

OFS Credit Company Announces Fourth Quarter and Year End 2020 Financial Results

December 18, 2020

CHICAGO--(BUSINESS WIRE)--Dec. 18, 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 year ended October 31, 2020.

HIGHLIGHTS

- Net investment income ("NII") of \$1.2 million, or \$0.35 per common share, for the fiscal quarter ended October 31, 2020.
- Core net investment income ("Core NII")¹ of \$2.8 million, or \$0.82 per common share, for the fiscal quarter ended October 31, 2020. Core NII increased \$1.7 million, or \$0.50 per share, from the prior quarter primarily as the result of the LIBOR rate resets on the liabilities of the underlying CLO structures during a period of low interest rates, paired with portfolios of assets that are utilizing LIBOR floors.
- On November 30, 2020, OFS Credit's board of directors declared a distribution of \$0.52 per share for the first quarter of 2021, payable in cash or shares of our common stock on January 29, 2021, to stockholders of record as of December 18, 2020, implying an annualized distribution of \$2.08 per share. The total amount of cash distributed to all stockholders will be limited to 20% of the total distribution, excluding any cash paid for fractional shares.
- Net asset value of \$11.58 per common share as of October 31, 2020, an increase from \$10.94 as of July 31, 2020.
- As of October 31, 2020, the weighted average GAAP (as defined below) effective yield of our CLO equity investments at current cost was 13.32%.

Management Commentary

"Our net asset value increased approximately 6% in the quarter due to unrealized gains in fair value, which were primarily due to a rebound in the corporate loan market," said Bilal Rashid. "CLO equity as a whole saw increased cash flows in October due to the low reset of liabilities at the last payment period in July. Many loans across CLOs have LIBOR floors ranging from 50 bps to 100 bps and, as a result, generated additional cash flows that were paid to CLO equity investors. We expect this trend to continue in the short term given the low interest rate environment. 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, owns approximately 15% 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 adviser, 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 reported to us by the underlying CLOs. However, such taxable income may also include non-cash components—such as the amortization of premium or discounts on the underlying CLOs' commercial loans investments and the amortization of deferred debt issuance costs on the underlying CLOs' debt obligations—as well as realized capital gains or losses resulting from the underlying CLOs' trading activities, 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.

	Amount	Per Common Share Amount
GAAP Net investment income	\$1,199,112	\$0.35
CLO equity adjustments	1,589,952	0.47
Core Net investment income	\$2,789,064	\$0.82

Distributions

On November 30, 2020, our board of directors declared the following distribution on common shares.

Record Date	Payable Date	Distribution Per Common Share (1)
December 18, 2020	January 29, 2021	\$0.52

(1) The total amount of cash distributed to all stockholders will be limited to 20% of the total distribution to be paid, excluding any cash paid for fractional shares. The remainder of the distribution (approximately 80%) 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 November 19, 2020, we issued through a private placement 120,000 shares of our 6.60% Series B Term Preferred Stock (the "Series B Term Preferred Stock") due November 19, 2023 at a price per share of \$24.40625, raising approximately \$2.9 million in gross proceeds. On November 19, 2020, our board of directors declared the following distributions on shares of Series B Term Preferred Stock.

Record Date	Payable Date	Distribution Per Preferred Share
November 23, 2020	November 30, 2020	\$0.055
December 24, 2020	December 31, 2020	\$0.1375
January 22, 2021	January 29, 2021	\$0.1375

RESULTS OF OPERATIONS

Portfolio Composition

The total fair value of our investment portfolio was \$56.9 million at October 31, 2020, which was equal to approximately 73.1% of amortized cost. As of October 31, 2020, our portfolio had exposure to 23 separate collateral managers.

Interest Income

Interest income was \$2.74 million for the three months ended October 31, 2020 compared to \$2.79 million in the prior quarter. The approximate \$50,000 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 October 31, 2020 increased approximately \$59,000 compared to the prior quarter.

Management fee expense for the three months ended October 31, 2020 increased approximately \$16,000 over the prior quarter, primarily due to an increase in fair value of the investment portfolio.

Incentive fee expense for the three months ended October 31, 2020 decreased approximately \$26,000 over the prior quarter, primarily due to an decrease in net investment income.

Administrative fee expense for the three months ended October 31, 2020 increased approximately \$50,000 over the prior quarter, primarily due to an increase in our allocable portion of personnel and software costs of our administrator, OFS Capital Services, LLC.

Professional fees and general and administrative expenses for the three months ended October 31, 2020 increased approximately \$19,000 compared to the prior quarter, primarily due to an increase in legal and accounting services.

Net Gain

Investments appreciated approximately \$3.1 million during the three months ended October 31, 2020, primarily due to the increase in loan prices in

the broadly syndicated loan market, which underlie our CLO investments.

OFS Credit Company, Inc.

Statement of Assets and Liabilities

October 31, 2020

Assets:

Investments at fair value (amortized cost of \$77,798,819)	\$ 56,885,592
Cash	6,447,062
Other assets	259,527
Total assets	63,592,181

Liabilities:

6.875% Series A Term Preferred Stock (net of deferred debt issuance costs of \$567,094)	20,749,406
Payable to adviser and affiliates	1,098,411
Accrued professional fees	191,375
Other liabilities	77,381
Total liabilities	22,116,573

Commitments and contingencies

Net assets \$ 41,475,608

Net assets consists of:

Common stock, par value of \$0.001 per share; 90,000,000 shares authorized and 3,580,663 shares issued and outstanding as of October 31, 2020	\$ 3,581
Paid-in capital in excess of par	53,304,762
Total distributable losses	(11,832,735)
Total net assets	\$ 41,475,608

Net asset value per share

\$ 11.58

Statement of Operations

Year Ended October 31, 2020

Investment income:

Interest income	\$ 11,070,549
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Operating expenses:

Interest expense	1,632,085
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Management fees	1,071,760
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Incentive fees	1,217,173
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Administration fees	880,584
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Professional fees	532,284
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Board of directors fees	180,000
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Other expenses	448,131
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Total operating expenses	5,962,017
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Net investment income	5,108,532
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Net realized and unrealized gain (loss) on investments:

Net unrealized depreciation on investments	(8,785,474)
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Net loss on investments	(8,785,474)
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Net decrease in net assets resulting from operations	\$ (3,676,942)
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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: expectations regarding CLO cash flows in a low interest rate environment, when there can be no assurance that such trend will continue; 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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