>Cash flows from operating activities</b>			
Net increase in net assets resulting from operations	\$ 23,199,062	\$ 7,670,536	\$ 10,179,142
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Purchases of investments	(65,661,034)	(133,661,491)	(97,954,324)
Proceeds from sales and repayments of investments	55,949,177	93,289,529	54,870,360
Net change in unrealized appreciation (depreciation) on investments	(18,603,401)	9,204,717	6,490,090
Deferred tax provision (benefit)	(373,131)	93,601	288,122
Increase in investments due to PIK	(243,766)	(439,052)	(730,036)
Amortization of premium and accretion of discount, net	(1,128,511)	(1,034,240)	(686,985)
Amortization of loan structure fees	523,835	472,003	607,404
Amortization of deferred financing costs	326,190	210,064	90,614
Amortization of loan fees on SBIC debentures	184,783	204,980	37,117
Net realized loss (gain) on investments	13,089,341	(421,726)	(450,031)
Deferred offering costs	261,761	—	—
Changes in other assets and liabilities			
Decrease (increase) in interest receivable	118,289	362,634	(368,753)
Decrease in receivable for affiliated transaction	—	—	43,450
(Increase) Decrease in accounts receivable	6,936	(6,988)	(696)
Decrease (increase) in prepaid expenses and fees	19,230	(56,166)	(7,962)
Increase in Management Fees	89,516	158,760	183,289
Decrease in directors' fees payable	—	—	(96,000)
Increase (decrease) in incentive fees payable	745,315	(513,600)	64,614
Increase (decrease) in administrative services payable	(125,288)	(193,945)	328,519
Increase in interest payable	403,623	223,985	112,153
Increase (decrease) in unearned revenue	(16,921)	(120,526)	10,438
Increase (decrease) in other accrued expenses and liabilities	71,714	112,224	(179,426)
Net cash provided by (used in) operating activities	\$ 8,836,720	\$ (24,444,701)	\$ (27,168,901)
<b>Cash flows from financing activities</b>			
Proceeds from notes issued	—	—	25,000,000
Proceeds from SBA Debentures	—	47,567,813	15,855,937
Financing costs paid on notes issued	—	—	(919,570)
Financing costs paid on Credit Facility	(50,000)	—	(795,628)
Financing costs paid on SBA Debentures	—	(325,000)	(325,000)
Proceeds from the issuance of common stock	—	—	5,116,985
Sales load for common stock issued	—	—	(75,510)
Offering costs paid for common stock issued	—	—	(116,150)
Stockholder distributions paid	(16,968,350)	(16,968,885)	(15,689,142)
Borrowings under credit facility	56,500,000	105,000,000	105,250,000
Repayments of credit facility	(50,000,000)	(102,000,000)	(108,750,000)
Repayments of short-term loan	—	—	(9,000,000)
Partial Share Redemption	(31)	—	—
Net cash provided by (used in) financing activities	\$ (10,518,381)	\$ 33,273,928	\$ 15,551,922
Net increase (decrease) in cash and cash equivalents	(1,681,661)	8,829,227	(11,616,979)
Cash and cash equivalents balance at beginning of year/period	10,875,790	2,046,563	13,663,542
Cash and cash equivalents balance at end of year/period	\$ 9,194,129	\$ 10,875,790	\$ 2,046,563
<b>Supplemental and non-cash financing activities</b>			
Non-cash purchase of investment through repayment of investment	\$ —	\$ 4,251,032	\$ —
Fees paid on SBA Debentures through proceeds	\$ —	\$ 1,182,187	\$ 394,063
Shares issued pursuant to Dividend Reinvestment Plan	\$ —	\$ —	\$ 398,505
Interest expense paid	\$ 6,548,754	\$ 5,010,984	\$ 4,465,618

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