REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q2 2024 Oaktree Specialty Lending Corp Earnings Call

EVENT DATE/TIME: APRIL 30, 2024 / 3:00PM GMT

CORPORATE PARTICIPANTS

Armen Panossian *Oaktree Specialty Lending Corporation - CEO & CIO*
Christopher McKown *Oaktree Specialty Lending Corporation - MD,CFO & Treasurer*
Mathew M. Pendo *Oaktree Specialty Lending Corporation - President*
Matthew Stewart *Oaktree Specialty Lending Corporation - MD & COO*
Michael Mosticchio *Oaktree Specialty Lending Corporation - IR*

CONFERENCE CALL PARTICIPANTS

Brian J. Mckenna *JMP Securities LLC, Research Division - Director & Equity Research Analyst*
Bryce Wells Rowe *B. Riley Securities, Inc., Research Division - Senior Research Analyst*
Finian Patrick O'Shea *Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst*
Kyle Joseph *Jefferies LLC, Research Division - Equity Analyst*
Melissa Wedel *JPMorgan Chase & Co, Research Division - Analyst*
Paul Conrad Johnson *Keefe, Bruyette, & Woods, Inc., Research Division - VP*

PRESENTATION

Operator

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

Now I would like to introduce Michael Mosticchio, Head of Investor Relations, who will be the host of today's 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. Joining us on the call today are Armen Panossian, Chief Executive Officer and Chief Investment Officer; Matt Pendo, President; Chris McKown, Chief Financial Officer and Treasurer; and Matt Stewart, Chief Operating Officer.

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

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

Thanks, Mike, and welcome, everyone. Thank you for joining us today and for your interest in and support of OCSL. Our second quarter was highlighted by robust origination activity that drove a positive shift in the composition of our portfolio, steady earnings and progress on several nonaccruals that led to an improvement in credit quality.

Adjusted NII was $0.56 per share, roughly in line with the $0.57 per share for the prior quarter. These results reflect the ongoing strength in the earnings power of OCSL, including solid interest income from our predominantly floating rate portfolio. However, our results were impacted by the timing of repayments, which primarily occurred at the start of the quarter and capital deployments, which were concentrated towards the end of the quarter.

In addition, our continued rotation into primarily first-lien loans reduced our weighted average portfolio spread by approximately 10 basis points in the quarter. Our first-lien investments have increased from 71% at September 30, 2022, to approximately 81% today. At the same time, second-lien investments decreased from 16% to 5% over the same period. We declared a dividend of $0.55 per share, consistent with the past five quarters.

We also work closely with the management teams of our underperforming portfolio companies and made important progress repositioning several investments during the quarter. Drawing upon our long history and proven expertise in turning around challenged investments and leveraging the deep resources of Oaktree, we are confident that we can continue to successfully maximize outcomes and deliver value for our shareholders. The successful restructuring of some of our nonaccrual positions as well as no new nonaccruals enabled us to drive improved credit quality during the quarter.

Investments on nonaccrual status at quarter-end represented 2.4% of the portfolio at fair value and 4.3% at cost. That was down from 4.2% of the portfolio at fair value and 5.9% at cost the prior quarter. NAV per share declined to $18.72 from $19.14 per share for the prior quarter. The decline reflected further markdowns on certain of our nonperforming investments, due both to restructurings on some as well as lower valuations on others.

Our robust investment activity consisted of $396 million of new commitments in the quarter, building on the momentum from the prior quarter when we originated $370 million of new investments. We continue to find attractive opportunities across sponsor, non-sponsor and publicly traded credit investments, bolstering healthy deal flow even as we maintain our highly selective approach to investing amid the uncertainty in this current higher-for-longer interest rate environment.

Importantly, our new originations were made at attractive yields with lender-friendly deal structures. This included lower leverage and loan-to-values. To that end, the weighted average yield on our new debt investments was 11.1%.

On the repayment front, we received $323 million from paydown and exits in the second quarter. Our portfolio continues to receive steady levels of repayments even in a less active M&A environment. We have also been capitalizing on the strength in the liquid credit markets by opportunistically selling out of certain public debt investments.

Over the past two years, over 50% of our portfolio has turned over, which we believe reflects the strength of our investment underwriting and selection process. Exits occur largely when these companies prove successful and have the ability to pay down debt, refinance at lower rates or sell at attractive valuations to larger competitors. We pursue opportunities and make investment decisions with these outcomes in mind.

