

Blue Owl Capital Corporation
Q3 2025 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

Arren Cyganovich - Truist

Robert Dodd - Raymond James

Finian O'Shea - Wells Fargo

Casey Alexander - Compass Point

Mickey Schleien - Clear Street

Kenneth Lee - RBC Capital Markets

Sean Paul Adams - B. Riley Securities

Christopher Nolan - Ladenburg Thalmann

Operator

Good morning, everyone, and welcome to Blue Owl Capital Corporation's Third 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.

Michael Mosticchio

Thank you, operator, and welcome to Blue Owl Capital Corporation's Third Quarter 2025 Earnings Conference Call. Yesterday, Blue Owl Capital Corporation issued its earnings release and posted an earnings presentation for the third quarter ended September 30th, 2025. These should be reviewed in connection with the company's 10-Q filed yesterday with the SEC. Additionally, OBDC and Blue Owl Capital Corporation II, or OBDC II, issued a joint press release announcing that the companies have entered into a merger agreement, pursuant to which OBDC will acquire OBDC II. The merger is subject to the satisfaction of customary closing conditions, including OBDC II shareholder approval.

All materials referenced during today's call, including the earnings and merger press releases, earnings and merger presentations and 10-Q are available on the News and Events 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, 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.

We would also like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our earnings presentation available on the Events and Presentations section of our website. 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. In addition to reporting another quarter of solid results for OBDC, we are also pleased to be announcing a merger between OBDC and OBDC II, a transaction which we believe can create meaningful value for shareholders of both funds.

First, I would like to review OBDC's results for the quarter, and then I will spend a moment discussing the transaction. Our objective has always been to deliver consistent returns to shareholders, and we are pleased to have done that since our founding nearly 10 years ago. This long-term focus continues to guide our strategy in how we manage OBDC, and in the third quarter, we delivered solid results that reflect the ongoing strength and resilience of our portfolio.

We generated adjusted NII per share of \$0.36, which represents an ROE of 9.5%. These results were roughly in line with our long-term average, though they have come down from peak levels due to the declining base rate and spread environment. While Jonathan will go into more detail shortly, our results in the third quarter reflected a lower level of non-recurring income as compared to our historical average.

As of quarter end, our net asset value per share was \$14.89, a modest decline of \$0.14 from the prior quarter. We note that our NAV remains consistent with levels from a few years ago and has increased over 4% since inception, underscoring the durability of our strategy and portfolio. Our portfolio continues to benefit from our disciplined investment approach, which emphasizes larger, recession-resistant businesses.

During the quarter, we marked down a few watchlist positions, but we want to emphasize that these positions have been on our watch list for several quarters and don't reflect new credit issues in the portfolio. Overall, the portfolio's fundamentals remain strong, and as Logan will

detail later on, we are not observing any broad signs of stress or a material increase in amendment activity.

With that, I want to take a moment to address the recent headlines surrounding private credit, which have generated a lot of attention and confusion for investors. It's important to clarify where we participate within the broader landscape. Our primary focus is on direct lending, which we believe is one of the most attractive areas of the market. In direct lending, we make primarily senior secured loans directly to companies, typically as the lead lender, which affords us the ability to be a direct dialogue with our borrowers and sponsors to shape transaction terms and credit documentation. This direct engagement also gives us access to comprehensive financial reporting, and an ongoing dialogue with our portfolio companies.

The transparency and control this provides allows us to build a complete picture of each credit during underwriting and gives us greater confidence compared to deals in the public fixed income markets. Our portfolio is continuing to perform well, and as Logan will describe later, our borrowers are demonstrating solid revenue and EBITDA growth.

OBDC's healthy credit performance, as evidenced by our below industry average nonaccrual and loss rates, is a direct result of our disciplined approach and focus on high-quality, upper middle market businesses. Public market sentiment with respect to BDCs seems to be disconnected from the realities on the ground, and we encourage investors to look beyond the headlines and focus on the fundamentals that drive our strong risk-adjusted results over time.

Next, I'd like to briefly highlight the transaction we announced yesterday to merge OBDC and OBDC II, with OBDC as the surviving entity. The merger strengthens OBDC's position as the second largest publicly traded BDC, adds nearly \$1 billion in net assets, and creates a larger, predominantly senior secured portfolio with potential for earnings accretion over time. This merger marks an important step in streamlining our BDC platform while enhancing long-term value for shareholders. Now, I will turn it over to Logan to provide more detail on OBDC's portfolio and the proposed merger.

Logan Nicholson

Thanks, Craig. We saw a pickup in deal activity during the third quarter with originations of \$1.3 billion and fundings of \$1.1 billion. That outpaced \$797 million of repayments and resulted in net leverage of 1.22x at the end of the quarter. In addition to a higher number of new deal originations this quarter, approximately 40% of the originations were add-ons, consistent with the past three quarters. This sustained level of add-on activity underscores the benefits of being an incumbent lender, as it allows us to support the continued growth of our borrowers.

