

Chicago Atlantic BDC, Inc.(Q3 2024 Earnings)

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Corporate Speakers:

- Tripp Sullivan; Chicago Atlantic BDC, Inc.; Investor Relations
- Scott Gordon; Chicago Atlantic BDC, Inc.; Executive Chairman and Co-Chief Investment Officer
- Andreas Bodmeier; Chicago Atlantic BDC, Inc.; Chief Executive Officer
- Umesh Mahajan; Chicago Atlantic BDC, Inc.; Co-Chief Investment Officer and Chief Financial Officer
- Dino Colonna; Chicago Atlantic BDC, Inc.; President
- Unidentified Speaker; Chicago Atlantic BDC, Inc.; Unknown

Participants:

- Unidentified Participant; Unknown; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Chicago Atlantic BDC Inc. Q3 2024 Earnings Call. (Operator instructions) I would now like to turn the conference over to Tripp Sullivan of Investor relations. Please go ahead.

Tripp Sullivan^ Welcome to the Chicago Atlantic BDC conference call to review the company's results. On the call today will be Scott Gordon, Executive Chairman and Co-Chief Investment Officer, Andreas Bodmeier, Chief Executive Officer, Umesh Mahajan, Co-Chief Investment Officer and Chief Financial Officer, and Dino Colonna, President.

Our results were released last night in an earnings press release, which can be found in 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 avail 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 would 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 involved known and unknown risks and uncertainties that are important factors that could cause actual results to differ material 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.

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, November 8, 2024. 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 Scott Gordon. Please go ahead.

Scott Gordon^ Thanks, Tripp. Good morning, everyone. A little over a month ago, we closed on the acquisition of a loan portfolio from Chicago Atlantic, renamed the company to Chicago Atlantic BDC Inc. and began a new chapter in our history with the ticker symbol of LIEN.

This was a long journey that we've updated you on throughout the year, and I'm pleased that we're now seeing the fruits of that hard work.

LIEN came together as a joint venture between Chicago Atlantic and Silver Spike, combining two leading investment platforms in the cannabis industry. And more importantly, LIEN is the only publicly traded BDC focused on lending to cannabis companies, with net assets of over \$300 million in investments in 28 portfolio companies.

I am proud to be leading a great management team comprised of talent from both companies. We believe our BDC gives investors access to a differentiated source of credit alpha [ph] than what is typically found in other BDCs or private credit funds.

By doing this, we increase the prospects for further growth within our core activity of providing capital to high quality operators, within grossly und and under – underserved sectors.

In [ph] addition to our proven experience in cannabis lending, there are several reasons why we're confident in growing the non-cannabis lending vertical. The three biggest reasons are we have the right team with relevant origination and underwriting experience to succeed in non-cannabis investing.

Chicago Atlantic has a track record in non-cannabis lending with a strong return profile and consistent growth in the portfolio.

And lastly, Chicago Atlantic (inaudible) a pipeline of self-originated deals in non-cannabis through its distinctive referral network.

Since we began trading under our new name and ticker on October 2nd, LIEN has been well received by investors. This is what we were hoping for when Silver Spike and Chicago Atlantic began talks. We saw an accretive opportunity from which all shareholders and team members can benefit.

We shared synergistic goals and we are excited to collaborate, innovate and drive collective results for the benefit of our shareholders.

This week's election has certainly been front and center in everyone's mind, and none more so, than in the cannabis industry.

As we've talked about all year, federal rescheduling is likely a next year type of event. The Trump campaign had been generally supportive of rescheduling, so we don't see too many hurdles to that ultimately occurring. Question will be the timing.

(Inaudible) banking is going to take some time as well, with a gridlocked [ph] Congress, the timeline is likely pushed out even further than it was pre-election.

We have never underwritten our loans on the basis of rescheduling, safer [ph] banking or any other legislative or regulatory relief [ph] taking place in the immediate future. We underwrite in the current market as it exists today at the federal level and on each individual state regulatory scheme.

Now, I'll hand it over to Andreas.

Andreas Bodmeier^ Thanks, Scott.

Chicago Atlantic BDC has a differentiated and unique approach to targeting potential investments in under followed [ph] sectors, which we believe is a durable long term strategy that has the potential to deliver attractive risk adjusted returns, with low correlation to our peers in the BDC states [ph].

We are a very different BDC. We're the only BDC focused on and able to lend to cannabis companies. We are also going to other places where the more traditional BDC lenders don't go, and we're seeing idiosyncratic [ph] opportunities that aren't available in other BDCs or credit funds.

