Conference Call
CM Finance
November 8, 2018

Operator: Welcome to CM Finance Scheduled Earnings Release of Third Quarter ended September 30th, 2018. Your speakers for today's call are Mike Mauer, Chris Jansen, and Rocco DelGuercio. Operator assistance is available anytime during this conference by pressing star (*), zero (0). A question and answer session will follow the presentation. I'll now turn the call over to speakers. Please begin.

Michael Mauer: Thank you, operator. Thank you all for dialing in this afternoon. Joining me are Chris Jansen, my co-Chief Investment Officer, and Rocco DelGuercio, our CFO. Before we begin, Rocco will give you our customary disclaimer regarding information ~~in~~ and forward-looking statements. Rocco.

Rocco DelGuercio: Thanks, Mike. I would like to remind everyone that today's call is being recorded and that this call is the property of CM Finance Inc. Any unauthorized broadcast of this call in any form is strictly prohibited. Audio replay of the call will be available by visiting our Investor Relations page on our website at www.cmfn-inc.com. I would also like to call your attention to the safe harbor disclosure and our press release regarding forward-looking information and remind everyone that today's call may include forward-looking statements and projections. We ask that you refer to our most recent 10-Q filing for important factors that may cause actual results to differ materially from these projections. We will not update forward-looking statements unless required by law. To obtain copies of our latest SEC filing, please visit our Investor Relations page on our website. At this time, I'd like to turn the call back to our Chairman and CEO, Michael Mauer.

Michael Mauer: Thanks, Rocco. I'll begin today's call with a discussion of what we see in the leveraged finance markets currently. Chris will review our investment activity during and after the quarter, and then Rocco will discuss our financial results. I will conclude with commentary on our portfolio and our outlook as 2018 winds down.

As we have observed throughout the year, the leveraged finance markets remain active and broadly borrower-friendly. While we have seen specific instances of arrangers revising terms and structures to find the market clearing level, most broader market syndications remain covenant-lite, long-dated, and decidedly favor the equity investors' interest. Faced with this dynamic, we have focused our origination efforts on the first lien portion of the capital structure, on companies and industries we know well, and opportunistically in the short weighted average life assets with better structures than are currently offered in the primary market.

We've grown our portfolio over the past year from 271.9 million invested in 23 companies as of September 30, 2017, to 330.7 million invested in 30 companies this year. While the 330 is on the high side versus our usual targets, in light of anticipated repayments after quarter end, we seized opportunities when they presented themselves. Every one of our investments in calendar 2018 ~~has~~have been first lien or unitranche investments. Today, our portfolio has 28 names and approximately $300 million. Our pipeline is strong and we're excited about a number of deals we're doing due diligence on today. These prospective investments include club deals, secondary investments in club, and syndicated loans, and opportunities we see through our strategic relationships with Stifel and Cyrus. We're utilizing the full breadth of our investment team's networks to leverage our origination capacity to source deals from arrangers, investment~~s~~ banks, fellow BDCs, ~~especially~~ specialty lenders, and our relationships around the market. We are always focused on secured lending to high-quality management teams and companies. We are optimistic about the opportunities we are seeing and are working diligently to reinvest the proceeds ~~or~~of repayments we have received since quarter end.

I now would like to turn the call over to Chris to discuss our portfolio activity.

Chris Jansen: Thanks, Mike. We were active in both the primary and secondary markets during the quarter and made investments in seven portfolio companies, including six new portfolio companies. All of our investments this quarter were in first lien loans. We also had two full realizations during the quarter.

We invested in the first lien loan of QualTek in connection with its LBO by Brightstar Capital. QualTek is a provider of turnkey engineering, construction, and program management solutions to the telecom and power sectors. Our yield at cost is approximately 8.8%.

We purchased the first lien loan of Arcade Bioplan. Arcade is the leading provider of sampling solutions for the personal care and beauty industry. It is a short-dated loan maturing in 2021 with a yield at cost of 9.8%. We also purchased ~~a~~the first lien loan of 4L Technologies. 4L focuses on the recovery, remanufacturing, and remarketing of technology assets. This is another short-dated term loan maturing in 2020 with a yield at cost of 8%.

