

Blue Owl Technology Finance Corp Q4 2025 Earnings Call February 19, 2025

Presenters

Craig Packer – CEO

Erik Bissonnette – President

Jonathan Lamm – CFO & COO

Mike Mosticchio – Head of BDC Investor Relations

Q&A Participants

Brian McKenna – Citizens

Kenneth Lee – RBC Capital Markets

Arren Cyganovich – Truist Securities

Casey Alexander – Compass Point

Sean-Paul Adams – B. Riley Securities

Paul Johnson – KBW

Operator

Good morning, everyone, and welcome to Blue Owl Technology Finance Corp's Fourth 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.

Mike Mosticchio

Thank you, operator, and welcome to Blue Owl Technology Finance Corp's fourth quarter and full year 2025 earnings conference call. Yesterday, OTF issued its earnings release and posted an earnings presentation for the fourth quarter ended December 31st, 2025. These should be reviewed in connection with the company's 10-K filed yesterday with the SEC. All materials referenced on today's call, including the earnings press release, earnings presentation, and 10-K, are available on the investor section of the company's website at blueowltechnologyfinance.com.

Joining us on the call today are Craig Packer, Chief Executive Officer; Erik Bissonnette, 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 OTF's filings with the SEC. The company assumes no obligation to update any forward-looking statements. We'd also like to remind everyone that we'll refer to non-GAAP measures on this call, which are reconciled to GAAP

figures in our earnings presentation, available on the Events & 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. There has been a lot of investor attention on software over the past several weeks, particularly around what AI could mean for the sector. We understand the focus. What I want to underscore at the outset is that performance at OTF has been strong, and we expect that to continue.

We are pleased to report another strong quarter for OTF, closing out a milestone year marked by our successful public listing on the New York Stock Exchange and continued progress in enhancing our long-term earnings power. In June 2025, OTF was listed and established as the largest publicly traded technology focused BDC by total assets.

In connection with the listing, we declared five quarterly special dividends of \$0.05 per share through September 2026, in addition to our regular \$0.35 per share dividend, supported by substantial spillover income generated prior to the listing. This distribution profile underscores our earnings potential as we ramp toward our target leverage, particularly during a period when many credit managers are navigating earnings compression.

Since listing, we've been working our way through the lockup releases, and as of today, roughly 50% of shares are freely tradable. We used this increased float to opportunistically repurchase \$65 million of OTF shares during the fourth quarter at an average price to book value of 0.82. These repurchases were accretive to NAV per share and reflective of our conviction in the quality of our portfolio.

With that, let me address the recent headlines around software and AI. We saw a broad selloff in tech and SaaS names on concerns that AI could disrupt software business models, and that pressure ultimately impacted BDCs as well. We've always liked software, and it has been a significant contributor to our performance. We've built dedicated technology investing capabilities to match the opportunity, and portfolio performance remains excellent.

Our software borrowers are delivering low to mid-teens revenue and EBITDA growth on average, among the strongest across our direct lending strategy. Our technology strategy is supported by a dedicated team of over 40 technology investment professionals, part of our broader direct lending team of more than 120 investment professionals.

The team is organized across 10 key subsectors, including cybersecurity, healthcare IT, and fintech, giving us deep domain coverage and experience navigating ongoing technology shifts. They have evaluated AI risks and opportunities for many years. But given how quickly the technology is evolving, we proactively revisited our core thesis and reevaluated our portfolio with a forward-looking lens. Our analysis confirms the quality of our assets and gives us confidence that our portfolio remains aligned with where the market is going.

As a reminder, we primarily lend to large scale, market-leading companies that provide mission critical solutions with durable moats. We emphasize systems of record that are deeply embedded in customers' workflows, carry high switching costs, and operate in environments where errors, downtime, or security breaches cannot be tolerated.

Combined with our defensively constructed portfolio of predominantly first-lien senior secured loans to private equity sponsored borrowers, with LTVs in the low 30s and significant equity cushions, we have a substantial buffer, even in periods when equity valuations are pressured, which helps support downside protection and durable earnings.

Our performance continues to validate our approach. In the fourth quarter, OTF delivered a nearly 11% return on adjusted net income. NAV increased 35 basis points in the quarter and is up nearly 16% since inception. Furthermore, OTF continues to maintain low levels of non-accruals, and has posted average annual net gains of 23 basis points since inception, underscoring our credit quality.

