

Blue Owl Capital Corporation
Q2 2025 Earnings Call
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Presenters

Michael Mosticchio – Head of BDC Investor Relations
Craig Packer – CEO
Logan Nicholson – President
Jonathan Lamm – CFO

Q&A Participants

Brian McKenna – Citizens
Arren Cyganovich – Truist Securities
Robert Dodd – Raymond James
Mickey Schleien – Clear Street
Casey Alexander – Compass Point
Finian O'Shea – Wells Fargo Securities
Christopher Nolan – Ladenburg Thalmann
Paul Johnson – KBW

Operator

Good morning, everyone, and welcome to Blue Owl Capital Corporation's Second Quarter 2025 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. Please go ahead.

Michael Mosticchio

Thank you, Operator, and welcome to Blue Owl Capital Corporation's Second Quarter 2025 Earnings Conference Call. Yesterday, Blue Owl Capital Corporation issued its earnings release and posted an earnings presentation for the second quarter ended June 30th, 2025. These should be reviewed in connection with the company's 10-Q filed yesterday with the SEC. All materials referenced during today's call, including the earnings press release, earnings presentation and 10-Q are available on the 'Investors' section of the company's website at bluelowlcapitalcorporation.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, which 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.

Craig Packer

Thanks, Mike. Good morning, everyone, and thank you all for joining us today. We delivered solid Second Quarter results, driven by the continued strong performance of our portfolio. As a reminder, our Second Quarter results reflect the first full quarter of combined company results following the merger with OBDE that closed in January.

In the Second Quarter, we achieved an ROE of 10.6%, our 12th consecutive quarter of double-digit ROE, based on adjusted NII per share of \$0.40, reflecting the ongoing strength of our earnings power. As of quarter end, our net asset value per share was \$15.03, down \$0.11 from the prior quarter. Our portfolio continues to perform well, which we believe is a reflection of our investment approach that emphasizes downside protection by focusing on large, highly diversified, recession-resistant businesses.

The modest write-downs in Q2 occurred on a few companies that have been on our watch list for several quarters, including some that have been impacted by tariffs. None of these are new underperforming names. In fact, given the uncertainty around tariffs, we are quite pleased with how our portfolio is performing, which is in line with our expectations given our business mix.

Overall, the fundamental performance across our portfolio remains strong, and we are not seeing any broader signs of stress. As Logan will dive into later, our borrowers continue to experience healthy fundamental trends, including solid revenue and EBITDA growth. OBDC's great credit performance, as evidenced by our below industry average nonaccrual and loss rates, is a result of our defensive strategy focusing on high-quality, upper middle market businesses.

Next, I want to talk about the current market environment and how we are approaching it. 2025 has been a more challenging deal environment, as muted M&A has weighed on overall deal activity. Despite limited new supply and a strong broadly syndicated loan market, the spread pressure we experienced last year has troughed and generally stabilized. That said, our sourcing capabilities, which are enhanced by our scale across both Blue Owl Capital and our credit platform, allow us to continue to generate attractive deal flow.

As you've heard me talk about over the past year, we have expanded our broader business into other complementary strategies, including alternative credit and investment-grade credit, as well as data centers and digital infrastructures. With our expanded suite of products across the platform, we're able to access new, attractive investment opportunities, while also adding

financing tools that are valuable to our borrowers and sponsors. Given our deep expertise in these areas, we are able to better meet the diverse and ever evolving needs of our partners, which is especially important considering the more muted deal environment we have experienced this year.

Our growing solution set has generated novel origination opportunities for our BDCs. While we aren't changing our fundamental strategy at OBDC, we are currently evaluating cross strategy opportunities. And at quarter end, we formed a cross-platform equipment leasing joint venture. This is an example of how Blue Owl's in-house expertise enables us to explore strategic equity and accretive joint venture investments that have the cash flow and credit profiles to provide consistent income, which is one of the hallmarks of our investment strategy.

Following the OBDE merger close earlier this year, we have incremental capacity to execute on these opportunities. Select strategic equity and joint venture investments enhance our diversification and expand our reach in new investment areas that are unique to the Blue Owl platform and complement our core sponsor deal flow. To close, we believe our experienced team, defensively constructed portfolio, disciplined underwriting, and highly durable funding model have positioned us to deliver strong risk-adjusted returns regardless of what lies ahead.

Now, I'll turn it over to Logan for additional color on portfolio performance.

