

05 - 05 - 2026

Oaktree Specialty Lending

Second Quarter 2026 Financial Results

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CORPORATE SPEAKERS:

Alison Mermey

Oaktree Specialty Lending; Head of Investor Relations

Mathew Pendo

Oaktree Specialty Lending; President

Armen Panossian

Oaktree Specialty Lending; Chief Executive Officer, Co-Chief Investment Officer

Raghav Khanna

Oaktree Specialty Lending; Co-Chief Investment Officer

Christopher McKown

Oaktree Specialty Lending; Chief Financial Officer, Treasurer

PARTICIPANTS:

Richard B. Shane

JPMorgan Chase & Co; Analyst

PRESENTATION:

Operator^ Welcome, and thank you for joining Oaktree Specialty Lending Corporation's Second Fiscal Quarter 2026 Conference Call. [Operator Instructions] Today's conference call is being recorded.

I'll now turn the call over to Alison Mermey, OCSL's Head of Investor Relations.

Alison Mermey^ Thank you, operator. Our second quarter 2026 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.

Before we begin, I want to remind you that the 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 a 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 information that it shares on its website.

Now I'll turn the call over to Matt Pendo, President of OCSL. Matt?

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Mathew Pendo^ Thank you, Alison, and good morning, everyone. I will begin with an overview of our second quarter fiscal 2026 results, after which Armen Panossian, our CEO and Co-Chief Investment Officer, will share his perspective on the market environment. Raghav Khanna, our Co-Chief Investment Officer, will then cover portfolio activity; and Chris McKown, our CFO and Treasurer, will close with a review of our financial results before we open the call for questions.

Despite external noise around private credit and BDCs, our team remained focused on reducing nonaccruals and positioning our balance sheet for flexibility. As of March 31, 2026, nonaccruals were 2.6% of the total debt portfolio measured at fair value, down from 3.1% last quarter and 4.6% 1 year ago. As an update post quarter, in April, we sold 2 legacy nonaccrual positions, Dominion Diagnostics and All Web Leads. We expect to make further progress reducing nonaccruals and realizing cash proceeds that we can deploy into performing assets over the coming months.

Managing our balance sheet is a high priority as we position OCSL for a more attractive investment environment. During the quarter, we sold a portion of our liquid credit positions at cost, a strategic decision to build dry powder, maintain leverage below the midpoint of our target range and rotate out of lower-yielding public credit. We ended the second quarter with available liquidity of \$671 million, up \$100 million from last quarter and net leverage of 1.04x, down from 1.07x last quarter.

Turning to financial highlights. Net asset value per share was \$15.69 as of March 31, 2026, compared to \$16.30 as of December 31, 2025. The decline was driven primarily by unrealized mark-to-market write-downs of software loans during the quarter. The fair value of our performing software loans declined by approximately 310 basis points, largely consistent with movements in broadly syndicated software loans. Importantly, we believe that these markdowns generally are not indications of deteriorating fundamentals in the underlying portfolio companies, but rather reflecting the repricing of risk in the broader markets.

Adjusted net investment income for the quarter was \$33.7 million or \$0.38 per share as compared with \$36.1 million or \$0.41 per share in the prior quarter. The decrease reflected lower reference rates, lower nonrecurring income and ending leverage below the midpoint of our target range.

For the quarter, our Board declared a total cash dividend of \$0.34 per share. Due to our conservative use of leverage, we have adjusted our base dividend to \$0.30 per share while maintaining our supplemental dividend at 50% of excess adjusted net investment income above our base dividend. The dividends are payable on June 30, 2026, to stockholders of record as of June 15, 2026.

With that, I'll turn the call over to Armen to share his perspective on the market environment and what we see ahead.

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Armen Panossian^ Thank you, Matt. It was an eventful quarter for private credit. We believe the volatility that we are seeing reflects a period of recalibration rather than a systemic issue. Rising impairments, questions surrounding valuations, the use of leverage, liquidity mismatches, software exposure in an AI-driven world and refinancing risks are all part of the current dialogue surrounding private credit. This may help explain -- at least in part -- why market sentiment may appear more negative than borrower performance alone would suggest as the confluence of concerns weigh on investor confidence.

