Blue Owl Capital Corporation
Fourth Quarter and Full Year 2024 Earnings Call
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Presenters
Craig Packer, CEO
Jonathan Lamm, CFO
Michael Mosticchio, Head of BDC Investor Relations
Logan Nicholson, President

Q&A Participants
Brian McKenna - Citizens JMP Securities
Casey Alexander - Compass Point Research & Trading
Robert Dodd - Raymond James & Associates, Inc.
Mickey Schleien - Ladenburg Thalmann & Co. Inc.
Finian O'Shea - Wells Fargo Securities
Paul Johnson - Keefe, Bruyette, & Woods, Inc.
Mark Hughes - Truist Securities, Inc.

Operator
Good morning, everyone, and welcome to the Blue Owl Corporation Fourth Quarter and Full Year 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. Thank you. You may begin.

Michael Mosticchio
Thank you, operator, and welcome to Blue Owl Capital Corporation's Fourth Quarter and Full Year 2024 Earnings Conference Call. Yesterday, Blue Owl Capital Corporation issued its earnings release and posted an earnings presentation for the Fourth Quarter and Full Year ended December 31, 2024. These should be reviewed in conjunction with the company's 10-K filed yesterday with the SEC.

All materials referenced on today's call, including the earnings press release, earnings presentation and 10-K are available on the 'Investors Section' of the company's website at blueowlcapitalcorporation.com. Joining us on the call today are Craig Packer, Chief Executive Officer; Logan Nicholson, President; and Jonathan Lamm, Chief Financial Officer.

I'd like to remind listeners that remarks made during today's call may contain forward-looking statements and are not guarantees of future performance or results and involve a number of risks and uncertainties that are outside of 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. 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 the Blue Owl team, I would like to extend a special welcome to our OBDE shareholders who are joining us following the closing of the merger in January. I also want to take a moment to thank our BDC team members for all their hard work to successfully close this merger.

We generated strong Fourth Quarter and full year results, driven by the ongoing strength of our portfolio, robust investment activity and tailwinds from elevated interest rates. Consistent with our pre-released preliminary results in January, our Fourth Quarter NII was $0.47 per share, and our full year NII totaled $1.89 per share. We achieved ROE for the quarter of 12.4%, our eighth consecutive quarter of double-digit ROE, and our full year ROE was 12.2%.

As of quarter end, our net asset value per share was $15.26, approximately in line with the prior quarter. Our results throughout the year reflected our attractive asset base and the resilient credit quality of our portfolio, even against an evolving economic backdrop. Further, it's worth mentioning that our non-accrual rate remains well below the industry average.

For 2024, we paid out record dividends totaling $1.72 per share, which reflects a nearly 10% increase year-over-year, while maintaining our stable net asset value per share. Next, I want to take a moment to look back on what we accomplished in 2024. Overall, the year presented some challenges. M&A deal flow was disappointing, elevated base rates led to a focus on credit risk, and a strong broadly syndicated loan market resulted in spread compression.

Despite these pressures, our performance in 2024 was very strong, and we closed the year on solid footing. We originated a record number of investments while maintaining excellent credit quality. We further strengthened our capital structure by upsizing our revolving credit facility and priced our lowest spread unsecured bond offering to date. Importantly, we announced the merger of Blue Owl Capital Corporation III, or OBDE, which we just closed in January.

All the while, we have continued to deliver attractive risk-adjusted returns. We believe our platform, our scale, our disciplined investment approach, our conservative balance sheet and our deeply experienced team is what has differentiated OBDC throughout the year. We have said for a long time that we are built with the goal of performing well in any economic environment. 2024 was a further demonstration of that point.

Additionally, we meaningfully broadened Blue Owl's credit platform in 2024 by expanding into alternative and investment-grade credit, as well as data centers. Together, these new capabilities augment the origination funnel for our BDCs. We have long believed the scale of our direct lending platform is one of our largest competitive advantages. Our strategic efforts at Blue Owl over the past year only strengthened those advantages and further our differentiation.

We are among the select few platforms with the size, resources and flexibility to consistently deliver for shareholders and borrowers alike. With over $135 billion of credit assets under management and our expanded suite of financing solutions, we have become even more important to borrowers and sponsors. This enhanced capacity allows us to better meet the ever evolving and diverse needs of our partners.

With this growth, the trend towards larger deals has been a focus of ours. Rather than spreading capital across smaller deals that don't align with our strategic goals, we are now able to deploy meaningful capital into the opportunities that we have the highest conviction in. For example, across our direct lending business, our average hold size on new direct lending deals has grown from $200 million in 2021 to roughly $350 million in 2024, while the total deal size has nearly doubled from $600 million to over $1 billion during that same time period.

