



**OAKTREE**

OCSL | Specialty Lending Corporation

Third Quarter  
Fiscal Year 2019  
Earnings  
Presentation

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August 7, 2019

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Nasdaq: OCSL

## Forward Looking Statements

Some of the statements in this presentation constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this presentation may include statements as to: our future operating results and distribution projections; the ability of Oaktree Capital Management, L.P. (“Oaktree”) to find lower-risk investments to reposition our portfolio and to implement Oaktree’s future plans with respect to our business; our business prospects and the prospects of our portfolio companies; the impact of the investments that we expect to make; the ability of our portfolio companies to achieve their objectives; our expected financings and investments and additional leverage we may seek to incur in the future; the adequacy of our cash resources and working capital; the timing of cash flows, if any, from the operations of our portfolio companies; and the cost or potential outcome of any litigation to which we may be a party. In addition, words such as “anticipate,” “believe,” “expect,” “seek,” “plan,” “should,” “estimate,” “project” and “intend” indicate forward-looking statements, although not all forward-looking statements include these words. The forward-looking statements contained in this presentation involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in “Risk Factors” and elsewhere in our annual report on Form 10-K for the fiscal year ended September 30, 2018 and our quarterly report on Form 10-Q for the quarter ended December 31, 2018. Other factors that could cause actual results to differ materially include: changes in the economy, financial markets and political environment; risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to business development companies or regulated investment companies; and other considerations that may be disclosed from time to time in our publicly disseminated documents and filings.

We have based the forward-looking statements included in this presentation on information available to us on the date of this presentation, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Unless otherwise indicated, data provided herein are dated as of June 30, 2019.

## Highlights for the Quarter Ended June 30, 2019

### **1 Net asset value per share ("NAV") increased to \$6.60, up \$0.05 from the prior quarter**

- NAV has grown by approximately \$92 million (\$0.65 per share) or 11% since June 30, 2018
- **Sixth** consecutive quarter of NAV growth

### **2 Net investment income of \$0.12 per share**

- 15% increase from the quarter ended June 30, 2018
- Board of Directors declared a dividend of \$0.095 per share, payable on September 30, 2019 to stockholders of record as of September 13, 2019, consistent with the prior five quarters

### **3 Continued progress rotating portfolio**

- Exited approximately \$27 million of non-core investments, including an investment on non-accrual during the quarter ended June 30, 2019
- Non-core investments have been reduced by \$620 million or 69% since September 30, 2017
- Core investments have more than doubled to \$1.1 billion since September 30, 2017

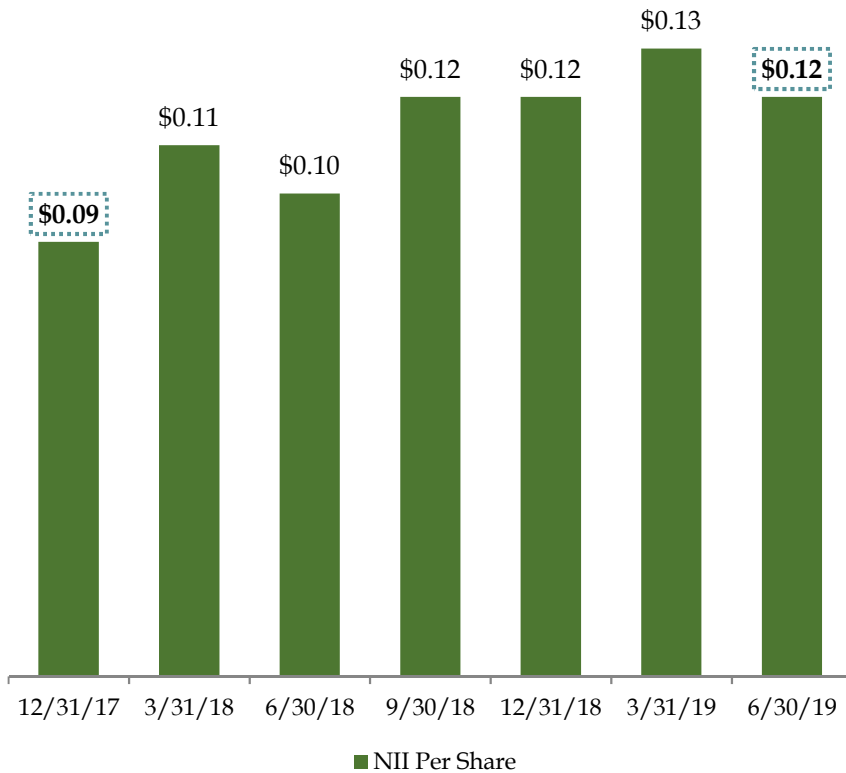
### **4 Maintained defensive posture and conservative financial position**

- Continuing to be patient and disciplined given current competitive market environment
- 0.58x leverage (debt-to-equity) is below target leverage range of 0.70x to 0.85x
- Well positioned with \$330 million of dry powder available to invest



