Advanced Flower Capital, Inc. ("AFCG")

CC *1 year PD* **14.87% to 20.71%**

- Strong margins and access to secured credit support resilience amid sector stress, aided by leadership changes and strategic realignment.
- Rising impairments and borrower distress pressure liquidity and limit revenue, increasing near-term credit risk. Ongoing federal judicial uncertainties remain a major concern.

Strengths

- **High-Yield Loan Portfolio:** As of YE-24, AFCG's loan portfolio had a weighted avg yield to maturity of ~18%.
- **Experienced Management Team:** Led by CEO Daniel Neville and President Robyn Tannenbaum, the team brings significant expertise in finance and cannabis sectors, enhancing underwriting and risk management capabilities.
- **Strategic Capital Deployment:** In 2024, AFCG received $119mn in paydowns from underperforming credits, which were redeployed across nine new loans.

Challenges

- **Declining Financial Metrics:** Net income decreased from $21mn in '23 to $16.8mn in '24, with BV/share declining from $15.6 to $9.0 also taking into account a Spin-off which reduced their assets. About 10% or $30.6mn of their total loans held at carrying value were LLPs. Their loan book is highly concentrated, and partially with floaters - eating into NIM if interest rates decline further.
- **Liquidity Concerns & Maturities:** The current ratio fell to 0.95 in FY-24 from 2.19 in FY-23, and short-term borrowings grew >2x to $100mn - AFCF an R/C-line entered the 12M-sphere per YE-24. Both were materially reduced in UPB by 3/2025. Their R/C-line matured 4/25 - pending status quo. Maturity-wall in 2027.
- **Dividend Sustainability & Legality:** In FY-24, distributions of $40mn exceeded net income of $16.8mn 2.4x, leading to negative retained earnings of -$50.7mn, questioning the sustainability of dividend payouts. Federal Government can enforce existing laws, legalize it altogether, or prevent access to bk-courts to recover some value. All avenues can have a sever impact on the company.

Company Overview

Headquarters	West Palm Beach, FL
Type	Public
Employees	<50
Year Founded	2020
Website	https://advancedflowercapital.com/
Business	Commercial Mortgage REIT providing secured loans to cannabis operators.
Revenues	$45.7M

- **Company Overview:** AFCG is a commercial mortgage real estate investment trust (REIT) specializing in providing institutional loans to state-law compliant cannabis operators in the United States. The company is externally managed by AFC Management, LLC and is headquartered in West Palm Beach, Florida.
- **Product:** AFCG originates, structures, underwrites, and manages loans ranging from $10mn to >$100mn, secured by real estate, license value, and cash flows. AFCG aims to deliver risk-adjusted returns through cash distributions and capital appreciation.
- **Customers:** Serves mid- to large-scale cannabis businesses involved in cultivation, processing, and distribution in limited-license states.
- **Ownership:** >57% of the company is held by insiders, with the Tannenbaum family representing the single largest block. 26% of shares are held by institutional investors, and the balance floating publicly.
- **Debt Structure:** The entity carries a Senior Note due in 5/27 with $89mn UPB. They also have a Line of Credit (AFCF) through an enitity wholly-owned by L. Tannenbaum (due 12/25) over $40mn, currently fully unused. Finally, they have a $60mn R/C-line with 2 banks ($37.75mn unused, due **4/29/25**), that can be extended to $100mn.
- **Basis for Assessment:** SEC-filed FY-22, 23, and 24 with the latter being the main basis for this assessment. Q1-25 was used for general trend analysis.
- **Single Event Risks:** Portfolio Default Risk - heavy exposure to cannabis borrowers heightens default risk, high concentration and ~10% of portfolio being LLPs. Regulatory Shift Exposure - federal legalization or enforcement of anti-cannabis laws could erode AFCG's yield advantage, and potentially end them. Funding Dependence - adoption of Basel III standards starting 7/1/25, may impact liquidity (R/C-line!).