We will remain focused on the cannabis industry, as we're bullish on the prospects for the industry to continue growing in a dynamic fashion. Being among one of the fastest growing sectors in the market brings a lot of opportunity for growth.

We're in the early innings of the evolution of this industry, that will continue to have further regulatory progress and catalysts, whether that's more states coming online for [ph] more medical and adult use.

Federal legalization will be transformational, but that's certainly hard to predict. We sit in a very privileged position as one of the biggest dedicated capital providers to the industry.

We enjoy great relationships with many of the biggest operators in the space. We will continue to support them with capital and advice in the true spirit of a [ph] BDC partnership.

We don't see ourselves as merely a lender. We like to help our borrowers think about their own success and how to get there. There's a real focus on understanding their challenges and helping them drive profitable growth.

As the newest member of the Chicago Atlantic BDC team, I thought I might make some brief comments on this broader Chicago Atlantic platform and why we're excited about the potential of our two companies coming together for this opportunity in both cannabis and non-cannabis lending.

Since our founding in 2019, Chicago Atlantic has continued to invest in growing our infrastructure. We now have offices in Chicago, Miami and New York, and we have assembled a top notch team of over 30 investment professionals.

We have one of the largest cannabis lending platforms, our own originations team, our own real estate diligence and development team, decades of experience in direct lending, a diversified loans portfolio and now two publicly traded vehicles.

The strength and size of our platform, not to mention our operational, financial, legal and underwriting expertise has led to many exciting partnerships. As one of the largest and most experienced investment platforms in the industry, we're continually developing innovative approaches to support the industry's growth.

We will also not sacrifice the platform we have created at Chicago Atlantic to pursue short term or short sighted growth. We do everything within our power to execute on the tremendous investment potential in cannabis in a manner that protects principle investment while maximizing potential long term returns.

Umesh, why continue you take it from here.

Umesh Mahajan^ Good morning. Thanks Andreas.

Before I begin my brief comments, I want to highlight our updated investor presentation that we filed last night. We've added some new disclosures to that presentation and intend to continue to expand our quarterly presentation (inaudible) earnings supplemental going forward.

So, turning to our highlights for the third [ph] quarter, gross investment income for the quarter was \$3.2 million, compared to \$2.9 million in the third quarter last year, excluding the cost specifically related to the loan portfolio acquisition. Expenses were \$731,000, compared to \$1.3 million in [ph] a year ago.

Investment income, excluding these transactions expenses was \$2.4 million or 39 cents per share, compared with \$1.6 million or 26 cents per share in a [ph] year ago.

Transaction related expenses over [ph] \$2.4 million this quarter and have been the primary factor in the decline of our reported net investment income this year in 2024. We

anticipate that we will have some additional expenses incurred in the fourth quarter, but nothing of the magnitude we have experienced to date.

Reported net investment income for the quarter was \$15,000 or nearly zero cents per share for the quarter and net assets were \$82.5 million at the end of the quarter and the net asset value per share was \$13.28.

So, you'll notice in our new quarterly investor deck that we have provided a proforma summary of the investment portfolio as of October 1 to reflect the addition of the loan portfolio acquisition that [ph] these investments were listed in detail in our most recent 10Q, which was filed last night.

But I wanted to highlight some of the important distinctions between our portfolio as of September 30 and as of October 1. The investment portfolio is not only five times larger in size, but also significantly more diversified.

We now have 28 portfolio companies. Over [ph] 23% of our portfolio is invested outside of cannabis across multiple sectors, and our average position size is about 3% compared to a [ph] more concentrated portfolio earlier. And over 79% of our portfolio is flooring [ph] rate loans. And 99% of those loans have a rate floor, which shields us from declining interest rates.

More importantly [ph], our expanded portfolio retains some of the attractive characteristics that we have had previously. Average yield in [ph] the portfolio is approximately 17.2%. The weighted average secured net leverage for our portfolio companies is 1.6 times. And none of our loans is in non-accrual [ph] status.

The greater size of those [ph] portfolio will make our previous periods [ph] less comparable in terms of net assets, investment income and expenses going forward, but I would also note that we have issued an additional 16.6 million shares of common stock at net asset value as of September 28, in conjunction with the loan portfolio acquisition.

There are [ph] approximately 22.8 million shares of the company as [ph] common stock outstanding today.

Further, at the BDC level, we have no debt. So, as our BDC takes on leverage and deploys our capital to expand our investment portfolio, we are positioned to improve the returns for the benefit of our shareholders.

