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Q3 2023 Oaktree Specialty Lending Corp Earnings Call

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PRESENTATION

Operator

Welcome, and thank you for joining Oaktree Specialty Lending Corporation's Third Fiscal Quarter 2023 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 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 Chris McKown, Chief Financial Officer and Treasurer. Also joining us on the call for the question-and-answer session is Matt Stewart, our 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, the expected synergies and savings associated with the merger with Oaktree Strategic Income II Inc., 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***

Thanks, Mike, and welcome, everyone. Thank you for your interest and support of OCSL. We appreciate your participation on this call. We produced strong results in our fiscal third quarter, bolstered by robust origination activity at attractive yields and the positive impact of higher base rates on our predominantly floating rate portfolio. Combined with the cost synergies arising from the recently closed merger with OSI2, we generated strong earnings on behalf of our shareholders. Third quarter adjusted NII was $0.62 per share, in line with the prior quarter. This was supported primarily by higher total investment income and lower operating expenses, partly offset by increased interest expense as well as higher management and incentive fees. We reported NAV per share of $19.58, down slightly from $19.66 for the prior quarter. The decrease reflected a modest decline in the value of certain debt investments and was offset by net investment income in excess of our $0.55 per share quarterly dividend.

Given the strong overall earnings, our board maintained our quarterly dividend at $0.55 per share. As a reminder, this is nearly double our pre-pandemic quarterly dividend run rate of $0.285. Our investment activity in the third quarter was strong with $251 million of new investment commitments, more than double the level of the prior quarter. Of the new originations, nearly 90% were private direct lending opportunities and 90% were first lien loans, reflecting our emphasis on being at the top of the capital structure. The weighted average yield on new originations was attractive at 12.6%. Paydowns and exits in the quarter were also strong as we received $261 million of proceeds. While broader market activity has been slower given higher interest rates and fewer refinancings, we continue to receive steady levels of paydowns and have also been opportunistically selling out of lower-yielding public credit investments.

Importantly, the third quarter marked our first full quarter realizing synergies following the merger with OSI2. We are pleased to be on track to achieve $1.4 million worth of operating expense synergies on an annualized basis. We've also been focused on streamlining our capital structure, leveraging OCSL's greater scale to improve our financial flexibility. During the quarter, we increased the size of our syndicated credit facility to $1.2 billion from $1.0 billion and extended the maturity by two years to 2028. We also consolidated a credit facility acquired from OSI2 with our existing Citibank facility and pushed out the maturity by two years to 2027. We appreciate our banking partners' support and their confidence in Oaktree as a manager. These improvements further strengthen our funding options and enhance our ability to capitalize on new investment opportunities. Altogether, our strong balance sheet puts OCSL in excellent shape to continue delivering attractive returns to our shareholders.

Before I turn the call over to Armen, on behalf of the team, I wanted to congratulate him on being selected as Co-CEO of Oaktree, along with Bob O'Leary, beginning in the first quarter of calendar 2024, well-deserved Armen.

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

Thanks, Matt. Much appreciated, and good day, everyone. The current market environment presents a complex landscape. On one hand, headline inflation has responded to the most aggressive rate hiking cycle in 40 years. However, core inflation, which excludes food and energy prices, has proven more challenging to control. Meanwhile, unemployment numbers and consumer spending are both relatively stable. Against the backdrop of rapid rate increases, this economic resilience could be at least partially attributed to the U.S. government's aggressive fiscal policy that has buoyed the economy. In the near term, investors have become exuberant and the public markets have rallied over the last several weeks. If inflation continues to trend in the right direction and a recession does not occur, the likely scenario would be that rates would remain higher for longer. Such a condition would create elevated default risk among interest rate-sensitive assets such as real estate and highly levered equities, even if a recession does not materialize first. Many companies have capital structures put in place during the easy-money era of near zero base rates, and we have only recently begun to see the elevated impact of higher rates on levered free cash flow.

This might lead borrowers to see concessions from lenders or additional equity injections from owners. As a result, availability of capital for new deals may become limited at times, benefiting managers like Oaktree who consider these risks well in advance of that materializing, helping our portfolios withstand volatility and capitalize on opportunities. At OCSL, our timely merger with OSI2 provided us with important scale and as Matt noted, additional financial flexibility. Combined with our team's long history of opportunistic investing, we believe that we are well positioned to leverage the power of the Oaktree platform and to negotiate and structure deals that provide downside risk protection and generate excellent risk-adjusted returns over the long term.

