

 ON THE HOOT

# PIKing and Choosing Wisely



Over the past year, PIK (“payment-in-kind”) exposure in direct lending portfolios has been an area of heightened investor concern. On the surface, there is a logic to concerns surrounding PIK investments – shouldn’t loans that are not cash paying indicate some sort of portfolio stress?

Not necessarily, because **not all PIK is created equal**, and it is important to delineate between “**PIK under pressure**” versus “**PIK by design**”<sup>1</sup>. Across Blue Owl’s BDC platform, we have not seen a meaningful increase in “PIK under pressure”, despite the last three years having been marked by substantial interest rate hikes, inflation concerns, geopolitical escalations, and tariff-induced uncertainty. In fact, we have demonstrated that PIK flexibility can be a value-creation tool for our investors, and an important lever we use to provide bespoke and differentiated financing solutions for our borrowers.

**In the following pages, we show various PIK statistics across Blue Owl’s BDC portfolios, highlighting the key differences between these two types of PIK, illustrating that PIK flexibility is an intentional component of our investment strategy, and demonstrating that it can benefit both our borrowers and our investors under the right circumstances.**

## Key Blue Owl BDC platform observations



### **Income generated from “PIK under pressure” represents just 0.6% of total investment income (Chart 1)**

- No meaningful increase in share of “PIK under pressure” in recent years (Chart 2)



“PIK by design” is an important piece of our underwriting strategy because we believe it can offer compelling risk-adjusted returns for our investors, measured by the following:

- Enhanced all-in yield, generating 50-100 basis points of outsized spread compared to cash-paying loans (Table 1)
- Potential for incremental downside protection from larger portfolio company size, higher growth rate, and lower loan-to-values on average compared to cash-paying investments (Table 1)<sup>3,4</sup>
- **Strong credit quality, with no non-accruals, bankruptcies, or principal losses on loans since inception**
- Widened origination funnel because of flexibility offered relative to other financing options, including bank-led financing



Loan PIK flexibility is typically temporary, converting to cash-paying within 2 years, on average

- The majority of our “PIK by design” loans underwritten before 2024 have been repaid or have converted to cash-paying (Chart 3)

When used thoughtfully, intentionally, and strategically, PIK can be an effective tool to enhance both borrower and investor experiences

**Past performance is not a guarantee of future results.** There can be no assurance that any future investments will achieve comparable results to those presented herein. See endnotes and important information for additional information.

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## Back to the basics... what is payment-in-kind (“PIK”)?

A PIK feature allows a borrower to defer all or a portion of their cash interest expense or dividends until a later date. For example, instead of paying all of the interest on a loan in cash, a borrower adds all or a portion of the interest to the principal balance of the loan, to be repaid at a later date. The ability to selectively offer PIK flexibility differentiates private credit from bank-led syndicated transactions.