We invested in the first lien loan of ProFrac, a pressure pumping services provider. Our yield at cost was 8.6%. We also purchased the~~a~~ first lien loan of Fusion Connect. Fusion is a public company which operates as a telecom and internet services provider focusing on the small, medium business and enterprise markets. Our yield at cost is 11.4%. We also invested in the first lien loan of US Lumber, a distributer of building materials in the United States and Canada. Our yield at cost is 8.6%. We invested in the new first lien loan of Intermedia which was an existing portfolio company of ours. The new first lien loan has a yield at cost of approximately 8.7%.

As I mentioned earlier, we had two realizations during the quarter. Our first was our second lien loan to Intermedia which refinanced its capital structure in full. The fully realized IRR was 14.2%. Our other realization during the quarter was International Wire. We sold our position over the past two quarters and our fully realized IRR was 9.8%.

~~At the~~After quarter end, we added to our positions in Bioplan at an 8.6% yield and 4L also at 8.6% yield. Our weighted average yield on Bioplan is now 9.0% and 8.2% on 4L. We invested in the first lien loan of Cook & Boardman, supporting its LBO by Littlejohn. Cook & Boardman manufactures architectural doors, frames, door hardware, and related building products. Our yield at cost was 8.3%.

We had three full realizations after quarter end as well. First, we received repayment of our first lien loan to AP Gaming. This is our lowest yielding asset at 6.7% at cost. Our fully realized IRR on this position was 7.4%. Over the course of all of our investments in AP Gaming, dating back to the fourth quarter of 2013, our realized IRR was 9.8%.

We sold our position in Intermedia's first lien loan at a gain. We held this position for about four months. Given the opportunity to make investments in shorter dated loans with more price upside, we felt this was a prudent shift toward better opportunities. Our fully realized IRR for the short holding period was approximately 16.8%. Finally, we were repaid on our second lien loan to Montrose Environmental. Like AP Gaming, Montrose was one of our largest positions. We're extremely pleased with our 15.2% IRR on this investment.

Reflective of our efforts to continue to diversify the portfolio, our portfolio company count stood at 30 as of September 30th and is 28 today due to the repayment activity after quarter end. Using the GICS standard, as of September 30th, our largest industry concentration was energy, equipment and services at 12.1%; followed closely by professional services also at 12.1%; followed by hotels, restaurants, and leisure at 9.8%; commercial services and supplies at 9.7%; and media also at 9.7%. We expect that our investment in energy will decline further in the current quarter as US Well's first lien term loan will be repaid as far as the company's merger with MatlinPatterson Acquisition Corp. which is currently scheduled to close on November 9th.

I'd now like to turn the call over to Rocco to discuss our financial results.

Rocco DelGuercio: Thanks, Chris. The quarter ended September 30th, 2018. Our net investment income was $3.4 million or $0.25 per share. Fair value of our portfolio was $330.7 million compared to $293.6 million at June 30th. Our investment activity accounted for $39.2 million increase in our portfolio offset by $1.7 million decrease from depreciation of positions held and by $300,000.00 realized losses.

The weighted average yield of our debt portfolio declined 29 basis points from 11.19% on June 30th to 10.90% on September 30th. Two major factors contributed to the decrease in our average yield. First, our investments during the quarter had an average yield of 9.2% versus a 10.6% average yield on investments realized in the quarter. Second, the increase of our portfolio by a net $39 million had an average yield below prior portfolio average. As of September 30th, we had one investment on partial accrual and no investment on nonaccrual.

Our portfolio consisted of 61.5% first lien investments, 3.6% unitranche investments, 34.7% second lien investments, and approximately 0.2% equity warrant and other positions. 98.2% of our portfolio was invested in floating rate loan and 1.8% in fixed rate positions. Both one and three-month LIBOR are in excess of all applicable rate floors of our loans. Our average portfolio company investment was approximately $11.2 million. Our largest portfolio company investment was Caelus at 24.7, followed by PGi at 24.6. We were 0.86 times levered compared to 0.68 times levered at June 30th.

