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Sound Point Meridian

First Fiscal Quarter 2027 Earnings Call

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CORPORATE SPEAKERS:

Julie Smith

Sound Point Meridian; Head of Investor Relations

Ujjaval Desai

Sound Point Meridian; Chief Executive Officer

Daniel Fabian

Sound Point Meridian; Chief Financial Officer

PARTICIPANTS:

Gaurav Mehta

Alliance Global Partners; Analyst

Erik Zwick

Lucid Capital Markets; Analyst

Timothy D'Agostino

B. Riley Securities; Analyst

PRESENTATION:

Operator^ Hello, everyone. Thank you for joining us. And welcome to the Sound Point Meridian Capital Incorporated First Fiscal Quarter Ended June 30, 2026 Earnings Conference Call. (Operator Instructions)

I will now hand the conference over to Julie Smith, Head of Investor Relations.

Julie, please go ahead.

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.soundpointmeridiancap.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 8-K 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.

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References made to the section titled Forward-Looking Statements and 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 statements, whether as a result of new information, future events, or otherwise except as required by law.

In 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 first fiscal quarter ended June 30, 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 first fiscal quarter ended June 30, 2026, we generated net investment income, or NII, of \$5 million, or \$0.24 a share, and paid distributions of \$0.60 per share during the quarter. Despite the successful refinancing of CLO transactions in the portfolio over the past quarter, NII remained below common distributions due to spread tightening and higher model loss reserves for AI-impacted software loans within our CLO collateral portfolios.

Net asset value, or NAV, per share ended the quarter at \$9.88, up from \$9.63 as of March 31, 2026. The NAV increase was primarily driven by net unrealized appreciation in the fair value of our CLO equity investments, partially offset by distribution contributions paid in excess of NII.

As of quarter end, our CLO equity portfolio's weighted average GAAP yield was 9.8% versus 9.1% in the prior quarter.

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Our portfolio remains highly diversified with investments across 108 CLOs managed by 31 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, 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 Q4 2026 of \$0.13 per share, down from our previously announced Q3 2026 monthly distribution of \$0.20 per share.

In setting the revised distribution level, the Board considered a range of factors including current and expected portfolio yield, the importance of maintaining balance sheet flexibility, and our objective of supporting net asset value over time while earning a distribution through net investment income.

Subsequent to quarter end, Sound Point, as the advisor for SPMC, proposed a base management and incentive fee waiver for the 6-month period beginning July 1, 2026, and ending on December 31, 2026. The fee waiver will reduce the annual base management fee from 1.75% to 1.5% and will reduce the annual incentive fee from 20% to 15% of pre-incentive net investment income.

In recognition of the unprecedented income compression faced by the CLO equity asset class, the advisor proposed this fee waiver to help reduce the expense burden on the company while we work to increase our income through loan spread improvement, refinancing of our liabilities, and active trading of our investments.

I will now turn the call over to Dan for a more detailed review of our financial highlights for the quarter before I share thoughts on the overall market.

Daniel Fabian^ Thanks, Ujjaval. And welcome, everyone.

As Ujjaval mentioned, for the quarter ended June 30, 2026, we delivered net investment income of \$5 million, or \$0.24 per share.

During the quarter, we purchased 13 equity investments in the secondary market with a cost of \$16.1 million and a weighted average yield of 20.2%.

In addition, we sold seven equity investments, generating \$23.3 million in cash proceeds with a weighted average yield of 8.5%.

We refinanced the liabilities of 13 CLO equity investments, resulting in a weighted average debt cost savings of 37 basis points.

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For the quarter ended June 30, 2026, we recorded a net realized loss of \$12.8 million and an unrealized gain on investments of \$25.2 million. Total expenses during the quarter was \$7.4 million. The GAAP net income for the quarter was \$17.5 million, or \$0.83 per share. Moving to our balance sheet, as of June 30, 2026, total assets were \$384.7 million. Net assets were \$208.1 million, and our net asset value stood at \$9.88 per share.

The fair value of our investment portfolio stood at \$363.2 million, while available liquidity which consisted of cash, was approximately \$21 million at the end of the quarter.

As of June 30, 2026, the company's leverage ratio was 45.7% of total assets.

During the quarter, we declared monthly cash distributions of \$0.20 per share, payable at the end of July, August, and September. Based on our share price as of June 30, 2026, this represents an annualized distribution rate of 24.2%.

As of July 31, 2026, our estimated range of the net asset value per common share was between \$9.56 and \$9.66.

I will now turn it back to Ujjval.

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 equity. The second quarter of 2026 saw the bifurcation across U.S. credit markets become more pronounced. Coming into the quarter, we had expected some continuation of the pickup in M&A-related issuance that began to build up in the first quarter, but that expectation was tempered by a Federal Reserve that has shelved rate cuts, an energy-driven inflation shock tied to the conflict in the Middle East, and continuing concerns around the AI-driven disruption in the software sector.

