

U.S. Global Investors Q2 2024 Earnings Transcript

Holly Schoenfeldt

Good morning everyone. Thank you for joining us today for our webcast announcing U.S. Global Investors results for quarter ended December 31, 2023. I'm Holly Schoenfeldt.

As seen on slide #2, the presenters for today's program are Frank Holmes, US Global Investors CEO and chief investment officer, Lisa Callicotte, chief financial officer, and myself – Holly Schoenfeldt, Director of Marketing.

On the next slide, we would love to offer anyone tuned in today one of our JETS, GOAU or SEA hats. All you have to do is send us an email with your physical mailing address to info@usfunds.com. During this webcast, we may make forward-looking statements about our relative business outlook. Any forward-looking statements and all other statements made during this webcast that don't pertain to historical facts are subject to risks and uncertainties that may materially affect actual results.

Please refer to our press release and corresponding Form 10-Q filing for more detail on factors that could cause actual results to differ materially from any described today in forward-looking statements. Any such statements are made as of today, and U.S. Global accepts no obligation to update them in the future.

Moving on to next slide. As always, we would love to offer anyone tuned in today, one of our JETS, GOAU, SEA JETS all you need to do is send us an e-mail with your physical mailing address to info@usfunds.com.

Now on to the next slide, I will briefly review our company. U.S. Global Investors is an innovative investment manager with vast experience in global markets and specialized sectors. It was originally founded as an investment club, becoming a registered investment advisor in 1968. The company has a longstanding history of global investing and launching first-of-their-kind investment products, including the first no-load gold fund. We're also well-known for our expertise in gold and precious metals, natural resources, airlines and luxury goods.

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Now when we move to the next slide, Slide number 6, this is where I want to hand the presentation over to CEO, Frank Holmes. Frank?

Frank Holmes

Thank you, Holly, and thank you all the shareholders who are listening.

This is one of the most important disclaimers I always like because it's colorful, but it's factual in a quant world is the DNA of volatility. What's important here is that, every asset class has its own DNA of volatility and it changes over time. They know well today that, the DNA of the human body can change and external forces, imbalances between macro forces of monetary fiscal policies can all of a sudden impact capital markets and it can change the DNA of the volatility of an asset class.

Let's take a look at the S&P 500. It basically says, it's a non-event to go up or down 1% almost 70% of the time. Over 10 days is 3%. You can see that gold bullion is the same as the S&P 500. If we go back 10 years ago, bullion was more volatile 2:1 to what the S&P was. On the Dow Jones US Asset Manager Index, it's got a day daily volatility close to the S&P, but over 10 days, it doubles, basically, the 5%.

GROW definitely doubles over 10 days. It's a non-event, they go up or down 6% on a weekly basis. Some of our funds are known especially for gold and GOAU. You can see that it's plus or minus 7% over a 10 day period. Those changes in the assets of the airlines or gold, they do have an impact in our funds and this is how we earn fees. We earn fees on basis points on the total assets that we manage and they can change over a monthly basis, a quarterly basis and that's what changes basically. It's very simple business to calculate what our revenue is going to be.

Next. Well the ETF world continues to beat down on the mutual fund world. As you can see, the ETF world continues to enjoy more product access and the fund flow is going out of the mutual fund world. It's interesting that, the younger investors, the millennials and generations x, y, and z are much more keen to go and trade and invest, but predominantly trade an ETF to get exposure to a theme. Next, please.

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I want to thank our institutional shareholders, Vanguard, Royce Investment Partners, Parrot Capital, KWM and BlackRock. A couple of these other lineups are into index funds, and but still we thank them all for that we qualify and show up in their product lineup. Next, please.

As I'm the CEO and Chief Investment Officer, and I've been in this saddle for about 35 years. It's interesting to watch how U.S. Global has been through different cycles of global booms and busts. But during this period, I've owned approximately 18% of the company and 99% of the voting control, that's a technical part of having 40 act rules. But what's important is I am the largest shareholder. Next.

So bond yields are important to look at. And then we track what happens with the two year, five year, and the 10 year. And to share with you is that most the currency movement is off a two year yield, and that impacts gold. So that's one reason why I follow the 50 day moving average on the yields. And the five year is predominantly on dividend paying stocks. And the 10 year is for the infrastructure spending. If you're going to build a new pipeline, the financing is usually off a 10 year government bond, a new gold mine, an expansion of a gold mine. It's off a 10 year government bond.

