

**Chicago Atlantic Real Estate (Q1 2025 Earnings)
May 8, 2025**

Corporate Speakers

- Tripp Sullivan; Chicago Atlantic Real Estate; Investor Relations
- Peter Sack; Chicago Atlantic Real Estate; Co-Chief Executive Officer
- David Kite; Chicago Atlantic Real Estate; Chief Operating Officer
- Phillip Silverman; Chicago Atlantic Real Estate; Chief Financial Officer

Participants

- Aaron Grey; Alliance Global Partners; Analyst
- Chris Muller; JMP Securities; Analyst
- Pablo Zuanic; Zuanic; Analyst

PRESENTATION

Operator^ Good day. Welcome to Chicago Atlantic Real Estate Finance, Inc. First Quarter 2025 Earnings Conference Call.

(Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference to Tripp Sullivan with Investor Relations.

Please go ahead.

Tripp Sullivan^ Thank you. Good morning.

Welcome to the Chicago Atlantic Real Estate Finance conference call to review the company's results.

On the call today will be Peter Sack, co-Chief Executive Officer; David Kite, Chief Operating Officer; and Phillip Silverman, Chief Financial Officer.

Our results were released this morning in our earnings press release, which can be found on the best relations section of our website along with our supplemental 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.

During this call certain comments and statements we make may be deemed forward-looking statements within the meaning prescribed by the securities laws including statements related to the future performance of our portfolio, our pipeline of potential loans and other investments future dividends and financing activities.

All forward-looking statements represent Chicago Atlantic's judgment as of the date of this conference call and are subject to risk and uncertainties that can cause actual results to differ materially from our current expectations.

Investors are urged to carefully review various disclosures made by the company including the risk and other information disclosures in the company's filings with the SEC.

We also will discuss certain non-GAAP measures including but not limited to distributable earnings.

Definitions of these non-GAAP measures and reconciliations to the most comparable GAAP measures are included in our filings with the SEC.

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

Please go ahead.

Peter Sack^ Thank you, Tripp. Good morning, everyone.

At Chicago Atlantic, we place credit and collateral first and seek to add value to our borrowers through collaboration in an evolving industry.

We are a leader in cannabis lending with a team of industry experts, originators and underwriters.

From day one, we have underwritten our portfolio assuming that the regulatory environment at the federal level does not improve.

We see the gyrations that occur in the cannabis equity markets as optimism surrounding federal reform ebbs and flows.

We seek to provide our investors with downside protected returns and consistent yield regardless of fleeting sentiment and related equity volatility. That same volatility drives other capital providers to exit or scale back their presence.

Amid this 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.

In some quarters that means that originations are at a strong pace and others like Q1 are at a slower pace.

Investments are driven by credit and our ability to protect principal and achieve strong risk adjusted returns.

If those opportunities aren't there for a period of time we believe that the right decision is to be disciplined and patient.

The cannabis pipeline across the Chicago Atlantic platform now stands at \$462 million. There continue to be a number of well-run and well-capitalized operators that will need to address upcoming maturities over the next 12 months and we believe we will earn a fair share of those opportunities.

As you've heard me say before, our goal is to create a differentiated and low levered risk return profile.

It is insulated from cannabis equity volatility and outperforms our industry agnostic mortgage rate peers. Updating the analysis we provided last quarter, I'm pleased to note that despite all of the volatility in the broader financial services market we remain at the number three top performing exchange listed mortgage rate.

We have a slide in our supplemental that walks through this analysis.

We're quite proud of this achievement and have our sights set on being number one.

I'll close with this statistic.

Since our inception we've outperformed the median and average total return for all exchange listed mortgage rates by approximately 51% and 55%, respectively.

David, why don't you take it from here?

David Kite^ Thank you, Peter.

As of March 31, our loan portfolio principal totaled \$407 million across 30 portfolio companies with a weighted average yield to maturity of 16.9% compared with 17.2% for the fourth quarter, primarily due to the restructuring of loan number nine.

Gross originations during the quarter were \$4.4 million of principal funding, of which \$0.5 million and \$3.9 million was funded to new and existing borrowers on delayed draw term loan facilities respectively. These were offset by sales and repayments of \$9.2 million.

As of March 31, 2025, the percentage of our portfolio comprised of fixed rate loans and floating rate loans with floors greater than or equal to the prevailing prime rate with 71.2%. The other 28.8% of the portfolio that remains floating is not exposed to interest rate caps at current levels.

While the rate outlook is still uncertain due to the volatility, Peter referenced earlier, we believe we have positioned the portfolio to limit the impact of interest rate declines and benefits should interest rates rise by adjusting the mix of floating and fixed rate loans and negotiating high floors.

Total leverage equaled 28% of book equity at March 31 compared with 34% at December 31, 2024.