As we've increased in scale, we've been able to commit capital in greater size to larger borrowers while maintaining a highly diversified portfolio. For example, our average hold size across our platform on new direct lending deals has grown from \$200 million in 2021 to roughly \$350 million this year, while the total deal size doubled to nearly \$1.5 billion over the same period. This

enhanced capacity allows us to participate in some of the largest and most attractive transactions in the market and shows the secular trend of larger borrowers preferring direct solutions.

Next, I'd like to reiterate that the fundamental performance of our portfolio remains strong. We believe our borrowers are among the highest quality we've seen since inception. This is supported by the scale and diversity of our \$17 billion portfolio, the increasing size of the companies we lend to, and our continued focus on senior secured investments, which represent 89% of the portfolio, near record levels, excluding our specialty finance and JV investments.

Our credit metrics continue to reflect strength. The cumulative fair value of our 3s to 5s rated names is approximately 8%, which declined nearly 2% since year-end 2024. Our nonaccrual rate remains at the low end of the range across the BDC sector and in line with our historical average at 1.3% at fair value this quarter, which is modestly up, primarily due to the addition of Beauty Industry Group, which had been on our watch list for over two years.

Credit-related amendment activity is stable with no signs of increased pace or intensity of amendments over the last two years. We also monitor portfolio company revolver drawing activity closely, as it's an indicator of stress, and our average revolver draws are below 20%, a conservative level that has actually been decreasing throughout the year. Further, on the theme of larger, more resilient borrowers in the market, the average revenue and EBITDA of portfolio companies has grown to over \$1 billion and \$229 million, respectively, nearly double the level of four years ago.

We continue to focus on upper-middle market borrowers that are scaled players with access to more resources to manage various headwinds. These companies have market-leading positions with diversified revenue streams, strong recurring cash flow profiles, healthy liquidity and generally operate in noncyclical defensive sectors of the economy that are expanding, including health care, technology, business services, and insurance brokerage.

As a reminder, we intentionally avoid more cyclical sectors such as energy, chemicals, and retail, which are featured more prominently in the public markets and tend to be more volatile. These larger businesses have continued to perform well with year-over-year revenue and EBITDA growth again in the mid- to high-single digits, and average LTVs of 42%. Our interest coverage ratio increased to approximately 2x based on current spot rates, up from 1.7x one year ago, reflecting ongoing portfolio company EBITDA growth, as well as base rate reductions, and we expect that will continue to improve as base rates decline further.

Also, I wanted to highlight that PIK income at 9.5% of total investment income is down from 13.5% a year ago, primarily driven by refinancings of several PIK investments. As we've highlighted in previous earnings calls, the vast majority of our PIK names were underwritten at inception, and we have not had any nonaccrual, bankruptcy, or principal loss on any of these structured PIK loans since inception. In summary, Q3 credit performance metrics, including below market loss rates, steady amendment activity, and strong borrower fundamentals underscore the quality of our portfolio, and we believe our credit business remains well positioned.

Turning back to the proposed merger between OBDC and OBDC II, OBDC II was launched in 2017 to give individual investors access to the same strategy and platform we originally offered institutions through OBDC. Both portfolios are highly aligned and comparable exposures to senior secured loans, and nearly all of OBDC II's investments, about 98%, overlap with OBDC. These portfolios are managed by the same investment team and reflect a consistent investment composition and credit quality.

As Craig mentioned, this transaction adds scale to OBDC's portfolio, bringing in \$1.7 billion of investments, which will increase the portfolio to \$18.9 billion across 239 companies. With the addition of complementary portfolios from OBDE last year, and now OBDC II, the overall portfolio will have grown by 40%, affording us more scale and diversity.

The merger strengthens our balance sheet, given OBDC II's lower leverage at 0.78x, and we expect the transaction to be accretive to NII over time. We anticipate approximately \$5 million of cost savings in the first year, largely from eliminating duplicative expenses. Over time, there is potential for lower cost sources of capital and greater flexibility to pursue new investment opportunities.

Finally, while this merger would provide liquidity for OBDC II shareholders, it is worth noting that these shareholders have had access to liquidity through a quarterly repurchase program, which met 100% of shares tendered for nearly seven years. We believe this transaction positions the combined company well to continue to deliver attractive risk-adjusted returns as a market leader in the space. And now, I'll turn over the call to Jonathan to provide more detail on our third quarter financial results and the mechanics of the proposed merger.

Jonathan Lamm

Thank you, Logan. To summarize OBDC's quarterly performance, we ended the quarter with total portfolio investments of over \$17 billion, total net assets of nearly \$8 billion, and total outstanding debt of approximately \$9.5 billion. Our second quarter NAV per share was \$14.89, down from \$15.03 last quarter, following write-downs of existing watch list positions.

Starting with the income statement. As Craig mentioned, we earned adjusted net investment income of \$0.36 per share, down from \$0.40 as compared to the prior quarter, driven primarily by lower non-recurring income, which was \$0.02, well below the \$0.05 we generated in the second quarter, and our historical run rate average of approximately \$0.03. The Board also declared a fourth quarter base dividend of \$0.37, which will be paid on January 15th, 2026, to shareholders of record as of December 31st, 2025.