The current debate around private credit risks may conflate a range of distinct factors and lead to overly broad conclusions. It is important to differentiate between the fundamentally sound concept of private credit, namely tailored nonbank lending from specific challenges affecting certain segments of the market. Direct lending or making private loans to finance midsize buyouts isn't inherently flawed. The question for any manager is whether their portfolio assets and liabilities were built to handle a market correction.

At Oaktree, we have more than 3 decades of experience investing in sub-investment-grade credit and navigating market cycles. This moment is familiar to us. For example, in 2020, OCSL's positioning was the result of deliberate choices we made well before the COVID-related market dislocation arrived. By late 2019, we had cleaned up the legacy portfolio that was acquired from the prior adviser, reduced leverage and built liquidity in the fund. When dislocation arrived in March 2020, we had the dry powder and the conviction to go on offense.

In 2020, we deployed nearly \$1 billion of capital and produced nearly an 11% total economic return in a year when many managers retrenched. Today, OCSL is executing with a similar mindset. We continue to make progress toward turning around underperforming assets, operating below the midpoint of our leverage target, remaining disciplined in deployment and maintaining strong liquidity.

We did not predict the current environment, but we are prepared to invest into it. Market volatility increased this quarter and AI-related concerns and geopolitical unrest resulted in wider spreads across public liquid credit markets. At the same time, elevated net redemptions in nontraded BDCs prompted many managers to reassess their cost of capital and liquidity positions, pushing private credit into a phase of price discovery.

Towards quarter end, market conditions stabilized and the private credit deal pipeline began to rebuild. We are encouraged that spreads on new private credit investments have widened to SOFR plus 500 to 550 basis points, approximately 50 to 100 basis points above the 2025 tights, and supports improved forward returns. We are also seeing modest improvements in documentation and more lender-friendly structures.

While markets have rebounded from their lows, we expect continued volatility and increasing dispersion over the coming quarters. Our view is that secondary private transactions, whether through partial or full portfolio sales, will reshape the private credit landscape as certain market

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participants look to optimize their asset portfolio or satisfy liquidity demands. We believe Oaktree is well positioned to evaluate and potentially capitalize on all opportunities.

Our global platform is a meaningful advantage in this environment. We evaluate private credit alongside liquid credit, distressed debt, asset-backed finance and -- increasingly -- the Brookfield ecosystem. That ability to compare relative value across credit and now equity informs both our risk management and deployment decisions in ways a single strategy manager can't replicate. Together, we will have a fully integrated information network across asset classes, industries, geographies and public and private markets.

We are already tracking dozens of emerging opportunities in real time, sharing notes across teams and identifying dislocations. The breadth of our combined relationships with sponsors, companies and advisers will give us access to deal flow that many lenders do not see and allows us to be selective. Disciplined underwriting, selectivity and active portfolio management will remain the critical drivers of long-term performance.

Now I will turn the call over to Raghav, for a detailed review of our portfolio and investment activity.

Raghav Khanna^ Thanks, Armen. As Matt and Armen mentioned, investment activity was measured in the second quarter as we kept our focus on controlling risk and maintaining balance sheet flexibility.

During the quarter, we sold certain liquid credit positions at cost to build dry powder. We also saw a healthy pace of private portfolio prepayments. Proceeds from prepayments, exits and other paydowns and sales were \$334 million, up from \$179 million in the previous quarter and \$279 million last year. A notable prepayment was Mindbody, and ARR software loan. Despite the challenging market backdrop for software, we exited Mindbody at par through a refinancing to a competitor.

This leaves us with only 1 ARR loan in the portfolio, representing 76 basis points of fair value, down from total ARR exposure of 214 basis points last quarter. Our limited exposure to ARR structures is an example of how we deliberately stayed underinvested in an area of private credit where we believed stress could emerge.

New investment commitments in the quarter totaled \$204 million, down 36% from the prior quarter. Deal activity slowed due to software sector volatility and escalating geopolitical tensions. As Armen mentioned, our deal pipeline began to rebuild towards the end of March and into early April. We are encouraged that new private credit deals are pricing with wider spreads and structured with better lender protections. The weighted average yield on new debt investments was 9.2%, 50 basis points higher than the December quarter.

