Conference Call
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Mike Mauer: Thank you, operator. Good afternoon everyone. I'd like to thank you for joining us today. With me today are Chris Jansen, my co-chief investment officer, and Jai Agarwal, our CFO. Before we begin, Jai will first discuss some general information and comment on forward-looking statements. Jai?

Jai Agarwal: Thanks, Mike. I'd like to remind everyone that today's call is being recorded. Please note that this call is the property of CM Finance Inc and that any unauthorized broadcast of this call in any form is strictly prohibited. Audio replay of the call will be available by using the telephone numbers provided in our press release announcing this call. I'd also like to call your attention to the customary Safe Harbor disclosure in our press release regarding forward-looking information. Today's conference call may also include forward-looking statements and projections, and we ask that you refer to our most recent filing with the SEC for important factors that could cause actual results to differ materially from these projections. We will not update our forward-looking statements unless required by law. To obtain copies of our latest SEC filings, please visit our website at www.cmfn-inc.com. This time, I'd like to turn the call back to our chairman and CEO, Mike Mauer.

Mike Mauer: Thank you, Jai. I'd like to start with a few comments on our portfolio activity and our pipeline. We continue to see a large number of opportunities in the lower and core middle market, and our pipeline is solid there. That said, over the past several months, we have found several opportunities in club transactions and isolated secondary markets where we believe value has been compelling. I'll go into more detail on our new investments later on. At the same time, within the syndicated loan markets, we saw increasingly similar terms from new issues with nearly identical leverage multiples,covenant light documentation, and long maturities, especially for new second lien loans. We clearly see this market as very aggressive on an overall basis.

Origination of quality investments is perhaps the biggest differentiator for business development companies. Broadly speaking, we have three types of transactions we evaluate for prospective investments. There are syndicated transactions.As a potential participant in a transaction,we have limited influence over the terms and timing, and the lead bank controls those allocations. However, there's a very high likelihood of execution, and there is some secondary liquidity after a deal closes. In smaller syndications, these transactions may more closely resemble club deals. Not all syndicated loans are created equal, although candidly most of them are very similar and not that interesting from our perspective.

The second type of transaction is the secondary trade. We constantly monitor the debt markets for investment opportunity. In some cases, we like a company on a fundamental basis but do not like the yield offered in primary syndication. In others, we're very interested when we first dig into a transaction, but we need further evidence of company performance. Other times, secondary trading levels present compelling relative value versus peers or yield for a similar risk which is not available in the primary market. These transactions are seasoned, so we have a longer history of company results as a levered borrower to review. When we look at the secondary, we know the structure of the investment is set, and we thoroughly analyze the documentation as part of the investment decision. When we trade in the secondary, we are disciplined about how much capital we deploy, at what price and what yield.

The third and core to our portfolio strategy, is the directly originated opportunity. These are potential investments in middle market companies in which we are, either by ourselves or in conjunction with a small club of lenders, providing the capital directly to borrowers. Some of these investments are in competition with our peers. We have a high degree of control over the terms we offer the company which leads to better yields and structures for these investments. However, the contemplated transactions may not take place when we expect them to or at all, or another lender may be selected instead of us. The tradeoff is a far lower hit ratio on these new investments, but on balance investments we are very happy to have an opportunity to invest in.

With that background, over 80 transactions have made their way into our pipeline since the end of the March quarter. As always, there are deals which we screen which do not even merit inclusion in this tally. We have added five new portfolio companies during that same period of time. We take a lot of pride in our disciplined approach to investing our shareholders' capital.

During our fourth fiscal quarter, we participated in a syndicated club second lien loan to Physiotherapy Associates, added two investments in the secondary market in NexeoSolutions unsecured notes and Maxim Crane's second lien secured loan, and added to several of our existing portfolio companies. Post quarter end, we added one syndicated second lien loan to LanguageLine and one club deal, a first lien loan to Land Holdings. All told, we have five new portfolio companies.

