

**Chicago Atlantic Real Estate (Q2 2024 Earnings)  
August 7, 2024**

Corporate Speakers

- Tripp Sullivan; Chicago Atlantic Real Estate Finance, Inc.; Investor Relations
- John Mazarakis; Chicago Atlantic Real Estate Finance, Inc.; Executive Chairman
- Peter Sack; Chicago Atlantic Real Estate Finance, Inc.; Co-Chief Executive Officer
- Phil Silverman; Chicago Atlantic Real Estate Finance, Inc.; Chief Financial Officer

Participants

- Crispin Love; Piper Sandler; Analyst
- Mark Smith; Lake Street; Analyst

**PRESENTATION**

Operator^ Good day and thank you for standing by. Welcome to Chicago Atlantic Real Estate Finance, Inc., Second Quarter 2024 Earnings Conference Call. (Operator Instructions)

Please be advised today's conference is being recorded.

I would now like to introduce the host for today's conference, Mr. 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 John Mazarakis, Executive Chairman; Peter Sack, Co-Chief Executive 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 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 disclosed in the company's filings with the SEC.

We also will discuss certain non-GAAP measures including but not limited to distributable earnings and adjusted 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 will now turn the call over to John Mazarakis.

Please go ahead.

John Mazarakis^ Thanks, Tripp. Good morning, everyone.

The possible federal rescheduling, the addition of adult use on the ballot in Florida this November, and the optimism surrounding the Ohio adult use rollout have many of our operators and those in our pipeline planning for future growth. We will be ready to help them grow.

Despite those tailwinds, you should not be shocked to hear from us that we have maintained a very conservative approach to growing the portfolio, especially given the recent volatility in the public markets.

We are focused on attractive risk-adjusted returns that provide an appropriate spread over our cost of capital with exceptionally strong coverage and collateral. Until federal legalization is passed, we will continue to underwrite new loans as if rescheduling never happens.

We are never surprised on the downside and like to think that we have already accounted for the potential upside in any opportunity.

Our pipeline across the Chicago Atlantic platform currently stands at \$508 million.

We are still prioritizing operators in limited licensed states and those positioned to transition from medical to adult use. That means we are active in Maryland, Missouri,

Minnesota and Ohio with investments in Florida-based assets accounting for 12% of our portfolio at quarter end.

We believe we are very well positioned to continue backing the best operators in that state if adult use is ultimately approved.

We once again deployed the ATM program to source accretive capital.

During the quarter, we issued approximately 410,000 shares at a weighted average price of \$15.76, raising net proceeds of approximately \$6.3 million. Each issuance was transacted at a premium-to-book value.

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

Peter Sack^ Good morning. As of June 30th, our loan portfolio totaled \$383 million across 31 portfolio companies with a weighted average yield to maturity of 18.7%. That's down from 19.4% as of March 31st due to primarily two idiosyncratic actions related to derisking.

In one instance, a loan that is priced on a grid relative to performance shifted down in its pricing due to strong execution and performance of the borrower.

In the second instance, we refinanced the position to create stronger real estate collateral and accepted a lower return profile in the process.

Our weighted average loan-to-enterprise value was 42%, compared with 40.5% as of March 31st.

Gross originations were \$20.9 million of principal fundings, of which \$11.2 million and \$9.7 million was funded to new borrowers and existing borrowers, respectively.

We had an unscheduled principal repayment of loan number one for \$4.3 million during the quarter, which, together with new originations, contributed to the approximate \$6 million in portfolio growth. The percentage of our portfolio that is floating rate based off the prime rate remained at approximately 76% compared with March 31st.

We've kept leverage low at 26% of book equity at quarter end compared with 28% at yearend.

Our debt service coverage ratio on a consolidated basis for the quarter was approximately 5.3 to one compared with a requirement of 1.35 to 1. We continued to enhance our revolving credit facility by increasing the size once again to \$105 million in total.

As of June 30th, we had \$76.8 million outstanding on the facility and we've subsequently drawn down another \$4.5 million. That leaves us a total of approximately \$31.5 million in operational liquidity, net of estimated liabilities. The facility is our primary means of

funding new originations, along with the continued disciplined execution on the ATM program.

Given the substantial spread we are earning with capital that we put to work with new originations, we continue to explore other sources of capital that position us to accelerate deployment later in the year.

I'll now turn it over to Phil.

Phil Silverman^ Thanks, Peter.

Our net interest income for the second quarter was consistent with the first quarter at \$13.2 million. Gross interest income from occurring cash interest, PIK interest, unused fees, and amortization of discounts decreased by \$0.3 million for the comparable period.

Interest expenses also decreased \$0.3 million due to low to weighted average borrowings of \$78.3 million during the second quarter, compared with \$90.3 million during the first quarter.

We recognized approximately \$0.1 million of prepayment fees during Q2. Unscheduled loan repayments remain largely unpredictable and we believe the second quarter net interest income remains representative of the current portfolio's run rate performance.

Total operating expenses before the provision for credit losses increased approximately \$150,000 from Q1 2024, primarily resulting from incremental stock-based compensation of \$300,000 resulting from restricted stock award grants made during the second quarter.

Other administrative and professional fees remained relatively consistent, decreasing by \$100,000 in Q2 compared with Q1.

Our CECL reserve as of June 30, 2024 was approximately \$5.1 million, compared with \$5.4 million as of March 31st. And on a relative size basis, our reserve for expected credit losses represents 1.3% of outstanding principal.