While periods of rapid technological change will create disruption, they will also create opportunities and dispersion in performance. We believe that our deep domain expertise positions us to identify and capitalize on those opportunities. We are very pleased with our results and confident that we are well-positioned to navigate ongoing changes in the sector.

With that, I'll turn it over to Erik.

Erik Bissonnette

Thanks, Craig. Good morning, everyone. Since inception, our investment strategy has been to invest in a broad range of established and high-growth technology companies. To date, software companies have presented the most attractive investment opportunities, and as a result, software comprises approximately 70% of our portfolio. The balance of the portfolio is made up of tech-enabled services, other technology sectors, life sciences, and a small portion of non-technology investments.

We remain enthusiastic proponents of software. Software is an enabling technology that can serve every sector, and market, and company in the world. It is not a monolith, and neither is AI. Great software businesses provide mission-critical solutions that enhance productivity, drive efficiency, and replace analog and error-prone ways of conducting business.

The software industry has navigated significant shifts before. When the industry moved from on premise “license and maintenance” models to cloud “subscription-based pricing” models, there were winners and losers, but the shift ultimately expanded markets and strengthened the category. Like the cloud transition, we expect GenAI to drive significant long-term value through increased product utility, operating leverage, and expanding enterprise software wallet share.

Our underwriting thesis remains focused on sticky, mission-critical applications where AI serves as an additive layer rather than a replacement. We believe the most resilient winners will be incumbents who successfully integrate these capabilities to solve complex, enterprise-grade challenges, thereby increasing switching costs and solidifying their status as essential corporate infrastructure.

Given the heightened focus on software, it can be easy to think about it as a single homogenous sector. That isn't how we underwrite or manage our portfolio. Instead, we think about our software exposure across three core categories: Applications, Systems and Infrastructure, and Fintech and Payments, which together represent roughly 70% of the portfolio. I'll briefly walk through each one of these.

First is Application Software, which represents about 50% of the portfolio and is the operating layer for core business functions, including ERPs, CRMs, supply chains, and vertical specific SaaS. We believe incumbents in these categories can be insulated because they control the proprietary data and complex workflows that AI needs to be useful in an enterprise context. As true systems of record, these platforms are extremely difficult to replace, and we believe will evolve into systems of action where AI increases product utility, deepens customer reliance, and broadens opportunity to expand within their existing customer base.

Second is Systems and Infrastructure software, about 20% of the portfolio, where cybersecurity is the largest component. This is the defense layer that protects enterprise data and networks to keep systems connected and operating reliably. We see this as structurally resilient, and a beneficiary of the AI transition as businesses expand technology, services, and complexity across the organization.

Finally, Fintech and Payments is approximately 5% of the portfolio. These businesses provide the critical rails for the global movement of capital, a category we view as insulated from AI disruption. While AI can improve things like fraud detection and the customer interface, the core need for secure, regulated, and reliable movement of funds remains unchanged and creates significant moats for incumbents.

The categories we prioritize each play a specific functional role that is difficult to bypass. Even as the technology landscape shifts, the need for auditability, control, and data integrity remains constant. As such, we believe these companies are well-positioned to remain as the

foundational layer through which new AI-driven activity is governed and executed. While there will certainly be winners and losers as AI reshapes the landscape, we believe the market leaders we finance are using AI to stay on the winning side of that transition.

We have navigated major technological shifts before, such as the transition to the cloud. However, AI feels fundamentally different because it is a daily presence. We interact with it personally. It's in our pockets and our homes, which creates a unique sense of both its power and its potential risk. But as we move this technology into the enterprise, we must distinguish between personal utility and business critical execution.

The challenge with AI and current large language models is that, while it is world class at communicating, its underlying nature is probabilistic. It is a statistical engine designed to predict the next logical pattern. This is excellent for a personal assistant, but it is a problem for systems that need to be precisely accurate. A payroll calculation or bank transfer is either 100% correct or is a failure. In the corporate world, almost right is completely wrong.

This is why we believe established software leaders – the incumbents – occupy a much stronger position than the market currently discounts. These companies own the systems of record and the workflow. They have spent decades codifying the intricate rules of how a hospital operates or how a global supply chain moves. They don't just have the data; they have the operational context.

