

**Blue Owl Capital Corporation**  
**Second Quarter 2024 Earnings**  
**August 8, 2024**

---

**Presenters**

**Craig Packer - CEO**

**Jonathan Lamm - CFO**

**Mike Mosticchio - Investor Relations**

**Logan Nicholson - Portfolio Manager for OBDC and OBDE**

**Q&A Participants**

**Brian McKenna — JMP Securities**

**Robert Dodd — Raymond James**

**Mark Hughes — Truist Securities**

**Paul Johnson — KBW**

**Kenneth Lee — RBC Capital Markets**

**Casey Alexander — Compass Point**

**Finian O'Shea — Wells Fargo**

**Operator**

Good morning, everyone, and welcome to Blue Owl Capital Corporation's second quarter 2024 Earnings Call. As a reminder, this call is being recorded. At this time, I'd like to turn the call over to Mike Mosticchio, Head of BDC Investor Relations for OBDC. Thank you.

**Mike Mosticchio**

Thanks, Operator, and good morning to everyone joining. I'd like to remind listeners that remarks made during today's call may contain forward-looking statements, which are not a guarantee of future performance or results and involve a number of risks and uncertainties that are outside the company's control.

Actual results may differ materially from those in forward-looking statements as a result of a number of factors, including those described in OBDC's filings with the SEC. The company assumes no obligation to update any forward-looking statements. Certain information discussed on this call and in the company's earnings materials, including information related to portfolio companies, was derived from third-party sources, and has not been independently verified. The company makes no such representations or warranties, with respect to this information.

Yesterday, Blue Owl Capital Corporation issued its earnings release and posted an earnings presentation for the second quarter, ended June 30, 2024. These should be reviewed in conjunction with the company's 10-Q filed yesterday with the SEC. In addition, the company issued a press release announcing that OBDC has entered into a merger agreement with Blue

Owl Capital Corporation III, or OBDE, our affiliate BDC, also traded on the New York Stock Exchange.

The merger is subject to satisfaction of customary closing conditions, including shareholder approval. We have also posted an investor presentation with additional details about this transaction. All materials referenced on today's call, including the earnings press release, earnings presentation, 10-Q, and merger presentation are available on the Investors section of the company's website at [blueowlcapitalcorporation.com](http://blueowlcapitalcorporation.com). With that, I'll turn the call over to Craig Packer, Chief Executive Officer of OBDC.

**Craig Packer**

Thanks, Mike. Good morning, everyone, and thank you all for joining us today. On behalf of our full team, we are pleased to be sharing not just another quarter of strong results for OBDC, but also a milestone merger agreement between OBDC and OBDE that we believe will provide long-term strategic value to both sets of shareholders.

Before we jump in, I want to highlight some new voices on this call. Mike Mosticchio, who you just heard from, has recently joined our team to serve as Head of BDC Investor Relations. He joined us last month, brings nearly 10 years of BDC investor relations experience, and we are very happy to have him on the team. Additionally, you'll hear later in the call from Logan Nicholson, who is the portfolio manager for both OBDC and OBDE, and was recently named President of OBDC. Logan joined us a year ago and brings two decades of experience in the leveraged finance space.

As always, I'm also joined by Jonathan Lamm, Chief Financial Officer and Chief Operating Officer for OBDC. For today's call, I will start with a brief overview of OBDC's quarterly results and then share some thoughts on why we believe the merger with OBDE is an attractive opportunity in the current environment. Jonathan will then walk through the logistics of the merger proposal and provide more detail on OBDC's quarterly earnings. After Logan discusses our portfolio performance, I will close with some market commentary and concluding remarks.

So, to start, OBDC delivered another strong quarter with \$0.48 of net investment income per share, up \$0.01 from last quarter. Net asset value ended the quarter at \$15.36 per share, and we once again delivered a very strong annualized ROE at 12.6%. Further, our shareholders will receive \$0.43 total dividends for the quarter, reflecting our regular dividend of \$0.37 and the supplemental dividend of \$0.06 as declared by our Board. We are pleased to continue to deliver an attractive dividend yield, which this quarter was over 11%. This is our sixth consecutive quarter of a double-digit ROE and dividend yield, which reflects the benefit of the current interest rate environment, our attractive asset base, and the resilient credit quality of our portfolio.

We have long believed that it would make sense to streamline our BDC platform under the right conditions, and now is the right moment to do that. Both OBDC and OBDE have generated near-record returns over the last year, and they have demonstrated the quality of their

portfolios. The public BDC market environment has been solid, with BDC equities trading at a valuation premium to historical averages, and as an asset class, private credit has performed exceptionally well over the past few years. We believe that all of these elements combine to create the right alignment to deliver on our vision.

While the markets have seen increased short-term volatility over the past week, we remain confident in our portfolios and the value proposition that this merger will offer to shareholders. As Jonathan will elaborate on later, this transaction has also been thoughtfully structured to allow for the best mutual outcome, whatever the market environment. To our shareholders, if you have not spent time evaluating the OBDE portfolio, you will see it is extremely similar to OBDC's portfolio.

