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# Carlyle Secured Lending, Inc (CGBD)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

**Nishil Mehta**

*President & Principal Executive Officer, The Carlyle Group*

**Justin V. Plouffe**

*Chief Executive Officer, President & Interested Director, Carlyle Secured Lending, Inc*

**Thomas M. Hennigan**

*Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

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## OTHER PARTICIPANTS

**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*

**Melissa Wedel**

*Analyst, JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello. Good day and thank you for standing by. Welcome to the Carlyle Secured Lending, Inc. First Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Nishil Mehta, Head of Shareholder Relations. Please go ahead.

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**Nishil Mehta**

*President & Principal Executive Officer, The Carlyle Group*

Good morning and welcome to Carlyle Secured Lending's conference call to discuss our earnings results for the first quarter of 2025. I'm joined by Justin Plouffe, our Chief Executive Officer and Tom Hennigan, our Chief Financial Officer. Last night we filed our Form 10-Q and issued a press release with a presentation of our results which are available on the Investor Relations section of our website. Following our remarks today, we will hold a question-and-answer session for analysts and institutional investors. This call is being webcast and a replay will be available on our website.

Any forward-looking statements made today do not guarantee future performance and any undue reliance should not be placed on them. Today's conference call may include forward-looking statements reflecting our views with respect to, among other things, the expected synergies associated with the merger, the ability to realize the anticipated benefits of the merger, and our future operating results and financial performance. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the risk factor sections of our 10-K and 10-Qs. These risks and uncertainties could cause actual results to differ materially from those indicated. CGBD assumes no obligation to update any forward-looking statements at any time.

During the conference call, the company may discuss certain non-GAAP measures as defined by SEC Regulation G, such as adjusted net investment income or adjusted NII. The company's management believes adjusted net investment income, adjusted net investment income per share, adjusted net income and adjusted net income per share are useful to investors as an additional tool to evaluate ongoing results and trends and to review our performance without giving effect to the amortization or accretion resulting from the new cost basis of the investments acquired and accounted for under the acquisition method of accounting in accordance with ASC 805 and the purchase one-time or non-recurring investment income and expenses, events including the effects on incentive fees and are used by management to value the economic earnings of the company.

A reconciliation of GAAP net investment income to most directly comparable GAAP financial measure to adjusted NII per share can be found in the accompanying slide presentation for this call. In addition, a reconciliation of these measures may also be found in our earnings release filed last night with the SEC on Form 8-K.

With that, I'll turn the call over to Justin, CGBD's Chief Executive Officer.

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## Justin V. Plouffe

*Chief Executive Officer, President & Interested Director, Carlyle Secured Lending, Inc*

Thanks, Nishil. Good morning, everyone, and thank you all for joining. I'm Justin Plouffe, the CEO of the Carlyle BDCs and Deputy CIO for Carlyle Global Credit. On today's call, I'll give an overview of our first quarter 2025 results, including the quarter's investment activity, strategic transactions and portfolio positioning. I'll then hand the call over to our CFO, Tom Hennigan.

In the first quarter, CGBD benefited from growth in the overall portfolio, but was also impacted by headwinds from declining base rates and historically tight market spreads. During the quarter, we generated GAAP net investment income of \$0.40 per share and adjusted net investment income of \$0.41 per share after adjusting for asset acquisition accounting. This represents an annualized yield of approximately 10% on our 03/31 NAV. Our board of directors declared a second quarter dividend of \$0.40 per share, and our net asset value as of March 31 was \$16.63 per share compared to \$16.80 per share as of December 31.

While sponsor M&A activity was muted during the first quarter, CGBD was still able to add approximately \$180 million in organic originations to its portfolio. In addition, the total size of our portfolio was bolstered by our strategic activity, including the merger with CSL III and the consolidation of Credit Fund II's assets onto the balance sheet.

Upon the close of the CSL III merger on March 27, CGBD received approximately \$490 million in new investments, and the consolidation of Credit Fund II in February increased the portfolio size by a net \$127 million. Cumulatively, total assets increased from \$1.9 billion to \$2.5 billion this quarter based on net investment and strategic activity.

From a market perspective, broadly syndicated and private credit markets remained in competition. While our pipeline continues to be active, recent volatility around tariffs is likely to remain a near-term headwind to overall capital markets and M&A activity. We have examined our entire portfolio. At this time, we see minimal potential direct risk from tariffs. We estimate that less than 5% of the portfolio has any material direct exposure. As trade policy evolves, we'll continue to assess and monitor our portfolio companies for other direct and indirect impacts.