Figure 1

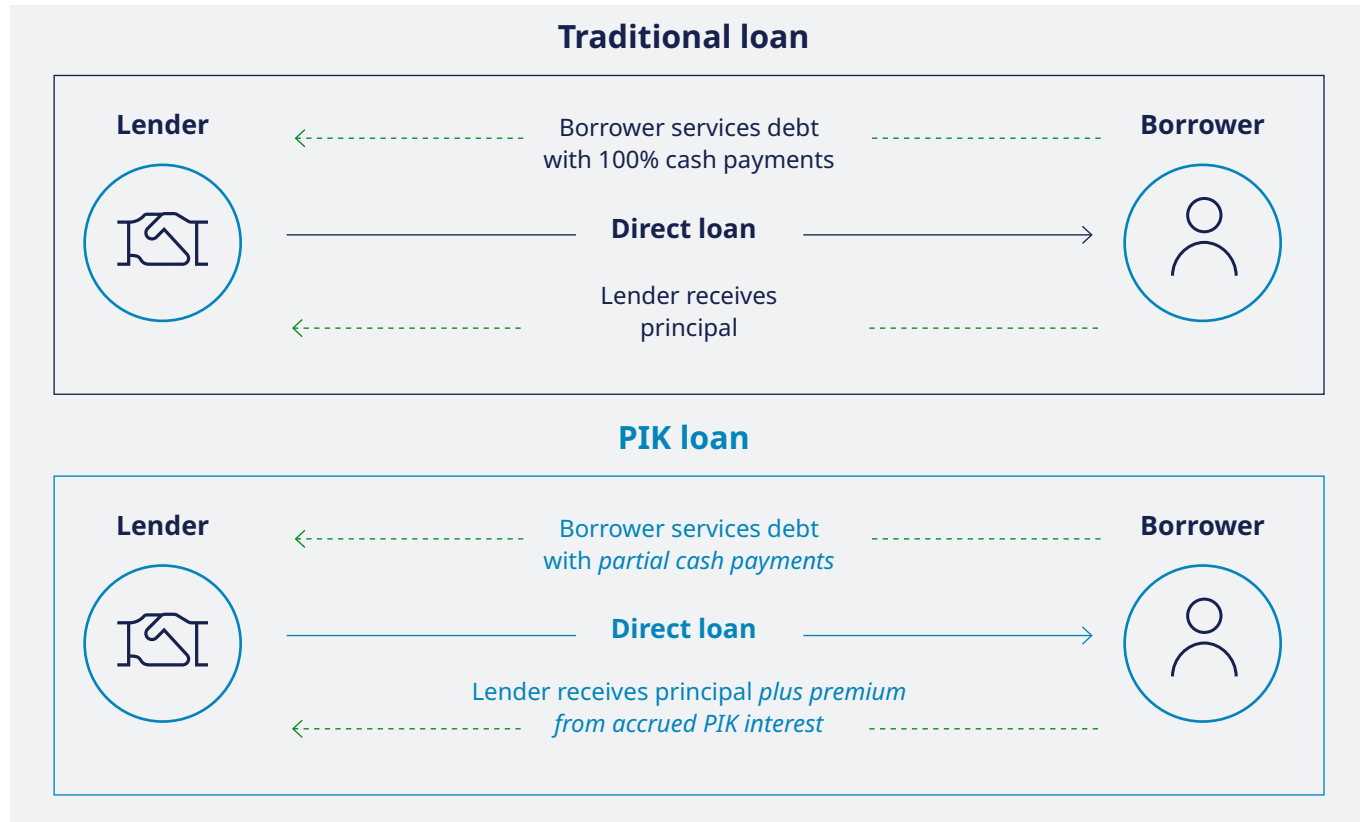


Figure 2

## What are the different categories of PIK across our BDC platform?

PIK by design		PIK under pressure
<b>PIK coupon</b>	<b>PIK preferred</b>	<b>Amended PIK</b>
Contractual interest that typically forms part (<50%) of the overall coupon for a senior secured loan over a temporary period (~2 years)	Contractual dividend with debt-like characteristics that is often senior to large common equity investments	Implemented after origination to relieve liquidity pressure on a business often on the condition of incremental equity support by the private equity sponsor or business owner
<b>100%</b> performing assets	<b>99.8%</b> weighted average mark	<b>0.6%</b> of total investment income

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Chart 1

**“PIK under pressure” represents a de minimis share of total investment income & nearly all of our PIK income is “PIK by design”**

