

FSCO Script – Q4 2025 Earnings Call

I. Introduction (Blum)

Hello and thank you all for joining us for FS Credit Opportunities Corp.'s fourth quarter 2025 earnings conference call. Please note that "FS Credit Opportunities Corp." may be referred to as "FSCO", "the Fund" or "the Company" throughout the call. Today's conference call is being recorded, and an audio replay of the call will be available for 30 days. Replay information is included in a press release that FSCO issued on February 6, 2026. In addition, FSCO has posted on its website a presentation containing supplemental financial information with respect to its portfolio and financial performance for the quarter ended December 31, 2025. A link to today's webcast and the presentation is available on the Company's webpage at www.futurestandard.com under Investor Relations. Please note that this call is the property of FSCO. Any unauthorized rebroadcast of this call, in any form, is strictly prohibited.

Today's conference call includes forward-looking statements with regard to future events, performance or operations of FSCO. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements. We ask that you refer to FSCO's most recent filings with the SEC for important factors and risks that could cause actual results or outcomes to differ materially from these statements. FSCO does not undertake to update its forward-looking statements unless required to do so by law. Additionally, information related to past performance, while helpful as an evaluative tool, is not necessarily indicative of future results, the achievement of which cannot be assured. Investors should not view the past performance of FSCO, or information about the market, as indicative of FSCO's future results.

Speaking on today's call will be Andrew Beckman, Head of FS Global Credit and Portfolio Manager for FSCO, and Nick Heilbut, Director of Research of FS Global Credit and Portfolio Manager for FSCO.

Following our prepared remarks, we will conduct a Q&A session.

I will now turn the call over to Andrew.

II. Opening Comments (Beckman)

Thank you, Josh, and thank you all for joining. We are pleased with the results we delivered for our shareholders during the fourth quarter of 2025 across several key fronts:

- First, FSCO delivered a net return of 1.69% based on the Fund's net asset value, bringing the net total return for 2025 to 10.89%, outperforming senior secured loans by 499 basis points and high yield bonds by 239 basis points. It is worth noting that the portfolio remained highly weighted to first lien senior secured loans throughout the year, representing approximately 83% of the portfolio's fair value as of December 31, 2025. The Fund paid distributions of approximately \$0.20 per share during the quarter compared to net investment income of \$0.12 per share, resulting in NAV depreciation of \$0.08 per share. While contributors significantly outweighed detractors during the quarter, the Fund's exposure to the second-lien term loan of MBS Services Holdings, a North American studio operating and production services company, was the largest detractor during the quarter. The company has experienced weakness in its operations amid the broader slowdown in film and television production.
- Second, the Fund continued to deliver an attractive monthly distribution. As of February 20, 2026, the annualized distribution yield was 11.4% based on NAV and 14.6% based on market price. Following year end, the Fund declared and paid monthly distributions of \$0.0678 per share for January and February in 2026.
- Third, the Fund deployed \$182 million in the fourth quarter, bringing total investment activity to \$541 million in 2025 – with both figures excluding portfolio hedges and unfunded commitments. We continued to benefit from our robust

deal-sourcing engine, which includes our team- and firm-wide origination network and our private sourcing partnership with J.P. Morgan to finance directly originated investments.

- Finally, on October 21, 2025, the Fund completed the issuance of \$200 million of fixed-rate term preferred shares, consisting of \$50 million due in 2028 and \$150 million due in 2030. Proceeds were used to refinance preferred shares maturing in 2025 and 2026. This represents the Fund's 6th and 7th term preferred issuances since its listing in November 2022. We believe our continued access to the capital markets and the favorable pricing reflect both the portfolio's strong credit quality and the market's confidence in our strategy and management team.

Given the sharp selloff in the software sector in recent weeks, we thought it would be helpful to provide context on FSCO's portfolio and our perspective on recent market movements. FSCO's Software & Services exposure was 8.8% as of December 31, 2025, and was well diversified by position size, with no single investment included in the Fund's Top 10 holdings at year-end. Our approach remains focused on mature, cash-flow generative businesses with defensible business models.