Now turning to the overall portfolio. At the close of the June quarter, our portfolio was well diversified with $3.1 billion at fair value across 156 companies. 88% of the portfolio was invested in senior secured loans, with first lien loans representing 76%, underscoring our emphasis on being at the top of the capital structure. We continue to emphasize investing in larger, more diversified businesses that are better positioned to weather downturns or market turbulence. To that end, median portfolio company EBITDA as of June 30 was approximately $119 million and the leverage in our portfolio companies was 5.0x, well below overall middle market leverage levels. The portfolio's weighted average interest coverage based on trailing 12-month performance was steady at 2.5x.

Turning now to our origination activity. Our $251 million of new investment commitments were spread over six new and four existing portfolio companies in the quarter. I'd like to highlight two representative examples for the quarter. First, Oaktree led a direct lending financing for Melissa & Doug, which sells children's toys to retailers in North America and Europe. Known for reimagining classic educational play patterns to promote creativity, imagination and social connection, the company's toys encourage free play and reduce screen time, an increasingly popular mission. Oaktree approached the sponsor who was originally planning to amend and extend its existing broadly syndicated loan in the public market and offered several flexible financing solutions. This resulted in an Oaktree-led transaction consisting of a $260 million first lien term loan and a $65 million revolving credit facility. OCSL was allocated $51.3 million in total, and the deal was priced at SOFR plus 750.

Second, Oaktree originated a $550 million commitment and allocated $50 million to OCSL as part of a larger loan to Vedanta Group, an India-based diversified resources company. Its presence spans across the zinc, aluminum, oil and gas, copper, power, iron ore and steel industries. The company was looking to raise capital to refinance debt that was set to mature in the near term. This first lien loan was priced favorably with a 13% fixed rate and carried strong downside protections. Turning to credit quality. We moved three investments to nonaccrual during the quarter. One involved a very small immaterial position with a fair value of $325,000. Another, All Web Leads, which provides insurance lead services, is a noncore position we inherited from the prior manager that is maturing later this year. While the company is exploring options, including a possible sale of some or all of its assets, we felt it was prudent to place it on nonaccrual at this time.

The other new nonaccrual is an investment that we made in Athenex, a biopharmaceutical company dedicated to the discovery, development and commercialization of novel therapies in the treatment of cancer and related conditions. It has many subdivisions and uncorrelated assets that it has been selling over time to pay down our loan. To date, OCSL has been repaid on roughly 90% of its original funded amount of $55 million and the position totaled $7.5 million fair value as of June 30, 2023. In May, the company filed for Chapter 11 to facilitate an orderly sale and wind-down of the remaining assets, which we expect to conclude in the near term. To that end, since quarter end, we received an additional pay down of $2.3 million. Altogether, the new nonaccruals represented just 1% and 0.8% of the debt portfolio at cost and fair value, respectively. Importantly, our overall portfolio is in solid shape. With each of these nonaccruals, we expect to arrive at successful outcomes on behalf of our shareholders.

In summary, our increased scale of experience across various cycles, paired with the power of the Oaktree platform, places OCSL in great shape to close out fiscal 2023 and move into the next year. Now I will turn the call over to Chris to discuss our financial results in more detail.

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

Thank you, Armen. OCSL continues to deliver consistently strong financial performance, and we demonstrated that again this quarter. For the third quarter, we reported adjusted net investment income of $47.6 million or $0.62 per share, up from $45.4 million, and consistent with $0.62 per share in the second quarter due to the higher share count as a result of the merger with OSI2. The increase on a dollar basis was primarily driven by the first full quarter of interest income earned on the assets acquired in the merger, the impact of higher base rates in the company's floating rate debt portfolio, and lower operating expenses, which were partially offset by higher interest expense, management fees and incentive fees. Net expenses for the third quarter totaled $53.5 million, up $3.2 million sequentially. The increase was mainly driven by $3.0 million of higher interest expense due to the impact of rising interest rates on the company's floating rate liabilities and an increase in the average borrowings outstanding.

