



OFS Credit Company Announces Third Quarter 2020 Financial Results

September 11, 2020

CHICAGO--(BUSINESS WIRE)--Sep. 11, 2020-- OFS Credit Company, Inc. (NASDAQ: OCCI) ("OFS Credit," the "Company," "we," "us" or "our"), an investment company that primarily invests in collateralized loan obligation ("CLO") equity and debt securities, today announced its financial results for the fiscal quarter and nine months ended July 31, 2020.

HIGHLIGHTS

- Net investment income ("NII") of \$1.3 million, or \$0.40 per common share, for the fiscal quarter ended July 31, 2020.
- Core net investment income ("Core NII")¹ of \$1.1 million, or \$0.33 per common share, for the fiscal quarter ended July 31, 2020. Core NII declined \$1.2 million, or \$0.38 per share, from the prior quarter primarily as the result of timing differences in the LIBOR rate resets of the assets compared to the liabilities of the underlying CLO structures during a period of rapidly declining interest rates.
- On May 26, 2020, OFS Credit's board of directors declared a distribution of \$0.52 per share, payable in cash or shares of our common stock, for the fourth quarter of 2020, payable on October 30, 2020, to stockholders of record as of September 15, 2020, implying an annualized distribution of \$2.08 per share. The total amount of cash distributed to all stockholders will be limited to 10% of the total distribution to be paid, excluding any cash paid for fractional shares.
- Net asset value of \$10.94 per common share as of July 31, 2020, an increase from \$9.27 as of April 30, 2020.
- As of July 31, 2020, the weighted average GAAP (as defined below) effective yield of our CLO equity investments at current cost was 13.90%.

Management Commentary

"Our net asset value increased 18% in the quarter due to unrealized gains in fair value, which was primarily due to a rebound in the corporate loan market," said Bilal Rashid. "Many of our CLO investments benefited from redeployed capital into loans that were trading at a discount. Despite the rebound in the loan market, we continue to see attractive opportunities to deploy capital. We believe that our commitment to the strong, long-term performance of OFS Credit is aligned with the interests of OFS Capital Management, LLC, our investment adviser who, together with other insiders, own approximately 15.1% of the Company's common stock."

(1) Non-GAAP Financial Measure - Core NII

On a supplemental basis, we disclose Core NII, which is a financial measure calculated and presented on a basis of methodology other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our non-GAAP measures may differ from similar measures used by other companies, even if similar terms are utilized to identify such measures. This measure is not provided as a substitute for GAAP NII, but in addition to it. Core NII represents GAAP NII adjusted for net interest cash distributions received on our CLO equity investments. OFS Capital Management, LLC, our investment advisor, uses this information in its internal analysis of results and believes that this information may be informative in determining the quality of the Company's financial performance, estimating taxable income, identifying trends in its results and providing meaningful period-to-period comparisons.

For GAAP purposes, interest income from investments in the "equity" class securities of CLO vehicles is recognized in accordance with the effective interest method, which is based on estimated cash flows to the expected redemption of the investments, and the investments' current amortized cost. The result is an effective yield for the investments which differs from the actual cash received. The effective yield is recognized as an increase to the amortized cost of the investment, and distributions received are recognized as a reduction in the amortized cost basis. Accordingly, interest income recognized on CLO equity securities in the GAAP statement of operations differs from the cash distributions received by the Company during the period (referred to below as "CLO equity adjustments").

Our measure of Core NII utilizes the interest account waterfall distributions of the underlying CLOs, determined by the underlying CLOs' trustees in accordance with the applicable CLO indentures, in lieu of the GAAP measure of effective-yield interest income. Management believes this measure to be informative of the cash component of taxable income to be reported to us by the underlying CLOs. However, taxable income to be reported to us by the underlying CLOs may also include non-cash components—such as the amortization of premium or discounts on the underlying CLOs' investments in commercial loans and the amortization of deferred debt issuance costs on the underlying CLOs' debt obligations—as well as realized capital gains or losses resulting from trading activities within the underlying CLOs, which are generally retained in the principal account of (i.e., not distributed by) the underlying CLOs; and will be impacted by tax attribute carry-over (e.g., loss carry-forwards) within the CLO vehicles. Moreover, the taxable income we recognize may also be influenced by differences between our fiscal year end and the fiscal year end of any of the CLOs in which we invest, the legal form of the CLO vehicles, and other factors.

