

# STELLUS

## CAPITAL

### INVESTMENT CORPORATION

November 10, 2017

## Stellus Capital Investment Corporation Reports Results for its Third Fiscal Quarter Ended September 30, 2017

HOUSTON, Nov. 10, 2017 /PRNewswire/ -- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus" or "the Company") today announced financial results for its third fiscal quarter ended September 30, 2017.

# STELLUS

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### INVESTMENT CORPORATION

### HIGHLIGHTS

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

Portfolio results	As of September 30, 2017	
Total assets	\$371.3	
Investment portfolio, at fair value	\$355.3	
Net assets	\$219.5	
Weighted average yield on debt investments	11.0%	
Net asset value per share	\$13.85	
	Quarter ended September 30, 2017	Quarter ended September 30, 2016
<u>Portfolio activity</u>		
Total investments made	\$71.4	\$19.9
Number of new investments	4	7
Repayments of investments, including amortization	\$53.4	\$24.4
Number of portfolio companies at end of period	46	43
<u>Operating results</u>		
Total investment income	\$10.0	\$10.2
Net investment income	\$4.5	\$4.6
Net investment income per share	\$0.29	\$0.37
Net Investment income per share excluding loss on extinguishment of debt	\$0.31	\$0.37
Realized Gain / (Loss) per share	\$0.33	(\$0.07)
Regular distributions per share	\$0.34	\$0.34
Net increase in net assets from operations	\$5.6	\$9.9
Net increase in net assets from operations per share	\$0.36	\$0.80

"We have recently strengthened the Company's capital base by issuing \$48.9 million of 5-year unsecured notes maturing in 2022, which replaced \$25.0 million of unsecured notes maturing in 2019, and by entering into a new bank credit facility which replaces our prior facility and extends the maturity to 2021 from 2018 and increases the commitment amount to \$140.0 million from \$120.0 million. Also, during the quarter we realized a \$5.2 million gain, or \$0.33 per share from an equity

co-investment," said Robert T. Ladd, Chief Executive Officer of Stellus.

### *Portfolio and Investment Activity*

We completed the third quarter of 2017 with a portfolio of \$355.3 million (at fair value) invested in 46 companies. As of September 30, 2017, our portfolio included approximately 35% of first lien debt, 43% of second lien debt, 16% of unsecured debt and 6% of equity investments at fair value. Our debt portfolio consisted of 77% floating rate investments (subject to interest rate floors) and 23% fixed rate investments. The average size of our portfolio company investments was \$8.5 million at fair value, 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 September 30, 2017 was approximately 11.0%.

During the quarter ended September 30, 2017, we made \$71.4 million of investments in four new portfolio companies and one existing portfolio company, and received \$53.4 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 quarter ended September 30, 2017 and 2016, totaled \$10.0 million and \$10.2 million, respectively, most of which was interest income from portfolio company investments.

Operating expenses for the quarter ended September 30, 2017 and 2016, totaled \$5.2 million and \$5.6 million, respectively. For the same respective periods, base management fees totaled \$1.5 million and \$1.6 million, incentive fees totaled \$0.5 million and \$1.1 million, fees and expenses related to our borrowings totaled \$2.0 million for both periods (including interest and amortization of deferred financing costs), administrative services expenses totaled \$0.3 million and \$0.2 million and other expenses totaled \$0.9 and \$0.6 million, respectively.

Net investment income was \$4.5 million, or \$0.29 per common share, and \$4.6 million, or \$0.37 per common share, based on weighted average common shares outstanding for quarters ended September 30, 2017 and 2016.

For the quarter ended September 30, 2017 and 2016, the Company had a realized gain of \$5.2 million and a realized loss of \$0.9 million respectively. The Company's investment portfolio had a net change in unrealized depreciation for the quarter ended September 30, 2017 of \$4.1 million and a net change in unrealized appreciation for the quarter ended September 30, 2016, of \$6.2 million. Of the \$4.1 million unrealized loss for the quarter, \$2.1 million was related to the reclassification of an unrealized gain to a realized gain on the sale of an equity investment.

Our net increase in net assets resulting from operations totaled \$5.6 million and \$9.9 million, or \$0.36 and \$0.80 per common share, based on weighted average common shares outstanding, for the three months ended September 30, 2017 and 2016, respectively.