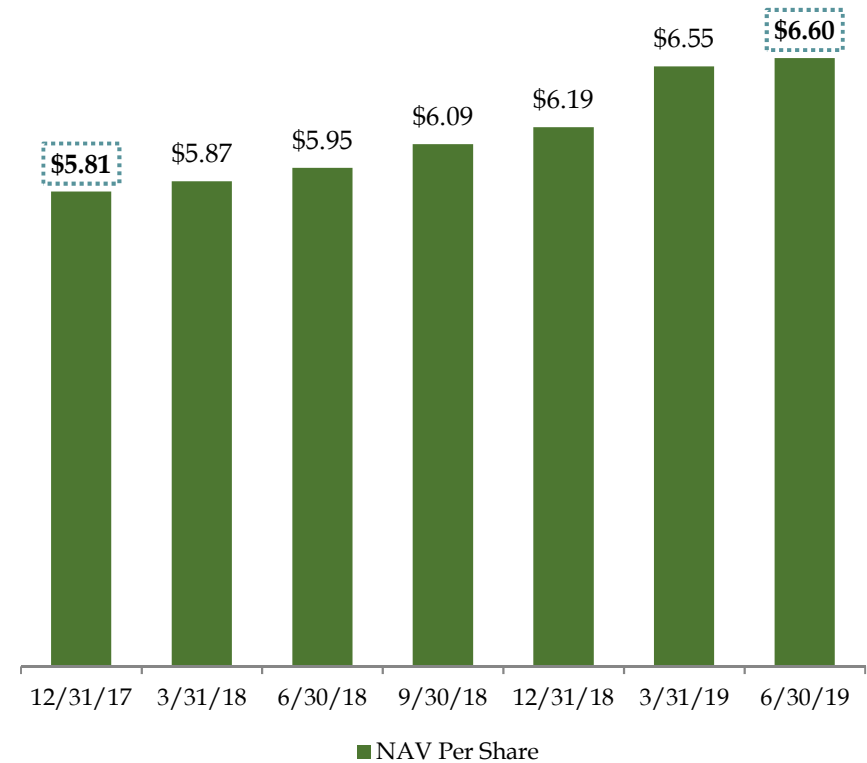
## Key Earnings Metrics

### Net Investment Income Per Share



NII has increased by 25% since December 31, 2017

### NAV Per Share



NAV has appreciated 13% since December 31, 2017



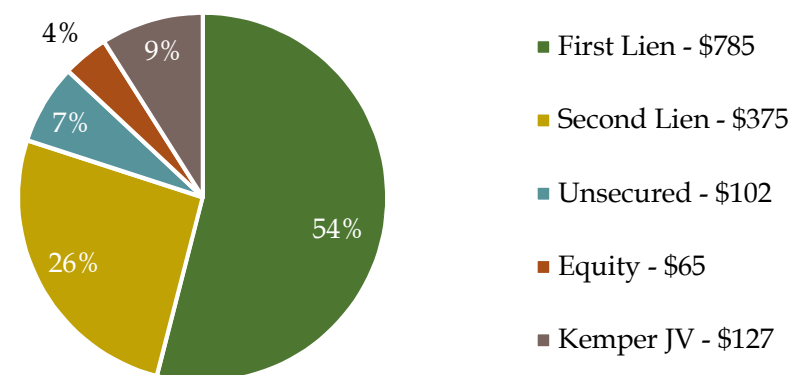
# Portfolio Summary as of June 30, 2019

## Portfolio Characteristics (at fair value)

- \$1.5 billion invested in 105 companies
- 93% of the total portfolio consists of debt investments
- \$15 million average debt investment size<sup>1</sup>
- 8.7% weighted average yield on debt investments
- 88% of debt portfolio consists of floating rate investments

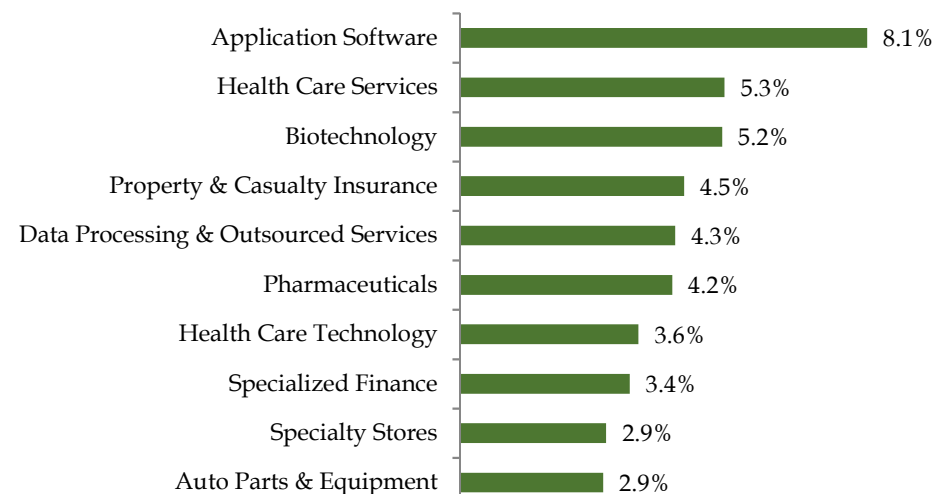
## Portfolio Composition

(As % of total portfolio at fair value; \$ in millions)



## Top 10 Industries<sup>2</sup>

(As % of total portfolio, at fair value)



Note: Numbers may not sum due to rounding.

