

## **Oaktree (Q3 2025)**

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### **Corporate Speakers:**

- Clark Koury; Oaktree Specialty Lending Corporation; Head-Investors
- Matt Pendo; Oaktree Specialty Lending Corporation; President
- Armen Panossian; Oaktree Specialty Lending Corporation; Chief Executive Officer and Chief Investment Officer
- Raghav Khanna; Oaktree Specialty Lending Corporation; Co-Chief Investment Officer
- Chris McKown; Oaktree Specialty Lending Corporation; Chief Financial Officer and Treasurer

### **Participants:**

- Finian O'Shea; Wells Fargo; Analyst
- Melissa Wedel; JPMorgan; Analyst

## **PRESENTATION**

Operator^ Welcome and thank you for joining Oaktree Specialty Lending Corporation's third fiscal quarter 2025 conference call. Today's conference call is being recorded. Before we begin, I want to remind you that comments on today's call include forward-looking statements reflecting current views with respect to, among other things, future operating results and financial performance.

Actual results could differ materially from those implied or expressed in the forward-looking statements. Please refer to the relevant SEC filings for discussion of these factors in further detail. Oaktree undertakes no duty to update or revise any forward-looking statements.

I'd also like to remind you that nothing on this call constitutes an offer to sell or solicitation of an offer to purchase any interest in an Oaktree fund. Investors and others should note that OCSL uses the Investors section of its corporate website to announce material information. The company encourages investors, the media, and others to review the information that it shares on its website.

I'll now turn the call over to Clark Koury, OCSL's Head of Investor Relations. Please go ahead.

Clark Koury^ Thank you, operator. Our third-quarter earnings release, which we issued this morning, along with the accompanying slide presentation, can be accessed on the Investors section of our website, [oaktreespecialtylending.com](https://oaktreespecialtylending.com). Joining me on the call today are Armen Panossian, CEO and co-CIO; Raghav Khanna, co-CIO; Matt Pendo, President; and Chris McKown, CFO and Treasurer.

Now I'll turn over the call to Matt to provide an overview of our performance for the quarter. Matt?

Matt Pendo^ Thanks, Clark, and thank you all for joining our call today. This quarter now is up slightly, and we made progress restructuring or exiting certain challenged names within the portfolio and reducing non-accruals, which declined as a percentage of both fair value and cost. Adjusted net investment income declined to \$0.37 per share, primarily due to the impact of certain non-recurring and non-cash items related to refinancing activities. We also experienced a lower than usual amount of non-recurring income. Chris will share more details on non-recurring income a bit later in the presentation.

Regarding our dividend, our board approved a base dividend of \$0.40 per share for the quarter. Turning to our balance sheet, there were several positive outcomes during the quarter. As mentioned on last quarter's call, we successfully amended and extended the maturity of our senior secured revolving facility, reducing the interest rate from SOFR plus 2% to a range of SOFR plus 1.75% to 1.875%. This enabled us to terminate a higher-cost ABL facility with pricing of SOFR plus 2.35%.

Taken together, these will reduce our overall interest expense, which will be accretive to earnings going forward. There were some one-time costs as a result of these developments as we wrote up unamortized deferred financing costs that impacted our NII. With a strong balance sheet, ample liquidity, and leverage at its lowest level in three years, we have meaningful dry powder to further diversify the portfolio and position OCSL for sustained growth.

Now I'll turn the call to Armen to provide an overview of the market environment.

Armen Panossian^ Thanks, Matt. Uncertainty surrounding the implementation of increased tariffs and their potential impact on inflation, the economy, and monetary policy deterred M&A activity, which remained muted. Consequently, most lending in the marketplace pivoted to refinancing existing debt rather than de novo buyouts. Robust CLO issuance in recent months has created some competition for deal flow, pulling some deals out of the private market and into the broadly syndicated loan market.

These dynamics, coupled with the continued strength of fundraising for private credit, pushed credit spreads tighter. Liquid credit markets also tightened, but it is important to note that private credit still offers an attractive premium. However, spreads on newly originated loans have reverted to the levels we saw at the start of the calendar year.

Pricing for large-cap sponsor loans is in the SOFR plus 425- to 475-basis-points range, and spreads are 25 to 50 basis points higher in the core to upper middle market. OCSL has deep expertise in originating and structuring loans for middle market companies, and we are finding more value in this part of the market in the current environment.