In prior quarters, we over-earned our base dividend, allowing the Board to declare supplemental distributions. This quarter, given the lower rate environment over the past year, we did not generate excess earnings to distribute under our dividend policy. Craig will provide additional color on our dividend outlook later in the call. As we have previously reported, our spillover

income remains healthy at approximately \$0.31 per share and supported our base dividend this quarter.

Moving to the balance sheet, we finished the quarter with net leverage of 1.22x, up modestly from 1.17x, and within our target range of 0.9 to 1.25x, as we had net fundings of \$273 million.

In terms of liquidity, we remain well capitalized with significant capacity to invest as new opportunities come in. We ended the quarter with over \$3 billion in total cash and capacity on our facilities, which was well in excess of our unfunded commitments. 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.

Lastly, I'd like to spend a minute describing the proposed merger consideration. The transaction is structured as a stock-for-stock merger with each OBDC II shareholder receiving a certain number of OBDC shares to be determined just prior to closing. The exchange ratio will be determined by a formula, which will be struck on a NAV-for-NAV basis if OBDC is trading at or below NAV per share, or a premium that will benefit OBDC shareholders if OBDC is trading above NAV per share.

As a sign of support from Blue Owl, OBDC and OBDC II will be reimbursed for 50% of the fees and expenses associated with the proposed merger, up to \$3 million in total, which will be paid for by OBDC's adviser if the proposed merger is consummated. OBDC's Board of Directors has also authorized a new share repurchase program of up to \$200 million in open market purchases from time to time, to account for the increased size of the combined company. This will replace our current \$150 million share repurchase plan.

Finally, we are expecting to close the transaction in the first quarter of 2026, subject to customary closing conditions. Now, I will turn it over to Craig for some closing remarks.

Craig Packer

Thanks, Jonathan. To close, I want to talk about our earnings outlook in the current environment and the quality of our portfolio. As expected, rising rates over the past few years increased our earnings given the floating rate nature of our portfolio. We have passed those gains through to our shareholders via regular and supplemental dividends. As a reminder, we implemented the supplemental dividend policy, in part because we expected that elevated base rates would likely eventually subside, and this mechanism would provide for a naturally adjusting tool to allow for these rate movements to flow through to dividends. Naturally, if base rates decline further, as the market currently expects, our earnings and dividends will adjust as well.

That said, we think it's important for investors to separate out the impact of potentially lower rates on the portfolio from the risk of significant credit concerns. While rates may decline, we continue to feel confident in the strength of our portfolio, supported by solid fundamentals, disciplined underwriting, and a defensively constructed asset mix. Our loss rates remain well

below market averages, a reflection of our consistent focus on downside protection and credit selectivity. Even in a lower rate environment, we believe OBDC will continue to have strong credit performance that will provide investors with a steady stream of dividends that will be attractive relative to other investment opportunities. Thank you for your time today, and we will now open the line for questions.

Operator

Thank you. We will now be conducting a question and answer session. Our first questions come from the line of Brian McKenna with Citizens.

Brian McKenna

Thanks. Good morning, everyone. So, starting on the OBDC II merger, nonaccruals in this portfolio are 60 basis points above OBDC. So, what's driving this? And then what part of that portfolio has underperformed relative to OBDC? And then leverage is clearly lower, but what kind of ROEs has OBDC II generated since inception? And then is there a way just to think about the incremental ROE post the merger?

Craig Packer

I'll start. Hey, Brian. It's Craig. I'll start and then Jonathan can chime in. Look, for those that aren't familiar, OBDC II was raised about a year after we initiated OBDC. The portfolios have almost complete overlap, almost 100%. It's the same names, invested in the same period of time, with the same economics, with the same strategy, and the same team. OBDC II will comprise about 10% of OBDC. So, the impact of merging it in is really quite modest given the overlap in names.

The higher nonaccrual rates are a function of the names on nonaccrual being a little bit bigger at OBDC II because OBDC II is still operating under a lower leverage constraint than OBDC. It has the old leverage rules, so it's capped at one turn of leverage. We've been running at 0.75x of leverage. And so we've had... the nonaccruals are just a little bit bigger part of that portfolio, but it's the same names that OBDC already has exposure to. When you add them in, it has an immaterial impact on overall credit statistics at OBDC. So, their names were already in, slightly higher, immaterial impact. I don't know, Jonathan, maybe you want to hit the ROE question.

Jonathan Lamm

Yes. So on the ROEs, obviously, just given we've been running OBDC leverage towards the middle over time, middle to the upper end of our target leverage ratio, whereas OBDC II has been running, as Craig alluded to, at 0.6, call it, to 0.75. Historically, the ROEs, just based on the returns associated with that leverage have been lower. But as the companies come together, Brian, we think that there's about 15 to 20 basis points of ROE accretion that we can create across the portfolio, and that's really driven by OpEx synergies that we can see, some liability management associated with some of the financings, in particular in OBDC II, that we can refinance into single facilities, and OBDC II just has a little bit of a higher weighted average asset yield.