### *Liquidity and Capital Resources*

For the nine months ended September 30, 2017, the Company issued 3,374,456 additional shares of common stock in connection with an equity capital raise in April 2017 and an At-the-Market offering (the "ATM") program which began during the quarter. Gross proceeds resulting from the issuances totaled \$47.5 million, and underwriting and other expenses related to the offering totaled \$1.6 million. For the same period, our financing activities used cash of \$26.9 million, which included distributions to stockholders of \$14.9 million and net repayments of \$80.0 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 "2022 Notes"). On September 8, 2017, the Company issued an additional \$6.38 million in aggregate principal amount of the 2022 Notes pursuant to a full exercise of the underwriters' overallotment option. The 2022 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 repay the \$25.0 million of 2019 Notes and repay a portion of the amount outstanding under the existing credit facility.

Our liquidity and capital resources are derived from our credit facility 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.

As of September 30, 2017 and 2016, our credit facility provided for borrowings in an aggregate amount up to \$120.0 million on a committed basis. As of September 30, 2017 and 2016, we had \$36.0 million and \$107.5 million in outstanding borrowings under the credit facility, respectively.

For the nine months ended September 30, 2017, our operating activities provided cash of \$29.4 million primarily in connection with cash interest received and repayments of our investments. For the same period, our financing activities used cash of \$26.9 million, due to repayment on the credit facility during the period.

For the nine months ended September 30, 2016, our operating activities provided cash of \$12.5 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 \$14.7 million, due to distributions to stockholders paid during the period.

### *Distributions*

During the three months ended September 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*

For the quarter ended September 30, 2017, the Company funded \$71.4 million in four new and one existing portfolio companies and received \$53.4 million from five repayments, eight pay downs and one partial sale. The new investment transactions and repayments that occurred during the quarter are summarized as follows:

- | On July 3, 2017, we invested \$0.06 million in the equity of Apex Environmental, an existing portfolio company.
- | On July 7, 2017, we received full repayment of the second lien term loan of Atkins Nutritional Holdings II, Inc. for proceeds of \$8.0 million.
- | On July 14, 2017, we received full repayment of the unsecured term loan of OGSystems, LLC for proceeds of \$4.0 million.
- | On July 26, 2017, we invested \$22.5 million in the first lien term loan of Resolute Industrial, LLC, a major provider of water and air-cooled chiller rental services, compressor remanufacturing, and other custom HVAC services. We also committed to fund a \$5.75 million delayed draw term loan. Additionally, we invested \$0.75 million in the equity of the company.
- | On August 16, 2017, we invested \$20.0 million in the first lien term loan of TechInsights, Inc., a technology company that assists patent owners in maximizing the value of patents through proprietary tools, software and equipment.
- | On August 24, 2017, we invested \$9.55 million in the first lien term loan of StateServ Medical, also referred to as BW DME, Acquisition, LLC, a provider of durable medical equipment and workflow management solutions to hospice agencies. Additionally, we invested \$1.0 million in the equity of the company.
- | On August 30, 2017, we invested \$17.5 million in the second lien term loan of Protect America, Inc. a provider of residential security monitoring and home automation systems.
- | On September 9, 2017, we received full repayment of the second lien term loan of Calero Software, LLC for proceeds of \$7.5 million.
- | On September 21, 2017, we received full repayment of the unsecured term loan and equity of Eating Recovery Center, LLC for proceeds of \$18.4 and \$7.0 million respectively.
- | On September 22, 2017, we received full repayment on the second lien term loan of Vandelay Industries Finance, LLC for proceeds of \$2.5 million.
- | On September 26, 2017, we received repayment of the equity of Managed Mobility Holdings, LLC also referred to as Calero Software, LLC for \$0.4 million.
- | On September 28, 2017, we had a partial sell down of the first lien term loan of Resolute Industrial, LLC for \$5.4 million.

### **Subsequent Events**

#### *Portfolio Activity*

- | On October 16, 2017 the Company invested \$12.5 million in the second lien term loan of Magdata Intermediate Holdings, LLC (also referred to as Magnitude Software), a provider of enterprise information management software

and related services to fortune 1000 companies.