Beyond core middle market lending in the US, we are seeing pockets of opportunity in asset-backed financing and life sciences, areas where Oaktree has extensive capabilities. We are observing increased opportunities in Europe, supported by a strengthening economic outlook and favorable valuation metrics. Concurrently, we are seeking to expand our capabilities across the Asia Pacific region and within infrastructure debt.

Against this backdrop, credit quality has remained stable. And most problems are tied to company-specific issues where management teams have not executed in line with expectations, creating financial pressure on their balance sheets and capital structure. We are also keeping a close eye on areas of potential risk within the portfolio, including the use of PIK income. In this regard, we have maintained a conservative stance and continue to rank near the low end of our peer set in PIK as a percentage of total income at 6.7%.

Even as spreads have tightened, our focus remains on high-quality companies with strong credit profiles. We believe the long-term outlook for direct lending will remain favorable. Yields are compelling on a gross, unlevered basis, including at the top of the capital structure. The absence of mark-to-market volatility and the historically tight band of returns across different market environments make this asset class appealing to investors seeking income and capital preservation.

Now I'll pass the call to Raghav Khanna to give an update on our portfolio.

Raghav Khanna^ Thanks, Armen. I'll start with investment activity for the quarter. While our overall investment activity was tempered due to the slower market environment, we leaned into opportunities that squarely met our portfolio objectives and disciplined underwriting standards. The weighted average yield of our new debt investments was 9.1%, comparable to 9.5% in the prior quarter, reflecting continued tight spreads in the marketplace.

All our originations in the quarter were first lien loans consistent with our strategy of investing at the top of the capital structure to provide greater downside protection. We are excited about our current pipeline and continue to see compelling investment opportunities even amid persistent inflation, elevated interest rates, and tariff-related uncertainty. In this environment, we are selectively deploying capital into mature, market-leading businesses with solid fundamentals and consistent cash flows.

We are also maintaining a granular, diversified approach to portfolio construction, avoiding an industry concentration risk, and steering clear of more cyclical businesses. The strength of Oaktree's global platform is a competitive advantage for OCSL. As one of a handful of lenders that has the scale to lead or participate in larger financings, our platform gives us access to high-quality transactions that are often unavailable to smaller lenders.

In addition, Oaktree's broad sourcing capabilities span both sponsored and non-sponsored deals, stress and rescue lending, high yield, public credit, and asset-backed transactions.

This breadth allows us to evaluate a wide range of attractive opportunities in any market environment and allows us to lean into opportunities with the best risk-adjusted returns.

As of June 30, the median EBITDA of our portfolio companies was approximately \$161 million, a \$3 million increase from the prior quarter. The weighted average leverage in our portfolio decreased slightly from 5.2 to 5.1 times. And the weighted average interest coverage slightly increased from 2.1 to 2.2.

Now I'll share the details on two recent investments during the quarter that demonstrate our focus on portfolio diversification and first lien lending. Both were sourced through the broader O3 platform and underscore how we are leveraging the firm's extensive sponsor relationships and broad market access to co-invest in compelling opportunities.

I'll begin with Draken International, a provider of operational training solutions to air forces around the world. The business has close relationships with both the US and UK air forces. This investment expands our exposure in the counter-cyclical aerospace and defense industry, where demand for cost-effective pilot training continues to rise amid persistent global pilot shortages. With long-term government contracts in place, Draken generates recurring revenues by serving a critical market with predictable demand.

This investment also aligns with our strategy to partner with institutional sponsors, Blackstone in this instance, to originate senior secured loans for resilient businesses operating in sectors with long-term demand visibility. Oaktree was the sole lender in this new transaction, which Draken used to refinance existing debt. Oaktree committed to \$217 million, of which \$177 million was funded upfront. The deal was priced at SONIA plus 550, with 2 points of upfront fees. OCSL was allocated \$31.9 million, of which \$26 million was funded upfront.

Turning to Lyons Magnus, founded in 1851, Lyons Magnus is a leading food and beverage manufacturer of plant-based beverages and flavored ingredients, serving the food service, healthcare, and dairy industries. Lyons Magnus maintains a top-three market share position across its core product categories, and have longstanding relationships with leading QSRs, food service distributors, and healthcare providers, including the likes of Starbucks, McDonald's, and Sysco, customers that generate stable recurring revenue for the business.