We'll be providing an update on the dividend for this quarter to a separate announcement later this month after receiving the necessary approval from our board of directors. We expect our quarterly dividend per share to be higher than our prior dividend per share.

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

Dino Colonna^ Thanks, Umesh.

We made two debt investments during the quarter, the first was with an existing borrower, Workback [ph] Holdings, for an incremental \$0.3 million.

Second, was the Ascend Wellness for \$3.5 million. We are pleased to deepen our commitment to Workback [ph] and to initiate a new relationship with Ascend, as they are both well positioned for future growth in their respective industries.

Subsequent to quarter end, we funded approximately \$5.5 million in net investments, which included the funding of three investments offset by one repayment of an existing loan.

The current pipeline across the Chicago Atlantic platform is robust, with approximately \$559 million in potential debt transactions across 39 unique companies. This pipeline is comprised of a diverse set of companies across cannabis and non-cannabis, all with what we believe, are attractive risk reward characteristics.

This unique and diverse set of opportunities is a direct result of the hard work and expertise of the origination team across the Chicago Atlantic platform, a team I'm proud to be a part of and see great future with.

The company had previously been limited in its ability to execute on our pipeline due to being subscale, but now, with a significantly larger and more diverse (inaudible) portfolio, a healthy cash position and better prospects for leverage, we are well positioned to capture more of the pipeline and put available liquidity to work over the next few quarters.

As mentioned earlier, we are now also engaged in activity outside of cannabis and are finding unique opportunity to provide credit in other sectors, where traditional capital sources aren't focused.

Effective October 1, non-cannabis investments represented approximately 23% of our portfolio, so it's worth highlighting where we currently see opportunities outside of cannabis.

While there are many qualities in common to how we approach cannabis and non-cannabis investing, such as low debt to enterprise or asset value, as well as strong covenants [ph] collateral coverage and cash flow, non-cannabis opportunities can be classified into three sub strategies.

The first is growth capital and technology, where we are [ph] focused on industry leaders and disruptive companies that are experiencing strong growth trajectories and typically need capital to support continued revenue growth or expansion of the overall business.

The second is esoteric and asset based lending. Here, we're focused on established companies with strong cash flow profiles in industries that carry idiosyncratic [ph] risks, which limits access to traditional sources of capital.

The last is liquidity solution, which is [ph] typically focused on event driven opportunities [ph], including, but not limited to mergers, acquisitions, refinancings [ph], dividend recaps [ph] or other strategically driven liquidity needs to establish business (inaudible).

While we remain largely focused on the cannabis industry, the opportunities outside of cannabis are also very compelling. Whether cannabis or not, we are excited to continue creating customized financing solutions, tailored to the unique needs of borrowers, while maintaining our rigorous approach to underwriting and structure.

We look forward to reporting back on our progress and continuing to build a portfolio over the next several quarters. Operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator^ Certainly. (Operator Instructions) Our first question today will be coming from Pablo Vuene [ph] of (inaudible) and Associates. Your line is open, Pablo [ph].

Unidentified Participant^ Thank you. Good morning. Look, the first question, can you just try to quantify how much liquidity you have to put to work? I mean you talked about no debts, you're going to have leverage, and also there's cash in [ph] the balance sheet. Just remind us of your – your – what is tolerable in terms of leverage targets and (inaudible) the balance sheet. Just trying to think in terms of that (inaudible) you talked about, how much you can put – how much cash you [ph] – how much you have – how much (inaudible) you have to go to work here [ph], thanks.

Umesh Mahajan^ Yes, hi, Pablo [ph], this is Umesh.

In terms of your liquidity at the time when we closed the transaction, we had about \$30 million. We currently have a little – a little over \$30 million in cash balance on our balance sheet, but you're right, we do have a very concerted effort to add leverage to the balance sheet.

If you think about our equity of over \$300 million and if you look at typical BDCs we can – we get [ph] – we have a substantial amount of capacity to add debt, even if we assume that we take a third the turn [ph] of equity as our leverage, that would give us about \$100 million.

So, it's a little early to talk about exactly how much we will have on our balance sheet from the leverage facility, but those conversations are currently in progress, and we'll have an update for you on our next call.

Unidentified Participant^ Okay, thank you.

And then just to be clear for people out [ph] there, when you took out that [ph] \$550 million plus pipeline, that's – that's a growth [ph] pipeline, right? So, just remind us how do you decide how much of that goes to – I don't know, to refi the read [ph] – how much (inaudible) go to LIEN [ph], the BDC? How are those [ph] decisions made?