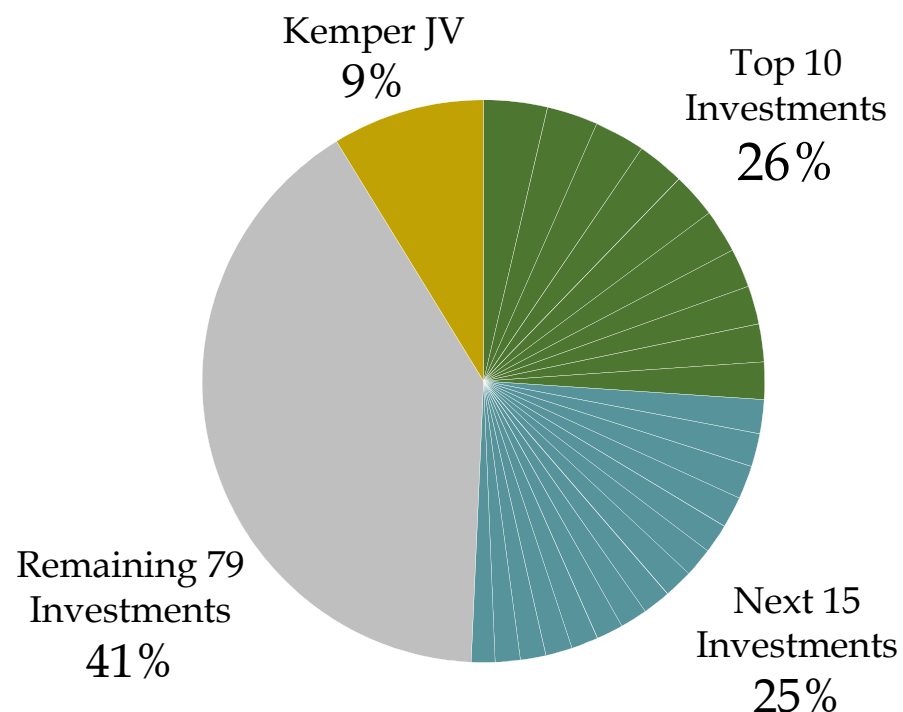
<sup>1</sup> Excludes investments in Senior Loan Fund JV I, LLC ("Kemper JV"), a joint venture that invests primarily in middle market and other corporate debt securities.

<sup>2</sup> Excludes multi-sector holdings, which is primarily comprised of investments in the Kemper JV.

## Portfolio Diversity

### Diversity by Investment Size

(As % of total portfolio at fair value)



### Portfolio by Industry<sup>1,2</sup>

(As % of total portfolio at fair value)

Industry Group	% of Portfolio
Software	11.3%
Healthcare Providers & Services	9.6%
IT Services	9.0%
Biotechnology	5.7%
Insurance	4.9%
Pharmaceuticals	4.6%
Healthcare Technology	3.9%
Diversified Financial Services	3.9%
Oil, Gas & Consumable Fuels	3.3%
Specialty Retail	3.2%
Commercial Services & Supplies	3.2%
Auto Components	3.1%
Remaining 24 Industries	34.3%

**OCSL's portfolio is diverse across borrowers and industries**

As of June 30, 2019

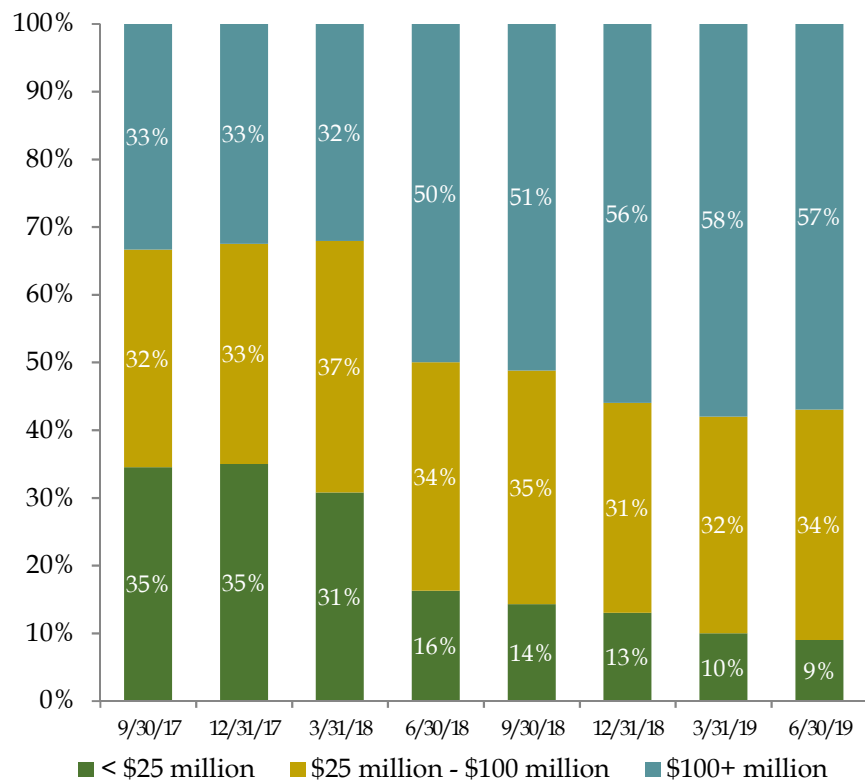
Note: Numbers may not sum due to rounding.

<sup>1</sup> Excludes investments in the Kemper JV.

<sup>2</sup> Based on GICS industry classifications.