For the Company to continue to qualify as a regulated investment company for U.S. federal income tax purposes, we are required, among other things, to distribute annually at least 90% of our investment company taxable income. Thus, management monitors Core NII as an indication of our estimated taxable income for a reporting period. We can offer no assurance that these estimates will reflect the final amount or tax character of our earnings, which cannot be determined until we receive tax reports from the underlying CLOs and prepare our tax returns following the close of our fiscal year. We also note that this non-GAAP measure may not serve as a useful indicator of taxable earnings, particularly during periods of market disruption and volatility, and, as such, our taxable income may differ materially from our Core NII.

Three Months Ended July 31, 2020

| | Amount | Per Common Share Amount |
|----------------------------|-------------|-------------------------|
| GAAP Net investment income | \$1,303,648 | \$0.40 |
| CLO equity adjustments | (235,507) | (0.07) |
| Core Net investment income | \$1,068,141 | \$0.33 |

Distributions

On May 26, 2020, our board of directors declared the following distribution on common shares.

| Record Date | Payable Date | Distribution Per Common Share (1) |
|-------------|--------------|-----------------------------------|
|-------------|--------------|-----------------------------------|

| | | |
|--------------------|------------------|--------|
| September 15, 2020 | October 30, 2020 | \$0.52 |
|--------------------|------------------|--------|

(1) The total amount of cash distributed to all stockholders will be limited to 10% of the total distribution to be paid, excluding any cash paid for fractional shares. The remainder of the distribution (approximately 90%) will be paid in the form of shares of our common stock. The exact distribution of cash and stock to any given stockholder will be dependent upon his/her election as well as elections of other stockholders, subject to the pro-rata limitation.

On May 26, 2020, our board of directors declared the following distributions on shares of Series A Term Preferred Stock.

| Record Date | Payable Date | Distribution Per Preferred Share |
|-------------|--------------|----------------------------------|
|-------------|--------------|----------------------------------|

| | | |
|-----------------|-----------------|-------------|
| August 24, 2020 | August 31, 2020 | \$0.1432292 |
|-----------------|-----------------|-------------|

| | | |
|--------------------|--------------------|-------------|
| September 23, 2020 | September 30, 2020 | \$0.1432292 |
|--------------------|--------------------|-------------|

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|------------------|------------------|-------------|
| October 23, 2020 | October 30, 2020 | \$0.1432292 |
|------------------|------------------|-------------|

| | | |
|-------------------|-------------------|-------------|
| November 23, 2020 | November 30, 2020 | \$0.1432292 |
|-------------------|-------------------|-------------|

| | | |
|-------------------|-------------------|-------------|
| December 24, 2020 | December 31, 2020 | \$0.1432292 |
|-------------------|-------------------|-------------|

| | | |
|------------------|------------------|-------------|
| January 22, 2021 | January 29, 2021 | \$0.1432292 |
|------------------|------------------|-------------|

On June 11, 2020, the Company's board of directors authorized a program under which OFS Credit may repurchase up to \$10.0 million of its outstanding shares of Series A Term Preferred Stock. Under this program, OFS Credit may, but is not obligated to, repurchase its outstanding Series A Term Preferred Stock in the open market from time to time through June 11, 2022. The timing and amount of the Series A Term Preferred Stock to be repurchased will depend on a number of factors, including then-existing market conditions, liquidity, prospects for future access to capital, contractual restrictions, alternative investment opportunities and other factors. In addition, any repurchases will also be conducted in accordance with the Investment Company Act of 1940, as amended. There are no assurances that OFS Credit will engage in any repurchases.

RESULTS OF OPERATIONS

Portfolio Composition

The total fair value of our investment portfolio was \$55.4 million at July 31, 2020, which was equal to approximately 69.8% of amortized cost. As of July 31, 2020, our portfolio had exposure to 23 separate collateral managers.

Interest Income

Interest income was \$2.79 million for the three months ended July 31, 2020 compared to \$2.76 million in the prior quarter. The approximate \$30,000 decrease in interest income was due to a decrease in the weighted effective yield of the investment portfolio.

