

# STELLUS

## CAPITAL

INVESTMENT CORPORATION

August 5, 2016

### Stellus Capital Investment Corporation Reports Results for Its Second Fiscal Quarter Ended June 30, 2016

HOUSTON, TX -- (Marketwired) -- 08/05/16 -- Stellus Capital Investment Corporation (NYSE: SCM) ("Stellus" or "the Company") today announced financial results for its second fiscal quarter ended June 30, 2016.

#### HIGHLIGHTS

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

	As of June 30, 2016	
Portfolio results		
Total assets	\$366.1	
Investment portfolio, at fair value	\$350.8	
Net assets	\$163.7	
Weighted average yield on debt investments	10.7%	
Net asset value per share	\$13.12	
	Quarter ended June 30, 2016	Quarter ended June 30, 2015
Portfolio activity		
Total investments made, at par	\$12.8	\$38.9
Number of new investments	3	6
Repayments of investments, including amortization	\$15.6	\$36.6
Number of portfolio companies at end of period	42	35
Operating results		
Total investment income	\$9.6	\$8.7
Net investment income	\$3.9	\$4.0
Net investment income per share	\$0.32	\$0.32
Realized Gains per share	\$0.00	\$0.02
Regular dividends declared per share	\$0.34	\$0.34
Net increase in net assets from operations	\$5.0	\$4.0
Net increase in net assets from operations per share	\$0.41	\$0.32

"During the second quarter, we were able to substantially replace repayments with new investments", said Robert T. Ladd, Chief Executive Officer of Stellus. "The Company's investment adviser has informed the Company that it will waive incentive fees for the fiscal year ending December 31, 2016 to the extent necessary for the earnings of the Company to support dividends paid for the year".

#### Portfolio and Investment Activity

We completed the second quarter of 2016 with a portfolio of \$350.8 million (at fair value) invested in 42 companies. As of June 30, 2016, our portfolio included approximately 36% of first lien debt, 40% of second lien debt, 20% of mezzanine debt and 4% of equity investments at fair value. Our debt portfolio consisted of 78% floating rate investments (subject to interest rate floors) and 22% fixed rate investments. The average size of our portfolio company investments was \$8.4 million and our largest portfolio company investment was approximately \$21.8 million at fair value. The weighted average yield on all of our debt investments as of June 30, 2016 was approximately 10.7%.

During the three months ended June 30, 2016, we made \$12.8 million of investments in three new portfolio companies and received \$15.6 million from payoffs and amortization 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 comprising 38% of first lien debt, 38% of second lien debt, 20% of mezzanine debt and 4% of equity investments at fair value. As of December 31, 2015, our debt investments had a weighted average yield of 10.6% and consisted of 75% floating rate investments (subject to interest rate floors) and 25% fixed rate investments.

### *Results of Operations*

Investment income for the three months ended June 30, 2016 and 2015 totaled \$9.6 million and \$8.7 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the three months ended June 30, 2016 and 2015, totaled \$5.7 million and \$4.7 million, respectively. For the same respective periods, base management fees totaled \$1.6 million and \$1.4 million, incentive fees totaled \$1.0 million for both periods, fees and expenses related to our borrowings totaled \$2.0 million and \$1.5 million (including interest and amortization of deferred financing costs), administrative expenses totaled \$0.3 million for both periods and other expenses totaled \$0.5 million for both periods. Lastly, operating expenses for the three months ended June 30, 2016 included a one-time expense related to previously capitalized deferred offering costs of \$0.3 million.

Net investment income was \$3.9 million and \$4.0 million, or \$0.32 and \$0.32 per common share based on weighted average common shares outstanding for the three months ended June 30, 2016 and 2015, respectively.

The Company's investment portfolio had a net change in unrealized depreciation for the three months ended June 30, 2016 and 2015, of \$0.9 million and (\$0.2) million, respectively. For the three months ended June 30, 2016 and 2015 the Company had realized gains of \$1.5 thousand and \$289.5 thousand, respectively.

Our net increase in net assets resulting from operations totaled \$5.0 million and \$4.0 million, or \$0.41 and \$0.32 per common share based on weighted average common shares outstanding for the three months ended June 30, 2016 and 2015, respectively.

### *Liquidity and Capital Resources*

As of June 30, 2016 and 2015, our credit facility provided for borrowings in an aggregate amount up to \$120 million on a committed basis. As of June 30, 2016, our credit facility had an accordion feature which allowed for potential future expansion of the facility size to \$195 million. As of June 30, 2016 and December 31, 2015, we had \$110.0 million and \$109.5 million in outstanding borrowings under the credit facility, respectively.

For the six months ended June 30, 2016, our operating activities provided cash of \$7.9 million primarily in connection with cash interest received and repayments of our investments, which was offset by the purchase and origination of portfolio investments. For the same period, our financing activities used cash of \$8.0 million, due to distributions to stockholders paid during the period.

For the six months ended June 30, 2015 our operating activities provided cash of \$2.6 million, primarily in connection with cash interest received and repayments of our investments, and our financing activities provided cash of \$1.2 million, primarily related to the issuance of SBA debentures.

