

Chicago Atlantic Real Estate Finance, Inc. (Q4 2024)
March 12, 2025

Corporate Speakers:

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

Participants:

- Crispin Love; Piper Sandler; Analyst
- Pablo Zuanic; Zuanic & Associates; Analyst
- Christopher Muller; Citizens Capital Markets; Analyst
- Aaron Grey; Alliance Global Partners; Analyst

PRESENTATION

Operator^ Good day. Welcome to the Chicago Atlantic Real Estate Finance, Inc. fourth quarter 2024 Earnings Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Tripp Sullivan of 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 Phil Silverman, Chief Financial 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 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 risks 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 disclosed 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. I'd like to open this call with a brief discussion of industry developments, accomplishments in Q4, and our outlook as we begin the year. The U.S. cannabis industry turns the year on muted notes. The failure of Florida's adult-use ballot initiative, lack of prioritization of federal cannabis reform, and pricing pressure in some markets have contributed to cannabis equity values and implied valuation multiples reaching near record lows.

Against this backdrop, Chicago Atlantic executed a tremendous fourth quarter. Our results underscore the continued success of a strategy that places credit and collateral first, add value to our borrowers collaboratively, and is driven by a leading team of industry experts, originators and underwriters.

We aim to create a differentiated and low levered risk return profile that is insulated from cannabis equity volatility and outperforms our industry-agnostic mortgage REIT peers. Two data points which underscore these achievements now more than 4 years since inception. From November 4, 2024, the eve of the November election, to March 6, 2025, REFI's stock price increased from \$15.13 to \$16.15 per share or 16 -- 6.7% and we announced two dividends, while MSOS, the ETF, which generally tracks U.S. cannabis operators, declined by 61%. The second and perhaps more important metric, our analysis suggests that benchmark since inception on a total return basis, assuming dividend reinvestment, REFI is the number3 top-performing exchange-listed mortgage REIT.

We aim to be number1. Amid industry and economic uncertainty, we focus on deploying capital with consumer and product-focused operators in limited license jurisdictions at low leverage profiles and supporting fundamentally sound growth initiatives. We deployed \$90.7 million in gross originations in Q4 in nine investments spanning Ohio, Nevada, Illinois, Florida, Pennsylvania, Missouri, and Minnesota, among others. Diversification remains strong across 30 portfolio companies.

During the year, we increased our senior secured credit facility to \$110 million and closed on a \$50 million unsecured term loan at attractive pricing, of which we deployed nearly half net of repayments in the fourth quarter. We delivered \$2.06 per share in dividends to our shareholders in 2024. The cannabis pipeline across the Chicago Atlantic platform now stands at approximately \$490 million, and we have current liquidity of approximately \$67 million to fund deployment.

Before I pass the mic to David Kite, my fellow Managing Partner and Chief Operating Officer, I'd like to highlight a significant achievement for which he is primarily responsible. In Q1 2025, the administrative agent completed key milestones in the foreclosure on select operating assets of loan number9, which has been on nonaccrual for some time. Members of the administrative agent were successfully affiliated with the Pennsylvania Department of Health of principles, giving them full operational control of the asset, and we hope that through operational and balance sheet restructuring, we may restore this loan to accrual status this year. Defaults, workouts and restructurings are an inevitable byproduct of direct lending. It is an area in which despite a low default rate, we have considerable expertise, and we hope to show definitively in 2025 that we can execute for the benefit of our shareholders.

David, thank you for the effort, and why don't you take it from here?

David Kite^ Thank you, Peter. I appreciate the kind words, but it definitely was a team effort that allowed us to successfully execute on our rights and remedies for that loan. As of December 31, our loan portfolio principal totaled \$410 million across 30 portfolio companies with a weighted average yield to maturity of 17.2%. That's down from 18.3% at September 30 due primarily to the 50 basis point decrease in the prime rate across our floating rate portfolio and the originations Peter mentioned earlier, whose yields were modestly below our historical averages.

Gross originations during the quarter were \$90.7 million of principal funding, of which \$52.6 million and \$38.1 million was funded to new borrowers and existing borrowers, respectively. At year-end 2023, approximately 24% of our loan portfolio based on outstanding principal was insulated from the risks of declining interest rates, which we define as comprised of fixed rate loans and floating rate loans with floors greater than or equal to the prevailing prime rate.

