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Sound Point Meridian

Fourth Quarter 2026 Earnings Call

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CORPORATE SPEAKERS:

Julie Smith

Sound Point Meridian Capital, Inc.; Head of Investor Relations

Ujjaval Desai

Sound Point Meridian Capital Incorporated; Chief Executive Officer

Daniel Fabian

Sound Point Meridian Capital Incorporated; Chief Financial Officer

PARTICIPANTS:

Gaurav Mehta

Alliance Global Partners; Analyst

Erik Zwick

Lucid Capital Markets; Analyst

PRESENTATION:

Julie Smith^ Ladies and gentlemen, thank you for standing by. Sound Point Meridian Capital refers participants on this call to the investor webpage at www.soundpointmeridian.com for the press release, investor information and filings with the Securities and Exchange Commission, and for a discussion of the risks that can affect the business.

Sound Point Meridian Capital specifically refers participants to the presentation furnished today on the Form 8K with the SEC, and to remind listeners that some of the comments today may contain forward-looking statements, and as such will be subject to risks and uncertainties which, if they materialize, could materially affect results.

Reference is made to the section titled Forward-Looking Statements in the Company's Earnings Press Release for the Latest Quarter End, which is incorporated herein by reference. We note forward-looking statements, whether written or oral, include but are not limited to Sound Point Meridian Capital's expectation or prediction of financial and business performance and conditions, as well as its competitive and industry outlook.

Forward-looking statements are subject to risks, uncertainties, and assumptions which, if they materialize, could materially affect results, and such forward-looking statements do not guarantee performance, and Sound Point Meridian Capital gives no such assurances.

Sound Point Meridian Capital is under no obligation and expressly disclaims any obligation to update, alter, or otherwise revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In

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addition, historical data pertaining to the operating results and other performance indicators applicable to Sound Point Meridian Capital are not necessarily indicative of results to be achieved in succeeding periods. I will now turn the call over to Ujjaval Desai, Chief Executive Officer of Sound Point Meridian Capital.

Ujjaval Desai^ Thank you to everyone joining us today and welcome to the Sound Point Meridian Capital earnings call for the fourth fiscal quarter ended March 31st, 2026. We'd like to invite you to download our investor presentation from our website, which provides additional information about the company and our portfolio. With me today is our Chief Financial Officer, Dan Fabian, and after our prepared remarks, we'll open the call to your questions.

For the fourth fiscal quarter ended March 31st, 2026, we generated net investment income, or NII, of \$7 million, or \$0.34 per share, and recorded a net realized loss of \$0.20 per share on exited investments. We paid distributions of \$0.75 per share during the quarter. NII remained below common distributions because of spread tightening and significant decline in CLO equity arbitrage over the past 12 to 18 months.

Net asset value, NAV, per share ended the quarter at \$9.63, down from \$14.02 as of December 31st, 2025. The NAV decline was a result of weaker market valuation for CLO equity and underlying leverage loans, combined with lower projected CLO equity cash flows. As of quarter end, our CLO equity portfolio's weighted average gap yield was 9.1% versus 11% in the prior quarter, driven by a sell-off in loans, particularly in the software sector, which increased model default rates of the underlying loans.

Our portfolio remains highly diversified, with investments across 98 CLOs managed by 29 different managers, providing exposure to over 1,500 underlying loans, spanning more than 30 industries on a look-through basis. In an environment characterized by increasing dispersion across sectors, credits, and managers, we believe this level of diversification remains an important component of our risk management approach. Subsequent to quarter end, we announced monthly distributions for calendar Q3 2026 of \$0.20 per share, unchanged from our previously announced Q2 2026 monthly distributions.

We will continue to evaluate distribution levels as earnings, market conditions, and portfolio positioning evolve, and expect to reassess the distribution strategy over the coming months as market visibility improves. I will now turn the call over to Dan for a more detailed review of our financial highlights for the quarter.

Daniel Fabian^ Thanks, Ujjaval, and hello, everyone. As Ujjaval mentioned, the quarter ended March 31st, 2026. We delivered net investment income of \$7 million, or \$0.34 per share. During the quarter, we purchased one new issue equity position with a cost of \$4.5 million and a weighted average gap yield of 10.65%.