During that same period, we exited our investments in Virgin America, Road Infrastructure, Nathan's, and Crestwood, and received repayments from CPG, BBG, Telular, and New Standard. Road Infrastructure, Nathan's, Crestwood, and Telular were all syndicated transactions.

As of June 30th, we had 26 portfolio companies. Today, we have 23. From a sector standpoint, we've made great strides in maintaining diversity in the portfolio and finding opportunities to invest with uncorrelated risk. Looking back to September 2014, our investments in exploration and production, midstream, and oil field services represented 25% of our portfolio fair value. As of March 31st, 2015, we had reduced our exposure to 19.2%. As of June, our exposure was 18.2%. Today, less than 14% of our portfolio is in this sector, and it's a smaller percentage of the portfolio than gaming and healthcare sectors.

I'll speak now about our investment realizations since the end of March, and I'll cover our new portfolio companies. On our last call I mentioned that our loans to CPG and BBG were likely to be repaid. Capitol Petroleum Group repaid in full in June at a significant premium for an IRR of 24%. The repayment of BBG actually slipped to July. We were repaid at a premium there as well, for a realized IRR of 22.5%. As you all know, we also sold our shares in Virgin America at an IRR of 80% on the equity investment subsequent to the IPO. During the fourth fiscal quarter, we also sold our investments in RoadInfrastructure. This was the smallest debt position in our portfolio as well as our lowest yielding second lien position. Our realized IRR was 4.5%. At the end of the quarter, our second lien loan to Telular was repaid at a premium of 101. Telular refinanced its second lien with incremental first lien debt and our realized IRR was 12.4%.

Subsequent to quarter end, in August, our loan to New Standard Energy was repaid at par. New Standard's assets in Texas, which were the basis of our security package, were sold to Sundance Energy, a public Australian company. Our IRR was approximately 15.8%. This repayment was one of the significant drivers to the reduction in our energy exposure in our portfolio since June 30th.

We also sold two of our positions in July. The first was Crestwood, a pipeline company. Crestwood's yield was significantly below our portfolio average, and we took advantage of the liquid secondary market to exit that position. Our realized IRR was 5.1%. Finally,we also sold Nathan's Famous. We only held 4 million of this investment, and while we remain quite positive around thecompany, Nathan's had traded up to yield below 8% versus the 10% at our cost. We sold at 106.75 for a realized IRR of 31.3%.

Now turning to our new portfolio company investments. I spoke about Nexeo Solutions, a diversified distributor of chemicals and plastics, on our last call. We're a holder of Nexeo's unsecured notes which mature in 2018. There is an asset based loan and a normal way first lien broadly syndicated loan ahead of us. There is no second lien in the capital structure, and there's significant equity below it from TPG.

We purchased a position in Maxim Crane's second lien term loan in the secondary market. Maxim is an equipment rental and service provider with the largest fleet of mobile cranes in North America with over 1,250 cranes. We take comfort from the significant collateral value of its fleet, its broad geographic footprint, and the strength of its underlying customer base.

During our fourth quarter, we also participated in Physiotherapy's new second lien term loan. While the first lien was a syndicated transaction, the second lien was done with a small group of lenders. Physio is the largest pure play provider of outpatient physical rehabilitation services in the United States. We think there are a lot of positive trends in this sector and for the company.

After quarter end, we added two additional portfolio company investments. First we participated in LanguageLine's second lien term loan. LanguageLine is the largest provider of over-the-phone language interpretation services. A significant portion of the business is driven by regulation and legal requirements to provide services to non-English speakers. ABRY is the sponsor. Lastly, we bought into a club deal for Land Holdings. This is a project finance loan to build the Scarlet Pearl Casino in Mississippi. We're one of a handful of investors, so while this was a secondary purchase, it is a club deal. All told, there has been a lot of activity in our portfolio over the past five months. We believe actively managing the portfolio helps differentiate managers.

