REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2021 Oaktree Specialty Lending Corp Earnings Call

EVENT DATE/TIME: AUGUST 05, 2021 / 3:00PM GMT

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Armen Panossian *Oaktree Specialty Lending Corporation - CEO & CIO*
Mathew M. Pendo *Oaktree Specialty Lending Corporation - President & COO*
Mel Carlisle *Oaktree Specialty Lending Corporation - CFO & Treasurer*
Michael Mosticchio *Oaktree Specialty Lending Corporation - IR*

CONFERENCE CALL PARTICIPANTS

Devin Patrick Ryan *JMP Securities LLC, Research Division - MD and Equity Research Analyst*
Finian Patrick O'Shea *Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst*
Kyle M. Joseph *Jefferies LLC, Research Division - Equity Analyst*
Ryan Patrick Lynch *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

PRESENTATION

Operator

Welcome, and thank you for joining Oaktree Specialty Lending Corporation's third 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 Third 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 thing, 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 build momentum throughout the third quarter, generating strong origination activity and maintaining excellent credit quality.

We again grew NAV, produced record earnings and increased our dividend. We reported NAV per share of $7.22, up 2% from the prior quarter. The increase reflected continued market spread tightening and price appreciation on certain liquid debt investments during the quarter as well as successful realizations of a few noncore equity positions. Importantly, our NAV continues to exceed its pre-COVID high

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

and is up more than 9% from the end of calendar 2019.

Adjusted net investment income per share was $0.19, up from $0.14 for the prior quarter, driven by higher adjusted investment income that included higher prepayment fees and OID acceleration. Based on our ongoing earnings growth and strengthening earnings profile, our Board increased our quarterly dividend by 12% to $0.145 per share. This marked the fifth consecutive quarterly increase and a 38% increase from a year earlier. The dividend is now up 53% from its pre-COVID run rate of $0.095.

Looking at the portfolio in more detail, we made $178 million of new investment commitments. Of these, nearly 80% were first lien loans and included $104 million in private transactions, $70 million in the new issue primary market and $5 million in secondary market purchases. Notably, robust origination activity continued into July, giving us a great start on the current quarter. Armen will discuss this more in a few moments.

We received $171 million from paydown and exits in the quarter. This included our position in William Morris Endeavor, which generated $7 million of prepayment income that contributed to earnings. We also exited some low-yielding investments and made further progress on exiting noncore investments, monetizing $19 million across 3 equity positions. Noncore investments represented just 6% of the portfolio at fair value at quarter end. The weighted average yield on our new debt investment commitments was an attractive 9.2% and compares favorably to the average yield of 6.1% on investments that we exited.

As we selectively invest, our credit quality remains exceptional. There were no investments on nonaccrual at quarter end. I also want to highlight several improvements made to the capital structure since the closing of the merger with OCSI that further bolstered our funding flexibility and reduced our cost of debt capital. First, in May, we issued $350 million of senior notes at a 2.7% coupon, which we subsequently swapped to a floating rate at LIBOR plus 1.66% in order to better match the floating rate nature of our underlying investment portfolio. The ability to access the investment-grade unsecured debt markets is a competitive advantage as it provides us with long-term low-cost and flexible debt capital.

Second, we amended our syndicated credit facility, increasing the size to $950 million from $800 million and extending maturity by 2 years to May 2026. Third, we retired a higher-cost credit facility with pricing at LIBOR plus 2.65% that was acquired from OCSI. Finally, in early July, we amended the Citi facility to reduce our cost of funding of some of our lower-yielding quarter loans. In total, these actions reduced our weighted average interest rate on debt outstanding to 2.4% from 2.6%, improved our funding profile by more than doubling our unsecured borrowings outstanding and boosted our liquidity by over $300 million. Overall, we are very pleased with our results and believe that improvements made to the capital structure position us well for future investment opportunities.