Before I turn the call over to Armen, I wanted to highlight a significant action that our manager has taken in support of OCSL. As part of our strong commitment to aligning our interests with shareholders, we announced yesterday that Oaktree has agreed to a significant and permanent reduction in our base management fee to 1% on gross assets from 1.5%.

As a reminder, Oaktree has been waiving $1.5 million of management fees each quarter as part of the OSI2 merger that closed in January of last year. For the original agreement, those fee waivers will decrease to $750,000 per quarter for the second year following the close of the transaction, which occurred this January. However, Oaktree agreed to keep the fee waivers at $1.5 million per quarter for both the March and June 2024 quarters.

We expect this reduction will increase OCSL's adjusted net investment income per share by approximately $0.15 annually. This equates to an estimated improvement in our return on adjusted net investment income of 0.8% annually. Bottom line, this lowers our cost of operations and allows a larger share of investment income to flow directly to our shareholders.

With that, I would like to turn the call over to Armen to provide more color on our portfolio activity and the market environment.

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

Thanks, Matt, and hello, everyone. I'll begin with comments on our portfolio activity and then conclude with observations regarding the market environment. Our portfolio was well diversified with $3 billion at fair value across 151 companies at the close of the quarter. We remain focused on investing at the top of the capital structure with 86% of the portfolio invested in senior secured loans, consistent with the prior quarter.

First-lien loans accounted for 81% of the portfolio at fair value. We also continue to emphasize investments in larger and more diversified businesses to further mitigate risk. Median portfolio company EBITDA as of March 31 was approximately $134 million, roughly in line with the prior quarter. And leverage in our portfolio companies was steady at 5.2x, well below overall middle market leverage levels. The portfolio's weighted average interest coverage based on current base rates was also steady at nearly 2.0x.

In the March quarter, we leveraged Oaktree's platform to originate $396 million of new investment commitments across 35 transactions. Our originations were dispersed across a broad array of opportunities, spanning the private credit and public debt markets, including 14 private deals, 6 primaries and 15 secondary purchases. Notably, we participated in five private sponsor-led transactions where Oaktree's size, reputation and ability to underwrite and fund quickly enabled us to participate.

We also found compelling relative value in the public credit markets, purchasing $191 million across primary new issues and secondary market purchases.

92% of our originations in the quarter were first-lien investments, reflecting our defensive investment approach and the average yield for all of our originations was 11.1%. Our origination activity remains steady in the current quarter, supported by a robust pipeline of opportunities across sponsor and non-sponsored borrowers.

Turning to credit quality. As Matt noted, our nonaccruals decreased during the quarter as we made significant progress working through these situations. This was driven in part by the removal of OTG Management from nonaccrual status. As a reminder, this company operates a concession business across several airports in the U.S. OTG has a solid business model and is performing well, but was struggling to meet its higher interest expense burden from the increase in base rates. As a result, it restructured its balance sheet out of court in February, resulting in lenders forgiving a portion of their debt in exchange for equity in the company.

We placed this investment back on accrual status following the restructuring and wrote it down quarter-over-quarter to reflect cash declines tied to the restructuring costs. Additionally, we partially removed from that accrual our investment in All Web Leads, which generates leads for insurance companies. As a reminder, this is a non-core position we inherited from the prior manager in 2017. The company completed a restructuring of its debt in March, replaced two tranches of the restructured debt back on accrual status as the company is back on solid financial footing and focused on executing on its strategic initiatives.

We also removed CPC Acquisition Corp., a small public second-lien from nonaccrual after we sold out of our position following an improvement in its secondary trading levels.

I also wanted to provide an update on Thrasio, an Amazon aggregator that we placed on nonaccrual last quarter. We have been working with the management team and lenders to support liquidity and position the company for long-term success. In late February, the company filed for bankruptcy protection to strengthen its financial position and deleverage its balance sheet in a protected lender-led financing. As a result of this, we wrote off our preferred equity investment and marked down our term loan.

Our overall portfolio is in solid shape. We view recent challenges faced by companies placed on nonaccrual as idiosyncratic and not indicative of broader or systemic issues within the portfolio. Of course, we are closely monitoring all of our investments, given persistently high interest rates and the potential for these increased borrowing costs to create stress for some companies.