Credit quality of the portfolio has remained stable with 88% of the portfolio risk-graded three or better as of June 30th. Loan number nine remains on non-accrual status and is included in risk-grading number four and carries a reserve for credit losses of approximately \$1.7 million.

In July, subsequent to quarter end, we received a full repayment of loan number 14 together with all applicable interest and fees payable. This loan is included in risk-grading one as of June 30th.

Our portfolio on a weighted average basis had real estate collateral coverage of 1.3 times as of both June 30th and March 31st.

Adjusted distributable earnings per weighted average diluted share was \$0.50 for Q2 2024, compared with \$0.52 for the first quarter.

In July, we distributed the second quarter regular dividend declared by our board of \$0.47 per common share, which was consistent with prior quarter and the second quarter of last year.

Our book value as of June 30th was \$14.92 per common share, compared with \$14.97 as of March 31st.

On a fully diluted basis, there were approximately 20.1 million common shares outstanding as of June 30th, compared with 19.5 million common shares outstanding as of March 31st. Lastly, we've affirmed our guidance previously issued on March 12th.

Operator, we're now ready to take questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question is going to come from the line of Crispin Love with Piper Sandler. Your line is open.

Please go ahead.

Crispin Love^ Thank you. And good morning, everyone. First, just let me talk about the potential for a pickup in origination from the second half of the year. Can you discuss your capacity to take advantage of those opportunities? I think you mentioned you have \$24 million available in the credit facility.

So are there other actions you think you need to take, either on the debt side or continue to tap the ATM to fund those originations, or do you feel good from a capacity perspective here?

Operator^ Pardon me, speakers. You might be on mute.

Please remain on the line. Your conference will begin momentarily.

It will resume shortly. Mr. Sullivan, please go ahead.

Peter Sack^ Hi. Apologies.

We have some technical difficulties with the conference line. Crispin, I'm not sure if you heard the answer to my question, but we have \$31.5 million of operational liquidity going into the second half of the year and we're excited for the opportunities that are in front of us. There is a pretty profound change in optimism in the industry, additional investment, additional growth opportunities, additional M&A and we continue to evaluate

opportunities in the market for additional debt and equity capital to take advantage of those opportunities.

Crispin Love^ All right. Thank you.

I appreciate that. And then, just with the presidential election just a few months away, along with other state elections, I think you mentioned Florida specifically, but can you discuss what you might be looking for leading up to and post the elections from a cannabis perspective, and what are some of the pros and cons that could come from them and impact the business over the near- and intermediate-term?

Peter Sack^ I think all eyes are on rescheduling and how that process unfolds prior to the election and we're hopeful that as much of the rulemaking process as possible can occur before the election, but we'll have to see. And I think there's a lot of uncertainty as to what will be accomplished before the election and how the election and a new presidency may impact that.

I think one of the positives of an election, regardless of who's on the ballot, is greater dialogue about this topic and about greater liberalization of cannabis policies, both at a federal level and a state level. And I think the history of the last 10 years has shown that that dialogue tends to lead to progress, even if it's slow and even if it is halting at times.

Crispin Love^ Great. Thank you. And then just one last quick one for me, just on scheduling, can you update us where we stand today and then just on any key milestones you're looking for over the near- and intermediate-term? I think you talked about kind of the rule process making, but any other detail there on scheduling? Thanks.

Peter Sack^ We're looking for the outcome of the review of the comment period.

I think that's probably the next benchmark on the horizon and then I think there's a lot of uncertainty. And at Chicago

Atlantic, we don't have a secret crystal ball to evaluate how the DoJ will proceed in this process and so we're underwriting our loan book appropriately.

I think you'll continue to see a conservative approach from us until there is more certainty on rescheduling and what a formal rule looks like and what potential challenges to that rule look like.

Crispin Love^ Great. Thank you, Peter. I appreciate you taking my questions.

Operator^ Thank you. And one moment for our next question, please. And our next question comes from the line of Mark Smith with Lake Street. Your line is open.

Please go ahead.

Mark Smith^ Hi. Guys. First question for me, just wanted to ask about kind of new states, you call that kind of Ohio, Minnesota, some others, kind of what you're seeing from newly legal states, as well as anywhere where you see geographic strength or weakness.

Peter Sack^ I think the news out of Ohio this week has been very exciting and we've seen flash numbers from our borrowers in Ohio from the first day of adult use sales that are extremely encouraging about the prospects of that state. And I expect we're going to continue to see opportunities to deploy as the as existing dispensary owners who received additional licenses seek to build out their footprint and as the wholesale market looks to catch up with demand.

Depending on the outlook on the results of the ballot initiative in Florida in November, we're going to see additional opportunities to deploy in that state and we are optimistic -- cautiously optimistic about the outcome of that of that referendum. Pennsylvania is in the center of the industry's focus to see where the debate on adult use will lead. And I think smaller state of Kentucky's medical program is an interesting example of a new medical program in a conservative jurisdiction that I think will present opportunities for us and others.

Mark Smith^ Perfect. And then any thoughts? I know you just kind of said that you don't have a crystal ball, but if you're seeing any changes or kind of early green shoots around kind of build out ahead of potential rescheduling, are you seeing people start to make moves or is everybody really just in kind of a wait and see mode until there's something more concrete?

Peter Sack^ Operators are -- I think some operators are making more aggressive moves, some are making more conservative moves.

But that optimism has definitely led to additional willingness to take risk that I think wasn't there six months ago or a year ago.

Mark Smith^ Perfect. Thank you.

Operator^ Thank you. Showing no further questions. Ladies and gentlemen, this will conclude today's conference call. Thank you for participating.

And you may now disconnect. Everyone, have a great day.