

# STELLUS

## CAPITAL

INVESTMENT CORPORATION

May 5, 2017

### Stellus Capital Investment Corporation Reports Results for its First Fiscal Quarter Ended March 31, 2017.

HOUSTON, May 5, 2017 /PRNewswire/ -- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus" or "the Company") today announced financial results for its first fiscal quarter ended March 31, 2017.

#### HIGHLIGHTS

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

	As of	
Portfolio results	March 31, 2017	
Total assets	\$368.0	
Investment portfolio, at fair value	\$351.7	
Net assets	\$172.7	
Weighted average yield on debt investments	11.3%	
Net asset value per share	\$13.84	
	Quarter ended	Quarter ended
	March 31, 2017	March 31, 2016
<u>Portfolio activity</u>		
Total investments made	\$23.2	\$5.4
Number of new investments	5	3
Repayments and sale of investments, including amortization	\$39.3	\$0.5
Number of portfolio companies at end of period	46	40
<u>Operating results</u>		
Total investment income	\$9.9	\$9.5
Net investment income	\$4.1	\$4.1
Net investment income per share	\$0.33	\$0.33
Realized Loss per share*	\$(0.06)	-
Regular distributions per share	\$0.34	\$0.34
Net increase in net assets from operations	\$6.0	\$2.5
Net increase in net assets from operations per share	\$0.48	\$0.20

\* On February 1, 2017, our first lien term loan in Glori Energy Production, Inc. was converted to an equity position, resulting in a realized loss of \$0.8 million, or \$0.06 per share. This realized loss was previously recorded as an unrealized loss at December 31, 2016; therefore there is no impact on earnings or NAV during the quarter ended March 31, 2017.

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"Our equity raise in April generated approximately \$43 million of net proceeds, which will enable us to fully capitalize our SBIC subsidiary and continue to grow our asset base," said Robert T. Ladd, Chief Executive Officer of Stellus.

### *Portfolio and Investment Activity*

We completed the first quarter of 2017 with a portfolio of \$351.7 million (at fair value) invested in 46 companies. As of March 31, 2017, our portfolio included approximately 27% of first lien debt, 45% of second lien debt, 22% of unsecured debt and 6% of equity investments at fair value. Our debt portfolio consisted of 71% floating rate investments (subject to interest rate floors) and 29% fixed rate investments. The average size of our portfolio company investments was \$7.8 million and our largest aggregate investment in a portfolio company was approximately \$21.4 million at fair value. The weighted average yield on all of our debt investments as of March 31, 2017 was approximately 11.3%.

During the quarter ended March 31, 2017, we made \$23.2 million of investments in three new portfolio companies and two existing portfolio companies, and received \$39.3 million in proceeds from amortization, repayments and sales of certain other investments

This compares to the portfolio as of March 31, 2016, which had a fair value of \$352.5 million invested in 40 companies, comprised 37% of first lien debt, 39% of second lien debt, 20% of unsecured debt and 4% of equity investments at fair value. The weighted average yield on all of our debt investments as of March 31, 2016 was approximately 10.6%. The debt portfolio consisted of 76% floating rate investments (subject to interest rate floors) and 24% fixed rate investments.

### *Results of Operations*

Investment income for the quarter ended March 31, 2017 and 2016, totaled \$9.9 million and \$9.5 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the quarter ended March 31, 2017 and 2016, totaled \$5.7 million and \$5.4 million, respectively. For the same respective periods, base management fees totaled \$1.6 million and \$1.5 million, incentive fees totaled \$1.0 million and \$1.0 million, fees and expenses related to our borrowings totaled \$2.1 million and \$1.9 million (including interest and amortization of deferred financing costs), administrative expenses totaled \$0.3 million for both periods and other expenses totaled \$0.7 million for both periods.

Net investment income was \$4.1 million, or \$0.33 per common share, based on weighted average common shares outstanding for both quarters ended March 31, 2017 and 2016.