With that in mind, I'll turn to our view on the market environment. Over the past six months, credit markets have experienced widespread rally, leading to historically tight spreads across the leveraged loan and private credit markets. The market strength has multiple drivers, including supportive capital inputs, but the overall trend remains driven by investor confidence in the soft landing that will lead to a meaningful decline in interest rates. While we aren't overly bearish about the U.S. economy or the inflation outlook, we believe downside risks may outweigh the upside given that markets have already priced in overly optimistic expectations.

Specifically, we are skeptical about the pace and extent of interest rate declines, anticipating a more modest trajectory than what is currently priced in. As such, rates could remain elevated compared to where they were prior to 2022, which could pose challenges for borrowers with high debt loads or companies that will need to refinance our debt in the coming years.

Against this backdrop, we continue to exercise caution. We will remain selective and prudent as we apply our investment approach that prioritizes relative value. drawing upon Oaktree's substantial resources and expertise to selectively invest across private and public credit markets. Importantly, we remain well capitalized with ample liquidity to navigate near-term volatility and continue to construct the portfolio for strong long-term performance on behalf of shareholders.

Now I will turn the call over to Chris to discuss our financial results in more detail.

Christopher McKown ***Oaktree Specialty Lending Corporation - MD,CFO & Treasurer***

Thank you, Armen. As Matt noted, we reported adjusted net investment income of $44.7 million, or $0.56 per share, as compared with $44.2 million, or $0.57 per share, in the first quarter. The slight increase on a dollar basis was primarily driven by a modest decline in net expenses due to lower part I incentive fees, professional fees and interest expense in the quarter. This was partially offset by slightly lower adjusted total investment income. The per share decrease for the quarter was driven by an increase in weighted average shares outstanding.

Adjusted total investment income decreased by $700,000 in the quarter and was adversely impacted by a $1.9 million decrease in interest income, due primarily to the result of the timing of capital deployment and spread compression, primarily resulting from the rotation out of higher-yielding second liens. This was partially offset by a $1.2 million increase in fee income resulting from prepayment and amendment fees and higher OID acceleration from investment repayments. We'd note that our GAAP financial results were lower due to purchase price premium acceleration from the par repayments of certain investments acquired in the mergers with both OCSI and OSI2.

Net expenses for the second quarter totaled $52.7 million, down $1.1 million sequentially. The decline was mainly driven by $0.6 million of lower part I incentive fees, $0.3 million of lower professional fees and $0.3 million of lower interest expense.

As Matt highlighted, Oaktree agreed to waive the total $3 million of base management fees over the March and June quarters at a rate of $1.5 million per quarter. Starting on July 1, 2024, our new 1% base management fee will go into effect and will be calculated net of the base management fees that Oaktree agreed to waive as part of the OSI2 merger.

Shifting to our balance sheet. We maintain a strong capital position with ample liquidity. Our net debt to equity remains on the low end of our target range at about 1.02x, providing us plenty of room to grow leverage should we find more compelling opportunities in the market. Newly funded investment activity of $377 million exceeded proceeds from repayments, exits and sales of $323 million, enabling us to grow the portfolio.

As of March 31, total debt outstanding was $1.68 billion and had a weighted average interest rate of 7.0%, including the effect of our interest rate swap agreements, consistent with the level at the end of the December quarter as interest rates remained steady during the quarter. Unsecured debt represented 57% of total debt at quarter end, also in line with the prior quarter.

Our balance sheet was further bolstered through continued share issuance under our ATM program. We were able to capitalize on the constructive market environment to raise $46 million of common equity in the quarter to fund our pipeline. These shares were issued at an average 104% premium to our NAV.

Our liquidity is strong with approximately $1 billion at quarter end, including $125 million of cash and $888 million of undrawn capacity on our credit facilities. Unfunded commitments -- excluding unfunded commitments to the joint ventures were $209 million, with approximately $179 million eligible to be drawn immediately, whereas the remaining amount is subject to certain milestones that must be met by portfolio companies before funds can be drawn.

Turning now to our two joint ventures. Our JVs, again, delivered another quarter of strong performance. Together, the JVs hold $504 million of investments, primarily in broadly syndicated loans spread across 56 portfolio companies. For the quarter, the JVs again generated attractive annualized ROEs, which combined were nearly 14%. Leverage at the JVs increased to 1.3x in aggregate at quarter end due to the addition of assets to the portfolios in connection with our partners.