Finally, with respect to our liquidity as of September 30th, we had $2.7 million in cash, $1.4 million in restricted cash, and $38.1 million of capacity under our revolving credit facility. Additional information regarding the composition of our portfolio is included in our Form 10-Q filed yesterday.

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

Michael Mauer: Thank you, Rocco. Last quarter, we received several questions at the end of our conference call regarding our positions in Bird Electric and US Well, both of which were held in blockers. We use blockers in both situations to shield our investors from potential RIC issues and legal liability. We wanted to review and made sure we were perfectly clear on the last call. We did not and we will not take any additional fees based on whether an investment is held directly or through an SPD or through a blocker entity. Use of these vehicles is to protect and benefit shareholders, not to enhance fees to the manager. Today, we do not hold any positions in blockers. That said, if we do utilize a blocker in the future, we fully expect to do the same analysis we did with Bird and US Well and follow the same internal guidelines we used last quarter.

Turning now to our current portfolio, in total, our marks this quarter were down approximately $2 million. Most significant of these were positive changes to Caelus and Montrose Environmental and negative changes to Montreign and Trident Health. Caelus remains a company we feel very positively about. Their maturity is coming relatively soon, April of 2020. Given the short maturity, good performance that our believed capital markets will be opened to the company, we increased the mark from 93 to 95. Our mark on Montrose Environmental increased from 98, which was our original cost to par. We expected repayment in full prior to September 30th. That repayment slipped into the current quarter. Since quarter end, we were repaid at a call premium of 101. We marked the position without that premium at 93 since repayment was not absolutely guaranteed.

We decreased our mark on Montreign, the operator of Resorts World Catskills Casino in Upstate New York. The loan funded the construction of the property which was executed well with a significant equity investment. However, early customer traffic has lagged expectations, and the casino is not yet as profitable as we had hoped it would become. We believe the increased profitability is contingent on further planned development at the broader property over the next 18 months. We decreased our mark from 98 to 92.

Finally, we decreased our mark on Trident Health. This is the last portfolio company where the investment was made before our IPO in February of 2014. The fair value decreases were on tranches A and tranches B second lien term loans and on the Holdco loan. All three positions were created from the old second lien term loan in late 2017. We continue to think about that value conceptually as they are marked on the pre-restructured second lien. In that context, our mark decreased from 48 to 38. Our tranche A is an interest-only instrument, and we approach its value as a discounted stream of cash flows because another party owns the principal risk in that tranche. Our tranche B is a traditional second lien with principal and interest attributable to it. The Holdco tranche A is a noninterest-bearing loan which will realize value if and when the enterprise value of Trident reaches through the second lien tranche B to various investors in Trident's holding company. Weakness in Trident's fundamental results to challenging secular environment for healthcare providers, and a short-dated leveraged debt profile, and concerns about potential for additional future changes to the capital structure all but concern us. We continue to monitor the credit closely, receive monthly results, and hope to work with all the stakeholders to find a stable, long-term path for the company's recovery and growth.

Our investment activity in the quarter grew our portfolio by $39 million, but as I mentioned, this was in part issue of timing of the investments and expected repayments. Montrose Environmental's repayment, which is originally slated for September, slipped into October and was responsible for over half of the net growth from investment activity. We entered the quarter slightly under levered at 0.68 times, which is below our target of plus or minus 0.75 times. As of September 30th, we were comfortable at 0.86 times levered, but we're also aware that the leverage would decline after quarter end. Using our 9/30 mark, we are currently levered at approximately 0.8 times today. We had a slight shortfall in NII coverage for the September quarter as expected and discussed on our last due to the expenses of the new baby bond, and we partially earned our incentive fee in this September quarter, but we expect to fully cover the dividend and earn our incentive fee in the December quarter.