Despite the increase in capital deployment across our platform, our selectivity rate still remains low at roughly 5%. Further, we continue to take a leadership role in most of our deals, leading or co-leading approximately 90% of transactions. Additionally, we have a deep pool of existing borrowers and sponsor relationships we can draw upon for deal flow, providing investment opportunities even during times of modest new activity, as we experienced throughout the year.

To that end, roughly 50% of our originations in 2024 were in existing portfolio of companies. We believe the market will continue to favor of the largest direct lending platforms, and our efforts to grow across both the Blue Owl platform, and our BDCs, will provide a distinct competitive advantage moving forward.

Finally, I want to spend some time on the recently closed merger between OBDC and OBDE, which further enhances our combined company's competitive advantage. Following the closing of the merger, OBDC is now the second largest publicly traded BDC by total assets. This has already led to improved trading liquidity, and we anticipate the merger will drive lower cost of financing and generate meaningful operational synergies moving forward.

Subsequent to quarter end, and in conjunction with the merger close, we released preliminary financial results for both OBDC and OBDE, which reflected ongoing strong performance on a stand-alone basis for both BDCs. The combined portfolio represents a larger and more diversified composition with increased first lien exposure and lower non-accruals than standalone OBDC. All this leaves OBDC poised for continued performance in the years to come.

Looking ahead, as I reflect on all that we've accomplished throughout last year, I feel very positive about the platform and believe OBDC is well positioned to continue to deliver for shareholders. With that, I'll turn it over to Logan for additional color on portfolio performance.

Logan Nicholson
Thanks, Craig. The Fourth Quarter capped a record origination year for Blue Owl despite a muted M&A environment. Across our platform, we committed over $27 billion in direct originations, excluding refinancings, which was roughly double from 2023. In OBDC specifically, during the Fourth Quarter, we deployed approximately $1.2 billion in new investment commitments, excluding joint venture and strategic equity activity.

Notably, we closed several multibillion dollar financings in the quarter. Excluding JV and strategic equity activity, over 97% of this quarter's origination activity consisted of first lien investments based on our view that first lien and unitranche loans continue to provide the most attractive relative value in the market today.

Since last year, OBDC's first-lien investments have grown from 68% to 76% of the portfolio. And when combined with OBDE's portfolio, first lien investments increased to 78% pro forma. We continue to experience a steady level of repayments with $1.6 billion in the Fourth Quarter, highlighting the quality of our portfolio, which kept leverage constant at around 1.2x.

Turning towards our underlying portfolio metrics. Our average investment represents less than 45 basis points of the portfolio, minimizing our exposure to any single company. The median EBITDA of our portfolio borrowers is $119 million and weighted average EBITDA is $201 million, with an average LTV of 44%. As the average size of our borrowers continues to grow, we are seeing a corresponding increase in quality with many of these companies being clear market leaders within their sectors, a quality we continue to identify as important in our decision to lend.

Our borrowers continue to show solid underlying financial performance. The earnings growth of our portfolio companies is a significant driver of credit health. And across the overall portfolio, borrower revenues and EBITDA continue to increase in the mid- to high single digits year-over-year. Additionally, interest coverage remained steady, and based on current spot rates, interest coverage was approximately 1.8x across the portfolio.

We'd note that this is up from our trough coverage of 1.6x. We remain confident in the resilience of our portfolio, even in the face of shifting economic conditions. To that end, I'd like to briefly address the potential impact of tariffs and government efficiency reform on our portfolio. While the situation remains fluid, we believe our portfolio is defensively structured to withstand the economic pressures likely to result from tariffs.

We have limited direct exposure to companies that engage in manufacturing, import goods from abroad or are direct government contractors. The majority of our portfolio companies are services-oriented based in the United States and primarily serve domestic customers, reducing exposure to international trade disruptions. As a reminder, our top sector exposures are software, insurance brokerage, and healthcare, all of which have defensive characteristics. Therefore, we believe the effects of the current scope of tariffs and federal spending cuts on our portfolio to be limited, and our 130-person direct lending investment team is monitoring these risks in real time.

Now, I'd like to touch on some other credit metrics in our portfolio. The non-accrual rate remains low at 40 basis points of the portfolio at fair value, reflecting no new additions this quarter. And combined with OBDE's portfolio, our pro forma non-accrual rate decreases to 30 basis points of fair value. Our internal rating system of one to five, the indicator of the health of the portfolio companies, has also remained stable compared to our recent historical averages. 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 other signs of stress.

Our PIK exposure decreased slightly quarter-over-quarter, and pro forma for the combined company, our PIK income declines further to 12.5%. Specifically, the vast majority of our PIK is by design and the investments in the portfolio are performing as expected and converting to cash pay interest rates as scheduled.

