

## Chicago Atlantic BDC (Q1 2025 Earnings)

May 14, 2025

### Corporate Speakers:

- Tripp Sullivan; Chicago Atlantic BDC; Investor Relations
- Peter Sack; Chicago Atlantic BDC; Chief Executive Officer
- Martin Rodgers; Chicago Atlantic BDC; 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 First Quarter 2025 Earnings Conference Call. (Operator Instructions)

Please note today's event is being recorded.

I'd now like to turn the conference over to Tripp Sullivan with Investor Relations.

Please go ahead.

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; Martin Rodgers, Chief Financial Officer; and Dino Colonna, President.

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 as of today and will not be updated subsequent to this call.

Before we begin, I'd like to remind you 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 that 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 factors.

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, May 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.

It's been six weeks since our fourth quarter call and I'm more convinced that we've created a tremendous investment vehicle at Chicago Atlantic BDC.

We are uniquely positioned among BDCs as the only such vehicle focused on and able to lend to cannabis companies, together with substrategies targeted in markets where the more traditional lenders don't provide capital.

This distinctive focus allows us to deploy capital with differentiated risk reward, and I would like to highlight our relative strengths.

Our weighted average yield on debt investments as of March 31 was 16.6% compared with the BDC average of 12.1% according to recent BDC research from Ladenburg Thalmann. All of our debt investments are senior secured compared with other BDCs who have an average of 19% exposure to second lien subordinated debt or equity.

The weighted average secured net leverage of our portfolio companies is 1.4x and interest coverage ratio of 3.4x. The portfolio is entirely unlevered compared with the BDC average of 1.1x.

Assuming full utilization of our \$100 million credit facility during the year, we will still be well below industry averages.

We have no nonaccruals compared with an industry average of 3.9%.

Since October 1, 2024, we originated \$52.8 million in gross fundings.

In Q1 2025, we committed \$32.3 million and funded \$20.8 million. The total amount of originations was in line with what we expected for the first quarter, but the back-end timing limited the impact on our gross investment and income.

I expect that we will continue to ramp deployment with focus on proven operators, strong markets, diversity of cash flow, low leverage, high amortization and robust collateral coverage.

Today, we announced a \$0.34 dividend, marking the third consecutive quarter at that rate.

For the last four quarters, we have now declared a total of \$1.27 in dividends.

Our intent is to grow this component of our return to our shareholders as we continue to scale the platform.

Our hope is that with more settled equity and credit markets, certainly with less volatility than we've experienced since early April, our total returns to shareholders will increase as well.

Since our last reporting, the expectation for Federal regulatory changes remains relatively unchanged.

While the outlook for common sense reforms such as rescheduling is positive, the timing is unpredictable, and we continue to underwrite our investments based on our borrowers' cash flow and collateral profiles in the current environment.

Amid industry uncertainty, we believe Chicago Atlantic is a constant that borrowers and investors can count on.

We deploy capital with consumer and product-focused operators in limited license jurisdictions at low leverage profiles to support fundamentally sound growth initiatives.

Operating in a niche strategy with limited competition, we both generate yields above our BDC peers and can better manage risk. This focus positions us well for 2025, and I look forward to presenting our growth in the quarters to come. Martin, why don't you take it from here?

Martin Rodgers^ Good morning. Thanks, Peter.

Before I start my brief comments, I want to highlight our investor presentation that we filed this morning that serves as our earnings supplemental.

Turning to our highlights for the first quarter. Gross investment income for this quarter was \$11.9 million compared to \$12.7 million in the fourth quarter last year. Net expenses were \$4.3 million, which reflects a waiver of the G&A expense reimbursement to the manager.

This is compared to net expenses of \$4.4 million last quarter, which is net of loan portfolio acquisition expenses. Net investment income was \$7.6 million or \$0.34 per share compared to \$8 million or \$0.35 per share last quarter.

Net assets were \$301 million at quarter end and NAV per share was \$13.19.

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

As we look to the investment portfolio, I'd like to highlight the strength and diversification of our investments.

We have 31 portfolio companies, 21% of our portfolio is invested outside of cannabis across multiple sectors.

Our average debt position size is 3% of our debt portfolio. 76% of the portfolio is floating rate and 99% of these loans have a rate floor which shields us from declining interest rates. The gross weighted average yield of company debt investments is approximately 16.6%.

None of our loans are on nonaccrual status.

At the BDC level, we had no debt as of quarter end as we deploy cash from the balance sheet to fund new investments.

As noted in our press release, we closed on a new \$100 million credit facility during the quarter, providing ample liquidity to execute on our pipeline.

We are currently underlevered compared with other BDCs. And as we draw down on the credit facility, we expect leverage to increase slightly.

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

Dino Colonna^ Thanks, Martin.

We committed approximately \$32.3 million in new debt investments in the first quarter and funded approximately \$20.8 million of that total. All these investments were new borrowers to the BDC.

As it relates to the pace of investments in the quarter, January was slower, which is typically the case. The pace picked up meaningfully into February with most of these investments completed in March.

During the quarter, we also had loan repayments and amortization totaling approximately \$7.7 million. To date, in the second quarter, we funded \$7.2 million to four borrowers, of

which \$5 million was to a new portfolio company and the remaining to three existing borrowers. Total unfunded commitments were approximately \$12.8 million. The pipeline across the Chicago Atlantic platform as of quarter end, which includes cannabis and non-cannabis opportunities totaled approximately \$590 million in potential debt transactions across 35 unique companies.

