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CM Finance Inc.  
Second Fiscal Quarter Earnings Release Conference Call  
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Operator: Welcome to the Second Fiscal Quarter Earnings Release Call. Your hosts for today's call are Mike Mauer and Jai Agarwal. Operator assistance is available at anytime during this conference by pressing star-zero. A question-and-answer session will follow the presentation. I would now hand the call over to your speakers. Gentlemen, you may begin.

Mike Mauer: Thank you, Operator. This is Mike Mauer and we would like to thank everyone for calling in today and joining us. With me today, I've got 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 the forward-looking statements. Jai?

Jai Agarwal: I'd like to remind everyone that today's call is being recorded. Please note that this call is a property of CM Finance Inc. and 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.cmfnc-inc.com](http://www.cmfnc-inc.com). At this time, I'd like to turn the call back to our Chairman and Chief Executive Officer, Michael Mauer.

Mike Mauer: Thank you, Jai. We're excited to celebrate our first anniversary of our IPO last week. Over the course of the last year, we believe that our partnerships with Cyrus and Stifel, our proprietary origination, and dedication to sound underwriting and focus on secured investments have helped us to build a resilient portfolio. We

have grown from \$173 million invested at the time of the IPO to over \$316 million as of year-end. I'm very proud of our team and all they have accomplished as we've worked together over the last year.

Turning to our fiscal quarter ending December 31, we believe that the leveraged finance markets saw a broad re-pricing of risk driven largely by the collapse in oil prices and the resulting effect on secondary prices for loans and bonds to companies associated with the oil and gas sector. Of course, E&P companies, oilfield services, and even those simply located in important oil-producing regions have all begun to see the pressure on their revenue and earnings. Larger syndicated capital structures traded down sharply, and as we noted in our press release on January 15<sup>th</sup>, we were not unaffected by this dynamic. In the less liquid middle market, oil and gas producers and service companies have seen the same fundamental pressure driven by the decline in oil prices. Despite the 50% decline in WTI since the summer of 2014, we believe we have underwritten loans well-positioned and well-capitalized. Our focus has been on security, our attachment points, our borrower's hedging profile and asset coverage for our loans. Our investments in this sector were among our most conservatively-structured deals in the portfolio.

We are also diversified geographically. Our exposure to oil and gas, both E&P producers and servicers, has spread across most of the major-producing basins with essentially no overlap. The oil and gas sector has been a major focus for us as I'm sure it has been for all of you. In September, our investments in exploration, production, midstream and oilfield services represented 25% of our portfolio at fair value. As of December 31<sup>st</sup>, that percentage was 20.5%. A portion of that reduction resulted from a change in our marks, a portion is attributable to our new investments away from the sector and finally, there was an element of timing associated with the reduction of our investment in AAR, an oilfield services company which I discussed in our last quarterly call. As you may recall, our loan to AAR funded on September 30<sup>th</sup> and we brought in a partner in early October. This took our hold down to our target size of \$20 million. I'd also like to note that AAR has scheduled amortization representing 15% of the original principal during the first year so you will see that position size reduced as of 12/31 and in the coming quarters by virtue of the scheduled amortization.

In 2014, we made 29 investments including 15 new portfolio companies. Six of those investments were in the past quarter including two new portfolio companies. In our January 15<sup>th</sup> press release, we provided detail on these new investments and I'll recap for those of you who may have missed that release. In October, we made a \$15 million second lien to Bird Electric. Bird is a Texas-based company that provides utility services to both oil and gas and regulated utility industries. Bird services the electrical grid, performing maintenance and repair as well as doing work to electrify new projects in the Permian Basin. Bird also performed storm repair work throughout the southern United States which on the side, kept them very busy during January. In December, we made a \$20 million first lien loan to ASV in conjunction with a partner. This investment was sourced through our partnership with Stifel. The total size of the loan is \$40 million. ASV manufactures skid steer and compact track loaders which are used in the construction and building industries. Our loan backed the formation of a joint venture between Terex and Manitex who now each own approximately 50% of ASV.