OBDE was launched in 2020 and today has a \$4.3 billion portfolio comprised of investments across 207 portfolio companies. Both OBDC and OBDE employed the same investment strategy, and we have been co-investing into both funds since OBDE's inception. As a result, approximately 90% of the investments in OBDE are also in OBDC. We believe this overlap makes this a logical and low-risk transaction for both sets of shareholders.

By combining our two publicly traded BDCs, we plan to streamline our direct lending platform, enhance our scale with a high-quality diversified portfolio that offers significant investment overlap, improve our trading liquidity profile for current and prospective shareholders, increase our access to lower-cost sources of debt, and finally, drive operational efficiencies and cost savings.

We expect that the proposed merger with OBDE will add approximately \$4.3 billion of investments to OBDC's portfolio, bringing total investments to approximately \$17.7 billion. It would also establish our position as the second largest publicly traded BDC by total assets, while achieving NII accretion over time.

We believe shareholders will benefit from the increased scale of the combined company in multiple ways. First, the merger would provide further diversification in our combined portfolio. Upon completion of the merger, the average position size in our portfolio will be less than 40 basis points. Diversification has always been critical for risk mitigation, reducing reliance on the success of any one investment, and this merger strengthens that effort.

Second, we will maintain excellent credit quality in the combined portfolio. Often, adding this much incremental scale comes with increased risk. However, this merger allows us to combine with a high-quality, diversified portfolio that has been managed by Blue Owl since inception, which we believe will meaningfully mitigate potential risk.

Third, we expect the larger market capitalization of the combined company will improve OBDC's trading liquidity. Larger BDCs historically have had higher average daily trading volumes. A larger shareholder base and increased trading volumes should provide enhanced liquidity and flexibility for both existing and new investors.

Fourth, the combined company is expected to have more diverse and efficient access to capital, including potential to access debt financings at more favorable terms. Both OBDC and OBDE are investment-grade rated, and OBDC, as the more mature of two BDCs, received a ratings upgrade in the first quarter of 2024. We expect the increased scale of the combined company to enable better access to a wide array of debt funding solutions at potentially lower borrowing costs.

As I mentioned before, we expect the transaction to be accretive to net investment income over time, driven by operational savings through the elimination of duplicative expenses, which we estimate could be in excess of \$5 million in year one. Over the long term, NII should benefit further from incremental yield as we optimize the portfolio mix and generate cost savings from capital structure improvements. With that, I'll turn the call over to Jonathan, who will offer more detail on mechanics of the proposed merger and our second quarter results.

**Jonathan Lamm**

Thank you, Craig. I'd like to spend a minute describing the proposed merger consideration. The transaction is structured as a stock-for-stock merger with each OBDE shareholder receiving a certain number of OBDC shares to be determined just prior to closing.

At a high level, the merger is structured to allow for both sets of shareholders to benefit. It allows for NAV per share accretion at OBDC and for OBDE to be valued at a potential premium should shares of OBDC be trading above NAV per share at close. On Page 6 of our investor deck discussing the merger, we have included three potential scenarios using June 30, 2024, NAV per share as a proxy for the NAV per share at close. These scenarios show how various trading levels will potentially impact shareholders of both sides.

The exchange ratio will be determined by a formula, which will be struck on an NAV-for-NAV basis if OBDC is trading at or below NAV per share. If OBDC is trading at a premium to its NAV per share, immediately prior to closing, that premium will be shared between the shareholders of both sides. The combined company will continue to operate as Blue Owl Capital Corporation and trade on the New York Stock Exchange under the ticker OBDC.

Subject to Board approval, prior to closing, OBDC intends to continue to declare and pay ordinary course regular and supplemental dividends. Post close, the combined OBDC intends to continue to deliver a regular dividend yield of approximately 9.5%, consistent with today's levels, and to continue to pay a variable supplemental dividend equal to 50% of the spillover income earned in a given quarter.

As a sign of support from Blue Owl, OBDC and OBDE will be reimbursed for fees and expenses associated with the proposed merger, up to a cap of \$4.25 million in total, which will be paid for by OBDC's adviser if the proposed merger is consummated. OBDC's existing \$150 million share repurchase program announced in May will also remain in place. Finally, we are expecting to

close the transaction in the first quarter of 2025, subject to customary closing conditions, including shareholder approval.

Turning now to OBDC's quarterly performance – we ended the second quarter with total portfolio investments of \$13.3 billion, outstanding debt of \$7.5 billion, and total net assets of \$6 billion. Our NAV per share was \$15.36 up \$0.10 year-over-year. Similar to prior quarters, we meaningfully over earned our dividend, resulting in a \$0.06 supplemental dividend for the quarter, and a \$0.06 benefit to NAV.

However, this benefit was more than offset by credit-related markdowns on two investments, resulting in a NAV decline of \$0.09 for the quarter. In terms of deployment, we had \$3.3 billion of originations, offset by \$1.1 billion of repayments. As you'll recall, we had some timing mismatch last quarter, which saw our leverage decline to 1.04x. However, we fully reversed that impact, and leverage is now at 1.2x, near the high end of our target range of 0.9 to 1.25x.