Logan Nicholson

Thanks, Craig. Despite deal activity being relatively subdued in April after the initial tariff announcement, we continue to find attractive opportunities to commit capital in the Second Quarter. We deployed approximately \$1.1 billion of new investment commitments, with \$906 million of fundings in the second quarter. We also saw a steady flow of repayments with \$1.9 billion of paydowns this quarter, which resulted in net leverage landing at 1.17x.

As you recall, reducing leverage back down to our target range was a priority following the one-time leveraging event from the merger with OBDE earlier this year, and we now have ample capacity to navigate going forward. As Craig mentioned earlier, our scale and incumbency creates a unique advantage. And in the uncertain market environment that persisted throughout the Second Quarter, the majority of our originations came from existing borrowers.

A recent example of this was Trucordia, an insurance brokerage firm that has been part of the Blue Owl portfolio since 2020. At inception, we provided a creative financing solution that included a cash pay debt component, plus an intentionally structured PIK component and a common equity co-investment. In the Second Quarter, the company completely recapitalized resulting in the payoff of our term loan, the collection of all accrued PIK interest on that loan, and the realized gain on our common equity position. Additionally, the existing preferred equity investment was refinanced.

Overall, the transaction resulted in an IRR in the low double digits and a MOIC of approximately 1.4x across our entire investment. This is yet another example of how structuring deals with PIK at inception can lead to more attractive returns. Additionally, given our deep and long-standing relationship with the borrower, Blue Owl was able to provide a new second lien term loan behind a broadly syndicated first lien, as the sole lender in that tranche. The transaction highlights the strength of our incumbencies and our ability to provide customized flexible solutions to deliver attractive risk-adjusted returns for our shareholders.

Before we turn to the portfolio, as Craig noted earlier, we formed an equipment leasing joint venture at quarter end. It will allow us to efficiently invest in a diverse pool of high-quality equipment leases with a dedicated leverage facility. We expect it to generate attractive low double-digit yields once fully ramped, which should be accretive to fund level ROEs over time. This is yet another example of how we leverage the breadth of the Blue Owl platform to create value for shareholders.

Now, I'd like to touch on some portfolio metrics. We believe our long-standing and disciplined approach of investing in a diverse pool of upper middle market businesses and noncyclical sectors continues to drive strong portfolio results in all market environments. OBDC's 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 \$133 million, and weighted average EBITDA is \$222 million, up from \$120 million and \$215 million in the prior quarter, respectively.

Our debt portfolio sits at a conservative LTV of 42% on average, which we believe is key to protecting our downside and supporting robust recoveries during challenging times. As Craig highlighted, the fundamental performance of our portfolio company borrowers remains strong. Revenue and EBITDA increased by mid- to high single digits on a year-over-year basis, which accelerated slightly compared to prior quarter results. Interest coverage increased to 1.9x based on current spot rates, providing our borrowers with incremental cash flow cushion.

And PIK income decreased again quarter-over-quarter, down to 9.1% of total investment income from 10.7% last quarter, primarily driven by refinancings of several PIK investments, including Trucordia, as I mentioned earlier. As we've highlighted in the past, the vast majority of our remaining PIK names were underwritten at inception, rather than resulting from credit issues, and these investments continue to perform as expected.

Our internal ratings, which range from one to five as an indicator of portfolio health, remains steady, and our watch list was down modestly at cost from the prior quarter. Further, we do not see any material pickup in amendment activity or other signs of material stress. Outside of our watch list, our portfolio is performing well, and our marks remain stable quarter-over-quarter. If you were to exclude the handful of names on our watch list, where we saw markdowns, the rest of our portfolio marks were flat quarter-over-quarter at 99.6% of par.

Our nonaccrual rate as of quarter end was 0.7% at fair value and 1.6% at cost, compared to 0.8% and 1.4% in the prior quarter, reflecting the addition of one small position that has been on the watch list for several quarters. And finally, at the time of our First Quarter call, we estimated that our tariff exposure was roughly mid-single digits of the portfolio. We're pleased to report that today, with the benefit of more time engaging our portfolio companies, we believe our exposure is narrower than we had previously estimated.

Our borrowers continue to manage these headwinds well, and for the small subset of names impacted by anticipated tariffs, our sponsors continue to provide support and resources to diversify supply chains. In closing, I want to echo the sentiment Craig shared. Our Second Quarter results demonstrate the continued strength of our portfolio, which is bolstered by our differentiated origination funnel and conservative approach to underwriting.

And now, I'll turn over the call to Jonathan to provide more detail on our Second Quarter financial results.