# Debt Portfolio Company Metrics

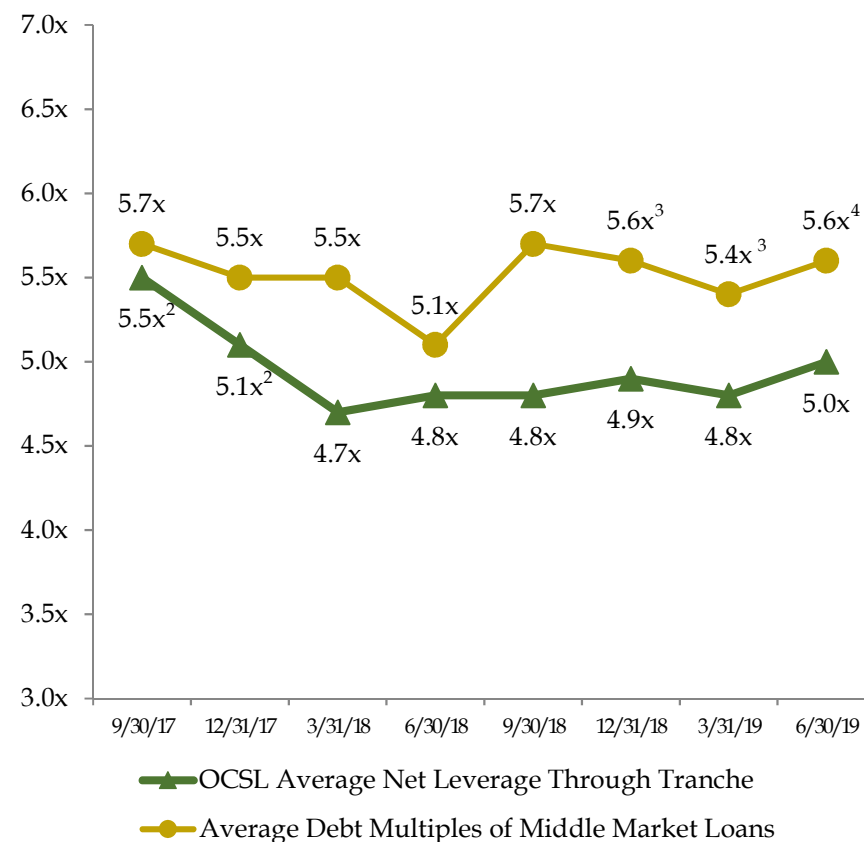
## Debt Portfolio Company EBITDA<sup>1</sup>



Median Debt Portfolio Company EBITDA (\$ in millions)

9/30/17	6/30/18	9/30/18	6/30/19
\$50	\$99	\$103	\$130

## Debt Portfolio Company Leverage<sup>1</sup>



**OCSL's portfolio has transitioned into higher quality, larger borrowers with lower leverage, reflecting our defensive investment approach**

Source: S&P Global Market Intelligence.

<sup>1</sup> Excludes negative EBITDA borrowers, investments in aviation subsidiaries and recurring revenue software investments.

<sup>2</sup> Excludes one investment on non-accrual and one venture capital investment.

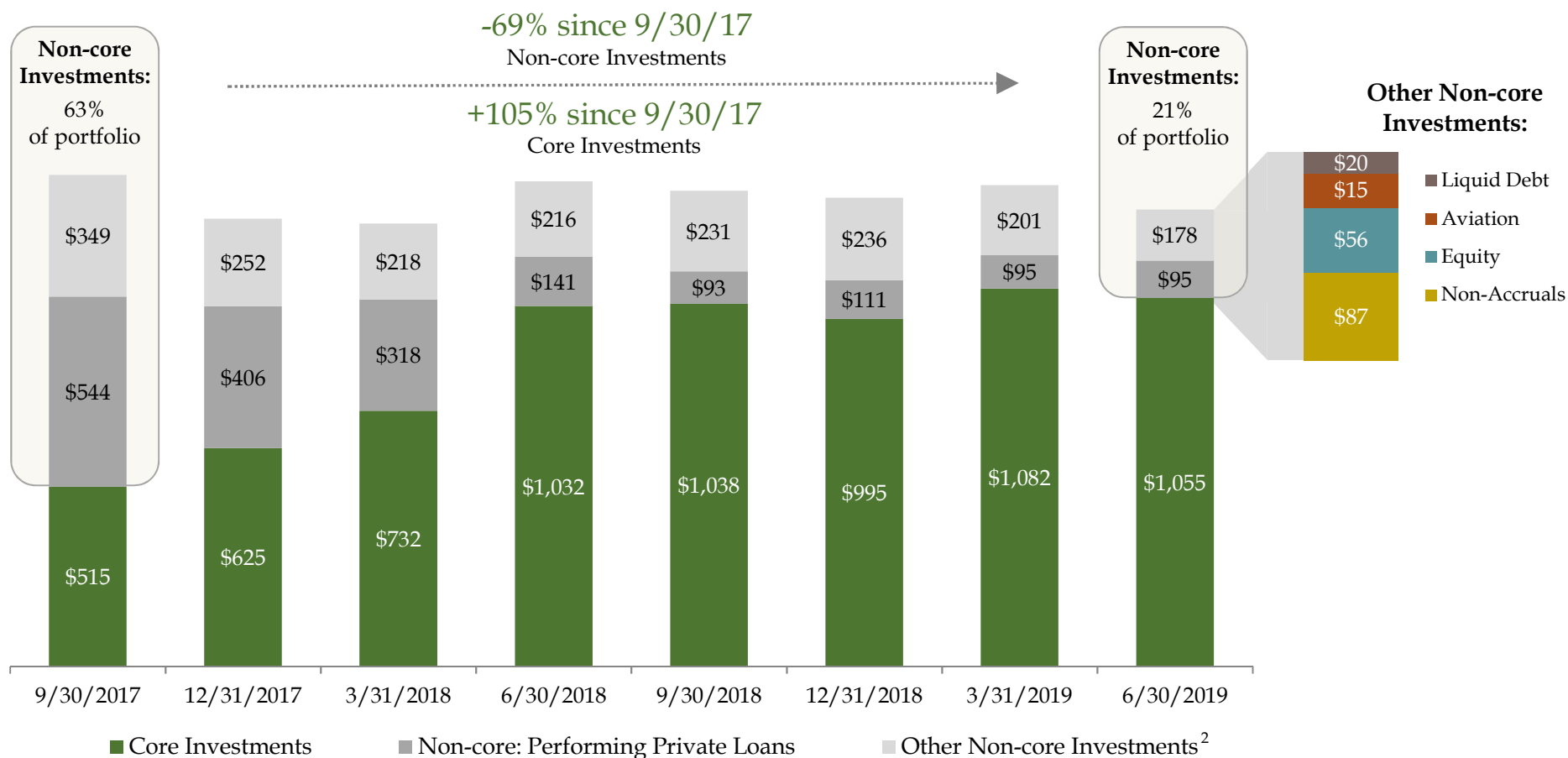
<sup>3</sup> Represents average debt multiples for respective LTM periods, as there were not enough middle market observations during each respective quarter to produce a meaningful average.