### *Distributions*

During the three months ended June 30, 2016 and 2015, we declared 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 which occurred during the three months ended June 30, 2016 are summarized as follows:

- | Throughout the quarter, we received a total of \$4.5 million in full repayment of the debtor-in-possession loan of Binder & Binder National Security and Disability Advocates, LLC.
- | On May 23, 2016, we received full repayment of both the first lien and delayed draw term loans of Software

Paradigms International Group, LLC at par plus a 2% prepayment premium for total proceeds of \$9.8 million.

- | On June 10, 2016, we made a \$10.0 million investment in the first lien term loan of Furniture Factory Outlet, LLC. We invested an additional \$0.1 million in the unsecured term loan and \$0.1 million in the equity of the company as well.
- | On June 30, 2016, we made a \$1.25 million investment in the second lien term loan of Keais Records Service, LLC.
- | On June 30, 2016, we made a \$1.25 million investment in the unsecured term loan of Wise Holding Corporation. In addition, we invested \$0.1 million in the equity of the company.

#### *Events Subsequent to June 30, 2016*

#### *Investment Portfolio*

On July 5, 2016 and July 19, 2016, we funded \$0.3 million and \$0.1 million, respectively, of the revolver of HUF Worldwide, LLC.

On July 15, 2016, we made a \$2.6 million investment in the first lien term loan of Good Source Solutions, Inc. Additionally, we invested \$0.2 million in the company's equity.

#### *Credit Facility*

The outstanding balance under the Credit Facility as of August 3, 2016 was \$103.0 million.

#### **Conference Call Information**

Stellus Capital Investment Corporation will host a conference call to discuss these results on August 5, 2016, 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 888-359-3624 (domestic). Use passcode 3493477. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through August 13, 2016 by dialing (888) 203-1112 and entering passcode 3493477. The replay will also be available on the company's website.

## **PART I - FINANCIAL INFORMATION**

### **STELLUS CAPITAL INVESTMENT CORPORATION**

#### **CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (unaudited)**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$366,819,533 and \$364,212,459, respectively)	\$ 350,809,617	\$ 349,017,697
Cash and cash equivalents	10,834,194	10,875,790
Receivable for sales and repayments of investments	-	10,000
Interest receivable	4,197,307	4,720,031
Deferred offering costs	-	261,761
Accounts receivable	-	7,684
Prepaid expenses	297,699	475,449
<b>Total Assets</b>	<b>\$ 366,138,817</b>	<b>\$ 365,368,412</b>
<b>LIABILITIES</b>		
Notes Payable, net of deferred financing costs	\$ 24,469,817	\$ 24,381,108
Credit facility payable, net of prepaid loan structure fees	108,958,219	108,197,373
SBA Debentures, net of prepaid loan fees	63,178,049	63,015,846
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,550,841	1,518,779
Incentive fees payable	1,319,029	607,956
Interest payable	842,369	570,189
Directors' fees payable	86,000	-
Unearned revenue	23,593	36,877
Administrative services payable	234,248	397,799
Deferred tax liability	59,572	381,723
Other accrued expenses and liabilities	282,597	195,676

<b>Total Liabilities</b>	\$	202,418,316	\$	200,717,308
<b>Commitments and contingencies (Note 5)</b>				
<b>Net Assets</b>	\$	163,720,501	\$	164,651,104
<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		180,994,749		180,994,752
Accumulated undistributed net realized gain		2,380		-
Distributions in excess of net investment income		(1,219,620)		(779,643)
Net unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$59,572 and \$381,723, respectively.		(16,069,488)		(15,576,485)
<b>Net Assets</b>	\$	163,720,501	\$	164,651,104
<b>Total Liabilities and Net Assets</b>	\$	366,138,817	\$	365,368,412
<b>Net Asset Value Per Share</b>	\$	13.12	\$	13.19

