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Q2 2021 Oaktree Specialty Lending Corp Earnings Call

EVENT DATE/TIME: MAY 06, 2021 / 3:00PM GMT

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PRESENTATION

Operator

Welcome and thank you for joining Oaktree Specialty Lending Corporation's Second Fiscal Quarter 2021 Conference Call. Today's conference call is being recorded. (Operator Instructions) Now I would like to introduce Michael Mosticchio of Investor Relations, who will host today's conference call. Mr. Mosticchio, you may begin.

Michael Mosticchio ***Oaktree Specialty Lending Corporation - IR***

Thank you, operator, and welcome to Oaktree Specialty Lending Corporation's Second Fiscal Quarter Conference Call. Our earnings release, which we issued this morning, and the accompanying slide presentation can be accessed on the Investors section of our website at oaktreespecialtylending.com.

Our speakers today are Armen Panossian, Chief Executive Officer and Chief Investment Officer; Matt Pendo, President and Chief Operating Officer; and Mel Carlisle, Chief Financial Officer and Treasurer. We will be happy to take your questions following their prepared remarks.

Before we begin, I want to remind you that comments on today's call include forward-looking statements reflecting our current views with respect to, among other things, the ability to realize the anticipated benefits of the merger and our future operating results and financial performance. Our actual results could differ materially from those implied or expressed in the forward-looking statements. Please refer to our SEC filings for a discussion of these factors in further detail. We undertake 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 any Oaktree fund. Investors and others should note that Oaktree Specialty lending 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.

With that, I would now like to turn the call over to Matt.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Thank you, Mike, and welcome, everyone. We appreciate your interest in and support of OCSL, and we hope everyone listening is well. We continued to generate momentum in the second quarter with earnings, origination activity and credit quality all strong.

We reported NAV per share of $7.09, up 4% from the prior quarter. The increase reflected both continuing market spread tightening and price appreciation on certain liquid debt investments during the quarter. As with last quarter, our NAV continues to exceed its pre-COVID high and is up more than 7% from the end of calendar 2019. We continued to produce steady strong results. Adjusted net investment income per share, which excludes the impact of asset acquisition accounting related to the merger with Oaktree Strategic Income Corporation was $0.14, up slightly from the prior quarter.

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Based on our consistent performance and confidence in the potential to further improve earnings, our Board increased our quarterly dividend by 8% to $0.13 per share, the fourth consecutive quarterly increase. This also marked a 37% increase from a year earlier.

We continue to actively identify attractive new deals, during the quarter, and excluding the assets we acquired as part of the OCSI merger, we originated $318 million of new investment commitments. Of these, 80% were first lien loans.

Originations this quarter demonstrated the breadth of Oaktree's sourcing platform as new deals were spread across a variety of industries, real estate, software, industrials and to a mix of sponsor and non-sponsor businesses.

We received $229 million from paydowns and exits in the quarter. These were mostly composed of second liens, unsecured debt and lower-yielding investments. Notably, exits included our position in Airbnb, which generated $2 million of prepayment income that contributed to earnings.

The weighted average yield on our new debt investments in the quarter was 8.2%, which compares favorably to the average yield of 6.8% on investments that we exited.

We continue to identify opportunities and structure deals with attractive yields despite the low interest rate environment. That noted, we are approaching new investments cautiously given some lingering uncertainty about the pandemic in both the timing and durability of a full recovery.

With that in mind, our credit quality remains exceptional. We further reduced noncore holdings during the quarter, exiting 3 positions. Noncore investments, including the $32 million of noncore investments acquired from OCSI, now represent $164 million or only about 7% of the portfolio at fair value.

Before I turn the call over to Armen, I'd like to spend a few moments discussing the closing of the merger with OCSI, which occurred on March '19. As we have emphasized previously, we believe that this transaction has resulted in several benefits to OCSL, including a larger, more scaled BDC with $2.3 billion of assets, up from $1.7 billion in the prior quarter; an improvement in portfolio diversity, including an increase in first lien loans to 68% of the portfolio at fair value, from 60%; and increased trading liquidity. And we also expect the merger to be accretive to NII over both the near and long-term through cost savings and the 2-year fee waiver.

In addition, part of our rationale for the merger was improved access to more diverse, lower-cost funding sources. Since quarter-end, we have been hard at work making improvements to our capital structure.

Earlier this week, we amended our syndicated credit facility, increasing the size to $950 million from $800 million and extending maturity by 2 years to 2026. We also retired a higher cost credit facility that was acquired from OCSI. While there is still some more to be done, we believe these actions position us well to optimally fund investments and will help reduce our overall cost of debt capital.

Overall, we are very pleased with the quarter and our results year-to-date and the completion of the merger. We are confident the scale we now have will help drive further benefits for our shareholders.

With that, I will now turn the call over to Armen.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Thanks, Matt, and good morning, everyone. The credit and equity markets continue to advance along with declining unemployment, an improving economy and forecast for strong GDP growth in the second half of 2021. Vaccine rollout programs, while varied by country, have proven successful to date overall in the United States and other developed countries, adding to optimism. We share in the confidence and yet, ours is cautious optimism. Exceptional fiscal and monetary stimulus has supported the recovery and helped fuel investor confidence, liquidity and the availability of credit.