We engage regularly with our nearly 200 portfolio companies and their sponsors, and what we're seeing is that AI isn't theoretical, it's already operational. Many of these businesses are backed by sophisticated private equity sponsors that are investing meaningful resources to embed AI into products and workflows in ways that strengthen their leadership positions.

In our portfolio, the incumbents are using AI inside proven zero-error frameworks, using AI to help with reasoning while relying on their proven deterministic software to execute. Importantly, that framing matters for us as lenders. A lot of the public debate right now is being expressed through equity market volatility – who wins the growth, who captures the upside, and how valuations reset.

Our returns don't rely on hypergrowth. We underwrite for durability and downside protection first. The portfolio is predominantly senior secured, and we're typically sitting at low 30s LTVs, meaning that over 65% of a company's value would need to be impaired before our investment is impacted. There is inherently a margin of safety in our capital structure.

And we're not taking long bets. Our loans generally have an average duration of three to five years, which gives us a defined time horizon for how this evolution plays out. In addition, the portfolio turns over actively with about a quarter of the book repaying each year, which means a large portion of today's portfolio has been underwritten in an AI world. Many of these

businesses are built on multi-year contractual recurring revenue models, which support stability through periods of change, and we have contractual maturities. Ultimately, we must be repaid.

Underpinning all of this is our specialized dedicated technology investing team of over 40 professionals, who have been consistent – continuously pressure testing our underwriting and portfolio as AI reshapes the landscape.

With that, I'll jump into an overview of investment activity for the quarter. As we previewed on our last call, our pipeline was very strong. In the fourth quarter, we converted that backlog and meaningfully more, deploying \$2.3 billion of new investment commitments, including \$2 billion of new investment fundings, while repayments remained steady at \$881 million.

This activity drove a meaningful increase in net leverage over the period, which will translate into improving returns over time. And while we've been very active, make no mistake: the bar for new investments is higher than it has ever been as we factor in a rapidly evolving AI landscape. There are areas that were once investable several years ago that we are now passing on.

Although we do not have full visibility into repayment activity, we have a meaningful backlog of approximately \$900 million in transactions that we expect to fund next quarter, positioning us to continue deploying capital toward our portfolio growth targets. These investments remain subject to documentation and approvals, but our pro forma leverage, based on these anticipated fundings and visible repayments, would bring us to the bottom end of our target leverage range, slightly ahead of expectations at our listing. Looking ahead, we remain encouraged by the quality and momentum of our near-term pipeline, which continues to support disciplined portfolio growth through 2026.

Now, I'll turn the call over to Jonathan to discuss our financial results in more detail.

Jonathan Lamm

Thank you, Erik. We delivered strong fourth quarter results driven by healthy deployment activity and the ongoing strength of our portfolio. We ended the quarter with total portfolio investments of over \$14 billion, outstanding debt of \$6 billion, and total net assets of \$8 billion.

As of quarter-end, our net asset value per share was \$17.33, up \$0.06 from the prior quarter, reflecting several write-ups of common and preferred equity positions, including SpaceX and Revolut, investments that exemplify our ability to proactively source and back innovative companies. For those newer to the story, we invested \$27 million of equity in SpaceX in 2021, which has been written up over seven times as of December 31st.

Turning to the income statement, OTF reported adjusted net investment income of \$0.30 per share in the fourth quarter. This reflected steady interest income from increased deployment,

offset by one-time expenses, and the timing of originations, which were weighted toward the end of the period, limiting the impact to earnings.

Altogether, adjusted net income was strong at \$0.47 per share, equating to a 10.9% adjusted net income ROE for the quarter. Our GAAP results include \$0.03 per share of accrued capital gains incentive fees, driven by the positive marks on certain equity investments. This incentive fee accrual underscores OTF's strong credit track record, with net gain since inception.

Earlier this week, our Board declared a first quarter regular dividend of \$0.35 per share, consistent with our last quarterly distribution, which will be paid on or before April 15th, 2026, to shareholders of record as of March 31st, 2026.

In addition to our regular dividend, in connection with our listing in June, our Board declared five special dividends of \$0.05 per share, each to be paid quarterly through September 2026. As a reminder, these dividends are being supported by the significant amount of spillover income OTF generated prior to listing, which totaled \$0.40 as of quarter-end.