So far, broader market volatility has had a limited impact on spreads in the private credit space, which remain near historically tight levels, presenting a potential headwind to near-term earnings for the sector. Overall, we remain selective in our underwriting approach, taking quality credits at the top of the capital structure.

As previously mentioned, we closed the strategic affiliate merger with CSL III at the end of the first quarter. The merger increased our scale and eliminated the CGBD preferred stock dilution overhang, with Carlyle exchanging its investment at NAV. We expect the combination to improve the liquidity of our stock and reduce aggregate costs, all while maintaining our existing investment strategy given the near 100% overlap between CSL III's portfolio and CGBD's portfolio. To support the transaction, and in addition to exchanging its preferred stock, Carlyle provided \$5 million of merger-related expense coverage, mitigating the cost impact to CGBD.

With increased uncertainty and volatility in the markets driven by tariff and trade policy, we are focused on overall credit performance and diversification while continuing to deploy and increase the size of our portfolio.

As of March 31, our portfolio was comprised of 195 investments in 138 companies across more than 25 industries. The average exposure in any single portfolio company was less than 1% of total investments, and 94% of our investments were in senior secured loans. The median EBITDA across our portfolio was \$87 million. As always, discipline and consistency drove performance in the first quarter. We expect these tenets to drive performance in future quarters.

With that, I'll now hand the call over to our CFO and our newest member of the board of directors, Tom Hennigan.

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## Thomas M. Hennigan

*Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

Thank you, Justin. Today I'll begin with an overview of our first quarter financial results, then I'll discuss portfolio performance, before concluding with detail on our balance sheet positioning.

Total investment income for the first quarter was \$55 million, generally in line with prior quarters, due primarily to a higher average portfolio balance, offset by lower weighted average yields on the portfolio, and lower dividends from Credit Fund II. Total expenses of \$33 million increased versus prior quarter, primarily as a result of higher interest expense from a higher average outstanding debt balance, driven by growth in the portfolio. The result was GAAP net investment income for the first quarter of \$21 million or \$0.40 per share, and adjusted net investment income per share of \$0.41, which excludes the amortization of the purchase price premium of the CSL III merger and the purchase price discount associated with the consolidation of Credit Fund II.

Now excluding the additional \$0.02 per share of income from last quarter's one-time incremental dividend from Credit Fund II, which cleared the spillover income in that vehicle, this quarter's earnings represent about a \$0.04 per share decline from the prior quarter, attributable to tighter yields from the combination of lower new issue spreads, lower base rates, repricings of existing loans and a modest uptick in non-accruals as well as the repayment at the end of last quarter of our lower cost bonds that were issued in a low interest rate environment.

Now, given the timing of the merger close in the last week of March, Q1 earnings primarily represent income generated from pre-combination standalone CGBD. The earnings power of the combined portfolio will be reflected in Q2 earnings. And on a per share basis, we expect NII to remain in the same range as Q1.

Our board of directors declared a dividend for the second quarter of 2025 at a level of \$0.40 per share, equal to our base dividend, which is payable to stockholders of record as of the close of business on June 30. This dividend level represents an attractive yield of about 11% based on the recent share price. In addition, we have

\$0.85 per share of spillover income generated over the last five years. So we feel comfortable in our ability to maintain the base dividend.

On valuations, our total aggregate realized and unrealized net loss was about \$8 million for the quarter, partially attributable to a mark down on Maverick, which we added to non-accrual during the quarter. This was partially offset by the successful exit of SPay at par and markups in the value of our equity positions in [ph] SPF (00:10:08) and Bayside, formerly known as Derm Growth and [ph] Pro-PT (00:10:11), respectively.

Turning to credit performance, we continue to see overall stability in credit quality across the portfolio, with some underperformance in a handful of names, and we're continuing to actively assess each portfolio company's tariff risk exposure. For most of our borrowers, this is not the first time they'll be reassessing supply chains, so we feel comfortable that the direct impact may be somewhat limited, outside of the broader risk of a slowdown in overall economic growth. For businesses that may not be directly impacted, including those in the US services sectors, we're focused on evaluating the potential secondary effects of reduced demand as various companies may face higher costs.

On the metrics, the risk rating distribution improved in the quarter, with the addition of the CSL III assets, which were substantially risk rated 2, although non-accruals increased to 1.6% of total investments at fair value. We continue to work closely with both sponsors and borrowers to position our portfolio companies for improved financial performance. And while our non-accrual rates may fluctuate from period to period, we're confident in our ability to leverage the broader Carlyle network to achieve maximum recoveries for underperforming borrowers.