We have continued to deliberately decrease our average position size to diversify our portfolio through an increased number of investments in broader array of sectors. We remain extremely selective in our new investments and vigilant in monitoring existing portfolio. The team underwrites conservatively. It focuses on quality management teams, sustainable capital structures, security packages, and financial covenants for the protection and preservation of value over the long term. We focus on preserving capital and maintaining a stable NAV across our current portfolio. Over the past 18 months, we have demonstrated stability with our quarterly NAVs staying in a range of 12.32 to 12.57. We are sensitive to ebbs and flows of capital related to repayments and reinvestments and we remain disciplined in finding appropriate returns and protections for our capital.

Our Board of Directors declared a distribution for the quarter ended December 31st, 2018 of $0.25 per share which will be payable on January 3rd, 2019 to shareholders of record as of December 14th, 2018. We believe our dividend level is consistent with our ability to generate NII without reducing our investment quality or changing our focus from secured lending opportunities and further believe our quarterly dividend is both sustainable and attractive to our shareholders. We modestly under earned our dividend in the September quarter due to the operating expenses of baby bond, but over earned our dividend in the March and June quarters and expect to fully cover the $1.00 annual dividend this year. Our run rate portfolio yield and current portfolio size give us confidence as we finish calendar 2018.

Earlier this year, our board authorized the share buyback program. When the quarter ended September 30th, we have repurchased approximately 11,000 shares of stock at an average price of $8.97 representing a 27.7% average discount to our NAV. Since inception of the program through today, we have repurchased almost 74,000 shares, increasing our NAV by about $0.02. As a reminder, our total capacity for repurchases under this program is $5 million, of which we have used $650,000.00. We expect to continue to execute on repurchases going forward.

Operator, please open the line for Q&A.

One last item before we go to Q&A. Just want to make sure that everyone saw on the earnings release issued last night, there was an immaterial misstatement on the liability section of the balance sheet. To clarify, we have corrected that mistake and issued a new earnings release this morning. There were no issues or misstatements with the balance sheet as displayed in the 10-Q. With that, I'll pass it back to the operator.

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 star (*), one (1) on your phone now and you'll be placed into the queue in the order received. Please be prepared to ask your question when prompted. Once again, to ask a question, please press star (*), one (1) now. Our first question comes from Owen Lau from Oppenheimer. Please state your question.

Owen Lau: Thank you for taking my question. Your first lien loans, the percentage has been increasing and reached 62% of the total portfolio. Can you please remind us of your target percentage of the first lien loan and the timing to achieve this target?

Michael Mauer: Yes. Historically, if you go back a couple of years, we talked to a mix of 50% plus or minus between first lien and 50% plus or minus with second lien. I believe, if you go back, you saw our second liens going to the high 50s or low 60s at one point. As you just noted, we are now just over 60% first lien. We do not have a stated target within first versus second lien. I will tell you that, as we've talked about on the last several calls, we continue to see this market as one that is more borrower-friendly and that the terms for the junior pieces have become worse for us, less protections. We will continue to look at and opportunistically invest in second liens, but in the meantime, until we find opportunities that have the right protections or the market shifts, which it will at some point, we will continue to have a bias toward first lien or unitranche for protection purposes.

Owen Lau: That's very helpful. My second question is how should we think about the past of your portfolio size in the fourth quarter and 2019? Based on my math, you have about $28 million net portfolio outflow so far in the fourth quarter, and your leverage, you just mentioned, was about 80%, down from 86% at the end of the third quarter. Given your pipeline comments, should we expect the portfolio to decline a little bit in fourth quarter and grow again in 2019 or would you also use that excess cash to pay down your debt somehow in fourth quarter and manage the cash and grow the portfolio in 2019? Thank you.

Michael Mauer: Yes, thank you for the question. There's a couple of pieces to that. Number one is we will continually manage our debt outstanding under the revolver to the extent we have excess cash. We do attempt to pay that down and we'll re-borrow opportunistically as investments become available. On the investment side, as you saw in the last quarter where we were at 0.86 times, to extent that we have investments that we see that we like the return - and those returns are anywhere from 8% to typically 12% right now, probably more on the lower and the higher end - we will investment in them, especially if we've got visibility as we did last quarter of repayments coming over the next 10 to 12 weeks.