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We believe equity valuations already reflect expectations for strong economic growth and therefore, may be inflated as the ultimate success of vaccinations and corresponding GDP expansion still remain uncertain. Mindful of that uncertainty, we continue to approach new investments defensively, guarding against the downside in our investments and securing appropriate compensation for risk.

All of that noted, we are actively investing in generating strong risk-adjusted returns for our shareholders. We are drawing upon the full breadth of Oaktree's scale and resources to invest across multiple markets with a diversified group of issuers.

We are further building the portfolio with investments from consistently performing companies and in sectors that present relatively low risk, notably including those that proved resilient throughout the pandemic, from life sciences to application software. We are also lending to businesses that are not easily underwritten via traditional cash-flow-based methodologies, and we continue to carefully study the rescue lending landscape, an area in which we have found appealing opportunities.

We also continue to pursue unique opportunities where competition is limited, leveraging Oaktree's ability to negotiate and structure customized private deals that provide downside risk management by mitigating specific risks of the issuer.

Now turning to the overall portfolio.

At the end of the second quarter, the portfolio was well diversified with $2.3 billion at fair value across 137 companies. The portfolio grew as a result of the $504 million of assets we acquired from OCSI and net new investment fundings.

86% of the portfolio was invested in senior secured loans. Our median portfolio company EBITDA at March 31 was approximately $100 million, as we continue to focus on lending to larger, more diversified businesses. Credit quality continues to be excellent. In addition to having no portfolio companies on nonaccrual, amendments and modifications are very low.

Turning now to investment activity. During the quarter, we found numerous opportunities in companies with attractive risk-reward profiles, as well as unique opportunities requiring especially structured terms.

I'd like to highlight our investment in NN, Inc. as an excellent example. NN, Inc. is a diversified industrial company that designs, manufactures and sells high-precision components for a variety of industries, including the electrical, automotive, general industrial, aerospace, defense and medical markets. It has a number of growth initiatives underway and is poised to expand alongside several of its end markets. The company sought a total of $265 million in new credit to pay off maturing debt and to fund its ongoing growth. Oaktree provided a $150 million term loan due 2026 with attractive pricing at LIBOR plus 6.875%. As a condition to providing our loan, the borrower was required to raise preferred equity that would be subordinated to our position. OCSL was allocated $60 million of the loan total.

Other compelling investments during the quarter, all attractively priced, included a $40 million loan to Sunland Asphalt & Construction, which provides specialty contract services for roads, parking lots and artificial sports field services. A $30 million loan to Inventus Power, which engineers and manufactures battery packs and power supplies for the commercial, medical and government markets. And a $13 million follow-on preferred equity investment in Thrasio, which consolidates popular brands that sell their goods, mainly via Amazon's marketplace.

Our strong liquidity, coupled with the resources of Oaktree, positions us very well to continue identifying unique and attractive opportunities in both public and private investments. Now I will turn the call over to Mel to discuss our financial results in more detail.

Mel Carlisle ***Oaktree Specialty Lending Corporation - CFO & Treasurer***

Thank you, Armen. Good morning, everyone. Before getting into the discussion of the income statement, I would like to discuss the GAAP accounting that is related to our merger with OCSI because of its unique treatment of asset valuations.

Although the merger was structured as a NAV-for-NAV exchange under GAAP, the merger was accounted for using the asset acquisition method. Under this framework, the fair value of the consideration paid by OCSL to acquire OCSI was based on the number of OCSL

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shares issued and stock price immediately prior to the merger close, with a small adjustment for OCSL's capitalized merger cost.

Because OCSL was traded at a discount to NAV at closing, the final consideration paid resulted in a $34.1 million purchase discount for the net assets of OCSI relative to their fair value. This purchase discount was allocated pro rata based on a fair market value to former OCSI assets.

As a result, OCSL's initial cost basis for the assets equaled their fair value at the time of the merger, less the purchase discount. Immediately upon the close of the merger, OCSL recognized a onetime unrealized gain equal to the total purchase discount of $34.1 million, as we remarked the assets back to their fair value. This one-time gain was a noncash event. Going forward, each individual debt investment acquired from OCSI will amortize from its new cost basis as established by the purchase accounting treatment back to par over its remaining life or will be accelerated if the investment is exited before maturity.

Importantly, we have amended our investment advisory agreement to revise the calculation of incentive fees to ensure that any net accretion income or net realized gains arising solely from the merger accounting treatment will have no impact on the incentive fees payable to Oaktree. Once again, this will be a noncash event every quarter. In the second quarter, in addition to the one-time unrealized gain, we also recorded $665,000 of discount accretion income as a result of the merger accounting.

We have introduced several non-GAAP measures to supplement our GAAP financials in order to make the company's post-merger financial results easier to understand and more comparable to our results prior to the merger. These non-GAAP measures are intended to remove the impact of the income accretion as well as any net realized and unrealized gains or losses arising solely from the merger accounting adjustments.

