

AFCG Earnings Call Transcript

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Operator: Good day, and thank you for standing by. Welcome to the Advanced Flower Capital Inc. Q3 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during this session, you will need to press star 11 on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star 11 again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Gabriel A. Katz, Chief Legal Officer. Please go ahead, sir.

Gabriel A. Katz: Good morning, and thank you all for joining Advanced Flower Capital Inc.'s earnings call for the quarter ended 09/30/2025. Joined this morning by Robyn Tannenbaum, our President and Chief Investment Officer, Daniel Neville, our Chief Executive Officer, and Brandon Hetzel, our Chief Financial Officer. Before we begin, I would like to note that this call is being recorded. Replay information is included in our 10/28/2025 press release and is posted on the Investor Relations portion of the Advanced Flower Capital Inc.'s website at advancedflowercapital.com along with our third quarter 2025 earnings release and investor presentation. Today's conference call includes forward-looking statements and projections that reflect the company's current view with respect to, among other things, market development, the company's anticipated conversion to a BDC, financial performance, and projections in 2025 and beyond. These statements are subject to inherent uncertainties in predicting future results. Please refer to Advanced Flower Capital Inc.'s most recent periodic filings with the SEC, including our quarterly report on Form 10-Q filed earlier this morning for certain conditions and significant factors that could cause actual results to differ materially from these forward-looking statements and projections. During today's conference call, management will refer to non-GAAP measures, including distributable earnings. Please see our third quarter earnings release uploaded to our website for reconciliation of the non-GAAP financial measures with the most directly comparable GAAP measures. Today's call will begin with Robyn providing information about our recent shareholder vote to convert to a business development company. Daniel will then provide an overview of our portfolio and pipeline. Finally, Brandon will conclude with a summary of our financial results before we open the lines for Q&A.; With that, I will now turn the call over to our President, Robyn Tannenbaum.

Robyn Tannenbaum: Thanks, Gabriel, and good morning, everyone. We appreciate you joining us this morning to discuss Advanced Flower Capital Inc.'s third quarter earnings. Before turning to our earnings, I want to touch upon Advanced Flower Capital Inc.'s planned conversion from a mortgage REIT, the current structure under which we operate, to a business development company or BDC. As a reminder, in August, Advanced Flower Capital Inc. announced its intention to convert to a BDC as this structure will enable Advanced Flower Capital Inc. to originate and invest in a broader array of opportunities, which would include both real estate and non-real estate covered assets. On 11/06/2025, shareholders approved the two proposals related to our plan to convert from a REIT to a BDC. The first proposal was to approve a new investment advisory agreement with our external manager to allow us to operate as a BDC in accordance with the Investment Company Act of 1940, and the second was to approve reduced asset coverage requirements under the 1940 Act. We were pleased with the strong engagement from our shareholder base, with over 61% of outstanding shares represented by proxy at the special meeting, and over 94% of those votes cast in favor of both proposals. This broad

shareholder support validates the rationale for Advanced Flower Capital Inc.'s evolution and long-term growth strategy. We thank our investors for their support and for their continued investment. We anticipate that the conversion to a BDC will occur in 2026, and Advanced Flower Capital Inc. will continue to operate as a REIT until that time. The conversion remains subject to the approval of certain matters by Advanced Flower Capital Inc.'s Board of Directors. Upon completion of the conversion, Advanced Flower Capital Inc. will continue to trade on the NASDAQ under our existing ticker, AFCG. As a BDC, the investment universe for Advanced Flower Capital Inc. will expand, allowing the company to lend to operators with or without real estate collateral. Additionally, as of August 2025, our board has approved an expanded investment mandate that includes direct lending opportunities outside the cannabis industry. We see credit opportunities in other private and public middle market companies beyond cannabis that have the potential to generate attractive risk-adjusted returns. By broadening our opportunity set, Advanced Flower Capital Inc. will be better positioned to diversify its exposure across industries and credit risk profiles. In short, we view this as an important and value-enhancing step for the company and for our shareholders going forward. Now I'll turn it over to Daniel to discuss our portfolio and pipeline.