Our pipeline today, there are several opportunities that could close before quarter end, but I caution that we constantly see those either slip, fall away because we don't like them, something comes up through our diligence or terms change. Our target will continue to be in this 0.75 plus or minus 0.1, so call it 0.65 to 0.85, and to the extent that we can hold it in that 0.8, we will. We cannot be as specific as saying that this quarter will be lower than next quarter because it really is a function of the opportunities in front of us. With that, there are several opportunities we're working on now, at least two of which would be in the 10 million plus or minus that could close before quarter end.

Owen Lau: Thank you very much. That's it for me

Operator: Our next question comes from Leslie Vandegrift from Raymond James. Please state your question.

Leslie Vandegrift: Hi. Good afternoon. Thank you for taking my questions.

Michael Mauer: Hi, Leslie.

Leslie Vandegrift: Hey, just a quick check. The repayments post quarter were AP Gaming and Montrose, right? Was there another one I didn't hear?

Chris Jansen: It's Chris, Leslie. Hi. We are expecting a pay down actually tomorrow of our US Well position.

Leslie Vandegrift: Yes, just wanted to [Crosstalk].

Chris Jansen: [Crosstalk] announced the company is being purchased by a public special purpose acquisition corp, and part of that is the refinancing of that loan.

Leslie Vandegrift: Thank you.

Michael Mauer: Then the only other thing, Leslie, is that we're under NDA, so I can't say who it is, but there's another one that has identified that they may. They're looking at a strategic transaction that would cause a refinancing of our existing, so we don't know what will happen, but they have started discussions on that.

Leslie Vandegrift: Thank you for that color, and then on Trident, on the smaller tranche A for the second lien, did you say that that one is non-income-producing up to a point or was that the other holders piece of that?

Michael Mauer: [Pause] There are so many charges here. I wanted to just make sure that I answer this exactly correct.

Chris Jansen: Yes, the tranche…

Leslie Vandegrift: The one with the cost of about $3.5 million.

Michael Mauer: Our tranche A is interest only.

Leslie Vandegrift: Got it. That's what I heard, and then the – sorry, I lost my [Unintelligible] it. You had a good amount of originations in the quarter and you discussed a lot of that in the prepared remarks, some very quick repayers, short-term, high-IRR investments. Can we expect that kind of pace to keep up over the next two quarters? Was that more just timing for the calendar third quarter?

Chris Jansen: Yes. Hey, Leslie. It's Chris again. We don't anticipate that, but as Mike said to reiterate his point, we take what the market gives us. If there are good opportunities out there, we'll take it, especially in the case of Intermedia where we feel like there are more compelling opportunities currently given us by the market. There's no real plan to be [Audio Gap].

Michael Mauer: If you remember last summer, Leslie, we had the opposite effect. I think we were way under levered over the summer in '17.

Leslie Vandegrift: Yes, it can definitely be lumpy. I just didn't know if the outlook for the end of the year was similar.

Michael Mauer: I would not say that it's similar to where we were at 0.86. There is, I think, a potential to maintain where we are depending on how some things close. Even though we have planned the US Well, repayments still coming this week and maybe one more, but there is pipeline to replace that.

Leslie Vandegrift: My last question this afternoon, you guys have started to do some unitranche loans, first lien. Given your average hold size, how often do you guys use a Stifel platform or I guess what, in fact, does access to that platform have on you being able to get these unitranche loans that tend to be bigger than your traditional hold size?

Michael Mauer: Stifel has presented several opportunities to us. I think everyone knows that Montrose was one of those opportunities. There are a couple other we're working on now with them. Those are not near term, but I would say that Stifel has always been a benefit to us. They are not the driving force behind the origination. The team's broad relationships and contacts really is what drives that.

Leslie Vandegrift: Thank you for taking my questions.

