

Blue Owl Capital Corporation

Another record quarter; core dividend increased ~6%

Maintain Rating: BUY | PO: 16.00 USD | Price: 15.00 USD

Beat the Street; 4th consecutive qtr of record core EPS

Blue Owl Capital (OBDC) reported another record quarter. And we continue to believe OBDC is one of the best positioned BDCs to generate strong risk-adjusted returns despite the complex market environment due to its proprietary origination platform, strong risk management, and solid liquidity. OBDC reported Q4 core EPS of \$0.51 (record core EPS), above Consensus expectations of \$0.48. Relative to the BofA forecast of \$0.49, the beat was primarily driven by better-than-expected recurring interest income. GAAP EPS was \$0.48 (12.6% GAAP ROE) due to modest portfolio depreciation. During Q4, NAV/share increased 0.4%, credit remains solid, and leverage was largely stable. Notably, OBDC increased the quarterly core dividend ~6% to \$0.37/share (from \$0.35/share). Maintain Buy.

Non-accruals slightly higher at 1.3%, well below peers

Non-accruals were 1.3% (4 borrowers) of the debt portfolio at cost, compared to 1.1% (3 borrowers) the prior quarter. Importantly, non-accruals are well below the industry average (~2.6% at Q3, most recent data available).

NAV/share +0.4% to \$15.45; 1Q24 total DPS \$0.45

NAV/share increased to \$15.45, compared to \$15.40 the prior quarter. The increase in NAV/share was largely due to core earnings in excess of the Q4 total dividend (+\$0.08) and realized/unrealized losses (-\$0.03). The total dividend in Q4 was \$0.43/share (\$0.35 core and \$0.08 supplemental). The 1Q24 total dividend will be \$0.45/share (\$0.37 core and \$0.08 supplemental), above the BofA 1Q24 forecast of \$0.42/share.

Liquidity good; leverage mostly stable at 1.09x

Reported leverage (net of cash) was 1.09x, compared to 1.13x the prior quarter. Target leverage is 0.9-1.25x so there is modest capacity to grow the portfolio (\$450M or ~4%) with existing capital. OBDC's funding mix remains conservative (~58% unsecured debt), increasing financial flexibility and liquidity. Total liquidity was \$2.1B (\$1.9B at Q3). Only \$400M (6% of outstanding debt) matures in 2024 and \$940M (13% of outstanding debt) matures in 2025.

Portfolio -1% to \$12.7B; yield +10bp to 12.5%

The portfolio (fair value) totaled \$12.7B at Q4, compared to \$12.9B the prior qtr. Fundings of \$1.0B and exits/sales of \$1.1B resulted in -\$113M of net funded investment activity. The BofA forecast was \$0 growth given current market conditions. Overall, portfolio composition was conservative (71% first lien senior secured, incl JV), in our view. The portfolio yield (cost basis) increased to 12.5%, up from 12.4% the prior quarter. The weighted average rate on new investments was 11.7% (11.7% the prior quarter).

22 February 2024

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Stock Data

Price	15.00 USD
Price Objective	16.00 USD
Date Established	8-Dec-2023
Investment Opinion	C-1-7
52-Week Range	11.51 USD -15.27 USD
Mrkt Val / Shares Out (mn)	5,846 USD / 389.7
Free Float	92.9%
Average Daily Value	26.04 USD
BofA Ticker / Exchange	OBDC / NYS
Bloomberg / Reuters	OBDC US / OBDC.N
ROE (2023E)	12.5%
ESGMeter™	Medium

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Timestamp: 22 February 2024 07:27AM EST

