

STELLUS

CAPITAL

INVESTMENT CORPORATION

November 4, 2016

Stellus Capital Investment Corporation Reports Results for its third fiscal quarter ended September 30, 2016

HOUSTON, Nov. 4, 2016 /PRNewswire/ -- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus" or "the Company") today announced financial results for its third fiscal quarter ended September 30, 2016.

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HIGHLIGHTS

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

Portfolio results	As of September 30, 2016
Total assets	\$369.2
Investment portfolio, at fair value	\$352.7
Net assets	\$169.4
Weighted average yield on debt investments on accrual	11.1%
Net asset value per share	\$13.57

Portfolio activity	Quarter ended September 30, 2016	Quarter ended September 30, 2015
Total investments made, at par	\$19.9	\$25.5
Number of new investments	7	5
Repayments and sale of investments, including amortization	\$24.4	\$22.5
Number of portfolio companies at end of period	43	35

Operating results

Total investment income	\$10.2	\$8.6
Net investment income	\$4.6	\$3.8
Net investment income per share	\$0.37	\$0.31
Realized gain (loss) per share	(\$0.07)	\$0.00
Regular dividends declared per share	\$0.34	\$0.34
Net increase in net assets from operations	\$9.9	(\$0.6)
Net increase in net assets from operations per share	\$0.80	(\$0.05)

"During the third quarter, our net investment income exceeded dividends paid by \$.03 per share," said Robert T. Ladd, Chief Executive Officer of Stellus. "Net asset value of the Company increased during the quarter from \$13.12 to \$13.57 per share. We continue to experience loan repayments which have resulted in additional fee income. Also, consistent with the first two quarters of 2016, we have been able to substantially replace loan repayments with new investments."

Portfolio and Investment Activity

We completed the third quarter of 2016 with a portfolio of \$352.7 million, at fair value, invested in 43 companies. As of September 30, 2016, our portfolio included approximately 32% of first lien debt, 43% of second lien debt, 20% of mezzanine debt and 5% 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 \$8.2 million and our largest portfolio company investment was approximately \$22.6 million, at fair value. The weighted average yield on all of our debt investments that were on accrual status as of September 30, 2016 was approximately 11.1%.

During the three months ended September 30, 2016, we made \$19.9 million of investments in three new and four existing portfolio companies and received \$19.9 million from amortization and repayments of certain other investments. Additionally, we sold a \$4.5 million investment for proceeds of \$3.6 million, which is booked as a receivable at September 30, 2016.

This compares to the portfolio as of December 31, 2015, which had \$349.0 million at fair value, invested in 39 companies comprised of 38% of first lien debt, 38% of second lien debt, 20% of mezzanine debt and 4% of equity investments at fair value. The weighted average yield on all of our debt investments that were on accrual status as of December 31, 2015 was approximately 11.1%. The debt portfolio 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 September 30, 2016 and 2015 totaled \$10.2 million and \$8.6 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the three months ended September 30, 2016 and 2015, totaled \$5.6 million and \$4.8 million, respectively. For the same respective periods, base management fees totaled \$1.6 million and \$1.5 million, incentive fees totaled \$1.1 million and \$1.0 million, fees and expenses related to our borrowings totaled \$2.0 million and \$1.6 million (including interest and amortization of deferred financing costs), administrative expenses totaled \$0.2 million for both periods and other expenses totaled \$0.7 million and \$0.5 million.

Net investment income was \$4.6 million and \$3.8 million, or \$0.37 and \$0.31 per common share based on weighted average common shares outstanding for the three months ended September 30, 2016 and 2015, respectively.

The Company's investment portfolio had a net change in unrealized appreciation (depreciation) for the three months ended September 30, 2016 and 2015, of \$6.2 million and \$(4.6) million, respectively. For the three months ended September 30, 2016 and 2015, the Company had a realized loss of \$0.9 million and a realized gain of \$2.1 thousand, respectively.

Our net increase (decrease) in net assets resulting from operations totaled \$9.9 million and \$(0.6) million, or \$0.80 and \$(0.5) per common share based on weighted average common shares outstanding for the three months ended September 30, 2016 and 2015, respectively.

Liquidity and Capital Resources

As of September 30, 2016 and 2015, our credit facility provided for borrowings in an aggregate amount up to \$120 million on a committed basis. As of September 30, 2016, our credit facility had an accordion feature which allowed for potential future expansion of the facility size to \$195 million. As of September 30, 2016 and December 31, 2015, we had \$107.5 million and \$109.5 million in outstanding borrowings under the credit facility, respectively.

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.

For the nine months ended September 30, 2015 our operating activities provided cash of \$3.3 million, primarily in connection with cash interest received and repayments of our investments, and our financing activities provided cash of \$0.7 million, primarily related to the issuance of SBA debentures, which increased from \$16 million to \$26 million during the quarter.

