

STELLUS

CAPITAL

INVESTMENT CORPORATION

May 6, 2016

Stellus Capital Investment Corporation Reports Results for Its First Fiscal Quarter Ended March 31, 2016

HOUSTON, TX -- (Marketwired) -- 05/06/16 -- Stellus Capital Investment Corporation (NYSE: SCM) ("Stellus" or "the Company") today announced financial results for its first fiscal quarter ended March 31, 2016.

HIGHLIGHTS

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

	As of			
	March 31, 2016			
Portfolio results				
Total assets	\$	364.3		
Investment portfolio, at fair value	\$	352.5		
Net assets	\$	162.9		
Weighted average yield on debt investments		10.6%		
Net asset value per share	\$	13.06		
	Quarter ended	Quarter ended		
	March 31, 2016	March 31, 2015		
Portfolio activity				
Total investments made, at par	\$	5.6	\$	22.2
Number of new investments		3		4
Repayments of investments, including amortization	\$	0.5	\$	17.3
Number of portfolio companies at end of period		40		33
Operating results				
Total investment income	\$	9.5	\$	8.7
Net investment income	\$	4.1	\$	3.8
Net investment income per share	\$	0.33	\$	0.31
Regular dividends declared per share	\$	0.34	\$	0.34
Net increase in net assets from operations	\$	2.5	\$	5.4
Net increase in net assets from operations per share	\$	0.20	\$	0.43

"During the first quarter, our investment portfolio increased slightly with no pay-offs received," said Robert T. Ladd, Chief Executive Officer of Stellus.

Portfolio and Investment Activity

We completed the first quarter of 2016 with a portfolio of \$352.5 million (at fair value) invested in 40 companies. As of March 31, 2016, our portfolio included approximately 37% of first lien debt, 39% of second lien debt, 20% of mezzanine debt and 4% of equity investments at fair value. Our debt portfolio consisted of 76% floating rate investments (subject to interest rate floors) and 24% fixed rate investments. The average size of our portfolio company investments was \$8.8 million and our largest portfolio company investment was approximately \$21.7 million at fair value. The weighted average yield on all of our debt investments as of March 31, 2016 was approximately 10.6%.

During the three months ended March 31, 2016, we made \$5.6 million of investments (at par) in one new portfolio company

and two existing portfolio companies and received \$0.5 million from 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 March 31, 2016 and 2015 totaled \$9.5 million and \$8.7 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the three months ended March 31, 2016 and 2015, totaled \$5.4 million and \$4.9 million, respectively. For the same respective periods, base management fees totaled \$1.5 million and \$1.4 million, incentive fees totaled \$1.0 million and \$1.0 million, fees and expenses related to our borrowings totaled \$1.9 million and \$1.5 million (including interest and amortization of deferred financing costs), administrative expenses totaled \$0.3 million and \$0.3 million and other expenses totaled \$0.7 million and \$0.7 million.

Net investment income was \$4.1 million and \$3.8 million, or \$0.33 and \$0.31 per common share based on weighted average common shares outstanding for the three months ended March 31, 2016 and 2015.

The Company's investment portfolio had a net change in unrealized appreciation (depreciation) for the three months ended March 31, 2016 and 2015, of (\$1.7) million and \$1.6 million, respectively. For the three months ended March 31, 2016 and 2015 the Company had realized gains of \$0.9 thousand and \$3.2 thousand, respectively.

Our net increase in net assets resulting from operations totaled \$2.5 million and \$5.4 million, or \$0.20 and \$0.43 per common share based on weighted average common shares outstanding for the three months ended March 31, 2016 and 2015, respectively.

Liquidity and Capital Resources

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

For the three months ended March 31, 2015 our operating activities used cash of \$0.3 million, primarily in connection with the payment of operating expenses, and our financing activities used cash of \$0.5 million, primarily related to distributions to stockholders and offset by net borrowings under the credit facility.