Before turning the call over to Armen, we want to let you know that Mel has announced he will step down as CFO and Treasurer of OCSL at the end of November to assume another senior management role within Oaktree. Subject to the approval of OCSL's Board of Directors, we expect that Christopher McKown, a Managing Director at Oaktree, will become OCSL's CFO and Treasurer, effective upon Mel's resignation. Chris currently serves as OCSL's Assistant Treasurer and has worked closely with Mel since we took over management nearly 4 years ago. In the meantime, Mel will work to ensure a seamless transition. I want to thank Mel for his many contributions to OCSL over the years. He has played an important role on our leadership team, and we, of course, wish him well in his new position at Oaktree.

Now I would like to turn the call over to Armen.

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

Thanks, Matt, and good morning, everyone. Markets further advanced in the June quarter, supported by a rebounding economy that pushed equity markets to all-time highs and led to further spread compression and declining default rates in the credit markets. As the economy heats up, we are watching inflation closely.

The consumer price index rose by 5.4% in the 12 months through June, the fastest pace in over a decade, yet most investors don't appear overly concerned. The yield on the 10-year treasury declined by almost 30 basis points in the second quarter after jumping by roughly 80 basis points in the previous 3 months.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Moving forward, we remain cautiously optimistic about the global economic recovery, given the success of vaccines and pent-up demand for a wide range of goods and services that should drive spending into next year. However, we also believe investor complacency, particularly with regard to the persistence of rising inflation poses a risk to credit markets. Yet markets seem to view inflation as transitory and do not appear to be pricing in much risk to the downside. In addition, while overall progress is encouraging, the Delta variant of the coronavirus is slowing economic reopening in parts of Asia and Europe and it could curb momentum in the United States. Its ultimate impact on global demand remains a major unknown, even though investors appear to believe that the recent spread of the Delta variant is only a minor risk.

Against this backdrop, we remain cognizant of relative value and are investing where we can find the best risk-adjusted returns, drawing upon the full breadth of Oaktree's scale and resources to invest across multiple markets with a diversified group of issuers. In particular, we continue to focus on identifying opportunities in less trafficked areas of the market by lending to nonsponsor-owned businesses. We are leveraging Oaktree's ability to negotiate and structure customized private deals that provide downside risk protection by mitigating specific risks pertaining to the transaction and the issuer.

We also continue to identify compelling opportunities among life sciences and technology companies that are delivering health care solutions or capitalizing on the increased level of digital commerce, an enduring trend that the pandemic only amplified. In addition, we continue to evaluate investments in the sponsor lending market, focusing on partnering with select private equity firms that we think have an operational advantage in certain industries.

Now turning to the overall portfolio. At the end of the third quarter, our portfolio was well diversified with $2.3 billion at fair value across 135 companies. 87% of the portfolio was invested in senior secured loans, including 68% in first lien.

Median portfolio company EBITDA at June 30 was approximately $102 million as we continue to lend to larger, more diversified businesses. Credit quality, as Matt noted, is excellent.

Moving on to investment activity. Despite the more competitive market environment, we leveraged the Oaktree platform to originate $178 million of new investment commitments across 9 new and one existing portfolio company. I'd like to highlight our investment in Marinus Pharma as a strong example.

Marinus Pharma is a pharmaceutical company dedicated to the development of innovative therapeutics to treat seizure disorders. Oaktree partnered with Marinus to provide a $125 million commitment to support the company's upcoming clinical and commercialization activities. $15 million was drawn upon closing with the balance subject to certain milestones that must be met by the company. OCSL was allocated $29 million at an attractively priced 11.5% fixed rate.

As Matt noted, the pace of originations remained strong in July, continuing the steady momentum we have built over the course of calendar 2021. We originated $224 million of investment commitments in 12 deals in the month of July. In total, these deals were attractively priced with a weighted average yield of 7.7%, and 90% were first lien loans. When taken together with our June quarter originations, the yield on new investment commitments was about 8.4%.

All told, our strong liquidity, coupled with the resources of Oaktree, positions us well to continue to find unique and compelling opportunities in both public and private investments.

Lastly, I want to echo Matt's comments and thank Mel for his important contributions to OCSL and wish him all the best in his new role at Oaktree.