Taking a step back, as we think about the overall health of the portfolio, we remain pleased with our results and the resilient performance of our borrowers in 2024. Credit quality has remained excellent. And as we look ahead to 2025, we do not currently see any meaningful signs of stress which gives us confidence in our ability to deliver attractive risk-adjusted returns for our shareholders. And now, I'll turn over the call to Jonathan to provide more detail on our Fourth Quarter financial results.

Jonathan Lamm
Thank you, Logan. We achieved strong financial performance in the final quarter of the year. Upon the closing of the merger, the size and scale of OBDC significantly increased with total portfolio investments growing to over $17 billion, total net assets increasing to nearly $8 billion and total outstanding debt increasing to over $10 billion.

Our Fourth Quarter NAV per share was $15.26, down $0.02 from last quarter, reflecting the impact of credit-related markdowns on certain investments. We believe the stability of our NAV demonstrates the resilience and quality of our portfolio.

Turning to the income statement, we reported net investment income of $0.47 per share, which was consistent with the prior quarter. Despite lower interest rates and spreads, we benefited from an elevated level of one-time income in the Fourth Quarter, including accelerated OID and dividends, reflecting the strength of our portfolio.

Specifically, we received accelerated OID from repayments, which was about $0.03 per share higher in the Fourth Quarter as compared to our two-year average, along with a onetime dividend from Belron, a small equity investment. These items partially offset a 25 basis point decline in weighted average spreads and a 45 basis point decline in average interest rates quarter-over-quarter.

Similar to prior quarters, we meaningfully over earned our base dividend, resulting in the Board declaring a $0.05 supplemental dividend based on our Fourth Quarter results, which will be paid on March 17th to shareholders of record as of February 28th. Blue Owl also declared a first quarter base dividend of $0.37, which will be paid on April 15th to shareholders of record as of March 31st. As mentioned in prior earnings calls, we continue to believe OBDC is well positioned for the evolving rate environment. OBDC's base dividend is well covered by our earnings with 127% dividend coverage, which was consistent with the prior quarter.

Further supporting our distributions is our spillover income, which remains healthy at approximately $0.39 per share on a pro forma combined basis with OBDE, as a result of meaningful over earnings of our dividends. Moving to the balance sheet, we continue to optimize and enhance our liability structure to deliver strong performance to shareholders. We finished the Fourth Quarter with net leverage of 1.19x, down slightly from 1.23x, and within our target range of 0.9X to 1.25x based on originations that were generally in line with repayments.

Last quarter, we increased OBDC's corporate revolver by $355 million to a total size of nearly $3 billion and tightened effective pricing by 22.5 basis points to SOFR plus 165. We also opportunistically raised $400 million in a reopening of OBDC's March 2029 unsecured notes, bringing total outstanding size to $1 billion. The notes were priced at T plus 163, the tightest spread we've ever printed on a Blue Owl BDC unsecured bond and represents one of the tightest five-year BDC offerings ever.

The notes were subsequently swapped to floating rate, and a portion of the proceeds were used to prefund our upcoming March 2025 maturity. We remain pleased with the strength of our financing partnerships and liability structure. Overall, we remain well capitalized with total liquidity of $3.2 billion at quarter end, which was well in excess of our unfunded commitments.

Additionally, following the closing of the merger, the increased scale of the combined company may enable better access to a wider array of debt funding solutions at lower borrowing costs, with the opportunity to optimize our liability structure over time. Looking ahead, in the coming days, we will file a $750 million at-the-market equity issuance program, which has already been approved by our Board. This represents a cost efficient and accretive tool to raise capital that we will use only under supportive market conditions over time.

Finally, I wanted to take a moment to highlight one of the steps we've taken to make operating our BDCs more efficient. During the Fourth Quarter, we established a joint venture across all of our BDCs and subsequently wound down OBDC's senior loan fund. The result is that we now have a single JV spanning all of our BDCs, creating a more efficient and scaled way to invest. While the senior loan fund generated an attractive return of 10.6% over the life of the investment, we believe there is an opportunity to generate an even higher risk-adjusted return by optimizing our funding profile with lower operating expenses as we invest across a larger and more diversified portfolio.

Additionally, the size of OBDC's investment in this joint venture will be comparable to that of our previous JV with room to grow our allocation over time following the increase in size from the OBDE merger. Overall, we remain very pleased with our results and believe that our balance sheet is well positioned for the year ahead. And now, I'll hand it back to Craig to provide final thoughts for today's call.

Craig Packer
Thanks, Jonathan. As we look ahead to 2025, OBDC is entering the year from a position of strength with increased size, scale, and diversification, all while maintaining excellent credit quality and leveraging the benefits of the Blue Owl platform. While we can't be certain, we expect market conditions to be supportive this year, driving a potential pickup in M&A activity.

Despite spread tightening, rates remain elevated after coming off of their peaks, allowing us to continue earning an attractive return. We are positioned to capitalize on these opportunities in the year ahead, regardless of whether M&A activity picks back up. As you've heard me say today, the significant size and presence of our credit platform allows us to invest even during periods of modest deal activity.

