

STELLUS

CAPITAL

INVESTMENT CORPORATION

March 6, 2018

Stellus Capital Investment Corporation Reports Results for its Fourth Fiscal Quarter and Year Ended December 31, 2017

HOUSTON, March 6, 2018 /PRNewswire/ -- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus," "we," "us," "our," or "the Company") today announced financial results for its fourth fiscal quarter and year ended December 31, 2017.

HIGHLIGHTS

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

Portfolio results	As of December 31, 2017	
Total assets	\$400.3	
Investment portfolio, at fair value	\$371.8	
Net assets	\$220.2	
Weighted average yield on debt investments	10.8%	
Net asset value per share	\$13.81	
	Year ended December 31, 2017	Quarter ended December 31, 2017
<u>Portfolio activity</u>		
Total investments made, at par	\$175.5	\$55.3
Number of new investments	16	5
Repayments of investments, including amortization	\$172.3	\$38.9
Number of portfolio companies at end of period	48	48
<u>Operating results</u>		
Total investment income	\$39.6	\$9.4
Net investment income	\$18.0	\$4.4
Net investment income per share	\$1.21	\$0.28
Net Investment income per share excluding loss on extinguishment of debt	\$1.24	\$0.28
Realized Gain / (Loss) per share	\$0.31	\$0.01
Regular distributions per share	\$1.36	\$0.34
Net increase in net assets from operations	\$22.6	\$4.9
Net increase in net assets from operations per share	\$1.52	\$0.31

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"Since the end of 2016, we have achieved a number of objectives: strengthening our capital base, which will allow us to grow our investment portfolio to over \$500 million, fully funding the equity capital of our SBIC subsidiary and covering our annual dividend through a combination of investment income and realized gains. On the capital front, we issued \$43.1

million of equity in a secondary offering, \$4.0 million in equity through our at-the-market program, \$48.9 million of 5-year unsecured notes and modified our credit facility to extend the maturity and increase the amount available for borrowing. We earned \$1.52 per share, including a realized gain of \$0.31 per share, more than covering our \$1.36 annual dividend. Net asset value per share increased from \$13.69 to \$13.81. Since year end, we have closed investments in three new and three existing portfolio companies totaling \$62.4 million and have received no full repayments" said Robert T. Ladd, Chief Executive Officer of Stellus.

Portfolio and Investment Activity

We completed the fourth quarter of 2017 with a portfolio of \$371.8 million (at fair value) invested in 48 companies. As of December 31, 2017, our portfolio included approximately 38% of first lien debt, 48% of second lien debt, 7% of unsecured debt and 7% of equity investments at fair value. Our debt portfolio consisted of 87% floating rate investments (subject to interest rate floors) and 13% fixed rate investments. The average size of our portfolio company investments was \$7.7 million at fair value, and our largest aggregate investment in a portfolio company was approximately \$22.2 million at fair value. The weighted average yield on all of our debt investments as of December 31, 2017 was approximately 10.8%.

During the year ended December 31, 2017, we made \$175.5 million of investments, at par, in fourteen new portfolio companies and two existing portfolio companies, and received \$172.3 million in proceeds from repayments and amortization.

This compares to the portfolio as of December 31, 2016, which had a fair value of \$365.6 million invested in 45 companies, comprised 31% of first lien debt, 45% of second lien debt, 19% of unsecured debt and 5% of equity investments at fair value. The weighted average yield on all of our debt investments as of December 31, 2016 was approximately 11.0%. The debt portfolio consisted of 77% floating rate investments (subject to interest rate floors) and 23% fixed rate investments.

Results of Operations

Investment income for the year ended December 31, 2017 and 2016, totaled \$39.6 million and \$39.5 million, respectively, most of which was interest income from portfolio company investments.

Operating expenses for the year ended December 31, 2017 and 2016, totaled \$21.3 million and \$22.2 million, respectively. For the same respective periods, base management fees totaled \$6.3 million and \$6.3 million, incentive fees totaled \$2.9 million and \$4.3 million, fees and expenses related to our borrowings of \$7.9 million and \$8.0 million respectively (including interest and amortization of deferred financing costs), administrative services expenses totaled \$1.2 million and \$1.0 million and other expenses totaled \$3.0 and \$2.6 million, respectively.

Net investment income was \$18.0 million, or \$1.21 per common share, and \$17.3 million, or \$1.39 per common share, based on weighted average common shares outstanding for years ended December 31, 2017 and 2016.

