Stephen Hodges

From: Stephen Hodges
Sent: Tuesday, January 2, 2024 10:51 AM
To: Andrew Murstein
Cc: Anthony Cutrone
Subject: RE: Follow up

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Thank you for the response and I hope you had a restful holiday as well.
As a courtesy, I am notifying you that we will be submitting our nominees today. Again, I've been very clear that I would like to maintain a dialogue and I know we both want what's best for the company and its investors. We are not required to publicize our nominees or our proxy challenge and do not plan on doing so at this point.

From: Andrew Murstein [redacted]
Sent: Tuesday, January 2, 2024 7:08 AM
To: Stephen Hodges [redacted]
Cc: Anthony Cutrone [redacted]
Subject: Re: Follow up

Happy new year. Hope you had a nice long weekend. I hope to get back to you on the below by the end of today. Thank you.
Andrew Murstein, President
Medallion Financial Corp.
437 Madison Ave - 38th Floor
New York, NY 10022
[redacted]
www.medallion.com

> On Jan 1, 2024, at 3:42 PM, Stephen Hodges [redacted] wrote:
>
> **[EXTERNAL]**
> I am following up from our conversation to clarify several important items and to ensure we avoid any confusion. I encourage you to email me back if you have any concerns or have a "fuzzy" recollection of any items listed below. The last few points are aimed at questions raised by Anthony:
>
> 1. We have held our investment for almost 3 years and have never agitated for change but faced with what will certainly be a different credit and competitive environment and the still-pending SEC lawsuit, we feel we must proactively voice our concerns and help the Company focus on excelling in its CORE business over the mid-and long-term rather than quarter to quarter.
> 2. The obvious and clichéd tactic with an activist is to claim the activist is self-serving rather than serving the interests of shareholders or stakeholders. I will be very, very clear about this. We think that Medallion Financial Corp (the "Company"), and specifically, Medallion Bank (the 'Bank"), has tremendous potential and if MOST of our observations are addressed and

recommendations are followed, we unequivocally believe that the enterprise value of the Company will increase in both the short and long run. Since the changes are aimed at making the Company a better run, more transparent and more profitable entity, we STRONGLY believe that these changes will lead to more retail and institutional interest in the Company which will deepen liquidity/volume for both debt and equity. Better ROAA, ROAE and and balance sheet optimization will drive down the risk premium of the Company which will positively impact ALL debt and equity valuations and holders. My extensive analysis, stretching back over 15 years clearly shows the level of thought we put into our approach.

3. Since the TruPS are long-dated and despite their floating rate exposure, their present value is far more sensitive to changes in the risk premium. TruPS in general, also have few financial (or other) covenants and are the most subordinated debt in the capital stack. These "equity-like traits", including a deferral option in most cases but not for the Company, are why TruPS are eligible for inclusion in consolidated bank holding company capital ratios. This is not applicable to the Company's unique legacy holding company structure, but I bring this up because I want to illustrate the "equity-like" risk inherent in TruPS in which catastrophic bank performance has a non-zero probability of impairing their par value. Even through TruPS exposure alone, I would argue that we are far more aligned with the health of equity holders than we are with senior debt holders. Our equity position of course is fully aligned with the interests of shareholders.
4. As a result of our TruPS equity-like exposure and our equity investment which we intend to increase over time, we desire a "seat at the table" which means board representation because we feel, as we clearly pointed out through 11 pages of my 21 pages of analysis, that governance can be substantially improved and this becomes critically important in a rapidly changing and challenging rate or economic environment. We do not believe any material governance changes will be made without pressure from an investor like us.
5. Any debt or equity investor is faced with options to stay in or exit an investment. Much like the Company, we seek to maximize returns on our investment and in that analysis consider all options. We can hold our investment, sell our investment to a third party, sell our investment back to the Company or find a structured solution with the company, e.g. convert our investment to an equity/cash position. If the changes we seek are implemented, we believe that the Company would be an excellent long-term investment. If those changes are not made, we believe that our investment could face material risks, perhaps not identical to the decline in the Medallion portfolio, but echoes of it; where management refused to recognize and mitigate clear risks and almost caused the collapse of the Company. These risks could manifest themselves in the short- or medium-term. If changes aren't made, and risks remain high, like any investor we would consider mitigating our exposure, perhaps by decreasing it or hedging it and would continue to loudly seek changes, through public and private channels, that would benefit all stakeholders.
6. I take contemporaneous notes of any calls I have and in our call on 12/20/23, you bought up the idea of a payoff. I responded on the call, that I would present options to you including a complete or partial payoff or a partial swap for debt/equity. Anthony Cutrone was also on that call. I also indicated that I would email you data that would drive our valuation and referenced that we would be looking at the go-forward returns and other opportunities out there. In my email follow up later that day outlining a few of these key points; you did not correct my observations.
7. I emailed you data on both a payoff and a "hybrid" solution, in which we would retain equity exposure, on 12/28/23. I note for you that through the hybrid solution, the retained equity exposure would mean that we would remain invested and would still have a strong vested interest ensuring the Company's enterprise value is maximized and governance and business changes are implemented.
8. You and Anthony spent an inordinate amount of time discussing only the payoff scenario, which I pointed out was only in response to your request. During that discussion, you asked how that would benefit shareholders and as I responded repeatedly, the payoff request was in response

to your request. On the broader issue of whether paying down debt with cash on hand benefits shareholders, clearly in certain circumstances it does. Debt paydowns reduce solvency risk and lower the risk profile of an issuer and increase their future debt raising capacity. All these directly increase the value of the equity and any remaining debt and improve an issuers leverage ratio. Whether that's the TruPS, bank debt or senior notes, the calculus is the same.

9. Any expensive debt you can repay with cheaper debt clearly also has a direct impact on shareholders who are the beneficiaries of the saved interest expense. For issuers acquiring their own debt, there is a unique additional and material benefit in that they also instantly realize the cancelation of debt gain (rather than accreting through maturity for an investor) which also benefits current shareholders. These neither support paying us off nor keeping the TruPS outstanding, but your future analysis on any debt repayment needs to be far broader than the simplistic approach discussed during our call on 12/29/23.
10. Finally, in order to determine the cost of floating rate debt, rather than believing that "rates will do down" which they probably will (and they will probably go up in the future) you can either use forward 3MO TSOFR data or 3MO TSOFR swap rate data and apply the appropriate risk premium to the generated cash flows to determine the PV of the debt. The SOFR floating-to-fixed rate is widely publicized and reflects market participants views. A discount margin approach would be more conventional too but a little more work would be involved. Risk premiums applied over an extended period should be taken with a grain of salt since they are an average and wouldn't for example, recognize a deterioration or improvement in the Company's financials in the future that would impact the risk premium in the future. However, you have 2 recent offerings that give you sense of senior unsecured risk premiums over the risk free rate over a 5 and 10 year span. These approaches would allow you to actually make an informed decision about any floating rate debt you have or may have in the future and also gauge the benefits of a payoff or debt to cash/equity scenario in which an investor would still retain significant equity.
11. Either way, the payoff analysis was at your request and if you wish to pursue that conversation or any other scenario, that is entirely your choice and we will respond to serious solutions. But our entire focus right now is on helping strengthen the Company and maximizing value for all stakeholders and we consider ourselves an investor for the long run.

Stephen Hodges | President
[redacted] | www.zimcal.com

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in error,
please immediately notify the sender and permanently delete the original and any copy or printout thereof.