As of our fiscal year-end, June 30th, the fair value of our portfolio was $330 million. We continue to maintain a balance between our first and second lien investments with approximately 50% of the portfolio first lien, 47% second lien with the remainder in unsecured bonds, equity and warrants. Our target for portfolio leverage is 0.6 to 0.7 times. As of March 31st, we were at 0.58 times leverage. As of June 30th, we were 0.71 times leverage. Of course, in July, we fell back in our target leverage with therepayment of BBG. The weighted average yield on our debt and income-producing securities at cost decreased from 11.2% as of March 31st to 10.91% as of June 30th. This decline was driven largely by our decision to increase first lien investments, including participation in an incremental loan to AP Gaming where we take great comfort from significant equity coming in along with the additional loan. AP Gaming is now our largest single position. In addition, the repayment of CPG, which had a yield of 14.8%, contributed to the decrease in our average yield.

As we consider our pipeline, we have a significant number of directly originated senior secured loans to middle market companies that we are evaluating. We remain primarily focused on direct origination. We are continuing to track several transactions in the secondary market where we think there may be attractive opportunities to invest. We think our investment team's diverse background in middle market lending, stressed and distressedinvesting, and our relationship with Cyrus Capital gives us a real advantage versus many of our peers in terms of finding dislocated credit and generating alpha through investments through this channel.

During our fourth fiscal quarter, we earned our full base and incentive management fees. Based upon our current portfolio, we expect to continue to fully earn our base management fee, and we'll earn a significant portion of our incentive fee during the first fiscal quarter which ends September 30th. Additionally, we continue to have an active dialogue with the SBA regarding our application for the SBIC license. We are scheduled to submit an updated application within the next 45 days. With that, I'd like to turn the call back to Jai to review our results for our fiscal year.

Jai Agarwal: Thanks, Mike. Our net investment income for the quarter was $6.3 million or $0.46 per share. Our aggregate net realized and unrealized losses were 1.6 million or $0.12 per share. The weighted average yield at cost on our debt portfolio was 10.91%. Our debt portfolio was comprised of 88% floating rate and 12% fixed-rate investments. Our average portfolio company investment was approximately 12 million and our largest portfolio company investment was 29 million. Additional information regarding the composition of our portfolio is included in our form 10-K filed yesterday.

With respect to our 50-million financing facility, we had 49 million borrowed at quarter end and 43 million as of today. We have 7 million available under this facility and over 10 million in cash as of today. Our investment portfolio today is approximately $320 million with a weighted average yield at cost of approximately 11.0%.And with that, I will turn the call back over to Mike.

Mike Mauer: Thanks, Jai. We're very proud of our performance over the past fiscal year. We have no loans that are on nonaccrual. Our underwriting is focused on management, capital structure security, and covenants for the protection and preservation of our shareholders' capital. While the current capital markets present a number of challenges, we will continue to actively manage the portfolio to find the best investment opportunities for our shareholders. With that, operator, I'd like to open the lines for Q&A.

Operator: Ladies and gentlemen, at this time, we will collectthe questions. If you would like to ask a question, please press *1 on your phone now, and you'll be placed into the queue in order received. At any time, you may press # to remove yourself from the queue. Once again, to ask a question, please press *1 on your phone now. Our first question comes from Robert Dodd from Raymond James. Please state your question.

Robert Dodd: Hi guys! A couple of housekeeping ones first - on Telular that was after the end of the quarter, was that a sale or a repayment?

Mike Mauer: That was a repayment, Robert. The IRR on that was 12.39%,realized.

Robert Dodd: The income from that will show up in this[Unintelligible]quarter.

Mike Mauer: Yes. There are three that were repayments post quarter end – BBG, Telular, and New Standard.

Robert Dodd: Right. Got it, and then Nathan's which was a sale that will result in a realized gain. Right?