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We also purchased three equity investments in the secondary market with a cost of \$7.4 million and a weighted average yield of 31.37%. In addition, we sold two equity investments, generating \$8.4 million in cash proceeds with a weighted average yield of 7%. We refinanced the liabilities of two CLO equity investments, resulting in a weighted average debt cost saving of 34 basis points.

Finally, we redeemed two CLOs during the quarter, generating an additional \$14.9 million in cash. So the quarter ended March 31st, 2026. We recorded a net realized loss of \$4.1 million and an unrealized loss on investments of \$77.6 million. Total expenses during the quarter were \$8.2 million. The GAAP net loss for the quarter was \$74.7 million, or a loss of \$3.63 per share.

Moving to our balance sheet, as of March 31st, 2026, total assets were \$374.5 million. Net assets were \$198.7 million, and our net asset value stood at \$9.63 per share. The fair value of our investment portfolio stood at \$368.2 million, while available liquidity consisting of cash was approximately \$5.8 million at the end of the quarter. As of March 31st, 2026, the company's leverage ratio was 46.8% of total assets.

During the quarter, we declared monthly cash distributions of \$0.20 per share, payable at the end of April, May, and June. Based on our share price as of March 31st, 2026, this represents an annualized dividend yield of 26.8%. As of April 30, 2026, our estimated net asset value per common share was \$10.57. I'll now turn it back to Ujjaval Desai.

Ujjaval Desai^ Thanks, Dan. Before we move into Q&A, I wanted to take a moment to touch on the recent market backdrop for corporate loans and CLO equities. The first quarter of 2026 marked a noticeable shift in tone across U.S. credit markets. After a year defined largely by favorable technicals and aggressive spread compression, the market came into 2026 expecting a transition from refinancing driven activity toward more M&A related issuance.

We did begin to see some of that shift early in the quarter, but sentiment weakened quickly as macro uncertainty, geopolitical volatility, and stress in certain sectors weighed on broader market sentiment. In particular, the sell-off in software-related loans that began in February weighed on overall market activity and investor sentiment.

U.S. institutional leverage loan issuance totaled about \$241 billion in the first quarter, which was roughly 32% behind the prior year's pace. Most of that decline came from a slowdown in refinancing and repricing activity as borrowers became less willing to pursue opportunistic transactions in a more volatile market with wider spreads. At the same time, M&A related issuance reached a four-year high supported by several large transactions, although activity was fairly concentrated with over 40% of issuance tied to only a handful of mega deals rather than broad-based inflow.

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Market technicals also weakened meaningfully during the quarter. Investor demand fell to a three-year low driven primarily by negative retail fund flows, while CLO issuance remained comparatively resilient but was insufficient to offset the broader pullback. As a result, the supply-demand dynamic shifted materially with the loan market contracting by roughly \$19 billion and the imbalance widening sharply relative to the prior year.

Against this backdrop, spreads widened across the credit spectrum. Specific to the broadly syndicated loan market, B-rated loan spreads widened by roughly 100 basis points from the January level. Loan prices declined during the quarter with the Morningstar, [LSEG], and Everstone index posting a negative 55 basis points return year-to-date, the weakest first quarter performance since 2020.

The selloff was most pronounced in the software sector, which dropped from 95.2 to 87.97 quarter over quarter due to concerns around AI-driven disruption, which triggered a sharp repricing and contributed to broader risk aversion across credit markets. Excluding software, price declines were more modest from 97.36 to 96.08, but sentiment generally deteriorated across sectors as geopolitical developments and inflation uncertainty reduced expectations for near-term monetary easing. CLO issuance remained relatively stable compared to other segments of the market, totaling approximately \$47 billion in the first quarter, only modestly below 20 to 25 levels.

That said, activities slowed as the quarter progressed, with CLO managers becoming increasingly cautious in response to market volatility and widening liability spreads. CLO refinancing and reset activity declined significantly year over year, reflecting less favorable arbitrage conditions and growing investor sensitivity to underlying credit quality. Looking ahead, we think the direction of credit markets will likely depend on whether macro conditions begin to stabilize and investor demand improves.

Post-quarter end, loan prices rebounded as immediate AI displacement fears began to subside and a U.S.-Iran ceasefire was announced. Dealer equity buyers returned to the secondary market with a subsequent rebound in prices, reflected in our April 30, 2026 NAV that Dan mentioned at \$10.57 per share. Though sentiment around the software space has improved from the February lows, we still believe that some CLO managers and portfolios are better positioned than others to manage the risks presented by the increasing impact of AI.