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

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Thank you, Armen. Good morning, everyone. Before getting into the discussion of the financials, I would just like to thank Armen and Matt for their kind words. I have been fortunate to have worked with such a great team here at OCSL ever since Oaktree took over the management of the company. While it is bittersweet to be leaving OCSL and moving on within the Oaktree organization, it is an ideal opportunity at this stage in my life and career. I plan on staying through the end of November to help ensure a seamless transition, so you will be hearing from me again on our fourth quarter and year-end call.

Before I turn to our financial results, I want to remind you that last quarter, we introduced several non-GAAP measures to supplement our GAAP financials 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 to our financial results, which were once again quite strong. After removing the merger-related accretion, total investment income was $60.4 million, up from $41.3 million in the prior quarter. The $19.1 million increase was mainly due to a full quarter of earnings from OCSI's investment portfolio and approximately $7 million in prepayment fees and OID acceleration related to the WME payoff.

Net expenses for the third quarter totaled $29.1 million, up $5.3 million sequentially. The increase was driven by higher interest expense and base management fees, mainly due to an increase in borrowings outstanding and a larger investment portfolio. In addition, Part I incentive fees were higher on a sequential basis, mainly due to the increase in investment income. These increases were partially offset by lower accrued Part II incentive fees. During the quarter, OCSL accrued a total of $2.8 million in Part II incentive fees. This amount was mostly due to $16 million in net realized and unrealized gains in the portfolio during the quarter, excluding the $5 million loss 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 $16 million of Part II incentive fees under GAAP. However, as Part II incentive fees were hypothetically calculated as of June 30, 2021, and under the investment advisory agreement, the amount payable would have been $7.2 million.

Turning to credit quality, which continues to be excellent. As Matt mentioned, we had no investments on nonaccrual at quarter end, and all of our portfolio companies made their scheduled interest payments.

Now moving to the balance sheet. OCSL's net leverage ratio decreased to 0.79x from 0.84x at March 31, reflecting the cash balance we had drawn to fund new investments in early July. Net leverage is still slightly below our target range of 0.85x to 1.0x.

As of June 30, total debt outstanding was $1.1 billion and had a weighted average interest rate of 2.4%. Unsecured debt represented 58% of total debt at quarter end, up from 27% as of March 31, following our 2027 note offering. At June 30, we had total liquidity of approximately $720 million, including $85 million of cash and $636 million of undrawn capacity on our credit facilities. Unfunded commitments, excluding unfunded commitments to joint ventures, were $239 million, with approximately $166 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, during the quarter, we made several improvements to our capital structure. I won't repeat them, but I do want to reiterate that these actions further improved our funding flexibility and meaningfully reduced our interest cost.

Now turning to our 2 joint ventures. The Kemper JV had $387 million of assets invested in senior secured loans to 57 companies. This compared to $352 million of total assets invested in 55 companies last quarter. Assets increased 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 investments in the JV were written up by $3 million or 2% from the prior quarter to $133 million. Leverage

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

at the JV was 1.4x at quarter end, up slightly from 1.3x in the March quarter. Given the strong balance sheet and earnings power at the Kemper JV, OCSL received a $450,000 dividend this quarter. We anticipate we will receive a dividend in this amount going forward.

The Glick JV had $148 million of assets at June 30. These consisted of senior secured loans to 38 companies. Leverage at the JV was 1.1x at quarter end. OCSL's subordinated note in the Glick joint venture totaling $55 million continues to be current. We expect to receive ongoing coupon interest and principal repayments of approximately $1.3 million per quarter on a run rate basis going forward.

In summary, we are very pleased with our financial results this quarter and believe our diverse and flexible balance sheet positions us well for the future.

Now I will turn the call back to Matt.

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

Thank you, Mel. We continue to build momentum and position OCSL for stronger returns. I wanted to take a few moments to highlight some investment performance metrics that we believe demonstrate the value that Oaktree brings to OCSL and what differentiates us from our peers. First, our ability to grow NAV and dividends over the course of the pandemic and since taking over management has been exceptional.

