

STELLUS

CAPITAL

INVESTMENT CORPORATION

August 4, 2017

Stellus Capital Investment Corporation Reports Results for its Second Fiscal Quarter Ended June 30, 2017

HOUSTON, Aug. 4, 2017 /PRNewswire/ -- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus" or "the Company") today announced financial results for its second fiscal quarter ended June 30, 2017.

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HIGHLIGHTS

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

| Portfolio results | As of June 30, 2017 | |
|--|-----------------------------------|-----------------------------------|
| Total assets | \$348.6 | |
| Investment portfolio, at fair value | \$337.4 | |
| Net assets | \$216.5 | |
| Weighted average yield on debt investments | 11.3% | |
| Net asset value per share | \$13.84 | |
| | Quarter ended June 30, 2017 | Quarter ended June 30, 2016 |
| <u>Portfolio activity</u> | | |
| Total investments made | \$25.2 | \$12.8 |
| Number of new investments | 3 | 3 |
| Repayments and sale of investments, including amortization | \$40.7 | \$15.4 |
| Number of portfolio companies at end of period | 46 | 42 |
| <u>Operating results</u> | | |
| Total investment income | \$10.4 | \$9.6 |
| Net investment income | \$4.9 | \$3.9 |
| Net investment income per share | \$0.32 | \$0.32 |
| Regular distributions per share | \$0.34 | \$0.34 |
| Net increase in net assets from operations | \$6.0 | \$5.0 |
| Net increase in net assets from operations per share | \$0.39 | \$0.41 |

"We received approximately \$37.4 million of repayments during the quarter which resulted in meaningful fee income. In July, we contributed additional equity of \$20.5 million to our SBIC subsidiary, bringing total regulatory capital contributed to \$58.5 million which, subject to SBA approval, will allow us to obtain additional debenture commitments of \$52 million," said Robert T. Ladd, Chief Executive Officer of Stellus.

Portfolio and Investment Activity

We completed the second quarter of 2017 with a portfolio of \$337.4 million (at fair value) invested in 46 companies. As of June 30, 2017, our portfolio included approximately 24% of first lien debt, 46% of second lien debt, 23% of unsecured debt and 7% of equity investments at fair value. Our debt portfolio consisted of 69% floating rate investments (subject to interest rate floors) and 31% fixed rate investments. The average size of our portfolio company investments was \$7.3 million at fair value, and our largest aggregate investment in a portfolio company was approximately \$22.8 million at fair value. The weighted average yield on all of our debt investments as of June 30, 2017 was approximately 11.3%.

During the quarter ended June 30, 2017, we made \$25.2 million of investments in three new portfolio companies and one existing portfolio company, and received \$40.7 million in proceeds from repayments and amortization.

This compares to the portfolio as of June 30, 2016, which had a fair value of \$350.8 million invested in 42 companies, comprised 36% of first lien debt, 40% 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 June 30, 2016 was approximately 10.7%. The debt portfolio consisted of 78% floating rate investments (subject to interest rate floors) and 22% fixed rate investments.

Results of Operations

Investment income for the quarter ended June 30, 2017 and 2016, totaled \$10.4 million and \$9.6 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the quarter ended June 30, 2017 and 2016, totaled \$5.5 million and \$5.7 million, respectively. For the same respective periods, base management fees totaled \$1.5 million and \$1.6 million, incentive fees totaled \$1.2 million and \$1.0 million, fees and expenses related to our borrowings totaled \$1.9 million and \$2.0 million (including interest and amortization of deferred financing costs), administrative services expenses totaled \$0.3 million for both periods and other expenses totaled \$0.7 and \$0.8 million, respectively.

Net investment income was \$4.9 million, or \$0.32 and \$3.9 million, or \$0.32 per common share, based on weighted average common shares outstanding for quarters ended June 30, 2017 and 2016.