This is a great example of our focus on investing in established businesses with longstanding customer relationships, diversified product offerings, and strong margin profile. Lyons Magnus used the proceeds of the transaction to refinance its existing capital structure. This investment was sourced directly by Oaktree through a longstanding relationship with a sponsor, Paine Schwartz Partners. Oaktree acted as joint lead arranger on the deal, providing \$150 million commitment, or 34% of the total transaction. And \$133 million was funded upfront. OCSL was allocated \$12.7 million, of which \$11.2 million was funded upfront.

Now turning to our existing portfolio, where we are seeing encouraging signs of progress in addressing non-accruals, during the quarter, one company, BayMark, was added to the non-accrual list; and one company, Telestream Holdings, was removed. BayMark is one of the largest substance abuse and recovery treatment providers in North America. It is experiencing operational issues with its revenue cycle management systems and underperformance in certain business segments, resulting in cash flow and liquidity pressures.

The company is working with turn-around professionals, and we are actively engaged with management to help them achieve the best possible outcome for the company and our loan. These situations take time to resolve, but our team has the experience and the discipline to navigate them effectively and drive favorable resolutions.

We're pleased to report that Telestream Holdings, a video software platform that provides on-demand digital video tools to broadcasters, media companies, and content creators, was removed from non-accrual status after completing a comprehensive restructuring that helped reduce the company's debt burden and eased liquidity constraints.

Additionally, we're beginning to realize meaningful exits and recoveries from previously challenged positions, which were contributing factors to the decline in non-accruals as a percentage of the overall portfolio. One notable example is Mosaic, where we received cash paydowns totaling \$25.7 million or just over 50% of our total position during the quarter. We remain focused on working through challenged positions and maximizing recoveries.

Moving now to exit and repayment activity during the quarter, investment exits decreased to \$249 million, down from \$279 million in the prior quarter. One exit worth mentioning is Alto, a digital pharmacy company which was merged into LetsGetChecked to create a comprehensive platform combining pharmacy, diagnostics, and virtual care. The loan for Alto had been marked at [85 and 95] as of December 31, 2024, and March 31, 2025, respectively, and was taken out at par in connection with the merger.

Looking to the second half of the year, we are very encouraged by the depth and diversity of the opportunities we are seeing across sectors, structures, and sponsors. We are leaning hard into our strengths, our deep industry relationships, broad market access, and due diligence and underwriting expertise to continue building a well-diversified portfolio that can deliver sustained long-term performance.

And with that, I will now turn the call over to Chris.

Christopher McKown^ Thank you, Raghav. Let's review our financial results. In our third fiscal quarter ending June 30, 2025, we delivered adjusted net investment income of \$32.5 million, or \$0.37 per share, as compared to \$38.7 million, or \$0.45 per share, in the prior quarter. The decrease for the quarter was primarily driven by non-recurring and non-cash expenses related to refinancing activities, as well as a decline in non-recurring income, which we generally define as things like pre-payment fees and OID acceleration.

To drill into that a bit, our trailing eight-quarter median amount of non-recurring income has been about \$3.8 million, or \$0.043 per share, based on current shares outstanding. Our June quarter non-recurring income came in around \$2.1 million less, or a little over \$0.02 less than this median level. Adjusted total investment income in the quarter declined \$2.9 million compared to the prior quarter, primarily due to the reasons I just mentioned, as well as a modestly smaller average portfolio, the impact of tightening spreads, and lower dividend income from the Kemper JV.

Net expenses increased \$3.5 million from the prior quarter, driven by a \$2.9 million increase in interest expense due to \$3.9 million of non-recurring and non-cash expense related to the acceleration of certain deferred financing costs in connection with determination of the Citibank SPV facility and the amendment of our revolving credit facility. This was partially offset by lower average borrowings outstanding during the quarter and reduced interest rates for the amended credit facility.

Our weighted average interest rate at June 30 was 6.6% compared to 6.7% at the end of the prior quarter. Our net leverage ratio at quarter end was 0.93 times, flat from last quarter, and total debt outstanding was \$1.46 billion. Unsecured debt represented 65% of total debt at quarter end, consistent with last quarter. We have ample dry powder to fund investment commitments with liquidity of approximately \$730 million, including \$80 million in cash and \$650 million of undrawn capacity on our credit facilities.