For the quarter ended March 31, 2017 and 2016, the Company had a realized loss of \$0.7 million and a realized gain of \$894, respectively. The Company's investment portfolio had a net change in unrealized appreciation (depreciation) for the quarter ended March 31, 2017 and 2016, of \$2.6 million and (\$1.7) million, respectively.

Our net increase in net assets resulting from operations totaled \$6.0 million and \$2.5 million, or \$0.48 and \$0.20 per common share, based on weighted average common shares outstanding, for the quarter ended March 31, 2017 and 2016, 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 March 31, 2017 and 2016, our credit facility provided for borrowings in an aggregate amount up to \$120 million on a committed basis. As of March 31, 2017 and 2016, we had \$102.5 million and \$109.5 million in outstanding borrowings under the credit facility, respectively.

For the three months ended March 31, 2017, our operating activities provided cash of \$20.1 million primarily in connection with cash interest received and repayments of our investments. For the same period, our financing activities used cash of \$17.8 million, which included distributions to stockholders of \$4.2 million paid during the period, and net repayments of \$13.5 million under the credit facility.

For the three months ended March 31, 2016, our operating activities used cash of \$0.1 million primarily due to the purchase of new investments offset by cash interest received. For the same period, our financing activities used cash of \$4.2 million,

due to distributions to stockholders during the period.

### *Distributions*

During the three months ended March 31, 2017 and 2016, we declared aggregate distributions of \$0.34 per share (\$4.2 million) for each quarter. 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 March 31, 2017 are summarized as follows:

- l On January 5, 2017, we sold our position in Securus Technologies Holdings, Inc. for proceeds of \$8.4 million. We realized a loss of \$42 thousand related to the sale.
- l 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.
- l On February 1, 2017, our first lien term loan in Glori Energy Production, Inc. was converted to an equity position, resulting in a realized loss of \$0.8 million. This realized loss was previously recorded as an unrealized loss at December 31, 2016; therefore there is no impact on earnings or NAV during the quarter ended March 31, 2017.
- l 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.
- l 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., which under GAAP are recorded as a return of capital rather than dividend income.
- l 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 \$0.04 million premium.
- l On March 27, 2017, we invested \$5.0 million in the second lien term loan of Beneplace, Inc., an employee voluntary benefit program management company. Additionally, we invested \$0.5 million in the equity of the company.
- l On March 31, 2017, we invested \$10 million in the second lien term loan of National Trench Safety, LLC, a rental and seller of underground equipment and trench safety products. Additionally, we invested \$0.5 million in the equity of the company.

### *Events Subsequent to March 31, 2017*

#### *Equity Offering*

On April 5, 2017, the Company priced a public offering of 2,750,000 shares of common stock in an underwritten public offering. The public offering price was set at \$14.10 per share and net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses payable by the Company, proceeds to the company was approximately \$37.5 million. The Company also granted the underwriters an option, exercisable for 30 days, to purchase up to 412,500 additional shares of common stock, which was exercised on April 24, 2017, resulting in net proceeds to the Company of an additional \$5.6 million.

On May 1, 2017, we received full repayment on the second lien term loan of Telecommunications Management, LLC for proceeds of \$5.0 million.

#### *Credit Facility*

The outstanding balance under the Credit Facility as of May 4, 2017 was \$53 million.

#### *Dividend Declared*

On April 14, 2017, the Company's board of directors declared a regular monthly dividend for each of April, May and June 2017 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount Per Share
4/14/2017	4/26/2017	4/28/2017	5/15/2017	\$0.1133
4/14/2017	5/26/2017	5/31/2017	6/15/2017	\$0.1133
4/14/2017	6/28/2017	6/30/2017	7/14/2017	\$0.1133

#### **Conference Call Information**

Stellus Capital Investment Corporation will host a conference call to discuss these results on Friday, May 5, 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 888-572-7029 (domestic). Use passcode 1752487. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through May 13, 2017 by dialing (888) 203-1112 and entering passcode 1752487. The replay will also be available on the company's website.