- l On October 20, 2017 the Company received full repayment on the unsecured term loans of Colford Capital Holdings, LLC for total proceeds of \$19.5 million.
- l On October 27, 2017 the Company invested \$13.75 million in the second lien term loan of Condor Borrow, LLC, (also referred to as Comodo) a market leading provider of secure socket layer ("SSL") certificates. Additionally, the Company invested \$0.5 million in the equity of the company.

### *Credit Facility*

On October 11, 2017, the Company entered into a \$140 million revolving credit facility with Amegy Bank, who replaced SunTrust Bank as agent, and admitted several new banks, with a maturity date of October 10, 2021. This facility is effective as of October 10, 2017 and is materially the same as the previous facility with the following exceptions: (a) the interest rate was reduced from LIBOR +2.625% to LIBOR +2.50%; (b) the asset coverage test was reduced from 220% to 200%; and (c) an interest coverage test of 2:1 was added. The Company incurred upfront costs of approximately \$1.1 million which were deferred and will be amortized over the four year term of the facility. On October 11, 2017, in conjunction with securing and entering into the new credit facility with Amegy Bank, the Company terminated its senior secured revolving credit facility with SunTrust Bank, as administrative agent and a lender, and the other lenders party thereto.

On November 1, 2017, we entered into a custody agreement with our new custodian, ZB, A National Association, DBA, Amegy Bank. On November 2, 2017, the Company provided notice of termination of its custody agreement dated as of November 1, 2012, between the Company and State Street effective 60 days from the date of notice.

The outstanding balance under the credit facility as of November 8, 2017 was \$38.5 million.

### *ATM Program*

Since September 30, 2017, we issued 91,446 shares under the ATM program for net proceeds of \$1.2 million (net of sales load) at an average price of \$13.68 (\$13.47 per share, net).

### *SBIC Subsidiary*

On November 8, 2017, the SBA granted the Company's SBIC Subsidiary a commitment of \$25.0 million of additional SBA-guaranteed debentures.

### *Dividends Declared*

On October 12, 2017, the Company's board of directors declared a regular monthly dividend for each of October, November and December 2017 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount Per Share
10/12/2017	10/30/2017	10/31/2017	11/15/2017	\$0.1133
10/12/2017	11/29/2017	11/30/2017	12/15/2017	\$0.1133
10/12/2017	12/28/2017	12/29/2017	1/12/2018	\$0.1133

### **Conference Call Information**

Stellus Capital Investment Corporation will host a conference call to discuss these results on Friday, November 10, 2017, 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 6188119. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through November 18, 2017 by dialing (888) 203-1112 and entering passcode 6188119. 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

	<b>September 30, 2017 (unaudited)</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Non-controlled, affiliated investments, at fair value (amortized cost of \$1,052,185 and \$0, respectively)	\$ 940,000	\$ —
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$351,197,270 and \$362,217,251, respectively)	354,357,607	365,625,891
Cash and cash equivalents	11,666,805	9,194,129
Interest receivable	4,143,998	4,601,742
Accounts receivable	3,806	748
Prepaid loan structure fees	47,453	—
Prepaid expenses	138,165	456,219
<b>Total Assets</b>	<b>\$ 371,297,834</b>	<b>\$ 379,878,729</b>
<b>LIABILITIES</b>		
Notes Payable	\$ 47,220,425	\$ 24,565,891
Credit facility payable	35,544,028	115,171,208
SBA Debentures	63,585,342	63,342,036
Dividends payable	1,796,308	1,413,982
Base management fees payable	1,546,781	1,608,295
Incentive fees payable	619,617	1,353,271
Interest payable	694,917	973,812
Directors' fees payable	83,000	—
Unearned revenue	128,094	19,955
Administrative services payable	313,595	272,511
Deferred Tax Liability	—	8,593
Other accrued expenses and liabilities	229,685	267,390
<b>Total Liabilities</b>	<b>\$ 151,761,792</b>	<b>\$ 208,996,944</b>
<b>Net Assets</b>	<b>\$ 219,536,042</b>	<b>\$ 170,881,785</b>
<b>NET ASSETS</b>		
Common Stock, par value \$0.001 per share (200,000,000 shares authorized, 15,854,413 and 12,479,959 shares issued and outstanding, respectively)	\$ 15,854	\$ 12,480
Paid-in capital	226,842,884	180,994,723
Accumulated net realized loss	(8,589,708)	(13,089,671)
Distributions in excess of net investment income	(1,781,150)	(435,794)
Net unrealized appreciation on investments and cash equivalents, net of provision for taxes of \$0 and \$8,593, respectively	3,048,162	3,400,047
<b>Net Assets</b>	<b>\$ 219,536,042</b>	<b>\$ 170,881,785</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 371,297,834</b>	<b>\$ 379,878,729</b>
<b>Net Asset Value Per Share</b>	<b>\$ 13.85</b>	<b>\$ 13.69</b>