Finally, with the completion of the merger with OBDE, we're excited about the opportunities to further enhance ROE for OBDC. We expect to realize a number of synergies from the merger with OBD, including more than $5 million of operational savings in year one. Additionally, we expect to see reductions in financing costs over time driven by the benefits of increased scale and cost savings from consolidation of our secured facilities.

Lastly, we remain focused on optimizing our portfolio and asset mix for an improved yield, which could include selectively increasing investments in strategic equity and joint ventures and leveraging Blue Owl's adjacent credit strategies for incremental deal flow. As we think about OBDC's fundamental performance, we've been pleased with how the stock has traded following the closing of the OBDE merger. Despite an increase in trading activity, the stock has performed well and is up since the close, which we believe reflects the quality and institutional investor composition of the legacy OBDE shareholder base.

To close, we are very pleased with our Fourth Quarter and full year results and the seamless execution of the merger. We are confident that the increased scale across both OBDC and the Blue OWL platform will help drive further benefits for our shareholders in the years to come. With that, thank you for your time today, and we will now open the line for questions.

Operator
Great. Thank you. At this time, we will be conducting a question-and-answer session.

First question here is from Brian McKenna from JMP Securities. Please go ahead.

Brian McKenna
Thanks. Good morning, everyone. So, you delivered pretty impressive results throughout all of 2024. Anyhow, with some of the macro headwinds at the year-end, you delivered an NII ROE of 12.4% in the Fourth Quarter. I know there's a lot of moving pieces in the outlook, and the

backdrop can shift here. But given the benefits of the OBDE merger, as well as the strength in the underlying portfolio, what do you think OBDC can deliver in terms of ROEs in 2025 and beyond?

Craig Packer
Hey, Brian. Thanks. That's a very generous question. We appreciate it. Look, we are really pleased with our results all year long and the Fourth Quarter. I mean, there were headwinds in the Fourth Quarter on rates and spreads. And despite that, we had some really nice additional income from some repayments from a dividend from a portfolio company. And so, we really offset all of that in the Fourth Quarter.

I think looking ahead to this year, those headwinds will persist, rates are lower. The forward curve has them staying lower, and the lower spreads, I think, are here for the near-term foreseeable future. So that will impact results. We've shared some sensitivity analysis with our 10-K and the like. But directionally, for us, I think that takes a 12-ish, low 12s ROE and puts it somewhere in the 10s, if everything stayed exactly the way it was right now for the rest of the year, for all this year.

Now, history tells us it doesn't always stay that way. So, you've got to have your own view on rates and spreads and activity levels. We talked a lot at the time of the merger about the benefits of the merger; not only some cost savings, but some ability to optimize the combined portfolio. OBDE, it was really a strong portfolio, but on the margin, a little bit lower returning, a little bit more first lien in nature, just a bit more conservatively structured.

So, we expect to migrate the combined portfolio to what essentially like OBDC looked previously, and we've outlined this at the time of the merger. As we do that, as we benefit from our scale, lower financing costs, we think that we can generate another 50 to 75 basis points of ROE as we implement on that plan, and that should offset some of the reduction in returns from simply lower rates and lower spreads.

So, those are the parts. Again, I always caution investors, you have to look at this all relative. Rates are lower. So, our returns at 10% to 11% are equally attractive as they were at 12% relative to other asset classes. The lower rates and lower spreads are affecting all income-generating activities. So, I think that will continue to be strong performance relative to our peer group.

Brian McKenna
Okay. That's helpful. And then, Craig, at the Blue Owl Investor Day two weeks ago, you talked at length about the evolution of the direct lending platform and the journey to $100 billion of AUM over the past decade. It's clearly been a great success story. But as you frame it, there's still a lot of growth opportunities ahead. So within that, how does the evolution of your public BDCs from here play into growth of the broader direct lending platform longer term?

Craig Packer
So, OBDC was our very first vehicle. In many ways, it's a flagship in that it's the most visible. We're really quite proud of the performance we've delivered now coming up to close to 10 years in

demonstrating our track record and investment performance and the returns. And so, we're going to continue to execute on that plan for OBDC and stick to the strategy that's worked so well.

I do think at the Blue Owl level, while not directly related to the BDC, we've significantly expanded our capabilities in credit. Historically, Blue Owl was really a direct lending credit shop. That was almost all of our assets. I think we've built a really terrific business and a market leader in direct lending, and we intend to continue to be that market leader in terms of investment in the team resources, relationships. The scale that we can offer, very few in the industry can match. And that is a significant competitive advantage working with private equity firms that want to work with scale providers.

