

Chicago Atlantic BDC, Inc.(Q2 2025 Earnings)

August 14, 2025

Corporate Speakers:

- Tripp Sullivan; SCR Partners; Investor Relations
- Peter Sack; Chicago Atlantic BDC; Chief Executive Officer
- Thomas Geoffroy; Chicago Atlantic BDC; Interim Chief Financial Officer
- Dino Colonna; Chicago Atlantic BDC; President

Participants:

- Pablo Zuanic; Zuanic Associates; Analyst

PRESENTATION

Operator^ Good day. And welcome to the Chicago Atlantic BDC, Inc. Second Quarter 2025 Earnings Call. (Operator Instructions)

I would now like to turn the conference over to Mr. Tripp Sullivan.

Please go ahead, sir.

Tripp Sullivan^ Thank you. Good morning. Welcome to the Chicago Atlantic BDC conference call to review the company's results.

On the call today will be Peter Sack, Chief Executive Officer; Tom Geoffroy, Interim Chief Financial Officer; Dino Colonna, President; and Gianni Fazio, Chief Accounting Officer.

Our results were released this morning in our earnings press release, which can be found on the Investor Relations section of our website, along with our supplemental earnings presentation filed with the SEC.

A live audio webcast of this call is being made available today.

For those who listen to the replay of this webcast, we remind you that the remarks made herein are as of today and will not be updated subsequent to this call.

Before we begin, I'd like to remind everyone that certain statements that are not based on historical facts made during this call including any statements related to financial guidance may be deemed forward-looking statements under federal securities laws because these forward-looking statements involve known and unknown risks and uncertainties.

There are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements.

We encourage you to refer to our most recent SEC filings for information on some of these risk factors.

The Chicago Atlantic BDC assumes no obligation or responsibility to update any forward-looking statements.

Please note that the information reported on this call speaks only as of today, August 14, 2025.

Therefore, you are advised that time-sensitive information may no longer be accurate at the time of any replay or transcript reading.

I'll now turn the call over to Peter Sack.

Please go ahead.

Peter Sack^ Thanks, Tripp. Good morning, everyone.

During the second quarter, we continue to demonstrate how well positioned we are at Chicago Atlantic BDC.

We remain the only BDC focused on and able to lend to cannabis companies together with substrategies targeted in underserved markets, where the more traditional lenders don't provide capital.

In the second quarter, we are excited to announce that we executed on our pipeline and funded \$39.1 million of new investments of which three were to new borrowers.

We have been able to support proven operators in strong markets, while retaining diversity of cash flows, low leverage, high amortization and strong collateral coverage. When stacked up against other BDCs, I would like to highlight our relative strengths.

Our weighted average yield on debt investments as of June 30 was 16.1% and compared with the average BDC of 11.8% according to recent public BDC research from Ladenburg Thalmann.

Our debt investments are all senior secured compared with other BDCs, who have an average of 18% exposure to second lien subordinated debt or equity. The weighted average secured net leverage for our portfolio companies is 1.9x and interest coverage ratio of 3.2x.

The portfolio is underlevered with only \$5 million of debt as of the quarter end compared with the BDC average of 1.1x.

Assuming full utilization of our \$100 million credit facility during the year, we would still be well below industry averages. And we have no non-accruals compared with an industry average of 3.8% of costs.

Today, we announced a \$0.34 dividend, marking the fourth consecutive quarter at that rate. That brings us to a total of \$1.36 in dividends declared over that period.

As we scale the platform, we intend to grow this component of our return to shareholders.

We have navigated the choppy equity in credit markets during the past six months and expect that as we continue to execute on portfolio growth, our shareholders will be the beneficiary of improved total returns as well.

With all the news around rescheduling the past few weeks, it's worth reiterating how we continue to approach the cannabis market. Rescheduling would dramatically increase the cash flow after taxes for our borrowers.

In the short term, that would translate to higher equity valuations of both public and private cannabis companies. There would likely be increased M&A activity and higher capital expenditure activity driven by the higher free cash flow, leading to greater opportunity for our platform.

In the medium and long term, there's still lingering uncertainty that we continue to limit investment until federal regulators put in place a regulatory framework for cannabis as a Schedule III substance. This continued ambiguity will continue to create challenges for U.S. public listings and access to debt markets for cannabis operators.

