**May Earnings Call**
**CM Finance**
**May 15, 2014**

Operator: Welcome to the CM Finance First Quarter Earnings Release Conference Call. Your host for today's call are Mike Mauer and Anthony Scire. Operator assistance is available anytime during this conference by pressing *0. A question-and-answer session will follow the presentation. I now would like to turn the call over to your speaker. Gentlemen, you may begin.

Michael Mauer: Thank you, Operator. This is Mike Mauer and I just like to say good morning, good afternoon to everyone, depending on where you're calling in from and thank you for joining us. Before I make my remarks, I'd like to ask Anthony Scire, our interim CFO, to discuss some general information and include a discussion about forward-looking statements. Anthony?

Anthony Scire: Thank you. 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.

At this time, I'd like to turn the call back to our chairman and chief executive officer, Michael Mauer.

Michael Mauer: Thank you, Anthony. I'm going to discuss current market conditions, our investment activity, the portfolio, and strategy before turning the call back over to Anthony to review our financial results. We'll conclude with the Q&A session.

As you are aware, the loan, high yield, and debt markets were strong in the first quarter of the year with substantial flows into the loan fund, CLOs, middle market funds, and high-yield funds. It's no secret that the conditions in the larger, more liquid capital markets affect the financing markets for all of us in the middle markets as well, albeit not as dramatically. From the beginning of the year, we saw increased leverage multiples, fewer covenants, and lower coupons with generally more aggressive structures. We've responded by being extremely selective in our new investments, remaining disciplined about the kind of loans we're underwriting, focusing our underwriting on credit quality and capital preservation.

Despite seeing compressing pricing and lower credit standards in the syndicated market, we have seen a number of attractive opportunities in our core addressable market. We also think that some of the pressure from the larger markets, on the middle markets has begun to abate. Recently, we have seen terms starting to tighten back up and pricing starting to widen. Our focus continues to be on seeing high quality investment opportunities to build a diversified book with attractive risk reward characteristics and cash flow yields to support our dividend.

Our pipeline is very strong. During our roadshow earlier this year, we targeted net portfolio growth of approximately 25 million per quarter with a range of 25 million to 50 million as we deploy capital. We are making very good progress with quality investments. Since December 31, we made nine investments including three new portfolio companies as of 3-31. We have 19 companies in the portfolio at quarter end, with the total fair value of 227 million. We grew the portfolio by approximately 23 million in the quarter and that's despite seeing significant refinancing activity, including what had been our largest investment in Endeavour.

I want to take a moment to talk about Endeavour. At year end, we had a $38-million investment in Endeavour's facilities. Just prior to our IPO in February, Endeavour refinanced into a new deal. We had a small realized gain on our original investment and reinvested 20 million in the new term loan in LC facilities. Since making the investment, we've reduced our 20-million position by approximately $8 million through repayments and sales with a small realized gain. We have no unrealized losses in Endeavour and we're comfortable with the underlying collateral coverage. We continue to think that it is a well-capitalized investment and a good return. We have approximately $12 million of loans outstanding to Endeavour today. The unlevered IRR to date over the life of Endeavour, including all refinancings, is 13.18% as of 3-31.

As I've mentioned, we think that the declining credit metrics and spread compression we saw in the first quarter in the broader market has started to reverse itself. Since quarter end, we closed on three new portfolio investments, totaling approximately $45 million. All three were senior secured loans and the average yield on these new investments was over 10.5% versus the 9.3% yield on all new investments in the first three months of the year. Our pipeline continues to support this trend with a number of opportunities yielding between 10% and 15%. Since the end of March, we participated in the refinancing of the new as well, rolling our $15-million exposure into the new deal for that company. The IRR of the new as of the refinancing was 10.39%.

