Blue Owl Technology Finance Corp.
Q3 2025 Earnings Call
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<u>Presenters</u>
Craig Packer, CEO
Erik Bissonnette, President
Jonathan Lamm, CFO
Michael Mosticchio, Head of BDC Investor Relations

<u>Q&A Participants</u>
Brian McKenna – Citizens
Finian O'Shea – Wells Fargo
Arren Cyganovich – Truist Securities
Paul Johnson – KBW
Mickey Schleien – Clear Street

Operator
Good morning, everyone, and welcome to Blue Owl Technology Finance Corp's Third Quarter 2025 Earnings Conference Call. As a reminder, this call is being recorded. At this time, I would like to turn the call over to Mike Mosticchio, Head of BDC Investor Relations. Please go ahead.

Michael Mosticchio
Thank you, Operator, and welcome to Blue Owl Technology Finance Corp's Third Quarter 2025 Earnings Conference Call. Yesterday, OTF issued its earnings release and posted an earnings presentation for the third quarter ended September 30th, 2025. These should be reviewed in connection with the company's 10-Q filed yesterday with the SEC. All materials referenced on today's call, including the earnings press release, earnings presentation, and 10-Q, 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 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 would 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 and presentations section of our website. Certain information discussed on this call and in the company's earnings materials, including information related to portfolio companies, was derived from third-party sources and has not been independently verified. The company makes no such representations or warranties with respect to this information.

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

Craig Packer
Thanks, Mike. Good morning, everyone, and thank you all for joining us today. As a reminder, last quarter was our first earnings call after listing on the New York Stock Exchange in June, and this is our first full quarter as a publicly listed company. OTF delivered strong third-quarter results driven by the continued robust performance of our differentiated technology portfolio. As of quarter end, our net asset value increased to $17.27, up $0.10 or 60 basis points from Q2 due to continued strong portfolio performance. This is consistent with last quarter's trend, where we saw NAV increase $0.08 from Q1.

Since inception, OTF has generated NAV growth of approximately 18%, further demonstrating our investment thesis that technology investing, and software in particular, offers one of the most compelling risk-return profiles in the market. Our non-accrual rate remains one of the best in the industry at three basis points of the portfolio at fair value. Our credit performance is underscored by the sustained strength of our portfolio companies, which continue to experience low double-digit revenue and EBITDA growth.

As discussed on last quarter's earnings call, we are focused on increasing net leverage by selectively growing our portfolio in what we deem to be attractive, risk-adjusted investments to enhance ROE. As Erik will discuss later, deal flow and origination activity were solid, but so were repayments, resulting in leverage at quarter-end that was in line with the prior period. This contributed to a third-quarter ROE of 7.4% based on $0.32 cents per share of adjusted NII. However, inclusive of gains, our adjusted net income ROE for the quarter was 12.6%.

As we look ahead, we're encouraged by the continued momentum of our pipeline. While we don't have full visibility into repayment activity, our pipeline is robust and positions us to deploy capital into attractive opportunities as we work towards meeting our portfolio growth targets. Before Erik gives more detail on this quarter's performance, I'd like to take a moment to address the broader market sentiment around credit that has been a focus of recent headlines. In particular, we'd like to reaffirm why we believe direct lending remains a compelling strategy and technology lending specifically continues to be the best-performing area within it.

At Blue Owl, our credit platform was designed to originate loans to high-quality, sponsor-backed companies in the upper-middle market, with a focus on non-cyclical sectors that offer stability and resilience. At OTF, the core of what we do is invest in enterprise-grade, large-scale, mission-critical software companies with the resources and talent to execute across various market conditions. These businesses typically generate highly predictable recurring revenues, often secured by long-term contracts for essential services with strong organic growth. This revenue visibility, combined with their defensive positioning, makes software an ideal fit for direct lending.

Software credits also tend to feature tighter covenants, lower loan-to-value ratios, and higher spreads, all of which contribute to stronger downside protection and more stable returns. The majority of OTF's portfolio is comprised of senior secured loans, complemented by select debt and equity-related investments in large pre-IPO companies that offer both income and upside potential. Our average loan-to-value ratio remains conservative at approximately 33%, and we maintain direct relationships with management teams, typically serving as lead or co-lead lender.