In summary, we are pleased with our financial results and the progress we've made to date on our challenged investments and continue to believe that our strong balance sheet positions us well for the second half of fiscal year 2024. Now I will turn the call back to Matt for some closing remarks.

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

Thank you, Chris. We are pleased by the growth in our earnings over the past several years, and our financial performance for the second quarter further demonstrates the resilience of those earnings. Our return on adjusted net investment income for the quarter was 11.7%, which once again, is at the higher end of our targeted range, and our dividend continues to be covered by earnings.

Looking ahead, we are being proactive with our nonaccrual investments and have plans in place that we believe will optimize the recovery for each investment. In addition, our new fee structure and ongoing fee waivers will be accretive to our ROE effective immediately. All in all, we are quite optimistic about our future and look forward to building upon our long-term track record of delivering attractive returns to our shareholders.

As always, we appreciate your participation on the call today and for your interest in OCSL. With that, we're happy to take your questions. Operator, please open the lines.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Brian Mckenna with Citizens JMP.

Brian J. Mckenna ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***

Okay. Great. So a question on the dividend and the management fee reduction. So if I annualize second quarter results and then add the $0.15 to that, so the fee change, dividend coverage is still less than 110%, and that's before any reduction in interest rates and then any other changes in underlying credit across the portfolio. So what makes you confident you'll be able to fully earn the dividend looking out over the next 12 to 18 months, assuming the forward curve plays out? And then can you remind us what your earnings sensitivity is to every 100 basis point move in rates?

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

Sure, Brian. Thanks for the question. So at a high level, we feel very comfortable given the change in the management fee, which was reduced (corrected by company after the call) to 1% as of July 1 and our ability in the future to cover our dividend and feel good about the dividend. One of the things this quarter that impacted the results were just some inter-quarter timing in terms of repayments and fundings.

So there was a little bit -- I wouldn't necessarily take this quarter and just annualize it. So as we think about adjusting for that timing difference, as we look at our pipeline and the fundings that we've done already this quarter as well as for the balance of the quarter, the fee waiver, et cetera, we feel -- if you add it all together -- we feel very comfortable with covering the dividend. So I think the one thing is just focus on kind of the timing of the quarter and then just our pipeline as we see it.

Brian J. Mckenna ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***

Got it. Okay. Helpful. And then shifting gears a bit here. Just looking at the investment portfolio, it's experienced solid growth year-to-date, It's up about 5%. So what's your expectation around new investment activity as well as prepayments for the next couple of quarters? And I'm just trying to get a sense of the trajectory of the portfolio from here.

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

This is Armen. We have already funded $100 million this quarter, so the second calendar quarter. We do have a pretty healthy pipeline for the balance of the quarter in terms of new fundings. I don't have a very good sense for unexpected repayments obviously. But I do think that the market is opening back up, and we are seeing more M&A deal volume or deal activity that we could potentially consider as part of -- or for a direct loan. And our public market activities are -- we remain quite active there. We will deploy when it makes sense in the public markets as well.

We continue to watch that for periods of opportunity or potential volatility that makes sense. But I think that this quarter, we will have another strong quarter for originations just based on what we know about the pipeline. I'm not sure I could guide to a more specific number. But the $100 million in the month of April, I think, is a good start so far.

Operator

The next question comes from Finian O'Shea with Wells Fargo.

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

So first question, looking at origination this quarter, it's some private participation, some public deals. There's not much spreader OID. So does this -- combining that with the fee cut, does this mean things are going this way and the fee cut is just sort of an offset to the returns you expect to be generating?

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

Fin, it's Armen. The portfolio over the last couple of years has migrated to a substantially higher percentage of first lien, kind of a reflection of our view of kind of risk in the markets. We're now 80% first lien. We were 60% 24 months ago, 36 months ago.

And for a portfolio that is largely first-lien and I would say on balance, might even increase in our first-lien exposures. As we looked at sort of the appropriate aligning level of management fee, over the long run, we thought that 1% was more adequate or more consistent. And I think the markets are going to ebb and flow. I think the spreads will -- obviously, they have tightened over the last 18 months, they may widen. We're not making a prediction on that.