<sup>4</sup> Represents average debt multiples for 1H 2019.

# Historical Portfolio Progression

## Portfolio by Category<sup>1</sup>

(\$ in millions, at fair value)



**Non-core private loans and non-accruals currently represent only 14% of OCSL's portfolio**

<sup>1</sup> Excludes investments in the Kemper JV.

<sup>2</sup> Other non-core investments includes liquid debt investments, investments in aviation entities, equity investments and non-accruals.



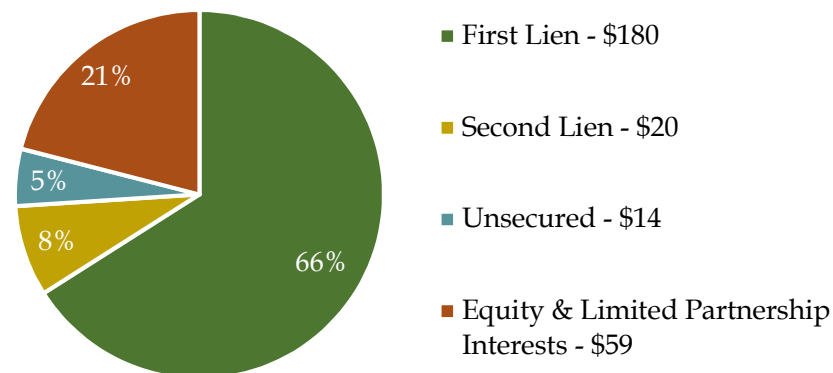
# Non-core Investment Portfolio Detail

## Non-core Investment Portfolio Characteristics

- Private Loans
  - \$95 million at fair value in seven companies
  - Net leverage through tranche: 4.0x (unchanged from prior quarter)
  - Average debt price: 95.0%
- Equity Investments<sup>1</sup>
  - \$56 million at fair value in 24 positions and limited partnership interests in two third party managed funds
  - \$6 million of exits during the quarter
- Aviation
  - \$15 million at fair value with one aircraft remaining
  - Received \$21 million from the sale of one aircraft during the quarter
- Liquid Debt Investments
  - \$20 million at fair value in three companies
  - Average debt price: 99.9%
  - Exited \$11 million at par during July
- Non-accruals
  - \$87 million at fair value in five companies
  - Average debt price: 52.6%
  - Exited Advanced Pain Management during the quarter

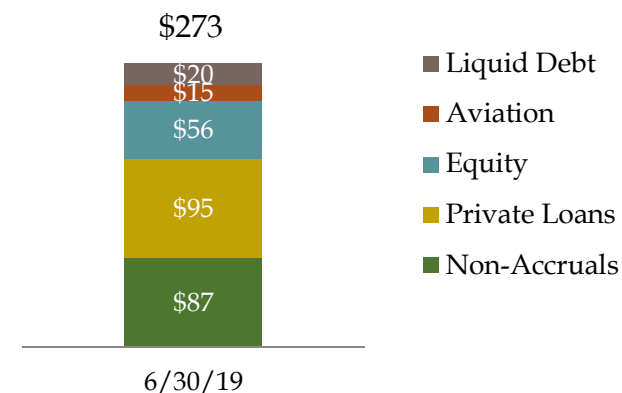
## Non-core Investments by Type

(As % of non-core investment portfolio, at fair value; \$ in millions)



## Non-core Portfolio Composition

(At fair value; \$ in millions)



Note: Numbers may not sum due to rounding.

<sup>1</sup> Excludes equity positions in non-accrual debt positions and equity in aviation entities.

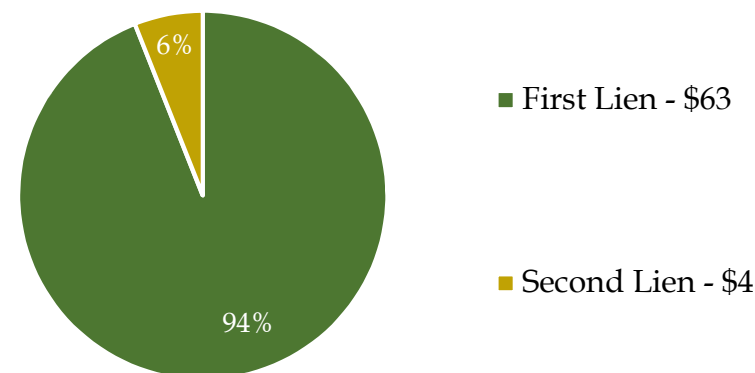
## Q3 2019 Portfolio Originations

### New Investment Highlights

- \$67 million of new investment commitments
- \$74 million of new funded investments<sup>1</sup>
- 7 portfolio companies across 5 industries
- 8.0% weighted average yield at cost of new debt investments
- 100% of new debt investment commitments at floating rates
- 94% of new investments also held by other Oaktree funds