Moving to the credit funds, as previewed last quarter, we've been focused on optimizing our joint ventures over the last number of quarters. In February, we consolidated Credit Fund II onto CGBD's balance sheet to adjust the static nature of that vehicle. Following this transaction, we turned our focus to optimizing Credit Fund I by extending the investment period by three years and closing a new credit facility with overall more attractive terms and economics, which should materially improve ROE at that vehicle. Both of these transactions increased our non-qualifying asset capacity, thereby providing greater flexibility going forward for both complementary transactions and other strategic partnerships.

I'll finish by touching on our financing facilities and leverage. We continue to improve our capital structure in early 2025. In March, we upsized and extended our primary revolving credit facility, increasing total commitments by \$145 million to \$935 million in total. Further increasing our debt capacity upon closing the merger, CGBD assumes a \$250 million CSL III credit facility.

Also, in connection with closing of the merger, Carlyle exchanged its preferred stock for common stock at net asset value per share, instead of the latest conversion price of \$8.87 per share. And this eliminated the historical overhang from the potential dilutive impact of the preferred equity on both NAV and NII.

Finally, at the end of March, we entered into an equity distribution agreement, enabling us to raise additional dry powder through an at the market equity offering program. At quarter end, statutory leverage was about one turn, providing capacity to deploy capital into attractive opportunities.

With that, I'll turn the call back over to Justin.

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## Justin V. Plouffe

*Chief Executive Officer, President & Interested Director, Carlyle Secured Lending, Inc*

Thanks, Tom. As we approach the middle of the second quarter, our portfolio remains resilient. We continue to focus on sourcing transactions with significant equity cushions, conservative leverage profiles, and attractive spreads relative to market levels. Our pipeline of new originations is active and with a stable, high quality portfolio, CGBD's stockholders are benefiting from the continued execution of our strategy. As always, we remain committed to delivering a resilient, stable cash flow stream to our investors through consistent income and solid credit performance.

I'd like to now hand the call over to the operator to take your questions. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And with our first question, this comes from the line of Finian O'Shea from Wells Fargo Securities. The line is open.

**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*

Q

Hey, everyone, thanks and good morning. On the Credit Fund, Tom, I think you said it would enhance ROE. Is that – does that go on a nominal basis? I think you paid the same dividend this quarter, but it is smaller now. I know there's higher leverage. Maybe it's still ramping or whatnot. But first, trying to get a sense of what the Credit Fund dividend looks like on the go forward.

**Thomas M. Hennigan**

*Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

Hey, sure. Good morning, Fin. Thanks for the question. You're right. The nominal value outstanding the cost for both JVs, the JV II going to zero JV I, we had a return of capital. In the aggregate, in the near term, we see the dividend being flat. Over time, we look on an overall NII basis being roughly neutral in terms of the higher ROE on a lower capital base. But then of course deploying those proceeds in regular way assets, at least in the near term.

**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. And is the financing – what kind of securitization is it? Does it run down?

**Thomas M. Hennigan**

*Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

So it is what I'd classify as a more of a typical bank-like facility with a revolving period and a typical amortization period, but with CLO-like qualities and tests where we were able to achieve the attractive pricing level.

**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. And in your comments on opening up this bucket, what – you just shrunk the sort of standard BSL type JVs. Is it something – do you just want to do new ones that are essentially similar or is there a different kind of strategy you'll pursue in there?

**Thomas M. Hennigan***Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

I don't think you'll see anything dramatically different, but we're in active negotiations and conversations internally, and that's something – it won't be an overnight opening, but something that we're working on actively. And we anticipate making some progress in the next couple of quarters.

**Finian O'Shea***Analyst, Wells Fargo Securities LLC*

Q

Okay. All for me. Thanks so much.

**Operator:** Thank you. [Operator Instructions] Our next question comes from the line of Melissa Wedel from JPMorgan. The line is open.

**Melissa Wedel***Analyst, JPMorgan Securities LLC*

Q

Good morning. Thanks for taking my questions. Wanted – now that the merger is done and you've brought some assets on balance sheet from the funds, I'm curious if there is any asset rotation that you expect to take place. It's typically something we see when some of these mergers get completed. How do the yields compare to the sort of pre-merger portfolio yield for CGBD and what's the plan there? Thank you.