Against that backdrop, the new issue leveraged loan market proved more resilient than the macro headlines would suggest, as corporate borrowers stepped in to fill the void left by the pullback in sponsor-backed activity. U.S. institutional leveraged loan activity totaled about \$224 billion in the second quarter, down 7% from the first quarter, but still running 17% above the 5-year quarterly average. Most of that decline was driven by a slowdown in private equity dealmaking, with overall PE deal volume down 38% quarter-over-quarter, the lowest level in 2.5 years.

Sponsors, for their part, remain focused on balance sheet defense with nearly 75% of first half primary market deals related to extend and amend transactions as sponsors turn their attention to the 2028 maturity wall.

Market technicals also remained challenged during the quarter.

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Investor demand fell to the weakest reading since the fourth quarter of 2023, driven almost entirely by a broader pullback in CLO issuance which loan fund flows were insufficient to offset.

As a result, the market was left in a rough supply-demand equilibrium with a modest \$2 billion surplus.

While this marks a dramatic improvement from the nearly \$60 billion supply shortage in Q1, net new supply is still heavily skewed towards the higher-rated, lower-yielding credits. This compresses the spread differential and makes the arbitrage CLO equity investors require difficult to attain.

Against this backdrop, spreads widened meaningfully at the bottom of the credit spectrum, while remaining largely unchanged higher up.

In the broadly syndicated loan market, B- spreads widened by 55 basis points since the fourth quarter of 2025 to 409 basis points over SOFR, while BB- spreads and B- spreads moved by 5 basis points or less. Loan prices told a similar story. The average bid on performing software loans slipped to 85.62 by quarter end, down more than two points from March levels, while the broader loan index moved into positive territory, up 1.29%. The divergence reflects continued concerns around AI-driven disruption in the software sector which has reduced new software issuance to just 8.8% of broadly syndicated volume year-to-date, the lowest share since 2013.

CLO issuance slowed further during the quarter, with managers pricing \$33.3 billion across 72 transactions, the lowest quarterly volume since the fourth quarter of 2023, and roughly 20% behind last year's pace.

Issuance dropped to \$6.2 billion in April, before rebounding to \$16.8 billion in May and holding through June. Refinancing and reset activity, by contrast, remained a bright spot, with combined volume of \$93.7 billion, well above the \$56.2 billion in the first quarter, as managers increasingly rolled maturing deals into refinancing and reset trades rather than fully liquidating structures.

Looking ahead, the direction of credit markets in the second half of 2026 will likely depend on a recovery in private equity dealmaking which remains the primary engine of net new loan supply, as well as on how interest rates, geopolitical developments, and AI-driven disruption concerns evolve from here. Post quarter end, energy markets have begun to stabilize with a tentative U.S.-Iran peace deal bringing oil prices back below \$80 a barrel.

However a lasting resolution to the conflict has yet to be reached. Although pricing around the software space has not meaningfully improved from the beginning of the quarter, we believe that certain CLO managers and portfolios are better positioned than others to manage the risks presented by the increasing impact of AI.

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On loans with shorter maturities, we are beginning to see positive signs of amend and extend activity which has the potential to increase yield in underlying CLO collateral portfolios and to improve the arbitrage available to CLO equity. Companies have begun tapping both public and private markets to fund artificial intelligence spending which we believe will increase loan supply for CLO portfolios in the second half of 2026 and beyond.

On the other side of the CLO balance sheet, funding costs remained broadly stable during the quarter, with average AAA coupons around 124 basis points over SOFR, though top-tier managers continue to price meaningfully inside bottom-tier managers.

We believe this continues to support the refinancing and reset optionality across our portfolio as we move through the remainder of 2026. From a portfolio management perspective, we continue to sell CLO equity with limited near-term optionality and greater downside risk while adding better quality secondary investments. This portfolio rotation is expected to increase our risk-adjusted yield. The secondary equity market continues to offer much better investment opportunities than primary due to compressed arbitrage in that market.

We feel the arbitrage for primary equity will improve over time and we remain ready to participate in that space, given our strength in sourcing, structuring, and credit underwriting.

While we expect the volatility to continue in our space, we are seeing some improvement in market sentiment around CLO equity, with prospects for increased cash flow from loan spread improvement and liability refinancing.

With that, we thank you for your time today and will now open the call up to questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions) Your first question comes from the line of Gaurav Mehta with Alliance Global Partners. Your line is open.

Please go ahead.

Gaurav Mehta^ I wanted to ask you on the new dividend rate of \$0.13 per month. When you got to that number, I guess what kind of factors you considered given that that number is still higher than the NII that you guys reported for this quarter?

Ujjaval Desai^ So yes, in terms of the distribution rate of \$0.13 per share, obviously a lot of factors go into that.