Our debt service coverage ratio on a consolidated basis for the quarter was approximately 6.2 to one compared to a requirement of 1.35 to 1.

As of March 31, we had \$38 million outstanding on our senior secured credit facility and had fully drawn down \$50 million on our unsecured term loan.

As of today we have approximately \$43 million outstanding on the senior credit facility and total liquidity of \$65 million.

Lastly, I'd like to provide an update on loan number nine.

As we discussed last quarter, the administrative agent completed key milestones in the foreclosure on select operating assets of the borrower of loan number nine. Members of the administrative agent, which are related parties were successfully affiliated with the Pennsylvania Department of Health as principals giving them full operational control of these assets for the benefit of the lenders.

The aggregate proceeds from the foreclosure, which included the equity acquired via the UCC Article nine sale and the court ordered judgment awarded was distributed by the agent to the company and the other co-lenders.

Given the company's restriction from holding equity investments in plant touching cannabis operations, the company acquired new loans totaling approximately \$16.5 million, which remains senior secured by the borrower's real estate assets and accrue interest at a fixed rate of 9%.

The borrower's three dispensaries, which were previously non-operational, are now open with the most recent opening occurring on April 30. REFI's new loan is senior secured and at the top of the capital structure.

Given the senior secured nature of the restructured assets and the commencement of operations, we reverse approximately \$1.2 million of the CECL reserve related to loan number 9.

It will take some time to get the operations where they need to be, but we hope that through this operational and balance sheet restructuring we may restore this loan to accrual status this year.

I now turn it over to Phil.

Phillip Silverman^ Thanks, David.

Our net interest income of \$13 million for the first quarter represented a 7.3% decrease from \$14.1 million during the fourth quarter of 2024. The decrease was primarily attributable to the

decrease in non-recurring prepayment make whole exit and structuring fees, which amounted to \$0.4 million for Q1 2025 compared with \$1.5 million in Q4 2024.

As well as the full quarter's impact of the 50 basis point decreases in the prime rate from the back half of the fourth quarter.

Total interest expense including non-cash amortization of financing costs, for the first quarter was consistent with Q4 2024 at approximately \$2.1 million. The company incurred a full quarter of interest expense on our unsecured notes, which closed in mid-October last year and bear interest at 9%.

The weighted average borrowings on our revolving loan, which bear interest at the prime rate plus an applicable margin based on our leverage ratio increased to \$41.6 million from \$23.3 million during the fourth quarter.

As of today there's approximately \$67 million available on our revolving loan.

Total professional fees and general administrative expenses decreased quarter-over-quarter by approximately \$300,000, primarily due to expense reimbursements to our manager, which were approximately \$1.1 million for Q1 compared to \$1.4 million in the prior quarter.

Our CECL reserve on our loans held for investment as of March 31, 2025, was approximately \$3.3 million compared with \$4.4 million as of December 31, 2024. The decrease in reserves was primarily attributable to the reversal of \$1.2 million of credit loss relating to loan number nine, which was restructured in Q1 2025, as David discussed.

On a relative size basis, our reserve for expected credit losses represents 83 basis points of outstanding principal of our loans held for investment.

On a weighted average basis, our portfolio maintained real estate coverage of 1.1 times.

Our loans are secured by various forms of other collateral in addition to real estate including UCC -1 all asset liens on our borrower credit parties. These other collateral types contribute to overall credit quality and lower loan-to-value ratios.

Our portfolio is a loan-to-enterprise value ratio of 47.5% as of March 31, 2025, calculated as senior indebtedness of the borrower divided by the fair value of total collateral.

During the first quarter, we raised approximately \$1 million of net proceeds from issuance of common stock through our ATM program. The weighted average selling price net of commissions of \$15.69 represents a premium to our March 31 book value of approximately 5.5%.

Distributable earnings per weighted average share on a basic and fully diluted basis was approximately \$0.47 and \$0.46 for the first quarter, which is consistent with the fourth quarter of last year.

In April, we distributed the first quarter dividend of \$0.47 per common share declared by our Board in March 2025.

Our book value was \$14.87 and \$14.83 per common share as of March 31, 2025, and December 31, 2024, respectively.

On a fully diluted basis, there were approximately 21.3 million common shares outstanding as of March 31, 2025.

As we shared on our call last quarter, we are expecting to maintain a dividend payout ratio based on our basic distributable earnings per share of 90% to 100% for the 2025 tax year.

If our taxable income requires additional distributions in excess of the regular quarterly dividend to meet our taxable income requirements, we would expect to meet that requirement with a special dividend in the fourth quarter.

Operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator[^] (Operator Instructions) Our first question comes from the line of Aaron Grey from Alliance Global Partners.