OTF's credit performance continues to validate our approach, with virtually no non-accruals today and only two non-accruals in our operating history. Our focus on resilient software businesses has helped us deliver strong returns through varying market conditions while providing investors with meaningful downside protection and consistent income.

And now, I'll turn it over to Erik for more detail on our portfolio performance this quarter.

Erik Bissonnette
Thanks, Craig. To start, we are pleased with the performance of the portfolio with strong fundamentals and excellent credit quality. Since listing in June, OTF remains the largest technology-focused BDC and is highly diversified across 38 end markets and 185 portfolio companies, with average investments representing approximately 50 basis points of the portfolio. In our last earnings call, we shared our plan to enhance OTF's earnings profile, including ramping to target leverage while maintaining our credit discipline.

I'd like to share a few updates on the execution of our plan while highlighting the strength of OTF's performance alongside these efforts. To touch on origination activity, we deployed approximately $1 billion of new investment commitments, with $811 million of fundings in the quarter. We also had elevated repayments of $848 million, which resulted in net leverage that was in line with the prior quarter.

As Craig mentioned, we've seen strong momentum in our origination activity and backlog. Through October 31st, we've deployed nearly $400 million in new deals and have a backlog of over $500 million in transactions we expect to fund in this calendar quarter. While investments in our backlog are subject to documentation and approvals, our leverage, pro forma based on this activity and visible repayments would be up nearly a tenth of a turn at year-end. Looking ahead, we're encouraged by the increase in pipeline activity and remain focused on improving leverage while maintaining our underwriting standards that have driven our performance across varying market conditions.

Turning to the portfolio, at quarter end, our investments totaled $13 billion, with 80% of senior secured investments, reflecting our focus on being at the top of the capital structure. We emphasize large, established technology companies with a strategic focus on software, where we see durable business models and attractive recurring revenue profiles. These borrowers are scaled businesses with strong fundamentals that continue to support portfolio performance. The average revenue and EBITDA of our portfolio borrowers is $950 million and $282 million, respectively, and they continue to experience low double-digit growth in both metrics on a year-over-year basis.

Our debt portfolio sits at a conservative LTV of 33% on average, which is a key differentiator in our approach as we typically see a significant amount of equity capital below our debt. Interest coverage is over two times based on current spot rates, reflecting our borrowers' continued growth as well as lower base rates. These metrics provide a meaningful cushion to support debt service and protect against downside risk.

We remain focused on optimizing our portfolio mix for an improved yield, which includes selectively increasing our allocation to PIK and ARR. PIK is selectively offered at origination as a time-limited flexibility option that comes with a premium return. Over 97% of our PIK income was structured at initial underwrite, and these investments continue to perform as expected. Most importantly, we have never had a PIK loan that was structured at origination generate a loss since our inception.

ARR loans are offered to high organic growth companies with attractive unit economics that choose to reinvest cash flows into customer acquisition. These loans carry a yield premium and are contractually required to convert to a regular way EBITDA loan within a specified period, typically two to three years. As of quarter end, ARR loans comprise 12% of the portfolio at fair value, which continues to be on the low end of historical averages. As our current allocation to PIK and ARR investments is below target, we will look to selectively increase our exposure as we find attractive opportunities.

Credit performance remains excellent. Our non-accrual rate is three basis points at fair value. There have only been two names on non-accrual in our entire operating history, and we have delivered 16 basis points of net gains since inception. Internal ratings remain steady, with only 8% of investments rated three to five, and we have not seen any material pickup in amendment activity or other signs of stress.

Next, I want to take a moment to discuss how we're thinking about the impact of AI on the software sector and why we remain confident in our strategy, even as the conversation around potential disintermediation evolves. To start, software is not a single monolithic category. It spans multiple subsectors, including horizontal software that serves universal functions across industries, vertical software tailored to specific sectors, and infrastructure software that underpins hardware, platforms, and security. It is also a massive market, with roughly $1.4 trillion in annual spending that's growing in the low teens annually. A market of this magnitude and diverseness defies holistic evaluation and requires a more granular and refined analysis.

