Q1 2017 Conference Call Script **vF**
For November 2017

[Operator Introduction]
It is now my pleasure to turn the floor over to Michael Mauer, CEO of CM Finance.

Mauer
Thank you operator. Thank you all for joining us this afternoon. With me today are Chris Jansen, my co-chief investment officer, and Rocco DelGuercio, our CFO. Before we begin, Rocco will give our customary disclaimer regarding information and forward looking statements. Rocco?

Rocco
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'd also like to call your attention to the safe harbor disclosure in 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 10Q 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 filings 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.

Mauer
Thanks, Rocco. As in our past calls, I will begin with a discussion of what we've seen in the leveraged finance market. Chris will then review our investment activity during and after the quarter, and then Rocco will discuss our financial results. I will conclude with commentary on our outlook for the portfolio.

We have redoubled our focus on developing directly sourced investments, usually on a club basis, over the past several months. Club deals frequently have a longer lead-time between identifying an opportunity and closing on an investment, as well as a slower due diligence process. The tradeoff is that these opportunities are not tied to borrowing conditions in the syndicated markets. Terms are idiosyncratic, with structures

thoughtfully matched to the risk profile of the borrower. It's an opportunity to do more work, in exchange for better returns and protections for us as lenders. During the quarter, we made two direct investments, and closed on another direct investment after quarter-end.

We still look at loans that are broadly syndicated, as well as secondary opportunities in loans and bonds. However, lending conditions in the syndicated markets remain borrower-friendly. 73% of new loans tracked by LCD, year-to-date, are covenant lite. We pride ourselves on our attention to the documentation and structuring of our investments, which has led us to pass on a significant number of new deals.

Through our strategic relationships with Stifel and Cyrus, and the proprietary networks of our investment team, we can leverage our origination capacity and call on a deep base of knowledge from industry and product specialists, as well as investment bankers. As was true when we spoke last, our pipeline is focused largely on direct lending opportunities. We are always focused on secured lending to high-quality management teams and companies. We are optimistic about the opportunities in our pipeline, as we finish 2017 and enter the new year.

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

Chris

Thanks Mike. We made three investments during the quarter, each of which is a new portfolio company. We also had three realizations during the quarter.

As I mentioned on our last call, we made an investment in the 1st lien loan to CareerBuilder. This loan backed Apollo's purchase of the company, which is a leading online employment website on the internet, serving both employers and job-seekers. Our yield, at cost, was 9.1%

We invested in a 1st lien loan to Liberty Oilfield Services, a provider of hydraulic fracturing services. Riverstone is the sponsor. This was a club deal, which refinanced Liberty's existing capital structure. Our yield, at cost, was 9.8%.

Finally, we led a new 2nd lien loan to Montrose Environmental Group. Montrose is a privately-held environmental services firm that provides air, soil, and water testing and related environmental services nationwide. Our yield, at cost, was 15.0%.

During the prior quarter, we participated in a 1st lien loan for Melissa and Doug, the maker of a wide variety of children's toys. Our position was small, and we sold it early this past quarter, realizing a gain of 1.5 points. The extremely high IRR is not

meaningful given our short holding period.

We also fully realized our investment in the first lien Term Loan of YRC Worldwide, a less-than-truckload freight carrier, which we had held since the IPO in February 2014. Our realized IRR was approximately 8.6%.

We received repayment in full on our 2nd lien loan to TNS, which we had also held since the IPO. Our realized IRR was approximately 9.6%.

Our portfolio company count has held steady since June 30th, with 23 portfolio companies. This count remains at 23 today. As of September 30th, our largest industry concentration was in Business Services, at 22.0% of the portfolio at fair value. Oil and Oil & Gas Services represented 19.7% of our portfolio, split between 11.3% Oilfield Services and 8.4% E&P. Entertainment & Leisure followed at 14.1%, followed by Healthcare at 8.9% and Media at 6.3%.

Since quarter end, we made one new investment and had one full realization.

Zinc Oxide produces a key raw material used in tire manufacturing, as well as chemical, agricultural, and personal-care applications. We participated in a 1st lien club deal, and also co-invested in the equity. We purchased $7.5 million of this loan, which is priced at LIBOR plus 1,000 at a purchase price of 99. We also purchased approximately $523 thousand of equity alongside our lending partner in the transaction.

Redbox repaid its loan in full in October. The loan was structured to repay quickly, so we were not directionally surprised to receive repayment. Our fully realized IRR was approximately 13.5%.

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

Rocco

Thanks, Chris.

For the quarter, our net investment income was 3.0 million dollars or 22 cents per share.

As of September 30th, the fair value of our portfolio was 271.9 million dollars, compared to 254.9 million dollars at June 30th.

Our investment activity accounts for a 16.3 million dollar increase in our portfolio. We also had a 700 thousand dollar increase from the net changes in our marks.

As of September 30th, the weighted average yield of our debt portfolio, *including amortization*, was 10.67%, versus 9.73% at June 30th. Two major factors contributed to the increase in our average yield. First, our investments during the quarter had an average yield of 11.7% versus a 9.1% average yield on investments realized in the quarter. This accounted for a 55 basis point increase in our yield. Second, the restructuring of Bird Electric removed a significant non-accrual asset from our debt portfolio, as we equitized our loan. This accounted for a 39 basis point increase in our yield.