We're very pleased with our progress since the IPO. We have built portfolios that will cover the 9% dividend distributions we've indicated at the outset as of today. We are well along our way to earning our base fee as of quarter end and continue to grow from there. As of the close of business yesterday, our portfolio was approximately $264 million. We continue to identify what we believe are attractive opportunities and we have a great pipeline going forward. We have no loans on non-accrual and over 99% of our portfolio is invested in debt investments. The weighted average yield is approximately 10.2% and that's what we believe as a conservative mix - about 93% senior secured, split approximately 50-50 between first and second lien. Going forward, we plan on staying focused on finding lending opportunities where we see the ability to earn appropriate returns for shareholders with good credit metrics, good structural protection, and sustainable capital structures. Prudent underwriting standards and the preservation of shareholder capital are paramount to us.

Finally, our board has declared a dividend of $0.3375 per share which will be payable on July 1 to shareholders of record as of June 16th. With that, I'd like to turn the call back to Anthony to review our results for the first three months of the year, our fiscal third quarter. Anthony?

Anthony Scire: Thanks, Mike. Our investment portfolio totaled $227 million on fair value basis as of March 31st. Our net investment income for the period from our IPO date, February 5th through March 31st, was $1.8 million or $0.13 per share. As you know, we declared and paid a dividend of $0.18 per share in March that equated to a pro-rated 9% annualized deal based on the IPO price of $15.00 per share.

As of March 31st, 2014, our portfolio included approximately 36% first lien debt, 46% second lien debt, 11% senior secured note, 6% unsecured debt, and less than 1% in warrants. The weighted average yield on our portfolio was 10.17%. Our debt portfolio consisted 90% floating rate and 10% fixed rate investment. Our average portfolio company investment was approximately $12 million and our largest portfolio company investment was approximately 20 million. Additional information regarding the composition of our portfolio is included in our Form 10-Q that was filed yesterday.

With respect to liquidity at March 31st, 2014, we had $35 million borrowed under our $50-million revolving credit facility. As of the close of business yesterday, we had no outstandings under the facility, leaving us with $50 million of availability to fund new investments as well as a cash balance of $12 million.

With that, I'll turn the call back over to Mike.

Michael Mauer: Thank you, Anthony. One other item of update we, in our roadshow, talked about in SBA and SBIC, we continue to work on our application with our outside counsel Sutherland's and we continue to target end of the year towards the first quarter of next year hopefully being in a position to have that life.

In conclusion, I'd like to reiterate our goals. We're dedicated to providing a steady consistent dividend with growth to that dividend for our shareholders. We invest with preservation of capital as our foremost concern. We take a patient disciplined approach to underwriting good capital structures with the focus on both the underlying companies we invest in and the structures of those investments. We think that this is the basis for a strong portfolio that will generate the best returns for our shareholders over the long term.

As a point of reference, we continue to target an overall portfolio unlevered yield of 11%. We are at 10.2% as of 3-31. We continue to think there are attractive opportunities. I mentioned the pipeline with several opportunities in the 10% to 15%.

With that, Operator, can we please open the lines for Q&A?

Operator: Ladies and Gentlemen, at this time, we will conduct the question-and-answer session. If you would like to state a question, please press *1 on your phone now and you will be placed into the queue in the order received, or press # at any time to remove yourself from the queue. Please listen for your name to be announced and be prepared to ask your question when prompted. Once again, to ask a question, please press *1 on your phones now.

Our first question comes from Robert Dodd from Raymond James. Please state your question.

Robert Dodd: Hi, guys. On the target yield, honestly, the yield in the quarter was down about 10.2 at the end of the quarter. How long, given your pipeline and the mix in that, how long, how many [quarters]? Obviously, a difficult question but how long do you think it would take you to shift your target, to shift the actual [Unintelligible] yield back up to that target yield? Frankly, do you think it's feasible to reach that level, given the market environment right now?

Michael Mauer: Great question, Robert. So I think there's a couple of components to that. One is in looking at our portfolio, you saw an average of about 9.3 for new investments that were going on. That was by design, and what I mean by that is we did not want to stretch for yield and sacrifice credit quality, so I think that goes to your question, is it practical to have the right quality and the right return? During our capital deployment and ramp-up period, we have and we will always veer towards the more conservative from an underwriting standard. What we did there was focus on several investments where we think there is some liquidity and the ability to redeploy that capital into higher yielding opportunities when we're not in a ramp-up phase and we continue to be selective in our underwriting standards.