**STELLUS CAPITAL INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

	<i>For the three months ended June 30, 2016</i>	<i>For the three months ended June 30, 2015</i>	<i>For the six months ended June 30, 2016</i>	<i>For the six months ended June 30, 2015</i>
<b>INVESTMENT INCOME</b>				
Interest income	\$ 9,328,416	\$ 8,635,047	\$ 18,703,153	\$ 17,266,343
Other income	294,753	55,415	387,849	138,210
<b>Total Investment Income</b>	\$ 9,623,169	\$ 8,690,462	\$ 19,091,002	\$ 17,404,553
<b>OPERATING EXPENSES</b>				
Management fees	\$ 1,550,841	\$ 1,446,330	\$ 3,099,214	\$ 2,860,464
Valuation fees	67,701	41,324	200,167	188,799
Administrative services expenses	250,627	296,827	537,927	576,027
Incentive fees	986,276	998,871	2,011,098	1,959,725
Professional fees	195,203	67,794	387,314	362,355
Directors' fees	86,000	95,000	178,000	184,000
Insurance expense	118,027	118,242	236,053	235,186
Interest expense and other fees	2,015,189	1,514,055	3,895,032	2,964,547
Deferred offering costs	261,761	-	261,761	-
Other general and administrative expenses	146,442	116,532	240,044	234,548
<b>Total Operating Expenses</b>	\$ 5,678,067	\$ 4,694,975	\$ 11,046,610	\$ 9,565,651
<b>Net Investment Income</b>	\$ 3,945,102	\$ 3,995,487	\$ 8,044,392	\$ 7,838,902
<b>Net Realized Gain on Investments and Cash Equivalents</b>	\$ 1,486	\$ 289,548	\$ 2,380	\$ 292,717
<b>Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents</b>	\$ 928,520	\$ (236,062)	\$ (815,154)	\$ 1,377,006
<b>Benefit (provision) for taxes on unrealized gain on investments</b>	\$ 154,812	\$ (47,980)	\$ 322,151	\$ (114,258)
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 5,029,920	\$ 4,000,993	\$ 7,553,769	\$ 9,394,367
<b>Net Investment Income Per Share</b>	\$ 0.32	\$ 0.32	\$ 0.64	\$ 0.63
<b>Net Increase (Decrease) in Net Assets Resulting from Operations Per Share</b>	\$ 0.41	\$ 0.32	\$ 0.61	\$ 0.75
<b>Weighted Average Shares of Common Stock Outstanding</b>	12,479,959	12,479,962	12,479,959	12,479,962
<b>Distributions Per Share</b>	\$ 0.34	\$ 0.34	\$ 0.68	\$ 0.68

**STELLUS CAPITAL INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)**

	<b>For the six months ended June 30, 2016</b>	<b>For the six months ended June 30, 2015</b>
<b>Increase in Net Assets Resulting from Operations</b>		
Net investment income	\$ 8,044,392	\$ 7,838,902
Net realized gain on investments and cash equivalents	2,380	292,717
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	(815,154)	1,377,006
Benefit (provision) for taxes on unrealized appreciation on investments	322,151	(114,258)
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 7,553,769</b>	<b>\$ 9,394,367</b>
<b>Stockholder distributions from:</b>		
Net investment income	(8,484,372)	(8,484,513)
<b>Total Distributions</b>	<b>\$ (8,484,372)</b>	<b>\$ (8,484,513)</b>
<b>Total increase (decrease) in net assets</b>	<b>\$ (930,603)</b>	<b>\$ 909,854</b>
<b>Net assets at beginning of period</b>	<b>\$ 164,651,104</b>	<b>\$ 173,949,452</b>
<b>Net assets at end of period (includes \$1,219,620 and \$1,425,235 of distributions in excess of net investment income, respectively)</b>	<b>\$ 163,720,501</b>	<b>\$ 174,859,306</b>

**STELLUS CAPITAL INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	<b>For the six months ended June 30, 2016</b>	<b>For the six months ended June 30, 2015</b>
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 7,553,769	\$ 9,394,367
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(17,899,868)	(59,970,381)
Proceeds from sales and repayments of investments	15,972,633	53,942,696
Net change in unrealized depreciation (appreciation) on investments	815,154	(1,377,006)
Deferred tax provision (benefit)	(322,151)	114,258
Increase in investments due to PIK	(109,619)	(337,295)
Amortization of premium and accretion of discount, net	(557,840)	(469,646)
Amortization of loan structure fees	260,846	260,094
Amortization of deferred financing costs	162,203	117,173
Amortization of loan fees on SBIC debentures	88,709	77,851
Net realized gain on investments	(2,380)	(292,717)
Deferred offering costs	261,761	-
Changes in other assets and liabilities		
Increase (decrease) in interest receivable	522,724	989,471
Increase in accounts receivable	7,684	(185,336)
Decrease in prepaid expenses and fees	177,750	136,169
Increase in management fees payable	32,062	86,311
Increase in directors' fees payable	86,000	184,000
Increase (decrease) in incentive fees payable	711,073	107,295
Increase (decrease) in administrative services payable	(163,551)	(220,417)
Increase in interest payable	272,180	43,227
Decrease in unearned revenue	(13,284)	(113,213)
Increase (decrease) in other accrued expenses and liabilities	86,921	92,185
Net cash provided by operating activities	<b>\$ 7,942,776</b>	<b>\$ 2,579,086</b>
<b>Cash flows from financing activities</b>		
Proceeds from SBA Debentures	-	9,750,000
Financing costs paid on SBA Debentures	-	(561,438)
Stockholder distributions paid	(8,484,372)	(8,484,513)

Borrowings under credit facility	18,500,000	53,750,000
Repayments of credit facility	(18,000,000)	(53,250,000)
Net cash provided (used) by financing activities	<u>\$ (7,984,372)</u>	<u>\$ 1,204,049</u>
Net increase (decrease) in cash and cash equivalents	(41,596)	3,783,135
Cash and cash equivalents balance at beginning of period	10,875,790	2,046,563
Cash and cash equivalents balance at end of period	<u>\$ 10,834,194</u>	<u>\$ 5,829,698</u>
<b>Supplemental and non-cash financing activities</b>		
Interest expense paid	\$ 3,106,094	\$ 2,461,204

Contact

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