For the quarter ended June 30, 2017 and 2016, the Company had a de minimis amount of realized gain. The Company's investment portfolio had a net change in unrealized appreciation for the quarter ended June 30, 2017 and 2016, of \$1.1 million and \$0.9 million, respectively.

Our net increase in net assets resulting from operations totaled \$6.0 million and \$5.0 million, or \$0.39 and \$0.41 per common share, based on weighted average common shares outstanding, for the quarters ended June 30, 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 June 30, 2017 and 2016, our credit facility provided for borrowings in an aggregate amount up to \$120 million on a committed basis. As of June 30, 2017 and 2016, we had \$39 million and \$110 million in outstanding borrowings under the credit facility, respectively.

For the six months ended June 30, 2017, our operating activities provided cash of \$40.9 million primarily in connection with cash interest received and repayments of our investments.

For the six months ended June 30, 2017, the Company issued 3,162,500 additional shares of common stock during the in connection with a capital raise. Gross proceeds resulting from the issuance totaled \$44,591,250, and underwriting and other expenses related to the offering totaled \$1,530,632. For the same period, our financing activities used cash of \$43.1 million, which included distributions to stockholders of \$9.2 million paid and net repayments of \$77.0 million under the credit facility.

For the six months ended June 30, 2016, our operating activities used cash of \$7.9 million primarily due to the purchase of new investments offset by cash interest received. For the same period, our financing activities used cash of \$8.0 million, due to distributions to stockholders paid during the period.

Distributions

During the three months ended June 30, 2017 and 2016, we declared aggregate distributions of \$0.34 per share (\$5.3 million and \$4.2 million) for each quarter, 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 distributions are expected to include a return of capital.

Recent Portfolio Activity

New investment transactions and repayments that occurred during the quarter ended June 30, 2017 are summarized as follows:

- | On May 1, 2017, we received full repayment on the first lien term loan of Telecommunications Management, LLC for proceeds of \$5.0 million.
- | On May 22, 2017, we received full repayment on the second lien term loan of Doscocil Manufacturing Company for proceeds of \$8.75 million. In addition we received a \$0.2 million prepayment fee.
- | On May 31, 2017, we invested \$9.0 million in the second lien term loan of Valued Relationships, Inc. a technology-enabled services business that offers medical alert monitoring / personal emergency response and telemonitoring services. Additionally, we invested \$0.5 million in the equity of the company.
- | On June 9, 2017, we received full repayment on the first lien term loan of Hollander Sleep Products, LLC for proceeds of \$7.0 million. In addition we received a \$70 thousand prepayment fee.
- | On June 14, 2017, we received full repayment on the first lien term loan of Vision Media Management & Fulfillment, LLC for proceeds of \$1.6 million. In addition we received a \$16 thousand prepayment fee.
- | On June 22, 2017, we received full repayment on the first lien term loan of Stratose Intermediate Holdings II, LLC for proceeds of \$15.0 million. In addition we received a \$150 thousand prepayment fee.
- | On June 29, 2017, we invested \$7.5 million in the first lien term loan of ASC Communications, LLC, a media platform and event organizer focused on the healthcare industry. Additionally, we invested \$0.5 million in the equity of the company.
- | On June 30, 2017, we invested \$7.2 million in the second lien term loan of Roberts-Gordon, LLC, a manufacturer of commercial and industrial HVAC equipment. Additionally, we invested \$0.5 million in the equity of the company.

Subsequent Events

Portfolio Activity

- | On July 3, 2017, the Company invested an additional \$0.06 million in the equity of Apex Environmental Resources Holdings, LLC.
- | On July 7, 2017, the Company received full repayment on the second lien term loan of Atkins Nutritionals Holdings II, Inc. for proceeds of \$8.0 million.
- | On July 14, 2017, the Company received full repayment on the unsecured term loan of OG Systems, LLC, for proceeds of \$4.0 million.
- | On July 26, 2017, the Company invested \$22.5 million in the first lien term loan of Resolute Industrial, LLC, a provider of water and air-cooled services and manufacturer. We also committed to fund a \$2.5 million revolver and a \$5.75 million delayed draw term loan. Additionally, the Company invested \$0.75 million in the equity of the company.