We're also benefiting from greater incumbencies. So, we're going to keep doing what we've been doing well in direct lending. And I think the environment is going to continue to favor really a small handful of the largest platforms, of which we’re one. However, we've also now significantly expanded our credit capabilities getting into alternative credit, or some will call it asset-based credit, as well as investment-grade credit, data centers. There are a number of other offerings we have at the Blue Owl level that we can offer to companies of all sizes, and not only private equity-owned companies, but also just privately held technology businesses.

And so, all these investment capabilities will expand our funnel. They're going to make us more relevant to borrowers or to counterparties. And we're already seeing this and getting some really interesting inbounds for folks that want to access our capital, which will provide opportunities for our direct lending business. Just more velocity, more flow, and we can offer a nicer menu of solutions.

If you think about our investment in the data center space, this is a space where there are literally tens of billions of dollars worth of capital needs, really hundreds of billions of dollars worth of capital needs. And we're not going to stray from our investment strategy at OBDC, but we do think there may be opportunities to have loans that have similar credit characteristics and return profile in the BDC. So, I think we can leverage that wider funnel by sticking to our core strategy at OBDC.

Brian McKenna
Okay, great. I’ll leave it there. I appreciate the color.

Craig Packer
Thanks, Brian.

Operator
Our next question is from Casey Alexander from Compass Point. Please go ahead.

Casey Alexander

Yeah, good morning. And first of all, congratulations on the merger. As an observer of many of these transactions, I would call that probably the most seamless transition from a direct listing to merged into a greater scale vehicle that we've seen. So, congratulations to your team for achieving that with a minimum of disruption. I think that was very impressive.

My first question is we're seeing the Fed rate cuts flow through the portfolio, and we know that there's a little bit of a delay in how they come through. As of the end of the Fourth Quarter, where would you say the portfolio is in terms of fully recognizing those resets? Is it 50%? Is it 75%? I mean, how far along the path of recognizing that 100 basis points of portfolio resets in the portfolio are you at as of the end of the Fourth Quarter?

Craig Packer
Yeah, it's a little more than two-thirds, Casey. About 70% of the [inaudible].

Casey Alexander
Okay. Secondly, where are onboarding yields? Are we at spreads that are really below average? And how much does M&A and deal flow have to increase for spreads to move back to a more normalized level?

Craig Packer
So, I think that there's a couple of reasons why spreads are tight today. One is, as you are suggesting, M&A remains really moderate. So most of the activity – there's some new deal activity. There's also add-on acquisition activity, but there's not enough, and it's long overdue that there's a recovery, and I think at some point, we'll see that.

But the other factor is the strength of the broadly syndicated loan market. Folks that follow that market know there's been a record CLO creation, record activity in the public loan market. And that does – we do compete with that market in terms of the solutions we offer to borrowers. So, I think that that strength in that market has also played into the spread tightening that we've seen.

I think if you looked on a historical basis, spreads today for new unitranche are coming at 475 [basis points], maybe 500 [basis points]. That's on the low end of what you would see historically. However, if you compare it to spreads in the broadly syndicated market, they're still 150, 175 basis point premium to the broadly syndicated market. So, I think you have to keep that perspective as well.

Are spreads tight? Sure, but spreads everywhere are tight. And so, I think direct lending and BDCs continue to offer really attractive risk-adjusted return. And personally, I think that's one of the reasons why the stocks are performing as well as they have. They're generating really attractive returns. Even at those tighter spreads, base rates remain high. And so, for first lien unitranche lending for upper middle market companies, you're earning 10%. And I think that that's really attractive.

So, I think that – my hope and expectation will be either an increased M&A environment or a loosening of the syndicated loan market will allow spreads to sort of come off the bottom. And if both of those things happen at once, then I think spreads could widen meaningfully and get back to something that we would find more attractive.

Casey Alexander
All right. Thank you for taking my questions.

Craig Packer
All right. Thanks, Casey.

Jonathan Lamm
Thanks, Casey.

Operator
The next question is from Robert Dodd from Raymond James. Please go ahead.

Robert Dodd
Hi, Craig, and congrats on the quarter. I think I agree with Casey on the execution of merger. In terms of the portfolio as it stands today – to your point, there's been a lot of turnover in the portfolio over the last year. Congrats on all the originations to offset all of that.

What proportion of your portfolio, would you say is still legacy assets that are above market spreads today? Those market spreads are pretty tight, the 475, 500 basis points. How much of the portfolio is left that could theoretically reprice in this environment versus some of those higher spread assets, obviously are – they're going to be higher spread assets, but any color on that?

Logan Nicholson
Thanks, Robert. It's Logan. So, we looked at the portfolio. If you look at our refinancing volumes over the last four quarters, we've been averaging double-digit percentages of the portfolio in terms of refinancing volumes. When you look at our book and we think about the names that could still be at risk of an opportunistic refinancing and a lower spread, we think that that number is somewhere in the 10% to 15% range of the book.