Jonathan Lamm

Thank you, Logan. OBDC delivered another quarter of solid financial performance. We ended the quarter with total portfolio investments of nearly \$17 billion, total net assets of nearly \$8 billion, and total outstanding debt of approximately \$9 billion. Our second quarter NAV per share was \$15.03, down from \$15.14 last quarter.

Turning to the income statement, we earned adjusted net investment income of \$0.40 per share, up \$0.01 as compared to the prior quarter, driven primarily by an elevated level of one-time repayment income in the Second Quarter, totaling \$0.05 per share, which was about \$0.03 per share higher as compared to our three-year average. This was partially offset by lower leverage. Similar to prior quarters, we over earned our base dividend, resulting in the Board declaring a \$0.02 supplemental dividend based on our Second Quarter results, which will be paid on September 15th to shareholders of record as of August 29th. The Board also declared a Third Quarter base dividend of \$0.37, which will be paid on October 15th to shareholders of record as of September 30th.

We continue to believe OBDC is well-positioned for the evolving rate environment. Our adjusted earnings covered our base dividend with 109% dividend coverage. Further, our spillover income remains healthy at approximately \$0.33 per share and equates to nearly a full quarter's worth of base dividends. We believe having a meaningful undistributed spillover supports our goal of maintaining a steady dividend through volatile and varying market conditions.

Moving to the balance sheet, we finished the quarter with net leverage of 1.17x, down from 1.26x, and within our target range of 0.9x to 1.25x, as we made a concerted effort to lower leverage following our merger with OBDE, as Logan mentioned. Turning to liquidity, we ended the quarter with over \$4 billion in total cash and capacity on our facilities, which was over 2x in

excess of our unfunded commitments. We believe we have positioned our balance sheet with significant capacity to invest as new opportunities come in.

During the quarter, we further bolstered our liquidity by raising \$500 million in new five-year notes, and we continue to optimize our capital structure post-merger with several refinancings and amendments of our secured facilities. As a result, we have no material short-term maturities, and our robust liquidity position provides us with more than ample unfunded capacity to meet any near-term funding needs. Overall, we remain very pleased with our results and believe that our balance sheet is well-positioned for the environment ahead.

I'll now hand it back to Craig to provide final thoughts for today's call.

Craig Packer

Thanks, Jonathan. To close, I want to reflect on where OBDC and the broader BDC market are today. Over the past year, we saw two trends that have impacted both OBDC and the broader leveraged finance markets. First, interest rates declined 100 basis points from their peak as market expectations evolved. As a predominantly floating rate asset class, this has had a direct impact on our portfolio's earning power.

Second, while direct lending spreads have been tighter, spreads have narrowed in all markets. Direct lending still commands a healthy premium to the broadly syndicated loan market, yielding a 150 to 200 basis point premium, which is generally in line with historical averages. Despite these two headwinds, we believe our portfolio is positioned for strong, consistent performance. Absolute returns within direct lending continue to be compelling, and OBDC continues to deliver attractive relative returns, which we were once again able to demonstrate in the Second Quarter, generating a 10.6% ROE and a 10.4% dividend yield on net asset value.

Looking ahead, spreads have generally stabilized. And while the rate outlook remains uncertain, the market is expecting modest additional rate cuts later this year. However, even with that assumption, we are confident that we will maintain our dividend level throughout the rest of the year. On the deal environment, we are cautiously optimistic about a potential rebound in activity in the second half of this year. We've seen conversations with private equity sponsors have been encouraging, and if these discussions translate into new transactions, they could significantly boost deal flow.

Regardless of whether these deals materialize, we are confident that our sourcing capabilities, enhanced by the scale of our platform, will continue to drive attractive deal flow going forward. In closing, we feel very comfortable with our ability to deploy capital opportunistically and manage leverage appropriately. Our strong track record, combined with the scale of our platform and consistent investment philosophy, positions OBDC to deliver attractive risk-adjusted returns to our shareholders across any economic environment.

Thank you for your time today, and we will now open the line for questions.

Operator

Thank you. The floor is now open for questions.

Our first question today is coming from Brian McKenna of Citizens. Please go ahead.

Brian McKenna

Thanks. Good morning, everyone. We're a couple of quarters removed now from the merger with OBDE. Where are we in terms of realizing the vast majority of those synergies? On the expense side, those are pretty straightforward. But just in terms of remixing some of the assets, and also optimizing the funding side, I'm just trying to think through if there's any more upside to the 10.5% ROE from here, assuming all else equal?

Craig Packer

Sure. Morning, Brian. Jonathan, why don't you handle the expense and financing side?