Within this landscape, we believe that software companies can vary widely in their long-term competitive advantages depending on their profile, market-positioning and target audience. Our approach focuses on businesses that offer broad, integrated solutions rather than narrow-point solutions, as platforms create deeper customer engagement and stickiness. We also prioritize companies that manage complex enterprise operations and leverage proprietary data sets that are difficult to replicate and often tied to regulatory compliance. Further, mission-critical applications provide the infrastructure for core business operations and cannot tolerate downtime, errors, or security breaches.

The deeply embedded nature of these products and the risk of material business disruption create substantial switching costs. In our view, this creates powerful layers of durability and resilience against potential AI disruption. In addition, we favor companies with clean, modern technology stacks that minimize legacy complexity and enable rapid integration of AI in emerging technologies. We continue to see substantial investments in our portfolio companies embracing the potential of these transformative services.

Finally, scale matters. Businesses with strong fundamentals, diverse product offerings, and global reach have the financial and human capital to innovate faster and compete more effectively than smaller firms. AI is a profound paradigm shift, and although we do not believe it will have a materially negative impact to our portfolio, we believe it is poised to transform decision-making, accelerate productivity, and drive unprecedented innovation across the modern enterprise. We believe AI will drive further value creation for software businesses by enabling superior product features, optimizing operations, and delivering highly personalized customer experiences. There will naturally be winners and losers driven by execution, adaptability, and the underlying strength of each company.

Access to AI is universal, and ultimate market share will hinge on delivering the most value to the end customer. We have seen examples of how the growth of AI has benefited our portfolio companies, and our investment in Security.AI highlights this. The company, which delivers AI-powered data security and privacy solutions, received a preferred equity investment from us in 2022 and is now set to be sold at a significant valuation, underscoring the strategic relevance and value creation potential of our approach. Additionally, as AI continues to reshape industries, we are actively identifying new ways to participate in its growth by leveraging opportunities across Blue Owl's platform.

We're currently exploring investments sourced in collaboration with our alternative credit, real asset, and data center teams, including financing data center assets and equipment such as GPUs. These opportunities align with our underwriting standards, fit within the thesis of our overall strategy, and offer attractive unit economics and tightly structured documentation. In summary, we believe that the combination of our disciplined strategy, deep relationships, and focus on resilient software businesses will continue to deliver strong results even as AI reshapes the industry.

And now, I'll turn the call over to Jonathan to provide more detail on OTF's quarterly results and financial profile.

Jonathan Lamm
Thank you, Erik. We delivered solid third-quarter results driven by the ongoing strength of our portfolio. We ended the quarter with total portfolio investments of approximately $13 billion, outstanding debt of $5 billion, and total net assets of $8 billion. As of quarter end, our net asset value per share was $17.27, up $0.10 from the prior quarter. The increase was primarily driven by the performance of several equity positions, which drove unrealized write-ups in the quarter.

Turning to the income statement. We reported adjusted net investment income of $0.32 per share in the third quarter. I would note that our Q3 GAAP figures include approximately $0.04 per share of accrued capital gains incentive fees on the write-ups from select equity investments. This incentive fee accrual underscores OTF's strong credit track record with net gains since inception.

Earlier this week, our board declared a fourth-quarter regular dividend of $0.35 per share, consistent with our last quarterly distribution, which will be paid on or before January 15th, 2026, to shareholders of record as of December 31st, 2025. 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 beginning in the third quarter. In aggregate, these special dividends provide an additional $0.25 per share in distributions to our shareholders. As a reminder, these dividends are being supported by the significant amount of spillover income OTF generated prior to listing, which totaled $0.46 as of quarter end. Together, our base dividend of $0.35 and quarterly special of $0.05 result in a dividend yield of 9.3%.

Moving to the balance sheet. We ended the quarter with net leverage of 0.57 times as originations were matched by elevated repayment activity. After quarter end, we took steps to improve funding flexibility and lower costs. First, we priced a new $390 million CLO with a blended cost of capital of S plus 1.82%. We also amended an SPV, increasing its capacity from $300 million to $500 million, reducing pricing by 40 basis points and extending its maturity. Finally, we terminated a legacy CLO that carried higher pricing at S plus 3.56%. We ended the quarter with nearly $4 billion of total cash and capacity on our facilities. This provides us with more than ample unfunded capacity to support our future growth as we ramp towards our target leverage range of 0.9-1.25 times.