Umesh Mahajan^ Yes. So, yes, you're right, the pipeline is across the [ph] group, and we track all kinds of investments here across real estate, non-real estate, across cannabis, non-cannabis, but a couple of things I'll point out, this pipeline is a very robust pipeline.

So, it's not just a pipeline which could be – which it [ph] – there's [ph] a lot more parts that have gone into identifying the opportunities that are somehow more real and actionable. And so, we feel good about that number across the platform.

And then in terms of allocating across the different entities, it really is a function of what is best suited for which entity, and of course, following the regulations that are – that are [ph] – that require us to allocate in a certain manner according to (inaudible).

But in terms of the allocation at a simplistic level, but there are certain opportunities that are clearly suited better for certain entities within the platform, real estate entities (inaudible) opportunities probably better suited for the (inaudible).

BDC, as you know, can't invest in real estate or long [ph] real estate, but we do not have the opportunity to invest in opportunity which have an equity linked [ph] upside [ph] or equity linked feature in a – especially in the cannabis sector.

We can do the non-cannabis sector investments with attached [ph] equity features or upside features to it.

So, there are a whole host of considerations that go into the allocation, but we're feeling good [ph] about the fact that we now have the ability to – to provide solutions to borrowers across sectors, but definitely in the cannabis sector, we have the ability to provide a different range of structuring solutions and provide the capital for the right borrowers and the right operators.

Does that answer your question?

Unidentified Participant^ Thank [ph] – yes, no – that's good color. If I may, just a couple of follow ups here. So, okay, '23 the [ph] portfolio, it's outside cannabis. I understand the advantages of having a diversified portfolio across sectors, and – and you explain [ph] what type of sectors.

And I'm not going to draw comparisons, right, but we saw the case [ph] (inaudible) very different company, right, they tried to go into commercial real estate, and according to them, the investor feedback was that they wanted something focused on cannabis.

I – I'm assuming on your – in your view, the investor feedback you've gotten is that [ph] there is value to having this [ph] diversified portfolio, as opposed to be [ph] – being 100% in cannabis? If you can just expand on that? Thank you.

Umesh Mahajan^ Yes, definitely. And I will pass it on to Dino, who talked about the different strategies, but at a – at a higher level, yes, we definitely seeing that there is a strong case to have a diversified portfolio, to be able to provide a portfolio which has not just across – by [ph] diversified I mean not just across sectors, but also across the kind of market related factors that can keep the portfolio robust under different scenarios.

And that can really be achieved well if we have a little bit of exposure to the non-cannabis section as well. And just to point out, we are not, at this point, thinking that we are going to make a major shift away from cannabis. Cannabis will continue to be our core, and we are just adding non-cannabis at a level where we think it's an optimal mix to have that [ph] nice kind of diversification.

But Dino, you want to jump in and talk a little bit more about the non-cannabis strategy here?

Dino Colonna^ Yes, thanks Umesh.

Just quickly, what I would say is diversification is great, and we're excited to have a bit more diversification in the portfolio, but I don't think we'd be doing this if we were giving up – or looking at less attractive opportunities.

The non-cannabis part of the book, from a relative risk reward kind of [ph] perspective is [ph] just as interesting as cannabis. So, I think both from a diversification perspective, but also the return we're getting and the risks we're taking are comparable, so it just felt like a really natural fit for the extension [ph] outside of cannabis.

Unidentified Participant^ Thank you. And one last one, I mean obviously, you talked at length on the – on the regulatory environment – the political changes, I'm not going to get into that here, but what would be your read at the moment in terms of the state of the industry, particularly when we look at some of the results we've seen here in the third quarter season, are things pretty much in line with your expectations?

I mean if you can just comment on that? Thank you.

Umesh Mahajan^ Yes, I think – I think from the perspective of the – what we are seeing across the – across the various markets, because we can't look at cannabis as a one monolithic market across the country, we have to look at it from a state-by-state basis.

I think if we take a longer term view, yes things are progressing well across all other [ph] markets, notwithstanding certain specific events that we [ph] have seen, for example in

Florida or New York, there are bumps in the road, but overall, the long term pieces – the secular growth pieces still (inaudible) strong across the sector.

And in terms of – in terms of what these operators are doing across these states [ph], I think we are now seeing the better operators – operators surface to the top. And that is exactly what we focus on as lenders. We are looking for operators who have navigated through all of these events well, have a better strategy for not only managing their costs effectively, but also position themselves well for the growth.