From a standpoint of moving from an average yield of about 10.2 to 11, it depends obviously on the market, the opportunities that we have to invest in, and also and I think equally important on the non-voluntary refinancings that happen to our portfolio, some of our good investments as well as our ability to voluntarily turn over some of the lower yielding good credits that we think we have in there. All that being said, I would say that we should make a linear progress between where we are in 11% over the next six to 12 months. I think that six months would be aggressive and that would mean we're very fortunate in some of the things we're looking at, now that we're in this 12%-to-16% range, and I think the six- to 12-month target is a very realistic one, assuming a market that is consistent with the one we're in today and assuming that the pipeline continues to show us opportunities like the ones we have in front of us today. There are over half-a-dozen opportunities and I talked about 10% to 15%. I'm looking at our pipeline; the lowest one on there shows a range of 10% to 14%. That's probably a 12%. Everything else is 11% to 16%, and they're equally strewn across that spectrum.

I do not think that it's something you'll see us by August with an 11% unless the market changes and gives us an opportunity that will also have challenges, as we all know, if markets move that quickly.

Robert Dodd: Okay, great. Thanks. Just following up on some of the details you gave about the portfolio as of yesterday, 264 would say a net 38 million in deployment so far in the quarter. You started the quarter with 52 million in cash unrestricted, and that's I guess where the question comes in. That's like you started at 52; you've deployed 38 but you've also paid off the credit facility. Can you reconcile that for us? Has some of the restricted cash been freed up or is that still on top of the balance sheet, I guess?

Michael Mauer: You had unrestricted cash of 52 in the 10-Q. Today, we have repaid the credit facilities so today, we've got about 12 million plus or minus of cash and we have zero borrowings under the revolver.

Robert Dodd: Right, I get that but I mean let's say if you paid down that much, where did the funding for the 38 million net to grow the portfolio to 264 come from, I guess? Then on the third [Unintelligible]…?

Michael Mauer: So let me do this slightly different. We have a capital of approximately 200 million. We have a term loan of 76.5 million, and we have an undrawn revolver of 50 so at 264 million today, we've got 200 of capital drawn, which is our equity, plus we have 64 million of the term loan being deployed and we have 12 million of cash on the balance sheet.

Robert Dodd: Okay, got it. That is unrestricted cash on the balance sheet?

Michael Mauer: Yes. That is unrestricted.

Robert Dodd: Got it. Okay. Thank you, guys.

Operator: Once again, Ladies and Gentlemen, if you would like to ask a question, please press *1 on your phone now.

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

Greg Mason: Great. Good morning, Gentlemen. Thanks for all of the details here that you've given us. As we look at going to the funding side and potentially growing, can you tell us what your target leverage is on a debt-to-equity basis? if you had fully drawn the revolver today, the 76-million term plus 50-million revolver gets you to call it 0.6 that's equity but if your targets around there are a little higher, does it seem you'd need a little more revolving credit facility space? I wouldn't think you'd want to use every single last penny of that, so can you just talk about your target leverage and how you get there?

Michael Mauer: Sure. Our target leverage is approximately 0.7 and so I think, Greg, great question and spot on as far as all the numbers you threw at me. Our leverage, if we deployed 100% of that, is approximately 0.63 plus or minus, depending on how you're rounding some numbers there. We've had offered to us additional term and additional revolver. We are in discussion there. We are also in discussions with other parties, including one about additional non-mark-to-market term financing that is in the five- to seven-year term and that would be 50 million plus or minus. So we are looking at several options on ways to either increase our term financing, lowering any type of market risk around it, and increase our revolving credit and extend out those maturities, so I would not necessarily expect anything to be finalized during this quarter. I would expect that things around that would take into the end of the third calendar quarter or our first fiscal quarter. From a ramp-up and deployment, that works quite well.