Jonathan Lamm

Sure. So, Brian, on the OpEx side, as we mentioned last quarter, the vast majority, really all of that, came through immediately, and we've seen those synergies take effect. On the financing side, it's a little bit of a slower burn just because we have certain financings, in particular on the secured side, that have call dates or reinvestment periods that still need to come. And so that will occur over the course of – the vast majority of it over the course of the next year or so, but it's happening piecemeal. So, I would say that the vast majority there has not occurred, and then I'll hand it back. [unintelligible] About 20%, 25%.

Craig Packer

How much ROE benefit from additional financing synergies?

Jonathan Lamm

Another 50 basis points.

Craig Packer

On the portfolio rotation, that's going to take a little bit of time as well. Part of what we have been planning for, as OBDE was not invested to the same extent as OBDC in some of the joint ventures that we have that generate a nice return, so as we deploy capital into those strategies, we'll be able to essentially true up OBDC on a pro forma basis, which probably is another 25-plus basis points of ROE. So, between the financing and the portfolio rebalancing, I think there's a potential for another 50, 75 basis points of ROE improvement over time as those things take effect.

Brian McKenna

Ok. That's really helpful. Thank you both. And then I appreciate all the detail on the broader capabilities across your credit platform, and you called these output in areas like alternative

credit, digital infrastructure, etc., and it's great to hear the positive impact those businesses are having on just creating differentiated deal flow and really additional origination opportunities for OBDC. Is there any way to quantify how much of year-to-date originations or commitments have come from these types of opportunities? And then, is there a way to think about this mix longer term?

Craig Packer

Sure. So, I think that there's a couple of pieces to this, and I want to sort of separate them out. The first is Blue Owl, as a platform, has gotten into new lines of business that we weren't in previously. As folks, I think know, but just to highlight, we acquired Atalaya Capital last year, which is in the business of what we call alternative credit, but some will call it asset-based lending. We also got into the business of managing data centers with our acquisition of IPI. Our real estate business has seen tremendous activity in the data center space.

So, the firm as a whole has a much broader opportunity set than ever before, and we are going to be selective, but many of those opportunities offer similar cash flow characteristics and return characteristics as what we've been doing in our direct lending business. And so, we're going to be deliberate about what we would put in OBDC, but we have just a broader deal funnel, and we think that that's valuable in and of itself, but especially in an environment where there's just less new sponsor deals. So, that's very attractive to us.

It's early. And so, looking backwards for this quarter and the previous quarters, I would say it's very modest because we're just getting that deal flow in place, and just now in a position where we can commit to new deals and put them in the portfolios. We've talked a couple of times in the script, we set up an equipment finance JV across our BDCs. So historically, it's had limited impact, but I will tell you the reason why we've mentioned it a couple of times today is we're seeing very consequential imbalance in this area. And so, I do think going forward, it's something that we will really benefit from.

I kind of hesitate to quantify it on the fly, but if I would just sort of cuff it, in the next couple of years, could you see 10% of the portfolio, 15% of the portfolio in some of these new strategies, and don't hold me to that. But I want folks to know it can be meaningful, but I also want them to know it's not going to dominate our investing. But these are really, I think, attractive investments that will fit really well in our BDC and offer attractive risk-adjusted returns. So, just directionally meaningful but not change the overall complexion of the portfolio. We'll obviously keep everyone updated quarter-by-quarter as we start to make these types of investments.

Jonathan Lamm

Brian, to that end, 10% of Q1 originations were into these types of equity and JV investments.

Brian McKenna

OK. That's great. Thank you, guys. Appreciate all the color.

Operator

Thank you. Our next question is coming from Arren Cyganovich of Truist Securities. Please go ahead.

Arren Cyganovich

You mentioned you're kind of cautiously optimistic about a rebound in activity in the second half. Maybe you could talk a little bit about what types of deals you're seeing. Are they predominantly M&A? Are they refinancing? And how open are sponsors to getting deals done rather quickly?

Craig Packer

Sure. I'll start. Logan, you can chime in. Look, I always debate how much to lean in on this comment, because we've been hopeful before and been disappointed before, and we don't want to be – we're not trying to lean in too much here. But there's been a noticeable pickup in engagement with sponsors in the last 60 days or so that feels a little bit different. And if it were to really result in transactions, I think, can move the needle.

In terms of the flavors, it's a mix. We've seen inbounds on potential public to private activity, so public companies getting taken private, which would be brand-new names to the market. Those are really exciting. There is still activity where we're refinancing loans in the public market into the private markets. There's an ebb and flow there. There are certainly names going in the other direction, from private to public, but there are syndicated loans that are getting refinanced in our market, and then there's just good old-fashioned sponsors looking to potentially sell companies to other sponsors.