Please go ahead.

Aaron Grey[^] Good morning. Thank you very much for the questions here.

First question for me, just in terms of the near-term pipeline, \$462 million you guys had there, so it remains healthy. Just wondering if you can speak to how many are in there and what stages they're in, how many are in the later stages if we can get a better sense of how we think that translates into new originations in 2025.

I know you don't provide guidance, but maybe even some incremental color on the types of appealing opportunities you're seeing in that pipeline, whether or not they're more CapEx builds or M&A?

Any color there would be appreciated. Thank you.

Peter Sack[^] Thanks for the question. Pipeline -- our pipeline is generally related to CapEx -- we expect deployments to accelerate in Q2 and Q3 of this year, but it's difficult to give further detail beyond that.

Aaron Grey[^] Okay. No, great. That's helpful there. Thanks, Peter.

Second question for me, kind of a high-level one. Pricing pressure is something that continues to be a meaningful factor for the industry.

As you're doing your underwriting, what are some of the pricing assumptions you're making?

And it's becoming a greater factor as we've seen some once limited license markets such as Massachusetts mature and pricing levels similar to open license markets. Just curious if you've adjusted the pricing that you make -- pricing assumption you make in your underwriting versus you might have a year or two ago.

Thank you.

Peter Sack^ It's interesting.

We've always considered pricing in the industry to be evolving.

That even in all states, there is a curve of development and the pricing that changes as a state begins its medical program, even a limited license state begins its medical program, launches adult use and that adult-use program matures. And nearly every jurisdiction has some form, some downward slope of price compression.

It's simply that in some states that price compression is much slower than others.

And so in the case of Massachusetts as an example over the past years, we've significantly, but gradually reduced our exposure to a state like Massachusetts, because we saw the pricing pressure on the horizon.

And that's one of the benefits that we as a lender, one of the levers that we as a lender have operating in this industry where an operator would be less flexible that with a relatively short duration loan.

We have opportunities to accept the maturity get paid back and then not deploy new capital into XYZ state, and it's much more difficult for an operator to do that and so

As we are -- when we look to deploy existing pricing and where we think that state sits in its progression of price compression is a key factor in terms of how we think about leverage and how we think about risk, and to the extent that we can diversify that all the better.

Aaron Grey^ Okay. Great. That's really helpful calling there.

I appreciate it. I'll go ahead and drop back in the queue.

Operator^ Thank you. The next question comes from Chris Muller from JMP Securities.

Please go ahead.

Chris Muller^ Hi guys, thanks for taking my questions.

So, maybe following up on that first question a little bit, how much visibility do you guys have into to repayments in the near-term and should we expect to see some net portfolio growth in 2025, and I'm not looking for any specifics there may be just a general trend?

Peter Sack^ Our aim is to have net portfolio growth in 2025. There are a significant number of maturities in 2025. Most of which we will be competing to refinance and to keep the relationship with the borrower as we believe that the assets are performing strong, the companies have de-levered or have strong attractive opportunities to either provide additional capital or to maintain a lending relationship with them.

So our aim for the vast majority of maturities in 2025 will be to compete to win the business and refinance those positions with new facilities.

Chris Muller^ Got it. That's very helpful.

Then I know this comes up a lot and probably sounds like a broken record at this point, but it seems like rescheduling talks are picking up again following some comments from the new DEA nominee.

So I guess from a high level, can you guys just talk about how rescheduling would impact your business if it actually does get done?

Peter Sack^ I think we'd like to see rescheduling and we'd like to see greater clarification of how past due tax liabilities from prior years will be treated going forward. Clarity on both of those would be highly accretive for what we do for rescheduling the elimination of 280E on a go forward basis increases after tax-free cash flow of all of our borrowers significantly.

It allows them it increases the downside protection of our debt facilities.

It provides greater capital for growth, provides more equity value and equity dollars and cash flow that can support additional leverage, and should accrete to equity valuations of the market at large, which we hope would then lead to greater activity of M&A of capital expenditures.

Overall eliminate general market uncertainty that exists today.

At the same time while we think rescheduling is likely to lead to much more expansion and opportunity and expansion of evaluations and growth of participants in the equity markets of cannabis, we think that greater participation of other lenders and debt capital in the cannabis space will take much more time. And require greater reforms and simply reschedule.

Chris Muller^ Got it. And maybe over a longer period of time would you expect yields to generally compress, but leverage would move up to kind of move towards that more typical mortgage rate model?

Peter Sack^ I think you have to see additional entrance into the market in order to lead to yields, compressor.

I have yet to see significant evidence of significant new entrants to the market simply on the basis of rescheduling, but we'll see.

Chris Muller^ It's a great setup for the people already in the space and you guys are doing a great job.

So thanks for taking the question.