April and May have afforded us the opportunity to rotate our portfolio of CLO equity positions, which we believe will benefit the fund in the long run. On the other side of the CLO balance sheet, liability costs began tightening again in April and May, to levels last seen in January, which has opened up the refinancing optionality that our portfolio has as we move through the rest of 2026.

With that, we thank you for your time and would like to open the call to any questions.

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Operator?

QUESTION & ANSWER:

Operator^ Thank you. (Operator Instructions)

The first question today comes from Gaurav Mehta from Alliance Global.

Gaurav Mehta^ Thank you. Good afternoon. I wanted to go back to your comments around software sell-off and wondering if you would comment on how much exposure do you have to software and is that something you're looking to reduce going forward?

Ujjaval Desai^ Hi, Gaurav. It's Ujjaval. Thanks for the question.

So, I think when you say software, we are more interested in the exposure to AI, not just software. So, what we look at is companies that are potentially going to be disrupted by AI. So that includes the software sector, the traditional software sector, but also services as well as healthcare.

So, if you do that or look through analysis, the portfolio is roughly around low teens in terms of exposure to those types of credits. What we are doing and what we've done is sort of in February, March, and April, we undertook a very thorough re-underwrite of all the names that constitute this 12% - 13% bucket, around 54 names in this bucket. And we re-underwrote all the names, did a deep dive to understand the risk return profile of these credits.

What we found was that a large majority of them are actually strong companies that will be able to withstand the risk from AI. In fact, some of them can actually benefit from AI by adopting it by spending money, improving their business prospects, and use AI to their advantage. And so as a result of that, what we're doing is, as you know, we don't manage the underlying loans.

We are invested in equity in these CLOs. And so what we've done is, again, after speaking to all the managers in our portfolio, we have identified credits that we like, credits we don't like. And what we've been doing already is rebalancing the portfolio by kind of reducing CLO equity exposure where there is a lot more negative credits and adding CLO positions where there is more sort of positive portfolio.

So, it's been a lot of rebalancing that we're doing. As a result of that, RA exposure probably will go down a little bit, but we're not trying to reduce the exposure. We're just trying to make sure we're in the right credits within the sector.

And that's really the important thing for us to focus on.

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Gaurav Mehta^ Thanks for those details. Second follow-up question I have is maybe on the investment environment between primary and secondary markets. I'm also curious to learn the secondary investment that you made in the quarter at 31.3%. Were those opportunities sort of one-time opportunities because of the loan sell-off that you saw in the quarter?

Ujjaval Desai^ Yes. So, I think just maybe looking at the timeline here, February is when this whole AI sell-off started, and then March we had the impacts from the U.S.-Iran conflict. So really, the market was completely shut off in February and March, and not much secondary activity is going on.

So we did participate in a couple of these new secondary transactions, but really most of the activity has been in April and May in terms of our portfolio positioning. And so, you'll not see that in the March numbers, but you'll see it in the next quarter's numbers. So, we'll obviously highlight that in three months' time.

But what we have been focused on in the last few weeks has been exactly what I said earlier, is picking up sort of, you know, good secondary investments that add to the portfolio. And we have already sold certain positions where we see a lot more tail risk, whether that's because of AI, whether that's just because of loans trading at big discounts CCC risk, risk of cash flows getting cut off. There are equity positions.

And as we said in the early part of the call that the opportunity set here is really to identify the strong outperformers and use this market opportunity to reduce tail risk in the portfolio. And that's exactly what we were doing. And we'll expect to do that going forward as well.

Your initial question about primary versus secondary, the opportunity set really that we are seeing today is in the secondary markets. Primary equity returns still do not look attractive. And part of the reason here is that while loan repricings have slowed down, and so spreads have actually stabilized on the loan side, we saw disruption in the liability market.

So, the liability levels have actually widened out. They're slowly going back to their earlier levels. But the arbitrage in new issue still does not look attractive to us.

So, we're watching that market carefully. To the extent we find new issue deals that make sense, we will certainly pursue those opportunities as well. But right now, we're seeing a lot more interesting opportunities in the secondary markets.

Gaurav Mehta^ Thank you. That's all I have.

Ujjaval Desai^ Okay. Thanks, Gaurav.

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Operator^ And your next question today comes from Erik Zwick from Lucid Capital Markets.