SBIC Subsidiary

On July 25, 2017, the Company contributed additional equity of \$20.5 million to the SBIC subsidiary, bringing total regulatory capital contributed to \$58.5 million.

Credit Facility

The outstanding balance under the Credit Facility as of August 3, 2017 was \$51.5 million.

Dividends Declared

On July 7, 2017, the Company's board of directors declared a regular monthly dividend for each of July, August and September 2017 as follows:

| Declared | Ex-Dividend Date | Record Date | Payment Date | Amount Per Share |
|----------|------------------|-------------|--------------|------------------|
| 7/7/2017 | 7/27/2017 | 7/31/2017 | 8/15/2017 | \$0.1133 |
| 7/7/2017 | 8/29/2017 | 8/31/2017 | 9/15/2017 | \$0.1133 |
| 7/7/2017 | 9/28/2017 | 9/29/2017 | 10/13/2017 | \$0.1133 |

On July 10, 2017, The New York Stock Exchange announced a change beginning with record date of September 7, 2017, going forward. Ex-dividend dates were changed from two to one business day prior to the record date. Based on this change, the correct ex-dividend date for 9/29/2017 record date is 9/28/2017, instead of 9/27/2017 as reported in the Company's July 10, 2017 press release.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on Friday, August 4, 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 866-548-4713 (domestic). Use passcode 5962099. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through August 12, 2017 by dialing (888) 203-1112 and entering passcode 5962099. The replay will also be available on the company's website.

Contacts

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STELLUS CAPITAL INVESTMENT CORPORATION CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

| | June 30, 2017 (unaudited) | December 31, 2016 |
|--|--|------------------------------|
| ASSETS | | |
| Non-controlled, affiliated investments, at fair value (amortized cost of \$1,052,185 and \$0, respectively) | \$ 980,000 | \$ — |
| Non-controlled, non-affiliated investments, at fair value (amortized cost of \$329,218,652 and \$362,217,251, respectively) | 336,390,312 | 365,625,891 |
| Cash and cash equivalents | 6,953,303 | 9,194,129 |
| Interest receivable | 4,007,830 | 4,601,742 |
| Accounts receivable | 8,343 | 748 |
| Prepaid expenses | 302,716 | 456,219 |
| Total Assets | \$ 348,642,504 | \$ 379,878,729 |
| LIABILITIES | | |
| Notes Payable | \$ 24,654,747 | \$ 24,565,891 |
| Credit facility payable | 38,418,389 | 115,171,208 |
| SBA Debentures | 63,503,349 | 63,342,036 |
| Dividends payable | 1,772,293 | 1,413,982 |
| Base management fees payable | 1,023,011 | 1,608,295 |
| Incentive fees payable | 1,423,614 | 1,353,271 |
| Interest payable | 888,145 | 973,812 |
| Unearned revenue | 22,288 | 19,955 |
| Administrative services payable | 316,193 | 272,511 |
| Deferred Tax Liability | — | 8,593 |
| Other accrued expenses and liabilities | 167,302 | 267,390 |
| Total Liabilities | \$ 132,189,331 | \$ 208,996,944 |
| Net Assets | \$ 216,453,173 | \$ 170,881,785 |
| NET ASSETS | | |
| Common Stock, par value \$0.001 per share (200,000,000 shares authorized, 15,642,457 and 12,479,959 shares issued and outstanding, respectively) | \$ 15,642 | \$ 12,480 |
| Paid-in capital | 224,052,179 | 180,994,723 |
| Accumulated net realized loss | (13,801,668) | (13,089,671) |
| Distributions in excess of net investment income | (912,456) | (435,794) |
| Net unrealized appreciation on investments and cash equivalents, net of provision for taxes of \$0 and \$8,593, respectively | 7,099,476 | 3,400,047 |
| Net Assets | \$ 216,453,173 | \$ 170,881,785 |
| Total Liabilities and Net Assets | \$ 348,642,504 | \$ 379,878,729 |