We had 25 companies in the portfolio as of December 31<sup>st</sup> with a total fair value of \$316 million and as of today's call, we have investments in 26 companies. Our new portfolio company investment occurred in January. Through our partnership with Cyrus, we had the opportunity to participate in a new DIP loan for LightSquared. We think that the asset coverage is outstanding and the recent spectrum auction validates the asset value. As of today, we have sold a portion of our LightSquared position and have funded exposure of \$4.6 million of a \$10 million total commitment which is our target hold size. Since our last quarterly call, we have three new loans: Bird, ASV and LightSquared, and we also had two investment realizations.

In December, our investment in CT Technologies, also known as HealthPort, was repaid with a prepayment premium. HealthPort was sold to a new equity investor and all of its outstanding debt was repaid. Our unlevered realized IRR on this position was 12.8%. Secondly, in November, we sold our investment in Ikaria realizing an IRR of 11.4%. This was the smallest position in our portfolio. We realized a gain and its current yield was substantially below our targets so we considered this to have been a successful and opportunistic sale.

Finally, an important event was our investment in Virgin America. Our original investment in Virgin was sourced through our partnership with Cyrus and was made

in 2013. As of September 30<sup>th</sup>, we held approximately \$5.9 million of first lien and \$5.9 million of second lien and a small position in warrants. We converted these three positions into cash as well as shares in Virgin as of the IPO. Our basis in the shares is \$20.91, per share, a discount to the IPO price which was \$23.00. We provided additional detail about our Virgin stock position in an 8-K filing on January 15<sup>th</sup> of this year and I encourage all of you to read that release. We had a realized gain of approximately \$600,000.00 and have an unrealized gain on the equity position of approximately \$10.6 million as of December 31<sup>st</sup>. Virgin and ASV are two great examples of our differentiated sourcing channels through our long-term relationships with both Cyrus and Stifel.

Our pipeline remains robust. On our last two quarterly calls, I mentioned the deal that we expected to close in the fall. That particular investment was for an oilfield service company operating in the Bakken. We have decided not to make this loan. Away from that deal, we have a number of deals in the pipeline, all senior secured, all expected to yield 10% to 13%. Over the past several quarters, our focus has been on quality direct origination to allow us to invest in loans to middle market companies and continue to rotate the portfolio out of some of the syndicated and lower yielding transactions.

During the quarter, our mix of first and second lien investments remain balanced. At fair value, we held 46% first lien, 46% second lien with the remainder in warrant and equity positions. The big change from the previous quarter is obviously our position in Virgin's equity which represents approximately 7% of our portfolio.

Our target for portfolio leverage is 0.6 to 0.7 times. At September 30<sup>th</sup>, we were 0.58 times levered, as of December 31<sup>st</sup>, we were 0.66 times levered. We're comfortable here at these levels. Going forward, we expect to continue to replace some of our lower yielding syndicated investments with more attractive loans as deals in the pipeline develop into investable opportunities.

Our portfolio grew from \$299 million as of September 30<sup>th</sup> to \$316 million as of December 31<sup>st</sup>. The weighted average yield on our debt and income-producing securities at cost declined from 11.72% as of September 30<sup>th</sup> to 10.97%. This is a consequence of the repayment and conversion of our loan to Virgin and the timing of our close on the loan to AAR around September 30<sup>th</sup>. Our new portfolio company investments this quarter, ASV and Bird, yield in line with and above our target yield

of 11%. Going forward, we will continue to focus on opportunities to improve the average yield on the portfolio in a prudent, disciplined way through well-structured and secured investments. We are also monitoring several opportunities in the secondary where we think there may be attractive entry points into existing loans well below their new issue prices. Our team has a long, deep background in stressed and distressed investing and we think that finding opportunities in dislocated markets has the potential to differentiate us from our peers.

During the quarter, we earned our full base and incentive management fee. Going forward based upon the current portfolio, we expect to continue to fully earn our base management fee and to earn a portion of our incentive fee. Additionally, we continue to work with our outside counsel, Sutherland, on our application for the SBIC license. Finally, on January 28<sup>th</sup>, our board of directors declared a first quarter dividend of \$.3469 per share payable on April 2<sup>nd</sup> to shareholders of record as of March 18<sup>th</sup>.