As I mentioned in my remarks, some of the factors that are quite important there include the portfolio mix today kind of our expected yields going forward, as well as portfolio rotation that we are doing in the portfolio already.

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So just to give you the different components of that, as I mentioned, we're seeing some signs of loan spreads improving which is very helpful because that obviously goes straight to the bottom line for CLO equity.

Also we continue to do resets and refis of our portfolio.

As I mentioned, we've done 13 transactions in this last quarter, and we have a table in our presentation that you've seen which outlines the existing mix of our portfolio in terms of how many deals can be reset, refinanced over the next few quarters.

And there's a substantial portion of the portfolio can be refinanced tighter. That also helps improve the portfolio yield going forward. And lastly, the trading activity we mentioned. Just to put some numbers around that, we have traded year-to-date in this SPMC portfolio.

We have sold around \$35 million and purchased around \$50 million of secondary positions.

And that rotation has been very accretive.

We have added about 100 basis points of yield through that rotation.

Now those are the three components that we considered in figuring out what the go-forward portfolio yield would be. You've already seen some uptick in the portfolio yield.

As we reported, had about 9.1% in the previous quarter.

The yield is now 9.8%. And then for July, we're seeing current go-forward yields around 10.1% of the portfolio.

So there is some improvement in the yield which over time we think will result in higher NII for the portfolio. And that is what we considered in coming up with a number. A lot of variables that go into that, but those are some of the key variables we looked at.

Gaurav Mehta^ All right, thanks for those details.

Second question, can you maybe provide some color on how much exposure do you guys have to the software sector that's impacted by AI and how do you plan to manage that exposure?

Ujjaval Desai^ Yes. So that's obviously a very topical question, and we've been very focused on AI exposure since the concerns came up earlier this year. Roughly, I would say about 10% to 12% of the portfolio is going to be exposed to software credits. This is on a look-through basis. And the reality is that not all these credits are the same. You have to really go in and look at the underlying portfolio, the underlying credits, and try to figure out which subsector they're in.

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As we mentioned on our previous call we have conducted extensive analysis, a credit-by-credit re-underwriting of our portfolio to identify which names are likely to be impacted going forward, and we have used those credit underwriting results to then make trades to the portfolio to try to reduce risk to the most impacted AI names.

So at the overall sector level, we're more concerned about the individual names, not the sector exposure itself.

So the sector exposure might still stay in that 10% to 12% range, but the goal has been to reduce the tougher names within that sector so that we have less tail risk in the portfolio going forward.

Gaurav Mehta^ All right, thanks for those details. That's all I had. Thanks.

Operator^ Your next question comes from Eric Zwick with Lucid Capital Markets. Your line is open.

Please go ahead.

Erik Zwick^ Maybe first of all, just start with a bit of a follow-up on Gaurav's question on software. You mentioned in your comments that I think year-to-date for new CLO issuance, the share of software was 8.8%, if I got that number down right, lowest level of software since 2013. Just to put that into context, what was that percentage over the past two or three years, how much higher was that?

Daniel Fabian^ I will have to get that number for you in the previous year, so I'll follow up with you.

But it's obviously significant, right? I mean just looking at the typical portfolios, 10% to 15%.

So my guess is the new issue market was probably in that 15% to 20% range, but we'll have to get back to you with the exact number.

Erik Zwick^ Yes. That makes sense. Yes. That ballpark is good. Thank you. And just thinking about your priorities going forward, you mentioned the secondary market continues to offer some opportunities, although volume is a little bit lower. Your cash position has built up a little bit, I think \$21 million at the end of the quarter.

So how are you just thinking about the opportunity between new investments and additional CLOs for relative value opportunities versus maybe paying down the revolver a little bit. Just kind of curious how you're thinking about capital deployment here in the near term.

Ujjaval Desai^ Yes. I think that's a great question.

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We are very much focused on this rotation trade, try to reduce risk in the portfolio and also boost yields going forward.

So the first leg of that is obviously doing the actual sales of deals that we want to sell out of the portfolio. And then we line up purchases that make sense.

So there's usually a delay in deploying that capital.

We want to be careful around the deployment, so we will take the time needed to do that. And you're right, we have about \$21 million of cash, and depending on market opportunity, we will deploy that in better quality, high-yielding investments. And we're seeing plenty of opportunities in the secondary market right now at mid-to-high teens type of yields. These are good, strong deals, and so there's plenty available, and we are being very careful, but we're looking at the market every day to try to find the best opportunities there.

I think the focus again has been exclusively on secondary investments.

Primary equity returns are still not that great because the arbitrage doesn't look very healthy in new issue equity.

We think new issue equity returns are probably in the high single-digit level, sort of 8%, 9% type of returns, while secondary equity, as I mentioned, can be high teens. And so there's a significant pickup in secondary versus primary. And so that's really the focus.