As of December 31, 2024, this percentage had increased to nearly 68%. The other 32% of the portfolio that remains floating is not exposed to interest rate caps at current rate levels. Similar to our outlook last quarter, there is still uncertainty surrounding tax policy, the economy, tariffs, inflation, and the direction that the Federal Reserve will take on interest rates. We believe we have made the right decisions to limit the impact of interest rate declines and benefit should interest rates rise by adjusting the mix of floating and fixed rate loans and negotiating higher floors.

Total leverage equaled 34% of book equity at year-end compared with 24% at December 31, 2023. Our debt service coverage ratio on a consolidated basis for the year ended December 31, 2024, was approximately 5.5:1 compared with the requirement of 1.35:1. As of December 31, we had \$55 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 \$38.5 million outstanding on the senior credit facility and \$71.5 million of available borrowing capacity.

I'll now turn it over to Phil.

Phillip Silverman^ Thanks, David. Our net interest income of \$14.1 million for the fourth quarter represented a 2.7% decrease from \$14.5 million during the third quarter. The decrease was partially attributable to the 50 basis point decrease in the prime rate during the three months ended December 31, 2024, as well as the timing of deployment of the proceeds from our unsecured notes, which closed in October 2024.

For the year ended December 31, 2024, we recognized gross interest income from nonrecurring prepayment and make-whole fees, exit fees and structuring fees of \$3.2 million compared to \$3.5 million during the prior year ended December 31, 2023. Interest expense for the fourth quarter increased by approximately \$0.4 million. The increase was driven by the interest expense on our newly closed unsecured term notes, which bear interest at a fixed rate of 9%. The fill balance of the notes was advanced at closing and the proceeds were used to temporarily repay borrowings on our revolving loan. Accordingly, weighted average borrowings on our revolving loan decreased to \$23.3 million from \$76.4 million during the third quarter. This partially offset the increase in interest expense from the unsecured notes.

Total operating expenses, excluding management and incentive fees and the provision for credit losses increased quarter-over-quarter by approximately \$250,000 attributable to expense reimbursements to our manager. Our base management and incentive fees for fiscal year 2024 were \$8.1 million compared to \$8.8 million in the prior year, driven by the change in core earnings as defined in our management agreement.

Our CECL reserve as of December 31, 2024, was approximately \$4.3 million compared with \$4.1 million and \$5.0 million as of September 30 and December 31, 2023, respectively. On a relative size basis, our reserve for expected credit losses represents 1.1% of outstanding principal of our loans held for investment. Our portfolio on a weighted average basis had real estate coverage of 1.1x as of December 31 compared to 1.2x as of September 30. Our loans are secured by various forms of other collateral in addition to real estate, which contribute to overall credit quality.

On a risk rating basis, credit quality has remained strong. Approximately 91% of the portfolio at carrying value is risk rated three or better as of December 31, 2024, compared to 89% and 88% as of September 30 and December 31, 2023, respectively. Loan number9 remains the only loan in our portfolio on nonaccrual status and is included in risk rating 4, carrying a reserve for credit losses of approximately \$1.2 million.

During 2024, we raised approximately \$38.4 million of net proceeds from issuances of common stock through our ATM program. The weighted average selling price, net of commissions of \$15.63 represents a premium to our December 31 book value of approximately 5.4%. Distributable earnings per weighted average share on a basic and fully diluted basis was approximately \$0.47 and \$0.46 for the fourth quarter and \$2.08 and \$2.03 for fiscal year.

In January, we distributed the regular fourth quarter dividend of \$0.47 per common share as well as a special dividend of \$0.18 per common share relating to undistributed taxable income for tax year 2024, both of which were declared by our Board in December. For fiscal year 2024, we paid total dividends of \$2.06, amounting to a payout ratio of approximately 99% of our basic distributable earnings of \$2.08. Our book value was \$14.83 and \$14.94 per common share as of December 31, 2024 and 2023, respectively. The decrease in book value is primarily attributable to dividends paid in excess of our GAAP net income. On a fully diluted basis, there were approximately 21.2 million common shares outstanding as of December 31, 2024.

Lastly, I'd like to highlight the guidance we shared for 2025. Similar to last year, we are expecting to maintain a dividend payout ratio based on our basic distributable earnings per share of 90% to 100% for the year. If our taxable income requires additional distributions in excess of the regular quarterly dividend in order to meet our taxable income distribution requirement, we would expect to meet that through a special distribution in Q4 2025.

Operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And the first question will come from Crispin Love with Piper Sandler.