Further contributing to the increase was a $0.8 million increase in base management fees, primarily resulting from the first full quarter of the assets acquired in the OSI2 merger as well as $0.6 million of higher part 1 incentive fees resulting from the higher adjusted net investment income during the quarter. These were partially offset by $1.2 million of lower professional fees and general and administrative expenses, including realized synergies from the OSI2 merger. With respect to interest rate sensitivity, OCSL remains well-situated to further benefit from the increasing rate environment. As of quarter end, 86% of our debt portfolio at fair value was in floating rate investments. Our strong earnings in the third quarter were again driven by the higher base rates, as Matt noted.

Now moving to our balance sheet. OCSL's net leverage ratio at quarter end was 1.14x, consistent with the end of the March quarter, and it continues to be within our targeted range of 0.9 to 1.25x. As of June 30, total debt outstanding was $1.8 billion and had a weighted average interest rate of 6.6%, including the effect of our interest rate swap agreement, up from 6.2% at March 31 due to the impact of higher interest rates. Unsecured debt represented 36% of total debt at quarter end, down modestly from the prior quarter. At quarter end, we had ample liquidity to meet our funding needs with total dry powder of approximately [$543 million] (corrected by company after the call), including $60 million of cash and $483 million of undrawn capacity on our credit facilities. Unfunded commitments, excluding unfunded commitments to the joint ventures were $247 million, with approximately $185 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.

With respect to our credit facilities, during the quarter, we entered into an amendment to our syndicated credit facility that, among other things, increased the size of the facility from $1.0 billion to $1.2 billion and extended its maturity by two years to June 2028 with no change in the margin. There are now 20 lenders in the syndicate. Also during the quarter, we consolidated the OCSL and OSI2 SPV facilities with Citibank, entering into a new $400 million facility that matures in 2027. Shifting to our two joint ventures. At quarter end, the Kemper JV had $370 million of assets invested in senior secured loans to 52 companies, down from $393 million last quarter, primarily as a result of exits exceeding new originations. The JV generated $3.4 million of cash interest income for OCSL in the quarter, up from $3.2 million in the second quarter as a result of the portfolio's continued strong performance and the impact of rising interest rates on floating rate investments.

We also received a $1.1 million dividend consistent with the second quarter dividend. Leverage at the JV was 1.2x at quarter end, down from 1.4x in the prior quarter. The Glick JV had $127 million of assets as of June 30, down from $131 million at March 31. These consisted of senior secured loans to 38 companies. Leverage at the JV was 1.2x at quarter end, and we received $1.7 million of principal and interest payments on OCSL's subordinated note in the Glick JV during the quarter. In summary, we are very pleased with our financial results, and we continue to believe that our strong balance sheet positions us well for the remainder of the fiscal year. Now I will turn the call back to Matt for some closing remarks.

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

Thank you, Chris. Our strong financial results for the quarter enabled us to generate an annualized return on adjusted net investment income of 12.6%, consistent with the prior quarter. We are very pleased with the growth in our earnings over the past several years and believe that OCSL remains well-positioned to continue delivering strong ROE going forward. First, we believe we are well-situated for the prevailing higher interest rate environment. As Chris noted earlier, with 86% of our investment portfolio in floating rate assets, we expect that the July rate hike and future potential increases in base rates will positively impact our net interest margin. We also continue to benefit from higher ROEs generated at our joint ventures.

During the third quarter, both joint ventures delivered ROEs of over 14.5% due to strong credit quality and positive impacts from the rising rate environment. As noted earlier, we expect that the synergies resulting from the OSI2 merger will support our returns and generate substantial long-term value for our shareholders. In conclusion, we are very pleased with the continued strength in our results and our ongoing momentum. Our portfolio is diverse and healthy, and we are in excellent financial shape to capitalize on this volatile but attractive investment environment with our robust liquidity, extensive relationships and disciplined underwriting expertise. We believe that our solid portfolio and strong balance sheet position us favorably for the remainder of the fiscal year. As always, we thank you for joining us on the call today 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 Erik Zwick from Hovde Group.

Erik Zwick ***Hovde Group, LLC, Research Division - Director***

I wanted to first just start. You had a very strong quarter in terms of new commitments, and curious what that might mean for the pipeline going forward in the next quarter or so if you are seeing similar strong opportunities at this point.