More information about these supplemental disclosures can be found in our earnings release and slide presentation.

Now turning to the financial results of the second quarter. After removing the merger-related accretion, total investment income was $41.3 million, up from $38.2 million in the prior quarter. The $3.1 million increase was mainly due to our larger portfolio resulting from both stronger originations and the OCSI portfolio that we acquired.

Net expenses for the second quarter totaled $23.8 million, down $4.4 million sequentially. The decrease was driven by lower accrued Part II incentive fees. This was partially offset by higher interest expense and base management fees, mainly due to an increase in borrowings outstanding and our larger investment portfolio, respectively.

Additionally, Part I incentive fees and professional fees were both modestly higher on a sequential basis.

For the quarter, OCSL reported adjusted net investment income of $21.1 million, up slightly from $19.6 million in the December quarter.

Adjusted NII was $0.14 per share for both quarters.

During the second quarter, OCSL accrued a total of $3.6 million in Part 2 incentive fees. This amount was mostly due to $37 million in net realized and unrealized gains in the portfolio during the quarter. Excluding the one-time unrealized gain of $33.4 million due to the merger accounting.

As a reminder, while GAAP requires us to take unrealized gains into account when accruing Part II incentive fee expense each quarter, OCSL will only pay Part II incentive fees annually and to the extent that it has realized gains that exceed realized and unrealized losses at OCSL's September 30 fiscal year-end.

To date, we have accrued $13.1 million of Part II incentive fees under GAAP. However, if Part II incentive fees were hypothetically calculated as of March 31, 2021, under the investment advisory agreement, the amount payable would have been $3.1 million.

Turning to credit quality, which continues to be very strong. At quarter end, we had no investments on nonaccrual. This is down from one

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investment in the prior quarter, which represented 3 basis points of the total portfolio at fair value. During the quarter, all of our portfolio of companies made their scheduled interest payments and only two companies have converted their cash interest payments to PIK since the onset of the pandemic.

Moving to the balance sheet. During the quarter, we funded $302 million of investments and received $229 million in payoffs and exits. Our net leverage ratio increased to 0.84x from 0.70x at December 31, reflecting the larger portfolio. Net leverage is still at the low end of our target range of 0.85 to 1.0x. As of March 31, total debt outstanding was $1.1 billion and had a weighted average interest rate of 2.6%. Unsecured debt represented 27% of total debt at quarter-end.

At March 31, we had total liquidity of approximately $365 million, including $40 million of cash and $325 million of undrawn capacity on our credit facilities. Unfunded commitments were $257 million, with approximately $192 million of this amount eligible to be drawn immediately as the remaining amount is subject to certain milestones that must be met by portfolio companies.

As Matt noted, subsequent to quarter-end, we amended and extended our syndicated credit facility, increasing its size to $950 million and extending the maturity by 2 years to 2026. We also achieved favorable terms, removing the pricing grid, while maintaining the rate at LIBOR plus 2%. In addition, we retired a higher cost SPV facility that we inherited from OCSI.

Shifting now to the joint ventures. As of March 31, the Kemper joint venture had $352 million of assets invested in senior secured loans to 57 companies. This compared to $341 million of total assets invested in 56 companies last quarter. Assets increased quarter-over-quarter, mainly due to the increase in the market value of its investments and net portfolio growth as purchases exceeded sales and repayments.

As a result of the underlying portfolio appreciation, OCSL's investment in the JV were written up by $5 million, or 4%, from the prior quarter. Leverage at the JV was 1.3x at quarter end, up slightly from 1.2x in the December quarter. Given the strong balance sheet and earnings power at the Kemper JV, we anticipate that we will begin to receive quarterly dividends starting next quarter.

Regarding the Glick joint venture, it had $137 million of assets at March 31. These consisted of senior secured loans to 36 companies. Leverage at the JV was 1.2x at March 31. OCSL's subordinated note in the Glick joint venture, totaling $55 million, is current, and we expect to receive ongoing payments, consisting of coupon interest and principal repayments of $1.3 million per quarter on a run-rate basis going forward.

Now I will turn the call back to Matt.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Thank you, Mel. Over the last three quarters, we have generated an improved return on equity compared to prior year quarters, which is evidence that our efforts in this area are paying off.

Operating results have been strong, following our robust origination activity, and credit quality continues to be excellent. The defensive repositioning that we have carried out since 2017 has largely been completed, and our pipeline of potential transactions remain solid. As a result of this strong performance, we have increased the dividend from $0.095 to $0.13 per share in the past year.

That said, we continue to believe that OCSL is well positioned to grow ROE further from here. First, we remain focused on positioning the portfolio for an improved yield by rotating out of lower-yielding investments and into higher-yielding proprietary loans. We continued to make good progress here in the second quarter exiting $49 million of these types of investments.

As of quarter end, $163 million of senior secured loans priced at or below LIBOR plus 4.5% remained in the portfolio, including approximately $102 million of loans that we acquired in the OCSI merger. Our new investments during the quarter came in at an average yield of 8.2%. So there is continued upside to be realized over time.