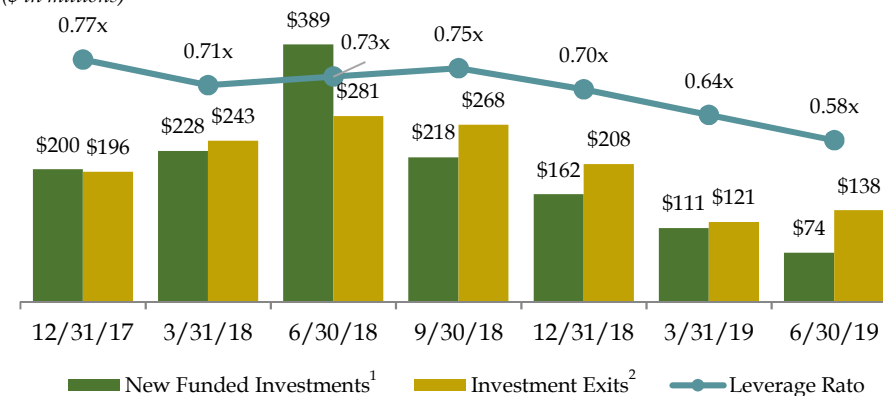
### New Investment Composition

(As % of new investment commitments; \$ in millions)



### Historical Originations and Exits

(\$ in millions)



Note: Numbers rounded to the nearest million or percentage point.

<sup>1</sup> New funded investments includes drawdowns on existing revolver commitments.

<sup>2</sup> Investment exits includes proceeds from prepayments, exits, other paydowns and sales.

**Remaining patient and highly selective when evaluating new investment opportunities given competitive market environment**

# Historical Financial Information

Operating Results	For the three months ended				
	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
(\$ in thousands, except per share amounts)					
Interest income	\$32,910	\$34,309	\$35,789	\$35,306	\$26,634
PIK interest income	1,198	2,280	832	499	1,457
Fee income	1,826	1,132	1,202	2,034	2,425
Dividend income	735	523	453	381	1,331
<b>Total investment income</b>	<b>36,669</b>	<b>38,244</b>	<b>38,276</b>	<b>38,220</b>	<b>31,847</b>
Base management fee	5,548	5,731	5,568	5,767	5,909
Parts I & II incentive fees	4,394	11,983	5,548	3,675	2,733
Interest expense	7,592	8,970	8,904	9,323	8,291
Other operating expenses <sup>1</sup>	1,893	1,752	2,503	2,132	2,032
<b>Total expenses</b>	<b>19,427</b>	<b>28,436</b>	<b>22,523</b>	<b>20,897</b>	<b>18,965</b>
Fees waived	634	(7,901)	(1,564)	292	(1,548)
<b>Net expenses</b>	<b>20,061</b>	<b>20,535</b>	<b>20,959</b>	<b>21,189</b>	<b>17,417</b>
<b>Net investment income</b>	<b>16,608</b>	<b>17,709</b>	<b>17,317</b>	<b>17,031</b>	<b>14,430</b>
Net realized and unrealized gains (losses)	3,551	46,685	10,987	16,922	9,822
Provision for income taxes	(173)	91	(586)	(622)	-
<b>Net increase/decrease in net assets resulting from operations</b>	<b>\$19,986</b>	<b>\$64,485</b>	<b>\$27,718</b>	<b>\$33,331</b>	<b>\$24,252</b>
<b>Net investment income per common share</b>	<b>\$0.12</b>	<b>\$0.13</b>	<b>\$0.12</b>	<b>\$0.12</b>	<b>\$0.10</b>
Net realized and unrealized gains (losses) per common share	0.02	0.33	0.08	0.12	0.07
<b>Earnings (loss) per common share – basic and diluted</b>	<b>\$0.14</b>	<b>\$0.46</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.17</b>
Distributions per common share	\$0.095	\$0.095	\$0.095	\$0.095	\$0.095

<sup>1</sup> Includes professional fees, directors fees, administrator expenses and general and administrative expenses.

## Historical Financial Information (continued)

Select Balance Sheet and Other Data	As of				
	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
(\$ in thousands, except per share amounts)					
Investment Portfolio (at fair value)	\$1,455,031	\$1,504,888	\$1,464,885	\$1,491,201	\$1,520,518
Total Debt Outstanding <sup>1</sup>	537,278	592,178	607,141	637,213	607,082
Total Net Assets	930,050	923,456	872,362	858,035	838,095
Net Asset Value per share	\$6.60	\$6.55	\$6.19	\$6.09	\$5.95
Total Leverage	0.58x	0.64x	0.70x	0.75x	0.73x
Weighted Average Interest Rate on Debt Outstanding	5.1%	5.1%	5.3%	5.1%	5.2%
Weighted Average Yield on Debt Investments <sup>2</sup>	8.7%	9.0%	8.7%	8.4%	8.8%
Cash Component of Weighted Average Yield on Debt Investments	8.0%	8.3%	8.0%	8.2%	8.5%
Weighted Average Yield on Total Portfolio Investments <sup>3</sup>	8.2%	8.3%	8.1%	8.1%	8.4%

<sup>1</sup> Net of unamortized financing costs.

<sup>2</sup> Annual stated yield earned plus net annual amortization of original issue discount or premium earned on accruing investments, including our share of the return on debt investments in the Kemper JV.

<sup>3</sup> Annual stated yield earned plus net annual amortization of original issue discount or premium earned on accruing investments and dividend income, including our share of the return on debt investments in the Kemper JV.