So, we've actually worked our way through what we think is most of the low-hanging fruit on the refinancing wave. And we're already seeing the refinancing volumes slow here a little bit in the early parts of the year. So, there are still some names, but we think we've worked our way through the vast majority of the higher spread names, and there's still some left. But it's a small percentage of the book, call it, 10% to 15%.

Robert Dodd
Got it. Thank you for that. One more, if I can. In your prepared remarks, you talked about potential increased strategic equity investments. Obviously, you've commented on other things,

the platform as a whole has expanded. Is that contemplating, obviously, increasing equity commitment to the JV potentially, but looking into 2025, are you going to be making significant new – kind of – portfolio company creations to take advantage of other verticals that you now have on the platform that maybe you didn't in the past?

Craig Packer
So, for folks that don't necessarily pour through our 10-K really, really closely, when we talk about joint ventures and strategic capital investments, the strategic equity investments are investments we've made at the BDC level that are in specialized investing strategies where, technically, our investment is an equity investment, but we're owning businesses that are fundamentally doing lending and doing it in a very diversified, we think, attractive low-risk way.

There are pools of loans. So this is Wingspire, our asset-based lending business. This is Amergin, which is our railcar and aircraft finance business. Fifth Season, which buys life insurance settlements. We have a relatively new one called LSI that essentially does drug royalty investing. So, the underlying activity for each of these, we think, has the same high-quality, predictable characteristics as our loans.

We are investing in a portfolio because we're investing to support really experienced management teams that are experts in the space that are essentially portfolio companies at the BDC. As we've grown, we have created the flexibility to invest across multiple BDCs, which allows us to achieve even greater scale. So, that's the strategic investments. They're very accretive, and they're not correlated to the rest of the book because each of the asset classes has their own characteristics that are not completely correlated to our unitranche direct lending.

So, we think that they're attractive and should deliver low double-digit returns and also create the ability to generate net asset value over time. And you've seen that with Wingspire, which has performed extremely well. So, the easiest thing for us to do is to just take the – essentially OBDE was not in those investments. And now, that it's merged in with OBDC, we can essentially just true up the overall percentage of the portfolio now that it's bigger. That's easy.

Your question is, will we also have additional ones? And the answer is, no immediate plans, but I think that we would welcome the opportunity to have additional verticals that are benefiting from some of the capabilities that we now have as part of the Blue Owl platform and set up potential additional equity investments.

So again, no immediate plans, but over time, if we can find – they're hard to find ones – we have a very high bar. We're very picky. So, we want to work with great teams, and we want to work with in asset classes that can generate very predictable income streams. We generally prefer corporate business type risk versus consumer type risk. So, these narrow the universe. We get calls all the time from teams that want to be part of our platform, and we're really selective on where we engage. So hopefully, that gives you a bit of a flavor.

I also want to come back to, if I could, come back on – I appreciate the congratulations on the merger. And Casey, you also mentioned this. I just want to come back to this. I mean, the team worked really hard on the merger – listing the merger, which we appreciate. And we appreciate – we thought it went extremely smoothly. But even more to the point, we're really pleased with how well that has been received in the public markets.

OBDC stock is trading higher now than the top of the merger. OBDC stock is trading above book value. The history of mergers in the BDC space has not typically led to that outcome. It has typically led to disruption in the stock. And so those looking at the merger, I think, may have taken a bit of a skeptical view about how the stocks would trade, how OBDC would trade as a result of the merger. We felt it would be different because we know that the investor base at OBDE is high-quality, institutional in nature, and long term in orientation.

We also know that OBDC is trading below the peers. And so, we felt that that investor group would look at this and be patient and not be a seller. And I think it's early, but I think that's exactly what has proved out. The average trading volume at OBDC is twice what it was pre the merger, and the stock is up post the merger. And so, I just think for those that are not following this and wondering and seeing news around a merger, what does it mean? Again, early days, but I think we feel not only great about the technical execution, but the fundamental value that this has created for OBDC shareholders, and we're hopeful that will sustain and grow on that.

Robert Dodd
I appreciate those comments, Craig, even though is [inaudible]. Thank you.

Craig Packer
Alright, Robert. Thank you.

Logan Nicholson
Thanks, Robert.

Operator
Our next question is from Mickey Schleien from Ladenburg Thalmann. Please go ahead.

Mickey Schleien
Good morning, everyone. A lot of good questions already. I just have one left, Craig. Obviously, BDC earnings season is not over. But anecdotally, it looks like there may be a little bit of a trend of some credit deterioration across the sector. Perhaps not at OBDC, but given the scope of Blue Owl, and taking into consideration that some of this may be due to vintage, do you get any sense that the economy is starting to slow down at the margin?