And there's [ph] the question [ph], we've seen growth strategy, both organic as well as M&A across different markets being manifest in different forms. And we are able to evaluate those strategies and choose the companies which have the highest credit metrics.

Overall, we – we've [ph] been seeing that the sector is performing the way we would on a longer term basis. There is clearly a need for capital and we think we are best positioned to provide that capital.

Scott, do you – do you have any additional comments on the – on the overall (inaudible)?

Scott Gordon^ Yes, no [ph] – I mean I would just as we've mentioned in the call, Pablo [ph], as far as regulatory changes, we – we've always been sort of hopeful, yet skeptical, but I mean those, would prevail.

So, I think the selloff that we've seen in the market, as a result of the combination of Florida [ph] getting rejected and what the market might think (inaudible) Republican regime means for [ph] progress on the federal front, it doesn't really [ph] – it truly doesn't matter to us. It's not – it's not in our models.

I think it's business as usual for us, which is – a market that's clearly growing, that continues to maintain momentum of reform – regulator reform and legislative progress at the state level, a murky and impossible [ph] trajectory to predict in terms of federal change, other than perhaps (inaudible) and rescheduling and all of that's [ph] sort of [ph] fine for us.

You know, our – we – we've always felt that the growth is there. And the complexity, not deriding [ph] and being a good lender to the space is challenging. And I think the backdrop of how we operate as a lender remains the same. You know, we – we can pick and choose among a very selected [ph] subset of operators in the space that qualify for being good credits for our business.

And we think that's unchanged in this environment, despite what's been sort of a tough quarter for some of the [ph] public operators, and what's kind of like a volatile, maybe macro perspective, currently.

So, I think – I think we're undeterred by all of that and it's business as usual.

Unidentified Participant^ Thank you, but I may – I will allow [ph] one more, if I may. So, obviously the demand, supply and [ph] balance for capital in the industry, it remains. And with [ph] – with a drop in share prices, (inaudible) probably be even more difficult, so I suppose that's good for the – for the debt providers, right.

But I mean – to [ph] - correct me if I'm wrong, but at the same time, (inaudible) demand for debt capital, but at the same time, comment on the competitive landscape, right? We saw Curaleaf, I think, refinance with a regional bank at like 7.9% rate, they said or 7.99.

But are we seeing more competition from that side of the business or it's (inaudible) – is that still very limited? That's all. Thank you.

Unidentified Speaker^ I think (inaudible) –

Unidentified Speaker^ (Inaudible) --

Unidentified Speaker^ (Inaudible) go ahead --

Unidentified Speaker^ You go ahead – go ahead, Umesh, you start.

Umesh Mahajan^ I was just going to say that yes, we [ph] have seen some of those banks that (inaudible) in a few specific instances over the last year, but overall, Pablo [ph], even if you again look at the overall market, and the [ph] demand for the capital that exists across all of the country, the demand is very, very robust, and the suppliers of capital are very few, as you know.

And it's not as if we have seen a rush of capital come into the lender space, and it's not as if there is a massive amount of liquidity available to support a – the [ph] demand that exists. But Scott, sorry, please go ahead.

Scott Gordon^ Yes – no, I was just actually going to say the same thing, that look, I think capital coming into the space is good for everyone, and it's [ph] good for us.

And – but I think that if you take a step back and focus out, the – the inherent imbalance of the demand for capital relative to the limited sources of supply that drive our business in terms of being able to dictate, really attractive terms with respect to pricing and structure, it's still there.

So, I think the nuclear winter of like there being very little capital available on the credit side – that we saw maybe 12 or 18 months ago is thawing a bit, which is good, but I would still generally characterize the setup as being one of a pretty significant imbalance though [ph] despite on the margin, some new sources of capital coming in on the banking side, and elsewhere.

Unidentified Speaker^ Hey, and [ph] --

Unidentified Participant^ Thank you very much.

Unidentified Speaker^ And Dino, do you want to weigh in from Chicago Atlantic perspective on the same topic?

Dino Colonna^ I think what we're seeing is from the bank world, the interest and the deals that are getting executed come with very high deposit balances. So, lending to cannabis businesses by banks appears to be used, to a large extent, to gather deposits, which for many operators, is not a good solution.

Unidentified Participant^ Right. Thank you.

Operator^ And there appears to be no further questions. I'd now like to turn it back to Scott Gordon for closing remarks.

Scott Gordon^ Great [ph], well thanks, everybody for joining. Appreciate your time this morning. And we look forward to staying in touch with you. Take care.

Operator^ And this concludes today's conference call. Thank you for participating. You may now disconnect.