Brian McKenna

Okay. Great. That's helpful. And then, just as it relates to the stock, it's now trading at 82%, give or take, of book value. A few years ago, you did an Investor Day, you laid out some steps you were going to take to improve the valuation. As we sit here today, we're clearly in a different part of the cycle, but I mean, what are you doing as a management team to improve the valuation? You refresh and upsize the buyback to \$200 million. Should we expect you to be a little bit more active there? And then, should we expect to see maybe some insider buying and even some repurchases from OWL?

Craig Packer

So, we laid out some goals at Investor Day that I think were very effective and, in fact, the stock, within a year or so, actually got to book value. So we were very pleased with that at the time. One of the goals, just to say it, at the time, was also to simplify our BDC portfolio, which at the time was seven names, and we had a stated goal of getting it down to four names. And with the merger we're announcing today, if that's approved and closes, we'll have accomplished that goal.

We're quite mindful of where the stock is, and it's something we take quite seriously and discuss as a management team and with our board. I think just running some math, the stock is yielding more than 11%. So, it's hard for us to reconcile that with the performance, which has been very consistent.

We think that what's happening with the company and high-quality BDCs is simply a rate cycle that we're going through. And as you acknowledge, we're in a different part of the rate cycle now. But credit performance in the portfolio remains very strong, even with the impact of the one nonaccrual. I won't try to go point by point through all the tools, but I just would say all the tools are on the table. Buyback... I think part of what we did in the earnings day was just provide a lot of transparency around the quality of the portfolio. I think with a lot of the headlines now, investors are oftentimes taking just a kneejerk reaction to a headline. And so, I think part of our job is to make sure that people hear our confidence in the portfolio, and that remains the case today.

Whether it be buybacks, I think, certainly with the merger, that's something that we'll be attuned to. We have the buyback that's out there. Insiders, we don't direct insiders to buy the stock, but obviously, a lot of employees find it attractive from time to time. We did do a special program around... at the time you mentioned for employees. We'll certainly look at that tool as well. So it's all available, and we've been very focused and have been very focused on creating value for shareholders and getting the stock back to where we think it should be. And candidly, where the analyst community has it projected out as well.

Brian McKenna

Great. I'll leave it there. Thanks so much, Craig.

Craig Packer

Thanks, Brian.

Operator

Thank you. Our next question has come from the line of Arren Cyganovich with Truist. Please proceed with your questions.

Arren Cyganovich

Thanks. With respect to what you were discussing in your prepared remarks about base rates declining further as the market expects, and earnings and dividends having to be adjusted, I guess, is there a certain level that you would have to be below the current NII? Or is it just once you just kind of see the future there, you'll make that adjustment? And then I guess, lastly, what are your expectations for rate cuts over the next four or five quarters?

Craig Packer

So on our expectation, look, we don't consider ourselves macroeconomists with a macro view. We tend to look at the forward curve as the best sense of market sentiment. The market sentiment, and we focus on SOFR, and that, by the end of next year, that's expected to get to be about 3%. So, I think that's our expectation, but that we're really just mimicking the market, and we'll have to see there.

In terms of... Dividend policy is robust. We look at it every quarter. We discuss it with the Board every quarter. That's not new to this environment. We had those same discussions as rates were going up and throughout this period of time. And obviously, we're in a different rate environment.

We want to have a base dividend that is sustainable with a rate environment that we... if we expect the rate environment to stay in a stable place, but rates could move up and down. And so you're constantly evaluating this. We put the supplemental dividend in place when rates went up because we thought that might not be sustainable, and the supplemental, I think, worked extremely well.

We're going to strive to find the right balance between being very thoughtful on rate moves... excuse me, dividend moves. We... the portfolio is performing well. This quarter, our NII was \$0.01... our dividend was \$0.01 above our NII. We have significant spillover. We've said we're comfortable through the end of the year. We remain comfortable through the end of the year.

But as we look to 2026, given how much rates have come down, or expected to come down, it's logical for investors to think that we'll evaluate reducing the dividend appropriate with the earnings power in a lower rate environment. So, we'll look at it. We have a strong performing portfolio, and our dividend levels, for investors who are newer to the stock, were lower in a lower rate environment. If you went back to when rates were at 3%, our dividend was about \$0.33.

And so, there are good data points that investors can look to, to try to calibrate where dividends will go. We enjoy the benefit of higher rates, but we think this company is designed to generate a premium return in all rate environments. It's not designed to generate a high level of return when rates are low because of the quality we were investing in and the market we invest in, the

rate... the investment opportunities fluctuate. The absolute return fluctuates based on where rates are.

So, I think you can look at where rates were at a 3% environment \$0.33 and get a sense of the order of magnitude of what we might consider. We're not doing that now. We're not going to do that for the fourth quarter, and we'll have discussions with our Board as 2026 gets underway based on rate expectations at the time to consider what we do with the dividend. But we have a quarter's worth of spillover income, and so that gives us a little bit of cushion, but we're not stubborn about it either. We think that the base dividend level should reflect the earnings power of the portfolio in the expected rate environment for a reasonable period of time. So, hopefully, that gives you a little bit of a context of how we think about it.

Arren Cyganovich

Yeah. That's helpful. Thank you.

Operator

Thank you. Our next questions come from the line of Robert Dodd with Raymond James. Please proceed with your questions.