An example of a new private deal from the second quarter is Jonah Energy, a highly structured loan to a heavy asset, low obsolescence or Halo company. The company is a Denver-based

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independent oil and gas developer with producing assets in 6 states. In January, Jonah signed a purchase agreement to acquire Grit Oil & Gas, an upstream oil and gas operator located in the Eagle Ford Basin in Texas. While the deal was originally contemplated by the asset-backed finance market, Jonah prioritized speed of execution to capitalize on oil price appreciation driven by the conflict in Iran. As a result, the company shifted to direct lending and partnered with Oaktree to leverage our flexibility and ability to move quickly. Oaktree funds participated in approximately \$200 million or 1/3 of the first lien term loan to support the acquisition. The first lien term loan was priced at SOFR plus 600 with mandatory amortization, favorable excess cash flow sweeps and multiple maintenance covenants. This transaction reflects the strength of Oaktree's broader platform, deep adviser relationships, the ability to partner across strategy and to be opportunistic in a volatile market environment.

Turning to our software exposure. Based on GIC Industry Group classification, software represents 21% of the portfolio at fair value across 29 issuers. That is down approximately 140 basis points from last quarter, primarily reflecting the exit of Mindbody. Taking a broad and conservative classification for software and technology, we estimate exposure is approximately 26% of the portfolio, including certain investments in health care technology, interactive media and services.

As outlined on Page 8 of the earnings presentation, we apply a 7-factor business resilience framework supplemented by operating KPIs and financial metrics. Each investment is scored and categorized into high, medium and low AI risk buckets.

Within our performing debt portfolio, 2 investments representing 2.9% of fair value are classified as having high AI risk. These companies have a weighted average LTM EBITDA of approximately \$96 million, which was generally stable from the prior quarter. LTVs increased to high 50%, up from low 40% last quarter, reflecting multiple compression in public market comparables. For issuers in the medium and low AI risk categories, weighted average LTM EBITDA is approximately \$385 million. LTVs are around high 40s to low 50s percentage, which we view as reasonable despite recent multiple compression.

For many of these companies, we see AI as a potential tailwind with management teams and sponsors actively exploring ways to leverage the technology to enhance margins and strengthen competitive positioning. Excluding nonaccruals, the weighted average mark on our software portfolio was 96% as of March 31, 2026, down approximately 310 basis points from last quarter. These markdowns largely reflect the repricing of risk and corresponding spread widening across liquid credit. Our private credit software marks were consistent with levels seen in the broadly syndicated loan market. In most cases, these markdowns do not suggest deterioration in underlying company performance.

Moving to our nonaccruals. At quarter end, 10 investments were on nonaccrual, representing 2.6% of the total debt portfolio at fair value, down 50 basis points from December 2025 and down 200 basis points from March 2025. In March, we restructured Astra after it emerged from Chapter 11 and exited the position shortly after quarter end, modestly below our mark. The

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decision was driven by our preference for reallocating our resources and capital towards better risk-adjusted opportunities. We also continue to make progress on Avery, where we have seen an uptick in condo sales and units under escrow.

During the quarter, 12 units were sold or placed under contract compared to our full year underwriting assumption of 6 unit sales. Avery's March 31 valuation assumes only a portion of the units under contract close, although we are cautiously optimistic that we will close more units in the future. After quarter end, we sold Dominion and All Web Leads, 2 legacy nonaccrual positions acquired from the prior BDC manager. On Dominion, we received \$7 million of cash proceeds versus a mark of \$5 million as of December 31. For the March quarter, we moved the first out to accrual status, marked the first out to par and wrote up the second out modestly.

All Web Leads sold to a strategic buyer with an AI-focused value creation angle at a price in line with our March 31 mark. We received approximately 20% of the March 31 mark in cash at close, with the remainder of the consideration coming via a seller note and equity, positioning us to potentially recover more than the March 31 mark over time. As legacy non-accrual investments, Dominion and All Web Leads demonstrate our patient, disciplined and active approach to portfolio management. We continue to work on realizing proceeds from other nonaccruals and equity positions in a way that optimizes outcomes for OCSL shareholders.