For the year ended December 31, 2017 and 2016, we had a realized gain of \$4.7 million and a realized loss of \$13.1 million respectively. The Company's investment portfolio had a net change in unrealized depreciation for the year ended December 31, 2017 of \$0.02 million and a net change in unrealized appreciation for the year ended December 31, 2016, of \$18.6 million.

Our net increase in net assets resulting from operations totaled \$22.6 million and \$23.2 million, or \$1.52 and \$1.86 per common share, based on weighted average common shares outstanding, for the year ended December 31, 2017 and 2016, respectively.

Liquidity and Capital Resources

For the year ended December 31, 2017, the Company issued 3,465,922 additional shares of common stock in connection with an equity capital raise in April 2017 and an at-the-market program, which began in the third quarter of the year. Gross proceeds resulting from the issuances totaled \$48.7 million, and underwriting and other expenses related to the offering totaled \$1.7 million. For the same period, our financing activities used cash of \$3.3 million, which included distributions to stockholders of \$20.3 million and net repayments of \$75.3 million under the credit facility.

On August 21, 2017, the Company issued \$42.5 million in aggregate principal amount of 5.75% fixed-rate notes due 2022 (the "Notes"). On September 8, 2017, the Company issued an additional \$6.38 million in aggregate principal amount of the Notes pursuant to a full exercise of the underwriters' overallotment option. The Notes will mature on September 15, 2022, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after September 15, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest is payable quarterly beginning December 15, 2017. The Company used all of the net proceeds from this offering to fully redeem the

\$25.0 million of 6.50% notes due 2019 and repay a portion of the amount outstanding under the existing credit facility.

On November 28, 2017, the Company drew \$25.0 million in aggregate principal amount of debentures guaranteed by the U.S. Small Business Administration (SBA-guaranteed debentures). The SBA-guaranteed debentures will mature on March 21, 2028 with interest due biannually. The Company used all of the proceeds from this draw to repay a portion of the amount outstanding under the credit facility.

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

On October 11, 2017, the Company entered into a \$140 million revolving credit facility with ZB, N.A., dba Amegy Bank, and various other lenders with a maturity date of October 10, 2021 (the "Credit Facility"). In conjunction with securing and entering into the Credit Facility, the Company terminated its senior secured revolving credit facility with SunTrust Bank (the "Original Facility"). The Credit Facility became effective as of October 10, 2017 and is materially the same as the Original Facility. The Company incurred upfront costs of approximately \$1.2 million which were deferred and will be amortized over the four year term of the Credit Facility. As of December 31, 2017 and 2016, we had \$40.8 million and \$116.0 million in outstanding borrowings under the credit facilities, respectively.

On November 1, 2017, we entered into a custody agreement with our new custodian, ZB, N.A., dba, Amegy Bank. On November 2, 2017, we provided notice of termination of our prior custody agreement with State Street effective 60 days from the date of notice.

For the year ended December 31, 2017, our operating activities provided cash of \$19.2 million primarily in connection with cash interest received and repayments of our investments.

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.

Distributions

During the three and twelve months ended December 31, 2017 and 2016, we declared aggregate distributions of \$0.34 and \$1.36 per share, \$5.4 million and \$4.2 million for the quarter ended and \$20.3 million and \$17.0 million for the year, respectively. Tax characteristics of all distributions were reported to stockholders on Form 1099-DIV. None of these distributions included a return of capital.

Recent Portfolio Activity

For the quarter ended December 31, 2017, the Company funded \$55.3 million in four new and one existing portfolio companies and received \$38.9 million from three repayments, ten pay downs, including amounts received from equity investments. The new investment transactions and repayments that occurred during the quarter are summarized as follows:

- 1 On November 21 and 27, 2017, we invested a total of \$0.09 million in the equity of Apex Environmental Resources Holdings, LLC, an existing portfolio company.
- 1 On October 20, 2017, we received full repayment of the unsecured lien to Colford Capital Holdings, LLC, for proceeds of \$19.5 million.
- 1 On December 15, 2017, we received full repayment of the first term loan of Huf Worldwide, LLC, for proceeds of \$9.8 million and equity proceeds of \$0.7 million.
- 1 On October 16, 2017, we invested \$12.5 million in the second lien term loan of Magdata Intermediate Holdings, LLC, a provider of enterprise information management software and services.
- 1 On October 27, 2017, we invested \$13.8 million in the second lien term loan of Condor Borrowing, LLC, (Comodo), a technology company that provides secure socket layer certificates. Additionally, we invested \$0.5 million in the equity of the company.
- 1 On December 22, 2017, we invested \$12.5 million in the first lien term loan of J.R. Watkins, LLC, a manufacturer and distributor of home and personal care products. We also committed to a \$1.75 million revolver and invested \$1.0 million in the equity of the company.
- 1 On December 22, 2017, we received full repayment of the unsecured term loan of SQAD, LLC, for proceeds of \$7.3 million.
- 1 On December 22, 2017, we invested \$15.0 million in the first lien term loan SQAD, LLC, a provider of media and

planning software to advertisement agencies.