At Chicago Atlantic, we have always underwritten the regulatory status quo.

We are not deploying capital based on rescheduling happening or federal legalization.

We assume that the environment remains unchanged and underwrite our investments based on cash flow and collateral profiles that exist today.

We have a niche strategy with limited lending competition, generating yields above our BDC peers.

We believe that with specialization and focus, we can better manage risk as well.

This is a potent combination and unique strategy that positions us well for both the near and long term. Tom, why don't you take it from here?

Thomas Geoffroy^ Good morning. Thanks, Peter.

I want to highlight our investor presentation that we filed this morning that serves as our earnings supplemental.

I'll start with the investment portfolio.

We have 33 portfolio companies, 22% of our portfolio is invested in non-cannabis companies across multiple sectors.

Our average debt investment position size is 3% of our investment portfolio. 76% of the portfolio has floating interest rates and 46% of these loans have already reached their respective interest rate floors. The gross weighted average yield of the company's debt investments is approximately 16.1%. None of the loan portfolio is on nonaccrual status.

As of June 30, the company had \$5 million of debt outstanding, all of which was drawn from the new \$100 million credit facility.

During the period after quarter end, we received approximately \$48 million of payoffs from three investments and used the proceeds to pay down all of the outstanding indebtedness.

As of August 14, we have approximately \$125.4 million of liquidity, comprised of \$100 million of borrowing capacity and \$25.4 million of cash on the balance sheet, which is available to deploy to our originations pipeline.

This gives us ample liquidity to deploy additional capital over the balance of the year, while remaining relatively under-levered compared to other BDCs.

Our financial highlights for the second quarter are: gross investment income of \$13.1 million for the quarter ended June 30, 2025, compared to \$11.9 million in the first quarter.

Net expenses were \$5.4 million, which is net of the expense limitation agreement compared to \$4.3 million last quarter, which included a waiver of the G&A expense reimbursement to the manager. Net investment income was \$7.7 million or \$0.34 per share, consistent with last quarter.

Net assets were \$302 million at quarter end, and the net asset value per share was \$13.23.

At quarter end, there were 22.8 million common shares issued and outstanding on a basic and fully diluted basis.

I will now turn it over to Dino to talk about our origination efforts.

Dino Colonna^ Thanks, Tom.

We funded approximately \$39.1 million in new debt investments in the second quarter to nine portfolio companies, a record quarter for Lean. three of these investments were new borrowers to the BDC.

Of the \$39.1 million in new debt investments, 100% of them were senior secured and 88% were floating rate.

During the quarter, we also had loan repayments and amortization totaling approximately \$22.3 million. Total unfunded commitments for the portfolio were \$16.2 million as of June 30. To date in the third quarter, we have funded \$24.7 million to six borrowers, four of which were new borrowers to the portfolio.

Of the \$24.7 million in new debt investments, 100% of them were senior secured and 81% of those are floating rates.

Subsequent to quarter end, we received principal payoffs of approximately \$48 million from three loans.

While repayments in the third quarter to date have been large, we still expect originations to remain active into year-end and to achieve net portfolio growth for the year. The pipeline across Chicago Atlantic as of quarter end, which includes cannabis and noncannabis opportunities, totaled approximately \$780 million in potential debt transactions to 43 unique potential borrowers, a significant increase from the end of the first quarter.

The current pipeline consists of approximately \$649 million in cannabis opportunities and approximately \$131 million in potential non-cannabis investments. Talk of tariffs that rattled the broader capital markets back in March and early April seemed to stabilize by May and the pickup in potential opportunities at the top of the funnel, we started to see mid-second quarter have continued throughout the summer in both cannabis and non-cannabis.

We are still monitoring potential impacts of tariffs on existing portfolio companies and remain confident there will be limited direct impact on the overall portfolio.

For new potential loans in the pipeline, we are also spending additional time with companies understanding the potential direct and indirect impacts of tariffs. Both the cannabis and non-cannabis verticals continue to see strong demand for debt capital from a multitude of borrowers with experienced management teams, strong growth outlooks and leading positions in their respective industries. Demand for cannabis loans has picked up in the last months, driven by potential M&A, upcoming debt maturities and ESOP activity.