Another opportunity for us to increase ROE is by deploying more leverage at the portfolio level. As of March 31, we are operating just

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below the low end of our long-term target of 0.85 to 1.0x. So we would expect to continue to enhance returns as we make incremental investments and deploy higher leverage.

However, we will only grow the portfolio as we find opportunities that are consistent with our investment approach that we believe offer an attractive risk-reward.

We also have the opportunity to further optimize both of our joint ventures. We can accomplish this by, not only judiciously increasing leverage of the JVs, but also by rotating out of lower-yielding investments into higher-yielding ones. We believe that disciplined growth of the JVs will also be accretive to ROE over time.

Finally, we expect to realize synergies from our recent merger with OCSI, which we anticipate will benefit our ROE going forward. These include approximately $2 million of annual expense savings and the waiver of $750,000 per quarter in management fees for 8 quarters. Further, as I mentioned earlier, we are working on streamlining our capital structure to reduce our overall cost of capital while enhancing our funding flexibility.

In conclusion, we are very pleased with our strong second quarter results. We are happy to have completed the seamless merger with OCSI as we have achieved further scale, portfolio diversity and expected earnings accretion.

We are excited about our future and remain optimistic that we will continue to identify new attractive risk-adjusted investment opportunities, which will allow us to deliver improved returns to our shareholders. Thank you for joining us on today's call and for your continued interest in OCSL. With that, we're happy to take your questions.

Operator, please open the lines.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And the first question will come from Devin Ryan with JMP Securities.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Equity Research Analyst***

Maybe just to start off here with kind of a bigger, kind of market question. I heard the commentary in the call just around where valuations are and maybe how the implied outlook is. And so I always appreciate hearing your views on what you're seeing in the market.

And if possible, just good to be get -- good to get some differentiation between what you're seeing on the sponsor side versus the nonsponsor side, if there is any? And then just where kind of some of those more attractive opportunities are today, just given kind of that backdrop you started with.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Thanks for the question, Devin. This is Armen. So I've mentioned this on prior calls, but when we look at the opportunity set, we look at fundamentals, technicals and valuation. So when we look at the fundamentals, I would say, sequentially, we've had three quarters of improved performance in most businesses in the U.S. and globally quarter-over-quarter. A lot of companies in the energy space even have had really solid performance in the last couple of quarters with rising oil prices.

So the fundamentals, I would say, are trending in the right direction, but not yet reflective of a complete recovery from the pandemic. One of the issues still holding back the fundamentals is a -- it's actually 2 issues.

One is a labor shortage, especially of skilled labor in the United States. And then the second is, there have been supply chain disruptions over the last few quarters. And so getting certain types of products has been a little bit of a challenge to some businesses. We see it, especially in luxury products. We see it in chips. There's been a lot of talk about a global chip shortage. So the fundamentals are certainly heading in the right direction, but still not to post-pandemic levels.

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In terms of valuation, with the tremendous amount of stimulus that's been pumped into the economy, valuations have gotten really high, generally. And so there was a little bit of a pullback a couple of months ago in valuations of some of the higher flying tech companies on the stock exchange, really commensurate with a rising interest rate environment.

The 10-year treasury touched just above 1.7% and has come back down. But that little moment there was a little bit of a sign of potential times to come, where the conditions that we're seeing in the economy today could give rise to inflation, could give rise to higher interest rates. And therefore, our expectation would be that very high multiple valuation companies and stocks will potentially have some downside if we do see that rising rate environment play through on the heels of what's likely to be at least a transitory inflationary backdrop.

So we are very cautious about valuations. I think a lot of private equity firms are also cautious about valuations. And we're seeing some deal flow on the LBO side, for sure, but I think folks are kind of wondering what happens with valuations if the rising rate environment does kick in.

In terms of technicals, there's a lot of capital out there, both in the public markets as well as the private debt markets. And we are seeing the impact of that capital in terms of the recent deal flow that's been making it into the market. Recent as in definitely in 2021, not prior to that.

And I would say that, generally speaking, legal and economic terms have deteriorated over the last couple of months because there are several managers out there that have raised very large funds that are looking for deals and the most kind of consistent way of sourcing that deal flow is through the LBO sponsor-backed market and by providing large solutions, large loans in support of those LBOs at terms that are tighter and more flexible from a legal perspective than they were even pre-pandemic.

So we are very cautious about the quality of the deal flow we're seeing on the LBO sponsor side. And we are participating in it, but I would say that we are finding better opportunity on the non-sponsor side these days.

As I've said on prior calls, it's very hard to predict the timing of our non-sponsor deal activity. But our pipeline today is largely composed of non-sponsor deals, really leveraging the Oaktree platform and some of the off the center of the fairway type of deal flow that we see as an institution. So we'll -- it will be balanced going forward. We'll try to find some good LBO opportunities as well, but I would say that the trend in terms of legal and economic terms on that side of our origination is heading or have head towards a less attractive position.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Equity Research Analyst***

Okay. Great color, Armen. As a follow-up, the remaining $164 million of noncore investments in the portfolio. I'd imagine those are primarily less liquid. At this point, and the liquid positions were sold off leading into or following the merger? Or I just want to make sure that that's a fair assessment and then whether there's any transparency kind of into a time line for rotation there.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. I think your statement is correct that they are less liquid. It's challenging to determine the timing of an exit, but you should know that we are very focused on exiting those positions. I think the good news is with the recovery in the economy, those positions and their valuations have improved since the bottom.