# Historical Portfolio Activity

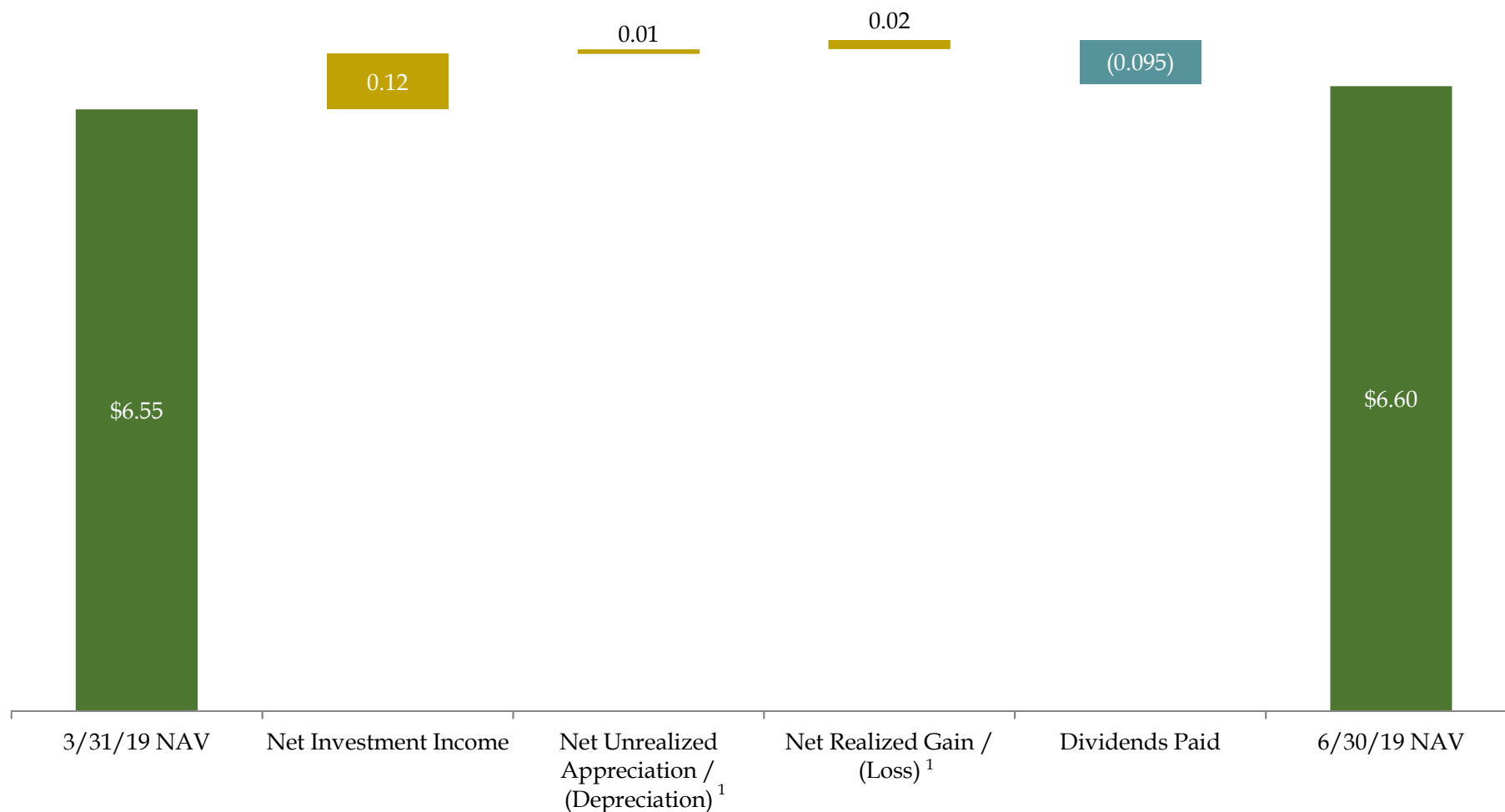
	As of				
(\$ in thousands)	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Investments at Fair Value	\$1,455,031	\$1,504,888	\$1,464,885	\$1,491,201	\$1,520,518
Number of Portfolio Companies	105	110	110	113	116
Average Portfolio Company Debt Investment Size	\$15,400	\$15,000	\$15,000	\$14,800	\$14,500
<b>Asset Class:</b>					
Senior Secured Debt	79.7%	78.9%	80.0%	75.4%	76.0%
Unsecured Debt	7.0%	8.0%	7.8%	11.0%	10.9%
Equity	4.3%	4.2%	3.3%	4.4%	3.8%
Limited Partnership Interests	0.2%	0.5%	0.5%	0.5%	0.6%
Kemper JV	8.8%	8.4%	8.4%	8.7%	8.7%
<b>Interest Rate Type for Debt Investments:</b>					
% Floating-Rate	88.5%	86.3%	86.6%	83.2%	82.9%
% Fixed-Rate	11.5%	13.7%	13.4%	16.8%	17.1%
<b>Investment Activity:</b>					
New Investment Commitments	\$66,800	\$100,000	\$231,100	\$228,400	\$379,800
New Funded Investment Activity <sup>1</sup>	74,100	111,100	162,400	218,400	389,000
Proceeds from Prepayments, Exits, Other Paydowns and Sales	138,300	120,700	208,300	267,500	280,700
Net New Investments <sup>2</sup>	(64,200)	(9,600)	(45,900)	(49,100)	108,300
Number of New Investment Commitments in New Portfolio Companies	3	5	14	13	24
Number of New Investment Commitments in Existing Portfolio Companies	4	1	3	3	4
Number of Portfolio Company Exits	8	4	14	18	28

<sup>1</sup> New funded investment activity includes drawdowns on existing revolver commitments.

<sup>2</sup> Net new investments consists of new funded investment activity less proceeds from prepayments, exits, other paydowns and sales.



# Net Asset Value Per Share Bridge



Note: Net asset value per share amounts are based on the shares outstanding at each respective quarter end. Net investment income per share, net unrealized appreciation / (depreciation), and net realized gain / (loss) are based on the weighted average number of shares outstanding for the period.