Exhibit 1: Stronger top line growth drives core EPS beat
 OBDC variance table

(\$k)			Actual vs. BofA Estimate		EPS Difference		QoQ		YoY
	4Q23A	4Q23E	Amt	%		3Q23A		4Q22A	
Interest From Investments - Interest Income	363,536	356,745	6,791	1.9%	0.02	355,116	2.4%	312,564	16.3%
Dividend income	32,315	29,286	3,029	10.3%	0.01	28,749	12.4%	24,343	32.7%
Other income	2,398	2,514	(116)	-4.6%	(0.00)	2,514	-4.6%	3,889	-38.3%
Joint venture	12,978	12,734	244	1.9%	0.00	12,643	2.6%	9,710	33.7%
Total Investment Income	411,227	401,279	9,948	2.5%	0.03	399,022	3.1%	350,506	17.3%
Interest expense	111,889	111,697	192	0.2%	(0.00)	110,445	1.3%	97,604	14.6%
Net Interest Income	299,338	289,582	9,756	3.4%	0.03	288,577	3.7%	252,902	18.4%
Base management fee	47,709	47,604	105	0.2%	(0.00)	47,796	-0.2%	47,583	0.3%
Incentive fee	42,217	40,524	1,693	4.2%	(0.00)	40,314	4.7%	34,462	22.5%
Professional fees	3,838	3,890	(52)	-1.3%	0.00	3,890	-1.3%	3,687	4.1%
Administrative fees	1,967	3,349	(1,382)	-41.3%	0.00	3,349	-41.3%	2,634	-25.3%
Credit facility fees	-	-	-	N/A	-	-	N/A	-	NA
Directors fees	320	445	(125)	-28.1%	0.00	445	-28.1%	260	23.1%
Management fees waived	-	-	-	N/A	-	-	N/A	-	NA
Other/Tax	4,264	2,730	1,534		(0.00)	2,730		1,812	
Total operating expense	100,315	98,542	1,773	1.8%	(0.00)	98,524	1.8%	90,438	10.9%
Net investment income	199,023	191,040	7,983	4.2%	0.02	190,053	4.7%	162,464	22.5%
Net Unrealized Gain/(Loss) on Investments	(9,456)	-				(104)	NA	511	-1950.5%
Net Realized Gain/(Loss) on Investments	(597)	-				16,989	-103.5%	28,913	-102.1%
Net gain on Investments	(10,053)	-				16,885	-159.5%	29,424	-134.2%
Net Increase in Net Assets from Operations	188,970	191,040				206,938	-8.7%	191,888	-1.5%
Diluted Shares Outstanding (thousand)	389,733	389,733	0	0.0%		389,704	0.0%	393,719	-1.0%
End of Period Shares (thousand)	389,733	389,733	-	0.0%		389,733	0.0%	392,477	-0.7%
GAAP EPS (diluted)	\$0.48	\$0.49	-\$0.01	NA		\$0.53		\$0.49	
Core EPS (diluted)	\$0.51	\$0.49	\$0.02	4.2%	0.02	\$0.49	4.7%	\$0.41	23.8%
Total investments (FV)	12,713,348	12,896,158	(182,810)	-1.4%		12,896,158	-1.4%	13,010,345	-2.3%
Cash and cash equivalents	659,658	432,030	227,628	52.7%		432,030	52.7%	450,139	46.5%
Total debt	7,077,088	6,999,953	77,135	1.1%		7,062,399	0.2%	7,281,744	-2.8%
Total shareholders' equity	6,021,393	6,023,915	(2,522)	0.0%		6,000,009	0.4%	5,882,403	2.4%
Book Value (NAV)	\$15.45	\$15.46	(0.01)	0.0%		\$15.40	0.4%	\$14.99	3.1%
Asset coverage ratio	186%	187%	-0.01x	-0.5%		186%	0.00x	182%	0.04x
Debt/equity (EOP)	118%	116%	0.01x	1.1%		118%		124%	
Investments funded	1,029,946	500,000	529,946	106.0%		386,645	166.4%	184,126	459.4%
Repayments	(1,142,615)	(500,000)	(642,615)	128.5%		(389,686)	193.2%	(115,654)	888.0%
Net new investments	(112,669)	-	(112,669)	NA		(3,041)	3605.0%	68,472	-264.5%
Total Portfolio Yield at FV (total, calculated)	11.76%	11.46%		0.30%		11.41%	0.4%	9.98%	1.8%
Net investment margin (Margin)	12.85%	12.45%		0.40%		12.38%	0.5%	7.83%	5.0%
Return on average equity (ROE) - GAAP	12.6%	12.7%				13.9%		13.1%	
Return on average equity (ROE) - Core	13.2%	12.7%				12.7%		11.1%	

Source: Company reports and BofA Global Research estimates

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Price objective basis & risk

Blue Owl Capital Corporation (OBDC)

Our \$16 PO is based on a roughly 1.0x multiple to NAV, which we think is achievable as OBDC maintains stable margins and modest portfolio growth.

Downside risks to achieving our price objective are 1) material weakening in credit markets, 2) a significant slowdown in investment activity, 3) a deteriorating macroeconomic environment, 4) disruptions in the capital markets, and 5) weaker-than-expected investment performance.

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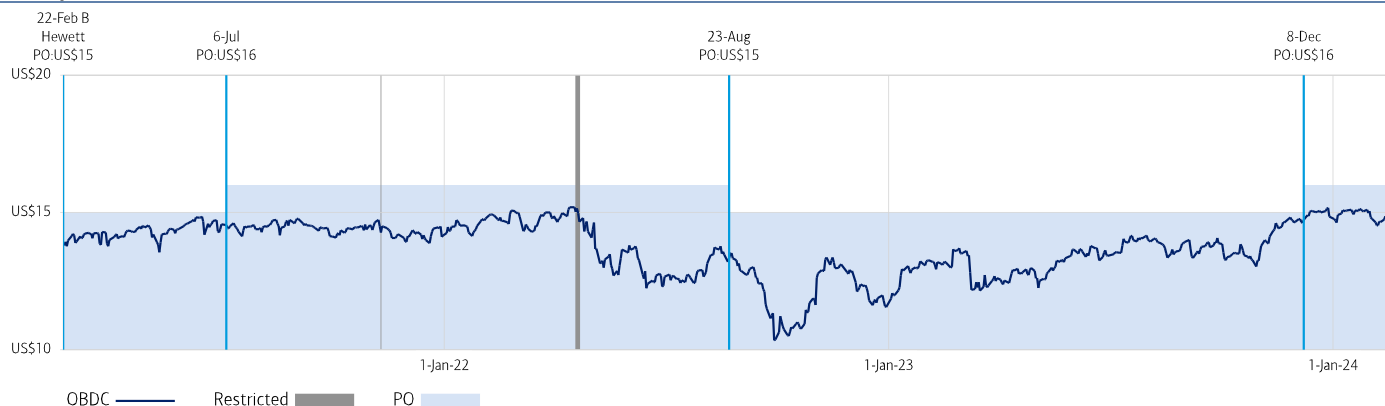
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Blue Owl Capital Co (OBDC) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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