## STELLUS CAPITAL INVESTMENT CORPORATION

### CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
<b>INVESTMENT INCOME</b>				
Interest income	\$ 9,728,749	\$ 9,773,863	\$ 28,847,532	\$ 28,477,016
Other income	249,596	428,890	1,389,158	816,739
<b>Total Investment Income</b>	<b>\$ 9,978,345</b>	<b>\$ 10,202,753</b>	<b>\$ 30,236,690</b>	<b>29,293,755</b>
<b>OPERATING EXPENSES</b>				
Management fees	\$ 1,546,780	\$ 1,574,354	\$ 4,634,318	\$ 4,673,568
Valuation fees	137,445	157,179	326,839	357,346
Administrative services expenses	313,256	244,303	933,214	782,230
Incentive fees	462,743	1,110,297	2,718,586	3,121,395
Professional fees	356,654	177,410	803,818	564,724
Directors' fees	83,000	73,000	254,000	251,000
Insurance expense	111,680	119,323	331,398	355,376
Interest expense and other fees	2,042,608	2,037,782	5,892,047	5,932,814

Deferred offering costs	-	-	-	261,761
Other general and administrative expenses	145,495	100,362	481,700	340,406
<b>Total Operating Expenses</b>	<b>5,199,661</b>	<b>5,594,010</b>	<b>16,375,920</b>	<b>16,640,620</b>
Loss on extinguishment of debt	302,732	-	302,732	-
<b>Net Investment Income</b>	<b>\$ 4,475,952</b>	<b>\$ 4,608,743</b>	<b>\$ 13,558,038</b>	<b>\$ 12,653,135</b>
<b>Net Realized Gain (Loss) on Investments and Cash Equivalents</b>	<b>\$ 5,211,960</b>	<b>\$ (898,189)</b>	<b>\$ 4,499,963</b>	<b>\$ (895,809)</b>
<b>Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents</b>	<b>\$ (4,051,314)</b>	<b>\$ 6,176,947</b>	<b>\$ (360,478)</b>	<b>\$ 5,361,794</b>
<b>Benefit for taxes on investments at Taxable Subsidiaries</b>	<b>\$ -</b>	<b>\$ 39,965</b>	<b>\$ 8,593</b>	<b>\$ 362,116</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 5,636,598</b>	<b>\$ 9,927,466</b>	<b>\$ 17,706,116</b>	<b>\$ 17,481,236</b>
<b>Net Investment Income Per Share</b>	<b>\$ 0.29</b>	<b>\$ 0.37</b>	<b>\$ 0.93</b>	<b>\$ 1.01</b>
<b>Net Increase in Net Assets Resulting from Operations Per Share</b>	<b>\$ 0.36</b>	<b>\$ 0.80</b>	<b>\$ 1.22</b>	<b>\$ 1.40</b>
<b>Weighted Average Shares of Common Stock Outstanding</b>	<b>15,668,415</b>	<b>12,479,958</b>	<b>14,510,408</b>	<b>12,479,959</b>
<b>Distributions Per Share</b>	<b>\$ 0.34</b>	<b>\$ 0.34</b>	<b>\$ 1.02</b>	<b>\$ 1.02</b>