Erik Zwick^ Thank you. Good afternoon. I first wanted to ask for the \$4.1 million of realized losses in the quarter.

What was that driven from? What did you decide to sell? And what was the reason for it at that time?

Ujjaval Desai^ Yes. Hi, Erik. So, yes, I think it's really just, as I said earlier, it's positions where we see more downside relative to upside going forward.

So, we are more focused here on the go forward return of these positions. So, those are the transactions we sold. That resulted in a loss because they were held at a much higher cost than where they were trading.

But rather than worrying about that, our main focus really is to reduce losses going forward. And so we, again, through our significant re-underwrite of these names and sort of re-analyzing CLO cash flows, using our systems, using our internal sort of credit expertise, but also speaking to all of our managers, we identified certain underperforming transactions that we wanted to sell to reduce our tail risk. And we went into sort of better performing secondary positions.

So, that rebalancing is what resulted in some of these realized losses relative to the cost we were holding those assets at. So, that was why we did that. I think because of these trades, we think that now we're going to have a much better, healthier portfolio, but also much better go forward IRR. So, that's really what we are trying to do is make sure that the portfolio continues to perform well.

And what we're seeing in this market really is that, I'll give you an example, we are seeing transactions where we can sell something, which we think in a bear, let's say a bear scenario, if the market really takes a negative turn here, certain equity positions could have negative returns going forward. So, they could actually lose money from here onwards, while there are plenty of transactions that are available where you can have a strong positive return in the same sort of bear market environment.

So, I think it's really those types of kind of risk management trades to try to change the shape of the curve, if you will, the IRR curve and try to reduce that tail risk. So, that's really what resulted in those losses.

Erik Zwick^ Yes. Thank you for explaining the process and strategy there. I'm curious as you re-underwrote some of those positions and those that you did decide to sell, were there any common themes in terms of either individual loans that you saw as having

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some of that tail risk or industry concentrations? Or what did you identify that was driving kind of the more downside that you potentially saw, the downside risk?

Ujjaval Desai^ Yes. I think it's really, at the end of the day, it sort of comes down to name by name credit risk. So, when we re-underwrote our portfolio, we also looked at manager performance, right? So, it's important to re-underwrite managers as well, re-rank them based on how they've done, how they've managed the sort of the AI stress, if you will.

And so, based on all that analysis, we were able to identify credits that we think are loans trading at discounts. So, these are not trading at par, these are stress loans. A lot of them happen to be kind of software-related loans.

But if a loan is trading, let's say at 90, but we think that there is a lot more downside here and it could actually default or go through out-of-quota restructuring and it could actually end up trading 20 points lower, we would rather reduce exposure to those loans. And if there are loans where they're trading at sort of 80, 85, but they probably are money good, there's a lot more upside there, we would like to add to those types of names. So, that's the kind of analysis we did.

So, it's a combination of industry credit, but also managers, right? So, certain managers have underperformed because either they had too much exposure to AI or they did not trade the portfolio properly. And so, we think that some of those managers will underperform going forward.

And the market has been very active since April, mid-April, really, for the last month, month and a half. The secondary market has been quite attractive. Loan prices have rebounded.

CLO equity prices have rebounded. And I mentioned that our NAV has gone up now to \$10.57. So, it's a significant increase in NAV in April.

So, in sort of this reasonably positive environment that we've had over the last couple of weeks, we have taken advantage of that environment and used that opportunity to really do these sort of risk management transactions. So, that's really kind of the process that we undertook.

Erik Zwick^ Thank you for the additional commentary. That's helpful. And that's actually a great segue into my next question I wanted to ask about, that the April NAV, and you've talked about the drivers there.

I'm curious, I know you don't have a month-end May estimate, quantitative estimate yet, but we're getting towards the end of the month. So, I'm curious if just directionally you

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can say how some of the drivers that drove the April NAV increase, have those at least maintained or potentially increased additionally at this point?

Ujjaval Desai^ Yes. So, what drove the positive performance in April? A couple of factors.

One, as we mentioned, loan prices rebounded. And that happened sort of in the AI sector, but also across the board, loan prices rebounded in April. And that rebound has continued to happen in May.

And so, that's sort of related to general feeling or sentiment of the market that some of these loans were, had sold off too much indiscriminately really. And so that sort of reversed in April and has continued in May. The second thing that is very important to note here is that the liability costs have also improved.