Subsequent Events

Portfolio Activity

- l On January 2, 2018, the Company invested \$10.0 million in the second lien term loan of ICD Intermediate Holdco 2, LLC, a financial company that connects corporate treasury departments with money market and short duration bond funds. Additionally, the Company invested \$0.5 million in the equity of the company.
- l On January 26, 2018, the Company made an additional investment of \$7.1 million in the first lien term loan of BW DME Acquisition LLC, (StateServ Medical, LLC).
- l On January 30, 2018, the Company received a dividend of \$1.35 million from MTC Parent, L.P. (Millennium Trust).
- l On January 31, 2018, the Company invested \$11.0 million in the first lien term loan of Price for Profit, LLC, an advisory services and specialized technology platform services company. We also committed to fund a \$1.5 million revolver. Additionally, the Company invested \$0.8 million in the equity of the company.
- l On January 31, 2018, the Company made an additional investment of \$3.2 million in the first lien term loan of Energy Labs Inc.
- l On February 5, 2018, the Company invested \$20.5 million in the first lien term loan of Fast Growing Trees, LLC, an online provider of hybrid trees and plants. We also committed to fund a \$1.0 million revolver. Additionally, the Company invested \$1.0 million in the equity of the company.
- l On February 6, 2018, the Company made an additional investment of \$8.3 million in the first lien debt of Furniture Factory Holdings, LLC.

Credit Facility

The outstanding balance under the credit facility as of March 2, 2018 was \$83.1 million.

SBIC Subsidiary

During January 2018, the Company contributed \$7.5 million to the SBIC Subsidiary, bringing total contributed capital to \$75.0 million.

Dividend Reinvestment Program ("DRIP")

Since December 31, 2017, the Company has issued 7,932 shares through the DRIP.

Dividends Declared

On January 11, 2018, the Company's board of directors declared a regular monthly dividend for each of January, February and March 2018 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount Per Share
1/11/2018	1/30/2018	1/31/2018	2/15/2018	\$0.1133
1/11/2018	2/27/2018	2/28/2018	3/15/2018	\$0.1133
1/11/2018	3/28/2018	3/29/2018	4/13/2018	\$0.1133

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on Tuesday, March 6, 2018, at 10:00 a.m. Central Standard 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 800-239-9838 (domestic). Use passcode 7990872. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through March 14, 2018 by dialing (888) 203-1112 and entering passcode 7990872. 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

	December 31, 2017	December 31, 2016
ASSETS		
Non-Controlled, affiliated investments, at fair value (amortized cost of \$1,052,185 and \$0, respectively)	\$ 990,000	\$ —
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$367,401,021 and \$362,217,251, respectively)	370,849,772	365,625,891
Cash and cash equivalents	25,110,718	9,194,129
Receivable for sales and repayments of investments	26,891	—
Interest receivable	2,922,204	4,601,742
Accounts receivable	—	748
Prepaid expenses	361,270	456,219
Total Assets	\$ 400,260,855	\$ 379,878,729
LIABILITIES		
Notes payable	\$ 47,306,488	\$ 24,565,891
Credit facility payable	39,332,479	115,171,208
SBA debentures	87,818,813	63,342,036
Dividends payable	1,806,671	1,413,982
Base management fees payable	1,621,592	1,608,295
Incentive fees payable	371,647	1,353,271
Interest payable	1,021,173	973,812
Unearned revenue	139,304	19,955
Administrative services payable	327,033	272,511
Deferred tax liability	—	8,593
Other accrued expenses and liabilities	268,413	267,390
Total Liabilities	\$ 180,013,613	\$ 208,996,944
Commitments and contingencies (Note 7)		
Net Assets	\$ 220,247,242	\$ 170,881,785
NET ASSETS		
Common Stock, par value \$0.001 per share (200,000,000 and 100,000,000 shares authorized, 15,945,879 and 12,479,959 shares issued and outstanding, respectively)	\$ 15,946	\$ 12,480
Paid-in capital	228,066,762	180,994,723
Accumulated net realized loss from investments, net of cumulative dividends of \$4,251,819, and \$1,899,274, respectively	(10,786,240)	(13,089,671)
Distributions in excess of net investment income	(435,794)	(435,794)
Net Unrealized appreciation on investments and cash equivalents, net of provision for taxes of \$0 and \$8,593, respectively. ⁽¹⁾	3,386,568	3,400,047
NET ASSETS	\$ 220,247,242	\$ 170,881,785
Total Liabilities and Net Assets	\$ 400,260,855	\$ 379,878,729
Net Asset Value Per Share	\$ 13.81	\$ 13.69