So we would hope and expect that we will see some resolution over the coming quarters, but I wouldn't be able to provide forward-looking guidance on what that could look like.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Yes. And Devin, it's Matt. What our strategy with the non-core from the beginning was rather than to do kind of a large portfolio sale at a relatively low price, was to work each situation independently and try to maximize value, which I think we've done a good job of and we'll continue to do that.

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To Armen's point, every day, every quarter, we're working on exiting investments. We're exiting the noncore investments. And so that's been good. Some of the investments have been [written] (corrected by company after the call) up materially last quarter, given the performance of the company. So we're focused on it every day.

To Armen's point, it's tough to pick a time line, but it is something that we want to keep making progress towards every quarter.

Operator

The next question will be from Kyle Joseph with Jefferies.

Kyle M. Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Congrats on a good quarter and getting the merger across the finish line. Repayments are obviously difficult to predict, but just can you give us a sense, given you talked about a hot market and just your expectations for repayments this year versus maybe last as a benchmark?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes, Kyle. It's a good question, but it requires a little bit of a crystal ball. We haven't been hit with a lot of repayments, but we expect that just given the nature of some of our origination that some of our portfolio companies are good SPAC candidates, some of our portfolio companies are good refi candidates on the LBO side. So I wouldn't be surprised if we see elevated repayments this calendar year versus last year, but I wouldn't be able to dimensionalize the size of that, unfortunately.

Kyle M. Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Got it. Fair enough. And then, obviously, your credit has been very strong, looking at your NPAs. But just in terms of the underlying portfolio performance, can you give us a sense for whether it's revenue or EBITDA growth in the first quarter and how that compared to the fourth quarter and kind of the outlook here as we have lapped some of the more difficult comps and kind of given that, what your expectations are for credit for the remainder of the year?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Sure. So I would say that in the third and fourth quarter of last year, I'm talking calendar quarter last year, most companies had revenues down 5% to 25%. And I'm saying just broad economically. And I think our portfolio is in that range as well. However, I think very good managers of very strong businesses took out a lot of cost during that time frame as well.

And were able to run with a cash flow generation profile that resulted in them not having any sort of issues around restructurings. So it was more of a cost containment story in the back half of last year. In the first quarter, I think that cost containment story has continued to play through in that costs are still pretty low.

They haven't take -- they don't seem to have taken out additional costs in the first quarter, but the revenue line has certainly picked up sequentially. So when you compare first quarter -- first calendar quarter revenues this year, versus third and fourth quarter last year, it's higher. It's higher probably by, I'm ballparking 4% to 10%, 4% to 8% in that range. And so if you combine that type of revenue growth with pretty good cost containment, you're seeing nice EBITDA growth as well on a sequential basis. On a year-over-year basis, I would say most businesses at best are flat, first calendar quarter '21 to first calendar quarter 2020, but most of them, frankly, are still down from where they were pre-pandemic.

So it's an important distinction because valuation multiples of companies, terms on new loans are all at pre-pandemic tights. Meanwhile, the performance of businesses is not quite where it was pre-pandemic. Is that helpful?

Kyle M. Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Very helpful. That's great color.

Operator

And the next question will be from Bryce Rowe with Hovde Group.

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Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

I wanted to ask about kind of the comments around the cautious optimism from an outlook perspective and how you think about where you want to be in terms of your balance sheet leverage target on the low end, middle part of it or towards the higher end of that balance sheet leverage target, given the outlook.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Thanks for the question, Bryce. So going into March of last year, we were running at or below our leverage target. And that really allowed us to get pretty opportunistic in our investments with rescue loans, with public market trading activities in a variety of different asset classes.

And that was really because we were entering that period, feeling that terms and conditions in the private credit markets broadly were just not as attractive as we would like them to be. We're still finding pretty attractive investments in the private credit markets right now, especially in the non-sponsor space.

But I would expect, given our tone of cautious optimism, we'll be probably closer to the low end of our target range, barring any sort of surprises to the upside in terms of non-sponsor deal flow that we may be able to find that we think has mispriced risk. So we're always looking for those types of idiosyncratic opportunities.

They could present themselves even when the markets are pretty strong and some of the harder to understand or harder to underwrite businesses. We do still see a lot of deal flow in our life sciences area and some of the other areas that are outside of the LBO sponsor activity area.

So if we did see some surprises to the upside on our origination on the non-sponsor side, I could see us trending towards the middle part of our range. I don't think that we'll be on the high end of our range in the next couple of months. It's hard to predict beyond what I see in our pipeline today, though.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Yes, it's Matt.

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

That's helpful.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Just for everyone's benefit. Our target range is 0.85 to 1x. And given that, we're still very comfortable with that range.