Moving to the balance sheet, we ended the quarter with net leverage at 0.75x, reflecting the pickup in new deals and steady add-ons. Given that deployments were weighted toward the end of the quarter, our average leverage was 0.66x, so the full impact of the higher leverage and recent deployments will materialize in future earnings.

Alongside that, we took several steps to improve our funding flexibility and reduce costs by adding lower cost secured capacity through CLO and SPV activity and exiting higher cost legacy financings. Pro forma for this activity, we expect annual run-rate interest savings of approximately \$10 million. Additionally, in January, we further diversified our liabilities with a \$400 million unsecured bond issuance, demonstrating continued access to the IG unsecured market.

We ended the quarter with nearly \$2.3 billion of total cash and capacity on our facilities. This provides more than ample unfunded capacity to support our future growth as we ramp towards our target leverage range of 0.9x to 1.25x.

Turning to OTF's stock float, as Craig mentioned earlier, roughly 50% of shares have been released, and our next lockup release is scheduled for tomorrow, February 20th. We hope that additional lockup releases will continue to ease technical pressures, generate interest, and diversify our ownership base over time.

We've been using this period to thoughtfully deploy the tools available to us, such as our share repurchase program, to drive value for our investors. As Craig mentioned, we repurchased \$65 million of shares during the quarter, which added \$0.03 per share to NAV. The Board of Directors has also authorized a new share repurchase program of up to \$300 million, which will

replace our current \$200 million share repurchase plan. Longer term, we remain confident that our share price will ultimately reflect the strength of our fundamentals.

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

Craig Packer

Thanks, Jonathan. As we wrap up today's call, I want to take a step back and reflect on the current market environment, and what it means for OTF.

The world is changing quickly with the acceleration of AI. We have always underwritten our investments with technological change in mind, but the pace of that evolution, and the uncertainty around where it will go next, is higher today. That's why our investment teams are even more committed to being selective, particularly as it relates to underwriting AI risk and focusing our capital on the platforms we believe will remain durable through the transition.

At the same time, periods like this tend to create supply-demand imbalances as some lenders pull back, and that volatility can create opportunity. It can lead to better pricing, better structure, and the ability to deploy capital into names we like on attractive terms.

And importantly, OTF continues to stand out in the BDC universe for its capacity to invest in new opportunities, while seeking to grow ROE. It also provides differentiated access to the innovative growth economy through select positions like SpaceX. We have significant capacity and ample liquidity, which positions us to take advantage of these opportunities as they emerge.

In closing, I'd like to remind everyone that OTF's earnings trajectory is positioned differently than many BDC peers. We set our \$0.35 base dividend in early 2025 using the forward curve at the time, so it was calibrated for a lower rate environment. As a result, we are not expecting to have to adjust our base dividend simply because rates have moved lower, unlike many other BDCs that set their dividends in a very different backdrop. Even excluding any special dividends, our \$0.35 base dividend alone represents an approximately 11% yield at today's market value.

As we look ahead, we're optimistic that this environment will create more opportunities to deploy capital in a disciplined way, continue to grow our earnings power, and deliver compelling results for shareholders. Thank you for your continued support.

Operator, please open the line for questions.

Operator

Thank you. The floor is now open for questions

Today's first question is coming from Brian McKenna of Citizens. Please go ahead.

Brian McKenna

Okay. Thanks so much. So, just looking at the portfolio – you know – clearly under-levered today. There's meaningful capacity to invest. But given the evolving deployment environment here, how are you making sure you're investing into the right businesses in the current backdrop? And I asked this on a prior call, but are there any subsectors you're looking to lean into from a deployment perspective, specifically as it relates to the tech sector and then just some of the businesses in and around AI?

Craig Packer

Sure. Erik, you want to take that?

Erik Bissonnette

Yeah, sure. Thanks for the question. So, we tried to lay out a pretty comprehensive framework of how we're thinking about the broader software universe in the prepared remarks, but I appreciate that it was probably somewhat dense. And as I said, we think that the market misunderstands or underappreciates that our existing companies and the opportunities that we're facing today are more than just simple bundles of code, right?