Greg Mason: Okay, great. If I think about – you talked about the portfolio can earn the dividend here with where you've ramped up to. In your press release, you gave us the full three months of the quarter. Part of it was related to when you're private and part of it was related to when you're public. I think the public was $0.13 a share on a net investment income basis, $1.8 million. You have in there in the private side, you earned $2.4 million. Would it be reasonable to add those two together so that would be, by my math, kind of a $0.30 quarterly number, or is there something on the private side where that $2.4 million isn't necessarily apples-to-apples from when you were public?

Michael Mauer: Yes. I think that it's – and we've looked at that. I think that that is a little bit difficult to do and straight extrapolation. There's a little bit of noise around expenses pre- being public, and some expenses that are quite truthfully first quarter-oriented that are expenses. They're not organizational costs in the beginning, but the biggest thing affecting that is that our invested assets during the first quarter came into the quarter around 200 million, had payoffs in it that took them down at a load of 150-160 and then ramped back up to 227. We started the second quarter at 227; we're at 264 today. Our target is to be at 330 plus or minus and so the level of, number one, leverage that we were using in the first quarter was very low and, number two, not only was the leverage low but the drag because 76.5 million of the term loan is sitting there that had cash not deployed was there also. So it wasn't just lack of leverage; it was leverage plus carrying cost on cash not deployed. We have all but 12 million of cash deployed as of close of business yesterday. So I think that it understates because of principally the lack of use of leverage there.

Greg Mason: Okay, great. Then just as you look forward, are there any kind of sizable or notable repayments that you know about coming down the pipe here in the near term?

Michael Mauer: None that we know about there. The only thing that we are watching closely as far as our portfolio is that we did see a public announcement that ICA is tendering for one of its bonds out there and that they may be doing a financing, so we've not gotten a notice there but that's something we're looking at to see whether or not that could come out early. That is expected to be about a 10.5% yield through December. We structured this anticipating that it could come out early. This was a very, very small group. I think there are two or three of us that did this loan and to the extent it comes out early, it will just ramp up our return. We'll have to redeploy but you'll see the coupon on that is sub-10 but just to give you an actual number, if it were to come out call it June 1, the actual IRR will be north of 13%. But that's the only one that I'm watching at this point as far as material activity around the company and financing that they have announced or tendered as they've announced in the market.

Greg Mason: Okay, great. Then one last question just on the pipeline. Can you give us a sense for the source of the opportunities first sponsored or non-sponsored? Then second, are these more what I'll call syndicated or more liquid loans or are they proprietary "deals"? Just a little bit of color on getting to your ability to underwrite on the pipeline that's coming.

Michael Mauer: Sure. That's a great question. Thank you, Greg. From a pipeline - and it's an area that I know I'm not spending enough time on upfront and probably none of us that do these calls spend enough time giving you clarity – I talked about an excess of six deals that we think are reasonably high quality. Put that in perspective over the last five months, we've looked at it probably about 60 deals that we've said no to, and we've done I think six new investments plus add-ons during that time.

In the pipeline that I am most focused on, there's about eight potential investments. Two of those are sponsored deals; the others are private deals and there may be one. I think there's two that are public deals but they're small public deals that have concentrated ownership where we've been introduced or known the principal owners on the public side.

They are being sourced through two or three ways. I'd say none of those are what I would call more the broadly-syndicated deals and we do have a couple of those in our portfolio, and you know which ones I'm talking about. They have more liquidity in everything else. That's why these are in the 11%-to-16% range because of ability to proprietary source. A big piece of that proprietary sourcing is coming through the team of six that came to us that we had negotiated a year ago or last summer is when the negotiation started with Stifel to take a group of people that Chris and I knew a lot of the individuals already. We knew their capabilities and their ability to source. These are sourcing directly out to the companies, sourcing to very small advisers or sponsors, and also – and I think very importantly and this is part of where we are different than a lot of others – sourcing through the Stifel banking network and a couple of these are directly with some bankers who have clients that have $10 million to $50 million of EBITDA. A couple are looking at small acquisitions and we are working with them toward that end.