## Contacts

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## PART I — FINANCIAL INFORMATION

### STELLUS CAPITAL INVESTMENT CORPORATION

#### CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	March 31, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Non-controlled, affiliated investments, at fair value (amortized cost of \$1,010,518 and \$0, respectively)	\$ 1,010,518	\$ —
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$344,717,004 and \$362,217,251, respectively)	350,710,227	365,625,891
Cash and cash equivalents	11,488,905	9,194,129
Interest receivable	4,271,767	4,601,742
Deferred offering costs	81,813	—
Accounts receivable	8,042	748
Prepaid expenses	456,281	456,219
<b>Total Assets</b>	<b>\$ 368,027,553</b>	<b>\$ 379,878,729</b>
<b>LIABILITIES</b>		
Notes Payable, net of deferred financing costs	\$ 24,612,560	\$ 24,565,891
Credit facility payable, net of prepaid loan structure fees	101,794,115	115,171,208
SBA Debentures, net of prepaid loan fees	63,422,247	63,342,036
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,564,528	1,608,295
Incentive fees payable	1,223,621	1,353,271
Interest payable	423,474	973,812
Unearned revenue	18,169	19,955
Administrative services payable	303,869	272,511
Deferred Tax Liability	—	8,593
Other accrued expenses and liabilities	586,354	267,390
<b>Total Liabilities</b>	<b>\$ 195,362,919</b>	<b>\$ 208,996,944</b>
<b>Net Assets</b>	<b>\$ 172,664,634</b>	<b>\$ 170,881,785</b>
<b>NET ASSETS</b>		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,957 and 12,479,959 shares issued and outstanding, respectively)	\$ 12,480	\$ 12,480
Paid-in capital	180,994,723	180,994,723
Accumulated Net Realized Loss	(13,801,722)	(13,089,671)
Distributions in excess of net investment income	(534,070)	(435,794)
Net unrealized appreciation on investments and cash equivalents, net of provision for taxes of \$0 and \$8,593, respectively	5,993,223	3,400,047
<b>Net Assets</b>	<b>\$ 172,664,634</b>	<b>\$ 170,881,785</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 368,027,553</b>	<b>\$ 379,878,729</b>
<b>Net Asset Value Per Share</b>	<b>\$ 13.84</b>	<b>\$ 13.69</b>

TELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
<b>INVESTMENT INCOME</b>		
Interest income	\$ 9,476,252	\$ 9,374,737
Other income	387,728	93,096
<b>Total Investment Income</b>	<u>9,863,980</u>	<u>9,467,833</u>
<b>OPERATING EXPENSES</b>		
Management fees	\$ 1,564,528	\$ 1,548,373
Valuation fees	166,089	132,466
Administrative services expenses	309,098	287,300
Incentive fees	1,021,227	1,024,822
Professional fees	227,677	192,111
Directors' fees	92,000	92,000
Insurance expense	109,252	118,026
Interest expense and other fees	2,068,630	1,879,843
Other general and administrative expenses	161,852	93,602
<b>Total Operating Expenses</b>	<u>\$ 5,720,353</u>	<u>\$ 5,368,543</u>
<b>Net Investment Income</b>	<u>\$ 4,143,627</u>	<u>\$ 4,099,290</u>
<b>Net Realized Gain (Loss) on Investments and Cash Equivalents</b>	<u>\$ (712,051)</u>	<u>\$ 894</u>
<b>Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents</b>	<u>\$ 2,584,583</u>	<u>\$ (1,743,674)</u>
<b>Benefit for taxes on net realized loss or net unrealized gain on investments at Taxable Subsidiaries</b>	<u>\$ 8,593</u>	<u>\$ 167,339</u>
<b>Net Increase in Net Assets Resulting from Operations</b>	<u>\$ 6,024,752</u>	<u>\$ 2,523,849</u>
<b>Net Investment Income Per Share</b>	<u>\$ 0.33</u>	<u>\$ 0.33</u>
<b>Net Increase in Net Assets Resulting from Operations Per Share</b>	<u>\$ 0.48</u>	<u>\$ 0.20</u>
<b>Weighted Average Shares of Common Stock Outstanding</b>	<u>12,479,957</u>	<u>12,479,960</u>
<b>Distributions Per Share</b>	<u>\$ 0.34</u>	<u>\$ 0.34</u>