With that, I'd like to turn the call back to Jai to review our results for the second fiscal quarter of the year.

Jai Agarwal:

Thanks, Mike. Our net investment income for the quarter was \$4.6 million, or \$0.34 per share, and aggregate net realized and unrealized gains were \$3.5 million or \$0.25 per share. The weighted average yield at cost on our debt portfolio was 10.97%. Our debt portfolio was comprised of 91% floating rate and 9% fixed rate investments. Our average portfolio company investment was approximately \$11 million and our largest portfolio company debt investment was \$20 million. Additional information regarding the composition of our portfolio is included in our form 10-Q filed yesterday.

With respect to our financing facility, we are \$39.4 million borrowed under our \$50 million facility at quarter end. As of today, we have \$10 million available under this facility, \$20 million in cash and \$12 million in expected proceeds from the partial sale of the LightSquared investment Mike mentioned earlier.

Lastly, I wanted to address our accounting policy on fee income. Unlike some BDCs that book origination fees as fee income upfront, we accrete these fees as interest income over the life of the loan. Our fee income consists of loan amendment and

consent fees received during the period. In the December quarter, we recognized \$114,000.00 in such fees.

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

Mike Mauer: Thanks, Jai. As I indicated, our quarterly dividend will be \$.3469 per share. We made a commitment to our shareholders to increase and grow our dividend and we will waive a portion of our incentive fee to do so. This dividend level represents a 9.25% yield on the initial IPO price of \$15.00. That's an increase from 9% dividend yield in 2014.

Over the course of the past year, in addition to growing the portfolio from \$173 million at the time of the IPO, we've also improved our average yield by 25 basis points by transitioning the portfolio toward attractive middle market, directly-sourced investment opportunities. We have no loans on non-accrual. Our portfolio has no exposure to mezzanine or unsecured debt today. Our underwriting is focused on security and covenants for the protection and preservation of shareholder capital. We think that our portfolio is resilient, carefully structured, and positioned to provide excellent returns for our investors.

Operator, with that, I'd like to open the line for Q&A.

Operator: Ladies and gentlemen, at this time, we will conduct a question-and-answer session. If you would like to state a question, please press star-one on your phone now and you will be placed into the queue in the order received. You can press pound 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 star-one on your phone now. Our first question comes from Robert Dodd from Raymond James. Please state your question.

Robert Dodd: Hi, guys. Congratulations for the quarter. Obviously, the portfolio detail you've given us before, I appreciate that and the color. On the market, you say they obviously, there's been - if you could just expand on your comments particularly as they align to your expertise which you discussed, your track record and some of the distressed and stressed and obviously your relationship with Cyrus. Are you seeing - on the pipeline side, is that starting to fill up with more of those opportunities or is it still a little too early maybe in the credit cycle for that to be filling up that



available bucket? Just tying into that on the pricing front, you said that the backlog is 11 to 13. If in the future, how much extra yield - tough question - would you demand for participating in a like-for-like distressed or formerly distressed credit versus a previously-performing loan?

Mike Mauer:

Thank you, Robert. There's a couple of pieces to that question so let me try and attack them. Number one, talking about our background, there's a team that we've got here of individuals away from the Stifel banking network that sources deals and away from Cyrus. That team has some roots in distressed but specifically to your point, Cyrus is a firm that's been around over 15 years. It is [Audio Gap] and has a long history of opportunistically looking at senior secured debt as a way of investing in dislocated stressed/distressed opportunities. And I have worked on and off with Cyrus myself since 2002, directly with Cyrus working on this venture for now three-and-a-half years. It will be four years in September, directly, but I've worked with them for literally 15 - I guess close to 15 - 13 years. So there's a lot of expertise. We have ongoing dialogue across our sourcing channels whether or not it's Cyrus, Stifel or the individuals directly here at the firm. So that's the expertise.

Now, a couple of things, as far as the pipeline and what we're seeing, we're seeing a few things coming forward. I would say that given our portfolio concentration right now within oil and gas whether or not it's E&P or oilfield services, I would doubt that we'd do anything unless we saw some movement down from what we've got today as far as reinvesting or putting more into a stressed situation. Even if we thought it was attractive, we think we have well-structured, right attachment points, well-secured, issuers who have hedges on or who have customers who have long-term hedges on. So that sector I'm going to just address because I think it's important to address that.