Distributions

During the three months ended September 30, 2016 and 2015, we declared aggregate 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 September 30, 2016 are summarized as follows:

- | 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 \$0.1 million in the equity of the company.
- | On August 12, 2016, we received full repayment of the first lien term loan of PE II Apex Environmental, LLC at par plus a 3% prepayment premium for total proceeds of \$10.8 million. We also invested an additional \$0.2 million in the equity of the company.
- | On September 15, 2016, we invested an additional \$0.6 million in the first lien term loan of Momentum Telecom, Inc.
- | On September 16, 2016, we sold our first lien term loan and equity position in Blackhawk Mining, LLC, for total proceeds of \$3.6 million, which is booked at a receivable at September 30, 2016, resulting in a loss of \$0.9 million.
- | On September 28, 2016, we received full repayment of the first lien term loans in T2 Systems, Inc. and T2 Systems Canada, Inc. at par for total proceeds of \$7.3 million.
- | On September 29, 2016, we made a \$5.3 million investment in the first lien term loan of Energy Labs, Inc. Additionally, we invested \$0.5 million in the equity of the company.
- | On September 30, 2016, we made a \$9.2 million investment in the second lien term loan of KidKraft, Inc.
- | On September 30, 2016, we invested an additional \$0.9 million in the first lien term loan of Vision Media Management & Fulfillment, LLC.
- | Throughout the quarter, Huf Worldwide, LLC drew down \$0.4 million on the first lien revolver loan.

Events Subsequent to September 30, 2016

Investment Portfolio

On October 11, 2016, we received full repayment on the second lien and unsecured term loans of NetMotion Wireless, Inc. at par plus a 1% prepayment premium for proceeds of \$10.2 million. Additionally, we received proceeds of \$1.0 million for the equity in Endpoint Security Holdings, LLC.

On October 21, 2016, we made a \$5.9 million investment in the second lien term loan of T.F. Hudgins, Inc. Additionally, we invested \$0.25 million in the equity of the company.

On October 24, 2016, the Company received \$3.5 million from the sale of Blackhawk Mining, LLC, which was sold during the quarter ended September 30, 2016.

On November 1, 2016, we made a \$9.0 million investment in the second lien term loan of Mobileum, Inc. Additionally, we invested \$0.75 million in the equity of the company.

Credit Facility

The outstanding balance under the Credit Facility as of November 2, 2016 was \$100.3 million.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on November 4, 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 888-684-1282 (domestic). Use passcode 8288965. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through November 12, 2016 by dialing (888) 203-1112 and entering passcode 8288965. The replay will also be available on the company's website.

Contact

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PART I — FINANCIAL INFORMATION

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (unaudited)

September 30, 2016	December 31, 2015
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ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$362,534,225 and \$364,212,459, respectively)	\$ 352,701,256	\$ 349,017,697
Cash and cash equivalents	8,640,005	10,875,790
Receivable for sales and repayments of investments	3,561,582	10,000
Interest receivable	4,158,012	4,720,031
Deferred offering costs	—	261,761
Accounts receivable	—	7,684
Prepaid expenses	147,344	475,449
Total Assets	\$ 369,208,199	\$ 365,368,412
LIABILITIES		
Notes Payable, net of deferred financing costs	\$ 24,518,185	\$ 24,381,108
Credit facility payable, net of prepaid loan structure fees	106,590,075	108,197,373
SBA Debentures, net of prepaid loan fees	63,260,043	63,015,846
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,574,354	1,518,779
Incentive fees payable	1,437,030	607,956
Interest payable	408,237	570,189
Unearned revenue	21,773	36,877
Administrative services payable	239,576	397,799
Deferred tax liability	19,607	381,723
Other accrued expenses and liabilities	319,301	195,676
Total Liabilities	\$ 199,802,163	\$ 200,717,308
Commitments and contingencies (Note 5)		
Net Assets	\$ 169,406,036	\$ 164,651,104
NET ASSETS		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,958 and 12,479,960 shares issued and outstanding, respectively)	\$ 12,480	\$ 12,480
Paid-in capital	180,994,732	180,994,752
Accumulated undistributed net realized loss	(895,809)	—
Distributions in excess of net investment income	(852,791)	(779,643)
Net unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$19,607 and \$381,723, respectively.	(9,852,576)	(15,576,485)
Net Assets	\$ 169,406,036	\$ 164,651,104
Total Liabilities and Net Assets	\$ 369,208,199	\$ 365,368,412
Net Asset Value Per Share	\$ 13.57	\$ 13.19