Craig Packer
I don't get that sense. We across – I don't know – probably 400-plus portfolio companies for what we see, we continue to see modest growth in revenues and EBITDA. I hasten to add that we and most of our high-quality peers are not really a reflection of the U.S. economy. We harp on this,

software and health care and food and beverage and insurance brokerage. We don't have, and most of our peers don't have the cyclicals, or the true really consumer-facing businesses where you would see maybe the first signs of weakness.

So we're not seeing it, I still feel good about it. But I think there's a lot that's happening at the macroeconomic level that I think is creating some uncertainty for businesses out there, and we're certainly waiting to see, hopefully getting a little more clarity about some of the changes afoot out of Washington. But no, we're continuing to see good performance.

My observation would be where you're seeing just a modest increase in issues for others. I think it just tends to be credit idiosyncratic, a function of higher rates that have impacted weaker-performing credits that just after two years of higher rates, some of the weaker-performing credits, I think, have had struggles, not some broader read-through of economic weakness, at least from where we sit.

Mickey Schleien
That’s really helpful. Thank you for that clarification.

Craig Packer
Sure. Thanks, Mickey.

Operator
Next question is from Finian O'Shea from Wells Fargo. Please go ahead.

Finian O'Shea
Hey, everyone. Good morning. A question on the platform tech strategy. That felt like a pretty good origination advantage in the past, and understandably, perhaps less so in the past couple of years. But can you talk about the potential for a comeback there to the extent you're seeing the market volumes looking forward and what that might mean for the strategy?

Craig Packer
We have, we think, the premier, really, software lending business. We've invested heavily in our team and our resources. As folks – I think – know, we have three BDCs that just do essentially software investing. We've announced two of those are merging, and so that's very much on track. We've talked about that. Across the direct lending platform, it's by far the largest sector, but we do it not only in our tech funds, but we do it in a small way in our diversified funds. It's been a great performer.

The fundamentals of those businesses have been very strong. We continue to find it to be attractive risk-adjusted return, and we continue to find it to be an area where differentiated underwriting expertise matters. The companies, generally, they're scaling, they're investing, you need teams to really understand and be able to pull apart at a very granular level, the different business models and picking ones we think we'll be successful.

And our team has a great track record in doing that, and they continue to do it. And the portfolio companies have been doing really, really well. And so, we feel really good about our software portfolio. Look, M&A is down every sector, and software is no exception. I think at some point, the companies in the space continue to grow by doing acquisitions. They're smaller, but obviously those incumbencies are quite valuable to us.

And the companies also have performed well. And so, there's refinancing opportunities that we've been pursuing. We'd all like to see more de novo M&A or really to sell portfolio companies that generates opportunities to do a brand new financing at modest levels. I think it will pick up.

When it picks up, I think we'll be extremely well positioned. In the meantime, we've got a portfolio we feel really good about. It's performed well, and funds that are finding ways to deploy capital.

Finian O'Shea
Thanks. That's helpful. And a follow-up on – in your remarks, you highlighted the incumbency advantage and seeing if that suggests that – if you could say what the picture is like for your commitments to existing borrowers, maybe perhaps large-cap peers, feels like half sort of where you are in that evolution and where you think you're going. Thanks.

Logan Nicholson
Yeah. No, thanks. It's Logan. We did experience about half of our volumes on the origination side last quarter from incumbency. And I think you're continuing to see that flywheel effect of add-on issuance and existing borrowers driving results. Certainly, we like to be the admin agent and the lead, and we're a lead or co-lead on 90% or so of what we do. And so, we have that first call relationship with the borrowers. And I think that number of incumbency transactions is going up and will continue to go up for us.

It certainly creates a funnel of activity for us and origination advantage. And I think this year, in particular, with M&A low, we really showed some differentiation on our platform in terms of originations. And a lot of that came from those incumbencies.

Finian O'Shea
That's helpful. I actually have – if I could sneak one more in. On the post-quarter announced ATM program, can you talk about your posture on how you would operate that – if it's one of the sort of tools in the capital raising kit for just-in-time funding, or maybe a sort of ongoing all-in kind of approach as seen with some of your large-cap peers?

Jonathan Lamm
Yeah. I think that you should have – as a finance company, you should have all tools available to you in the context of raising capital, both on the debt and the equity side. And within equity, we definitely think that the ATM program is the most efficient form in terms of issuing, as you described, Fin, just-in-time capital. We definitely plan to use the ATM program in a way that is going to be beneficial for shareholders.

It creates accretion to the net asset value when you're issuing above book value. You're not taking discounts in terms of the way that you sell the stock. It's being sold into the market in a much more efficient way. You can utilize it when you can see that you've got a pipeline of investments building; you're towards the higher end of your target leverage ratio, and you could raise capital so that OBDC can participate in investments that the platform is originating as opposed to taking a placeholder investment can actually take an investment of a decent size.

