

OFS Credit Company Announces Third Quarter 2021 Financial Results

September 10, 2021

CHICAGO--(BUSINESS WIRE)--Sep. 10, 2021-- 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 ended July 31, 2021.

HIGHLIGHTS

- Net investment income ("NII") of \$1.6 million, or \$0.26 per common share, for the fiscal quarter ended July 31, 2021.
- Core net investment income ("Core NII")¹ of \$3.6 million, or \$0.58 per common share, for the fiscal quarter ended July 31, 2021.
- On August 24, 2021, OFS Credit's board of directors declared a quarterly distribution of \$0.55 per share of common stock, for the quarter ending October 31, 2021, an increase of approximately 2% over the quarter ended July 31, 2021. The distribution is payable on October 29, 2021 in cash or shares of our common stock, to stockholders of record as of September 13, 2021. 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.
- As of July 31, 2021, the weighted average GAAP (as defined below) effective yield of our CLO equity investments at current cost was 14.37%.
- Issued 1,071,226 shares of common stock pursuant to our At-the-Market offering, for net proceeds of approximately \$15.0 million.

Management Commentary

"We were pleased to again increase our distribution," said Bilal Rashid, Chief Executive Officer. "This increase was the fifth since our IPO in late 2018 and equates to a \$2.20 annualized distribution rate."

"Our portfolio continues to perform well and we raised approximately \$15.0 million of common equity at or above net asset value in the quarter. We believe that the increased scale allows us to further diversify the portfolio, reduce corporate overhead as a percentage of investment income and improve trading liquidity."

(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 periodic estimates of cash flows from the estimate date through the expected redemption dates of the investments, and the investments' then-current amortized cost. The result is an effective yield for the investments that 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 expected to be reported to us by the underlying CLOs. However, such taxable income may also include non-cash components—such as the amortization of discounts or premiums on the underlying CLOs' commercial loan 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 may 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 for tax treatment 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	\$1,614,606	\$0.26
CLO equity adjustments	1,944,235	0.32
Core Net investment income	\$3,558,841	\$0.58

Distributions

On August 24, 2021, our board of directors declared the following distribution on shares of our common stock.

Record Date	Payable Date	Distribution Per Common Share ⁽¹⁾
September 13, 2021	October 29, 2021	\$0.55

⁽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 each stockholder's election as well as the elections of other stockholders, subject to the pro-rata limitation.

RESULTS OF OPERATIONS

Portfolio Composition

The total fair value of our investment portfolio was \$132.3 million at July 31, 2021, which was equal to approximately 94% of amortized cost. During the quarter ended July 31, 2021, we invested \$35.1 million in six subordinated notes and \$12.6 million in three CLO warehouses.

Interest Income

For the three months ended July 31, 2021, interest income increased to \$4.36 million compared to \$2.77 million in the prior quarter. The increase in interest income was due to the deployment of capital into subordinated notes and CLO warehouses as well as the increase in the portfolio's weighted effective yield to 14.37% from 13.12% at April 30, 2021.

Expenses

During the three months ended July 31, 2021:

- Interest expense increased approximately \$410,000 compared to the prior quarter, primarily due to the issuance of the 6.125% Series C Term Preferred Stock in April 2021 and the issuance of the 6.00% Series D Term Preferred Stock in June 2021.
- Management fee expense increased approximately \$95,000 compared to the prior quarter primarily due to an increase in the Company's net asset value, resulting from net proceeds of \$15.0 million from the sale of common stock under the At-the-Market offering.
- Incentive fee expense increased approximately \$319,000 compared to the prior quarter due to an increase in net investment income.
- Administrative fee expense increased approximately \$82,000 compared to the prior quarter due to an increase in our allocable portion of personnel costs of our administrator, OFS Capital Services, LLC, primarily related to our common and preferred stock offerings.

Net Gain

Our investments appreciated approximately \$2.4 million during the three months ended July 31, 2021, primarily due to the increase in loan prices in the broadly syndicated loan market, which loans underlie our CLO investments.

OFS Credit Company, Inc.

Statement of Assets and Liabilities

July 31, 2021

(unaudited)

Assets:

Investments at fair value (amortized cost of \$140,366,566)	\$ 132,254,103
Cash	14,418,286
Other assets	272,349
Total assets	146,944,738

Liabilities:

Preferred Stock (net of deferred debt issuance costs of \$1,364,742)	48,951,758
Payable to adviser and affiliates	1,613,838
Payable for investment purchased	1,407,250
Accrued professional fees	70,000
Other liabilities	73,534
Total liabilities	52,116,380

Commitments and contingencies

Net assets \$ 94,828,358

Net assets consists of:

Common stock, par value of \$0.001 per share; 90,000,000 shares authorized and 6,738,801 shares issued and outstanding as of July 31, 2021	\$ 6,739
Paid-in capital in excess of par	97,221,078
Total distributable losses	(2,399,459)
Total net assets	\$ 94,828,358

Net asset value per share

\$ 14.07

Statement of Operations

Three Months Ended July 31, 2021

(unaudited)

Investment income:

Interest income	\$ 4,357,533
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Operating expenses:

Interest expense	888,024
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Management fees	639,571
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Incentive fees	403,267
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Administration fees	320,316
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Professional fees	189,549
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Board of directors fees	45,000
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Other expenses	257,200
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Total operating expenses	2,742,927
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Net investment income	1,614,606
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Net realized and unrealized gain (loss) on investments:

Net unrealized appreciation on investments	2,374,041
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Net gain on investments	2,374,041
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Net increase in net assets resulting from operations	\$ 3,988,647
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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: the Company's results of operations, including NII, Core NII and net asset value and the factors that may affect such results; the increase in the Company's scale and how that scale may facilitate further diversity in the Company's portfolio, reduce corporate overhead as a percentage of investment income or improve trading liquidity; 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, inflation 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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