In terms of your question on liability management, we're obviously watching that very carefully, and we will evaluate how much leverage we can sustain.

And as you know we have this revolver at the top which can be paid down and then reused, drawn when we need to, and so we are carefully managing that.

Erik Zwick^ Thank you.

I appreciate all the detail there. And just last question for me, looking at the realized losses in the quarter, I think you mentioned the investments that you chose to sell had lower optionality going forward and less attractive. Maybe just describe those, that the reinvestment periods were nearing their end, or was there other factors? Maybe just a little bit more color there would be helpful.

Ujjaval Desai^ Yes. Sure.

So as you know if you look at our weighted average investment period for our portfolios, it's pretty long, it's among the longest in the market.

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So we don't have too many investments that are nearing the end of the reinvestment period. These are still deals that have three years or so left in their investment period.

So that wasn't the concern.

It's really just two types of deals.

It's going to be either deals that we think are too tight from a yield perspective, based on the cash flow generation on a go-forward basis.

If we feel that the price at which we can sell it is pretty strong, then we would do that and rotate into higher-yielding investments. The second type of trade would be deals where we're concerned about the portfolio quality deteriorating from here. And that could be a combination of reasons.

It could be manager underperformance.

We very carefully evaluate managers on a monthly basis. And so if you start to get concerned, it could be that.

It could be our view on the underlying credits. Maybe it's some of the software names.

And if we have a negative view on some of them, and if that has a material impact on future cash flows, then certainly that's another reason why we'd want to sell from these.

So those are the two reasons. And on the flip side, when we're looking to buy something, again we're trying to find the best quality candidates we can get.

In almost all cases, we're able to pick up on the base yield in our base case scenario, significantly protect in the downside scenario in case defaults pick up.

What we are buying now is going to do extremely well compared to the stuff we are selling.

And that rotation, that pickup of value in the tail scenarios is also a very important consideration as we think about the relative value trades here.

Erik Zwick^ Very helpful. That's all for me. Thanks for taking my questions.

Operator^ Of course. Thanks, Eric. Your next question comes from the line of Timothy D'Agostino with B. Riley Securities. Your line is open.

Please go ahead.

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Timothy D'Agostino^ Helpful commentary on primary versus secondary market and then on software.

It seems that you're going to keep the industry exposure to like 10% to 12% and just trim exposure to individual names.

I guess stepping away from software and just looking at other underlying industries, is there anything you're leaning into or you see value that's worth going after?

Ujjaval Desai^ Yes. I think we certainly prefer defensive sectors, right? Less cyclical sectors where there is better value going forward.

So I think when we look at that, we talk to all our managers and try to identify those sectors, and the sector mix changes all the time.

So things like cable or healthcare, things like that, those tend to do quite well. The tougher sectors being the cyclical ones, it's going to be oil and gas is a concern these days.

And then you got the software sector as well.

So those are some of the concerns, some consumer sectors as well which we run away from.

But I think again at the end of the day it's really, for us, talking to all these managers that we invest with, keeping track of where they're seeing value and where they're seeing concerns, and then managing our portfolio according to that.

So that's really the approach we take.

Timothy D'Agostino^ Okay understood. And just a second one from my end. Regarding the fee waiver, in the press release it talked about it going to the end of calendar year 2026.

I guess looking at 2027, is there a possibility of that agreement to be extended, or is it really just for that set period? Thank you.

Ujjaval Desai^ Well yes, I mean obviously we can't predict.

I think the main thing here is the reason for that fee waiver, right? It's really us being proactive in trying to signal to our investors that, look, we are fully aligned.

We appreciate that the market has been very difficult over the last year, year and a half, probably the worst it's been for CLO equity as far as I can remember, from real credit cycles like the '08-'09 financial crisis. And so we recognize that there is spread compression which has resulted in significantly lower cash flows on CLO equity.

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And as a result, our income has gone down as well.

So our focus right now is really on reducing expenses in the structure while we work to improve the income of the portfolio. And so as we do that, the best way to get ourselves in a stronger position would be to cut our fees for the 6-month period.

We think that's how long it could take for us to finish our rotation, obviously market conditions permitting. And if we can do that and we can get to a position where we can earn our dividend, right?

So the NII of the portfolio kind of needs to get to that \$0.13 type of level which is what we're trying to do. And so that's why we have set this timeframe for the waiver.

We will review it at the end of the year and see where we go from there.

But I think that's just, again trying to be proactive, and we're not just focused on fees, but also other expenses as well and trying to make sure that we tighten the belt as much as possible so that we can have the most amount to flow to shareholders.

Timothy D'Agostino^ Okay. Thank you so much for the color.

I appreciate you taking the questions.

Operator^ Of course. Thank you. There are no further questions at this time. This concludes today's call. Thank you for attending.

You may now disconnect.