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

Erik, it's Armen. Yes, it has been a strong quarter in terms of originations. What you do see in the quarter represents originations that have been in the pipeline now for at least a quarter, if not two or three, and so there is a little bit of a lag in terms of the actual originations that you see in any particular quarter. I would say that generally speaking, the next quarter, the September quarter ended September 30, will probably be a little bit lighter just given the fact that the elevated cost of borrowing, base rates have risen so much and spreads have widened has caused a bit of a decline in M&A volume as well as a little bit of a pause button being hit by non-sponsored transactions or non-sponsored investment opportunities that we're considering as well. So I would expect it to be a little bit lighter over the next quarter or so.

Erik Zwick ***Hovde Group, LLC, Research Division - Director***

That's helpful. And then a in your prepared comments, you mentioned that the higher for longer rate environment can create elevated default risk and I know you typically try and focus on kind of more conservative and I guess kind of a defensive portfolio, but you have the opportunity to look across a broad number of sectors. So I'm curious, at this point, are you seeing any signs of weakness or concern in any particular sectors? Or is it still too early at this point to see how that might play out?

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

Yes, it's a good question. I wouldn't say that we were seeing huge alarm bells at the moment but certainly, the stresses, the early signs of stress I would say, are most acute in companies that didn't benefit from COVID and have experienced some inflationary impact on their costs. So health care services, transactions of an older vintage that are in health care services, I would say, are showing a little bit more stress than the average borrower. Some technology companies are, I think, seeing some stress, and they are working on their cash flow generation potential. I think a lot of technology companies are actually focusing on generating cash flow or becoming cash flow neutral because the assumption of having access to the capital markets has gone away a bit. And so you are probably more likely to see stress in some technology-oriented companies versus the average borrower as well. But net-net, I think it is a bit early to really tease out an industry or sector-specific trend.

Operator

We now have a question from Melissa Wedel from JPMorgan.

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

Following up on the new activity in the portfolio I was just curious, was there anything kind of idiosyncratic around timing of new deployments versus repayments during the quarter? I guess, more specifically, did you see repayments earlier in the quarter and put capital to work later?

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

Melissa, it's Armen again. I don't think that there was any discernible trend that way in terms of timing. I think we were fairly active in originating throughout the quarter. We had a couple of specialty loans that were done in partnership with our opportunistic credit group that it's hard to predict if they close in a certain week or a certain month, they just take longer to document. And so I wouldn't say that there was any sort of trend in that regard.

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

Okay. I do appreciate the detail that you provided on the three new nonaccruals in the portfolio. I was hoping to circle back to the previous two companies that you talked about last quarter. I believe as I recall, with regard to both of those companies that were already on nonaccrual headed into the June quarter, you had indicated that you expected somewhat near-term resolutions on those as well. Just curious if that's still your outlook or things have evolved.

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

So the other two, one was called the Avery, One is SIO II. Avery is a real estate asset in the San Francisco market. We continue to work with the sponsor there, the developer. They are a very skilled developer and marketer of all types of real estate assets and so we think the highest and best use is to have that developer continue to sell the units. The good news is that the units are continuing to sell at accretive prices relative to an attachment point on our loan. So it's just going to take a little bit longer. I don't think we're going to do a bulk sale of the remaining units anytime soon. But I think it's kind of steady as it goes, and it will take a little bit of time to get all of the capital back. I wouldn't be surprised if they did a bulk sale but that's certainly not -- we're not putting the pressure on to get the capital back quickly. We'd rather do an orderly liquidation. In the case of SIO II, the company had its confirmation hearing for emergence from bankruptcy. That is an ongoing situation. It is going to exit bankruptcy very soon, and we will have more to report probably at the end of the fiscal year at the end of the next quarter as to an update.

We have been very heavily involved with operational changes for the business during the pendency of the case. We are also engaging with strategic partners and investors as well as financial investors to help in terms of the equity infusion that the company would like to engage in to grow. There is a lot of interest in the intellectual property and the capabilities of this business and we at Oaktree are not really of the mindset to grow our equity exposure to the company, but we are happy to have especially strategic investors join in and help grow that business. So we are cautiously optimistic about that situation, but it is not, I would say, a complete resolution of the position over the course of the next few weeks. I think it will take at least a few quarters to have a clear path here, but we are, I think, in the thick of the bankruptcy and the operational changes to the business as well as engaging with many investors on the equity side to help take the business to the next level as it emerges from bankruptcy in the coming weeks.