Net Asset Value Per Share

\$ 13.84 \$ 13.69

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

| | For the three months ended June 30, 2017 | For the three months ended June 30, 2016 | For the six months ended June 30, 2017 | For the six months ended June 30, 2016 |
|---|--|--|--|--|
| INVESTMENT INCOME | | | | |
| Interest income | \$ 9,642,531 | \$ 9,328,416 | \$ 19,118,783 | \$ 18,703,153 |
| Other income | 751,834 | 294,753 | 1,139,562 | 387,849 |
| Total Investment Income | \$ 10,394,365 | \$ 9,623,169 | \$ 20,258,345 | 19,091,002 |
| OPERATING EXPENSES | | | | |
| Management fees | \$ 1,523,010 | \$ 1,550,841 | \$ 3,087,538 | \$ 3,099,214 |
| Valuation fees | 23,305 | 67,701 | 189,394 | 200,167 |
| Administrative services expenses | 310,860 | 250,627 | 619,958 | 537,927 |
| Incentive fees | 1,234,616 | 986,276 | 2,255,843 | 2,011,098 |
| Professional fees | 219,487 | 195,203 | 447,164 | 387,314 |
| Directors' fees | 79,000 | 86,000 | 171,000 | 178,000 |
| Insurance expense | 110,466 | 118,027 | 219,718 | 236,053 |
| Interest expense and other fees | 1,780,809 | 2,015,189 | 3,849,439 | 3,895,032 |
| Deferred offering costs | - | 261,761 | - | 261,761 |
| Other general and administrative expenses | 174,353 | 146,442 | 336,205 | 240,044 |
| Total Operating Expenses | 5,455,906 | 5,678,067 | 11,176,259 | 11,046,610 |
| Net Investment Income | \$ 4,938,459 | \$ 3,945,102 | \$ 9,082,086 | \$ 8,044,392 |
| Net Realized Gain (Loss) on Investments and Cash Equivalents | \$ 54 | \$ 1,486 | \$ (711,997) | \$ 2,380 |
| Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents | \$ 1,106,253 | \$ 928,520 | \$ 3,690,836 | \$ (815,154) |
| Benefit for taxes on net realized loss or net unrealized gain on investments at Taxable Subsidiaries | \$ - | \$ 154,812 | \$ 8,593 | \$ 322,151 |
| Net Increase in Net Assets Resulting from Operations | \$ 6,044,766 | \$ 5,029,920 | \$ 12,069,518 | \$ 7,553,769 |
| Net Investment Income Per Share | \$ 0.32 | \$ 0.32 | \$ 0.65 | \$ 0.64 |
| Net Increase in Net Assets Resulting from Operations Per Share | \$ 0.39 | \$ 0.41 | \$ 0.87 | \$ 0.61 |
| Weighted Average Shares of Common Stock Outstanding | 15,347,814 | 12,479,959 | 13,921,808 | 12,479,959 |
| Distributions Per Share | \$ 0.34 | \$ 0.34 | \$ 0.68 | \$ 0.68 |