Turning to the income statement – as Craig mentioned, we earned NII of \$0.48 per share, up \$0.01 from the first quarter driven by higher net leverage and solid repayment related income. OBDC also continues to prioritize a flexible balance sheet and well-diversified financing structure. This quarter, we increased OBDC's corporate revolver by \$150 million, adding one new lender. We remain pleased with the strength of our financing partnerships and liability structure. With that, I'll turn it over to Logan for additional color on the portfolio performance.

#### **Logan Nicholson**

Thanks, Jonathan. It's great to be with you all today. To start, as we think about a combined portfolio looking forward, I want to provide a reminder of our investment philosophy across OBDC and OBDE, which will remain consistent upon the close of the transaction. We provide direct lending solutions to U.S. sponsor-backed upper middle market companies in primarily noncyclical sectors, with significant operating histories, while emphasizing diversification by borrower and sector.

We prefer the upper middle market because we believe that larger companies are more durable and better equipped to adapt to different economic conditions. Our borrowers have weighted average EBITDA of nearly \$200 million, and we believe the benefits of this scale are substantiated by our industry-leading loss ratio, which pro forma will be 13 basis points.

I'd note that OBDC and OBDE were constructed by the same centralized team that shepherd investments from origination to exit. As Craig mentioned, over 90% of OBDE's investments overlap with those of OBDC. This centralized approach to portfolio construction and investment overlap should make consolidating these portfolios simple.

With that, I'll spend a minute on the OBDC portfolio today. In line with our commentary in recent quarters, on average, we continue to see steady revenue and EBITDA growth across our portfolio companies. Our borrowers have successfully navigated over a year of the higher interest rate environment and have thoughtfully adapted their business models in response.

Across the portfolio, our average interest coverage remains around 1.6x, in line with last quarter, and consistent with the level we have been highlighting as the expected trough coverage in today's higher rate environment. Our non-accrual rate is 1.4% of fair value of our debt portfolio, reflecting the addition of Pluralsight this quarter, which was a small 37 basis point position.

And finally, the subset of names on our watch list remains steady quarter-over-quarter, and we do not see any material pickup in amendment activity or signs of stress. Our portfolio continues to be stable and resilient, giving us confidence in our ability to deliver strong credit performance and returns for our shareholders going forward. And now, I'll hand it back to Craig to provide final thoughts for today's call.

### **Craig Packer**

Thanks, Logan. I know we've already covered a lot on today's call, so I will spend just a minute on the market environment we experienced in the second quarter. Certainly, the direct lending market is feeling more competitive pressure as the public loan market remains strong, and M&A financing volumes are light. We saw elevated levels of repricing and refinancing activity in the quarter, which reduced spreads. However, we do see signs of stabilization in spreads at current levels.

We continue to find attractive investment opportunities and to deploy capital into large, high-quality companies. Even with tighter spreads, we are earning approximately 11% on new loans. We also continue to successfully originate new investment opportunities to offset repayments toward the higher end of our target leverage range.

While new deals face some economic pressure, one area where we will not sacrifice is on maintaining appropriate levels of structural protection in our documentation and capital structures. Overall, we are confident in how our platform is positioned today, and we expect M&A activity will eventually resume at a more normalized level, which will allow market conditions to ease. Our proven ability to provide significant capital for some of the largest financings will be a real differentiator in this environment.

Having said that, we have all heard what has happened in the markets over the past few days, and I thought it might be helpful to offer some perspective. BDC equities have traded very well up until recently, and that performance reflected BDC's strong earnings and steady credit quality. Although BDCs have traded off recently, we're not seeing any signs in our portfolio to justify this price movement.

To the extent investors are concerned about the economic outlook, we believe that our strategy of investing in a diversified portfolio of first-lien term loans can offer a defensive opportunity in more volatile markets. For those concerned about the potential for an economic downturn, we have consistently been investing in recession-resistant businesses and sectors to buffer our investors from the inevitable economic cycles.

In addition, I also want to highlight that market volatility can be helpful for us as direct lenders. We provide certainty of execution to our borrowers, and the value of that certainty increases as the public markets become more volatile. It is too early to say how long this will last, but we are well positioned with the capital, resources, and long-term investing time horizon to take advantage of opportunities as they arise.

I would also like to highlight that this quarter, our manager Blue Owl announced acquisitions in the insurance and alternative credit spaces. While not directly related to our BDCs, we expect these acquisitions will broaden our coverage efforts as a platform and could incrementally expand the sourcing capabilities of our BDCs.

Since inception, we have believed that our growing scale was a competitive advantage. This scale has allowed us to build a broad origination platform, to bring together a high-quality underwriting team with deep expertise, and to invest in robust portfolio management systems. All this has allowed us to deliver great returns to our shareholders.

We believe that the proposed merger will deliver a more scaled and diversified portfolio to help navigate the dynamic operating environment ahead, while also allowing shareholders to benefit from increased efficiencies and a lower cost of financing over time.