Daniel Neville: Thanks, Robyn, and good morning, everyone. I'll begin with an overview of our results, followed by an update on our portfolio. For 2025, Advanced Flower Capital Inc. generated distributable earnings of \$0.16 per basic weighted average share of common stock. Additionally, the Board of Directors declared a third quarter dividend of \$0.15 per common share outstanding, which was paid on 10/15/2025, to shareholders of record as of 09/30/2025. As we have discussed, while we have made progress reducing our exposure to underperforming credits, we continue to actively manage these positions to protect and maximize recovery value. Our earnings may continue to be affected by the underperformance of some of these legacy loans and any realized losses we take on assets. On a positive note, in the third quarter, Private Company J paid off its term loan ahead of maturity at par plus accrued interest. The principal amount of the payoff was \$23,200,000. Over the third quarter, a subsidiary of Public Company S also paid off their term loan. During the quarter, we redeployed that \$10,000,000 of capital into the new issue at a significantly higher yield than the existing paper. In total, we've received \$43,000,000 of principal repayments since the end of Q2 and will seek to redeploy that capital into attractive risk-adjusted opportunities under our expanded investment mandate. Turning to portfolio management, I would like to touch on a few of our underperforming loans. We have continued the liquidation process for Private Company A, and the receivership recently directed the distribution of \$5,400,000 to Advanced Flower Capital Inc. agents, of which \$4,200,000 went to Advanced Flower Capital Inc., with the balance going to syndicate partners. Regarding Private Company K, two of the three Massachusetts dispensaries have signed purchase agreements approved by the court and have submitted for regulatory approval to effectuate the sale. The third dispensary is expected to be under LOI in the coming weeks. We expect these sales to be completed sometime in 2026. As we discussed last quarter, Private Company P's loan was moved to nonaccrual status as of 06/01/2025, as the company did not pay interest due on July 1. As a result, we called an event of default and accelerated the loan. In November 2025, we reached a mutual release and settlement agreement with Private Company P and certain other parties. In connection with the settlement, we will be paid a settlement in the amount of \$13,300,000, less certain fees and expenses. Advanced Flower Capital Inc. will finance \$6,000,000 of this settlement via a new term loan to Private Company T at a 10% interest rate. Closing of the settlement and the related loan is expected to occur in the fourth quarter. At the time of the settlement, the nonperforming loan with Private Company P had a carrying value of approximately \$15,300,000. As a result of the settlement, we anticipate that Advanced Flower Capital Inc. will realize a taxable loss of approximately \$4,000,000 on the loan once the transaction is complete, which will impact earnings in the fourth quarter. This loss was fully reserved as of 09/30/2025, and is already reflected in our book value. Given the uncertainty regarding the timing of repayments and recovery of loans currently on nonaccrual, the Board continues to evaluate the company's distributable earnings on a quarterly basis to determine the appropriate quarterly dividend. Given the anticipated approximately \$4,000,000 taxable loss associated with the loan to Company P, we do not anticipate making a distribution to shareholders in Q4 2025. Year to date, the company has distributed \$0.53 per common share. The Board remains committed to returning capital to shareholders in a manner that aligns with

long-term value creation, and we expect the Board to reevaluate and set the company's go-forward dividend and distribution policy in conjunction with the company's transition to a BDC in Q1 2026. Lastly, we wanted to take a minute to touch on a subsidiary of Private Company G, which is Justice Grown. In the New Jersey action, we have filed a motion to dismiss on multiple grounds, which is pending in the district court in New Jersey. We have also appealed the court's initial prediscovery preliminary injunction ruling. The appeal is fully briefed and awaiting oral arguments or a ruling by the Third Circuit Court of Appeals. We are also pursuing our rights under the shareholder guarantee and the parent guarantee through separate actions in federal and state courts in New York, respectively. As a reminder, our loan to Justice Grown matures in May 2026 and is secured by the vertical assets in New Jersey, including an owned cultivation dispense facility and three dispensaries, two of which are owned. In Pennsylvania, we are secured by three dispensaries and an owned cultivation facility, which is currently not operational. We remain extremely focused on realizing maximum value from these underperforming loans. Looking ahead to 2026, we have three sizable loans maturing, which would provide an influx of capital to Advanced Flower Capital Inc. that we can use to redeploy as a BDC across both cannabis and non-cannabis assets. We believe that expanding our investment focus beyond real estate companies is an important step to deliver value for our shareholders. Our team is working hard to source lending opportunities to middle market companies outside of the cannabis industry and has already built a pipeline of approximately \$350,000,000. We are actively evaluating these opportunities, which we believe can generate attractive risk-adjusted returns for our shareholders. Now I'll turn it over to Brandon to discuss our financial results.