(1) See Note 13 for a discussion of Deferred Taxes.

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
INVESTMENT INCOME			
Interest income	\$ 38,071,449	\$ 38,176,617	\$ 34,643,791
Other income	1,576,744	1,313,580	514,768
Total Investment Income	39,648,193	39,490,197	35,158,559
OPERATING EXPENSES			
Management fees	\$ 6,255,911	\$ 6,281,863	\$ 5,841,267
Valuation fees	336,300	397,330	356,971

Administrative services expenses	1,245,727	1,045,648	1,029,368
Incentive fees	2,911,392	4,275,436	3,975,198
Professional fees	1,274,066	712,524	596,357
Directors' fees	331,000	324,000	333,000
Insurance expense	429,897	471,427	473,963
Interest expense and other fees	7,855,211	7,992,185	6,177,015
Deferred offering costs	-	261,761	-
Other general and administrative expenses	621,204	415,822	474,625
Total Operating Expenses	<u>\$ 21,260,708</u>	<u>\$ 22,177,996</u>	<u>\$ 19,257,764</u>
Loss on extinguishment of debt	416,725	-	-
Waiver of Incentive Fee	-	-	(646,333)
Total Operating Expenses, net of fee waivers	<u>\$ 21,677,433</u>	<u>\$ 22,177,996</u>	<u>\$ 18,611,431</u>
Net Investment Income	<u>\$ 17,970,760</u>	<u>\$ 17,312,201</u>	<u>\$ 16,547,128</u>
Net Realized Gain on Investments and Cash Equivalents	<u>\$ 4,655,976</u>	<u>\$ (13,089,671)</u>	<u>\$ 421,726</u>
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	<u>\$ (22,072)</u>	<u>\$ 18,603,401</u>	<u>\$ (9,204,717)</u>
Benefit (provision) for taxes on unrealized gain on investments	<u>\$ 8,593</u>	<u>\$ 373,131</u>	<u>\$ (93,601)</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 22,613,257</u>	<u>\$ 23,199,062</u>	<u>\$ 7,670,536</u>
Net Investment Income Per Share	<u>\$ 1.21</u>	<u>\$ 1.39</u>	<u>\$ 1.33</u>
Net Increase in Net Assets Resulting from Operations Per Share	<u>\$ 1.52</u>	<u>\$ 1.86</u>	<u>\$ 0.61</u>
Weighted Average Shares of Common Stock Outstanding	<u>14,870,981</u>	<u>12,479,959</u>	<u>12,479,961</u>
Distributions Per Share	<u>\$ 1.36</u>	<u>\$ 1.36</u>	<u>\$ 1.36</u>

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Increase in Net Assets Resulting from Operations			
Net investment income	\$ 17,970,760	\$ 17,312,201	\$ 16,547,128
Net realized gain on investments and cash equivalents	4,655,976	(13,089,671)	421,726
Net change in unrealized appreciation on investments and cash equivalents	(22,072)	18,603,401	(9,204,717)
Benefit (provision) for taxes on unrealized appreciation on investments	8,593	373,131	(93,601)
Net Increase in Net Assets Resulting from Operations	<u>\$ 22,613,257</u>	<u>\$ 23,199,062</u>	<u>\$ 7,670,536</u>
Stockholder distributions from:			
Net investment income	(17,970,760)	(16,968,350)	(16,547,158)
Net realized capital gains	(2,352,545)	—	(421,726)
Total Distributions	<u>\$ (20,323,305)</u>	<u>\$ (16,968,350)</u>	<u>\$ (16,968,884)</u>
Capital share transactions			
Issuance of common stock	48,741,549	—	—
Reinvestments of stockholder distributions	(142)	(31)	—
Sales load	(1,358,880)	—	—
Offering costs	(307,022)	—	—
Net increase in net assets resulting from capital share transactions	<u>\$ 47,075,505</u>	<u>\$ (31)</u>	<u>\$ —</u>
Total increase (decrease) in net assets	<u>\$ 49,365,457</u>	<u>\$ 6,230,681</u>	<u>\$ (9,298,348)</u>
Net assets at beginning of period	<u>\$ 170,881,785</u>	<u>\$ 164,651,104</u>	<u>\$ 173,949,452</u>
Net assets at end of period (includes \$435,794, \$435,794 and \$779,643 of distributions in excess of net investment income, respectively)	<u>\$ 220,247,242</u>	<u>\$ 170,881,785</u>	<u>\$ 164,651,104</u>