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

Got it. Okay. That's helpful. Let's see, I wanted to ask about the liability structure, the capital structure. Obviously, it's been a point of emphasis over the last couple of quarters with the pending transaction with OCSI. Now that that's done, obviously, you're making some progress in having remixed some of the liability structure already. Just kind of curious how you're thinking about the one remaining SPV there now and how you might try to take advantage -- further take advantage of what we're seeing in the unsecured debt markets right now.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Well, thanks, Bryce. It's Matt. I appreciate the question. So as you referenced, we like and have a very balanced capital structure. And also, as you referenced, we amended and extended our revolving credit facility and got a very, very positive reception from both our existing banks as well as new banks.

We're able to do some important and attractive things on the pricing and the borrowing base, et cetera. So that was one piece of it. And then as you referenced, we retired one of our SPV facilities that was very expensive at LIBOR plus 265 versus our revolving facility, which is LIBOR plus 200. The existing SPV facility we still have in place, that's much more attractively priced than the DB facility that we repaid.

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So we like that and plan to keep that. And then kind of to your point, we continue to be thoughtful about our capital structure and a year plus ago, we did a very successful unsecured bond deal. So that's obviously an option that we consider going forward. But yes, I think we've made good progress to date, and we'll keep being thoughtful about it and be in a position like we were a year ago to take advantage of any opportunities in the market to invest attractively.

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

And maybe one more for Mel. Mel, you mentioned the Kemper JV possibly paying a dividend here in the, I guess, your third fiscal quarter. Any guidance around what that dividend might look like?

Mel Carlisle ***Oaktree Specialty Lending Corporation - CFO & Treasurer***

I can't give you guidance on the amount of the dividend at this time. We're going to monitor it over the next quarter and consult with our partner there. So more to come on that.

Operator

And the next question is from Ryan Lynch with KBW.

Ryan Patrick Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

I just wondered, how do you guys kind of balance your guys' target of increasing your return on equity, which you talk about kind of increasing leverage levels is one of the main components of that with sort of the cautious -- the more cautious outlook for deploying capital? Because it just seems to me, if you guys aren't super excited about the sponsored lending environment, that certainly restricts the level of deals you guys are going to be putting on your books?

And then you guys also have the other goals of divesting some of the lower-yielding investments, actually in some of the noncore investments, plus the general market just has a lot of strength in the BSL market. That's going to provide, I think, a lot of -- and it probably already has had some refinancing risks out there that could have some portfolio repayments.

So, listen. How are you balancing that of wanting to add on additional leverage to increase the ROE, but it sounds like there could be, at least from everything that I've heard, it sounds like it may be tough to actually add net-net growth over the coming quarters?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. It's a good question, Ryan. This is Armen. So we have a variety of levers we could pull to help drive ROE. We do have part of our portfolio in low-yielding assets that are publicly traded that are a source of cash. A portion of the OCSI portfolio that was merged into OCSL is such a source.

So that's one area where if we just rotate it from the lower yielding, the lower-yielding nature of some of those assets into even just average-yielding LBO and non-sponsor deal flow that we're seeing that will be accretive to the ROE without even increasing leverage.

There is the leverage opportunity and to increase leverage, what I would just say is, for us to drive up leverage to the top end of our target or even through the top end of our target to do LBO deals, specifically, the first lien LBOs now are pricing at LIBOR plus 475 to 500 in the middle market. These are the more traditional first lien, pretty low levered. For us, that's not an optimal use of increasing leverage.

We'd rather increase leverage in connection with originating 8%, 9%, 10% type of paper in the non-sponsor area. And we've talked about this in the past, but just being part of Oaktree, we do see a lot of deal flow that a traditional sponsor chasing managers typically don't see or don't spend the time to try to originate. And that's where we are able to drive some incremental growth in ROE through higher-yielding opportunities,and getting paid an attractive return for what we assess as being lower risk than other situations.

NN, Inc. is a good example of a deal that we did in the quarter. I mean, this is a public company. The investment came actually through our special situations group initially that was potentially discussing a junior equity or debt solution for the company.

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It changed into a senior solution for us with less than 3 turns of leverage and a requirement that the company go and raise a preferred equity beneath us. So we got paid a nice return that was wide of LBO-sponsor loans, especially if the company was under 3 turns of leverage. In a sponsor deal, that would be LIBOR plus 450 or 500, and we were paid close to LIBOR plus 700 with OID and fees.

So that's kind of a long way of saying that we just have to get more creative on the origination side rather than relying on the market, the private credit market delivering us the beta of the market. We really are looking for alpha opportunities. We're finding alpha opportunities.

In 2020, when the economy was in disarray, we were able to find a lot in the rescue lending area. And we were -- and even though that particular opportunity has waned on a broad basis in terms of across industries, it is still there in pockets. And it could be in the energy space, it could be in other areas that we're still seeing some pretty nice deal flow or potential deal flow.

In the situational lending area, these are companies that are hard to understand, hard to underwrite, we're seeing a fair bit of deal flow there. And they don't fit nicely in the underwriting standards of other managers because there isn't fresh equity capital coming in or there isn't a clean sort of debt-to-EBITDA story.