Robert Dodd

Hi, guys. Moving on to like the outlook for originations activity, et cetera. I mean, I think you've well covered the dividend discussion at this point. I mean you are at basically towards the high end of your target leverage. Obviously, when OBDC comes in, then that would adjust. But I mean, is there any opportunity to, or do you expect that to be an opportunity rotate any assets or anything like that in terms of if M&A activity does continue to ramp that we're hearing about, you're a little, not tapped out, but I mean you might not be able to participate that in that as fully given where the leverage is unless you can... obviously repayments happen, too. I mean, what are your thoughts on what the opportunities are if there is a real M&A cycle given where your leverage is to start there?

Craig Packer

So, I'll make a couple of comments, and Logan, maybe you can comment on what activity levels we're seeing right now. You're right. We are at sort of the higher end of the range that we've had. Look, we have a very prolific ability to originate assets at Blue Owl. It's one of our great strengths as a platform. Even in moderate M&A environments, we, this past quarter as a platform originated \$10 billion worth of deals. What we've been doing at OBDC is really trying to match originations to repayments, to stay at sort of the mid to higher end of our range, to generate good returns. It's not easy to do that perfectly because deal closings and repayments aren't perfectly precise.

So, we're at the higher end. The merger will take leverage down a little bit by itself, and so that will create some cushion and, guys, what is it 1.15 or something pro forma? So 1.15 pro forma. So that alone will get us down a little bit. And we can modulate this pretty easily in any given quarter because we're constantly getting repayments. And so, I think that we can participate in

an attractive deal flow cycle if we see an unusually attractive cycle just by allowing some repayments to come in and deploying to get back to 1.2, 1.25. Logan, maybe just comment on what the deal environment has been.

Logan Nicholson

Yes. Sure. In the fall, we've seen a meaningful pickup in our activity levels. We've seen in the last couple of months, particularly in September, a pickup of our activity and pipeline by about 1/3 from prior quarter levels. And the mix is significantly weighted now towards sell-side M&A opportunities, which usually and typically result in greater upfront fees when doing a brand-new deal, and there's more new capital, obviously, in those new deals as well in the supply, versus what you've seen over the last two years is dollar-for-dollar refinancings of deals that come with very little upfront fees.

So, the mix is better, and the pipeline is higher. We're trying to be cautiously optimistic given we need to get to signings of those deals, but we would note that the teams are very busy and the outlook, we're quite optimistic. I'd also point out something that we pointed out last quarter, and after the OBDE merger that also rings true after OBDC II, we continue to have less pro forma JV and strategic equity investments as we would have had prior to the merger. And so it gives us an opportunity to deploy into those accretive and noncorrelated opportunities.

And if you look at this quarter as an example, the differences are modest, but that dividend income offset some of the base rate decline, and was stable and noncorrelated to the rest of the portfolio, it was really more onetime income-related items that had the impact this quarter versus last quarter. So I think those JVs and strategic investments will be a place, post the OBDC II merger, where we're able to take advantage of it.

Robert Dodd

Thank you. The follow-on is exactly that. I mean, you created a new vehicle across strategies opportunities or whatever it was called, I think, this quarter to take advantage of that. I mean, it's obviously very, very small right now, I think it was like a \$5 million position. I mean, how big could that vehicle be as a piece of the portfolio? And what kind of return on capital do you expect from those versus the... from that type of opportunity versus the on-balance sheet direct lending?

Logan Nicholson

Sure. So, I think it's a great example of the benefits of the platform. Last quarter, we talked about the equipment leasing JV we set up with CalSTRS. And this quarter, we set up another entity, really, for asset-based and alternative credit across the platform. It's meant to be a diversified box of secured investments across a diversified pool of, call it, conviction calls or best-in-class opportunities from the Blue Owl platform. We're going to go slowly and keep it quite diversified. But I would expect that there will be some meaningful opportunities there.

Just like every other one of our strategic equity and JV investments, it's going to be a small individual part of the portfolio. It could be 1% or 2% over a number of years, so I wouldn't expect it to move the needle a lot in the next quarter or two, but over the next few years, we would look

to grow it. And returns wise, just like all of the other JVs we've set up, we're targeting a low double-digit type of return profile that should hopefully be with an asset-backed asset base noncorrelated to the corporate credit in the other direct lending names. So similar return profiles, and we're going to move slowly and deliberately in the deployment of that new entity.

Robert Dodd

Got it. Thank you.

Craig Packer

Thanks, Robert.

Operator

Thank you. Our next question has come from the line of Finian O'Shea with Wells Fargo. Please proceed with your question.

Finian O'Shea

Hey, everyone, good morning. Logan, sticking with you. I found one of your opening comments interesting on the average hold sizes and facility sizes approaching \$1.5 billion. Correct me if I'm wrong there. I think you were talking about the tranche size total of an average name. Is that indicative of more refi, repricing risk as the leveraged finance market continues to hold up strong? And how much, I suppose, higher, do you think that will go over time? Or do you think it's more... do you think you'll be more so broadening as opposed to growing in size of companies? Thanks.