As the second largest public BDC, OBDC will continue to be a market leader. To close, I wanted to highlight that July of this year marked the fifth anniversary since OBDC's IPO. And we are very pleased with what we have accomplished since then. Our portfolio has successfully weathered dramatically different interest rate and economic environments, and it has grown nearly two-fold in size.

Our results today reflect an annual ROE of 12.6%, an increase of approximately 300 basis points from when we went public. Looking forward, we are excited about the prospects of continuing to grow our scale and enhance our returns through our proposed merger with OBDE. We believe now is the right time to merge these two BDCs and create meaningful benefits for both sets of shareholders. On behalf of the entire Blue Owl team, thank you in advance for your support and for joining us on today's call.

#### **Operator**

Thank you. At this time, we will now be conducting a question and answer session. If you would like to ask a question, please press \* 1 from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press \* 2 if you would like to withdraw your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the \* keys. One moment, please, while we poll for questions.

Thank you. Our first question today comes from the line of Brian McKenna with JMP Securities. Please proceed with your questions.

**Brian McKenna**

Thanks. Good morning, everyone, and congrats on the merger with OBDE. So, looking at new commitments at OBDC on a year-to-date basis, there's actually been a healthy mix of new and existing companies, which stands out a little bit relative to some others given the amount of refi activity. Moving forward, should we continue to expect to see a pretty even split for deals between new and existing companies? Or could this even skew more toward new companies as M&A activity continues to pick up?

**Craig Packer**

Thanks, Brian. Appreciate it. Look, we think a real strength of our platform is our origination effort. I think we've shown that in spades since inception. We try to really see everything that's out there in terms of new opportunities. Obviously, when we're either doing an add-on or a refinancing of an existing company, that's an easier underwrite. So, there's a mix.

We very much want to see new names, and we will constantly compare opportunities for existing names and new names from an economic basis. So I think you'll see a mix. The environment in the last six months has been more weighted to refis and add-ons in the market because M&A remains pretty moderate.

If M&A picks up, I think you'll see us skew a bit more towards new names. And probably the refinancings will — the easy refis have gotten done. So over time, I would imagine as M&A picks up, it will skew a little bit towards new names. But we don't preordain this. We'll look at it organically as opportunities come in, and I'm hopeful that we see more new names over the next six months.

**Brian McKenna**

Okay. Great. Helpful. And then a question on the merger with OBDE. OBDC has delivered 10% GAAP ROE since inception. It's clear that the combination will create a number of different synergies here, and then I think you can argue that OBDE's portfolio from a credit perspective is even better than OBDC.

So, from my seat, it would seem that there's a potential to drive GAAP ROEs above that 10% figure. But it would be great, Craig, just to get your thoughts here — how you're thinking about the synergies over time, and how that ultimately comes through in the ROE.

**Craig Packer**

Sure — very gracious question. Thank you. Look, many of you were at our investor day a little over a year ago, and we outlined some steps that we were going to take to drive OBDC's ROE higher. And I'd like to like to point out, we've accomplished those, and we're at 12.6%. It's really strong returns and demonstrates the power of our platform and our ability to try to optimize.

[OBDE], as you highlighted — [OBDE], the portfolio is pristine. As much as I'm proud of [OBDC]'s credit performance, [OBDE] is even better. [OBDE]'s return profile is a little bit less, partly

because it skews more first lien, partly the liability side, it's a little bit less—it's a little bit more expensive given the vintage of [OBDE]'s liabilities.

We think that we'll be able to essentially improve [OBDE]'s return to match [OBDC]'s fairly quickly as we get the benefit of scale on the liability side and continue to optimize [OBDE] on the asset side. And so, I think on a combined basis, I hope that we can take OBDC on a pro forma basis, north of 10%. Today, we're in the 12s. Obviously, rates are a bigger driver than any of that. We'll do—I'd like to think we're going to do a great job to optimize the mix.

But obviously, rates — the rate picture will drive where we land ultimately — and we're looking at what's going on with rates. And like most market participants, we expect rates to come down. We still think we can generate a low double-digit rate of return, even if the rate curve plays out the way it's expected. If it stays the way rates are now, then we should be able to generate a 12% rate of return in short order.

So, I guess, we'll optimize, and we'll optimize for whatever rate environment we live with. But we think that the benefit of combining the two funds is even more scale, more diversification, more power on the liability side, better optimization of expenses. We think we have positioned this fund to be one of the very best performers in the space.

**Brian McKenna**

Okay. Great. I'll leave it there, and congrats again on the merger.

**Craig Packer**

Great. Thanks, Brian.

**Operator**

The next questions are from the line of Robert Dodd with Raymond James. Please proceed with your questions.

**Robert Dodd**

Hi, guys. Good morning. On the merger, the filing so far, the 425 has no change in the fee structure. That's fine. The question is, is it the intent to exclude any discount amortization or discount accretion of premium amortization, depending where the entities are trading at the close, from the calculation of the incentive fee? Or will that all be included in income in the calculation of the incentive fee because that obviously would potentially require some level of change in the nuances of the fee structure.