Looking at total portfolio metrics as of March 31, 84% of total portfolio investments at fair value were first lien senior secured debt and the weighted average yield on debt investments was 9.3%, stable quarter-over-quarter. The portfolio remains well diversified with the average position representing 0.7% of our debt portfolio at fair value and no single position exceeding 2% of fair value. The median EBITDA of our portfolio companies was approximately \$182 million, a slight decrease from the prior quarter due to exits on large cap deals. Portfolio company weighted average leverage and interest coverage ratios were 5.2x and 2.1x, respectively, consistent with the last quarter. We remain focused on managing our existing portfolio and resolving challenged credits while maintaining flexibility to capitalize on new investment opportunities ahead.

With that, I'll turn the call over to Chris, to review our financial results.

Christopher McKown^ Thank you, Raghav. In our second fiscal quarter ended March 31, 2026, adjusted total investment income was \$69.7 million, a decrease compared to \$74.5 million in the prior quarter. The decrease was primarily due to lower reference rates and lower non-recurring income attributable to lower prepayment and exit fees. Net expenses decreased by 6% compared to the prior quarter, primarily reflecting a reduction in Part 1 incentive fees as a result of our total return hurdle.

We delivered adjusted net investment income of \$33.7 million or \$0.38 per share compared to \$36.1 million or \$0.41 per share in the prior quarter. These results reflected lower total investment income, partially offset by lower interest expense and lower Part 1 incentive fees. NAV per share was \$15.69, down from \$16.30 last quarter. The drivers of NAV were about

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evenly split between write-downs and certain nonaccruals, mark-to-market volatility in quoted names and spread widening on private credit marks.

OCSL continues to be prudent around the use of payment-in-kind income, with PIK representing approximately 5.5% of adjusted total investment income during the quarter. This is down from 6.3% last quarter due to the sale of athenahealth PIK preferred at our mark. Approximately 2/3 of our PIK income relates to investments that were structured with the option to PIK at origination. Our net leverage ratio at quarter end was 1.04x, down from 1.07x last quarter, and total debt outstanding was \$1.5 billion. The decreased leverage mirrors portfolio rotation and asset sales during the period. Our long-term target leverage ratio of 0.9x to 1.25x remains unchanged, although our plan is to run leverage towards the mid- to low end of that range. As of March 31, the weighted average interest rate on debt outstanding was 5.9%, down from 6.1% in the prior quarter, primarily driven by lower reference rates. Unsecured debt represented 64% of total debt at quarter end, up from the prior quarter.

We have ample dry powder to take advantage of market opportunities with liquidity of approximately \$671 million, including \$51 million of cash on hand and \$620 million of undrawn capacity under our credit facility, up from \$576 million of total liquidity at the end of December. Unfunded commitments, including those related to the joint ventures were approximately \$250 million.

Turning to our joint ventures. Together, the JVs held approximately \$521 million of investments across 130 portfolio companies and generated aggregate returns on equity of approximately 10% during the quarter. Leverage at the JVs was 1.9x, up modestly from last quarter.

With that, I'll turn the call back to the operator for Q&A.

QUESTION & ANSWER:

Operator^ (Operator Instructions)

Your first question comes from the line of Rick Shane with JPMorgan.

Richard B. Shane^ Look, when we sort of calculate the implied return to the dividend of about 8.6% of book, that equates to about a 5% spread to 3-month base rates. As we think about your business model over the long term, where would you put that return -- base rate plus 5% in sort of your cycle? Is that a trough in the cycle? Is that a realistic long-term objective? Help us understand sort of what the return profile as a function of base rate should be.

Raghav Khanna^ It's Raghav. I can start and then Chris and Brett can chime in. So as I'm sure you know, there's really 2 levers that we're playing with.

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The first is what is the unlevered asset yield. Again, probably no surprise given the enormous amount of capital that's been raised in direct lending, in perpetual BDC vehicles, in particular, I would say that market direct lending spreads probably troughed out in December at in the mid-to maybe high 400s. Since then, we have seen -- I wouldn't call it a dramatic yet repricing, but certainly a significant enough repricing of risk where regular way direct lending deals, so probably the lowest returning deals that we see in our pipeline. These are first lien deals to private equity sponsors are in the low to mid-50s. So certainly have improved by 50 to 75 basis points.