So I think the only update there is that it is going to emerge from bankruptcy quickly. It's a very quick bankruptcy. We are in control of the business, and we are really setting it up for success, but that success is not at hand at the moment or in the near term.

Operator

(Operator Instructions) We have a question coming from Bryce Rowe from B. Riley.

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

I wanted to maybe start on some of the repayment activity and then also on the portfolios of the JVs, somewhat elevated repayment activity here this quarter and then the portfolios of the JVs fell in terms of their outstanding. So kind of curious if it's more -- if that's intentional, both with the own balance sheet and the JV portfolios in terms of trying to exit with a market that might be more active than not.

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

It's Matt Stewart. I would say across both the on balance sheet and the JVs. We were better sellers as the syndicated loan market rally during the quarter. If you look at our repayment activity on balance sheet, about 1/3 of that was us actively selling. Some of the positions that we purchased in the secondary market at the end of last year or that came along with the OSI2 merger, we were better sellers of. So we're selling out of those positions. And then we did similar themes in the JV as well, just given the strength in the loan market. But we continue to monitor the primary market for all these syndicated loans for the JVs. And then on balance sheet, again, we've been rotating out of some of the liquid positions in anticipation of our private pipeline.

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

Okay. And Matt, are there maybe continued opportunities to do that or pretty well exhausted at this point?

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

We worked through most of our liquid positions from the OSI2 merger and obviously the balance of our OCSI merger a few years back, but there's still some rotation opportunities in the portfolio, just not as plentiful as it was previously.

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

Okay. All right. Maybe shifting to capital structure, obviously, active with some of the amendments with the credit facilities. Just kind of curious how you're thinking about the unsecured opportunity at this point to maybe layer in some more unsecured notes? And then a follow-up to that. Any appetite to use the ATM now that your stock price is over NAV?

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

So we're still watching the unsecured market. We feel comfortable where our capital structure is today. As you mentioned, we pushed out both our secured facilities by a little over two years. So our near-term maturities of '25 and '26 are now '27 and '28, we're about 36% unsecured at this point. So we're going to continue to watch that market. It's tightened about 100 basis points. If you look at some of the recent prints in the market versus where we were a few quarters ago. But we do feel comfortable about where we are today. Our next maturity is February of 2025, so we have significant runway but we'll continue to evaluate that market and see if there's any opportunities. Then on the ATM side, we've had the ATM in place for about 1.5 years now. We've accessed it very little last year. We'll continue to watch that and we'll see how the stock trades and what our pipeline looks like and if there's any opportunities for ROE in the future there.

Operator

We have a question from Ryan Lynch from KBW.

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

First question I had was just you had about $2.6 million of noninterest operating expenses this quarter. That was a little bit lower than we were expecting. I know there was expected to be some synergies. Is that a pretty good run rate that we should expect going forward? Or is there anything that lowered that? Or is there anything in other quarters that expected to make that a little bit higher?

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

Ryan, Chris McKown here. Thanks for the question. Yes, we were very happy to realize some of the synergies from the OSI2 merger. We're always going to have some puts and takes quarter in and quarter out with respect to the operating expenses but I do think where we landed this quarter is a decent run rate again taking account some puts and takes. In addition to the synergies, we did have some items that were kind of a nonrecurring nature last quarter that also contributed to the decline.

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

And then outside of the nonaccruals that you guys have had put on this quarter, have you guys been receiving many amendment activity requests from borrowers in your portfolio relative to, call it, requests you would have received on a normal basis like a year ago?

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

Yes, I think it's been pretty light so far. It's been, I would say, consistent with what it was in 2022 or 2021. So not really an uptick. I would expect some of those conversations to happen at some point in the markets broadly but for now, it's really been pretty quiet on that front.