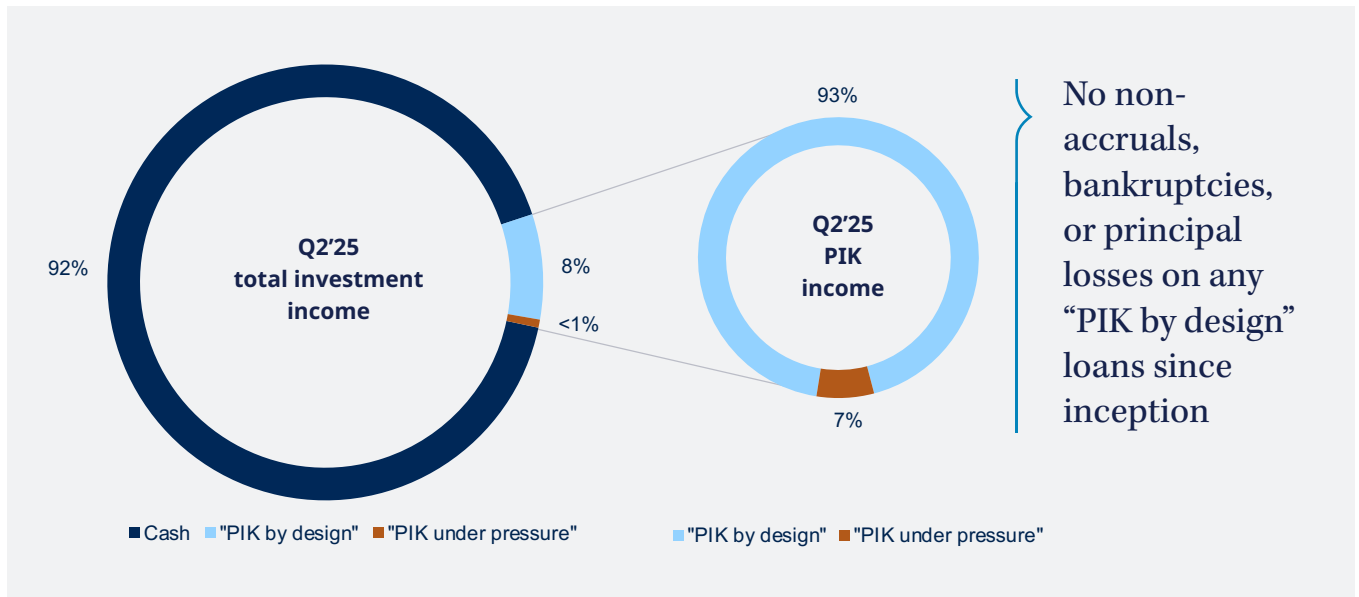
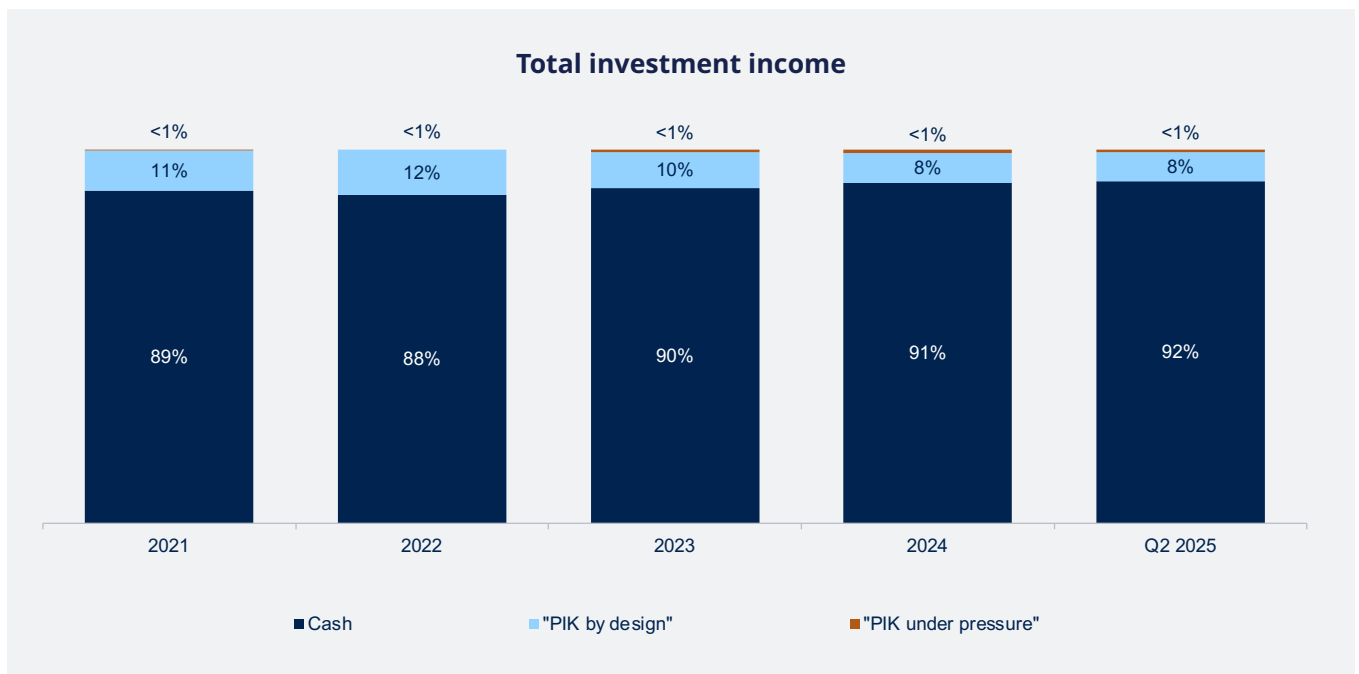