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

| | For the six months ended June 30, 2017 | For the six months ended June 30, 2016 |
|--|--|--|
| Increase in Net Assets Resulting from Operations | | |
| Net investment income | \$ 9,082,086 | \$ 8,044,392 |
| Net realized gain (loss) on investments and cash equivalents | (711,997) | 2,380 |
| Net change in unrealized appreciation (depreciation) on investments and cash equivalents | 3,690,836 | (815,154) |
| Benefit for taxes on net realized loss or net unrealized gain on investments at Taxable Subsidiaries | 8,593 | 322,151 |
| Net Increase in Net Assets Resulting from Operations | 12,069,518 | 7,553,769 |
| Stockholder distributions | | |
| Net investment income | (9,558,748) | (8,484,372) |
| Total Distributions | (9,558,748) | (8,484,372) |
| Capital share transactions | | |

| | | |
|---|-----------------------|-----------------------|
| Issuance of common stock | 44,591,250 | — |
| Sales load | (1,296,625) | — |
| Offering costs | (234,007) | — |
| Net increase in net assets resulting from capital share transactions | 43,060,618 | — |
| Total increase (decrease) in net assets | 45,571,388 | (930,603) |
| Net assets at beginning of period | 170,881,785 | 164,651,104 |
| Net assets at end of period (includes \$912,456 and \$1,219,620 of distributions in excess of net investment income, respectively) | \$ 216,453,173 | \$ 163,720,501 |

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | For the six months ended June 30, 2017 | For the six months ended June 30, 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Net increase in net assets resulting from operations | \$ 12,069,518 | \$ 7,553,769 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: | | |
| Purchases of investments | (47,994,614) | (17,899,868) |
| Proceeds from sales and repayments of investments | 79,950,227 | 15,972,633 |
| Net change in unrealized (appreciation) depreciation on investments | (3,690,836) | 815,154 |
| Deferred tax benefit | (8,593) | (322,151) |
| Increase in investments due to PIK | (145,445) | (109,619) |
| Amortization of premium and accretion of discount, net | (575,750) | (557,840) |
| Amortization of loan structure fees | 247,181 | 260,846 |
| Amortization of deferred financing costs | 88,856 | 162,203 |
| Amortization of loan fees on SBIC debentures | 161,313 | 88,709 |
| Net realized loss (gain) on investments | 711,997 | (2,380) |
| Deferred offering cost | — | 261,761 |
| Changes in other assets and liabilities | | |
| Decrease in interest receivable | 593,912 | 522,724 |
| Decrease (increase) in accounts receivable | (7,595) | 7,684 |
| Decrease in prepaid expenses and fees | 153,503 | 177,750 |
| Increase (decrease) in management fees payable | (585,284) | 32,062 |
| Increase in directors' fees payable | — | 86,000 |
| Increase in incentive fees payable | 70,343 | 711,073 |
| Increase (decrease) in administrative services payable | 43,682 | (163,551) |
| Increase (decrease) in interest payable | (85,667) | 272,180 |
| Increase (decrease) in unearned revenue | 2,333 | (13,284) |
| Increase (decrease) in other accrued expenses and liabilities | (100,088) | 86,921 |
| Net cash provided by operating activities | \$ 40,898,993 | \$ 7,942,776 |
| Cash flows from financing activities | | |
| Proceeds from the issuance of common stock | 44,591,250 | — |
| Sales load for common stock issued | (1,296,625) | — |
| Offering costs paid for common stock issued | (234,007) | — |
| Stockholder distributions paid | (9,200,437) | (8,484,372) |
| Borrowings under credit facility | 18,000,000 | 18,500,000 |
| Repayments of credit facility | (95,000,000) | (18,000,000) |
| Net cash used in financing activities | \$ (43,139,819) | \$ (7,984,372) |
| Net decrease in cash and cash equivalents | (2,240,826) | (41,596) |
| Cash and cash equivalents balance at beginning of period | 9,194,129 | 10,875,790 |
| Cash and cash equivalents balance at end of period | \$ 6,953,303 | \$ 10,834,194 |
| Supplemental and non-cash financing activities | | |
| Interest expense paid | \$ 3,432,756 | \$ 3,106,094 |
| Excise tax paid | \$ 37,648 | \$ - |
| Conversion from debt to equity | \$ 864,101 | \$ - |
| Increase in Dividend Payable | \$ 358,311 | \$ - |

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