Crispin Love^ First, can you talk about demand for loans and leverage expectations? You had a good amount of activity in the fourth quarter on the origination side. You added the unsecured term loan and leverage increase, but still remains pretty low. But given the \$500 million pipeline or nearly \$500 million pipeline, would you expect to take leverage up further in the near term to fund loans or utilize the ATM? And just how is demand overall from the borrowing landscape?

Peter Sack^ I'd say on market demand, in a compressed equity valuation environment, the profile of demand has changed, but from the type of projects and the type of initiatives that were being funded 4 years ago. But I think that's been offset. The change of that profile has been more than offset by just the maturation of the industry and the sheer -- much larger size of the industry today than there was -- than it was 4 years ago. We don't expect to increase leverage in the near term beyond that, which is already approved under our senior secured facility and its accordion feature.

Crispin Love^ Okay. Great. Then just an update on credit quality. How it's performing your expectations. You mentioned you have just the one loan on nonaccrual, but environment here does remain uncertain. So curious on your thoughts on credit and health of your borrowers currently. Then just digging a little deeper into loan number nine over the near term. What's the goal there? Is it a sale? And just curious what you're looking to do with that asset?

Peter Sack^ I'd overall credit quality hasn't changed significantly quarter-over-quarter. I think that's reflected in the risk rating figures where we certainly have movement between our buckets of risk rating figures every quarter as one would expect, overall, not a significant change in posture.

I'll let David speak to the loan number nine and progress there.

David Kite^ Sure. So while we have taken operational control of the assets and the operations there, there had been a cease and desist order on the dispensaries and the cultivation. We're currently working diligently to remedy all of the deficiencies and remove the cease and desist order, which we expect to be done soon. We'll get the dispensaries up and operational as well as the cultivation, creating value for the assets. Then at that point, we'll decide what to do.

Crispin Love^ Okay. Great. Then just one last question for me. Can you just share your latest thoughts on scheduling and your views there? I believe you said last quarter, you would expect it to occur in 2025, but just curious on any update.

Peter Sack^ I think we're -- I think the whole industry is looking for greater data points out of the Trump administration on where their posture leans. And unfortunately, every day that goes by without those data points and those indications should push back one's expectations for when real progress occurs. So we -- our posture is to invest -- as always, to invest assuming a catalyst such as rescheduling never occurs. That's going to be -- continue to be our posture until there's greater certainty otherwise -- much greater certainty otherwise.

Operator^ The next question will come from Pablo Zuanic with Zuanic & Associates.

Pablo Zuanic^ Look, my question regarding the industry context has to do with the way most companies are dealing with 280E, right? As you know they've taken a more aggressive stance. They are letting the long-term liabilities around certain tax benefits increase on the balance sheet. But on the other hand, and they are provisioning as normal corporations, right? So their cash flows are improving, and they seem to be in much better shape in that sense. I'm trying to think from your perspective, yes, they have more cash and they are probably able to serve their debt better. But on the other hand, they have this increasing debt with IRS, right? So how do you think about that? Is this good from your perspective or negative? Or it's just a neutral factor?

Peter Sack^ I think it's an unavoidable factor. We consider unpaid tax liabilities to be a form of indebtedness, and it's a strong factor in our underwriting process and how we view the leverage profile of our borrowers. We factor it in and control this risk by aiming to create limitations on the amount of unpaid tax liabilities that may be accrued on the balance sheet over the course of our loan. We do that through requirements that taxes be paid and/or through leverage covenants or FCCR covenants that factor in that tax liability.

Pablo Zuanic^ Right. Okay. That's helpful. Then, look, just a follow-up. When we try to think in terms of the shape of the industry versus the shape of the companies, I could make the argument that, yes, there's more deflation out there. There's revenue per store erosion, particularly in some states like Illinois because there's more licenses being issued, and those are both negative for the industry. On the other hand, the companies seem to be focusing more on cash flow, on cutting costs, improving profitability. I'm just trying to think from your perspective, when you put all that together, is the industry you're looking at, the borrowers you're looking at on average in better shape or worse shape than before?

Peter Sack^ It's a challenging question because we don't have to invest in "the industry as a whole. We invest in individual operators. We're certainly seeing the ability to find strong operators with strong growth projections that are still underlevered. So long as we can maintain a sufficient pipeline to deploy our capital in accretive, very accretive transactions. What's happening in one state or another state doesn't necessarily impact us if we're still finding really attractive accretive opportunities. So it's a difficult question to answer in a general manner.

Pablo Zuanic^ All right. And just two more quickly. So you have \$67 million left of liquidity. I understand you don't give guidance, but should we assume that, that would be probably fully utilized in 2025 in terms of deployment?