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
INVESTMENT INCOME				
Interest income	\$ 9,773,863	\$ 8,509,804	\$ 28,477,016	\$ 25,776,147
Other income	428,890	93,009	816,739	231,219
Total Investment Income	\$ 10,202,753	\$ 8,602,813	\$ 29,293,755	\$ 26,007,366
OPERATING EXPENSES				
Management fees	\$ 1,574,354	\$ 1,462,024	\$ 4,673,568	\$ 4,322,488
Valuation fees	157,179	139,266	357,346	328,065
Administrative services expenses	244,303	224,836	782,230	800,863
Incentive fees	1,110,297	954,908	3,121,395	2,914,633
Professional fees	177,410	92,320	564,724	454,675
Directors' fees	73,000	76,000	251,000	260,000
Insurance expense	119,323	119,417	355,376	354,603
Interest expense and other fees	2,037,782	1,557,629	5,932,814	4,522,176
Deferred offering costs	—	—	261,761	—
Other general and administrative expenses	100,362	156,782	340,406	391,330
Total Operating Expenses	\$ 5,594,010	\$ 4,783,182	\$ 16,640,620	\$ 14,348,833
Net Investment Income	\$ 4,608,743	\$ 3,819,631	\$ 12,653,135	\$ 11,658,533
Net Realized Gain (Loss) on Investments and Cash Equivalents	\$ (898,189)	\$ 2,146	\$ (895,809)	\$ 294,863
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	\$ 6,176,947	\$ (4,593,553)	\$ 5,361,794	\$ (3,216,547)
Net Tax Benefit for Unrealized Appreciation/ Depreciation on investments	\$ 39,965	\$ 147,439	\$ 362,116	\$ 33,181

Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 9,927,466	\$ (624,337)	\$ 17,481,236	\$ 8,770,030
Net Investment Income Per Share	\$ 0.37	\$ 0.31	\$ 1.01	\$ 0.93
Net Increase (Decrease) in Net Assets Resulting from Operations Per Share	\$ 0.80	\$ (0.05)	\$ 1.40	\$ 0.70
Weighted Average Shares of Common Stock Outstanding	12,479,958	12,479,962	12,479,959	12,479,962
Distributions Per Share	\$ 0.34	\$ 0.34	\$ 1.02	\$ 1.02

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 12,653,135	\$ 11,658,533
Net realized gain (loss) on investments and cash equivalents	(895,809)	294,863
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	5,361,794	(3,216,547)
Net tax benefit for unrealized appreciation/depreciation on investments	362,116	33,181
Net Increase in Net Assets Resulting from Operations	\$ 17,481,236	\$ 8,770,030
Stockholder distributions from:		
Net investment income	(12,726,304)	(12,726,816)
Total Distributions	\$ (12,726,304)	\$ (12,726,816)
Total increase (decrease) in net assets	\$ 4,754,932	\$ (3,956,786)
Net assets at beginning of period	\$ 164,651,104	\$ 173,949,452
Net assets at end of period (includes \$852,791 and \$1,847,907 of distributions in excess of net investment income, respectively)	\$ 169,406,036	\$ 169,992,666

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 17,481,236	\$ 8,770,030
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(37,392,617)	(85,108,716)
Proceeds from sales and repayments of investments	35,618,611	76,333,638
Net change in unrealized depreciation (appreciation) on investments	(5,361,794)	3,216,547
Deferred tax benefit	(362,116)	(33,181)
Increase in investments due to PIK	(165,110)	(387,975)
Amortization of premium and accretion of discount, net	(830,040)	(759,387)
Amortization of loan structure fees	392,702	392,297
Amortization of deferred financing costs	244,197	163,619
Amortization of loan fees on SBIC debentures	137,077	136,646
Net realized (gain) loss on investments	895,809	(294,863)
Deferred offering cost	261,761	—
Changes in other assets and liabilities		
Decrease in interest receivable	562,019	736,112
Decrease (increase) in accounts receivable	7,684	(6,988)
Decrease in prepaid expenses and fees	328,105	278,779
Increase in management fees payable	55,575	102,005
Increase in incentive fees payable	829,074	7,762
Decrease in administrative services payable	(158,223)	(211,504)
Decrease in interest payable	(161,952)	(20,273)
Decrease in unearned revenue	(15,104)	(116,869)
Increase in other accrued expenses and liabilities	123,625	123,073
Net cash provided by operating activities	\$ 12,490,519	\$ 3,320,752
Cash flows from financing activities		
Proceeds from SBA Debentures	—	9,750,000
Financing costs paid on SBA Debentures	—	(561,437)

Stockholder distributions paid	(12,726,304)	(12,726,816)
Borrowings under credit facility	28,250,000	86,500,000
Repayments of credit facility	<u>(30,250,000)</u>	<u>(82,250,000)</u>
Net cash provided (used) by financing activities	\$ <u>(14,726,304)</u>	\$ <u>711,747</u>
Net increase (decrease) in cash and cash equivalents	(2,235,785)	4,032,499
Cash and cash equivalents balance at beginning of period	<u>10,875,790</u>	<u>2,046,563</u>
Cash and cash equivalents balance at end of period	\$ <u><u>8,640,005</u></u>	\$ <u><u>6,079,062</u></u>
Supplemental and non-cash financing activities		
Interest expense paid	\$ 5,315,790	\$ 3,844,890

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