While software appears to have been treated as single category amid the current selloff, we believe outcomes will diverge meaningfully over time. In our view, the most at-risk segments are companies with limited differentiation and low switching costs such as lightweight workflow tools, collaboration apps, commoditized dashboards, and seat-based productivity overlays. In these segments, AI-native competitors can replicate functionality quickly, increasing competitive pressure.

Conversely, we believe the most defensible segments include deeply embedded systems of record, security and control layers and vertical software with extensive

integrations and compliance-driven switching costs. In these categories, AI is more likely to be layered onto incumbent platforms than to replace them outright, reinforcing the durability of established providers.

I'll now turn the call over to Nick to provide our perspective on the markets and discuss our investment activity during the quarter.

III. Market Overview & Investment Activity (Heilbut)

Thanks, Andrew.

High yield and leveraged loan markets delivered modest gains in the fourth quarter of 2025, though performance was increasingly defined by sector dispersion and a more cautious investor tone into year-end. High yield bonds returned 135 basis points in December, bringing full-year gains to 8.50%, with BB-rated credits leading performance and spreads tightening to three-month lows amid a dovish Fed backdrop and resilient corporate earnings.

Leveraged loans gained 5.90% for the year, though performance lagged high yield, particularly in the software sector, where spreads widened sharply and returns turned negative. Credit fundamentals remained broadly stable, with default volumes subdued and concentrated in a handful of issuers. However, recovery rates declined to multi-year lows, with trailing 12-month recoveries falling to 26.8% for high yield bonds and 34.8% for loans—well below their 25-year averages—reflecting a rise in liability management exercises and distressed exchanges. Market technicals were supported by strong demand from CLOs, which helped offset outflows from traditional mutual funds and ETFs.

Private credit market activity remained strong heading into year-end. While the following figures reflect sponsor-backed transactions only, they underscore broader momentum across private credit. U.S. sponsored lending rose 21% quarter-over-quarter to \$105 billion driven by a strong rebound in buyouts, add-on M&A, and dividend recapitalizations as improving rate visibility and stronger public markets unlocked pent-up sponsor demand.

Pricing continued to compress, though relative value across segments remained intact. Large cap spreads tightened to SOFR plus 493 basis points, while core and lower middle market spreads ended the quarter at SOFR plus 503 basis points and 513 basis points, respectively.

Covenant discipline remains a key point of differentiation across the market. Covenant-lite structures continued to migrate higher in 2025 but remain concentrated among larger issuers. In 4Q25, covenant-lite terms were still rare for borrowers below \$50 million of EBITDA, while issuers above that threshold—particularly those with \$100 million-plus EBITDA—accounted for the majority of covenant-lite issuance. Larger borrowers continue to benefit from heightened competition between private and public markets, whereas we see more robust covenant packages in the lower middle market.

Turning to our investment activity during the quarter, we continued to favor private credit, where we see more compelling relative value than in public markets.

Approximately 90% of new investment activity was in privately originated investments, 97% of which were in first lien senior secured loans.

Originations were strong in the fourth quarter, supported by our robust sourcing network. This includes direct sponsor coverage, non-bank intermediaries, incumbent

borrowers, bespoke non-sponsored deal flow, and our sourcing partnership with JP Morgan.

We made 5 new private credit investments in the fourth quarter, weighted to lower and core middle market companies, which we believe represents a competitive sweet spot. These businesses are of meaningful scale and domestically focused yet often overlooked by larger credit managers due to their size and balance sheet profile. Because these companies often fall outside the standardized criteria of traditional bank lenders, we can generally negotiate favorable terms and structure investments that mitigate downside risk.

All new originations during the quarter were in sponsor-backed businesses. Within sponsored lending, we do not compete against the large, direct lending funds and, instead, lend to small or emerging sponsors where there is typically less competition and greater potential to capture a yield premium. In 2025, approximately 68% and 32% of our private credit originations were in sponsored and non-sponsored deals, respectively. Non-sponsored lending opportunities comprise a wide range of borrowers that, in most cases, have never accepted outside capital. This includes multi-generational, family-owned businesses, sole proprietors or other tightly held businesses. We favor these types of investments because there is often a strong ability to control deal terms and create highly structured investments to protect our downside.