Distributions

During the three months ended March 31, 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 March 31, 2016 are summarized as follows:

- 1 On January 26, 2016, we made a \$3.8 million follow-on investment in the second lien loan of Stratose Intermediate Holdings, II, LLC. We also made an additional \$0.3 million equity investment.
- 1 On January 27, 2016, we made a \$0.7 million investment in the first lien loan of Vision Media Management & Fulfillment, LLC, a leading provider of logistics, fulfillment, and storage services for the media and entertainment industry.
- 1 On March 23, 2016, we made a \$0.8 million follow-on investment in the second lien loan of Abrasive Products & Equipment, LLC.

Events Subsequent to March 31, 2016

During the month of April 2016, we received \$2.5 million of principal repayments on our first lien debtor-in-possession loan of Binder & Binder National Social Security and Disability Advocates, LLC.

Credit Facility

The outstanding balance under our credit facility as of May 5, 2016 was \$109.5 million.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on May 6, 2016, 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 888-364-3109 (domestic). Use passcode 5115564. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through May 14, 2016 by dialing (888) 203-1112 and entering passcode 5115564. 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)

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$369,410,970 and \$364,212,459, respectively)	\$ 352,472,534	\$ 349,017,697
Cash and cash equivalents	6,524,058	10,875,790
Receivable for sales and repayments of investments	11,187	10,000
Interest receivable	4,612,009	4,720,031
Deferred offering costs	261,761	261,761
Accounts receivable	-	7,684
Prepaid expenses	462,863	475,449
Total Assets	<u>\$ 364,344,412</u>	<u>\$ 365,368,412</u>
LIABILITIES		
Notes Payable, net of deferred financing costs	\$ 24,428,292	\$ 24,381,108
Credit facility payable, net of prepaid loan structure fees	108,327,796	108,197,373
SBA Debentures, net of prepaid loan fees	63,096,947	63,015,846
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,548,373	1,518,779
Incentive fees payable	1,231,235	607,956
Interest payable	370,393	570,189
Unearned revenue	33,259	36,877
Administrative services payable	469,224	397,799
Deferred tax liability	214,384	381,723
Other accrued expenses and liabilities	278,017	195,676
Total Liabilities	<u>\$ 201,411,902</u>	<u>\$ 200,717,308</u>
Commitments and contingencies (Note 5)		
Net Assets	<u>\$ 162,932,510</u>	<u>\$ 164,651,104</u>
NET ASSETS		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,960 and 12,479,962 shares issued and outstanding, respectively)	\$ 12,480	\$ 12,480
Paid-in capital	180,994,752	180,994,752
Accumulated undistributed net realized gain	894	-
Distributions in excess of net investment income	(922,796)	(779,643)
Net unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$214,385 and \$381,723, respectively.	<u>(17,152,820)</u>	<u>(15,576,485)</u>

Net Assets	\$	162,932,510	\$	164,651,104
Total Liabilities and Net Assets	\$	364,344,412	\$	365,368,412
Net Asset Value Per Share	\$	13.06	\$	13.19