But we do think that the best way to deliver low volatility and dependable dividend for our shareholders is to continue to do what we have been doing around the first lien migration, which we thought that now would be a good time as any to reduce the fee and deliver that continued stability to our shareholders. That's really what's driving it. It's not a forward prediction about spreads. That, we're not -- it's just very hard to make any sort of prediction on that. But the market certainly has tightened over the last 18 months vis-a-vis spreads.

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

That's helpful. And a follow-up on the related nontraded BDC or group runs, that looks to be moving along at, say, $150 million a month. Can you talk about perhaps resources that you and Brookfield are putting into it, the platforms you're on, the distribution force and like where you're sort of hoping this goes to as, say, a monthly cadence or total size?

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

Yes, Fin, I don't really have a projection on what we hope or expect for the monthly cadence to go to. I could tell you that our investment team and teams at Oaktree continue to grow in terms of resources, both in terms of sourcing and analytics.

Brookfield and Oaktree do have a partnership on the wealth solutions channel called, Brookfield Oaktree Wealth Solutions that is responsible for our activities on the nontraded BDC side as well as other products for the retail channel. It's not something that is a distraction or burden for the investment team at all. And I think that as we have grown across our multiple channels, including institutional, it's just made Oaktree a more, I would say, powerful counterparty in the markets, providing the whole capital structure solutions and then in partnership with our...

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

Okay -- sorry to interrupt, but at what level would it be a distraction or burden if, say, $150, a month is just a sort of breeze for you? Like where should we be alarmed or looking at it or...

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

Fin, it's Matt. So we've been raising about $150 million a month for two years. So that's been a steady cadence. Like I don't -- as Armen said, we don't make predictions about where that's going to go, but that's where it's been, and it's worked just fine, and works fine for that BDC, works fine for the rest of Oaktree and our resources. So I don't -- I wouldn't spend too much time kind of hypothesizing what could happen with this, that and everything. It's been -- doing $150 million, that works well for that BDC, works well for Oaktree, and that's just kind of how we're thinking about it.

Operator

The next question comes from Kyle Joseph with Jefferies.

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

Just on the decline in interest income. I know you guys talked about both spreads and then timing. But just in terms of modeling, would you attribute the majority to either of those? Or was it really more of a timing thing than the spreads? And then how do we factor that in that your -- I think your reported portfolio yield was stable quarter-on-quarter, if I'm not mistaken.

Matthew Stewart ***Oaktree Specialty Lending Corporation - MD & COO***

It's Matt Stewart. So I know in our prepared remarks, we talked about the second-lien portfolio impacting our spreads by about 10 basis points. But overall, we had spread compression within our book of in and around 15 bps on our weighted average yield. That was offset by a lot of the progress we've made on the nonaccruals and work we did throughout the quarter.

And then as Armen noted, we did have back-weighted deployments, about $330 million of our deployments during the quarter were kind of mid-February to March. Now we'll always have some level of what I'll call friction between deployments and repayments. But that on average, probably amounted to about $0.015 this quarter of impact that we probably normally wouldn't see in a normal quarter.

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

Got it. Very helpful. And then just a follow-up for me. On the unrealized depreciation in the quarter, it sounds like the majority of that was tied to NPAs. And just give us a sense for ex the NPAs, how portfolio performance and valuations have been trending.

Christopher McKown ***Oaktree Specialty Lending Corporation - MD,CFO & Treasurer***

Kyle, it's Chris. I would just say that ex the NPAs, the portfolio was relatively flat quarter-on-quarter. You're right to point out that, that really was the driver.

Matthew Stewart ***Oaktree Specialty Lending Corporation - MD & COO***

Yes. I mean, predominantly, the write-downs during the quarter were in Thrasio, Impel and OTG, all of our nonperforming assets from 12/31.

Operator

The next question comes from Paul Johnson with KBW.

Paul Conrad Johnson ***Keefe, Bruyette, & Woods, Inc., Research Division - VP***

Congrats on the fee cut announcement. On the fee cut, I mean, with this announcement and some of the developments, obviously, with the restructuring, some of that's still ongoing, some of it was completed during the quarter. But the timing of such an announcement, are you pretty confident that you've got a handle on any of the remaining credit issues in the book and pretty confident in the plan forward from here?

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

Yes. This is Armen. We do feel confident that we have both a good plan for maximizing recoveries for our challenges in the portfolio. We do have a process that we engage in regularly with just evaluating the quality of the portfolio as well, just to try to anticipate any sort of issues or even repayments that we may get faster than expected.