Brandon Hetzel: Thank you, Daniel. For the quarter ended 09/30/2025, we generated net interest income of \$6,500,000 and distributable earnings of \$3,500,000 or \$0.16 per basic weighted share of common stock and had a GAAP net loss of \$12,500,000 or a loss of \$0.57 per basic weighted average share of common stock. We believe providing distributable earnings is helpful to shareholders in assessing the overall performance of Advanced Flower Capital Inc.'s business. Distributable earnings represent the net income computed in accordance with GAAP, excluding noncash items such as stock compensation expense, any unrealized gains or losses, provisions for current expected credit losses, also known as CECL, taxable REIT subsidiary income or loss, net of dividends, and other noncash items recorded in net income or loss for the period. We ended 2025 with \$332,800,000 of principal outstanding spread across 14 loans. As of 11/03/2025, our portfolio consisted of \$327,700,000 of principal outstanding across 14 loans. As of 09/30/2025, the CECL reserve was \$51,300,000 or approximately 18.7% of our loans at carrying value, which was inclusive of the approximate \$4,000,000 reserve on our loan to Private Company P that Daniel mentioned previously. Additionally, we had a total unrealized loss included on the balance sheet of \$31,200,000 for our loans held at fair value. As of 09/30/2025, we had total assets of \$288,700,000, total shareholder equity of \$169,300,000, and our book value per share was \$7.49. Lastly, on 10/15/2025, we paid the third quarter dividend of \$0.15 per common share outstanding to shareholders of record as of 09/30/2025. With that, I will now turn it back over to the operator to start the Q&A.;

Operator: Thank you. One moment for our first question. Our first question will come from the line of Aaron Thomas Grey with Alliance Global Partners. Your line is open. Please go ahead.

Aaron Thomas Grey: Hi. Thank you very much for the questions. First question for me, you referenced a potential pipeline I think you said \$350,000,000 outside cannabis. Just clarification quickly, that's separate than the \$416,000,000 pipeline, I imagine, that you referenced in the presentation? And then secondly, can you maybe just give some color in terms of some of the opportunities that you're seeing there? And then also the yields you might expect and whether or not they would be different than the target yields you've had historically within cannabis? Thank you.

Daniel Neville: Sure. Dan, do you want to take that one?

Daniel Neville: Sure. So on the first, thanks for the question, Aaron. On the first question, that is inclusive, the approximately \$415,000,000. That includes \$60,000,000 on the cannabis pipeline and the balance on the non-cannabis pipeline. I'd say, on the cannabis side of things, we are still looking and evaluating opportunities. But there are fewer and fewer that we think are interesting on a risk-adjusted basis given the lack of progress on the federal side of things. And I think until we see progress on the federal side of things and equity capital coming back into the industry, there will probably be a limited