So it's important to be able to track what is happening over 10 weeks, which is 10 weeks of trading, which is a 50 day moving average to get a feel for these swings and these short-term trades. And what you see here is the five year yield, when it crosses above the 50 day that is usually bearish.

And you can see last year when the five year yield went above in May, that we started seeing small cap stocks fall micro-cap even more so, and we would be categorized, in fact, more of a micro-cap until October than when rates seemed to have peaked and the yield started declining. And as that was taking place, small cap stocks start at that rally. So this is trying to highlight that there's a very strong inverse relationship with the five year yield and the dividends that you're paying on your stock.

Next please, is to try to -- this sets into the motion here that shows you that the Russell 2000 looked like it had a breakout, while rates were falling until this year, that all of a sudden the fear of rates rising, that the small cap stocks are selling off. So it's sort of an important part, and I think that we're pretty close to this cycle where rates are in a presidential election cycle in the fourth year, going back almost a 100 years of data in the fourth year of a presidential election cycle.

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When you have a Democratic President and a Republican Congress, the market is usually up 8%. But when you have falling interest rates and not rising interest rates going into this fourth year, odds are that it's 11%, 12%. So even with all the negative news, the math suggests that the markets will be up this year.

This time last year, I forecasted that based on the presidential election cycle, the markets would be up historically double-digit in the third year. When you have this sort of balance of power, and it was, and now it was volatile, but it ended up closing up on the year. So I do like looking at data and I do from a macro point of view and a micro point of view from stock picking to macro, and that is called quantum mental approach to investing.

And that has led us down the journey to create Smart Beta 2.0 ETFs. And so it doesn't matter if it's a macro factor or it's a micro, we do look at these factors and I thought I'd highlight that when rates do start to tick down be they in April or May, that I think that we will see money flows into this category, which does impact companies like US Global. Next, please.

Our capital strategy, the allocation strategy, well, one is the shareholder yield, and the shareholder yield is a model that looks like the cash dividend paid plus the net share repurchases and net reduction divided by the market cap. That's another way of looking at it. And there's a fund manager, Meb Faber, that wrote a book on it, and he's picked stocks and they seem to as a deep value approach of picking the stocks and they both performed.

So we do follow that and we do ask questions on a regular basis of where we're allocating capital. Two is, we manage expectations for new product launches, what's necessary? How do we brand this asset class? And three, we manage to preserve cash for future growth opportunities and market corrections. We have been stockpiling cash, we have been buying back our stock, and fourth is, strategically buyback the stock, but using an algorithm on flattened down days. And five, we discussed and review with the board on a regular basis and keep in touch with their boards so they know what we're doing and why? Next.

So this is my being favor, and he came up with this famous book and really pound with the table across America on the shareholder yield, a better approach to yield investing. And it's a bit of looking at Warren Buffett's model of looking at companies that if they're not paying dividends but they're decreasing their yield and they're increasing their cash flow, they're to be bought if they're buying back stock, Warren Buffet's always believed that it's been a better than paying out dividends. But he has this unique model which we look at and respect. Next, please.

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This is the model, shareholder yield is three parts share cash dividends plus net purchase of your shares back, and net debt reduction divided by the market cap. Next, please.

So, gross's dividends, the company has paid monthly dividends since June, 2007, and it's interesting because that was the peak in gold and all the emerging markets really peaked and we started that strategy of paying out dividends. But we've been able to do through down cycles and 2008 crisis, still be able to maintain paying dividends of how we manage our capital. But the yield right now is 3.17%.

I'm going to show you that it's below the five year, but that's okay because the buying back stock just takes the yield higher. The Board approves this, but they can anytime, they can always cut a dividend, they have that right. If something comes up. Next, please.

Total shareholder yield is approximately 7.9%. Next, please.

That is adding back the dollars we've spent buying back the stock plus paying out dividends. So you can see here that the grow dividend is below the five-year treasury yield. Now, why do I show that? Is because lots of institutions make a decision that they will rather buy risk free a five year government bond than buy a stock with a dividend yield that's less than five year yield, unless that dividend is increasing, faster.

Therefore, it will catch up and surpass the five year treasury yield over the next five years. It's my first time as a money manager, Research Analyst actually, was in 1978. I'm aging myself, but it was on a dividend growth monitor and you looked at stocks that had yields that were higher than the five year government and it's interesting that they did outperformed. You have to look at that model in the context of how much is being spent on buying back the stock along with a dividend yield. Next, please.