**STELLUS CAPITAL INVESTMENT CORPORATION**

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

	<b>For the nine months ended September 30, 2017</b>	<b>For the nine months ended September 30, 2016</b>
<b>Increase in Net Assets Resulting from Operations</b>		
Net investment income	\$ 13,558,038	\$ 12,653,135
Net realized gain (loss) on investments and cash equivalents	4,499,963	(895,809)
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	(360,478)	5,361,794
Benefit for taxes on investments at Taxable Subsidiaries	8,593	362,116
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>17,706,116</b>	<b>17,481,236</b>
<b>Stockholder distributions</b>		
Net investment income	(14,903,394)	(12,726,304)
Total Distributions	(14,903,394)	(12,726,304)
<b>Capital share transactions</b>		
Issuance of common stock	47,491,626	—
Sales load	(1,340,131)	—
Offering costs	(299,961)	—
<b>Net increase in net assets resulting from capital share transactions</b>	<b>45,851,535</b>	<b>—</b>
<b>Total increase in net assets</b>	<b>48,654,257</b>	<b>4,754,932</b>
<b>Net assets at beginning of period</b>	<b>170,881,785</b>	<b>164,651,104</b>
<b>Net assets at end of period (includes \$1,781,150 and \$852,791 of distributions in excess of net investment income, respectively)</b>	<b>\$ 219,536,042</b>	<b>\$ 169,406,036</b>

**STELLUS CAPITAL INVESTMENT CORPORATION**

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

	<b>For the nine months ended September 30, 2017</b>	<b>For the nine months ended September 30, 2016</b>
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 17,706,116	\$ 17,481,236
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(117,683,094)	(37,392,617)
Proceeds from sales and repayments of investments	133,380,057	35,618,611
Net change in unrealized (appreciation) depreciation on investments	360,478	(5,361,794)
Deferred tax benefit	(8,593)	(362,116)

Increase in investments due to PIK	(347,482)	(165,110)
Amortization of premium and accretion of discount, net	(881,710)	(830,040)
Amortization of loan structure fees	372,820	392,702
Amortization of deferred financing costs	165,763	244,197
Loss on extinguishment of debt	302,732	—
Amortization of loan fees on SBIC debentures	243,306	137,077
Net realized loss (gain) on investments	(4,499,963)	895,809
Deferred offering cost	—	261,761
<b>Changes in other assets and liabilities</b>		
Decrease in interest receivable	457,744	562,019
Decrease (increase) in accounts receivable	(3,058)	7,684
Decrease in prepaid expenses and fees	318,054	328,105
Increase (decrease) in management fees payable	(61,514)	55,575
Increase in directors' fees payable	83,000	—
Increase (decrease) in incentive fees payable	(733,654)	829,074
Increase (decrease) in administrative services payable	41,084	(158,223)
Increase (decrease) in interest payable	(278,895)	(161,952)
Increase (decrease) in unearned revenue	108,139	(15,104)
Increase in dividend payable	382,326	—
Increase (decrease) in other accrued expenses and liabilities	(37,706)	123,625
Net cash provided by operating activities	<u>\$ 29,385,950</u>	<u>\$ 12,490,519</u>
<b>Cash flows from financing activities</b>		
Proceeds from notes issued	48,875,000	—
Financing costs paid on Credit Facility	(47,453)	—
Proceeds from the issuance of common stock	47,491,626	—
Sales load for common stock issued	(1,340,131)	—
Offering costs paid for common stock issued	(299,961)	—
Stockholder distributions paid	(14,903,394)	(12,726,304)
Financing costs paid for notes issued	(1,688,961)	—
Repayments on notes issued	(25,000,000)	—
Borrowings under credit facility	116,000,000	28,250,000
Repayments of credit facility	(196,000,000)	(30,250,000)
Net cash used in financing activities	<u>\$ (26,913,274)</u>	<u>\$ (14,726,304)</u>
Net increase (decrease) in cash and cash equivalents	2,472,676	(2,235,785)
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>\$ 11,666,805</u>	<u>\$ 8,640,005</u>
<b>Supplemental and non-cash financing activities</b>		
Interest expense paid	\$ 5,384,053	\$ 5,315,790
Excise tax paid	\$ 37,648	\$ -
Conversion from debt to equity	\$ 864,101	\$ -

View original content with multimedia: <http://www.prnewswire.com/news-releases/stellus-capital-investment-corporation-reports-results-for-its-third-fiscal-quarter-ended-september-30-2017-300553382.html>

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