**Jonathan Lamm**

So, Robert, we've — if you take a look at what we filed in terms of the merger structure, we filed also to make an amendment to the IMA to deal with that. So, it is our intention, based on the approvals that will come forward, for us to adjust for the incentive.

**Robert Dodd**

Got it. I was reading the summary version, the 425. And then the second one, to your point, Craig, you did talk about this at the analyst day almost 18 months ago. I think that ultimately you would like two public BDCs, one diversified lending and one tech. Obviously, the tech is a different topic.

But both [OBDC] and [OBDE] are diversified lending, but there's also the other vehicle. I don't know how much you can say about that. But what's the — do you still feel that you just like one diversified lending publicly traded vehicle? And if there's any color you could add about what that means to the current private version.

**Craig Packer**

Sure. So as Robert pointed out when we did our investor day a year ago – we have seven managed BDCs, and we know sometimes that can create a little confusion. And so, we laid out a bit of a vision that over time, it would make a lot of sense to ultimately have a publicly traded— diversified, publicly traded tech, and two nontraded diversified and tech. So as Robert is asking, we have a private BDC, OBDC II, that is still there.

I'm going to say the same thing I said at the time, which is we continually look at this for each fund – to optimize each fund – working closely with our Board. The Board – I just want to acknowledge our Board spent a tremendous amount of time over the summer thinking through this merger on behalf of OBDC and OBDE – with independent advisers for each fund – and came up with a structure that we think really fit the situation ideally.

And we will continue to evaluate options for all of our funds, including OBDC II, to see if there are opportunities to optimize for each fund individually. It would still make industrial logic to have one publicly traded diversified fund. So, there's no change there. But obviously, as with this transaction, we're going to be super careful and strategic about how we execute on that to make sure it makes sense for both sets of shareholders.

So, we said that a year ago for the funds, and here we are delivering on that with this merger. And if there's an opportunity down the line for two that makes sense, whatever that is, we'll pursue it then. But I don't want to get ahead of ourselves. Right now, we're focused on — we announced the merger, getting that merger closed, and we'll continue to evaluate along the way.

**Robert Dodd**

Appreciate it. Thank you.

**Jonathan Lamm**

Thanks, Robert.

**Operator**

Thank you. The next questions are from the line of Mark Hughes with Truist Securities. Please proceed with your questions.

**Mark Hughes**

Yeah, thank you. Congratulations. Have you gotten any indications what the borrowing cost impact might be? I think the point with the scale, you get better access to capital. Any early thoughts about that, that you care to share?

**Jonathan Lamm**

I mean I think, Mark, as you've probably observed, generally when we've entered into — or we've issued unsecured IG bonds, our bond investors have come back to us, and effectively said that there's complexity in your structure because you have so many BDCs. And so, one of the things that they have been asking for, and looking for is that merger. So, we think that there is — there is low-hanging fruit in the context of these companies coming together to tighten our spreads relative to our peers in the IG space. Is it 5, 10, 15 basis points, somewhere in that range, that's where I'd point you to.

**Craig Packer**

It's true not only on the bond side, but also on the secured finance side. I mean we are — this is going to be an \$18 billion vehicle. It's the second largest in the space. We've delivered excellent performance, not only for our shareholders, but certainly for our lenders, secured and unsecured.

There's significant increase in diversification, which obviously financing sources really like, and we've always carefully managed the fund. So — and by the way, I would say, broadly for the BDC space, BDC bonds in particular, trade wider than they should for the credit quality that they have and that they've delivered on. So, I think collectively, the space should trade tighter. We should trade tighter, and being able to essentially refinance with OBDC's credit quality will also provide upside. So, Jonathan, 10, 15, 20 basis points seems very reasonable to me. I think over time, the quality of the space, it should — liability costs should come tighter over time, in my opinion.

**Mark Hughes**

Understood. Thank you. And then the new commitments in the quarter, any trajectory in loan-to-value or EBITDA leverage relative to the existing portfolio? Kind of what are you seeing out there in the market?

**Craig Packer**

The quality is very good. Loan to value remains really modest depending upon the deal, 35%, maybe 40%. The leverage has been lower generally on new deals given the higher rate environment, so 5.5 to 6x. We continue to finance bigger companies. That's always been our preference. I don't have at my fingertips average EBITDA for the quarter, but I think it will be in line — it will be very much in line — with what we've done historically.

Our ability to do size continues to be a differentiator. Private equity firms really like working with firms that can do the whole deal or most of the deal. But we also had a meaningful —

more than half of the quarter's activity were refinancings or add-ons. And so obviously, those are the same exact statistics. But for the new deals, consistent credit quality, credit stats, size of company – we continue to find opportunities even in a moderate M&A environment to find new investments that we really like.

**Mark Hughes**

And then your exposure to common equity, any change in strategy there post the merger?

**Craig Packer**

No change in strategy. Just as a reminder, for folks that are less familiar, common equity for us, the vast majority of our common equity exposure is equity in portfolios of really diversified underlying assets that are our credit portfolios, essentially. We have an asset-based lending business. We have a life insurance settlements business. We have an aircraft and railcar finance business. So, these are all equity investments from an accounting standpoint, but the underlying risk is really a portfolio of loans, essentially.