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
<b>Increase in Net Assets Resulting from Operations</b>		
Net investment income	\$ 4,143,627	\$ 4,099,290
Net realized gain (loss) on investments and cash equivalents	(712,051)	894
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	2,584,583	(1,743,674)
Benefit for taxes on net realized loss or net unrealized gain on investments at Taxable Subsidiaries	8,593	167,339
<b>Net Increase in Net Assets Resulting from Operations</b>	<u>\$ 6,024,752</u>	<u>\$ 2,523,849</u>
<b>Stockholder distributions from:</b>		
Net investment income	(4,241,903)	(4,242,443)
<b>Total Distributions</b>	<u>\$ (4,241,903)</u>	<u>\$ (4,242,443)</u>
<b>Total increase (decrease) in net assets</b>	<u>\$ 1,782,849</u>	<u>\$ (1,718,594)</u>
<b>Net assets at beginning of period</b>	<u>\$ 170,881,785</u>	<u>\$ 164,651,104</u>

Net assets at end of period (includes \$534,070 and \$922,796 of distributions in excess of net investment income, respectively) \$ 172,664,634 \$ 162,932,510

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 6,024,752	\$ 2,523,849
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(23,151,902)	(5,367,633)
Proceeds from sales and repayments of investments	39,279,309	513,365
Net change in unrealized depreciation (appreciation) on investments	(2,584,583)	1,743,674
Deferred tax provision (benefit)	(8,593)	(167,339)
Increase in investments due to PIK	(82,119)	(54,729)
Amortization of premium and accretion of discount, net	(267,611)	(289,807)
Amortization of loan structure fees	122,908	130,423
Amortization of deferred financing costs	46,669	81,101
Amortization of loan fees on SBIC debentures	80,211	47,184
Net realized (gain) loss on investments	712,051	(894)
Changes in other assets and liabilities		
Decrease in interest receivable	329,975	108,022
Increase in accounts receivable	(7,294)	7,684
Increase in prepaid expenses and fees	(62)	12,586
Increase (decrease) in management fees payable	(43,767)	29,594
Increase (decrease) in incentive fees payable	(129,650)	623,279
Increase in administrative services payable	31,358	71,425
Decrease in interest payable	(550,338)	(199,796)
Decrease in unearned revenue	(1,786)	(3,618)
Increase in other accrued expenses and liabilities	318,964	82,341
Net cash provided by (used in) operating activities	<u>\$ 20,118,492</u>	<u>(109,289)</u>
<b>Cash flows from financing activities</b>		
Offering costs paid for common stock issued	(81,813)	—
Stockholder distributions paid	(4,241,903)	(4,242,443)
Borrowings under credit facility	9,000,000	—
Repayments of credit facility	(22,500,000)	—
Net cash used in financing activities	<u>(17,823,716)</u>	<u>(4,242,443)</u>
Net increase (decrease) in cash and cash equivalents	2,294,776	(4,351,732)
Cash and cash equivalents balance at beginning of period	9,194,129	10,875,790
Cash and cash equivalents balance at end of period	<u>\$ 11,488,905</u>	<u>\$ 6,524,058</u>
<b>Supplemental and non-cash financing activities</b>		
Interest expense paid	\$ 2,369,181	\$ 1,820,930
Excise tax paid	37,648	—
Conversion from debt to equity	864,101	—

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