Turning to OTF's stock float, you will recall that in connection with the direct listing in June, our board waived the lockup on approximately 5% of each investor's position, making those shares freely tradable at the time of the listing. On September 9th, we early released 10% of shares for a total of 15% of each shareholder's position as freely tradable. Initially, the remaining shares were scheduled to be released over three tranches at three-month intervals. Today, the board approved an update to that plan. The remaining lockup releases will now be broken down into smaller, more frequent tranches, resulting in approximately 11% of shares outstanding being released each month, beginning next week on November 13. This adjustment is designed to further enhance liquidity, broaden investor participation, and attract interest in our strategy. We encourage investors to review the updated lockup release schedule as announced in a press release today.

In connection with the listing, our board of directors previously authorized a $200 million discretionary share repurchase program. Following the partial early lockup release, the company repurchased $9 million of shares at an average price-to-book value of 0.84 times, which was a creative to NAV.

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 emphasize how proud we are of OTF's progress. Our performance continues to reflect the quality and resilience of our portfolio, underscored by excellent credit quality and the momentum we're seeing across the business. OTF stands out in the BDC universe for its capacity to invest in new opportunities while seeking to grow ROE. Our pipeline remains robust, and we will continue to be selective in deploying capital into attractive risk-adjusted opportunities.

As we work on optimizing our ROE, we have provided clear visibility to our shareholders on returns by declaring five special dividends through September 2026. Additionally, the accelerated partial lockup release has brought more shares into the market, improving liquidity for our existing shareholders and attracting new investors. We're encouraged by the positive momentum this has generated and plan to build on it through the revised lockup release schedule that Jonathan outlined earlier. Longer term, we remain confident that our share price will ultimately reflect the strength of our fundamentals.

We're optimistic about the future of OTF. Our credit quality remains strong, and we have a clear path forward to growing our earnings power. As we execute on our portfolio deployment strategy, we believe our unique focus on upper-middle market technology lending, combined with our scale and experienced team, will allow us to continue delivering compelling results for our shareholders. Thank you for your continued support and for joining us today. We look forward to updating you on our progress next quarter.

We'll now open the line for questions.

Operator
Thank you. The floor is now open for questions. If you would like to ask a question, please press star, one, on your telephone keypad at this time. A confirmation tone will indicate that your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star key. Again, that is star, one, to register a question at this time.

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

Brian McKenna
OK. Thanks so much. You’ve talked about an ROE expansion opportunity of 200 basis points plus for OTF. I’m assuming that’s still a reasonable expectation from here. And then, is there any updated timeline around getting there? And then pretty related to that, just looking at the balance sheet, you have $400 million of cash. Leverage is still only at 0.57 times. I know you touched on the outlook for leverage into year-end, but how should we think about leverage throughout next year? And then, I guess, where does that ultimately settle in at longer term?

Craig Packer
I’ll start, and you guys can jump in. We think that the ROE over time, 200 basis points, perhaps more, perhaps as much as 250, again, most of that is simply getting to our target leverage, which will take some time but is relatively under our control, as well as rotating out of some of our non-income-producing investments and grinding our debt costs lower. So we think that is still the case. In terms of time, look, we’re trying to balance being disciplined on investing. Repayments are a bit of a headwind, but we’d like to get to target leverage as soon as it’s sort of practical. I think that our math shows with a comfortable pace of deployment, by the end of next year, we should be nicely in the center of our target amount of leverage and NII consistent with our dividend level.

But Erik and Jonathan, feel free to add anything to anything I’ve said.

Jonathan Lamm
That was pretty complete.

Brian McKenna
OK. Appreciate that. And then, it was great to see another strong quarter of gains across the portfolio. I think this speaks to how the portfolio is structured, and really, the upside potential, it does exist in certain parts of the book. A little tough to predict quarter-to-quarter, but I mean, any visibility into any additional markups or similar-type events into year-end? And then, you've done a nice job growing NAV since inception for OTF. What should we expect in terms of NAV growth from here as a public vehicle?