And so — that's been a terrific strategy for us to generate really nice ROE and also some potential for NAV accretion over time. So, we like the strategy. I think it's been beneficial to shareholders. We will continue to pursue it. OBDE has much less of it, and so the addition of OBDE will allow us to continue to grow those strategies, but not necessarily increase the percentage.

So, we will continue to invest in these different specialty lending verticals, if you will. And they're also a bit — they're a bit more protected from some of the refi cycle that individual loans face. So, continue on the strategy, if we find new opportunities, we will look at those as well.

**Mark Hughes**

Very good. Thank you.

**Jonathan Lamm**

Thank you.

**Operator**

Yes, thank you. The next question is from the line of Kenneth Lee with RBC Capital Markets. Please proceed with your questions.

**Kenneth Lee**

Hey, good morning. Thanks for taking my question – just one about the merger. Under the NII accretion, you briefly alluded to optimizing portfolio mix. Should we expect any kind of portfolio rotation or streamlining across the portfolio going forward post the merger? Thanks.

**Craig Packer**

No rotation. I mean — we've really had the same strategy since inception: high-quality companies, bigger, recession resistant sectors, mostly sponsor-backed. I think that we'll continue with that. [OBDE] is a little more first lien. We got significant repayments in OBDC's second lien exposure in the first quarter. Folks will remember we got — 40% of our second liens got repaid.

We are going to take advantage of the best opportunities the market brings us but continue to stick to our core strategy. But I would say as the fund is bigger, its ability to take down bigger size gives it purchasing power and allows us to really win the highest quality investments out there, and we'll continue to try to optimize ROE on a combined basis through a mix of mostly first lien, a little bit of second lien, and some of these strategic investments that show up as equity investments.

I think the diversification, I really — I'm going to keep repeating that. I think that's really valuable in the lending portfolio. And so, it will be a similar strategy to what we've outlined because that strategy has worked well, and we're going to just keep executing on it.

#### **Kenneth Lee**

Great. Very helpful there. And just one follow-up, if I may, and you touched upon this briefly in the prepared remarks. The sourcing advantages from the Blue Owl platform — you mentioned some of the potential acquisitions there. Could you remind us again what's being sourced currently? And what could potentially change going forward in terms of either types of assets or loans in terms of the insurance acquisition? Thanks.

#### **Craig Packer**

So OBDC is going to continue to stick to a strategy of direct lending primarily for private equity-backed companies. Cash flow-oriented loans in sectors like software, insurance brokerage, food and beverage, as we have.

Blue Owl, the manager of OBDC has announced two acquisitions. One is in the insurance space, managing money for insurance companies. The second is an alternative credit, which is an industry catch phrase that generally applies to asset-based financing. So, it could be pools of loans, consumer loans, commercial loans, other asset-based lending strategies. We acquired a business called Atalaya that's really a pioneer and a terrific market leader in that space.

The insurance and alternative credit strategies, we'll continue to pursue them, as they have with separate teams and separate investment strategies. And so, it's not going to change OBDC's strategy. But we're going to be a bigger force in the market. We're going to talk to more companies, offer them more options, and I think it will create more opportunities over time that will accrue to the benefit of our diversified lending business and OBDC specifically. So, from time to time, there may be co-investing from OBDC and these other strategies on a selected basis. But I think just in addition to that, the broader sourcing effort will be that much wider. So don't expect a change in complexion, but do expect from time to time, some opportunities that come from this wider effort.

**Kenneth Lee**

Got you. Great. Very helpful there. Thanks again.

**Operator**

Thank you. Our next questions are from the line of Casey Alexander with Compass Point. Please proceed with your questions.

**Casey Alexander**

Yeah. Good morning. Congrats on the merger, and I would observe that the direct listing of OBDE is certainly the most successful direct listing of anything that's been done in the BDC space. So, congratulations on that. My question, and maybe it's just trying too hard, but I think because of the cost of capital difference and the advantageous liability structure of OBDC – that OBDC has a better return on equity than OBDE does. How much of that gets made up by the elimination of duplicative expenses? And then how long do you think it takes to transition OBDE's cost of capital liabilities down to what's more appropriate for OBDC?

**Jonathan Lamm**

It's a great question. And we — just to hit specifically on the synergies, we've outlined in the investor presentation that we expect about \$5 million of operational synergies that will inure to the combined company immediately. We've also talked about our view that the combined company will have the benefits of tightening issuances in the debt market — in the unsecured market.

In terms of accretion or dilution if you're going to — if you want to think about it like that — we don't think that it's dilutive. It's not, given the size of OBDE relative to OBDC. We expect that we'll start to see that NII accretion — if we closed the merger in early '25 — by late '25 and into '26. So, you may have one quarter where there's a slight dilution, but we're talking about minimal, and then accretion from there just given the synergies. And then with respect with financings, 2025 and 2026 are the vast majority of those refinancings. So, you'll see those debt facilities really coming out relatively quickly.