We expect the demand for cannabis credit to continue and may further increase if the recent talks of rescheduling gained real momentum.

Cannabis as a Schedule III drug would be somewhat of a Goldilocks scenario for us.

Operators would have more after-tax cash flow to lend against, and competition would remain limited at best, since cannabis would still be federally illegal under Schedule III. The recent momentum in deployments the increase in the pipeline and our access to ample liquidity give us confidence that deployment activity should continue at a brisk pace into year-end.

As always, we remain laser-focused on originating, underwriting and structuring loans that deliver attractive risk-adjusted returns and differentiated credit alpha to our shareholders.

We thank you for your continued support and look forward to updating you again next quarter.

Operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) The first question is from Pablo Zuanic, Zuanic & Associates.

Pablo Zuanic^ Good morning, everyone. This is Mohammed on for Pablo.

For our first question.

Before we get into cannabis lending, can you give us a brief overview on market sentiment about the BDC sector in general, power macro teams, interest rates and alternative lending solutions including crypto base ones impacting the BDC sector in general and stock sentiments in the group?

Thomas Geoffroy^ Sure.

I can take that.

I think we've -- the BDC sector has been impacted by uncertainty around tariffs and macro considerations around tariffs. Positively impacted by changes in interest rate sentiment.

We at Chicago Atlantic, I think our strategy and our portfolio is somewhat insulated -- is fundamentally insulated from much of this uncertainty.

So we are impacted by market sentiment generally.

Our portfolio is largely floating rate with high interest rate floors.

Our borrower group, especially the cannabis portfolio has extremely limited exposure to tariffs and trade war impacts.

So we think that our niche strategy is relatively insulated from the broader BDC market dynamics on a fundamental basis.

Pablo Zuanic^ Yes.

On a similar note, have there been any changes under the Trump administration and how the BDC sector is regulating, anything you would highlight?

Thomas Geoffroy^ There are a number of reforms under consideration by new administration within the SEC.

I think, it's too early to speculate on what is likely to what's likely to be passed in rule-making process or legislated efforts over the balance of the Trump administration though.

Pablo Zuanic^ Two more. Maybe as a reminder for the audience, (inaudible) how has your pipeline and opportunities change from the time you were diverse like BDC to now be part of a larger group as the Chicago Atlantic BDC. Would help if you can give some tangible examples?

Peter Sack^ Yes. I'd say the pipeline is -- since the formation of the joint venture with Chicago Atlantic, this vehicle has gained access to a broader pipeline of non-cannabis opportunities. And then the market of cannabis opportunities has changed as well in the cannabis sector, particularly in Q2, we saw the emergence of two new types of opportunities that were not a part of the opportunity set in really the years prior.

One was -- one is the number of larger cannabis companies to which BDC does not have exposure that are going through operational or balance sheet restructurings. And in those processes, many of those companies will be selling profitable cash flow positive assets that are attractive leverage profiles, when separated from their previous ownership group and previous balance sheets.

And then the second new set of opportunities that's driving some of our pipeline development is the emergence of ESOP transactions of companies that are private companies seeking liquidity and exit opportunities through employee stock ownership plan type organization and capital structures.

Pablo Zuanic^ Finally, with the rescheduling those flow, have you seen your potential new clients hit the pause button as they take away and see attitude towards funding, maybe hoping for the cost of capital with the new rescheduling to lower the kind of cost of capital in the cannabis sector?

Peter Sack^ No.

I think we've seen a bit of the opposite actually.

We've seen operators instead more optimistic about executing on growth strategies such as acquisitions and capital expenditures leading them to seek capital -- third-party capital earlier rather than later.

But those dynamics probably exist.

Thomas Geoffroy^ I was just. Yes.

I would just add to that, the industry and these operators have had a ton of head fakes in the past with news like this.

So I don't think anybody is stopping in their tracks to wait to see what happens based on what they've learned in the past from these previous head fakes.

Operator^ (Operator Instructions) Gentlemen, there are no more questions registered at this time.

I turn the conference back to Mr. Sack for any closing remarks.

Peter Sack^ Thank you for your support. And please feel free to reach out at any time.

Operator^ The conference has now concluded. Thank you for attending today's presentation.

You may now disconnect.