**Thomas M. Hennigan***Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

Hey, Melissa. Yeah, the impact. So the CSL III book, very clean book, newer vintage, 99% first lien. So, inherently, the overall yield compared to CGBD lower. So on a merging the two, the absolute impact on CGBD is a reduction in the aggregate portfolio of about 15 basis points. The rotation, you'll see it – and there's also roughly about 100% overlap. So just about every loan in CS III was already in CGBD, so it's just an upsizing those positions, where we will selectively look to do, what your term, rotating is for some of the lower spread assets is to move those into our current JV to get better overall return on those investments.

**Melissa Wedel***Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks for that. And then when we look at portfolio leverage, it is a bit lower on a net basis. When you think about sort of rotating assets and driving leverage sort of higher and back into the – maybe the middle of the target range, how do you think about the timeline for that, especially in a more volatile, uncertain environment like we have right now?

**Thomas M. Hennigan***Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

Sure. Our target is 1.1x in terms of where we'd like to operate going forward. Certainly difficult to say based on we've seen – Justin noted, we've seen a near-term slowdown in overall activity. Tough to say how that'll play out. Our goal would certainly be over the next couple of quarters. We have seen this quarter we had a very strong pipeline of transactions heading into the second quarter. So I think the second quarter will be quite positive. We have seen a slowdown. We had an uptick in repayments in the first quarter. We've seen those slow down. So the crystal ball for the second quarter is that should be a pretty good overall originations quarter from us. We'll look to rotate some of those assets into the JV, where we'd have a strong pipeline of deals that we anticipate we'll be selling to the JV. So we'd anticipate over the next, let's say, two quarters getting to our target leverage range.

**Melissa Wedel***Analyst, JPMorgan Securities LLC*

Q

That's very helpful. Thank you.

**Operator:** Thank you. Our next question comes back from the line of Finian O'Shea from Wells Fargo Securities. The line is open.

**Finian O'Shea***Analyst, Wells Fargo Securities LLC*

Q

Hey, everyone, thanks. We also wanted to ask on the dividend. I think, Tom, you mentioned that that spillover may come into play to support the base dividend. Can you give us – I know this is tough, but let's just say around today's SOFR curve, how much that is expected to come into play? And then also, to what extent you would run down spillover over the long term if you want to keep some or eventually pay it all out? Thank you.

**Thomas M. Hennigan***Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

Sure. Well, I'd say, right now when we look at second quarter combined basis, we're looking at [ph] bracket \$0.40 (00:20:44), right, where we were for the first quarter on a standalone CGBD basis.

In terms of various levers, obviously, the headwind is going to be the SOFR curve. We can't control that. That's going to be a headwind for everyone. The magnitude and extent and the speed, we'll see. In terms of levers we have, on the positive, leverage, we're on the lower end. We haven't seen it quite yet, the potential reversal in the historically tight credit spreads. Non-accruals, we'll probably see pluses and minuses to current non-accruals. We're working on positive resolutions there. But we have limited tariff exposure, but we'll anticipate that non-accruals, let's say, will be neutral.

And then there's the JVs, and that's, I think in terms of ramping up our current JV and then utilizing that non-asset – non-qualifying asset capacity for new endeavors. That'll really be our driver in terms of what our goal will be to remain in the current territory we are. But certainly with the – with SOFR, there will be some obvious headwinds in terms of earnings.

**Finian O'Shea***Analyst, Wells Fargo Securities LLC*

Q

Yeah, I appreciate the uncertainty and you have various levers at hand. But say it goes against you on SOFR, like how far would you dip into spillover? Would you under earn the dividend and to what extent, for how long?

**Thomas M. Hennigan***Chief Financial Officer & Chief Risk Officer, Carlyle Secured Lending, Inc*

A

Fin, that's something that we have not put numbers to a page and something that we'll take quarter-by-quarter. Right now – we'll assess that on a go forward basis.

**Justin V. Plouffe***Chief Executive Officer, President & Interested Director, Carlyle Secured Lending, Inc*

A

Yeah. We'll have to assess it as we develop through the summer. I think it's probably an understatement to say that our entire market is in the state of greater uncertainty than it's been in the past. But our intention is certainly to remain consistent with the dividend, and hopefully the market allows us to do that.

**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*



Very good. Thanks so much.

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**Operator:** Thank you. There are no further questions. At this time, I would like to turn the conference back over to Justin Plouffe for closing remarks.

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**Justin V. Plouffe**

*Chief Executive Officer, President & Interested Director, Carlyle Secured Lending, Inc*

Thanks, everybody, for joining the call today. We appreciate your interest and support and we will speak with you next quarter. Thank you so much.

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**Operator:** The meeting has now concluded. Thank you all for joining. Have a pleasant day and you may now disconnect.

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