Financial Statement Highlights

$ '000s	(C) Dec-22 T12	(B) Dec-23 T12	(A) Dec-24 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	74,685	63,933	45,655		-28.6%
Gross Profit	74,685	63,933	45,655		-28.6%
Adjusted EBITDA	51,279	42,377	28,371		-33.0%
Gross Profit Margin	100.0%	100.0%	100.0%		0 bps
Net Income	35,932	20,952	16,784		-19.9%
Balance Sheet					
Cash And Cash Equivalents	140,373	90,382	103,610		14.6%
Total Current Assets	146,091	127,868	106,808		-16.5%
Total Assets	519,177	466,585	402,057		-13.8%
Total Current Liabilities	82,986	58,518	112,069		91.5%
Total Debt	172,509	139,976	196,155		40.1%
Total Equity	339,059	320,052	201,376		-37.1%
Key Ratios					
Current Ratio	1.76	2.19	0.95		-56.4%
Quick Ratio	1.76	2.19	0.95		-56.4%
Net Debt / EBITDA	0.63	1.17	3.26		178.7%
Debt to Assets	33.2%	30.0%	48.8%		+1879 bps
EBITDA Margin	68.7%	66.3%	62.1%		(414) bps
ROCE %	11.8%	10.4%	9.8%		(60) bps

- Revenue decreased from $63.9mn in FY-22 to $45.7mn in FY-24, reflecting a 28.6% decline over two years.
- Net income fell from $35.9mn in FY-22 to $16.8mn in FY-24, a 53.3% decrease, indicating reduced profitability.
- Book value/share dropped from $15.6 in 2023 to $9.0 in '24, impacted by the spin-off of SUNS and reduced additional paid-in capital by approximately $114.8mn.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Public
Company Stage	Stabilized
Financials	Complete

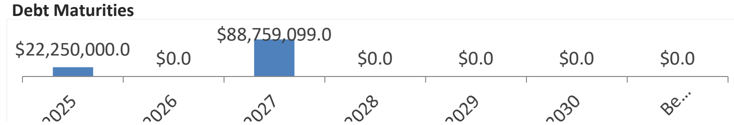
	Weight	Score	Dimension	Weight	Score
Financial	75%	5.9	Liquidity	35%	*3.8*
			Leverage	33%	*6.1*
			Profitability	33%	*7.8*
Business	25%	3.6	Industry Risk	20%	
			Competitive Position	50%	*4.8*
			Mgmt / Governance	30%	*4.0*
			Sponsor / Parent		
Modifiers		-1.7	Revenue Segment		*(0.4)*
			Trend Analysis		*(0.22)*
			Financial Flexibility		*(0.25)*

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks: 9		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.44	0.95	*17%*
	Quick Ratio	1.01	0.95	*46%*
Leverage	Net Debt / EBITDA	3.51	3.26	*60%*
	Debt to Assets	45.6%	48.8%	*47%*
Profitability	EBITDA Margin	13.4%	62.1%	*100%*
	ROCE %	12.0%	9.8%	*20%*
	Revenue	#NUM!	$46M	

Industry Benchmarks - Primary: Mortgage REITs | Secondary: Specialized Finance

Debt Maturities



Business Risk Highlights

- **Industry:** Operating in the cannabis sector, which remains federally illegal in the U.S., exposes AFCG to regulatory uncertainties and potential changes in legislation that could impact its business model. The North American REIT industry is projected to grow at a CAGR of 2.5% from 2025 to 2030. However, the legal U.S. cannabis market is projected to surpass $42bn by 2027, growing at a CAGR nearing 10%.
- **Competitive Position:** While AFCG has a niche focus, the potential entry of traditional banks into the cannabis lending space upon federal legalization could increase competition and pressure margins.
- **Management:** Being externally managed by AFC Management, LLC may lead to potential conflicts of interest and less direct control over operational decisions.
- **Sponsorship Influence:** Chairman Leonard Tannenbaum holds a significant ownership stake (19.38%), which could influence strategic decisions and governance practices.