As I mentioned earlier, our NAV is up over 9% from its pre-pandemic high in December 2019. We also have increased our dividend for 5 consecutive quarters, and it has grown by 53% from its pre-pandemic run rate. Taken together, OCSL has generated an attractive 12% annualized return on equity since December 31, 2017. Our strong performance is due in part to our ability to invest and add value during market dislocations and challenging times.

As you may recall, we were actively investing during the market volatility in the spring and summer of 2020, investing in a range of opportunities spanning the public and private markets, including rescue financings to company's need of liquidity or a customized financing solution. Our loan to William Morris Endeavor, which was repaid this quarter, was one such example. Our willingness and ability to step in and respond during that volatile and uncertain period has really paid off. We generated a 27% IRR on $376 million of investments funded at cost from March 1, 2020, through September 30, 2020, based on realizations to date and using June 30 valuations on positions that we still hold. Over half of these COVID originations have been fully realized.

Finally, since we took over management, we have generated a gross unlevered IRR of 13.4% on $2.8 billion invested in Oaktree-originated investments. We are proud of this accomplishment as it demonstrates the power of the Oaktree platform and our ability to actively invest both in periods of market strength and distress. That being said, we continue to see a number of opportunities to further increase returns overtime. 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 made good progress on this in the third quarter, exiting $39 million of these types of investments. As of quarter end, $142 million of senior secured loans priced at or below LIBOR plus 4.5% remained in the portfolio, including approximately $67 million of loans that we acquired in the OCSI merger. Our new investments during the quarter came in at attractive yields which means there is significant improvement in yield on that portion of the portfolio that can be realized over time.

Another opportunity for us to increase ROE is by deploying more leverage at the portfolio level. As of June 30, our net leverage was below the low end of our long-term target of 0.85 to 1. 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 and that we believe offer attractive risk reward.

We also have the opportunity to further optimize both of our joint ventures. We can accomplish this by selectively rotating out of lower-yielding investments into higher-yielding ones as well as increasing leverage at the JVs. We made good progress on this front in the quarter, growing the JV portfolios by $36 million.

In addition, as Mel mentioned, this was the first quarter that Kemper JV paid a dividend to OCSL in nearly 3 years, which we anticipate

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

will continue going forward. Finally, we are already realizing synergies from the merger with OCSI, which we believe will benefit ROE going forward. In addition to the fee waiver and expense savings, we made good progress in the June quarter 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 third quarter results. We remain excited about our future prospects and are optimistic that we will continue to be able to identify new attractive risk-adjusted investment opportunities, enabling 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

(Operator Instructions) Our first question comes from Finian O'Shea with Wells Fargo Securities.

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

Congrats on the quarter. I guess a question for Matt or Armen. I wanted to ask about one of the larger loans you did this quarter with Pluralsight and tied into some of your introductory or more recent comments, Matt, on your willingness to lean into the market, be opportunistic for shareholders as you certainly have done in the past in contrast to generally not jumping into these large well-marketed or trafficked sponsor deals, large-cap typical direct lending down the fairway deals, something you've obviously been very selective. And if you follow, where does this sort of fit into the compelling proposition for shareholders. Was this just one of those very high-quality deals that the sponsor wanted to go private and called you up and it was just a very good opportunity? Or was this more of a deal where you really pursued, helped create the deal, pursue the transaction as you would more typically with, say, something nonsponsor or lower middle market sponsor? Apologies that was a bit long-winded, if you follow.

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

It's Armen. I do follow. I appreciate the question. So I would say the Pluralsight deal, in particular, is sort of in between. We have a very close relationship with Vista as well as a handful of other sponsors that we do a lot of repeat business with. We feel that Vista and others like them have pretty deep subject matter expertise in particular industry verticals. And in the case of Pluralsight, we felt that that was coming through.

It is not a deal that we reversed into Vista and said, "Hey, you really ought to go buy Pluralsight. It's this public company, you should take a look." It was a deal more that Vista was in pursuit of it, called us up as a close relationship and asked us early whether we would be interested in participating. And so we were kind of around the hoop for a pretty long time.