Logan Nicholson

Yes. No, thanks for the question, Fin. It is related to tranche size, not our specific Blue Owl hold size, and it's been increasing meaningfully. If you look at the first quarter, we noted a comment that in one of the quarters this year, the average deal size exceeded \$2 billion total tranche size. So we're seeing sizable businesses, some of them even north of \$10 billion enterprise value, choosing direct. And I think if the average deal size were even half of that, we would have the same dynamic of competition with syndicated markets or public markets. So, I don't think that that's new.

And I think a point of validation that we continue to monitor are the new M&A and new borrower choices. And there are third parties, like S&P, for example, that put out market share statistics quarterly. And despite the public markets being wide open, north of 3/4 of all of those new M&A deals and LBO deals are still choosing direct. So we don't see, even in this low spread public market environment, we don't see material share loss. In fact, we see it the other direction. And I think the experience our borrowers are having is a good one with direct lending. And I think you're seeing that adoption continuing.

So the number of companies in the private markets, the scale of those companies, how long they can stay private, for longer, is a secular shift. And I think the secular shift to direct is something we're experiencing every single quarter. So, I think we have a reasonably long runway for that to

continue, and we're not concerned that the dynamic right now is any different with the public markets.

Finian O'Shea

That's all for me. Thanks so much.

Craig Packer

Thanks, Fin.

Operator

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

Casey Alexander

Yeah, good morning, and thank you for taking my questions. I'm kind of curious in relation to the \$200 million share repurchase program. And I noticed that the merger doesn't have any lockups or gates for the OBDC II shareholders. So, is it kind of your plan or your strategy to hold that for after the merger and use that to absorb any potential selling pressure that might come from the merger?

Craig Packer

I don't think that we've made that determination. I think that we think about the buyback as something that can be used anytime, and obviously, the current share price environment is one that you have to be looking hard at it.

Just because you're raising it, and again, investors may not be familiar with OBDC II. OBDC II, throughout its entire life, for seven years, has had quarterly tender offers. And we have fulfilled every penny of every tender offer for every quarter for seven years. So unlike other BDC mergers in the space, where a merger with a public BDC would be the first opportunity for investors to get liquidity, these investors have not only had access, but they've all... anybody who's wanted out has gotten out on schedule.

So, I think there's a lot of fact patterns to suggest that investors in OBDC II wouldn't necessarily be sellers, because if they wanted to sell, they could have just sold in the last tender offer we did. So I don't... so therefore, we're not thinking about our buyback as necessarily needed for the closing of that merger, because that fact pattern wouldn't suggest that the merger would create more sellers. So, we just view it as to be used in any environment. And certainly, again, the stock price is at a level that we'll look at it.

Casey Alexander

Great. Thank you for taking my question.

Craig Packer

Thanks, Casey.

Operator

Thank you. Our next questions come from the line of Mickey Schleien with Clear Street. Please proceed with your questions.

Mickey Schleien

Yes. Good morning, everyone. And Craig, thanks. And Logan, thank you, for all the discussion of the market backdrop. But I wanted to follow up on that issue by noting that we've heard generally that activity has picked up in the third quarter, which is obviously a good thing, and that could help balance the direct lending loan market. And with that in mind, I'm curious what your sense is of the market's current balance or disequilibrium, and your outlook for spreads, particularly going into next year?

Craig Packer

Sure. I'll start and, Logan, you're welcome to chime in. Okay, you're asking the question because I think when you look at earnings, certainly our earnings and maybe other BDCs, there are a few different pieces that are at play here, and I think it's worth spending a second on this. We're really confident in the quality of our portfolio. Our portfolio continues to perform well. We did have the one nonaccrual. But overall, we expect credit performance to continue to perform well.

What's happened is there's been a meaningful move on rates over the last year, 100 basis points move on rate, and that's been the primary driver of earnings. That shouldn't be a surprise, given the floating rate nature of the assets. But it certainly will produce headlines that earnings are down in a given quarter or down over a year. It's just a function of rates.

But to your point, there's another piece, which is spreads. Spreads have tightened in the direct lending market. Directionally, if you look at our... OBDC a year ago, we published this, spreads in the portfolio were 50 basis points wider than they are today. So you have two things going on, a 100 basis point drop in rates and a 50 basis point drop in spreads. Two different cycles.

The spreads cycle, which is what you're asking about, I think, is a function of two things. One, we do compete with the syndicated market, syndicated spreads are at all-time tights. We're seeing "B" credits getting priced at 275 to 300 over. Any student of the public loan markets would say that's exceptionally tight. In my experience in the leveraged finance space in all these years, that market tends to be cyclical. At some point, you should expect the public loan market spreads to widen out, and that could be material.

The other activity that's going on is the M&A cycle remains modest. We're seeing signs of pickup. The private equity firms are eager to resume M&A activity, and we're starting to see signs that that's happening. I don't want to predict this is the beginning of a new cycle. But we're seeing signs in the last month or two that are encouraging, and I know other managers have observed that as well.

So, if you get an environment where M&A continues to pick up, and you get some... I won't even say dislocation, just normalization of the public loan market, then spreads in the direct lending market will follow suit and spreads will widen out. So, I think there's just going to, at some point, be a normal spread widening cycle in the direct lending market.