Mike Mauer: Yes. That will be it.

Robert Dodd: Got it.

Mike Mauer: Yes.

Robert Dodd: A couple of things on obviously the portfolio and capital availability, obviously leverage at the end of the quarter up a little bit from where it was last quarter,where's your comfort level there?Given there are obviously a lot of first lienand senior secured in the portfolio, so what's your comfort level on leverage going forward?

Mike Mauer: Our comfort level is in that 0.7 to 0.8 range given our security position that we've got and we continue to focus. We'll have a little bit that is not secured. Today, it's less than 5%. I think anything in that less than 10% is a fair assumption. We will continue to have some more liquidity available. I would not be surprised if LightSquared repaid in the next 60 days. It's going through the court process,so that's out for public consumption, but I would not be surprised if that repaid. There won't be any large gain on repayment there, but it will create additional liquidity. That is one loan that we do not use in our leverage facility either, so it's 100% cash when it comes back.

Robert Dodd: Got it. Got it, and then just concentration-wise, obviously with American Gaming now, there's 9% portfolio, 15% assets [Unintelligible] but a $30 million loan.You have a number of pretty sizeable positions except with Nathan's.It's pretty small, so you've exited that. What's your view on how diversified – what's your target number of assets you'd like to have and do you expect, over the next 12 months, to diversify that or just going to be completely opportunistic and your whole position is flexible on that basis?

Mike Mauer: Not to cop out, but all of the above.

Robert Dodd: [Laughter]

Mike Mauer: Listen, there's no doubt that 30 million is a large position, and I think that something around 10% plus or minus is, from a hold perspective, as large as we want to be in a single position. We wouldn't want to have three in that size. We take a lot of comfort. We are first lien. We are well secured. It's at a low leverage. It's got approximately 40% equity in it, and it's got a large sponsor who knows the gaming sector as well as anyone out there in Apollo. There are a lot of reasons why we like that piece of paper, and on top of which, it's got a little bit of liquidity in it so that if we want to, we can manage that position and create some liquidity for ourselves and to other names opportunistically, et cetera. That's one thing.

The second thing is from a diversification, we've been running I'll call it low 20s to high 20s as far as the number of investments over the last year. I'd expect this to be running in that 25 plus or minus. If we got to 35, I'd be surprised barringsome injection of capital and given the secondary markets for stock, I don't see that coming anytime soon. At the same time, we probably have seven or eight investments that are 15 million or more. I'd say keeping that to 10 or less is probably around the right number. We don't want to see 70% of our investments starting to creep up into that 15 to 20 range.

Robert Dodd: Okay. Got it. Thank you.

Operator: Our next question comes from Greg Mason from KBW. Please state your question.

Greg Mason: Great. Good morning, guys. Thanks for taking my question. First on the energy side of the portfolio, really almost all of the energy investments were flat to up except AAR. That was written down in the quarter from 99% of cost down to 90. Just curious, if you could give us a little more color on AAR and particularly given that it went down while the rest of the energy went up for the Q2 mark.

Mike Mauer: Thank you, Greg. A couple of things, we started the quarter with five investments. We ended the quarter with five investments, but today, we're down to three investments in the energy sector. The two that we reduced were Crestwood because it was low yielding and liquid, and New Standard which was probably the one that, when you thought about volatility and exposure, was a very small E&P in a tough market.We were first lien secured, and we took a lot of comfort from being there and being able to manage that position. We actively worked with the company through the sale of those assets and repayment.

Around AAR, they are oil field services, broad business in the DJ Basin. They did experience some slowdown in the second quarter. We tend to be conservative around our fair value. We believe that that has stabilized. The company is working and developing beyond their core customer which is Noble, and Noble just over the last 48 hours came out and said that they're investing more in the infrastructure of the DJ, and that's what these guys do is build pipeline, gathering, and a lot of other oil field services. They also are working with Continental and EOG to expand those relationships, but given a little bit of slowdown and pre-stabilizing which it has, we tend to be conservative on our evaluations and we felt it prudent to mark that down a little.