Peter Sack^ I think so. Thanks.

I guess I'd add that, I think that some of the largest publicly traded operators will probably be the best, the first to benefit from rescheduling and lower cost of capital, especially equity capital.

I think that the next tier of middle market companies and lower middle market growing companies operating in the space, it will take more time for capital providers, if any do come to provide significant new options for that size and profile of operator.

Chris Muller^ Makes lot of sense. Thanks for taking the questions again.

Operator^ Thank you. The next question comes from Pablo Zuanic from Zuanic.

Please go ahead.

Pablo Zuanic^ Thank you. Good morning, everyone.

Look, sorry to go back to a question about net portfolio growth, but new fundings for the -- thank you in the first quarter, I think about \$4 million, you did \$161 million the full year last year, almost more than 85 in the fourth quarter.

I mean that's a big change in terms of numbers, right?

Does that mark does that imply that you become more cautious on the industry outlook over the next, last three months or six months or not necessarily?

Then the second question is, if you're not going to guide for portfolio growth, what should we be assuming for the full year?

I mean just basic, very limited portfolio growth, if you can just add more color there, please, thank you.

Peter Sack^ Thank you, Pablo.

We are seeking to grow the portfolio, to grow the portfolio meaningfully throughout the year. Q1 was a quarter of limited deployment.

I think driven by two factors.

One was selectivity on our part and two is selectivity and not selectivity it was caution and greater consideration among operators in the whole industry.

We saw in Q4 and Q1 some of the lowest valuations of cannabis public equities that that the market's ever seen.

And I think that's led a lot of operators to think about their capital planning needs, think about their growth projects.

Wait to see if some Items of uncertainty in the market change before making that next decision.

And so I think it is both a combination of caution and selection on our side and caution and selection on the part of operators in the space in light of uncertainty in the industry.

Pablo Zuanic^ That makes sense.

I understood that. That's helpful color.

I haven't finished going through 10Q, but can you talk about the unfunded commitments for at the end of the quarter?

Peter Sack^ Phil, would you like to take that?

Phillip Silverman^ Yes. Sure. Hi Pablo, we have about \$19.8 million of unfunded commitments. Those are earmarked pursuant to the credit agreements in certain cases related to construction milestones or other projects that each of the borrowers are thinking about in the future.

So we only deploy those, if the conditions are met.

In some cases, there are discretionary considerations that that we as the lender can make before deploying those, so I think it's a little bit uncertain in terms of timing of when those may be deployed.

Pablo Zuanic^ Got it. Thank you.

Look, I'm going to make a parallel with sell lease back and I understand it's a whole different industry, we saw the IAPR PharmaCann situation.

I think IAPR was very concerned about whether negotiating there would set a precedent.

I understand restructurings for the mortgage rate are part of the business, right?

But that's the way that you restructure loan number nine set a bit of a precedent for other credits in your portfolio from the borrower perspective.

Peter Sack^ I think every situation is unique. That being said, with loan number 9, I think we showed that we as lenders are capable of completing a restructuring, bringing it to its full conclusion and supporting the operations of the business during the restructuring and coming out of the restructuring.

That we're willing to do so when we need to.

I think it shows that lending in the cannabis space even with uncertainties around not having access to bankruptcy courts can still be executed in the way that you would expect lenders to be able to execute in downside scenarios.

Pablo Zuanic^ Right. One last one.

I mean the way I understand it, some of the officers in these companies right work also at the group level, they're part of the manager's team if I'm not wrong.

I'm just trying to understand, when shareholders are looking at the talk about the pipeline, right?

Sometimes the pipeline is a number that's at the Chicago Atlantic group level.

Some of that's going to get allocated to a new fundings we allocated to the group, private group to the mortgage re or maybe now to the BDC that's also a publicly listed vehicle.

Can you talk about how the how does the allocation process work in practice?

Peter Sack^ Chicago Atlantic personnel are equal fiduciaries to each of our funds.

Therefore all opportunities that arise are given equal opportunities to be funded by each of the each of the funds. That being said, any one of the funds including the re may decline to participate in a deal if it does not meet the requirements of the vehicle diversification requirements or other limitations that might make it ineligible for participation. So it's challenging.

During the evaluation of an opportunity, until near the end of the process to have certainty of what amount of the pipeline or what amount of a specific deal would be eligible and allocatable and expected to be allocated to one vehicle or another whether that is the mortgage the BDC or another vehicle.

That is the reason why we provide a total pipeline number and not a more specific vehicle specific pipeline number.

Pablo Zuanic^ Got it. Thank you very much.

Operator^ Thank you. There appears to be no additional questions.

This concludes our question-and-answer session. The conference has now concluded. Thank you for attending today's presentation.

You may now disconnect.