Erik Bissonnette
Yeah. I’ll take that. So on the NAV growth and on some of these equity positions, I think, as you mentioned, it's a core part of the strategy, and it can be a great driver of the growth of NAV. We saw some pretty material write-ups. And I think one of the points we want to talk about with respect to those write-ups, were they were all marked transactions. So one is a full sale process. The other two major drivers were very large tenders. So they're real observed valuations in the market, so we feel really confident about where we are going to see potential value creation.

As you said, Brian, it is hard to predict when we are going to see these appreciation events or when we are going to see the ultimate exits. We are confident that the IPO market is OK, but improving, so hopefully, we'll see some activity in that regard. And frankly, a bunch of the investments that we have today in our equity book, both income and non-equity -- I'm sorry, non-income producing, are getting to a stage where an exit will need to happen. So we're cautiously optimistic that we'll see some more of these throughout 2026. And given the underlying performance of the assets themselves, we feel they'll be in a good place to be realized.

Brian McKenna
Got it. Thanks so much.

Craig Packer
Thanks, Brian.

Operator
Thank you. The next question is coming from Finian O'Shea of Wells Fargo. Please go ahead.

Finian O'Shea
Hey, everyone. Good morning. I wanted to hit on the ABF or data center GPU remark. Can you talk about the type of returns available there? Is there a sort of mez market, or does this mean more at the equity level? And yeah, hit on types of returns. I'll leave it at that. Thanks.

Craig Packer
I'll start, and Erik, you should chime in. Look, we haven't done any data center GPU investments yet, so we're flagging it because we like to be transparent about what we're looking at, and we expect to do them, relatively near term in the coming quarters. Just as a reminder, Blue Owl has a significant presence in the data center space in our real assets business, having acquired a business last year, IPI, that's a developer of data centers, and also investing in data centers and data center structures in our real estate business. So we've become quite active in the space as a platform, and we think that a subset of those investment opportunities in a judicious amount can be appropriate for our direct lending portfolios, in particular, our tech funds, given the nature of the tech fund.

We're going to approach investing in these assets in the same sort of careful, deliberate way that we have in all of our investing. What we're looking for is investments that can generate very predictable income streams and dividend streams that can contribute to the earnings power of the portfolio. And we're also going to stick to our knitting when it comes to portfolio construction in terms of byte size and the like. Most importantly, the investments that we think are appropriate for the direct lending funds and BDCs, are ones where we're primarily taking very predictable financing risk against extremely high-quality counterparties.

You should think of this as more like equipment finance with predictable cash flow streams. We're not making a bet on underlying technology or underlying winners in the AI race. That's not the type of investment that we're going to be putting in the funds. The actual structure of the investments will vary. Data centers look a little bit different than GPUs, but Erik, maybe you can just comment on the general return profile.

Erik Bissonnette
Yeah. I thought that was a great and comprehensive summary. I think it is a little bit dependent on the various different types of opportunities, Fin, but the range of returns that we're looking at tend to be in the low double digits, maybe a little more depending on the specific opportunity set, but somewhere in that low double-digit range.

Finian O'Shea
That's helpful. Thanks. And a follow-up on the AI debate. It sounded like a pretty clear tailwind for software companies. Can you touch on, like, to what extent is there a cohort of visible losers in software? Are there deals that are being sort of turned down by the market kind of thing, or down rounds? Is there any sort of impairment happening from names that are more of a clear-cut risk or maybe even being impacted already out there in the market? Thanks.

Erik Bissonnette
Yeah. It's a good question. I think the areas that we see the most immediate risk from AI, and we've seen it certainly, not in our portfolio, but companies that we've evaluated in the past, around testing for software, which can be now more tightly integrated into coding tools, very lightweight tooling companies, businesses that have very small dollars invested into them, things that are not integrated into the broader operations of an overall enterprise, very siloed. We've seen very early signs of people standing up lightweight products that are good enough to be deployed on the line. They're not necessarily enterprise-grade or enterprise-ready and nowhere close to what we are seeing and what we actually invest in on our side.