These businesses are attractive and valuable, and they're solving complex, enterprise-grade challenges that's built upon a tremendous amount of knowledge in solving domain or vertically specific challenges. These are decades in the making, mastering these types of workflows. They leverage complicated rules and processes, combining that with proprietary data, sprawling integrations, and they also leverage the power of network effects into that specific area of expertise. And the last point is they really underpin zero-fault tolerance operations.

So, it's the amalgam, Brian, of all of those things and that can be represented differently in different categories, both in applications or payments or security, or more specifically in different areas of the application universe. We believe that – you know, just because the ability to write code is changing, the market seems to be pricing in a situation where code generation renders everything else irrelevant, but that's clearly just not the case.

All of our companies, and the ones we're looking at, have an equal and unabated access to the same models and the power of AI that everybody else does. And if your solution was a thin user interface wrapper over a backend database, you were already in trouble. But that's never been, you know, where we focused. Simple feature differentiation was never the main differentiator.

But also, as I alluded to, this continued evolution from systems of record to systems of action, where data is stored, activity is tracked, to where AI can manage workflows independently, you know, all of that taken together is why, you know, we think the portfolio and the opportunity set, and where we're going to continue to focus, is much stronger than what the market might fear.

Of course, there'll be disruption. But we think the companies with the real moats will continue to leverage these tools and will build faster and compound their leads.

Brian McKenna

That's great. Thanks, Erik. And switching gears a little bit, just in terms of the trajectory of ROEs from here, I know this will ebb and flow a little bit from quarter to quarter just as you manage prepayments and leverage is further optimized, but is there just an updated timeline around normalizing ROEs over time, and then should we still think about a normalized ROE longer term of about 10%?

Jonathan Lamm

Yes. So yeah, Brian, we made some significant progress in terms of deployments in the fourth quarter. Some of those deployments were back-ended, therefore average leverage was a bit lower than where we ended.

We're still very much on track in terms of delivering the NII's for the dividend that we've basically set by the end of this year, which is consistent with how we were portraying it when we – back when we listed the company in the middle of last year. And so, we're on track.

We think that, you know, to – it will – it should build over the course of the year. And so, you saw a little bit of a decline in NII due to some bespoke items this quarter, but that momentum should pick up as we move across 2026. And, you know, it – we're not changing the timeline, but some of it may be a little bit more back-ended to the second half of '26 in terms of reaching those targets.

Brian McKenna

Okay, got it. Thanks, Jonathan.

Operator

Thank you. The next question is coming from Kenneth Lee of RBC Capital Markets. Please go ahead.

Kenneth Lee

Hey, good morning. Thanks for taking my question. Just one on the refreshed or new share repurchase program. Given the leverage capacity there, wondering how active OTF can be there in that area? Thanks.

Jonathan Lamm

Yeah. So look, we're – we've upsized and refreshed the repurchase program here from \$200 million up to \$300 million. You know, we repurchased shares in the quarter.

We are still – we're still releasing shares under lockups, so we're approximately 50% released at this point in time with another 50% really coming – the full – the remainder coming out over

the course of the – the balance of the first half of the year. And so, you know, liquidity in the stock is definitely picking up, but certainly prevents us from being as active in terms of the repurchase plan. But we plan to continue to use it, and that's why you saw us with the Board, refresh it and upsize it.

Craig Packer

Look, we're not afraid to use it. We think these levels don't make any sense, and we couldn't be clearer of our confidence in the portfolio and the value of the assets. So, if there's a world where we can sell our assets at par and buy our stock in the 70s, that's a world we're going to have to do that. It's attractive to shareholders. So, we're not – we've used it. We used it in a big way in both funds in the fourth quarter. We used it more than any other firm, and we'll continue to.

Kenneth Lee

Gotcha, very helpful there. And just one follow-up, if I may, just in terms of the spreads you're seeing. Any drivers for the quarter-over-quarter movement in spreads on new investments, and what are your expectations going forward in this area? Thanks.

Erik Bissonnette

Yeah. So, look, a lot of the activity that you saw roll through the financials, and the performance in the fourth quarter were deals that were negotiated, as I alluded to, in Q3 and in Q4, which is – spreads have been persistently tight. You've heard it from us on this call and other calls.