The breakdown of the opportunity set includes approximately \$462 million in cannabis opportunities and approximately \$128 million in non-cannabis investment opportunities. Talk of tariffs that rattled the broader capital markets in March and early April have started to stabilize, and we have seen a recent pickup in potential opportunities at the top of the originations funnel in both cannabis and non-cannabis, which should translate to more completed investments over the coming months.

Speaking of tariffs, we believe there will be limited direct impact on the overall portfolio.

As is normally the case, we stay close to all of our portfolio companies, typically receiving financial and performance updates from the vast majority of borrowers on a monthly basis, which certainly helps in times like these.

For new potential loans in the pipeline, we are also spending additional time with companies understanding the potential direct and indirect impacts of tariffs.

As Peter noted earlier, we are unique in being able to invest in both cannabis and other industries in the lower middle market that are underserved by traditional lenders.

We are not seeing much competition in either strategy as the Chicago Atlantic platform continues to be the dominant originator in the cannabis space and is starting to develop a leading brand in non-cannabis direct lending as well. Both the cannabis and non-cannabis verticals are seeing strong demand for debt capital from a multitude of borrowers with experienced management teams, strong growth outlooks and leading positions in their respective industries.

We have and will continue to be very disciplined in our underwriting approach and extremely selective with our borrowers, which we believe will reap longer-term benefits for our shareholders.

We pride ourselves on building durable investment portfolios regardless of sector-specific trends or broader macro conditions, and we'll continue to leverage Chicago Atlantic's track record and experience in methodically deploying capital and delivering differentiated credit alpha to our shareholders.

We look forward to reporting additional progress as we work to deploy the ample liquidity on the balance sheet.

Operator, we're now ready for questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

And today's first question comes from Pablo Zuanic with Zuanic & Associates.

Pablo Zuanic^ Look, just a general macro question. My read listening to other finance companies in this space is that they seem more cautious about the industry outlook, assuming no state level or federal level regulatory changes this year. They found more cautious than they sounded three, six months ago.

But in this context, right, you're ready to deploy \$100 million in loan this year, which is a pace much higher than what we're seeing at other companies.

So I'm just trying to reconcile the two, but if you can just make some comments there on that point in terms of your industry outlook and the context in which you would be deploying \$100 million, where apparently very few are doing that.

But correct me if I'm wrong.

Peter Sack^ I think we're focused on -- since our inception of Chicago Atlantic, we've put aside the idea of the broader U.S. cannabis industry because we view the U.S. cannabis industry as really a grouping of 40 individual states that each have their own supply and demand dynamics. The each level of attractiveness and growth profile that changes over time. And so we keep a more narrow focus on the markets that we're excited about, the operators and the relationships that we're excited about.

And we spend our time building relationships with those operators in boom times and times where equity markets aren't so enthusiastic. And so for us, it's a longer-term view of partnership building to support growth initiatives of operators that are successful in their markets.

And I think that's what all of that investment in a platform and a team is what drives us to be able to continue to deploy in a very disciplined manner consistently throughout different cycles of when the market may view the sector as a whole differently because, frankly, we don't spend a lot of time thinking about the U.S. cannabis market as a whole.

We spend a lot of time thinking about 40 individual states.

Pablo Zuanic^ Understood.

But -- and not to push back on that comment, but when you talk about the pipeline on the cannabis side and the pipeline on the non-cannabis side, is there any nuance there again, compared to three, six months ago where you might be a bit more active on the non-cannabis side? I think the ratio last quarter was 77% cannabis and the rest noncannabis.

Or should we assume that, that ratio remains pretty stable throughout the year?

Peter Sack^ No significant difference. And I think that the change of deployments in first quarter is ordinary fluctuations, not a deliberate change or a market-driven change.

Pablo Zuanic^ Right. And then just staying on the growth plans.

I mean obviously you have the revolving facility, \$100 million.

If your view on the industry stays as it is or even improves, right, and you feel that there's room to deploy more capital, how do you feel about the BDC's flexibility to increase that facility?

Peter Sack^ So we think about building a differentiated risk/reward platform in two ways.

One is by deploying into industries into companies at risk levels that we think are differentiated from the broader BDC market. And two, we think about managing a vehicle that overall can generate differentiated returns even on a basis that's more under-levered than the broader BDC market. And so we do think that there's room to grow our senior secured credit facility. There's room to add modest unsecured notes as we've been able to achieve in other vehicles managed under the Chicago Atlantic platform, but that will be done in a disciplined and deliberate manner in conjunction with the pipeline

Pablo Zuanic^ Right. And just a reminder in terms of what's your debt leverage threshold? I know you said the BDC average is 1.1x. Would that be the same number for yourselves? Or would you be looking at a lower ratio longer term?

Peter Sack^ We're likely to be well below industry averages for the foreseeable future.

Pablo Zuanic^ And then I know we cannot -- last question.

I know we cannot guide based on the growth momentum of the book on my math and what you're saying on this call you should be in a position by the third or fourth quarter to increase the dividend.

But just a reminder, how should we think about that?

Peter Sack^ We don't provide dividend guidance, but the BDCs are required to distribute nearly all of their income every year. And so all of its income will be distributed by the end of the year.

Operator^ And it appears as there are no further questions.

So at this time I'd like to turn the conference back over to Peter Stack for any closing remarks.

Peter Sack^ Thank you for the support.

We look forward to presenting results in the quarters to come. And please feel free to reach out with any questions.

Operator^ Thank you. This concludes today's conference call.

We thank you all for attending today's presentation.

You may now disconnect your lines.

And have a wonderful day.