Michael Mauer: Thank you.

Operator: Our next question comes from Christopher Nolan from Ladenburg Thalmann. Please state your question.

Christopher Nolan: Hi. On Montreign, which is the Upstate New York gambling company, as I recall, this is the second quarterly call that you've highlighted that portfolio company. How much below plan is it?

Michael Mauer: I think we are under NDA, so we cannot discuss specifics of their performance. We're giving you directional guidance that it's below plan, but beyond that, under NDA, we really can't go in specifics.

Christopher Nolan: Given that, it's on two consecutive calls, it must be something material, I would think.

Chris Jansen: It's been our history, Chris. When we have openings like this - just to recall, they opened in February which was a little bit early, and the weather this summer has not been conducive. That has held up construction on a couple of the projects which will help attract more gaming visitors and more, actually, overall entertainment visitors there specifically – and it's public knowledge – there's a golf course which will be redesigned and reopened, and a large water park with one of the major national, if not international, operator so not a risk to construction, risk to our borrower, but clearly big drivers of more gamers to come.

Christopher Nolan: Thank you. Also, the yield on new loans was 9.24% which seems to be a dip from the prior quarter. Is that simply just reflecting the head of market for first lien loans?

Michael Mauer: Yes. I think that's 100% accurate. I don't know that it's just competitive market for first lien loans. It's the competitive market overall, and the reason I say that is you've seen a shift for us on some second lien loans like the Montrose one that we went out of, and so the average yield will come down as we are more conservative in the current market that's aggressive not only first but second lien to make sure that we're comfortable with the overall portfolio and new investments. I would say that you're exactly right and we're going to be a little bit on the more conservative side in this environment.

Christopher Nolan: Final question. Given that and lower yields, any consideration on dialing back the balance sheet leverage and/or just buying back stock instead of reinvesting in new companies given where your share price is?

Michael Mauer: We do have the program in place and we'll continue that, but the leverage, ironically, the more we do first lien and the less we do second lien, the more we're comfortable with leverage at a slightly higher level because of the underlying risk of the investment is the lower risk on a first lien portfolio than a second lien.

Christopher Nolan: Okay. Thank you.

Michael Mauer: Yes.

Operator: Our next question comes from Paul Johnson from KBW. Please state your question.

Paul Johnson: Hi, guys. Thanks for taking my question. I only have one. It's a fairly general question, but we've heard a lot of talk in the market about a greater preference toward lenders that can originate basically the entire deal tranche. Are you guys seeing any kind of pushback or difficulty in securing or participating in deals that you want because of this? I'm just curious if that's something that you guys are seeing.

Michael Mauer: We've seen and heard the same things you have. We have not experienced it as an institution. I don't know if that is part of the - I'll call it the boutiques, these advisors, the underwriters that we work through. We've also heard a little bit of contrary information from the sponsors where we've got relationships that a lot of the middle market banks have become better at distributing their investments, meaning the debt owned under the PE investments than going to a single lender because single lenders can be a lot harder for the equity sponsors to deal with. Also, where there are large people who are trying to commit to entire deals, our experience has been that it usually ends up that there's a large person that's driving, whether or not it's 40% or 60% of it, but in the end, the borrower likes to have a club around where one person cannot vote on everything and control everything. That has worked to our advantage that these clubs – typically, both from smart people who are the anchors as well as smart sponsors, we've got good relationships on both sides and we've been able to participate in those clubs.

Paul Johnson: Thanks. That's very good insight. Those were all my questions.

Operator: [Pause] Our next question comes from David Miyazaki from Confluence Investment. Please state your question.