As of October 1st, we removed Bird from non-accrual status, leaving us with no assets on non-accrual currently.

Our debt portfolio was comprised of 96% floating rate investments and 4% fixed rate investments. Both one- and three-month LIBOR are in excess of all applicable rate floors of our loans.

Our average portfolio company investment was approximately 11.8 million. Our largest portfolio company investment, PGi, was 25.8 million, and our second largest portfolio company, Caelus, was 22.9 million.

As of September 30th, 51.0% of the portfolio was in first lien investments, 44.6% of the portfolio was in second lien investments, and the remaining 4.4% was in equity and warrant positions. We did not hold any unsecured debt investments as of September 30th.

Additional information regarding the composition of our portfolio is included in our Form 10-Q filed yesterday.

We were .75 times levered as of September 30th, compared to .6 times levered as of June 30th.

With respect to our liquidity, as of September 30th we had 14.5 million in cash, 16.1 million in restricted cash and 22.7 million of capacity under our revolving credit facility with Citi.

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

Mauer
Thank you, Rocco.

The movement in our marks this quarter were, on balance, positive, with a few large movers. Three marks changed by more than a million dollars; these were Endemol, US

Well Services, and Trident.

Our mark on Endemol improved from 77 to 86 this quarter. Endemol's results were encouraging, and the company has an improving organic growth profile coupled with margin expansion, which reduced its financial leverage.

Our mark on US Well Services' Class A and B units improved an aggregate of $3.3 million. US Well's results have improved materially since its restructuring, including better volumes and stabilizing margins. We own equity by virtue of that restructuring, and we're pleased with the financial performance of the company over the past several quarters.

We decreased our mark on Trident Health, from 78 to 58. Weakness in Trident's customer base, as well a challenging debt profile, give us reasons for concern. We continue to monitor the credit closely and expect to work constructively with other stakeholders in the coming months.

Our portfolio yield improved significantly this quarter. As Rocco explained, the combination of our new investments in the quarter, our realizations of lower-yielding assets, and the successful restructuring of Bird Electric all played a role. Our focus on direct lending relationships led to both significantly more attractive yield opportunities, with Montrose and Liberty, and also to better structural protections than are available in a typical syndicated transaction. Over the long term, we believe structuring is essential for the preservation of capital.

We are committed to paying a sustainable dividend to our shareholders. Although we under-earned our dividend in the September quarter, we expect to earn in excess of our dividend in the December quarter, and we are on track to cover the dividend for both the fourth quarter and the full calendar year 2017. Our run-rate portfolio yield, as well as our current portfolio size, give us confidence as we look into 2018. We continue to be sensitive to the ebb and flows related to repayments and reinvesting capital with the appropriate return and protections for our capital.

Our investment activity in the quarter grew our portolio by $16.3 million dollars. However, interest income declined by approximately $465 thousand between the June quarter and our September quarter. The timing of our investments in Liberty and Montrose were a key factor for this seeming disconnect. Both closed in late September. We also entered the quarter under-levered, at .6 times, which is below our target of plus-or-minus .75 times. We are comfortable at our current leverage level, and will strive to keep our leverage between .65 and .85 times.

We did not earn any incentive fee in the September quarter, due largely to the timing of investments and repayments, although we expect to earn our incentive fee in the current quarter.

Our Board of Directors declared a distribution for the quarter ended December 31th, 2017 of $.25 per share, which will be payable on January 4th 2018 to shareholders of record as of December 15th. 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.

We believe in active management of our portfolio, and have continued our work to lowering its risk profile while maintaining net investment income in order to sustain our dividend. As opportunities permit, we have exited lower yielding loans in favor of direct investments with better yields and structures. We believe we have additional room to rotate the current portfolio out of lower-yielding, more liquid assets in favor of direct investments in the future. In a market that was generally unforgiving for lenders, we identified and closed on two deals that had a significant, positive impact on our portfolio yield and were also more conservative structures than we see in syndicated loans.

Over the past year, we have decreased our average position size, increased our number of portfolio company investments, and have reduced our non-accruals. The team underwrites conservatively, focusing 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, but we also think additional upside NAV potential remains in our current portfolio, especially in our energy book.

Operator, please open the line for Q&A.
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Mauer
Thank you for joining us today. We look forward to speaking to you all next quarter.

Potential questions for Q&A

Terms of Bird preferred:

Our Class C Preferred Units accrue a yield of 10% per annum, compounding semi-annually. This is effectively PIK. Once Bird reaches certain financial performance targets, our Preferred Units will receive a monthly distribution, in cash, at the same 10% per annum rate. As of September 30th, we had our Preferred Units on non-accrual. We expect Bird's Preferred Units to go cash-pay in 2018.

Syndicated investments in the last few quarters?

Immucor
AP Gaming
Medical Solutions
Careerbuilder
Montreign

More on Trident?

Developing situation.

What about below-NAV share issuance or rights offerings?

We have no plan to do a below-NAV issuance or rights offering.