Away from that sector, we are seeing some opportunities. I think it's on the early side. We are seeing some opportunities come in. Right now, I would say they have not hit our quality bogey and we're talking to Cyrus about a couple. That is the low price. The other side of it is - and Light Squared is a great example. Our DIPs or [rescues](#) and on the DIP front, our math is that you're covered at least six times - probably 6 to 10 times covered by asset value on that DIP loan. I mean from a value and a risk perspective, it is a great loan at a 9-plus percent return to us. That is something that I would say no one would have access to unless you've got a

relationship and a partner like Cyrus who has been active investing in it throughout its life and they will invest in things because they have a different profile earlier than we would and so the DIP is one example of real opportunity that has already hit and that hit over the last couple of weeks.

From an excess return, there's obviously that DIP falls into a lower-than-our-average return but with a 6 to 10 times coverage from an asset perspective, it is lower risk than return and it is highly, highly liquid if we ever wanted to transform that into another opportunity. But from a stressed situation where there are lower dollar points and I reference that when I spoke earlier, I think that - and everything changes based upon the markets and the opportunities but a low teens would be the low side of our entry point from a return and a mid to high teens would be the sweet spot if we are looking to do something like that and that is what we look for when we evaluate those types of situations. We haven't seen one that we want to go into yet but we continue to look at a lot of opportunities. I hope [\[Crosstalk\]](#).

Robert Dodd: Yes. It's very helpful. Thank you. Oh, just one additional follow-on, how would you characterize - obviously, if we look back in mid-14, the credit markets broadly was frothy with the level of competition driving loan prices, et cetera, how would you characterize the level of competition in the distressed kind of market in terms of how cyclical can pricing and attachment points get in that market relative obviously at a different scale but relative to how frothy the broader credit market's got at that [peak](#)?

Mike Mauer: I actually think it got very frothy especially from a distressed standpoint because what we didn't see was a lot of cracks out there. We didn't see a lot of new distressed opportunities and so a lot of the distressed players were all competing for similar deals. Now, one of the ways - we have two ways to differentiate ourselves on that platform. Number one is, to the extent there are opportunities that are \$50 million to \$100 million opportunities and we want to team up with Cyrus or somebody else, we can look at those to do it on a very small club. The larger distressed players really need multi-hundred-million-dollar positions to make it worthwhile for them to dip into. So someone who runs a \$5 billion to \$10 billion distressed fund really doesn't want to have many 1% positions and that's a \$50 million to \$100 million position, a 1% position. So we have the advantage of even as we grow, a \$20 million position is a full position for us. So 10 to 20 makes a lot of sense and there's going to be opportunities out there from time to time. That's



not going to be our core business but it is going to be things that at the fringes, differentiate and help our risk return profile because typically when we look at these, they have already been through some type of restructuring, some type of stress distressed. We're not going in early. We're going in later at excess returns. If you look at over time our investment in YRC, that's a great example. That had gone through 6, 12 months of restructuring before we ever entered it. We've been invested in two iterations around YRC, pre-IPO and post-IPO and have been a very secure outsized return if you look at it over its life.

Robert Dodd: Okay. Thank you, very helpful. Thanks a lot, guys.

Operator: Our next question comes from Andrew Kerai from BDC Income Fund. Please state your question.

Andrew Kerai: Yes. Hi, good afternoon, Mike and Jai. Thank you for taking my questions.

Mike Mauer: Hey, Andrew, how are you?

Andrew Kerai: Good, good. Yourself?

Mike Mauer: Good.

Andrew Kerai: Good. So just wanted to start maybe on AAR and US Well Services as well, so I know with AAR, you had discussed in the past and this is consistent with the other BDC you sold off a piece of this investment to, very low leverage attachment point if you look at obviously the [trailing](#) 12-month EBITDA but now just I guess looking forward, I mean obviously these contracts I believe are set to be re-priced if I'm not mistaken sometime this year in both US Well and AAR as well. Is there anything post maybe 12/31 that you can discuss that would indicate maybe some way that you would want to look at those credits differently either from a CapEx from the underlying customer standpoint or the contract re-pricing that would make you think there would a risk to defer value in either one of those cases?