I would say more on a forward basis, if you look at the SOFR curve -- thanks to the war in the Middle East and the ensuing inflation expectations going up -- the SOFR curve is probably 50 to 60 basis points higher than where it troughed out pre the Middle East situation. So that's number 2.

Away from sponsor deals, I would say we do a mix of, obviously, both sponsor and non-sponsor deals. We do corporate lending as well as asset-backed deals, U.S., Europe. On a blended basis, I would say that when you mix it all together, low 500s for sponsor deals, low 600 to 700 in some of the more interesting areas of lending that we're seeing, which are less commoditized. Our pipeline is in the high 500s on a spread basis and just under 600, call it, including OID. So you put it all together, on a forward basis, obviously, the portfolio on the ground will churn over time. But on a forward basis, I would say that spreads on new deals are far more attractive, at least 100 basis points more attractive than they were even 3 months ago.

Second, the SOFR curve is certainly helping on the asset side. And then the third piece is leverage. We took the decision to sell a number of names out of our public book. That has a near-term cost, obviously, as you can imagine, which is you have less income-producing assets, your ROE declines as a result. That's the cost. The benefit is that as we're seeing our private pipeline reprice higher, we actually have a lot of liquidity to invest in that pipeline.

So for us, the opportunity is not theoretical. And so over time, I do suspect that we will maybe gradually increase leverage if this pipeline opportunity continues and hopefully expand. So both on the unlevered asset yield side, I think that is getting better. And then second, to finance that pipeline, I do expect leverage will go up slowly, and both of those should help ROE.

Richard B. Shane^ One quick follow-up. There's been a lot of conversation about the markets improving since December. And the empirical thing that we all want to run through our model is the widening of spreads. But what's

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interesting is every time a company makes that comment, they follow it with better protections, better covenants. Obviously, that's not something that we can plug into a model. But it's also something I'm not necessarily sure we fully understand. Can you just give us a couple of examples of how deal protections are improving so we can think about that?

Raghav Khanna^ Yes. I mean, like the big picture technical in the market is if you look at just the unlisted and perpetual BDC space, that part of the asset class really became the marginal dollar of that was setting price and risk. That space raised \$110 billion in 2025. And I'm not sure what the numbers are going to be, but they're more likely to be negative this year with net outflows than positive.

So that's a pretty -- it's not a huge part of the market, like BDCs together, public and private are about 25% of the private credit market, not huge. But from a stock perspective, they're not huge. From a flow perspective, they were very large. And we suspect that that's the one change that is driving both pricing improvements in new deals, but also the noneconomic terms you talked about.

So what are those improvements we're seeing? So one is pick requests on new deals have declined to -- I don't want to say 0, but let's say, close to 0. So that's just going -- is going away. Second is, again, you're right, hard to see, but I'm sure you're familiar with the concept of adjusted EBITDA, which I would say in the Gogo days leading up to 4Q 2025, adjusted EBITDA was getting more and more unrealistic versus what we call cash EBITDA and the true cash earnings profile of the borrowers. That is getting better now again. So that's two.

Three is LME protection, which is -- there's always been like a push and pull between borrowers and lenders. I would say, certainly, borrowers had probably more leverage in 2025 than lenders did. Those are also getting better. And then the fourth thing I would say is the -- I would say the maintenance covenant is coming back, especially for larger deals in any kind of a meaningful way. But the direction of travel is the right direction, which is even in some large cap deals that we have in our pipeline, which we describe as over \$100 million of EBITDA, we are starting to see the maintenance covenant come back. So all of those are like marginal improvements, but they're all going in the right direction.

Operator^ [Operator Instructions] There are no further questions at this time. I will now turn the call back over to Alison Mermey for closing remarks.

Alison Mermey^ Thank you all for joining us on today's call. Please feel free to reach out to me and the team with any questions you may have. Have a great day.

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Operator^ Ladies and gentlemen, this concludes today's call. You may now disconnect.