David Miyazaki: Hi. I guess good afternoon to you. This question is thinking about how your cost of capital is matched against the assets that you're adding to the left side of your balance sheet. If we think about your constant debt, you recently did a baby bond and I would imagine that the all-in cost for a [Unintelligible] coupon is probably 6.5% to 7%. Your cost of equity right now, if we were to use your dividend yield as a proxy for the cost of equity, is about a little over 12%. One of the things that I oftentimes will look at is what is your dividend relative to your net asset value, to show what kind of net earnings power you need to have to cover your existing dividend that's about 8%. There's a lot of different ways to look at what your cost of capital is and what your earnings power needs to be, but if you're adding assets that are safer and senior secured at 8.5%, I'm not sure that after fees and cost that those are actually going to be accrued up to either earnings or even a net asset value. How do you reconcile all this when you think about what you're underwriting versus your cost of capital?

Michael Mauer: Yes. David, it's a great question, and thank you. Several parts to that. The additions that we did during the September quarter were about 9.25%. I'd agree with your view on the cost of capital and you can look at a lot of different ways the baby bond in the range you talked about. The other thing that we've tried to stress is here is that in the current environment, we are trending toward this more conservative and if you want to use last quarter's 9% to 10% first lien-type opportunities, 8% to 9% some of them, nine to 10 others. That is fair. The baby bond is a five-year bond, and one of the things attractive to us about it was that it is a bullet maturity, unsecured. It's not amortizing down and that our view of this market and all of us on this call from your side and our side have been through more cycles than we can count. Going to a conservative state where we're trending down from closer to 12% yield on the portfolio, trending down toward 10 in this environment, to us, it's the right thing to do while at the same time putting on longer affixed five-year liabilities where you've got an increasing rate environment and we're still alive, but we're on the floating rate side go up about 30 basis points over the last 90 to 180 days. It seems to make sense and we would expect that – I can't tell you when or I'd be off doing something else, but we will hit another cycle. In that cycle, the yields will kick back up, the structures go in our favor, and we are positioning to be in the right position for that. In the meantime, it's about making sure we cover the dividend. We earn some of our incentive fee. We're not earning a ton of it, but we are doing what we think is a very good job and doing the right thing by shareholders. Hopefully, I addressed your question.

David Miyazaki: Yes, I mean sort of. I understand there's certainly utility in turning out part of your debt cost for multiplicity of reasons beyond rising short-term rates, so I can appreciate that. That's a business decision as much as it is a capital allocation decision, but I guess one of the things that – and I'm running off of the top of your head, what you said earlier with the $5 million authorization on your repurchases and you've run 600,000 or so. I think that's what you said so far.

Michael Mauer: Yes.

David Miyazaki: The vast majority of it has not been utilized. As I look at where you're at, going forward, if you're onboarding loans at a 9% yield today - and these part of a shift to improve the overall portfolio from a risk perspective so that are ready for all weather, and I think that's a good strategy. It's a conservative, sound strategy, but today, you can go buy those 9% loans at $0.65 on the $1.00 by buying back your own stock, and so that actually is quite the bargain if you liked buying them at par or whatever it was that you were buying them when you put them on your balance sheet. Now, by repurchasing them, you're effectively buying them at a huge discount. It seems to me that you can continue to move the credit profile of the portfolio in the right direction and still do things that are accretive.

Michael Mauer: We are trying to do all of that. It's a matter of timing. It's also a matter of point in time versus long term, but I'd agree with you generally on everything.

David Miyazaki: I guess my message in hearing your response to this matching with cost of capital and your capital allocation policies, it seems to me that utilizing more of the repurchase authority would be prudent along many different lines.

Michael Mauer: We expect to continue to use it, absolutely. At the same time, as I said earlier, I think that if you told me that we're going to be in a permanent state of where we are today, that we would act differently than believing that the markets will cycle and that we've got to have a long-term view.

David Miyazaki: I understand that, but if US Well pays down and you buy back shares and concentrate your new loans by doing so, you achieve it all, and that's why I would encourage the use of greater repurchases.

Michael Mauer: Thank you.

David Miyazaki: Thank you.

Operator: Once again, if you'd like to ask a question, please press star (*), one (1) on your phones now. At this time, we have no further questions.

Michael Mauer: We'd like to thank everyone and we look forward to speaking to everyone next quarter. Thank you, operator.

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

- End of Recording –