What I think – I don't want to try to predict the future too dramatically here, but I think we are going to see, particularly in the software universe, a widening of spreads. I think there's going to be lesser participation, frankly. I don't want to speak on behalf of investment banks or any other firms, but I think it's going to be more challenging to underwrite these assets.

It requires very unique and deep sophisticated sets of investors who do nothing but focus on this all day long. We have that team of 40 people. The opportunities that we're seeing today, and in the first quarter, are actually extremely attractive. We've signed up some very large substantial assets at pretty attractive rates and very attractive LTVs. And I think we're going to continue to invest in very similar companies as I articulated, but those spreads will probably continue to widen, I hope for some period of time.

Kenneth Lee

Gotcha. Very helpful there. Thanks again.

Operator

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

Arren Cyganovich

Thanks. Appreciate all the comments. Clearly, you're still very confident in software. With the \$900 million backlog that you mentioned, is there a big component of software in there? And when you're talking to sponsors, as you're kind of moving through this in real time, what are you hearing from the sponsors in terms of their continued commitment to investing in the space?

Erik Bissonnette

Yeah, I think it's pretty consistent with what we've looked at historically. There's some – it's probably a pretty comparable mix in terms of overall software, a mix between applications and some security opportunities.

You know, in our conversations with our portfolio companies and sponsors, they're doing exactly the same thing that we're doing. Everyone is reevaluating everything they own and looking at how they are going to consider to move forward and invest against the lens of exactly what we're seeing today. So, everyone is really re-underwriting and refocusing on what we think are the most important things, right?

So, enterprise grade complexity, as I said, data gravity, workflow moats, proprietary assets, network effects, understanding tech debt and pricing durability, fault tolerance, regulatory infrastructure, all these – all of these other factors – as we think about what is the most attractive areas to invest in the new world of AI. And we continue to see in new opportunities – businesses that are compounding their leads and compounding their moats, leveraging these tools that are democratic and everyone has access to, and we feel that the incumbency position in which they're in will continue to help them continue to grow.

And we're very confident, over time, we will – there are areas, as I said earlier, particularly some areas that were in scope before in applications – maybe parts of managing the development life cycle and pipeline for software developers or passive repositories of information with lightweight user interfaces, there are narrow point solutions that are not particularly embedded, and those are at risk. And frankly, we haven't really been focused on those before.

So, the application aperture might tighten just a little bit and you might see a little less in applications, but I still think there's going to be some tremendous opportunities there. So, we're pretty excited about the thesis. And, it's going to take some time to prove out, but I think we'll be happy and you'll be happy with the results.

Arren Cyganovich

Thank you. Appreciate it.

Operator

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

Casey Alexander

Yeah, good morning. Thanks for taking my questions. You know, the private equity sector is pretty reactive to what it sees as market sentiment. And seeing as how, I mean, you guys are pretty under-levered, is your pipeline shifting and are private equity firms shifting their activity away from software, at least until there's more certainty? And does that create more challenges for you to get to a more fully-levered position?

Erik Bissonnette

I think that answer might depend on with whom you're talking about in the private equity universe. I think if you were to talk to some of the larger players, the technology-focused investors, they largely share the thesis that we have, and they are out talking and evangelizing about what we see and what they see and where the opportunity sets might lie.

And frankly, particularly in the public markets, there might be some really attractive opportunities that have been created by somewhat of a dislocation here. This is kind of similar to what we saw in 2022, where coming off of the peak multiples in '20 and '21 in the ZIRP environment, there were a meaningfully large amount of – I think over 20 go-private tech transactions at pretty good valuations and really attractive rates of return from our perspective.

That isn't to say that – for us or for others – that we are exclusively software. As I said in the prepared remarks, we really like software, and we will continue to focus on areas of software that we think are the most defensible over time, but there are other areas of tech that we have been invested in. There are other areas of business services. There are other areas of life sciences that we continue to focus on. So, I think the aperture that we have is appropriately wide, and it doesn't particularly give me concern about the overall opportunity set to get to our target.

Craig Packer

I might just add, I actually don't think the private equity firms are reactive. I think they take a long view, and I think they're extremely well-versed in the space. And, you know, they're not making investing decisions based on the headlines of the day. They're deep into these companies and I think that they – I would expect that they will be able to discern businesses that are going to do well, and they're going to view this as an opportunity to buy them cheap. We've seen this for 30 years. This is the history of private equity.