But as a result, we're able to get very tight legal terms and wide economic terms. So we're spending a lot of our time on the sides of the fairway rather than in the center of the fairway, and we're finding the ability to still continue to, net-net, originate on a positive basis.

So rather than contracting the portfolio, we're still expanding. And in the first calendar quarter this year, you saw that. We did expand the portfolio. Even though a lot of the competitive dynamics that I had mentioned earlier, were still in play this quarter.

So it's really being part of Oaktree that is the competitive advantage for us, and we'll continue to utilize our competitive advantage to drive ROE higher without having to simply rely on higher leverage to deliver that ROE.

Just one last point before I get off my soapbox. Last year, higher levered or higher leverage proved to be a disadvantage because as the economy kind of tumbled, leverage providers did pull back, and we did see folks have to issue equity at discounts to NAV. And we saw a lot of managers, whether BDC or non-BDC, pull back from the market because they were unsure about what sort of issues they were going to have in their portfolio with their leverage providers, et cetera.

And we didn't. We were extremely active in trading, extremely active in originations, and we think we could strike a balance between now and that next dislocation to still go on the offensive when that happens as well.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Yes. Ryan, it's Matt, just picking up on that last point, and we'd agree with you that I did kind of get to your comments. It is hard. It's hard to originate, but that's okay. And one of the things that I think has happened and Armen hit it a little bit on the last comment, but going in the pandemic, post-pandemic we were very, very active during the pandemic across Oaktree and particularly in OCSL.

And I think that really helped increase our market share, our mind share, our kind of conversations, both sponsor and non-sponsor. And it's definitely created a tailwind in terms of just our presence in the marketplace in direct lending. And I think that really helped us and will continue to.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. And just to be clear, this is Armen again. Just to be clear. On the LBO side, we will do some LBO deals this year, next quarter, the following quarter. So don't get me wrong. What I would like to point out though is that our hit rate will be lower. We will see a lot more deals and our look-to-book will be just lower. And that's okay, and we're going to fill what we don't do on the LBO side with what we are able to find on the non-sponsor side.

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Ryan Patrick Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Got you. That's really helpful color and really good commentary on how you guys are thinking about this space. And I can certainly appreciate, and I think investors should also appreciate that you all are looking to be direct lenders that are generating -- trying to generate alpha versus just being asset gatherers, and I think that's a really wise approach. That's all I had today. So I appreciate the time this morning.

Operator

The next question is from Melissa Wedel with JPMorgan.

Melissa Marie Wedel ***JPMorgan Chase & Co, Research Division - Analyst***

One of the things that jumped out in going through your slide deck was the number of new companies that you allocated capital to during the March quarter. It -- what stood out about that is that we seem to be hearing from a lot of teams that there's increased confidence or increased comfort in deploying capital to existing portfolio companies, companies that you been working with already, and you can see growing out of the environment. I'm curious if there's anything in particular that drove this high allocation to 18 new companies in the portfolio. And is that indicative of sort of a return to normal on your due diligence process for new companies?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. Thanks for the question, Melissa. There wasn't any sort of macro theme-oriented influence on our origination in the quarter. We just, frankly, saw a lot of deal flow in a variety of different areas that we were able to structure appropriately.

We did do some LBO sponsor deals in the quarter for sure, but we also were very active tapping the Oaktree platform for a lot of other deals that were proprietary in nature, or situations that we were negotiating in the fourth quarter that got funded in the first quarter. So still suffering from a little bit of dislocation in some of the traditional lending areas that ordinarily would have supported that type of issuance. We did do some real estate deals, for example, in the last couple of quarters that were very well structured, very well priced, really because the dislocation in the real estate market went a little bit longer than the dislocation in the corporate credit markets.

So our origination wasn't really with a macro view to sort of chase recovery. It was that we were able to find well-structured, well-priced deals and not really in tremendously cyclical businesses either. So we feel really good about what it is. But Oaktree generally and certainly OCSL is a bottoms-up fundamental credit-by-credit analytical shop. It is we don't really take a macro view on really anything we do.

We don't really predict macro, and we certainly don't have the macro drive our risk-taking. We certainly acknowledge what the macro environment is and feed that into our underwriting to assess the risks. But we don't say, "Hey, the sun is shining. Let's make hay, and let's just go originate as broadly and as actively as we can because you really can't lose money in this environment." That, to us, is a recipe for disaster.

Operator

And the next question is from Jordan Wathen with Wells Fargo Securities.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

It's Finian O'Shea on for Jordan this afternoon. I just want to try to squeeze a little bit more out of the leverage topic, which was extensive and helpful. Can you -- just putting that all together, I'm summarizing it as your comparatively low leverage target is a function of the ability to find quality deals even with -- even those deals being higher spread, and that juxtaposes a bit versus the space, which most of your peers will lower the leverage when higher-yielding arenas, and raise leverage and lower-yielding strategies.