And if you follow some of the historical bidding that was known in the public market over the last several months, we were sort of at Vista's hip knowing what was happening every step of the way. It is not, however, a center of the fairway sponsor deal. This is a recurring revenue software deal. I know more people are doing that, but this is a LIBOR plus 800 with a 1% floor first lien. And I compare that with a more center of the fairway sponsored deal at LIBOR plus 475 to 600, depending on whether it's fortune first lien or unitranche. As a meaningfully wide of what sponsor deals are typically pricing at. And the universe of investors that are comfortable with recurring revenue software deals is meaningfully lower than just more traditional debt to EBITDA or cash flow-oriented lenders. So it's not a nonsponsor situation where it is bespoke. It is Oaktree driving the process, taking down all or most of the loan, but it's also not this highly trafficked, highly competitive middle market sponsor deal and the pricing kind of shows through.

The other thing that showed through is Vista paid a pretty hefty price for Pluralsight in recognition of the value that the business has and the growth prospects that it has. And as a result, wrote an equity check that was roughly 70%, maybe a little bit more than 70% of the total enterprise value. You don't really see that in typical middle-market sponsored deals. For us, the sponsor as well as the size of the sponsor check are part of the underwriting process. They're not dispositive of making the investment decision at all. But when we do see a well-heeled sponsor that has a deep vertical expertise in that industry and they're willing to put their money where their mouth is, we

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

decide to take a pretty hard look when those things line up. And sometimes, they'll work for us. They often don't, but they sometimes will. And in the case of Vista, we have a very good relationship and history with investing in their deals and felt compelled to invest in this one.

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

It's very helpful. And I guess, as sort of a follow on there. I think Matt also mentioned a pretty healthy pipeline and activity in July. There are at least a good handful of similar such deals going on out there right now to our observation. Are you in a lot more of these? Or is your post quarter back to sort of a more typical Oaktree life science so forth?

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

Are you talking specifically for July or kind of looking forward?

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

I guess just -- yes, more broadly pipeline right now?

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

Yes. Look, I mean our recurring revenue software deals is -- it's under 10% of our portfolio. We're not looking to meaningfully add to it, but we'll take a look at the deals that are appropriately structured from a covenant standpoint, appropriately structured from a capital structure standpoint. I wouldn't expect for us to be chasing a whole bunch of these deals going forward. But we also don't have this macro overlay saying that we will no longer be doing these deals or that we are topped out either. We're a bottoms-up credit investment shop, and there will be deals that come through that might be recurring revenue, might be life sciences otherwise. So we'll take a look at all of it.

With respect to July and the pipeline, for us, there really isn't too much of this software type of deal flow. There are a couple of names, but not -- it's not the driving force of our origination in July or in our pipeline going forward. We do and did have some life sciences deals in July. We have a few that we're looking at in the pipeline, but I wouldn't say they're high probability right now, at least in the life sciences space. But it's pretty well diversified and across a variety of different industries, a good amount of nonsponsor, some sponsor deals as well, but not the traditional LIBOR plus 475 or 500 first lien deals. It just tends to be the sponsor deals that are a little bit wider for whatever reason and a sponsor that's a close relationship of the firm. I would say that's the characteristic of the sponsor deals that we do.

But we're finding after a fairly quiet second calendar quarter that a lot of the deal flow that we have been working on in the first half of the year really heated up in July, and the pipeline is pretty robust as we sit here looking forward. It's hard to determine given so much of our deal flow is nonsponsor. It's hard to determine how much of that closes in August or September or never. But we certainly have a pipeline in the first few weeks of August that I would expect will close and will be another -- will round out to a pretty solid third calendar quarter or fourth fiscal quarter of pretty solid origination.

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

Great. Congrats on the quarter, and to Mel as well.

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

Thank you.

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

Thank you.

Operator

Our next question comes from Devin Ryan with JMP Securities.