We continue to see a steady drumbeat of add-on acquisition financing for our portfolio that's been carrying us throughout. But I would say those first three buckets or so, there's been enough in each area that gives us some hope that this will translate into increased deal activity in the second half of the year. I'm always a believer to see it actually happen versus predicting it will happen, but these deals are moving along at a nice clip, and hopefully, things will unstick here a bit.

Arren Cyganovich

Got it. Thanks. And then your leverage came back down within your target. Can you talk a little bit about where do you see leverage heading? Are you going to keep it around this level, or might you lever it up, particularly if deal activity is starting to pick up?

Jonathan Lamm

Yeah, sure. That was intentional. As we noted, we were comfortable at the higher end of our range last quarter, but we've de-levered to just under 1.2x. I think in this range, which is near the top end of our range, is where you'll see us hover in terms of leverage. So, very comfortable at this level, and the one-time OBDE merger impact is now fully worked through. So high 115 to 120, the high end of our range, I think, is a good place to estimate.

Arren Cyganovich

Thank you.

Operator

Thank you. The next question is coming from Robert Dodd of Raymond James. Please go ahead.

Robert Dodd

Hi, guys. If I can go back to your comment about these other strategies, Craig. I'll ask you a hypothetical, and you can dodge it if you want. If the platform were to make a new acquisition of a new strategy tomorrow, what kind of timeframe to onboard it, review it, maybe let it mature a little bit, then look if it is BDC appropriate, and then build a structure?

If you made an acquisition tomorrow, it's like you might be onboarding those assets two years from now, if they're BDC appropriate? Or what's the time frame for review and structuring, etc., etc., of whether something is appropriate to add in terms of a new type of strategy to the BDC portfolio?

Craig Packer

Well, the acquisitions we've made are completely integrated and fully ramped. Deal flow is active, and our teams are integrated with those opportunities. We've already done all the work necessary to make sure investments can be appropriate, structured properly, pass muster in terms of allocation policies, set up appropriate coordination. So, all the opportunities I mentioned earlier, that's all live now.

And the delay is not from work internally, but just finding deals that work, and it takes time for deals to come in, and we commit, and they close. So, it's just the life cycle of the deals at this point, not any holdups. We're live on this now, and we look weekly at opportunities that can fit across the platform. And again, that's why we're talking about this, because you're going to see in terms of the Third Quarter, investments show up that are the benefit of what we're talking about here.

In terms of your hypothetical, if you see us announce an acquisition at the Blue Owl level, once the deal closes, we're able to integrate and get things up and running really quickly. Measure it in a month or two. We're a nimble organization. We're ultimately a fairly focused organization. We're in three major credit lines, credit, real assets and GP stakes. By the time we've announced a deal, you should assume we've diligenced it extraordinarily well and understand exactly how it's going to fit and whether it's appropriate, and we can be investing in those strategies measured in months, but deals just have a cycle to themselves.

But I would focus on the deals we've already announced rather than some hypothetical, and just to say we're – again, I think it's a huge positive for OBDC shareholders. That's why I'm highlighting it. These are really attractive risk-adjusted returns, originated and structured by teams with deep, deep, deep domain expertise, and offer low double-digit plus ROEs.

Robert, you know well. We've done this before, not at the acquisition level, but we've built joint ventures in aircraft and railcar finance and drug royalties and asset-based lending. I mean, these have been very accretive strategies. We're very deliberate about how we do them. But they offer additional diversification, additional consistent income, the benefits of scale, and I think it's a nice way to allow us to continue to be very disciplined in our core sponsor lending business.

Robert Dodd

Got it. Thank you for that color. If I can get one more. When we talk about public-private markets, there's always swings that we're mad about. There's a big sponsor, who's talking publicly, or at least talking to Bloomberg, about shifting a fair number of their deals in private credit to the syndicated loan market, which happens to be open right now with pretty tight spreads.

Are you seeing anything in terms of overall shifts in terms of share or anything like that, or is that just another artifact of the noise that we currently see of it swinging backwards and forwards between the two depending on points in the cycle?

Craig Packer

I think it's a very healthy traditional market environment. I would say sponsors continue to shift more of their decisions and financing decisions to the private markets, especially for new deals. In terms of the trade balance in one direction or the other, it's pretty balanced. Deals [are] coming from public to private, or from private to public. It's a healthy market where sponsors have two good choices, and they're picking.