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended	For the year ended	For the year ended
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	December 31, 2017	December 31, 2016	December 31, 2015
Cash flows from operating activities			
Net increase in net assets resulting from operations	\$ 22,613,257	\$ 23,199,062	\$ 7,670,536
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Purchases of investments	(172,171,246)	(65,661,034)	(133,661,491)
Proceeds from sales and repayments of investments	172,260,541	55,949,177	93,289,529
Net change in unrealized appreciation (depreciation) on investments	22,072	(18,603,401)	9,204,717
Deferred tax benefit	(8,593)	(373,130)	93,601
Increase in investments due to PIK	(499,596)	(243,766)	(439,052)
Amortization of premium and accretion of discount, net	(1,196,566)	(1,128,511)	(1,034,240)
Amortization of loan structure fees	455,893	523,835	472,003
Amortization of deferred financing costs	251,826	326,190	210,064
Loss on extinguishment of debt	416,725	—	—
Amortization of loan fees on SBIC debentures	333,027	184,783	204,980
Net realized (gain)/loss on investments	(4,655,976)	13,089,341	(421,726)
Deferred offering costs	—	261,761	—
Changes in other assets and liabilities			
Decrease in interest receivable	1,679,538	118,289	362,634
Decrease in receivable for affiliated transaction	—	—	—
Decrease in accounts receivable	748	6,936	(6,988)
Decrease in prepaid expenses and fees	94,949	19,230	(56,166)
Increase in management fees payable	13,297	89,516	158,760
Increase (decrease) in incentive fees payable	(981,624)	745,315	(513,600)
Increase (decrease) in administrative services payable	54,522	(125,288)	(193,945)
Increase in interest payable	47,361	403,623	223,985
Increase (decrease) in unearned revenue	119,349	(16,922)	(120,526)
Increase in dividend payable	392,689	—	—
Increase in other accrued expenses and liabilities	1,022	71,714	112,225
Net cash provided by operating activities	\$ 19,243,216	\$ 8,836,720	\$ (24,444,700)
Cash flows from financing activities			
Proceeds from notes issued	48,875,000	—	—
Proceeds from SBA Debentures	25,000,000	—	47,567,813
Financing costs paid on notes issued	(1,688,961)	—	—
Financing costs paid on Credit Facility	(1,158,616)	(50,000)	—
Financing costs paid on SBA Debentures	(856,250)	—	(325,000)
Proceeds from the issuance of common stock	48,741,549	—	—
Sales load for common stock issued	(1,358,880)	—	—
Offering costs paid for common stock issued	(307,022)	—	—
Stockholder distributions paid	(20,323,305)	(16,968,350)	(16,968,885)
Borrowings under credit facility	194,250,000	56,500,000	105,000,000
Repayments of credit facility	(269,500,000)	(50,000,000)	(102,000,000)
Repayments of Notes issued	(25,000,000)	—	—
Partial Share Redemption	(142)	(28)	—
Net cash provided by (used in) financing activities	\$ (3,326,627)	\$ (10,518,350)	\$ 33,273,928
Net increase (decrease) in cash and cash equivalents	15,916,589	(1,681,630)	8,829,228
Cash and cash equivalents balance at beginning of period	9,194,129	10,875,790	2,046,563
Cash and cash equivalents balance at end of period	\$ 25,110,718	\$ 9,194,160	\$ 10,875,791
Non-cash operating activities			
Conversion from debt to equity	\$ 864,101	\$ —	\$ —
Non-cash purchase of investment through repayment of investment	\$ —	\$ —	\$ 4,251,032
Supplemental financing activities			
Excise tax paid	\$ 37,648	\$ —	\$ —
Fees paid on SBA-guaranteed debentures through proceeds	\$ 856,250	\$ —	\$ 1,182,187
Cash paid for Interest Expense	\$ 6,762,104	\$ 6,548,754	\$ 5,010,984

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