In 2025, we originated 19 new private credit investments at a weighted average spread of SOFR plus 661 basis points. Approximately 95% of these investments included one or more maintenance covenants. By contrast, approximately 90% of the broadly syndicated loan issuance in 2025 was covenant-lite, meaning loans that typically lack maintenance covenants.

When considering the excess spread we earn over those markets, plus the covenants and other negotiated protections we've discussed, we believe the Fund is well positioned to deliver strong risk-adjusted returns for clients.

Sales, exits and repayments totaled \$253 million during the fourth quarter, compared with purchases of \$182 million. We have actively deployed excess liquidity from these sales and repayments into an attractive investment pipeline of private credit deals in the first quarter of 2026.

As of December 31, 2025, private credit investments represented approximately 75% of the portfolio based on fair value. Approximately 90% of the portfolio consisted of senior secured debt. First lien loans represented 83% of the portfolio, second lien loans represented 4% while senior secured bonds represented 3%. Unsecured debt and asset-based finance investments each represented 2% of the portfolio while equity and other investments represented 6% of the portfolio. All metrics are quoted on a fair value basis.

Turning to the liability side of our balance sheet, we believe our cost structure gives us a competitive edge with approximately 58% of drawn leverage as of December 31, 2025, comprised of preferred shares, which provide favorable regulatory treatment vs. traditional term and revolving debt facilities and flexibility in the types of assets we can borrow against.

I'll now turn it back to Andrew to discuss our forward outlook.

IV. Outlook (Beckman)

Thanks, Nick.

We believe our portfolio is built for long-term durability. We believe active management combined with disciplined fundamental credit underwriting remains essential for generating returns while managing risk. As we originate new investments, we carefully evaluate each opportunity for potential risks related to tariffs or broader geopolitical and economic uncertainty. We believe FSCO offers a differentiated value proposition designed to deliver strong risk-adjusted returns across diverse market and economic environments, supported by several factors:

- First, we target businesses with strong cash flows, modest leverage and seasoned management teams with deep operational experience navigating market cycles. We invest in credits with appropriate loan-to-value ratios to help ensure repayment even in a more pronounced economic slowdown. Our sector allocations are guided by our bottom-up fundamental research, and we generally avoid highly cyclical segments of the economy.
- Second, we remain focused on senior debt investments that offer strong structural protections and attractive yields or expected total returns. We generally avoid lending to private equity-owned companies that contain heightened risk of asset leakage or potential lender disputes. We are also cautious of credits with aggressive EBITDA add-backs that may not materialize and, instead, view free cash flow as a more reliable indicator of credit quality.
- Third, we compete primarily in the lower and core middle market, where we believe the risk/return profile is most attractive—typically offering higher spreads, lower leverage, and stronger documentation than large-cap transactions. Unlike

many smaller managers in this space, we bring the resources, infrastructure, and discipline of a large platform, which in our view allows us to originate, underwrite, and manage investments with greater scale and rigor. By focusing our private allocations in this segment, we seek to capitalize on inefficiencies and deliver superior risk-adjusted returns.

- Finally, our ability to invest across private and public markets differentiates us from traditional credit funds and allows us to adjust allocations based on where we see the most compelling risk-adjusted return opportunities. Our goal is to dynamically allocate capital to the most attractive opportunities across the credit and business cycle, and we think this leads to enhanced stockholder returns relative to a more confined strategy. Importantly, we are not constrained by a specific asset class mandate.

In summary, we believe FSCO, supported by the resources and insights of our broader credit platform, is well positioned to deliver strong, risk-adjusted returns across a wide range of economic and financial market conditions. The Fund's performance during the fourth quarter reinforced that view.

Once again, thank you all for joining us today.

With that, we will take a brief pause before answering questions.