Chart 2

**No meaningful change in “PIK under pressure” in recent years**



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## What type of companies do we typically offer PIK loans to?

There are generally two scenarios in which we offer “PIK by design” flexibility.

Some of our borrowers are high-organic growth companies with strong per-customer profitability, and they want to reinvest in acquiring new business. PIK flexibility allows them to do that. These companies are well-capitalized, and they are making a conscious decision to reinvest their profits into growth.

This is particularly true in the software space, which as an asset class continues to experience significant secular growth. As a lender, Blue Owl offers this kind of loan customization to competitively attract these high-quality borrowers.

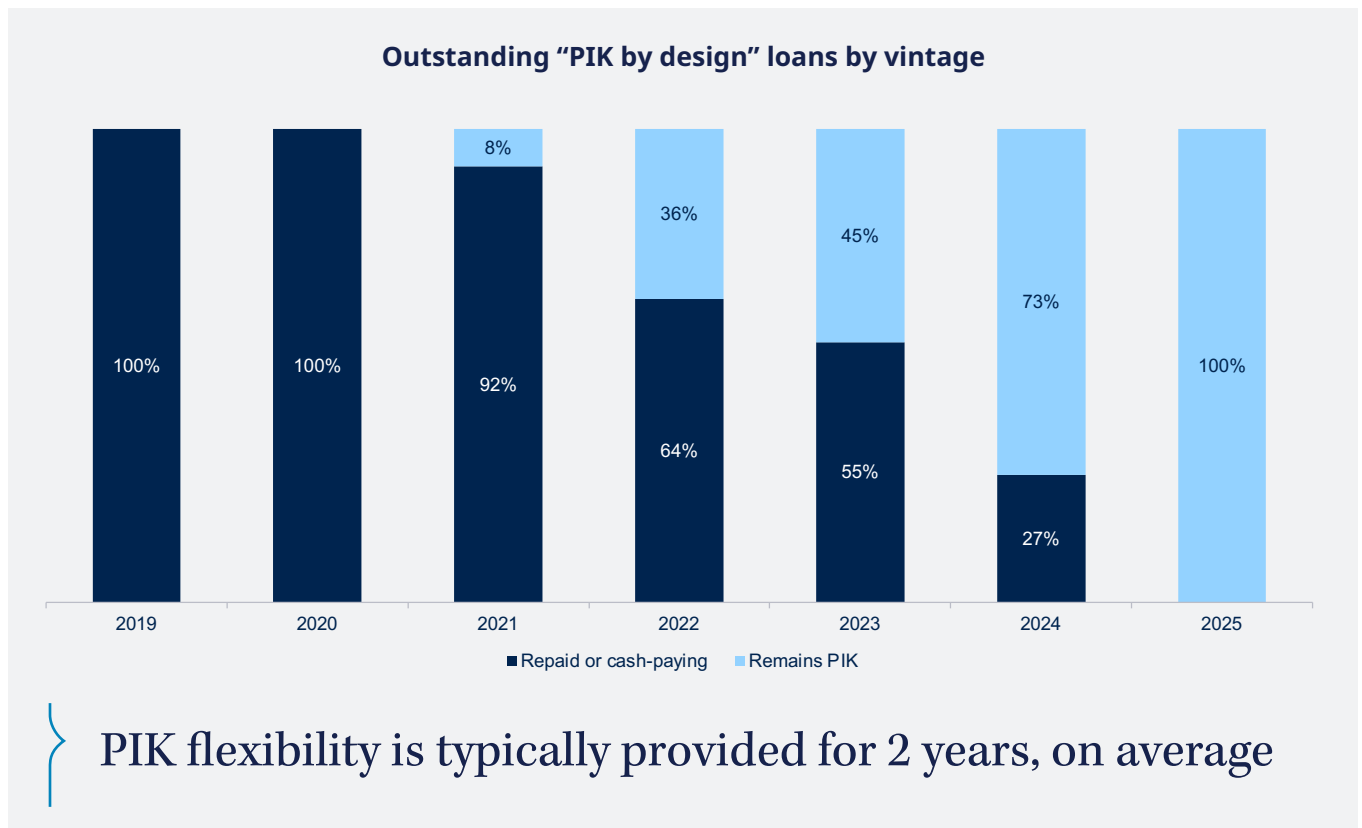
We also offer PIK flexibility in instances where the transaction structure does not support cash interest. In these instances, companies are temporarily offsetting the impact of the higher interest rate environment by paying a premium to pay in kind. Blue Owl offers this flexibility dependent on the creditworthiness of the borrower, and these investments skew towards larger companies with lower loan-to-values, which can provide incremental downside protection.