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
INVESTMENT INCOME		
Interest income	\$ 9,374,737	\$ 8,631,296
Other income	93,096	82,795
Total Investment Income	<u>9,467,833</u>	<u>8,714,091</u>
OPERATING EXPENSES		
Management fees	\$ 1,548,373	\$ 1,414,134
Valuation fees	132,466	147,475
Administrative services expenses	287,300	279,200
Incentive fees	1,024,822	960,854
Professional fees	192,111	294,561
Directors' fees	92,000	89,000
Insurance expense	118,026	116,944
Interest expense and other fees	1,879,843	1,450,492
Other general and administrative expenses	93,602	118,016
Total Operating Expenses	<u>\$ 5,368,543</u>	<u>\$ 4,870,676</u>
Net Investment Income	<u>\$ 4,099,290</u>	<u>\$ 3,843,415</u>
Net Realized Gain on Investments and Cash Equivalents	<u>\$ 894</u>	<u>\$ 3,169</u>
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	<u>\$ (1,743,674)</u>	<u>\$ 1,613,068</u>
Benefit (provision) for taxes on unrealized gain on investments	<u>\$ 167,339</u>	<u>\$ (66,278)</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 2,523,849</u>	<u>\$ 5,393,374</u>
Net Investment Income Per Share	<u>\$ 0.33</u>	<u>\$ 0.31</u>
Net Increase in Net Assets Resulting from Operations Per Share	<u>\$ 0.20</u>	<u>\$ 0.43</u>
Weighted Average Shares of Common Stock Outstanding	<u>12,479,960</u>	<u>12,479,962</u>
Distributions Per Share	<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, 2016	For the three months ended March 31, 2015
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 4,099,290	\$ 3,843,415
Net realized gain on investments and cash equivalents	894	3,169
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	(1,743,674)	1,613,068
Benefit (provision) for taxes on unrealized appreciation (depreciation) on investments	167,339	(66,278)
Net Increase in Net Assets Resulting from Operations	<u>\$ 2,523,849</u>	<u>\$ 5,393,374</u>
Stockholder distributions		
Net investment income	(4,242,443)	(4,242,264)
Total Distributions	<u>\$ (4,242,443)</u>	<u>\$ (4,242,264)</u>

Total increase (decrease) in net assets	\$	(1,718,594)	\$	1,151,110
Net assets at beginning of period	\$	164,651,104	\$	173,949,452
Net assets at end of period (includes \$922,796 and \$1,178,472 of distributions in excess of net investment income, respectively)	\$	162,932,510	\$	175,100,562

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 2,523,849	\$ 5,393,374
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(5,367,633)	(21,712,544)
Proceeds from sales and repayments of investments	513,365	17,342,354
Net change in unrealized depreciation (appreciation) on investments	1,743,674	(1,613,068)
Deferred tax provision (benefit)	(167,339)	66,278
Increase in investments due to PIK	(54,729)	(178,581)
Amortization of premium and accretion of discount, net	(289,807)	(211,463)
Amortization of loan structure fees	130,423	129,329
Amortization of deferred financing costs	81,101	76,232
Amortization of loan fees on SBIC debentures	47,184	28,690
Net realized gain on investments	(894)	(3,169)
Changes in other assets and liabilities		
Decrease in interest receivable	108,022	54,545
Increase in receivable for affiliated transaction	-	(40,000)
Decrease in accounts receivable	7,684	-
Decrease in prepaid expenses and fees	12,586	-
Increase in payable for investments purchased	-	76,074
Increase in management fees payable	29,594	54,115
Increase in directors' fees payable	-	89,000
Increase in incentive fees payable	623,279	45,277
Increase in administrative services payable	71,425	50,290
Decrease in interest payable	(199,796)	(27,347)
Decrease in unearned revenue	(3,618)	(125,380)
Increase in holdback liability	-	110,000
Increase in other accrued expenses and liabilities	82,341	52,050
Net cash used by operating activities	<u>\$ (109,289)</u>	<u>\$ (343,944)</u>
Cash flows from financing activities		
Stockholder distributions paid	(4,242,443)	(4,242,264)
Borrowings under credit facility	-	22,750,000
Repayments of credit facility	-	(19,000,000)
Net cash used in financing activities	<u>\$ (4,242,443)</u>	<u>\$ (492,264)</u>
Net decrease in cash and cash equivalents	(4,351,732)	(836,208)
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>\$ 6,524,058</u>	<u>\$ 1,210,355</u>
Supplemental and non-cash financing activities		
Interest expense paid	\$ 1,820,930	\$ 1,243,588

Contacts
Stellus Capital Investment Corporation
W. Todd Huskinson
(713) 292-5414
Chief Financial Officer
thuskinson@stelluscapital.com

Source: Stellus Capital Investment Corporation

News Provided by Acquire Media