I would also say that, without in any way minimizing the disruption of AI, we think it helps us as a direct lender to see the public loan markets get dislocated. That helps us. That's a competing source of capital. So, those investors don't have the ability to do deep dive due diligence. They don't have 40-person investment teams that get to know their companies and get detailed financial information. They're just trading on headlines, and so that's an opportunity for us.

So, I – I'm completely confident that we're going to be able to get OTF to its target leverage. We're not hell-bent on all that being in software. But if there are great software investments, we'll do them. But the Fund has a broad mandate, as Erik said. And in this environment, I expect others to pull back their lending capacity, and I think we're going to benefit from that for the select deals that we do.

Casey Alexander

All right. Thank you.

Operator

Thank you. Our next question is coming from Sean-Paul Adams of B. Riley Securities. Please go ahead.

Sean-Paul Adams

Hey, guys. Good morning. You guys talked a little bit about selling off some assets at par, especially given the fact that you guys are kind of trading at a 30% discount to NAV. But later in the call, you additionally touched on the fact that there's additional opportunities, especially in the open market for new investments, especially in a couple other sectors. Can you provide a little bit more color on just that bifurcation that you're going to be looking at, in terms of either repurchasing the stocks or reinvesting into other sectors? It just seems like there's kind of a competing viewpoint right there.

Craig Packer

Sure. I appreciate the question. It's a good one. Look, this is what we do, and this is how we've been doing it for 10 years. We're always evaluating the incremental investment opportunity versus potentially buying our stock.

We're in an environment where both OBDC, OTF stock prices are severely depressed on a net asset value. It's not specific to Blue Owl. It's the case of most of the industry. And so, we will compare the incremental dollar that we can deploy and get returns from buying our stock in the 70s or 80s versus making additional loans. There's a lot of value to having permanent capital. We don't take that lightly. But you know, by the same token buying stock can be very accretive to shareholders.

There's obviously limits to how much stock we can buy. We're mindful of our leverage, our liquidity. Our main business is lending. That's – the investors are investing in this fund, so we'll make loans. But we'll do both. I think the fourth quarter speaks for itself in terms of, not just talking about buying stock, we bought stock. So, I think it's very instructive, and I think we'll be very open-minded and front-footed about buying stock as well. It just depends on the relative returns, you know, of those two parameters.

You know, just as a reminder, I think, maybe this is obvious, but I'll say it, we have to follow various regulatory restrictions when you're buying back stock, or windows where we can buy or

not buy, depending upon where we are in the quarter. So – and that's no different than any other company out there. So, we don't have unfettered ability to buy stock every day. There's volume restrictions and the like.

But within those bounds, we're an active buyer in the fourth quarter, and we'll continue to evaluate that. OTF is in extremely strong position because it's under-levered. So, we can do both; so, we will do both.

Sean-Paul Adams

Appreciate the color. Thank you.

Operator

Thank you. The next question is coming from Brian McKenna with Citizens. Please go ahead with your follow-up question.

Brian McKenna

Great. Thanks for the follow-up. Sorry if I missed this, but if you were to mark-to-market your portfolio for current public market valuations and multiples, what does the average LTV of the portfolio look like? And then, just an unrelated question on your SpaceX investment, what valuation was this position marked at the end of the year?

Erik Bissonnette

Sure. So, I'll answer the second one first. So, when we see observed marks, and in this case, it was a tender offer in the period, we typically take a discount to the tender, so roughly 10 – so, it's roughly 10% of the tender offer, which was \$800 billion. So, we believe it's marked at around 720 or so today.

That obviously does not contemplate the merger of SpaceX and xAI, which was consummated in Q1 at a \$1.25 trillion value. I keep stumbling over that word because it's such a staggeringly large number. So, we would obviously expect to see some meaningful – expect to see a meaningful uptick in that position in Q1 as well.

Look, we're going through – we're obviously going through always and looking at what's going on in the public markets and evaluating what we think the prevailing values are there and how accurate they are for what actually occurs in private transactions. I think the first point that I would make is looking at private equity deals that we're doing now and what we're seeing in Q1, there's a meaningful disconnect between prevailing control values in private markets versus what we're observing in public markets.