I mean, we've talked about this many times on these calls. There are going to be periods of time – the typical order of affairs is both markets are open, and sponsors pick, and that's the environment we're in now. There are going to be other periods of time where the public markets are challenged, and deal flow will swing to the private markets. But this is the way it should be. There's plenty of deal flow to feed both markets, and we continue to find that the secular shift is towards direct lending. And then importantly, we continue to get a significant premium, better documentation, better diligence, and we continue to cherry pick, we think, the best assets for the private markets. So, I think it's a healthy functioning environment that suits us just fine.

Robert Dodd

Got it. Thank you.

Craig Packer

Thanks, Robert.

Operator

Thank you. The next question is coming from Mickey Schleien of Clear Street. Please go ahead.

Mickey Schleien

Yes, good morning, everyone. Craig, this question may sound a little basic, but we're getting such mixed signals on the economy, whether we're looking at labor numbers or inflation or GDP growth. I just want to ask, at a high level, where do you think we are in the credit cycle?

Craig Packer

So, our companies continue to perform well. We talked about it in the script. They continue to grow modestly quarter-over-quarter, low single digits, more like double digits year-over-year. I would say, generally, we continue to see a modestly expanding economy. Look, I know at one level, we have 300-plus portfolio companies at OBDC, and so investors will look to us as a barometer. But I just quickly rush to remind everyone, we are not a microcosm of the US economy. We are heavily concentrated in companies that we think are resistant to a recession, particularly things like software and insurance brokerage, and parts of healthcare, food and beverage, and so we are not expecting to be an early warning sign of the US economy and weakness.

We have very few cyclicals. When you're reading about tariffs affecting auto, it's not something that impacts our portfolio. We have like no auto exposure. So, I read and consume economic information the same way I'm sure most investors do, and there's concern about the way the labor numbers, and just general impact of tariffs and potential economic weakness. So, I think the consensus is that growth is slowing in the US. But I'd say that's not what we're seeing, and I hope that if we got in a modest recession, that would have even less impact on OBDC.

Mickey Schleien

If we do get into a recession, or if things slow down meaningfully, normally, we would see spreads widen in that sort of environment. And you mentioned, I think, in your prepared remarks that they may have troughed. Do you think that trough is sustainable given the amount of capital flowing into private credit? And are you seeing any signs of more pricing discipline in the market?

Craig Packer

My sense is spreads have troughed. I think that they've troughed, and I'm hopeful at some point, they'll widen off the trough. I think the reason the spreads have gotten as tight as they are is only partly related to capital inflows into the private markets. It's also a white-hot syndicated loan market. And that market is at all-time tights, and that we just talked about a minute ago, we compete with that market. And so that market, if that market widens, that will benefit private markets.

And that market tends to be fickle and cyclical. And so, if you go through a period of time where the syndicated market has some volatility, spreads will widen there; spreads will widen in the private markets. And then, the deal flow environment continues to be modest. So I would say, I'm not predicting it in the micro short term, but I would be hopeful that the next move in spreads is wider, not tighter, as any one of those factors comes into play, more deal flow cooling public market, or just some capital consumption in the private markets, where there's not quite as much capital out there for new deals.

Mickey Schleien

That's very helpful. Thank you for that, Craig. Those are all my questions this morning. Thank you for taking the time.

Craig Packer

All right. Thanks, Mickey.

Operator

Thank you. Our next question is coming from Casey Alexander of Compass Point. Please go ahead.

Casey Alexander

Hi. Good morning. Craig, I'm just a little curious on the equipment leasing side. That market is often characterized by lower balance, fixed rate, short duration type loans, which could be difficult to scale, particularly to the scale that OBDC is going to need for it to make a meaningful contribution to NII. And it also often takes a large team of people in place to track collateral and things like that. So, I'm curious how you guys plan to scale that business to something that's meaningful for OBDC?

Craig Packer

Look, the reason we highlighted the equipment finance JV is not because we think it's going to be a massive investment, but to highlight the type of opportunities that we now have, particularly by our acquisition in the alternative credit space for equipment financing, joint ventures, or other types of more asset-oriented joint ventures that can benefit OBDC. I think you're right; it will take time. It will take time for it to be meaningful. But as you know, we've done this before. Wingspire, which is one of the largest investments of OBDC, has a very successful equipment financing business, has a team, and it's a meaningful contributor – an important contributor to Wingspire's results, which OBDC benefits from every quarter.