Mike Mauer: Yes. Listen, it's something that's been front of mind for us for several months now and I know front of mind for all of you on the phone, these credits meaning energy credits across the spectrum and so I think I've said in the past but I'll bore some people and repeat it. With our energy credits, they are things that we look at

constantly. We have a constant dialogue and “constant” I will define as in some cases, they are weekly, some bimonthly usually over a period of two to six weeks at most, reaching out and having discussions with the management team or equity owners at these credits and so the two that you mentioned fall squarely in those dialogues as well as everything else does. What we have seen and it’s probably a good opportunity to expand the question just talk about what we’ve seen across the energy sector because I think we sit in a very interesting place across probably half a dozen different basins of the United States between our E&P exposure and our oilfield services and just to talk about what we’re seeing. We’re seeing consistent themes and they’re not going to be any surprise to everyone on the phone who’s done a lot of work around the sector.

The E&P producers, most have hedges that are out at least six months of 2015, some as far out as four or five years from now. In there, you will see all of them, irrelevant of their hedges, going back to all of their suppliers and whether or not they are material suppliers, labor, on any front and you’ve seen it in I think public releases from people like Halliburton, et cetera, asking for cost reductions in these environments and we’ve seen our E&P producers go back and ask for those cost reductions. That’s why when you look at what is the cost to extract oil in a specific area, the number keeps moving on what it is and keeps moving down because costs keep moving down. And then if you take this to the next level, we’ve got investments with US Well and others who have had those requests, who are responding and moving forward. At the same time, they have their own suppliers and they have a lot of labor.

I would say that 100% of the companies that we spend time with, and we spend time with basically everyone, have gone through and instituted cost cutting internally and I’m going to round here because I don’t want to go into name-by-name detail. It would probably be inappropriate. But the rounding is squarely the center point of where everyone is operating. Around 10% cost reductions from - I’ll call it the CEO down to secretaries at service companies. They’ve gone back to their suppliers and they’re pushing for cost reductions. So the reductions that you’re seeing at the E&Ps is they’re asking for ending up around that same 10% and you’re seeing that filter through all the way down to the individual worker. Now, the workers had been a beneficiary over the last two years specifically of escalating salaries and bonuses and overtime. So overtime is cut back and the base rates have been cut back. So you’re seeing all that filter through.

The interesting point that I think we're seeing from an E&P side that we are continuing to see production. There's multiple wells or long lived reserves, one of the two at each one of our E&Ps so that production continues which is part of what continues to cause the problem of inventories, et cetera when you look at the weekly numbers that come out, but that production continues. You may see some tail-off but not significant over the next 6, 12 months from our clients. We also try to make sure we were with top tier operators whether or not that was Benu in the Gulf of Mexico, Caelus who has Apollo as a sponsor and committed to it as a sector, and New Standard which should be a smaller operator but one of the largest equity investors there is Magnum Hunter who is active in the operations at that E&P. As well as if you go down and look at the oilfield services where we've got key clients which include Antero and Noble and Pioneer and others and they're top tier. It's the smaller operators that are starting to either cease operations, sell to others but the interesting point that I was trying to lead toward is that our service providers are seeing basic stability around the request and in a couple of instances they're actually seeing an up-tier in volume but pressure on their price. It's a very awkward situation where you see an up-tier in volume because they are viewed as one of the larger more stable operators providing services and where others, they're fading away from because they're smaller and less reliable in this market. Our clients have picked up some business. So that actually creates a weird dynamic especially with the labor side when you're asking to take cuts and you're not pulling back but it actually has been successful so far.

Andrew Kerai: Sure. Thank you, Mike. That's great color. So I guess let me just expand on that a little bit. So there's I mean obviously the entire sector, right, from a pricing standpoint has gotten pretty much across the board hit pretty hard. I mean have you been seeing any opportunities to where - there's the idea that the lower cost service providers, the ones that are better positioned as CapEx budgets get cut, have you been seeing any interesting opportunities? I think you had alluded to a little bit to this before where you would - maybe not quite yet but you're starting to maybe look at some things from a due diligence standpoint that might look interesting in terms of lower cost oilfield services companies that may be able to actually gain market share on this environment as E&P companies look for lower cost providers given - should oil stay where it is?