So it does -- I guess, first part of the question, it does sound a bit -- quite a bit different for you in your approach. Is that fair to say that your target is a function of the dearth of attractive non-sponsor and specialty deals and so forth?

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Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. I would say it's a dearth of opportunity, but it's certainly harder to find in a predictable and consistent way the non-sponsor deal flow versus sponsored deal flow. I equate the thinking around originating in the sponsor area to what an insurance underwriter does. When an insurance company says, "I want to have more premium under management under -- in the business." They loosen their underwriting terms and they accept more and they're able to turn it on and turn it off with pretty controllable regularity. And that's a little bit of an analogy to the sponsor business.

We see a lot of deal flow on the sponsor side, and we could easily turn it up, and we could easily turn up leverage and have the leverage manufacture the returns. But it also creates an additional area of risk, and we don't think it's prudent at all times to dial-up return when it's hard to -- when you have to work harder to find deals flow, it doesn't mean that you could just resort to just dialing up leverage and making the leverage work for you.

I think we will be within our target of our leverage target. I do think that we have a lot of deals in our non-sponsor pipeline that will show the power of the Oaktree platform over the coming quarters. I think we've already shown the power of the Oaktree platform over the last few quarters.

So yes, I mean, I think that if we were a more traditional manager that was only doing leverage buyout activity and was maximizing leverage as a result and more focused on accumulating market share in the LBO area, yes, we would run leverage higher than we run today. It's because we do non-sponsor deals, which are harder to time, but higher-yielding and more attractive from a legal perspective that we run leverage lower.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Yes. So it's -- I totally understood. And I think your dialogue with Ryan suggest that you're working to grow that funnel. I don't know if it's more -- create more access to nonsponsor or go wider and do things like life sciences and real estate, as you mentioned with others. But regardless, like that should be one would think that, that's all becoming more difficult as well with the growth of private markets and the institutionalization and maturation and so forth.

I, at least, would imagine that these deals are becoming more and more shopped and more and more competed on. So waiting for it to come back to you to grow the book to an improved ROE, it seems like at least a plan that would require a lot of patience. So is it -- would you say, are you being patient to see more of those deals? Or is there sort of an active game plan to find attractive arenas that would compel you to grow into a normal, let's say, 120% debt-to-equity ratio?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Well, we have an active game plan to originate deal flow. We're definitely not waiting around for somebody to throw something over then transem to us. But I hope that's not the deduction that anybody receives from any of my commentary. I mean, yes, it is hard to find the deal flow.

I wouldn't say that it's getting more competitive, actually, just because these are harder-to-understand situations. We don't find ourselves getting a term sheet from an intermediary saying, "Hey, will you hit this on this non-sponsor deal?" It's literally a company sponsor, family office, management team coming to us and saying, "Hey, I need a strategic partner to help me grow. I'm in a transitional period in my company. I need someone that's going to take the time to understand how to -- or what I need and to structure something that works in size."

And we find that it isn't a highly competitive market there, but it takes time. It takes time. It takes people who are on the ground originating, it takes time of people around Oaktree, across all strategies at Oaktree, saying, "This isn't a good fit here, but it might be a good fit over in another area of the firm that I work in." So we benefit from having many more people than what is kind of on the page, helping us originate in this nontraditional area.

So it's not a passive activity for us. It is not a wait and see what advisers throw our way. We're finding a lot of deal flow, and we are

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actually also leveraging the Brookfield relationship as well to drive some deal flow that is proprietary. So will we get to 1.2x or above our range? It's possible. But I think we're focusing on walking before we run. I mean we have lower-yielding assets that we could sell. We have non-core assets that we're looking to exit. We have a lot of room between the 0.84 turns of leverage we're at right now versus north of one-to-one to get through before we talk about going through our leverage target.

So I don't know if I'm answering your question or not, but it's a blocking and tackling exercise every quarter. And we have a lot of folks in place, constantly looking for deal flow, and we're able to originate in tough environments.

Mathew M. Pendo ***Oaktree Specialty Lending Corporation - President & COO***

And I do think if you go to Pages 5 and 6 in our investor deck, I think we do lay out some good data in terms of originations, both by quarter and then from the recent quarter to the month. So you can see for the current quarter, it's a very competitive environment, right? We originated on the private side, $245 million, the public side, $63 million and then the secondary $10 million.

And the quarter before that, those numbers were $181 million, $84 million and $22 million. So I think that gives you a good sense of quarter-by-quarter, month-by-month and with the most recent month, which is obviously a competitive market that we are finding attractive things to invest in. But we're going to be thoughtful and prudent and do all the things that leveraging the Oaktree platform, our market share our mind share gains over the last year to do that.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Michael Mosticchio for any closing remarks.

Michael Mosticchio ***Oaktree Specialty Lending Corporation - IR***

Great. Thanks, Chad, and thank you all for joining us on today's earnings conference call. A replay of this call will be available for 30 days on OCSL's website in the Investors section or by dialing (877) 344-7529 for U.S. callers or 1 (412) 317-0088 for non-U.S. callers, with the replay access code 10153868, beginning approximately 1 hour after this broadcast.

Operator

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

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