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

First question, if we just look back over the past year, I believe median debt portfolio company EBITDA has come down from the $150 million to $160 million range to now just north of $100 million over the past couple of quarters. And more recently, I would think that's at

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

least partially a result of the OCSI merger, but probably not entirely.

So I'm just curious if you can give a little more color on what's driving that change in scale borrowers or anything else related to that?

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

Sure, Devin. This is Armen. The answer is that as we, over the last 12 months, have found a lot of interesting opportunities in true privates, we have rotated out of publicly traded positions like broadly syndicated loans, for example, that are to bigger borrowers but lower yields. And we've cycled out of those lower-yielding situations into true privates that are higher yielding, but the businesses are a little bit smaller in the true private area. So that's what's driven the average lower. It's really a rotation out of predominantly broadly syndicated loans and into higher-yielding situations. That's partially why the average yield of the portfolio has kind of crept higher.

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

Yes. Okay. Great color. And then just as a follow-up here. So clearly, you've been able to grow investment income nicely, while also maintaining relatively low leverage. Just in the current environment, do you expect to stay at the lower end of your target range of net leverage, I think 0.85x to 1x to get the (inaudible), just under that 0.79x right now. So I guess do you have an appetite to grow leverage over the next few quarters? Or how should we think about where you want to be in that range given the current opportunity set and the risk reward as well?

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

Yes, I mean, we feel comfortable with to be operating within that range. I know that we're currently just below the low end of the range. Your intuition is right, though, that given the market conditions, especially in sponsor-oriented lending being as tight and as competitive as they are, that Oaktree is probably not going to be a hot and heavy sponsor of lender and driving -- with originating those types of loans and driving leverage higher.

With that said though, our nonsponsor pipeline is pretty strong, and I would expect that our leverage will tick modestly higher. I don't think that we will be blowing through the high end of the range, but I would expect that our leverage levels will be stable to modestly higher from here, and we'll be operating within the range, but probably on the lower end for at least the next few months. It's hard to predict what deal flow looks like going forward or what market conditions present. But with the visibility we do have, our expectation would be a modest increase in leverage.

Operator

The next question comes from Kyle Joseph with Jefferies.

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

Congrats on a very good quarter. Armen, just want to pick your brain on the competitive environment. Obviously, the pipeline remains strong. But just walk us through in terms of how the competitive environment trended over the last year. And really, I get the sense is that being balanced by demand for credit in your markets?

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

Thanks, Kyle. I mean it's a loaded question. So if we walk through pre-pandemic, through the pandemic, and then today, I think the competitive dynamic would show as being back to the tights or even inside of the pre-pandemic tights of the market. A lot of that is driven by AUM growth within the direct lending landscape. There have been pretty creative vehicles launched by investment managers that have had meaningful growth over the last 12 months. And we've seen that impact the market, especially the more traditional first lien 4 to 5x leverage part of the sponsor lending market. And to put some numbers around it, I would say that pre-pandemic a traditional first lien, something like 4 to 4.5 turns of leverage would have priced around LIBOR plus 500, maybe as low as LIBOR plus 475 to as high as 525 or 550 for more risky situations. But LIBOR plus 500, 525 was sort of a good indication pre-pandemic. Obviously, that blew out after March of 2020. There really wasn't much activity in the second calendar quarter. But then in the third and fourth calendar quarter, the market came back strong. And with the growth of AUM in direct lending investment managers, we've seen yields and economic terms and legal terms deteriorating in that part of the market, especially.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

And at this point, first lien, 4 to 4.5 turns of leverage with a good sponsor LIBOR plus 475, we're seeing it all day long. We're rarely seeing anything that is 550 in that area. Similar story in unitranche. Unitranche was LIBOR plus 575 to 700 pre-pandemic. You're now seeing LIBOR plus 550 and even pressure to bring that even lower in unitranche. So LIBOR plus 550 to maybe 625 or 600 is where we're seeing unitranche. So I would say it's back to pre-pandemic tights or even tighter at this point in the more traditional sponsor area.