Greg Mason: Great color. Thanks, guys.

Michael Mauer: Okay. Thank you very much, Greg.

Operator: Our next question comes from Don Heck from Steven [Unintelligible]. Please state your question.

Don Heck: Great. Thanks for taking my questions and actually most of them have been answered. The one I was going to ask was related to the relationship with Stifel and Cyrus, and it does sound like you are getting some of the benefits of the networking opportunities there. I'm wondering if you go back to the current portfolio, how much is the source from that mechanism and if you look at the pipeline, what kind of opportunities do you have in terms of increasing the direct sourcing from that type of relationship?

Michael Mauer: John, I'm actually glad you brought it back up because I did talk about Stifel but I didn't not talk about Cyrus and in the pipeline of [eight] that I just talked about, there are two Cyrus opportunities also and those are proprietary to that channel that we would not be seeing without their direct dialogue with companies and follow-ons from positions that they've currently got. In the current portfolio, we have TNT which is a Stifel-generated opportunity and we have four others between Virgin Wire, CMF Global, and Endeavour which are all Cyrus-generated dialogue, but I did not touch on Cyrus earlier and I'm glad you brought that up because that continues to be a flow for us.

There's another one that came in this morning that's not in the [eight] because I haven't had time and Chris hasn't had time to work with the team around it and figure out if it's where we would put the same probability waiting the other [eight], but there's a third one that came in today from Cyrus so that continues to be an important channel to us as we have that great relationship there.

Don Heck: Okay. That's great color. Then you've mentioned wire. If I recall, there were some union struggles a few weeks ago. Do you have an update on that?

Michael Mauer: Those have all been resolved and there is a refinancing that we participated in, and that refinancing was basically as part of an overall agreement with the unions.

Don Heck: Okay, great. Then final, you kind of referred to some green shoots seeing some – I don't know – pricing relief, term relief in the market. I wonder if you could – what's the derivation of that? Is this just too early to tell if things are shaking out? So why are they shaking out and what things should we be looking for to be optimistic of that pricing relief?

Michael Mauer: Look, it's a great question and I struggled a little bit myself here to try and figure out if the market is giving us relief and it feels like it is because of the quality of what we're seeing, or are we beneficiaries and hopefully it's a bit of both. Beneficiaries of now that we are up and running and we have the Stifel team here, and we're starting to basically coordinate and work on all cylinders since February. Are we getting the benefit of that team in house and our coordinated approach to going out and originating through their direct relationships as well as leveraging the Stifel bankers? The Cyrus side is working consistent as it has over the last year and a half, but the Stifel one really is new to the origination effort because we did not have them in house until we closed the IPO in February. So it's a little hard for me to identify is it we're doing a little bit better job working as a team or is it the market or is it a little bit of both? But I will tell you my gut feel is it's a bit of both because in January, February, and March, it felt like we were fighting an uphill battle. Today, it feels like we've got a bit of a level playing field. We definitely don't have clear sailing going downhill but it's a level playing field.

Don Heck: Level playing field in the sense that you're getting more inbound opportunities where you have more pricing power? Are there just more things to look at or is that…?

Michael Mauer: Level playing field being exactly that, that we have the ability to dictate price and structure where it felt like in the first quarter, we were losing all that ability and if we didn't want to play somebody else, just do whatever they wanted. So we feel like we've got a lot more opportunities where we've got input around that structure, and so that's why you see us willing to work on the 11% to 15% because they're opportunities where we think the credit is better and we've got the ability to structure in structural protections where when we don't have those, we want to protect shareholder capital and we will go to higher quality and we'll not sacrifice underwriting standards for it.

Don Heck: I appreciate the answers very much. Thanks.

Operator: Once again, Ladies and Gentlemen, if you would like to ask a question, please press *1 on your phones now.

Gentlemen, at this time, I have no further questions.

Michael Mauer: Thank you, Operator. I'd like to thank everyone for taking the time today and dialing in. I'll just direct you to the website as we continue to post up all of our public information. Thank you very much.

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

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