opportunity set for us on the cannabis side, and we'll see continued growth on the non-cannabis side of the pipeline and portfolio. Secondly, regarding the set, I would say that the yields or target IRRs that we're seeing are a bit below what we're seeing in cannabis. I think it's still something that likely is in the low double-digit range, although we're still evaluating and that'll be an average. There will be some that are below, some that are potentially above. And in terms of our targets that we're looking at, we went from a very limited investment mandate in cannabis, only cannabis, only real estate covered in cannabis. And so we are looking at this from an industry-agnostic perspective, and opening the pipeline wide open to see what the opportunities are out there. And we're really focused on just finding opportunities, again, industry-agnostic, that generate strong risk-adjusted returns. We have a big focus on capital preservation and are looking for stable industries that have some element of consistency or recession resistance in the overall business models. And so I think that's where we're at today. Over time, I think we will develop a little bit more of a niche and a focus in certain areas. We're throwing the gates wide open to all the opportunities out there. Appreciate that color, Daniel. Second question for me. So yeah, as we think about the deal selectivity, you know, and how that could potentially change, given your broader scope here, it would seem to get, you know, tighter and tighter selectivity in terms of the deals we're looking at. You'll already see that in the deals that we've looked at and what's been kicked out of the pipeline already. And so, I think that given the broader investment mandate, given the broader universe, there's just more opportunities to look at and more to be selective. And I think as you've seen over the last really year and a half, two years, as well, we've been more selective on the cannabis side relative to what we'll actually do and what we'll actually underwrite. And so I think you'll see that on both sides of the portfolio, really. Okay, great. Thanks for the color. I'll go ahead and jump back into the queue. Thanks, Aaron.

Operator: Thank you. And one moment for our next question. Our next question comes from the line of Pablo Zuanic with Zuanic and Associates. Your line is open. Please go ahead.

Pablo Zuanic: Thank you, and good morning, everyone. Also, questions regarding the diversification. So just, first of all, in terms of timing, when you start when you can start redeploying the cash, are we talking about timing, like, of January or April 1? If you can just clarify that. I don't know how much visibility you have on that. And then in terms of the numbers that you provided, just to clarify, so maximum, you would deploy \$60,000,000 in '26 in non-cannabis loans you can just verify that. Thank you.

Daniel Neville: So thanks, Pablo. So I don't think that we've given guidance to answer your second question first. I don't think we've given guidance. I think what Daniel was saying is that the non-cannabis pipeline plus the cannabis pipeline got to the \$400,000,000 number Aaron was referencing and that the active cannabis pipeline is \$60,000,000, but we haven't given any guidance as to what we would deploy in 2026. I think we're actively evaluating opportunities. We have capital currently. If we see an opportunity that we like, whether it's in cannabis or non-cannabis, to invest. But remember, we are operating as a REIT. Right, currently. So deals would need to have real estate coverage or fit within our guidelines. And in terms of conversion to a BDC, that would be in the first quarter. And we haven't given a specific date when that will occur. Right. Okay. Thank you. Then just in terms of skill set, I understand it's on the credit side, and, obviously, you have that skill set. But, you know, in cannabis, you know all the players, you know the industry well, you have a wide network. I just wonder how easy or difficult it is to replicate that in new industries. And I guess related to that, although it's a totally separate question, when we are talking about stable industry recession-resistant business models, I guess, you know, those are not growth industries, and I wonder how much capital they need. But if you can just clarify those two things, I realize there's two separate questions there. Thank you.

Daniel Neville: So I think from a relationship standpoint, if you look at what we've done in cannabis from an underwriting standpoint, what we're underwriting is real estate, but we're also operating we're also underwriting the underlying operating businesses in cannabis. So I think we have that underwriting expertise from a deal flow perspective. Right? We built this from scratch in cannabis, and I think that what we're targeting is both direct deals and sponsored deals, and it's incumbent on us to build that pipeline. So I think that's your first question. Then in terms of industries, I think, as Daniel said earlier, and he can expand on this, we're casting a wide net. Right? And there's not a deal that I'm going to talk about at this moment, but we're casting a wide net. We're looking at industries. We're looking at how

various macro factors would impact those industries, and that would be part of our diligence. But I would just say at this point, we're casting a wide net. In terms of industries. I don't know if there's anything you want to add to that, Daniel.