We see it in exactly that way. We think that this tool is something that will be beneficial for us over the years to come. Now that we've got the merger out of the way, and we've seen how well the stock has performed, we said this is the right time to announce it and make sure that it's there for when we need it. You can see that we do manage our – we've managed and have had our leverage toward the top end of our target range. And so, this just gives us that tool to the extent that there are opportunities for us to deploy to be able to utilize a program like this.

Finian O'Shea
Thanks so much.

Operator
Our next question is from Paul Johnson from KBW. Please go ahead.

Paul Johnson
Good morning. Thanks for taking my questions. Just one more on the ATM. I imagine you'll be issuing above book value. But just to clarify in terms of how you issue on a net basis, would you be issuing in any way where it would be dilutive just with the spread that you're paying on issuance, or plan to be issuing well above that?

Craig Packer
Never. It's a fundamental principle of this program for us is that we're going to be on a net basis issuing above book value. It will be accretive. It will not be dilutive.

Paul Johnson
Okay. Thank you for that. And then on the several multibillion-dollar deals that were done during the quarter on the Blue Owl platform, were these new acquisitions or were these refinancing deals essentially out of the syndicated market? What was kind of the nature of those – the larger multibillion deals?

Logan Nicholson
Yeah. Two examples were public to private transactions. You may have seen the publicly announced Catalent transaction. So, public took private by Novo, as well as the Squarespace, which closed in the quarter, taken private by Permira. So public to private, new borrowers, new transactions, not refinancings. There was a third one that was a private insurance brokerage transaction, also a new money deal for us. So, all new borrowers. I believe we added seven or eight new borrowers to the portfolio this year.

So, we've certainly diversified the portfolio and found new names and certainly gained share in terms of how we've seen new companies choosing to go direct relative to the syndicated market despite those syndicated markets being wide open, as Craig mentioned. We've seen certainly the majority of choices go direct. And those examples of those deals were some of those new LPOs.

Paul Johnson
Thank you for that. And then just higher level, I was wondering kind of just how amendment activity trended for the quarter, if there was any significant difference from the trend throughout the year or anything that would be worth highlighting there. And that's all for me. Thanks.

Logan Nicholson
Sure. Amendment activity was flat quarter-over-quarter for us. We really aren't seeing any uptick in what we would characterize as material amendments. So, we've seen a couple of those a quarter for really the last year, and we haven't seen any changes in activity levels. So, nothing to look at from a KPI perspective where we would be concerned.

Operator
Great. Thank you. Next question here is from Mark Hughes from Truist Securities. Please go ahead.

Mark Hughes
Yeah, thank you. Good morning. The spreads, at least as you disclosed in the presentation, were up 10 basis points sequentially in the Fourth Quarter. And as we're just talking about the – you did a number of bigger deals. Had spreads stabilized? Gone in the other direction? Is that a mix issue? How would you describe that?

Logan Nicholson
I think they've stabilized would be how I would characterize it. We find ourselves in that 475 to 500 basis point spread environment for new deals for really the last 3 quarters of the year. And when we've refinanced transactions, they are at higher spreads. Oftentimes, we're able to refinance with incumbencies slightly higher, or for credit specific reasons, there's a slightly higher spread. So, it's really the small changes in spread in terms of our deployment are really, I think, just a mix and deal mix specific, but not a trend. Spreads have been stable in our view for basically the last three quarters.

Mark Hughes
And a question with a lot of the refi that's been going on, how much have you seen sponsors taking equity out of the companies, maybe limiting some of that pressure on new deals or overall M&A activity just with the refi withdrawing equity, using that to maybe in the short term, at least, satisfy the LPs. Is that anything to note in the broader market?

Craig Packer

I don't think that's going on in any large scale way that would be – to give you some sense – there – for the most part, the refis are like-for-like companies trying to take advantage of lower spreads, maybe create a little actual liquidity for acquisitions, do a small acquisition, I'm sure that – yeah, there are some where there's a modest dividend. But no, we're not seeing any significant wave of refinancings where, you know, so sponsors can take capital and return to LPs.

Look, the sponsors would like to return capital to LPs. It's a very front-of-mind issue for them and for the LPs. They're eager to do it, but I think that there is a concern for many sponsors about valuation that they'll get if they exit. And so they're just holding off. The companies are performing well, and they're waiting until they get more confidence on exit. So, there may be a few select instances where they were taking some money out in the meantime, but that's not a big wave from our perspective.

Mark Hughes
Thank you.

Craig Packer
Thank you.

Operator
Thank you. This concludes the question-and-answer session. I'd like to turn the floor back to management for closing comments.

Craig Packer
Okay. Thanks all for joining this morning. We really feel great about our quarter. I appreciate the chance to have some time this morning. If you have any follow-up questions, we're easily accessible and look forward to talking to you more in the future.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you again for your participation.