As to when that happens, my prediction skills haven't been good. I would have thought it would've happened this year, and it hasn't. But at some point, it will. And when it does, that will offset some of the rate tightening that we've experienced and generate better returns. So again, I don't want to say I expect it to happen next year because I think that it would be... it's just impossible to predict. But if folks observing the loan market and observing the M&A cycle, I think it's pretty reasonable to think over the next 12 to 18 months that one or both of those things will happen, and we will benefit from it.

Mickey Schleien

Appreciate that...

Logan Nicholson

Let me just add on one additional...

Mickey Schleien

Yeah, I'm sorry. Go ahead.

Logan Nicholson

One additional point to add on is Craig's mention of where syndicated market spreads are today, we've seen spread deployment stability over the last few quarters in private markets. And if you look at the average spread on our new deployments, excluding a couple of one-off second liens or refinancings, we've been deploying right around that 500 over spread level, basically for the last year, plus or minus. And so our deployments have been consistent, while public markets continue to tighten. So, the relative spread environment still feels reasonably good.

Mickey Schleien

I appreciate that. That's really helpful, and sort of in line with my thesis. Moving on, there were several portfolio companies which contributed to this quarter's unrealized portfolio depreciation, but Conair and Beauty Industry Group were most of it on a net basis. Could you just help us understand what the issues are there? And do you see those sort of factors affecting other portfolio companies?

Logan Nicholson

Sure. So absolutely, thanks. And I think there's two different issues on the two names.

On Conair to address the first one, it's a second lien position predominantly behind a syndicated market first lien. That first lien has been downgraded to CCC ratings, and so it has a technical pressure to it, and the marks reflect a relative value to the trading price of the first lien. So there's an element of both technical and fundamental.

It also has tariff-related weakness and tariff-related issues affecting the business. They import the vast majority of their goods from China and are working through redeveloping their supply chains to work around or to fix that issue. And so it's going to take time with Conair. It's a name where, on the Conair side, they have well over a year's worth of liquidity. And so there's no imminent event or imminent catalyst that we can see. The company is on solid footing and should have a long period of time to try to work through the tariff-related issues. So, it's a tariff-related name in our list, but it's one that's depressed in trading price by a public market name and public market rating dynamic.

On the Beauty Industry side, there are some similarities in the fact that tariffs have impacted the fundamentals. Beauty Industry is a name that we've had in our portfolio for over five years, through two ownership periods. It's been on our watch list for two years, and there have been a number of issues. Tariffs is just the latest. Importantly, they had some competition-related issues a number of years ago, and then an operational issue, and most recently, tariffs, given they import most of their beauty-related products from China as well.

The sponsor there over time has put in capital, and at this period of time, we're unsure that they'll put in additional capital to support the business, so we had further markdowns that we took. But that one doesn't have the same trading dynamics and is a much tighter liquidity situation than Conair, and so it was marked down accordingly this quarter. Hopefully, that provides some (inaudible).

Craig Packer

Yes. I would just add, we have said when tariffs kicked in, that there were a few names that we thought were (inaudible)...

And so although disappointing, it's not surprising to us, but I want to reassure investors, this is not indicative of a long list of other names that could migrate (inaudible)...

Michael Mosticchio

Why don't we move to the next question?

Operator

Thank you. Our next questions come from the line of Kenneth Lee with RBC Capital Markets. Please proceed with your questions.

Kenneth Lee

Hey, good morning. Thanks for taking my question. Just one on the merger here. Wonder if you could just talk a little bit more about expected timeframes for achieving the expected ROE accretion that you mentioned? Thanks.

Jonathan Lamm

Sure, I mean, timing-wise, similar timing in terms of our expectation to close the merger, which should be at some point, hopefully in the first quarter, maybe later in the first quarter. The OpEx synergies tend to come in relatively quickly, just given they're mostly related to duplicative expenses and things along those lines.

The capital structure related synergies do sometimes take a little bit longer, but we expect we can achieve most of those in 2026. And the effect of just leveraging out the portfolio just given the relatively small size of OBDC II to OBDC also is a relatively near-term event. So, we don't think that it's going to take very long.

Kenneth Lee

Got you. Very helpful there. And then just a follow-up, if I may, another one on the new share repurchase program. How would you evaluate potential share repurchases in the context of OBDC's leverage, and as well, how would you approach balancing between repurchases and a potential pickup in investment opportunities over the near term there? Thanks.

Craig Packer

Look, I think that... I think you're doing a good job of identifying all the variables. We're going to balance all of those variables. I think that, look, our capital is permanent and very valuable. And so, we are always trying to preserve that capital for new investment opportunities. But certainly, in a world where the stock is where it is, and where we've already talked about how spreads are tight and rates are lower, then it's going to make the attractiveness of buying shares that much better.

So... and leverage obviously plays in. I've already commented on leverage. Leverage... we can manage leverage just as we get repayments, which we continue to get. So I can't... it's not scientific, and I think this is well understood. We also operate with various windows based on our public disclosure periods of time. So in any given quarter, our legal judgment is there's periods of time in the quarter where we can buy shares, and we can't, based on when we're going to report results and the like and when we get information from our portfolio companies.