Expenses

Total expenses for the three months ended July 31, 2020 decreased approximately \$34,000 compared to the prior quarter.

Management fee expense for the three months ended July 31, 2020 increased approximately \$32,000 over the prior quarter, primarily due to an increase in fair value of the investment portfolio.

Professional fees and general and administrative expenses for the three months ended July 31, 2020 decreased approximately \$67,000 compared to the prior quarter, primarily due to an decrease in franchise taxes.

Net Gain

Investments appreciated approximately \$6.1 million during the three months ended July 31, 2020 primarily due to the increase in loan prices in the broadly syndicated loan market, which underlie these investments.

OFS Credit Company, Inc.

Statement of Assets and Liabilities

July 31, 2020

(unaudited)

Assets:

| | |
|--|-------------------|
| Investments at fair value (amortized cost of \$79,388,772) | \$ 55,367,437 |
| Cash | 3,653,587 |
| Prepaid expenses and other assets | 199,578 |
| Total assets | 59,220,602 |

Liabilities:

| | |
|---|-------------------|
| 6.875% Series A Term Preferred Stock (net of deferred debt issuance costs of \$608,966) | 20,707,534 |
| Payable to adviser and affiliates | 982,463 |
| Accrued professional fees | 127,250 |
| Other liabilities | 73,071 |
| Total liabilities | 21,890,318 |

Commitments and contingencies

Net assets \$ 37,330,284

Net assets consists of:

| | |
|--|------------|
| Common stock, par value of \$0.001 per share; 90,000,000 shares authorized and 3,413,558 shares issued and outstanding as of July 31, 2020 | \$ 3,414 |
| Paid-in capital in excess of par | 55,267,356 |

| | |
|------------------------------|----------------------|
| Total distributable earnings | (17,940,486) |
| Total net assets | \$ 37,330,284 |

Net asset value per share \$ 10.94

Statement of Operations

Nine Months Ended July 31, 2020

(unaudited)

Investment income

Interest income \$ 8,329,734

Operating expenses

Interest expense 1,223,837

Management fees 797,083

Incentive fees 917,429

Administration fees 638,922

Professional fees 347,834

Other expenses 495,209

Total operating expenses 4,420,314

Net investment income 3,909,420

Unrealized gain (loss) on investments

Net unrealized depreciation on investments (11,893,582)

Net loss on investments (11,893,582)

Net decrease in net assets resulting from operations \$ (7,984,162)

About OFS Credit Company, Inc.

OFS Credit is a non-diversified, externally managed closed-end management investment company. The Company's investment objective is to generate current income, with a secondary objective to generate capital appreciation primarily through investment in CLO debt and subordinated securities. The Company's investment activities are managed by OFS Capital Management, LLC, an investment adviser registered under the Investment Advisers Act of 1940¹, as amended, and headquartered in Chicago, Illinois with additional offices in New York and Los Angeles.

Forward-Looking Statements

Statements in this press release regarding management's future expectations, beliefs, intentions, goals, strategies, plans or prospects, including statements relating to: the ability of CLOs in which the Company has invested to redeploy capital into loans trading at a discount, when there can be no assurance that is the case; the Company's commitment to strong, long-term performance and the alignment of that performance to the ownership of the Company's common stock by affiliated parties; and other factors may constitute forward-looking statements. Forward-looking statements can be identified by terminology such as "anticipate," "believe," "could," "could increase the likelihood," "estimate," "expect," "intend," "is planned," "may," "should," "will," "will enable," "would be expected," "look forward," "may provide," "would" or similar terms, variations of such terms or the negative of those terms. Such forward-looking statements involve known and unknown risks, uncertainties and other factors including those risks, uncertainties and factors referred to in documents that may be filed by OFS Credit from time to time with the Securities and Exchange Commission, as well as the impact of the global COVID-19 pandemic and related changes in base interest rates and significant market volatility on our business, our portfolio companies, our industry and the global economy. As a result of such risks, uncertainties and factors, actual results may differ materially from any future results, performance or achievements discussed in or implied by the forward-looking statements contained herein. OFS Credit is providing the information in this press release as of this date and assumes no obligations to update the information included in this press release or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

¹ Registration does not imply a certain level of skill or training

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