Importantly, we do not offer this flexibility to everyone. Our “PIK by design” portfolio is generally comprised of large, well-established businesses with average EBITDA in excess of \$325 million<sup>3</sup>.

In exchange for this flexibility, these loans typically convert to cash-paying loans within a specified period. In fact, recently, our PIK income as a share of total investment income has been trending down as PIK loans convert to cash-paying loans, or as these loans are repaid because these businesses have performed as planned.

Chart 3

### “PIK by design” loans typically convert to cash-paying within a few years



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Table 1

## By the numbers... seeking to create value through the use of PIK

	"PIK by design" investments	Cash-paying investments
First lien weighted average spread <sup>2</sup>	~600 BPS	~500 BPS
Weighted average EBITDA <sup>3</sup>	\$330MM	\$306MM
YoY weighted average EBITDA growth <sup>3</sup>	14%	11%
Weighted average loan-to-value <sup>3, 4</sup>	36%	38%
Weighted average mark <sup>5</sup>	99.8%	98.4%

### Structuring a mutually beneficial financing solution

"PIK by design" investments can benefit a borrower by allowing them to retain cash flow to reinvest in their business, and benefit Blue Owl's investors by delivering a higher all-in yield relative to an equivalent all-cash pay loan

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## PIK flexibility can be compelling for our borrowers & our investors

### Case study: Trucordia

Insurance brokerage firm



At initial underwrite, Blue Owl provided a highly bespoke financing solution that included a cash-pay unitranche facility with committed delayed draw-term loan capacity, plus an intentionally structured junior facility with PIK interest and a common equity investment. The PIK instrument provided important additional proceeds that supported the management-led recapitalization and included attractive negative covenants, protective provisions, and call protection.

In the second quarter of 2025, the company completed an equity recapitalization and comprehensive refinancing, resulting in the payoff of Blue Owl's debt facilities, including the applicable call premium and all capitalized and accrued PIK interest, and a realized gain on Blue Owl's common equity investment. The transaction resulted in an attractive risk-adjusted return for Blue Owl funds.