Mike Mauer:

There's two things and one, I just want to backtrack for one second because part of your question, I'm not sure if I answered and I want to make sure I answer it. Which is, when we went into these and we talked about all the pressure and everything, we had done our models assuming a couple of things. Number one, we started out at a base that was probably in the March to June, July standpoint so we were running more often a, last year, 2013 analysis which most of these guys grew in '14 and we were haircutting that 13 from a level standpoint. So our attachment points from an EBITDA were anywhere from flat at worst I'd say today from a run rate, maybe down 5% to 10% but most of them had EBITDA that was coming in 20% to 30% above where we had underwritten so it's falling back down to where it is today. It's consistent with base cases or downside cases and even has room for more downside case to fall further and we would expect that some will compress a little bit further down and still be well within our underwriting case that we did.

One of the questions that I don't - I apologize, I don't remember who asked it and I think people will laugh when I quote this. On the last earnings call was how do you get something so attractive as AAR at the returns and leverage point? Well, the answer is, it's oilfield services and people are nervous about it and being able to look at someone who's doing \$100 million of revenue and knowing that they should be one of the consolidators, and going out and visiting in-person with their clients and sit with Noble's chief person in the basin and doing that diligence, is part of what got us there but also turning around and saying that we don't look at this thing as a two-and-a-half times leverage. We look at it as probably a three-and-a-half or four times. If it runs at two-and-a-half times, that's great. We schedule in upfront structuring of real amortization 15% in the first year and everything else.

So those opportunities are there. I don't think that from our perspective, there'd be anything - especially we are very, very conscious of portfolio composition and we're happy with where it is but saying that there are some opportunities that we'd go into if we're not reducing first, I don't think there's anything there that we would. Are we starting to see some names that look very interesting, if we had zero energy exposure today, the answer is absolutely yes, but I think that's a purely academic question.

Andrew Kerai:

Sure. No, certainly appreciate that. No, that makes a lot of sense and then the last question I had was on liquidity side. So certainly appreciate the color on churning some of your lower yielding book and the SBIC process albeit as you're

well aware, Mike, the SBIC process can take some time but given you're at roughly the upper end of your target leverage, how do you think about ways they need to - obviously, you have dry powder to fund new originations while not having a lot of - call it excess capacity aside from basically the portfolio churn at this point weighing that begins potentially the need for external financing.

Mike Mauer: Well, listen, it's a great question. We're very focused on being prudently levered at all times and preserving capital for everyone. Dry powder, we think about it as \$40 million to \$50 million of cash today and that's \$10 million available and this facility \$20 million of cash in the balance sheet and there's \$12 million of proceeds coming back as we normalize our LightSquared investment that [similar](#) to AAR, we closed on a larger amount. There's another [probably](#) coming in. So between those three components, that's \$52 million. I think of that - I'm sorry, \$42 million so I think of that as \$40 million plus or minus. In addition, we have and I spoke to it in generality. Earlier on, we did some investments that are more syndicated and more liquid at lower yielding specifically things like Crestwood, YRC. There's \$20 million there. There's NewWave, Ennis Flint, TNS, Regional Care. There are several that are probably another \$30 million. We like the credit profile of all those companies. The ongoing return, if we find good, 11%, 12%, 13%, we've got the ability to cycle out because it's a broad group of investments. We don't have to sell \$10 million or \$20 million, we can sell \$2 million or \$3 million of a few names and have a very nice new investment and be able to manage our yield, our exposure and portfolio diversification importantly.

Andrew Kerai: Great. No, that's really helpful. Thanks, Mike, I appreciate it as always.

Mike Mauer: Thank you, Andrew.

Operator: Our next question comes from Merrill Ross from Wunderlich Securities. Please state your question.

Merrill Ross: Good afternoon. I have a couple of questions but I'll first ask about the valuation of the warrants on PRWireless looks pretty volatile. Any update there?