**Casey Alexander**

Great. Thank you. My other question is, I saw in the in the deck that if the merger is consummated before January 24<sup>th</sup>, that, that would waive the lockup on OBDE. And — but my question is — and maybe I missed it — but do you have a timeline for when you expect this to close? And this, I assume, will require shareholder votes of both BDCs.

**Jonathan Lamm**

Yeah. So, we commented that we expect the merger to close in early 2025. So, in January, right around the time of the final lockup release for OBDE. And what you're alluding to is correct, that we're going to need shareholder approval. We're going out for shareholder approval on both sides for [OBDC] and [OBDE].

**Casey Alexander**

Okay, great. Terrific. Thank you for taking my questions.

**Craig Packer**

So, Casey, just to add it, even though you didn't ask it – first, thank you for the kind words on the listing. We appreciate it. We worked really hard at it, and a lot of thought went into precisely how to do it, and we're really excited to take this next step. But thank you for acknowledging the execution so far.

I just want to add to Jonathan's comment, beyond the lockups coming off, OBDE shareholders are going to get significant distributions between now and the close, if this deal closes. We've already announced four special dividends to take place at \$0.06 each, and all those will get paid prior to the merger closing.

And in addition, there will be a distribution – a onetime distribution – essentially for NAV – to normalize the NAV that will get paid at close — prior to close as well. So OBDE shareholders, this \$0.24 of specials, and use June 30 numbers, another \$0.19 of a distribution that will get paid prior to close. That's quite — talking about another \$0.43 per share of distribution. So, I know the merger is a little bit complicated, folks have questions on this, you should call, but for both OBDC and OBDE shareholders, there's a lot to like about this in our opinion.

**Operator**

Thank you. As a reminder, if you would like to ask a question, you may press \* 1 from your telephone keypad.

Our next question is from the line of Finian O'Shea with Wells Fargo. Please proceed with your questions.

**Finian O'Shea**

Hey, everyone. Good morning and congrats. I wanted to unpack a little bit more the optimization idea and what that can mean for the portfolio. It sounded like in your answer to Mark, I believe, it indicated more of a push into specialty finance. Is that right? And how earnestly would that play out? Thanks.

**Craig Packer**

Well, I'm glad you got the question because we definitely didn't want to give the impression that we're changing our strategy. On the asset — Jonathan should comment on the operational and on the liability. But on the asset side, we're going to continue to operate OBDC the way we have since inception. There's going to be no change in strategy, primarily sponsor-backed, upper or middle market lending.

We have already been very active in building out some of what we call our strategic investments, which are some of these specialty finance verticals that you're alluding to. So, we've been doing them. We're going to continue to grow them. We may have opportunities to

do additional ones. But that's not a new thing, and it's not a change in strategy, and there's not a change in complexion of how much.

What I tried to say – maybe didn't do a clear job of it – is OBDC doesn't have any of that today, given its vintage. And so, on a combined basis, going forward – day one, the equity percentage will come down at OBDC because OBDE doesn't have any. And so over time, we can normalize that and get it back to at least the current mix, and we'll continue to grind that a bit higher, but not wholesale higher.

I think we are really selective about the verticals we go into, and we co-invest in those verticals across multiple funds. So it's not — we're not going to dramatically change the mix. So same strategy. We have been deploying OBDE efficiently, but I think now that both funds are fully deployed — fully levered, we can be really disciplined as we add new investments — as we have in the past, and try to improve on spread and overall returns. So, no change overall, just a little bit of optimizing as we fold in [OBDE] and continue to operate OBDC as it has in the past.

**Finian O'Shea**

Awesome. Thanks so much.

**Craig Packer**

Thanks, Fin.

**Operator**

Thank you. Our final question today comes from the line of Paul Johnson with KBW. Please proceed with your questions.

**Paul Johnson**

Hey, good morning. I hope you can hear me okay. I'm not quite sure what happened there. But I'm not sure how much of my question got through, but I was just kind of asking about just the level of leverage in the portfolio, and potentially as well, if you could even share any statistics you may have in terms of payouts or performance and just as underlying companies that are (inaudible) in the portfolio.

**Craig Packer**

So, Paul, (inaudible) I think it's a little bit—still a little bit hard to hear you, but I think that was what your question was.

**Paul Johnson**

Correct. Yes.

**Craig Packer**

Okay. So, our PIK exposure has been pretty consistent over the last handful of quarters at give or take 13%. The vast majority of our PIK investments were structured as PIK at the time of

underwrite for performing credits that we were asked to provide a defined period of flexibility to allow for all or a portion of a loan to be paid in PIK.

It's not something we generally go looking for, but we have the flexibility to offer it — and we — when asked if we think we're getting paid a premium return to be able to offer it, and ultimately will collect on all that PIK interest, we're willing to do it in select circumstances, and that approach is and consistent, hasn't changed — and 80% of our portfolio PIK is that way.