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

And then just one final question that I had, kind of a higher-level question, but you guys have really good insights on the credit markets. You mentioned higher base rates that were borrowers are just now starting to feel the effect of higher base rates on their financials. I'm just curious, we've heard in the past that higher base rates alone are probably not going to put a lot of borrowers into the fault. It's probably going to take some sort of weakness in the business in combination with higher base rates. So I'm just curious, do you expect broadly and then maybe with your portfolio specifically because the economy has been so resilient, now there's been uneven in certain areas, but it's been pretty resilient. Are you expecting a meaningful increase in defaults if the economy does stay as strong and base rates stay as high? Do you think base rates alone are effective enough to meaningfully increase the defaults going forward?

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

Yes. I mean it's obviously very hard to predict but you're right, that base rates on their own are probably not going to result in a wave of defaults. It should result in an increase in the default rate by a couple of hundred basis points but historical averages and over a period of time, over an extended period of time, I think that you won't see the big spike in defaults until you get closer to a maturity wall, which in the public markets, you start seeing more heavy maturities in 2025 or 2026. So you won't really see a very heavy maturity wall in 2024. The comment about base rates being problematic is that if base rates remain this elevated for an extended period of time, then what you will find is a maturity wall issue potentially. You will find some number of companies, albeit maybe not a big distress cycle, but you will see defaults growing. You will see just asset bubble deflation as companies and asset owners need to decide are they going to invest additional equity into these businesses if they are underwater from a capital structure perspective. So you will see a combination of factors that don't bode well: under-investment in assets, some level of defaults, some requests for picky interest, some requests for amendments and waivers. It's really hard to see in the, I would say, in the medium term, a very positive outlook in the case of a higher for longer scenario. For those businesses that are able to grow nominal profitability or nominal dollars of profit over the medium to long term, then they may be better off if they're able to survive this capital crunch that is probably going to occur over the next six to 18 months is the guess that I would have as to when the impact of the base rates and the access to the capital markets for highly levered capital structures put in place before the pandemic. I think that this next year or two is going to be when we see some pretty key decisions about asset owners support for those businesses.

Operator

We have a question from Kyle Joseph from Jefferies.

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

Apologies if I missed this, been too many earnings this morning, but it was an active quarter of less deployments and repayments and then it looks to me like fee income was a little lighter than I was expecting. Anything you'd highlight there? Was it just the nature of some of the repayments there or anything in any other launch?

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

It's Matt Stewart. Not too much to report there. I mean, some of our repayments were older vintage loans that didn't have significant call protection or the call protection had run out. So there's really not much to report there. And to Armen's point around amendment activity, the amendment fees during the quarter weren't significant either. So not much to report on that line item.

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

And then step back, Armen or Matt Pendo, I just want to get your thoughts in terms of the potential fallout which come with regional banks and rumors and headlines about increasing capital requirements at banks? And how big of an opportunity you think that is for the sector in OCSL in particular.

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

This is Armen. I mean I'll jump in and Matt, feel free to add. I do think that it's going to present a very attractive opportunity. In some ways, it gives us the opportunity to partner with those banks and in other situations that gives us the opportunity to buy portfolios. And then finally, I think generally speaking, whether there is an increase in required equity capital or not. I think the higher level of scrutiny from the regulators, we are already seeing it play through with an expansion in the aperture of the possible deals that we may do, with or without partnership with the bank. So we're just, I think, beginning to see an increase in deal flow, but I think there's also opportunities to work with the banks as an off-taker of some of their assets at a price or as a partner with them going forward through origination. But I think it's early days in terms of figuring that out.

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

It's Matt Pendo, Kyle. I think just to echo Armen's comments. I do think it's early days. That being said, I do think it will be a big opportunity. There's no question that from the bank's perspective, the regulatory oversight, capital charges are increasing and only going to continue to increase and we can really partner well with banks. There's a lot of services and products they offer that we don't offer and we're not interested in but we have a lot of capital, we can execute transactions very quickly and thoughtfully. So this trend has been going on for a while, and I think it's only going to increase and discussions around partnering with banks and doing things together, combining our capital and kind of their sales force and footprint. Well, it will take a while to play out. I think it's going to be a positive.

Operator

We have no further questions at this time. So I will turn the word back to Mr. Mosticchio.

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

Thanks, Marlise, 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 1958224, beginning approximately one hour after this broadcast. We hope you enjoy the rest of the summer. Thank you.

Operator

This concludes this conference. Thank you for attending today's presentation. You may now disconnect.