Thankfully, in our portfolio, we designed the rubric and the framework that I articulated in the script. Certainly, we've been investing in that fashion for the better part of 15-20 years around that thesis. It was not established in the context of an AI world, but it actually stands up pretty well with respect to where we think the most durable parts of software will be, and frankly, where we think the incumbents have the most power to embed these tools into their solutions and drive further value and hopefully expand their TAM over time.

Finian O'Shea
Very good. Thank you.

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

Arren Cyganovich

Thanks. I just had a question about the yield-enhancing structures that you put out there, the ARR and the PIK upfront. They've kind of trended down, like you said, and you intend to use those. What's kind of driving the, I guess, lack of fit for some of the recent investments? And do you have any in your recently deployed or in your backlog that might help enhance the yield a little?

Erik Bissonnette
Yeah. Thanks, Arren. It's not a lack of fit. If you look at the decline, the overall portion of the ARR book, it's due to the outperformance of the underlying assets. I think that ARR percentage spiked to its peak around 2022. We had a very large amount of take privates that we did at that time, so very scaled businesses that have performed amazingly well. And due to that meaningful outperformance, the vast majority of those deals have either early converted or they've been refinanced into regular way loans or, frankly, refinanced into the BSL market.

So the decline in overall exposure is solely due to the performance or outperformance of those underlying assets. We're actively looking for new opportunities. We have done a few new deals in those structures this year. We do have some in the backlog, so we're certainly excited about those opportunities. And the one takeaway I would have for you is certainly not to look at where we are right now from an exposure percentage and assume that's where we'll be over time. I think we're going to try to take that up as we see opportunities.

From a PIK perspective, I kind of break it down into two components, PIK interest and PIK dividend income. Our PIK dividend income, related to most of our preferred equity investments, has actually been very stable, exactly where we'd expect it to be. Where we've seen the most meaningful amount of decline comes from our PIK interest income. As we've talked about in the past, this is something we do selectively and oftentimes do, in a somewhat concentrated fashion, for our best opportunities. A lot of those deals were booked in 2023 and 2024. And with a two-year time limit to utilize that option, they're just starting to roll off. So we're down to about 7.7% on PIK interest income. I would expect to see that come up modestly in the future.

Craig Packer
I would just add to this. I appreciate the question, and forgive me for making this observation. When levels were higher, I think that there were many investors that were asking about these structures with concern over quality. At the time, we said we're doing these on purpose. We generate really good returns. We've had great success. I appreciate the spirit of the question as well, it's lower, can you do more? I think it's the right way to look at it. I just would sort of put a bookmark for anyone listening on this call. When we do more, hopefully, it'll be viewed in the context of this is something that we're quite comfortable with, the fund is designed to do, and it generates excess returns. That's why we do them.

Particularly on the PIK one, I think that can be a confusing topic for investors when they see PIK go up. We'll point to this being done as a yield enhancer, but I think sometimes it can get lost in the mix a little bit. So it's going to be a permanent part of the opportunity set, and it will ebb and flow a bit. In this case, it is a sign of success that it has gone down a bit. I am sure when new deals come in, we will have opportunities to do a bit more in the other direction.

Arren Cyganovich
Thank you.

Craig Packer
Thank you.

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

Paul Johnson
Yeah. Good afternoon. Thank you for taking my questions. Just a little bit further on the broader pipeline as well as just kind of the software deal flow. Appreciate the points on the PIK and the outperformance there on the ARR book. But I'd just be curious, are you finding enough of those opportunities at this point, because we know that you find those ARR deals attractive? Or at this point, is there just such a hyper-focus on AI and data centers that it's kind of, I guess, cut into the deal share, I guess, if you will, for those types of deals?

Erik Bissonnette
Yeah. I don't think it's driven by the focus on AI or any other form of digital infrastructure. The buyers of the assets that we're typically financing for ARR deals are the large, late-stage private equity firms. And that deal activity, as we've talked about, has been somewhat challenged over the past two years. What I would say is, in the third quarter, we've seen a tremendous pickup in volume. We're looking at, I think, roughly 30% to 35% more deals than we were earlier this year.