<sup>1</sup> Excludes reclassifications of net unrealized appreciation / (depreciation) to net realized gains / (losses) as a result of investments exited during the quarter.

# Capital Structure Overview

## Funding Sources

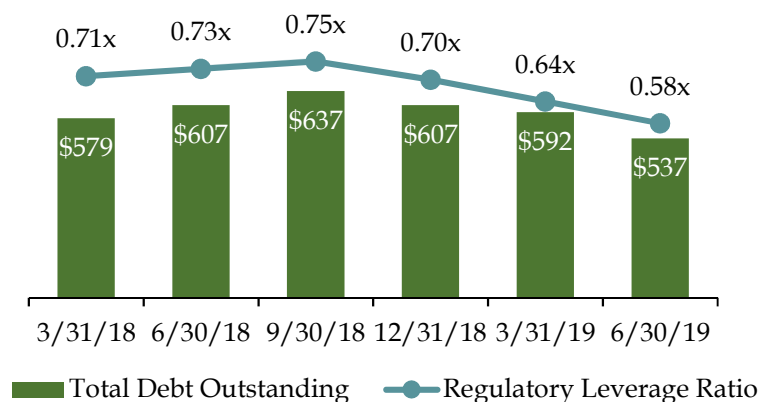
(\$ in millions)

	Committed	Principal Outstanding	Interest Rate	Maturity
Credit Facility	\$700	\$370	LIBOR+2.00% <sup>1</sup>	2/25/2024
2024 Notes	75	75	5.875%	10/30/2024
2028 Notes	86	86	6.125%	4/30/2028
<b>Total</b>	<b>\$881</b>	<b>\$531</b>		

**Target Leverage Ratio: 0.70x-0.85x debt-to-equity**

## Historical Principal Outstanding and Leverage Ratio<sup>2</sup>

(\$ in millions)



As of June 30, 2019

Note: Excludes secured borrowings.

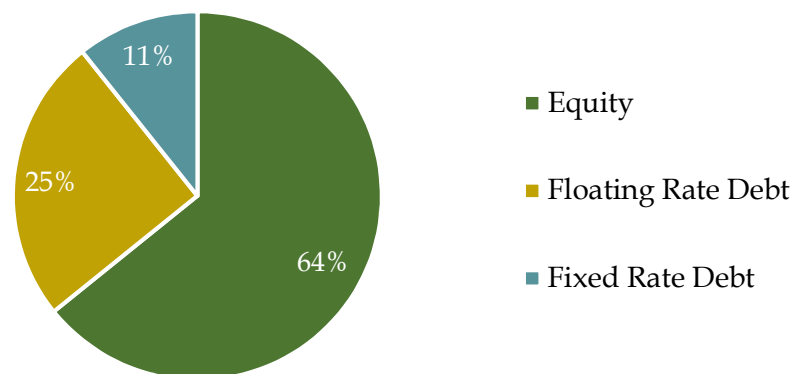
<sup>1</sup> Interest rate spread can increase up to 2.25% depending on the senior coverage ratio.

<sup>2</sup> Represents carrying value of debt, including secured borrowings.

<sup>3</sup> Facility amended, extended and upsized in February 2019 and \$20 million of additional commitments were made in April 2019.

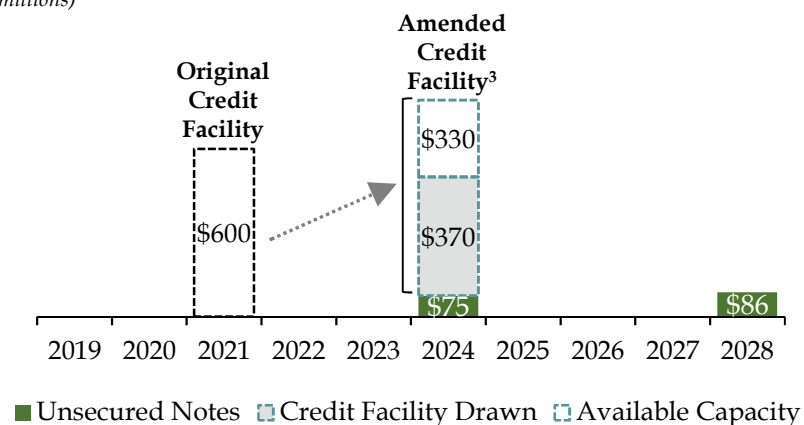
## Funding Sources by Type

(As % of total funding sources)



## Maturity Profile of Liabilities

(\$ in millions)



**No debt maturities until 2024**

# Opportunities to Increase Return on Equity

## 1 Redeploy non-interest generating investments

- \$152 million of non-interest generating investments remain, including \$87 million of non-accruals and \$65 million of equity investments
- Received \$196 million in proceeds from exits of non-interest generating investments since September 30, 2017

## 2 Operate within target leverage range of 0.70x-0.85x debt-to-equity

- Current leverage of 0.58x debt-to-equity is below target leverage range (we would need to deploy at least \$120 million in order to reach 0.70x leverage)
- Continue to be highly selective and patient given competitive market environment

## 3 Utilize additional investment capacity at the Kemper JV

- Continued to position the JV for future growth by upsizing credit facility by \$50 million to \$250 million
- 1.3x leverage (debt-to-equity)
- \$104 million remaining investment capacity (assuming 2.0x leverage)

## 4 Rotate into higher-yielding proprietary investments

- \$20 million of broadly syndicated loans priced below LIBOR + 4.00% as of June 30, 2019
- \$12 million decrease from the prior quarter

**We believe OCSL is well-positioned to enhance return on equity**

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