Mike Mauer: Yes. Thank you, Merrill. Listen, it's one that probably frustrates me a lot in that I don't know that the market is giving value to the warrants the way we have and so we are very, very strict about adhering to the valuation policy of looking if there

are public activity and then validating around that public activity. So there is a broker-dealer that actively makes a market in this so the mark you're seeing is there. We do think that, number one, they continue to perform fine. So everyone knows what it is, this is Open Mobile, a Puerto Rican telecom. The issue around it really at the time of the investment was the underlying value of the asset and over time would we realize on a section in warrants and I believe it was 22.5% of the company the lenders got in the form of warrants and that's why you saw an initial large amount ascribed to the warrants. As a lot of people will appreciate, we think about - we've got debt there and we've got warrants and we think about the warrants usually as equity upside option that we do not pay for but accountants and SEC ask us to ascribe value to and take it out of the debt.

The company has continued to perform and from a thesis standpoint, if any of you are analysts that actively cover the wireless sector, you'll be well-aware of the government auction that just concluded over the last couple of weeks in the spectrum. And it was just record levels put on the value of spectrum across the country. That included the auction in Puerto Rico of similar spectrum. Two blocks went so there's a very good comp. There were four bidders on it and when extrapolating - I'll give you our numbers - extrapolating and doing work with some of the bankers who had followed it puts a value on the spectrum with \$240 million to \$260 million. The debt on PRWireless is \$180 million. Our mark reflects really the activity and - I'm only guessing here but I'm guessing I think with some level of history and accuracy on my experience that you had some sales here that were really unrelated to the credit but some people who had portfolio reasons for wanting to sell and so there was pressure on it from that standpoint I'm speculating but from a fundamental performance of the company and a validation of the underlying asset, we think this thing has a lot of upside not only to where it's marked but to where our cost was.

Merrill Ross: Great. I can understand how that's frustrating. Also, as when you sold or monetized that \$12 million from the portion of LightSquared's financing that you sold, was that at the same price you paid for it or is an improved price or just want to know [\[Crosstalk\]](#)?

Mike Mauer: As you will see in most when we do things like AAR - they are basically at cost. We're working with partners and club members so that was not an attempt to try and get an increased price. That was basically at cost.



Merrill Ross: Okay. That helps. My final question for right now, what are your plans regarding the monetization of your Virgin Airlines stock regardless basically of the price? I mean obviously you probably wouldn't sell it at a loss right away but I just wanted to know how long you'd hold that position if price is volatile or if it's not.

Mike Mauer: Thank you for the question. I really thought that might be the first question we got today and I'm surprised it [took](#) so long. As I think everyone is aware, we have a six-month lockup that we agreed to as part of the IPO. So May 13<sup>th</sup> is the day that that lockup will expire. We monitor that the same as we do all of our investments. It is one that once the lockup rule is off, I think we will have extensive discussions about it. Our intent is not to be a long-term equity BDC so we will look to find an appropriate time to monetize it. Just to put it in perspective because I know it was one of the questions from our board as we reviewed everything with them, as far as overhang and other selling shareholders when our lockup expires, we are the only ones with a six-month lockup. Others have a year lockup and we're the only ones really independent that I'm aware of from the Cyrus aviation group which was an investment vehicle they put together and the Virgin group. Others are locked up within those agreements so I don't think that we've got a lot of other overhang between six months and a year.

Merrill Ross: Thank you.

Mike Mauer: Thank you, Merrill.

Operator: Our next question comes from Troy Ward from KBW. Please state your question.

Troy Ward: Great. Thank you and good afternoon, gentlemen.

Mike Mauer: Hi, Troy.

Troy Ward: Just a couple of quick questions regarding portfolio composition. The first one is a quick follow-up to the end of the conversation you had with Robert Dodd. You were talking about the distressed market and the deep experience that your broad team including Cyrus has in that special lending category. Can you put that discussion into context a little bit as far as your portfolio goes? What percentage of your portfolio would you say has some level of that distressed investing in its

history and how much do you think the CM portfolio will have in the future in that specialty category?