I would say, in the equipment finance business, one thing, and we'll share more detail on this when it's really impactful, so I don't want to spend too much time speculating. But particularly, what's going on in data centers is creating the need for massive amounts of capital, where you're building out scaled data centers, and they have lots of financing needs for the data center itself and GPUs and the like. And you have some of the, literally, the most valuable companies in the world that are building these facilities and don't want to have assets on their books, and it's creating very chunky opportunities for attractive, relatively short duration returns from potentially investment-grade counterparties.

So, these are the kinds of things that could be a bit chunkier than the really micro ticket equipment leasing that you're referring to. So, it will be a mix. But I don't want to overemphasize the equipment leasing as being a needle mover for OBDC, but what I do want shareholders to understand is that we're taking active steps to leverage our product capability to come up with

ever more ways to diversify our portfolio and create consistent returns, and this will just be one of many tools.

Casey Alexander

All right. Thank you.

Craig Packer

Thanks, Casey.

Operator

Thank you. The next question is coming from Finian O'Shea of Wells Fargo Securities. Please go ahead.

Finian O'Shea

Hey, everyone. Good morning. Just a sort of market level question on the non-traded. We wanted to ask, given your position in that domain, and of course, its importance to direct lending, seeing if you had thoughts on just the sort of tail off of gross inflows. And to be clear, industry-wide, post-April Liberation Day. They've continued to sort of tail in May and June.

And then as it relates to direct lending and BSL, if this continues, do you think things can really cool down and spreads can widen not only in BSL, but the direct lending premium to BSL? Even in a stable market, could we be hopeful for that, say, in the event that non-traded have kind of somewhat run their course, or there's some kind of fatigue there? Thank you.

Craig Packer

Sure. Look, the picture in the non-traded is really good. I mean, we're continuing to have significant inflows that are really meaningful. At Blue Owl in particular, we're a major player in the space, but other platforms as well. You are right, they are not as strong as they were pre-tariffs, but – order of magnitude, they're off maybe 20%, but I think they're on the direction of recovering that.

I think most people at the time of tariffs would have predicted a much more significant drop in the inflows of the non-traded. So, it's quite resilient. It's all new capital, and so it may not be capital-based, may not be coming in as fast a clip, but it's net meaningful inflows daily. And we get the numbers daily. We report them monthly. So, I think it's proving to be a very durable market that's, frankly, still under-penetrated. And I think there's a lot of room to run in terms of additional penetration in the high-net-worth space, in the non-traded funds.

I think for OBDC and Blue Owl and OCIC, which is our large non-traded fund, or OTIC, we have a really good balance between our non-traded funds, which are a meaningful part. But it's only a meaningful part. It doesn't dominate our platform. So, we've got a good balance. It's valuable to have that capital come in. OBDC right now is towards the higher end of its target leverage range, so we like having this additional in the non-traded funds. That's what allows us to continue to

sign up large transactions. So, I think that picture is a very good one. And look, I think is really showing the resilience of that channel, despite what some might have predicted would be more negative.

In terms of your question on spreads and the like, and I covered this a minute ago. I think that there's three factors that are driving spreads to where they are now: really strong public market, capital formation on the private side, modest M&A.

I think if any one of those three were to reverse course, spreads will widen. If two of the three reverse course, spreads will widen meaningfully. I'd say, of the three, I'd bet on M&A and the public markets being towards the higher end of the list, not the lack of capital in the private space because we continue to see a lot of interest from clients. Spreads, I'd like spreads to be tighter. I mean wider, excuse me. But I just always remind investors, we're earning 10% on new investments, on primarily first lien, 30-plus percent, \$200-plus million EBITDA recession-resistant businesses. I continue to think that's one of the most attractive risk-adjusted returns in the market, especially if you think there's going to be a recession.

So, I'd like spreads to be wider, but the absolute returns in the asset class continue to be strong. OBDC just put up at 10%-plus ROE. I think that offers really good value to investors.

Finian O'Shea

Awesome. Thank you so much.

Craig Packer

Thanks, Fin.

Operator

Thank you. The next question is coming from Christopher Nolan of Ladenburg Thalmann. Please go ahead.

Christopher Nolan

Hi. Following up on Casey's questions on the equipment finance, is this really going to focus on technology data centers and so forth? Will the industry mix for this SLF be different than for the BDC?

Logan Nicholson

Sure. It'll be a diversified pool of leases. I think Craig just highlighted one potential channel where the opportunity set is growing and could be chunky relative to very singular, small, micro equipment leases. We also see the continued trend of bank balance sheet pullback in the space, and our existing team that came along with our alternative credit team has been in the leasing business for years and has been active in the space. And if you look at regional bank pullback, things like healthcare equipment would be another great example. Firms that have large capital spend equipment don't have the benefit of regional bank balance sheets anymore.