Peter Sack^ We aim to be fully deployed with sufficient liquidity buffer.

Pablo Zuanic^ All right. And last one, if you can just provide an update on New York. I mean that's been a good program for you, but -- and there's obviously more stores opening. So I'm sure there's more demand for that facility. But if you can provide any color on that.

Peter Sack^ We've been extremely encouraged by progress that New York regulators and New York operators have made in the last year of opening stores, of cracking down on illegal operators and processors and cultivators creating stronger portfolios of products that consumers want that combat the black market.

This falls back on what we think are some of the key factors that lead to a successful market and allow a legal market to outcompete an illegal market. That's access to dispensaries in close proximity. That's a strong product portfolio of products that are better than what's available in the illicit market and available more consistently, and crackdowns on illegal operators. I think that's the least important of the three and we've been extremely encouraged.

Operator^ The next question will come from Chris Muller with Citizens Capital Markets.

Christopher Muller^ I'm on for Aaron today. So I guess picking up on a prior question, with the chances of Schedule III or other type of reform looking bleak in the near term,

would you say that your borrowers are generally able to operate in the status quo? And does any type of reform factor into your underwriting?

Peter Sack^ Yes. The first question. To the second question, it's -- the answer is no. We underwrite assuming that rescheduling does not occur because it's simply difficult to project. That's been the case of our approach to investing in this industry from the get-go that we underwrite assuming that significant state-based market reforms or federal reforms do not occur. When they do occur, that's a positive catalyst for our operators and for ourselves. And we think that's the appropriate stance to take when making responsible debt investments.

Christopher Muller^ And that's been the absolutely correct stance for the last couple of years. So I applaud you guys on that. I guess my other question is on the dividend. So can you talk about how the Board thinks about increasing the base dividend versus paying the special? This is the third year in a row you guys have paid the special. So I'm just curious on the thought process there.

Peter Sack^ We want our investors to view this -- view the regular dividend as having significant cushion to performance. We evaluate our dividend decisions every quarter and have a discussion surrounding it. But we ultimately want our investors to view the regular dividend as having a strong margin of safety.

Operator^ And our next question comes from Aaron Grey with Alliance Global Partners.

Aaron Grey^ I just want to circle back on the pipeline. I believe you alluded to how the profile has changed a bit, so close to 500. Just wanted to talk a little bit around that. So is it maybe a little bit less now in terms of expansion of existing you guys have in the deck, a little bit more of a reference to M&A. So can you talk about maybe how that profile has changed? And is it still primarily focused around single-state operators potentially looking more at multistate operators. So just any color in terms of some of the commentary you provided there would be helpful.

Peter Sack^ I think we're leveraging our originations team that we think is the largest in the industry that focuses on building relationships in the markets that we're most excited about and building those relationships over the time span of months and years such that when that operator is pursuing a growth initiative and has a capital need, we're their first call.

I think particularly in the fourth quarter, that's -- our originations has been driven by idiosyncratic growth projects, idiosyncratic growth initiatives, M&A opportunities, individual projects that I think it's difficult to categorize within a specific market trend or a specific market need with the exception perhaps of Ohio, whose transition to adult-use and execution of dispensary construction, we continue to support.

Aaron Grey^ Okay. Great. Then a second one for me. Obviously just in terms of broader industry dynamics, a lot of people are talking about the debt maturities coming in 2026.

So I just want to have more broadly, does that potentially present any opportunities for you to come in as one of the options in some type of refinancing? And just more broadly, how you're thinking about some of the loans in your portfolio that could be coming to maturity this year?

Peter Sack^ We aim to be a lender of choice and to add value to our existing borrowers and to borrowers that we'd like to work with in the future. So that when maturities arise, we can be the relationship of choice and be a lead in those transactions. So we would love to support the industry as those maturities come due. That being said, I think the "maturity wall" is described with in catastrophic terms that it doesn't really merit.

I think that a maturity doesn't mean that the existing lenders necessarily don't want to be a part of a new loan facility. There could be repricings. There could be changings of loan terms. But I don't -- but that doesn't necessarily mean that capital is leaving the industry and has to be replaced by someone. So I do think the market will work through much of these loan maturities in normal course and we would love to be a part of that.

Operator^ With no further questions, this concludes our question and answer session. I would like to turn the conference back over to Peter Sack for any closing remarks.

Peter Sack^ Thank you for taking the time. And to our investors, thank you for the support. We look forward to reporting on Q1 shortly.

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