Mike Mauer: The few that I'd just highlight off the top of my head and I want to make sure I give you an accurate, so I'm looking at the list, but we had MF Global that ran off last summer. We have YRC that came through that type of dynamic. We have the new LightSquared that came through that dynamic and then Bennu came through that dynamic also which came out of the ATP and they were the good assets that came out and were invested. So I think those are the principal ones that came through. Then as far as what's the maximum amount - listen, if you said to us out of that type of scenario, we'd probably, give or take, one or two names where we'd want to be in that type of investing but if we rolled back the calendar six years and said, "We're in '08 going into '09 and we've got an opportunity to be looking at a lot of loans that were trading at \$0.65 to \$0.75 in the first, second, third quarters of '09, that percentage would be very different."

Troy Ward: Okay, great. That's good color. Thanks. My final portfolio composition question, we did the energy analysis that I know all of the analysts did across the space on the BDC space, CMFN came out with the most exposure to energy across the sector. Now, we realize obviously as a smaller BDC, you're going to have less diversification until you reach maturity and things like that but the 20% plus exposure, can you just talk about was that a conscious decision on your team to overweight the group and if so, what did you see there that was so compelling and how do you view it quite honestly? At what percent is your portfolio once you are a larger portfolio? Do you intend to stay at that level?

Mike Mauer: Listen, it's a great question and yes, we did it consciously and as we did it, we actively managed it and let me just take you through some history and some numbers. The percentage was higher than 25% and it was significantly weighted toward E&P. As we continued after the IPO, and looked for places where we understand the risk, we understand the hedging, we understand the attachment points, we felt that that is a place that you continue to get paid for the risk you were taking. In addition, I think very importantly from a portfolio perspective and I know I mentioned this on our last call when we did the update post-December 31<sup>st</sup>, we think about are there natural hedges in our portfolio? There was no doubt that as we shifted our portfolio, Virgin was a natural hedge. We had a well-

secured position. We had options on Virgin and we were active with Cyrus around IPO and timing with the bankers.

From shifting the portfolio, we actively sold ATP before the IPO back in 2013 to make room to grow more of the energy. As we came in to 2014, you saw us manage at the edges, \$4 million to \$5 million of both Caelus and Bennu and as we came into August, we sold down totally our Endeavor exposure and that was shifting out of E&P as we balance between that and services where we've been able to have attachment points and total leverage of - well, attachment points of zero and total leverage of two to three-and-a-half times depending on the credit. We've been I'd say very diligent, very conscious of capital preservation being the number one thing and making sure that we think there's an appropriate return. Focusing on outsized returns can be something that I think comes back to bite you. I think focusing on the right structure and amortization and things like that is what we've tried to focus on. So that's a bit of a historical perspective.

Going to your question prospectively, I would say that over time in a normalized environment. Listen, if I could wave a magic wand, I'd say let's take our exposure to zero, you guys would all be happy and then I could talk about opportunistically investing 5% to 10% of the portfolio in great investments. But in a normalized environment, I think that 10% plus or minus is probably the right area, 15% probably on the high end and 5% on the low end because energy - if you can find a right risk return from a portfolio and diversification is an important component of the overall GDP, geographically, industry, everything and I think a good diversified investment in our portfolio. There will be times where we think the market becomes too bullish on it and we're just going to fade away. As you noticed, we were not bullish on sub debt and other levels of the energy sector and that was by design. The high yield market was on fire. I think the number was 16% to 18% of all the issue last year was in energy and in that structure, we were not buyers. Hopefully, I answered the question.

Troy Ward: You did. Thanks, guys.

Operator: Our next question comes from Allison Taylor from Oppenheimer. Please state your question.

Allison Taylor: Hi, good afternoon, guys. My questions have been asked and answered. I really appreciate the color.

Mike Mauer: Well, thank you, Allison and thank you for calling in and being on the call.

Allison Taylor: Thanks very much.

Operator: Once again, if you'd like to ask a question, please press star-one on your phone now. At this time, there are no further questions.

Mike Mauer: Thank you, everyone and one last time, I'd like to thank our team here for everything they've done day to day, monitoring, originating and everything else and thank all of you from the analyst side.

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

- End of Recording -