We feel good about the marks in the portfolio. We feel good about the quality of the portfolio and are positioned well in the market to continue to deploy. So I think we've taken a pretty conservative view on the very small handful of challenges that we do have in the portfolio and have marked them in a way that we think is reflective of that conservatism.

But we will continue to work hard to maximize recoveries and hopefully even outperform those marks. It certainly is our goal to do better than where we have it marked and really leverage Oaktree's capabilities to execute on an outcome that is favorable for shareholders.

Paul Conrad Johnson ***Keefe, Bruyette, & Woods, Inc., Research Division - VP***

And then switching over to just activity in the quarter, a fairly high level of repayment activity. I was wondering if you can kind of give some sort of color as to what kind of the balance has been in terms of repayments and exits that you've had. Have these been more liquid assets or higher-yielding season stuff? What was just kind of -- stuff that was taken out in the market?

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

Yes. Just in terms of payoffs, it's kind of a mix. There are -- there were some chunky repayments on the private side, including a position in Melissa & Doug, which is probably the largest single payoff. And then we had a repayment in a company called Ardonagh. We had some small repayments in -- or not small, but a reasonably sized second-lien repayment in Blackhawk Network. So it's been -- the repayments have been pretty strong.

On the exits in terms of public side, we are pretty active in trading and have benefited from the markets, especially the senior loan markets rallying this year, this calendar year. And so we did take some chips off the table with respect to both loans and bonds that we have in the portfolio. And that was about $56 million of par in the public side, about $201 million of par on the private side in terms of total exits. And the proceeds that we realized across the portfolio, it was driven -- it was actually a better-than-par recovery in those exits, really driven by some higher-than-par exit prices on the private side as we saw some repayments.

Operator

The next question comes from Melissa Wedel with JPMorgan.

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

Most have actually been asked and answered already. But just to follow along the thread of repayment activity, when we think about higher cycles, I think there were some elevated prepayment fee income just because of the pace of rate cuts that we had seen in the prior cycle. Given that this one is likely to be more extended, you've been talking about the potential for sort of a higher-for-longer rate environment for a long time. Should we be thinking about prepayment income in a more normalized way than what we've seen in previous rate decline cycles?

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

Thanks, Melissa. It's Armen. It's a good question. I don't think that we have a strong enough handle on making such predictions on prepayments. But I think your instinct is right that if base rates remain elevated for an extended period of time, where you will see repayments are when a company just outperforms and/or a sponsor wanting to sell a business just because it needs to return capital.

The historic trend of enterprise valuation multiples rising, interest rates being low, either declining or ultra-low and not driving prepayments, that's no longer the case. So when you do see a prepayment, it's really because of something idiosyncratic for the upside most likely.

Like in the case of Melissa & Doug, that was a business -- that was a loan that we did about a year ago or a little bit over a year ago. It repaid faster than we thought it would. And it was because the company was performing well or had performed well through COVID. And there was a strategic acquirer for that business that was willing to pay a price that was accretive to the sponsor's view of that business.

So -- but I wouldn't say that there's a long line of conversations that are being teed up with us that indicate that there is this short-term M&A deal volume wave happening. But I would also say that M&A deal volume is slightly elevated in terms of our forward pipeline as we look at it today versus maybe 12 or 18 months ago.

So prepayments will -- should be higher over the next 12 months than they were in, let's say, late 2022 and most of 2023. I would expect sponsor-to-sponsor transactions to pick up, sponsor-to-strategic sales to pick up. But I don't think it's going to be quite at the same speeds that we were used to, pre-COVID especially.

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

Yes. And Melissa, one of the reasons it's hard to predict is if you go back over the last two years, over 50% of our portfolio has actually turned over, which all that occurred during a rising rate environment. So one would have thought it would be a little bit lower. So it's really difficult to predict. It's idiosyncratic as Armen mentioned, like in Melissa & Doug. So it's tough to kind of project out for the next year on that point.

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

Yes. Fair enough. That's really helpful, though. I hope I didn't miss this, but I know you talked about median EBITDA in the portfolio and leverage being pretty steady quarter-on-quarter. Just curious what you're seeing in terms of your portfolio company revenue and EBITDA trends generally sort of on a year-over-year basis.