So we're not open... there's meaningful parts of a quarter where essentially, we're not able to buy shares. So in the periods of time where we can buy, we'll look at where the share price is, we'll look at other... where other investment opportunities are, we'll look at the leverage, and we'll make appropriate judgments as we have in the past. I wish I can give you a more precise analytical answer, but I think it's a function of all those things.

Kenneth Lee

Got you. Very helpful there. Thanks again.

Craig Packer

Thank you.

Operator

Thank you. Our next questions come from the line of Sean Paul Adams with B. Riley Securities. Please proceed with your questions.

Sean-Paul Adams

Hey, guys. Good morning. Given the impact of the uptick and the scale on earnings, are there any potential valuations for changes on the management fee cost structure on a go-forward basis?

Craig Packer

I'm not sure I totally understand the question, but no, we're not looking at the management fee structure, if that's your question. We've had the same structure for almost 10 years and OBDC II had the same fee structure, and our tech fund has the same. This is the fee structure.

Sean-Paul Adams

Thank you. Appreciate it.

Craig Packer

Thank you.

Operator

Thank you. Our next questions come from the line of Christopher Nolan with Ladenburg Thalmann. Please proceed with your questions.

Christopher Nolan

Hi. Just a follow-up on that previous question on the management fee structure. Given your comments in terms of narrower spreads and lower rates, you're in a different environment. And any consideration to improving expenses relative to revenues, improve the total return of OBDC?

Craig Packer

I appreciate why you're asking the question. I just would urge you to look over the life of the fund. It's had the same fee structure has that same fee structure when rates were at 0, for multiple years. We had the same fee structure. The fee structure has been set. It's very visible. We're consistent with it. It's not something that we're evaluating.

I think it's designed in a thoughtful way, consistent with other industry peers, and commensurate with the quality and the resources that we apply to it. I don't think the intention of the fee structure is to move around based on where rates are in any three, six-month, or nine-month period in either direction. So, I don't think that's an expectation that people should have.

Christopher Nolan

Okay. The only reason I ask is your investment yields on debt is roughly 10.5% and your stock is yielding dividend yield roughly 12% or so, a little less. And I'm just... the total returns, part of the reason possibly while the stock is trading below book is total returns. And I'm just trying to look at the... you mentioned earlier that all levers are available. I'm just following up on that.

Craig Packer

I have lots of opinions about why our stock is trading where it is trading, but I'd say there are peer stocks that are of comparable quality that have much lower yields. And so I don't think it's... I don't... I hear your question. We're hoping that this is a short-term technical situation. Investors have been very jumpy about some of the headlines in private credit generally. And so in the short term, investors seem to be reacting to a headline or two that's happening in the marketplace.

I think you're... I appreciate you're pointing out that our stock is yielding 12% for a really high-quality performing portfolio. And so our hope is that investors will find that attractive, and we'll certainly... buy back is a factor. Look, there have been periods of time where the stock has been dislocated. Again, over the last 10 years, we haven't changed the fee structure. I just... I don't think that's something that is towards... is really a meaningful consideration. I want to keep saying it. But I think everything else is, and I'm hoping that investors will see the quality of the portfolio and the opportunity to earn that type of yield. And by the way, even if dividends go down a little bit, you're still going to talk about a 10% or 11% yield that hopefully folks will find that attractive, and the stock will get moving in a more constructive direction.

Christopher Nolan

Great. Thank you. I appreciate the considerate answer.

Craig Packer

Thank you.

Operator

Thank you. Our next question has come from the line of Brian McKenna with Citizens. Please proceed with your questions.

Brian McKenna

Great, thanks. So just a quick follow-up on repayment activity. Clearly, a little bit lighter in the quarter, and they can bounce around from quarter-to-quarter, but any visibility into 4Q repayments? I'm just trying to think through is that \$0.02 per share of non-recurring income a good starting point for the fourth quarter?

Logan Nicholson

I think so far, it's consistent with the prior quarter. No change.

Brian Mckenna

Got it. Thank you.

Craig Packer

\$0.02 seem about right?

Logan Nicholson

It seems about right.

Operator

Thank you. Our next questions come from the line of Mickey Schleien with Clear Street. Please proceed with your questions.

Mickey Schleien

Apologies. The phone cut out. A couple of questions. In terms of the merger closing, are you assuming the government is going to reopen quickly and get the SEC fully up and running, in your assessment?

Jonathan Lamm

That would be part of the assessment that they would be able to review that. But ultimately, we think the projection that we've got in place accounts for that.

Mickey Schleien

Okay. And I don't want to beat a dead horse here, but I just want to confirm, there were no repurchases made under the 2024 stock repurchase program. Is that correct?

Jonathan Lamm

That's correct.

Mickey Schleien

Okay, that's it. Thank you.

Operator

Thank you. We have reached the end of our question-and-answer session. I would now like to hand the call back over to management for closing remarks.

Craig Packer

Okay. Look, we appreciate the engagement. We're available. If folks have questions, please reach out. Thanks for your time, and we will speak with everyone soon.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.