The other reason for the competitive dynamic is that with the expectation that rates were going to rise, that was sort of the market convention or market belief in earlier this year, February through April. We did see a lot of inflows into floating rate accounts such as broadly syndicated loan accounts, ETFs, CLO funds. And so there was a lot of CLO issuance in the broadly syndicated loan asset class, which is the adjacent area of finance for private equity sponsors. For larger deals, they consider the alternatives of going with a broadly syndicated loan versus a direct loan. And as that AUM increase in CLO formation was as abundant as it was, we saw tighter pricing in broadly syndicated loans, which in turn drove down direct lending yields as well. And so there is a lot of pressure on the market and a lot of deal flow.

But I would say right now, there's probably more demand for direct loans from investment managers than there is supply, and we're seeing that play out with -- in the sponsor area pretty significantly.

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

Yes. That's very helpful. And then one follow-up for me. Obviously, your credit is very strong. But if you could give us a sense for high-level portfolio trends in terms of what you're seeing in year-over-year rev and EBITDA growth? And how you kind of anticipate that trending throughout the year as we kind of lap some of the COVID comps and kind of implications for credit longer term?

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

Yes, that's a good question, Kyle. So our largest industries are -- and this is not predicted, but our largest industries through the pandemic were IT, software and life sciences. And those happen to be the industries that were most stable or improving through the pandemic. That helped us a lot with experiencing lower volatility in our existing portfolio and created the opportunity, along with lower leverage in our BDCs to be more opportunistic in -- especially in the secondary market and really driving NAV growth over the last 12 months.

So I would say that our portfolio actually performed remarkably well through the pandemic. We definitely had a handful of names, a small handful of names that were impacted very directly by the pandemic. I would think -- I would say the most challenged business were these indoor trampoline parks, CircusTrix. And they went to being completely shut down. And at this point, they're roughly 75%, 80% reopened now. So we're -- even in the pandemic-impacted names, we've seen significant improvement in performance. And in our non-pandemic-impacted names, performance has been really stable. Our life sciences companies are doing well. Our IT and software businesses are doing more than just well. And so we're, knock on wood, pretty thankful of the performance of the businesses in our portfolio over the last 12 months.

I would expect just given, generally speaking, in the market. So this doesn't necessarily apply to our portfolio, but we obviously have a very large credit business, below investment-grade credit business at Oaktree in tradable credit, high-yield bonds, senior loans, et cetera. And so we see how companies are performing broadly. And I would say, generally speaking, companies are doing better than they were in 2020 by a pretty wide margin.

As compared to 2019, they're still a little bit down generally, again, on a revenue side and EBITDA side. But what I would say is most companies that we track took out a lot of costs in 2020 that I don't think come back fully when the economy is fully reopened. In which case, I would expect for modest revenue growth in 2022, generally speaking, in the below investment-grade issuer market, with more meaningful growth in EBITDA than what we had seen previously.

And I would also expect a pretty muted experience in defaults and losses in the tradable credit markets, mainly because the most challenged credits actually exited the benchmark or indices or the market in 2020 because they defaulted, and that's true of a lot of the most-levered energy names, especially. And then those that survived, even some tougher situations like in the theme park space or the cruise line space, they were able to extend maturities and really bolster their liquidity profile for many years. And so even those

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

businesses are unlikely to default in the near term. So I think it's going to be a pretty benign environment for at least the near term in the credit markets where you'll see low defaults, low losses and I would say, generally speaking, stable revenue, up a couple of percentage points probably from 2020 -- sorry, 2022 versus 2021. And then I would think, generally speaking, a more meaningful increase in cash flow than what the revenue line would indicate given some costs that have come out.

Operator

(Operator Instructions) Our next question comes from Ryan Lynch with KBW.

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

First one just has to do with your guys' decision to swap out the interest rate on the new unsecured notes into a floating rate interest rate. Can you talk about what was driving that decision? Was it an overall call on what you guys think short-term rates are going to do? Was it just an attractive swap rate? Or are you guys just trying to better match from the composition of your assets?

And then as a second part of that question, can you -- or is there any desire to also swap out the rate on your 2025 notes?