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

Melissa, this is going to be like 20,000 feet, 30,000 feet. But I would say, generally speaking, revenue is generally for the portfolio is sort of stable to increasing modestly. EBITDA, I would say, is stable. I wouldn't say it's materially higher by any stretch and certainly not weaker in any sort of consistent way or observable way across the portfolio.

So I would say unlevered performance of businesses, so ignoring the elevated cost of borrowing and how much that's gone up over the last two years. Companies generally have seen higher revenue over the last two or three years by a few percentage points annually and EBITDA sort of flat to slightly up generally.

Operator

Our next question comes from Bryce Rowe with B. Riley.

Bryce Wells Rowe ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

Maybe I wanted to start with this discussion around spreads and some level of spread compression that you've seen. Can you speak to the level of spread that you've seen with the $100 million that you funded here in April and then how the pipeline looks from a spread perspective, maybe relative to what you've seen over the last 6 months?

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

Yes. It's a good question. So in this $100 million that we have funded in April, spreads are in the mid-500s. I think that this is kind of -- let's give you some directional feedback. In late 2022, early 2023, that's probably where the top tick was on spreads. And where we saw a typical first-lien or unitranche sponsor-led financing, even though the deal flow was pretty light during that time frame, the spreads were 650, maybe as much as 700 spread at that point in time.

But since then, I think the market is trending towards more of a 500 to 550 spread. In really lightly levered situations, you might even see an occasional deal print even inside of 500, but that would be, I would say, atypical. But there's certainly -- the market is not at 650 anymore or even above 600 anymore. It's certainly more in the low to mid-500s at this point as we look at the market going forward.

Bryce Wells Rowe ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

Okay. That's helpful, Armen. And then wanted to ask about balance sheet leverage, both at OCSL and then within the JVs. You noted an uptick in balance sheet leverage at the JVs. I think it was up 1.1 to 1.3. Is that -- is there more appetite to take leverage at the JVs higher?

And then from, I guess, an on-balance sheet OCSL perspective, no real change from a balance sheet leverage perspective year-over-year or quarter-over-quarter. What's the appetite there? Are you still trying to manage to maybe the lower end of your targeted balance sheet leverage range?

Matthew Stewart ***Oaktree Specialty Lending Corporation - MD & COO***

It's Matt Stewart. As you noted, we did raise leverage at the JVs to 1.3x on the back of the heavy new issue volume and the new facility that we put in last year. Our target there is to get to 1.5 to 1.75 as we rotate into a more first lien broadly syndicated portfolio. So we do have additional room to grow the JV and ROE at those JVs. And then on balance sheet, we ended the quarter a little bit over 1x net leverage.

So we do have capacity. As Armen noted, we did fund about $100 million so far this quarter. So we are closer to 1.1x currently. But we will operate leave capacity for additional fundings if we do get some volatility. Even at 1.1, we have significant room to get to the top side of our leverage target at 1.25.

Bryce Wells Rowe ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

Okay. All right. Last one for me. If you look at the slide deck and the secondary public market activity, $92 million for the second quarter is one of the heavier quarters from an origination perspective within that secondary public.

And the secondary market price looks like $0.98, so a little bit higher than what you might have done in the past. Just kind of wanted to kind of understand the thought process there being that, that's typically a little bit more opportunistic and you see maybe a lower secondary purchase price when you see that level of volume associated with it.

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

This is Armen. We've made some rotations in the publicly-traded book. We had some sort of higher spread names that are atypical of public markets just kind of higher than average in the public. We also bought some CLO BBs in the new issue market that were in the high 90s. So these are performing loan positions and solid CLO portfolios in structured credit, where we were getting sort of better-than-normal public spreads.

And in the case of CLO BBs, our spreads are in the mid-700s. These aren't like a big change in the portfolio, but when we do see some CLO issuance that is strong, really fueled by a big demand or a strong demand for AAA CLOs, sometimes we find the BB tranche has choppier placement and we're able to sort of step in there in partnership with our structured credit team and trading activities to be able to get some outsized pricing on CLO BBs again, as the CLO market opens up in terms of new issuance. So we saw that opportunity in the first calendar quarter, and we took it and feel pretty good about some of those purchases today.

Operator

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, Dave, 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 2416934, beginning approximately one hour after this broadcast. Thank you all for joining today's call.

Operator

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