Obviously, we were a little disappointed with the amount of repayments that we had in the third quarter, but we had $1 billion of deployments. We have a very large backlog coming into this quarter, of which many of those deals are ARR deals. We have new transactions that are still coming through today. Our deal screens have been exceptionally busy, so we feel really optimistic about the pacing of deal flow right now, going into 2026.

And I would expect there to be a pretty standard mix to what we've done in the past. You're going to see ARR go up. You're going to see regular rate EBITDA deals. You're going to see some structured equity deals. We have a bunch in the hopper. Unfortunately, it just didn't all convert in the third quarter, but fourth quarter looks good so far, and excited about 2026.

Paul Johnson
Got it. Appreciate that. Very helpful. Last one for me. I was just curious to know, for any of your upcoming maturity bonds, I think there is one coming in here in December. I mean, how much of a rush are you in to getting ahead of that and potentially issuing into the unsecured market, I guess, just given that leverage is still a little bit below your optimal range?

Jonathan Lamm
You've answered the question. We're not in a rush at all. We have a significant amount of liquidity, obviously, given where leverage is. We feel very good about, certainly, the percentages that we have in unsecured. We're cognizant, obviously, of upcoming maturities, but we have the opportunity, really, to take out whatever we need to using secured facilities and really be opportunistic as we think about sort of the next leg of issuance that we're going to do next year as we deploy into our leverage. We have plenty of capacity to get to our target leverage ratio now, so all issuance is really beyond this or to give us incremental liquidity and financing, obviously, as we manage the company on the go-forward basis.

Operator
Thank you. Once again, ladies and gentlemen, if you do have a question, you may press star, one, on your telephone keypad at this time. Our next question is coming from Mickey Schleien with Clear Street. Please go ahead.

Mickey Schleien
Yes. Good morning, or actually, good afternoon, everyone. I just wanted some color on the unrealized appreciation of the portfolio, particularly the equity investments. Was that driven more by multiples or company performance or a combination of both?

Erik Bissonnette
Yeah. It was driven mostly by performance and actual transactions. The three largest movers in that category were the Security.AI deal, which I mentioned, which will be a full realization in the fourth quarter, a very nice return. And the other two large drivers were Revolut and SpaceX, both of whom did very large tenders. I believe the Revolut tender was $300 million or $400 million. I'm not sure of the sizing of the SpaceX. So real marked transactions as opposed to just increases in multiples.

Mickey Schleien
Terrific. Given the nature of the portfolio, I just wanted to understand whether there's any risk exposure to the government shutdown at all?

Erik Bissonnette
Yeah. There's relatively small exposure. We do have some software companies that serve various parts of the government. Most of them are serving states and municipalities, and most of them are on annual subscriptions, so they tend to prepay the cost of their software upfront. So obviously, we'll have to analyze -- hopefully, we don't have to analyze going into the next year if there's going to be any issues with respect to billing and cash conversion, but we haven't seen any meaningful issues in our GovTech portfolio.

Obviously, we think bookings are going to be a little slower for some of those names, but no major impacts. We've done a pretty extensive DOGE-related deep dive, and now, obviously, you can dovetail part of that analysis into the shutdown, and we don't really see any major issues.

Mickey Schleien
That's good to hear. And lastly, you may have already talked about this in previous calls, but can you remind us, does the portfolio have any meaningful tariff risk, particularly in respect to sourcing products or services from China?

Erik Bissonnette
No, almost no tariff exposure whatsoever. And one of the great benefits of being an asset-light business model is that we do not source products pretty much from anywhere.

Mickey Schleien
Terrific. That's it for me this afternoon. Appreciate it.

Erik Bissonnette
Thanks.

Operator
Thank you. At this time, I would like to turn the floor back over to management for any closing comments.

Craig Packer
OK. Well, thanks, everyone, for joining us. We thought it was a terrific quarter for OTF. We're particularly pleased by the growth in some of these equity investments, just showing the power of that strategy. And the credit performance is exceptional, particularly in an environment where investors are understandably nervous about credit. We think it's really one of the very best credit-performing funds out there. So appreciate everyone's attention. We're accessible and we're reachable. If you have further questions, we would enjoy engaging with you. With that, have a great day.

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