And so, we think some of these environments for equipment leasing on the higher-end capital equipment side are in a similar place that maybe direct lending was 10, 15 years ago. As banks pull back, institutional capital has to step in. So, I would anticipate it to be a diversified pool, and there are some areas, like data centers or healthcare equipment, that we see that could be chunkier, but it should be a diversified pool, similar to how OBDC's portfolio is diversified.

Christopher Nolan

And then as a follow-up question, the recent Big Beautiful Bill, I believe, had accelerated depreciation. You can depreciate 100% in year one. Was that a factor in deciding to go down the equipment financing route?

Logan Nicholson

No, it was not. It was something that we were thinking about well in advance of that.

Christopher Nolan

Great. That's it for me. Thank you.

Craig Packer

Thank you.

Operator

Thank you. Our next question is coming from Paul Johnson of KBW. Please go ahead.

Paul Johnson

Hey. Good morning. Thanks for taking my questions. I guess I'd ask, you guys have had pretty meaningful turnover over the last 18 months or so, and potentially a little bit higher than some of your peers. But as you're kind of looking at your back book of loans in the portfolio, and then kind of spreads where they're at today, I think your average portfolio spread is about 5.8%. I mean, how do you think about the spread differential of today's spreads, which seems like they've kind of troughed at this level, and what's left in the back book? I mean, should we expect to kind of continue to see a little bit of incremental pressure on just general spread compression as things rotate out of the book, or do you think at this point, they're close enough that the spread compression is sort of behind us?

Logan Nicholson

Look, I think the vast majority of it has worked its way through. The sponsors are very efficient at identifying opportunities to refinance and reduce spread. Look, just to remind everyone, our loans, when we put a new loan in the book, typically it'll have one, maybe two years of call protection where we get a premium after that. After that, our loans are typically repayable at par.

So, one of the value propositions of direct lending is it's efficient for a sponsor in a loan that we're providing that is performing well and through its call protection, for us to be able to have a conversation about a cost-effective refinancing. And so that happens. It's a lot easier, frankly, than the public markets. It's one of the reasons why the sponsors like working with us.

I think the vast majority of that has worked its way through. There's probably some modest amount that sponsors are holding off, either for call protection or they think they're going to exit a company, but I think a lot of it's worked its way through at this point. And you've seen that reflected, as you said, in the last 18 months. There's probably a few names, but most of them, I think, are pretty stable at this point.

Paul Johnson

Got it. Appreciate it. Thank you. And then on that, as loans potentially refi into the BSL market, as that happens, your junior capital exposure has declined quite a bit over the last few years. Is there an opportunity there, similar to the Trucordia deal, to participate in a junior capital position as these investments move into the BSL market? I mean, is that a real investable opportunity that you see in the market, or is that more of a one-off situation that presented itself?

Logan Nicholson

Look, I think it is an opportunity. I would characterize the opportunity though as closer to the one-off end of the spectrum, given where junior capital is pricing in the public markets as well. If you look at high yield spreads and the second lien spread environment for syndicated deals, they're at very tight levels. And so, when a deal goes BSL, more often than not, it fully transitions that way. And so, I think our relationship and incumbency and long-standing history with Trucordia was a differentiator for us.

And so, I think that mattered quite a bit in this instance. If you look at the amount of discussion around names going back and forth, as Craig mentioned, it's actually pretty balanced though. And so, I don't want to overplay names going to BSL not leaving us with a substantial junior capital opportunity. We're seeing an equal number of names come out of the BSL market and choose the direct markets, and we saw substantial volume in the last quarter from names transitioning out of the BSL market.

So, there is a balance between the two. And then new names, whether it be a new LBO, a take private, new names continue to have that secular shift to choosing direct, which we continue to see, and there hasn't been any shift there. So, I think the opportunity set remains a very good one. And I think the junior capital side, if the public markets stay where they are, I think it will be more sporadic.

Paul Johnson

Appreciate it. That's all for me. Thank you very much.

Operator

We're showing no additional questions in queue at this time. I'd like to turn the floor over to Mr. Packer for closing comments.

Craig Packer

All right. Well, we appreciate everyone's interest. We were really pleased with our quarter. I think it was one of the strongest in the industry and continued particularly terrific performance on the NII front and the dividend coverage front and the ROE front. So, I appreciate everyone's interest and look forward to speaking with you again soon.

Operator

Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.