That said, we don't ignore those marks. But if you take our portfolio, and just say you're 30% LTV across the entire portfolio, if you had a 50% adjustment to enterprise value, obviously the LTVs would go up by 16% or 17%. So, would I be – I don't love going up to 46% to 47%, 48% LTV, but that's obviously still a tremendous margin of safety from our perspective. So, we have a lot

of ability to absorb any amount of degradation in terminal multiples for our software companies, given where we detach.

Brian McKenna

That's helpful. Thank you.

Operator

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

Paul Johnson

Good afternoon. Thanks for taking my questions. I'm just curious, in the decade or so, or near decade that you guys have been investing in the space, the software space and direct lending broadly, but how many software defaults has the Blue Owl platform worked through in the total aggregate of investments that you've made in that space?

Erik Bissonnette

I mean, the answer to that is one, and that one company was – is a publicly visible name that we worked through, and we eventually took over that company. We still own that company. It's still on the SOI, and we're still trying to see where we can take that business.

But that's across – I don't have the precise number of the total investments in software since inception – but it's 300-plus names, obviously, so a tremendous number. The number of defaults are – are almost non-existent. And really, troubled situations are very small, and I think that's a function of two things. Number one, it's a function of the strength of the overall business model, but also our asset selection. I mean, after 10 years, at some point, it's a pretty real and observable track record over a long enough period of time.

Paul Johnson

Very helpful. And then on – I'm just curious – your observations of the ARR structures within the portfolio. I honestly can't remember if you've disclosed how much of the portfolio is ARR, but any sort of observations and trends there in terms of conversions or payoffs this quarter and your thoughts on the performance there?

Erik Bissonnette

Yeah, the ARR percentage has been coming down pretty dramatically over the past few years. You know, it's probably sitting today somewhere in the low teens. So – and that drop off has been a function of most of the class of 2022, and some of 2023, converting early or being refinanced into alternative markets. So, they've met their growth goals, they've generated a meaningful amount of EBITDA, and we've either converted them into regular way cash flow transactions, or they've been executed in alternative environments.

So, you know, we think that there're still – there are still really good businesses that could be underwritten on that basis. I think obviously the bar for that type of underwriting is – has

always been exceptionally high, and I think it will continue to be exceptionally high, particularly in a world where we're evaluating potential evolutions of revenue models.

So, it's a pretty low percentage. It's the absolute lowest percentage it's been, frankly, since inception right now. And we'll continue to monitor that going forward.

Paul Johnson

Thanks, Erik. Once again, also very helpful. And the last question I had, just bigger picture, I'd like to get your thoughts, maybe just broadly for software even kind of pre-AI disruption fears, what are your thoughts in terms of the economics – or the unit economics for a typical SaaS deal? Have you seen any sort of softening there in terms of the KPIs that you look at for the industry, or do they remain as strong as ever? And I ask just because we've heard from a few of your competitors that that may be the case, but just like to get your opinion on that. Thank you.

Erik Bissonnette

Well, it depends on what unit economics you're referring to. If you look at the – just the overall ASPs that we're seeing in our portfolios for new booking, they're – they continue to be very strong. I think what you've seen both in public companies, as well as private companies, which I think you're alluding to, has been a degradation in newer – net new retention statistics – which means the companies are just growing at an absolutely slower pace than they were four or five years ago, which is true.

And if you look at the efficiency scores across many of these companies, they're okay – in the 0.5x, 0.6x range. But across our portfolio, we've seen NRR come down from, call it, 115 to 108, which certainly is a slowdown in the absolute growth rate of those businesses, and that absolutely will have an impact on the terminal value of that asset.

But we certainly haven't seen, broadly speaking – and I'm not going to go into the, you know, 25 different components of KPIs and unit economics and quality of revenue that we talk about – a deterioration that would suggest there's some major issue. So, you know, I've read similar things that you have. And I think that's a – if you point to one specific statistic, I think you might be somewhat misled by what's going on in the aggregate.

Operator

Thank you. That brings us to the end of the question-and-answer session. I will now turn the floor back over to management for closing comments.

Craig Packer

Okay. Thanks, all, for joining us. If you have any follow-up questions, we're here and would welcome engaging with you on either OTF or OBDC. Have a great afternoon.

Operator

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