Daniel Neville: Yeah. I'd just say, look. The cannabis industry didn't really exist on the legal side of things till five years ago. Right? So you know, you look at the team that exists, you know, three of the four members of the investment committee scaled Fifth Street Asset Management to a \$5,000,000,000 asset in debt, \$10,000,000,000 of transactions on the direct lending side of things outside of BDCs. You know, I, myself, had a career as a generalist on the buy side for ten years prior to stepping into the cannabis industry and investing across the capital stack. And our head of underwriting, which we hired last year, had zero experience in cannabis and had done fifteen years in direct lending and other regular way industries. And so I think the cannabis side of things provides a greater degree of difficulty in terms of the business model. Right? It's agriculture, it's manufacturing, it's distribution, it's retail. And there are very other sub-elements within there. And certainly, getting security and structuring the loans and doing it on a direct basis is more difficult than other way industries. But I think taking our skill sets from our past life, taking some learnings from the cannabis side of things, on the structuring, the underwrite, and the portfolio management side of things, will certainly be useful skill sets outside of the cannabis industry. I think in terms of the commentary about target industries, I'd say, look, we're just we're looking for stable businesses. I mentioned, you know, some element of recurring revenue, some element of recession resistance. You know, we're not looking for industries that are hyper-cyclical like, I think you've seen in the cannabis side of things. We're a lender. We only get paid as lenders. We don't get paid for the upside. And so we're looking for stable businesses that provide good credit quality that protect our capital and provide attractive risk-adjusted returns. And we're casting a wide net, and there's a lot wider universe to look at out there outside of just cannabis and real estate covered, which has been our historical focus.

Pablo Zuanic: Yeah. No. That's good. Thank you. Look. And just one more on the BDC, and maybe it's too detailed for the call, but is there any changes you want to highlight in terms of the fee structure with the external investment advisor for moving to a REIT a BDC or not such a big deal?

Daniel Neville: I think that that was pretty well laid out in our proxy, and I don't want to speak out of turn since I don't have it in front of me. So I'd direct you or any investors that have questions on that to look in our proxy.

Pablo Zuanic: Okay. Thanks. As 61% of our investors voted, I'm sure they've seen that and 94% voted for it. So that's where to find that information. Thank you. And look. Totally understood your very cautious stance on cannabis. But you know, at the federal level, let's say that, you know, these changes with hemp derivatives happen. Right? Some people have sized that market at \$20,000,000,000. Not let's say that number is true. Right? And whether that flows to the cannabis industry at the federal level, and then, you know, you have potentially Virginia, Pennsylvania on the reg side and Texas on the rec side. I realize we don't have visibility on date, but things could get pretty good even without changes at the federal level, you know, in a year's time. Or am I, am I putting too rosy a picture here, Daniel or Robyn?

Daniel Neville: I'll let Daniel take this one.

Daniel Neville: Yeah. Look. It seems like we've been hearing reform is a few weeks away for the last three or four years. And so I think on our side of things, we've seen the reality of that. And the reality is that there's been no equity capital raised or very little equity capital raised into the cannabis space over the last two to three years. Very capital-intensive industry. And for the last two or three years, it's been financed by debt. Whether that's straight debt, or that's the accrual of unpaid tax liabilities. And so as a lender, when there's no equity capital coming in, and no equity cushion, in a capital-intensive business, you have to be very selective and careful in your underwrites and very much pick your spots. And I think that we're still in the cannabis business. Right? It's part of our investment mandate. We're still actively looking at opportunities. And we still have a pipeline. We still have a sizable loan book in the cannabis side of things, both performing and underperforming portions of the book. And so we're still active. We're still involved. But I think our hurdle to deploy fresh capital into the cannabis space on a go-forward basis is going to be very, very high. Absent some progress on the federal side of things. And seeing equity capital flow back into the space.

Pablo Zuanic: Thank you. And one last one, and you know, I realized you're not going to guide into 2026. But, you know, made it very clear, no dividend in the fourth quarter based on the board decision. BDC structure, the benefits, we probably start seeing them by the second quarter. So I guess for an analyst, we should probably model zero dividend for 2026. I don't know if you want to make any comments on that. Maybe you can't.

Daniel Neville: I don't think we've given that guidance. So I think we gave a fact, which is what the board has decided on the fourth quarter. Right.

Pablo Zuanic: Okay. No. That's good. Thank you. Thank you. That's all.

Daniel Neville: Thanks, Pablo.

Operator: Thank you. And I would now like to hand the conference back over to Daniel Neville for closing remarks.

Daniel Neville: Thank you all for joining us today, and have a nice afternoon. This concludes today's conference call. Thank you for participating, and you may now disconnect.