Greg Mason: Then, just if you're able to give any third quarter updates on oil and gas – in the third quarter, oil has fallen from 60 right at the beginning of the quarter to now 45. We've seen these levels before but just wanted to see if you're willing to give any update on how you think the portfolio has changed from the June 30th mark to today.

Mike Mauer: I just finished speaking to thestabilization and the customers around AAR, there are two other names in the portfolio, U.S. Well which continues to perform well. We think we are extremely well secured there, and Antero is the major customer there that it's hedged out several years and continues to perform, and has built a pipeline recently that continues to basically depend upon that production that U.S. Well is supporting. We feel very good about that. Lastly, Caelus Energy has done a recent update. We talked to them within the last two weeks. The update there is that they continue to perform in the current price environment. We, based upon those discussions, believe that we are covered from a security standpoint by just the proved developed producing and the hedge value. They are over 90% hedged through this year and about two-thirds hedged the next two years off their production. That, again, is another Apollo equity name, a large experienced sponsor, committed to the long-term of that project, and they are taking the opportunity today to build out more infrastructures around the field they're developing, so we feel very good about that. That's AAR, I just finished going through them.

Greg Mason: Right, and then last question on the energy the Crestwood that you sold, it was held at 99 at quarter end.What did you sell it at?

Mike Mauer: The fair value of that was 9.371.We sold it for a realized amount of 9.207, so from a value down about $164,000.00.

Greg Mason: Okay. Perfect. Then, last question just you started out your commentary talking about the second lien market is a little more aggressive but you did you three new investments – Physiotherapy and Maxim Crane were second lien and Nexeo was unsecured sub debt, so can you just talk a little bit about the difference in those investments versus what with the commentary of not real positive on the second lien market overall but doing those investments?

Mike Mauer: Yes. I divided them into two buckets. The first bucket is new issue. Physiotherapy, I also said from a syndicated loan market, it's gotten very commoditized and aggressive. The second lien for Physio was really a club deal, and we were able to structure it as such and get compensated, so we felt good about that.

The second bucket I put it in is secondary trades as opposed to new issue. If you look at Nexeo and Maxim, from that standpoint, the yield on Maxim is over 10%. We understand that business. We did have some crane business. The interesting thing is that they deal with different sectors than TNT Crane, so we felt pretty good about that.

The last thing is on Nexeo – I'm sorry. Somebody just passed me a note that I do think is helpful. The docs, when I talked about aggressive covenants, Maxim is probably about a year and a half old, close to two years now, and so it's not going off the aggressive docs that we're seeing today. They're more reasonable docs.

Moving on to Nexeo, I mentioned earlier, TPG has over 400 million of equity in it. It's got a short maturity, less than three years left to run. It's got no second lien on it, and it's performing quite well.As an equity investment from a P/E, I think they're highly disappointed because they haven't grown the company significantly, but it hasn't deteriorated. It's been a great just stable performer, and it's an unsecured piece and it is a classic.We think where there are secondary markets that do not allow you to basically get this in primary and it trades off and you are able to do it. Our average cost on that is probably about 90, and today it's a 93 to 95 market. It's actually performed quite well, and that has some liquidity also, but that's one that - we actually like that a lot. Our yield at cost is just over 14%, and it's got great equity below and a great sponsor.

Greg Mason: I appreciate the comment. Thanks, guys.

Operator: Once again, ladies and gentleman, if you would like to ask a question, please press *1 on your phones now. [Pause] At this time, I have no further questions. [Pause] Would you like to give any closing remarks?

Mike Mauer: Just that I would like to thank everyone for dialing in. We appreciate the attention and the time, and we look forward to working with everyone in the future.

Operator: This concludes today's conference call. Thank you for attending.

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