Unfunded commitments, excluding those related to the joint ventures, were \$278 million, approximately \$264 million of which can be drawn immediately as the remaining amount is subject to portfolio companies meeting certain milestones before the funds can be drawn. The target leverage ratio remains unchanged at 0.9 times to 1.25 times, and we are currently at the low end of that range due to a combination of successful investment exits in recent quarters and our prudent approach to deploying capital.

Turning to our two joint ventures, together, the JVs currently hold \$442 million of investment, primarily in broadly syndicated loans spread across 54 portfolio companies. During the third fiscal quarter, the JVs generated ROEs of 10.5% in aggregate. Leverage at the JVs was 1.3 times, unchanged from 1.3 times last quarter. In addition, we received a \$525,000 dividend from the Kemper JV.

With that, I'll turn the call back to the operator to open the call for questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Finian O'Shea, Wells Fargo.

Finian O'Shea^ Hey, everyone. Good morning. First question on spreads this quarter, I think you were mid to upper fives, which is tracking better than most peers, obviously a very good thing. But the other side of the coin is we ask sort of how you were able to

generate that, maybe if it was non-sponsor, higher leverage, or any color you could give us there. Thanks.

Raghav Khanna^ Fin, it's Raghav. Thanks for the question. So you're right. Both for the quarter and for the year, we have been able to achieve, on first liens, spreads which are, call it, mid-500s including OID. There's a few factors that have played into it. So one is that does include the lower spread deals that you are seeing in the market currently. So we do have some deals that we've done this year which are that [\$450 million to \$475 million] range, and then OID will take you to just around [\$500 million].

But we also have some higher-yielding deals. There's been a couple of lifetime deals which have been higher yielding. That's helped some of the non-US deals we've done, such as the Draken deal, which we mentioned, which was SONIA plus 550 with 2 points of OID. That's helping as well. European spreads are slightly wider than what we're seeing in the US and then the third thing I would say is there is a premium for refinancing deals versus brand-new, renewable LBOs. It's not huge, but it could be 50 to 75 basis points. And on the margin, that's helpful as well.

Finian O'Shea^ Okay, it's helpful, thanks. And then just sort of back of the napkin here with the moving parts that you helpfully outlined on earnings, the one-time, the facility fee, and so forth. Those seem to roughly offset, if that, the impact of the look-back, and you're still below the dividend. So I guess, should we assume the main obvious lever to drive earnings, that would be leveraging up? And then can you give color on how the discussions with rating agencies are in that regard given recent loss rates? Would they be comfortable with you going up to a 1.25 or so if that is the plan? Thanks.

Matt Pendo^ Thanks, and it's Matt. So the plan isn't to go to 1.25, just to kind of hit that number. but the plan is to be at the midpoint of our range. Our range is 0.9 to 1.25. Right now, we're at 0.93, which I think is the lowest we've been for quite a while. We have active dialogue with the rating agencies. They're aware of our plans. But one of our plans, to your point, is to take leverage up to create more earnings to support the dividend. So that's one. We feel comfortable with where we are with our agencies in doing that. Again, take it up to the midpoint of our range, not the top end of our range.

I think, as Raghav mentioned, our pipeline is pretty diverse and pretty robust, so we feel good about the ability to deploy. We also -- just kind of given where we are in the quarter, we have some visibility into repayment activity for the September quarter. We also -- another lever is the JVs. The JVs now are really focused on broadly syndicated loans, so taking some leverage up slightly there. Our target there is 1.5 times. We're at like 1.3 right now. So that's another lever.

And then it's to take cash from the equity and the non-accruals and put those into interest-earning assets. So we talked about the score about Alto and Mosaic, which are two examples. Another example, in July, we got the cash for EOS Fitness, and there was a nice gain there, so we can redeploy that. So that's kind of the strategy. We're comfortable with the rating agencies in executing that. It won't necessarily happen in one quarter, but

that's the plan. And again, given the pipeline, visibility on repayments, some of the legacy non-earning assets, put that all together, that's kind of how we think about things.

Finian O'Shea^ Thanks so much.

Operator^ (Operator Instructions) Melissa Wedel, JPMorgan.