Given our deep and long-standing relationship with Trucordia, Blue Owl recently provided a new second lien term loan as the sole lender. This second transaction highlights the strength of Blue Owl's incumbency, and the value Blue Owl's customized, flexible solutions play in positioning Blue Owl as a lender of choice from the beginning.

### Case study: Associa

Homeowners association services provider



Blue Owl has been a long-term financing partner to Associa since 2018, when we provided a unitranche credit facility that streamlined the company's previous capital structure. One of the key advantages of this new financing solution was its simplicity: Associa maintained its previous cash/PIK interest mix without juggling multiple lenders or documents. Importantly, this PIK flexibility also freed up capital for acquisitions and growth initiatives, aligning with Associa's expansion goals.

In 2024, Blue Owl led a comprehensive refinancing to support Associa's continued growth. Over our 7-year partnership, Blue Owl has remained Associa's largest lender and has continued to serve as Administrative Agent for its credit facilities, reinforcing our commitment to supporting Associa's ongoing growth goals.

Learn how Blue Owl's direct lending business helped Associa grow at an industry-leading pace featuring their President, Jose Maldonado, [here](#).

**Past performance is not a guarantee of future results.** All investments are subject to risk, including the loss of the principal amount invested. This information is being provided for illustrative/informational purposes only, not indicative of actual client results, nor the performance of an actual investment made by Blue Owl and all data is as of the date the investment closed. Important limitations to consider when reviewing case studies are that they typically identify only instances in which the investment thesis was successful and do so with the benefit of hindsight. As such, it should not be assumed that future investments made on behalf of any Blue Owl Fund will be comparable in quality or performance to the investments described herein. Case studies for all investments made by Blue Owl on behalf of its clients are available upon request. See endnotes and important information for additional information.

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# Endnotes

1. "PIK under pressure" investments are defined as investments that have undergone a credit-quality related amendment after initial underwriting that introduces a PIK component. All other investments with a PIK component are considered "PIK by design."
2. Reflects weighted average spread over applicable base rate of first lien loans.
3. Borrower financials are derived from the most recently available portfolio company financial statements, typically a quarter in arrears, have not been independently verified by Blue Owl, and may reflect a normalized or adjusted amount. Accordingly, Blue Owl makes no representation or warranty in respect of this information. This includes investments in Blue Owl Capital's BDCs and excludes certain investments that fall outside of our typical borrower profile.
4. Weighted average loan-to-value includes investments in Blue Owl Capital's BDCs and excludes common equity investments.
5. Fair value of investment divided by par value of investment.

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# Important information

For the quarter ended June 30, 2025, unless otherwise noted. All figures reflect investments in Blue Owl Capital's business development companies ("BDC") unless otherwise noted.

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**Risk factors relating to Blue Owl Capital's BDCs may be found in each of their most recent Annual Reports on Form 10-K and Quarterly Report on Form 10-Q under "Item 1A. Risk Factors." Past performance is not a guarantee of future results.**

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## Case Studies

This presentation contains case studies and other discussions of selected investments made by Blue Owl Funds. These discussions provide descriptions and certain key aspects of such investments and are presented for informational purposes only and are intended to illustrate Blue Owl's sourcing experience and the profile and types of investments and investment strategies which may be pursued by Blue Owl. The types and performance of these investments (i) are not representative of the types and performance of all investments or investment strategies that have been made or recommended by Blue Owl and (ii) are not necessarily indicative of the types and performance of investments that Blue Owl may seek to make, or be able to make, in the future. Any future investment vehicle that Blue Owl may sponsor or advise in the future, may pursue and consummate different types of investments in different concentrations, than those selected for illustrative purposes in this presentation. Further, references to investments included in illustrative case studies are presented to illustrate Blue Owl's investment processes only and should not be construed as a recommendation of any particular investment. Past performance of any investment described in these illustrative case studies is not indicative of future results that may be obtained by any Blue Owl fund, and there can be no assurance that any such fund or other vehicle will achieve comparable results.

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