We've had a couple of names in the last quarter or so that we — in the context of negotiating for more trickier credits, we have allowed for a period of PIK. And so that has — I won't say it hasn't happened at all, but it's really a very small portion of our PIK exposure. And in those cases, always or almost always, for providing that flexibility, we are getting more economics.

Sponsors are putting in additional capital into the companies. We're not — these are situations that we think we're getting a real benefit from. Almost all of our — given that 80-plus percent of our PIK are structured that way to underwrite, those investments are performing well. They're not on our watch list. They are marked in the high 90s, as they should be.

And so, we are continuing to do this. It's something that we do because it generates great returns for our investors. Obviously, when these loans are contractually typically required to go cash pay after two or three years, and they do that systematically or they get repaid or refinanced. And so, it's something we do because it generates good returns and we've had a couple of names that have had some — we've agreed to do some PIK for reasons that make sense for those credits.

### **Paul Johnson**

Got it. Appreciate the color on that. And again, I apologize for the tech issues here on my side. At a higher level, I mean just going into speaking a little bit more hypothetical here, but going into like an environment where credit starts getting a little bit more challenged in the space, and potentially sponsors are getting a little bit more desperate to potentially buy time on some of their better investments, but investments that might be kind of temporarily underperforming, how do you sort of think about sponsor concentration as you're building the platform, the funnel, building the business with the pipeline, how do you sort of think about risk management in terms of sponsor concentration, either at kind of the portfolio level or the pipeline?

### **Craig Packer**

So, I think this is a huge strength of ours. The way you avoid sponsor concentration is having a really big fund — like we do, having a very significant team — like we do, and terrific relationships with many leading private equity firms at a senior level, on a day-to-day level — which we do. We cover 500 plus private equity firms and have had a very diversified list of sponsors in our portfolio over time.

So, there's not any undue concentration on 1, 2, 5, 10 names. Obviously, we very much value the relationships we have with private equity firms. And so, I don't want to sound cavalier about it, but we're not dependent on any one or two of those relationships.

I'd just say though, we've lived through COVID. We've lived through a higher rate environment. I feel really comfortable that we will work through challenges with the private equity firms. They're — if they believe in their companies, and the future of those investments, we've regularly come up with partnership-oriented solutions that allow them to keep those companies as long as they want to continue to support them. That's been our experience all throughout our history, and I expect I don't expect any change in that.

And if for whatever reason, on a select basis, that there is a company that's struggling that they don't have the ability to support — well, while that's not our preference, we're set up to take action and protect our investment, including owning companies if we need to. It's not our preference, but we've done it continue to do it. So, I feel like — I don't feel that this is a particular exposure. I feel like it's the strength.

And the private equity firms, I think many private equity firms, while this week's headlines might be worried about the economy, the companies are doing well. Private equity portfolios are doing well. Private equity firms generally don't focus too much on cyclical companies, which is where you'll see some of the pain. If anything, I think the private equity firms are probably looking forward to a bit of loosening of pressure on debt service as rates come down, and I am hopeful that, that will result in a more robust M&A environment.

So, our dialogue with the private equity firms has been positive and hopeful that there'll be more deal activity and generally feeling good about their portfolios — frankly, wanting to keep their companies longer, which is why we haven't seen as much M&A. And I'm not certainly — I'm not detecting any growing anxiety about their portfolios.

#### **Paul Johnson**

Got it. Appreciate that. And last one from me kind of on the point of M&A. Kind of what are your thoughts like going into a recession, if the US were to enter one, in terms of what would happen with M&A activity? Obviously, recession would logically lead to much lower activity. But with rates obviously declining fairly significantly from the peak, wondering if that would stimulate anything just given how long sponsors have sat on their hands with activity so far?

#### **Craig Packer**

Okay. I think the private equity firms, as you said, if we speak to them all the time, we also speak to the LPs and the private equity funds. There's a real thirst from both the sponsors and the LPs to have more realizations. And they're, I think, pretty eager to do that. And the LPs are, I think, pretty eager to get some of those distributions.

So, I'd be willing — I would expect at some point that will pick up in spades. If there's a mild US recession, I don't think that will change that day-to-day behavior for the sponsors. And so again,

we're experiencing growth in our portfolio of companies. Sponsors are as well. Companies are doing well.

They're holding on because they're doing well, and they want to get paid for even better performance. And so I don't think a mild US recession — again, the private equity firms really focus on the growthier parts of the economy, even if there were a mild recession, they could be and — have lots of companies that are continuing to grow, they might be growing quite as much —so I don't think this is— I don't want to say it's my area of expertise, but I don't think a mild recession would result in some delay in the sponsor M&A activities not coming back. But we'll see.

**Operator**

Thank you. At this time, we've reached the end of our question-and-answer session, and I'll hand the floor back to management for closing remarks.

**Craig Packer**

Great. Well, thank you all for joining us today. There's a lot out there. Obviously, with the earnings plus the merger — we put a lot of material on our website, please access that. If you have questions, particularly on the merger, please do reach out. We want to make sure you're well informed, obviously, and just very much appreciate the support. Have a great day.

**Operator**

This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.