Melissa Wedel^ Good morning. Appreciate you taking my questions today. I wanted to start with some of the one-time items. You've touched on them both in the press release and also on this call. When we back those out from the quarter, it kind of gets to earnings power a bit above the base dividend, but not by a ton. I just wanted to revisit the level at which you reset the base dividend at \$0.40 a share and just wanted to gauge your confidence in that level especially with the forward curve sort of implying 100 bps of rate cuts in the next year or so.

Matt Pendo^ Melissa, it's Matt. Thanks for the question. So I think -- I don't want to project out the dividend, the dividend subject to the Board. So I don't want to do that. I think, the color a little bit, kind of last question (technical difficulty) the one-time items that we outlined in terms of the (technical difficulty)

Melissa Wedel^ Matt, I'm sorry. You cut out a bit. It's hard to hear you.

Matt Pendo^ (technical difficulty) being more normalized. And then if you add on top of that (technical difficulty)

Operator^ Pardon me, ladies and gentlemen. It appears we have lost connection to our speaker line. Please stand by while we reconnect. Thank you for your patience.

Matt Pendo^ Melissa, can you hear us?

Melissa Wedel^ I can hear you.

Matt Pendo^ Okay, okay. Sorry, we had some technical difficulties, so I'm going to -- did I answer -- we're unclear when we cut out. Did I answer any part of your question?

Melissa Wedel^ You cut out pretty early, actually. Sorry if you can recap it.

Matt Pendo^ Sure, sure. I don't want to get into the habit of projecting the dividend. The dividend is up to the Board, and they approve it every quarter. I want to just focus on where we work for this quarter and the \$0.40, which is our base dividend. If you look at the add-backs that Chris covered earlier, so you kind of adjust for that. If you walk through kind of what I just did with Fin regarding deployments and our pipeline there, our visibility into the prepayment activity for the quarter, some of the progress we've made of turning non-interest-earning assets into interest-earning assets.

So you add all that together, that kind of got us comfortable with the base dividend of \$0.40. As you look forward, and there's obviously things outside of our control, such as base rates and spreads, where obviously, we'll tackle those quarter by quarter as they present themselves. But that's a little bit how we were kind of thinking about the \$0.40 for this quarter.

Melissa Wedel^ Okay, I appreciate that. You mentioned seeing some attractive opportunities, particularly in asset-backed and also maybe infrastructure and even outside the US. I was hoping you could give a little bit more color on what particular flavor of asset-backed opportunities you're looking at in infrastructure. Is there a certain kind of collateral that you're looking more carefully at, and then others that you wouldn't consider? Anything you can share would be helpful, thanks.

Raghav Khanna^ Yes, so Melissa, it's Raghav. It's actually a very diversified pipeline of asset-backed deals we're looking at. It ranges really from everything, from the rental car leases to small loans that are used to -- by homeowners to finance HVAC systems. So there's really no one particular thread. The only kind of overarching thread here really is that the assets, unlike in the corporate loans that we make, the assets in these asset-backed deals are a pool of contractual assets, such as loans or leases.

The other area that we have spent time on, but this is a market that has tightened, is the SRT market. That is an area we have been spending some time on. But most of the SRT trades are either at levels which are inside 350 spread, so not particularly interesting, or are higher up on the risk spectrum and not interesting from a risk perspective. But away from SRTs, we're still finding a pretty decent portfolio, a pipeline of assets in asset-backed deals.

Armen Panossian^ And Melissa, this is Armen. The only other thing I would add is what we're not doing much or any of in asset-backed is really consumer unsecured debt. That's not something that we feel like we have an edge on, but where there is a corporate underlying borrower, assets that are used in a corporate context, for example, equipment receivables or even in industries that we know very well, like telecom and fiber optics, there are asset-backed deals that we are seeing across Oaktree's platform and evaluating them for the BDC. Obviously, not all of them will fit. But generally, it's in categories and industries that we know well, and it's just asset-backed with a different wrapper, different structure for deployment into that same industry.

Melissa Wedel^ Thank you.

Operator^ To conclude our question-and-answer session, I would like to turn the conference back over to Clark Koury for any closing remarks.

Clark Koury^ Thank you for everybody for joining the call today. Please feel free to reach out directly to us to the extent you have any questions. We appreciate all of your support. Have a great day.

Operator^ The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.