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

Ryan, it's Matt. Thanks for your question. So the main impetus in swapping was really just to match our assets and liabilities. Most of our assets, not all, but most, are floating rate and LIBOR-based. So the decision on swapping was really just to match assets and liabilities. It was also just happened to be a very attractive time both in the swap market and the interest rate market to swap it out. But that was obviously a benefit. But the main goal was just to match assets and liabilities.

As it relates to the '25 notes, we did not swap those, again primarily just the asset liabilities, we have some fixed rate assets. So keeping some fixed rate liabilities, fixed rate assets made sense. Also, at the time, just the technicals of the swap market, made that swap just less attractive versus the technicals for the 2027 notes when we swapped them. And then also just eye level, we're able to swap the notes to a floating rate is inside of our bank credit facility. So that was also just a very attractive feature that came with -- we looked at where interest rates were and forwards were in the swap market. But net-net, it was really -- all this was driven by asset liability matching.

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

Okay. So the 2025 notes will probably not be swapped in the future. Is that fair?

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

At this time, I would not anticipate them being swapped.

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

Okay. Nice. And then just a question on the overall market activity. Obviously, it's a very active market. There's a lot of activity going on, which could increase the level of repayments in your portfolio. With the selective market approach that you have, invested in those less trafficked areas, nonsponsored deals, I know you said you have a pretty decent pipeline, but I'm just wondering how do you guys think about growing the portfolio given those 2 dynamics as well as you have $142 million of lower-priced loans. And so that's another a conflicting factor that you guys would have a desire to get out of those loans, but that's going to come at the cost of portfolio growth. So how do you manage all of those factors, while trying to also maintain a leverage level within your targeted range?

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

This is Armen. It's a great question. So I would say the following: yes, we do receive repayments from time to time. And even in the quarter, we received some unexpected repayments in a couple of situations. For example, our William Morris loan that we did last year, we originated it at about a 5-point discount and were repaid at 1.11% in the quarter. So it happens from time to time, and we would expect to, just given the nature of our highly structured loans, that we would get some participation in excess of par when that does happen. So it's both an opportunity and a challenge to redeploy.

However, I would say, by and large, our experience this year so far has been that as we have originated new loans, we haven't been saddled with a lot of unexpected repayments. Our repayment activity or our exits during the quarters this calendar year have really been

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

at our option, where we have sold publicly traded securities that were at lower yields or had rallied that we had bought during pandemic and it rallied this year, and we were redeploying into higher or wider spread private loans. So it hasn't been a problem, I guess, is what I would say. Up until now, we haven't really seen a situation where we had these mass repayments that have hurt us on keeping our asset level high. That could change, and I wouldn't want to hazard a guess as to how or when or what volume it would change. But you should know that the way we're operating is, generally speaking, we are first looking to our lower-yielding portfolio as a source of cash to fund our private loan pipeline, and then we'd be looking to modestly increase leverage.

And if we get repayments that we understand that, that's the name of the game, but given the nature of a lot of our deal flow being nonsponsor and with significant call protection, either non-call protection or elevated call protection for multiple years. We have a little bit more of a moat around us. We're not completely immune from repayments, but we don't have, generally speaking, unfettered ability to get repaid on our portfolio in a very rapid clip.

So we're managing it as best as we can. It hasn't been an issue yet, but we can't really make predictions about the future.

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

Okay. And just a follow-up on that. Of the $142 million of lower yielding loans you have on your balance sheet and the $79 million of lower yielding loans in the JVs, are those mostly -- or all those syndicated loans where you guys can sort of exit at any time as long as you guys like the price levels? Or are those loans that you guys are mostly just waiting for a type of exit of those positions basically? I'm just wondering how much control do you have on the exit of those from a liquidity standpoint.

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

Yes. Generally, they're broadly syndicated loans that are tradable with pretty liquid market.

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***

Thanks, Vaishnavi, 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 1015-81-74, beginning approximately 1 hour after this broadcast.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021 Refinitiv. All Rights Reserved.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.