So, I think if you look at our, kind of where the liability market was, let's say at the end of the last year, so December 2025, the average cost of refinancing a CLO liability stack was about 155. If you look at what it was at the end of March, it was 168. So, liabilities widened out 13 basis points roughly, right, on average.

That number has now gone back to 155 roughly. So, the liability widening we saw in the first quarter has now reversed itself and kind of gone back to where it was at the end of December. And that is important for us because as you know, our portfolio has a fair bit of shorter non-call.

And that's something that we actively pursued, that strategy last year to keep a portfolio shorter on the non-call side. We still have a very long reinvestment period. So, we have a pretty long runway, but we try to have a shorter non-call.

Why is that important? That's important because in a market that we have, which we think will continue, which is where loans when there's anything positive, loans, spreads kind of stay tight. They reprice fast.

You want to have as much of a match as possible between assets and liabilities. So having a slightly shorter non-call, not having a two-year but having on average, let's say, a 10, 11-month non-call, that's quite helpful. And that's kind of what we have right now.

Now that hurt us in the first quarter because shorter non-call meant there was a lot of optionality for refinancings, but that optionality, we couldn't take advantage of because liability spreads it wide and out. And so because of that, we didn't really undertake too many refinancings in the first quarter. And we mentioned in our commentary that we did two transactions, two refinancings and two liquidations.

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So that's what we did last quarter. But since the end of the quarter, we've actually done a lot more and we'll continue to do a lot more given that liability levels have come down. So that also helps us.

Loan pricing increases, that helps us, but also liability tightening also helps improve cash flows, the expectation of refinancings for liabilities, and all of that improves our go-forward cash flows too. So long way to answer your question, but those are the factors that affected positively in April. And that has continued in May.

I don't have the numbers for May right now, still a little too early because we generally get our NAVs towards the end of the month. But the month so far has been positive for both loans and CLO equity prices. So, the expectation at this point, at least, unless something happens materially in the next few days or a week or so, is that May should also be a good month for CLOs.

Erik Zwick^ Great. Thank you. I appreciate that, I guess, kind of putting it all together.

And thanks for the detail on the liability spread that I was going to ask about that. I guess if I kind of put all that together, you're seeing reposition the portfolio a little bit, seeing some wider spreads on the buying in the secondary market. And you've got the ability to kind of do some resets and [revives] with the tighter liability spreads.

Just thinking about the portfolio yield going forward, it seems like there's potentially opportunity here to see that at least stabilize, if not start moving higher going forward. Is that the right way to put all that together?

Ujjaval Desai^ Yes, that's our hope as well. I think it's really hard to predict, kind of, you still have this concern that the loan, the new CLO market has not really picked up. It started picking up in January, early February, and then it stopped again because of the volatility and then the war.

Our hope is that the market sort of M&A activity comes back. We've seen some new issue loans already in the last few weeks. There is a lot more issuance in particular in sort of the data center space as well that's making its way into the loan market.

So, if that loan issuance continues to stay healthy, that's really what we need. That was what was missing last year. It sort of came up, but then disappeared again.

We hope that comes back. If it does, that should help stabilize loan spreads. And that obviously is the number one factor when it comes to our yield.

And then the secondary thing, yes, is the refinancing of our liabilities should also be very helpful. The relative, sort of the real [wealth] repositioning that I talked about earlier, that

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also helps with our spread, with our yield rather. Selling sort of positions where the yield is low, there's a lot more tail risk, selling out of those.

Although we realized crystallized some losses there, it not only improves our sort of tail risk in the portfolio, but also can potentially improve go forward yield as well. So, I think those are sort of the components of our yield. And certainly, we're working hard to try to stabilize that and see if we can improve it and bring it up.

And that's certainly our focus going forward.

Erik Zwick^ I appreciate that, the very detailed commentary. Thank you for taking my questions today.

Ujjaval Desai^ Okay. Thanks, Erik.

Operator^ At this time, there are no further questions. I'll hand the call back to Ujjaval Desai for any additional or closing remarks.

Ujjaval Desai^ Okay. Thank you, everyone, for listening in today. I hope you found the discussion fruitful and informative.

And we look forward to seeing you guys again in three months' time. Thank you again. Take care.

Operator^ And once again, that does conclude today's conference. Thank you all for your participation today. You may now disconnect.