You saw earlier that our total shareholder yield is twice what our dividend yield is more than twice and it's higher than the five year government bond. It is of great value and is and so another rational reason for buying the stock, on down days. This is an important comparative analysis. We quite often get calls from institutions and comparing us to WisdomTree and to Invesco. The reason why I bring these two names up is, WisdomTree is a 100% ETFs, 85% of our operating revenue is ETFs.

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And Invesco is 40% because they have the biggest piece of them, the QQQ ETF. What you can see is that, the price to book value for WisdomTree is substantially higher, almost 4x higher or 3x higher than what ours is. And so, it says that on, a price to book relative valuation were undervalued relative to WisdomTree.

Invesco looks a lot cheaper, but then there's other factors in that financial model. It's number one, singular factor. The return on assets as you can see, the return on assets by WisdomTree was greater, than ours, but we're greater, both of us, than Invesco. That's one reason why Invesco trades a lower price to book. And then pretax margins, for WisdomTree, they're higher. That would afford a higher P/E ratio. We are much higher than, say, Invesco. And then we look at dividend yield and compare.

As you can see that, the lowest dividend yield is WisdomTree, then we're in the middle between Invesco and our price to cash flow is about the same of WisdomTree, is higher than Invesco, but it appears that Invesco has other losses that they're wrestling with. And then this is sort of the gambit. These companies are bigger, we'd be a microcap, WisdomTree a midcap and Invesco be a bigcap, or probably a midcap going into a bigcap range. I think it's just a helpful comparative analysis and some basic fundamental approach that analysts would take a look at picking one stock versus another. Next, please.

Why we buy back our shares? One of our large institutional investors, I have a tremendous respect for. Bruce is always wants to know articulating it, and I want to point out that, the company believes that stock is undervalued and therefore buys back shares of growth stock when the price is flattered down from the previous trading day. As Warren Buffett highlights the value proposition of buying back one stock at value-accretive prices, doing so, Buffett says, benefits all shareholders, not just the biggest holders and we agree. Next, please.

The current shareholder repurchase program for the quarter ended December 31, 2023, the company repurchased a total of a 196,295 shares, Class A shares using cash flow approximately \$560,000. We bought back about 1% of the outstanding shares since September, 2023. And this may be suspended, discontinue as deemed necessary by the Board.

I think what's important is that you can only buyback a certain amount of the volume. So if the volume picks up, then we can pick up more. There's always sort of regulatory borders in sports, they call them in hockey blue line or red line. So you have to sort of manage within the boundaries. I've

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been asked, well, why don't you buy back more, because it's relative to this model, what the volume is. Next, please.

This is another illustration to show that we have increased our stock buying back. You can see in the year of 2023, substantially from 2021 and from 2022, from '21 just as COVID was ending you can see that it's quite a big number. It's more like 12x increase. Next, please.

Let's look at a fiscal year 2024. The strengths, the company remains profitable despite challenging macro market conditions. I'm going to highlight, unless you were in the magnificent seven. A few stocks were champions of the overall market. The company continues to buyback stock on flattened down days and pays a monthly dividend. The company has a strong balance sheet, which includes both cash and other investments. Next, please.

We're listed NASDAQ, we have about \$2 billion in assets, \$2.8 million quarterly operating revenue. Next, please.

Earnings per share. We saw a nice bump from the summer year end of sort of quarter end of September from December, September to December. The markets rallied as rates were coming off, and the assets and also certain write-downs in that past quarter because we do have investments that go through a mark-to-market process of write-downs or write-ups, and so you can see that the increase in investment income was \$1.9 billion. Next please.

And by the way, on onward granularity, at least it can always answer any questions and go into greater detail. Operating income, as you can see it went from \$215,000 to \$192,000. The decrease in operating revenue is due to a decrease in assets under management, partially offset by decrease in operating expenses. Next, please.

Smart Beta 2.0. Well, this whole idea of Smart Beta came to the realization that I love math and quant and we're quant focused of how we look at stocks. And quantum mental is a new word that comes out and Investopedia covers it, but it's a investment strategy that combines both fundamental tools along with quant approach to picking stocks and building a diversified portfolio. So our quantum mental investment strategy combines both cutting edge technology and robust data analysis to help optimize returns and manage risk effectively for our shareholders.

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And we believe use of Smart Beta 2.0 factors in our thematic fund lineup sets us apart from the competition. It's really important that there are some factors that are great for picking stocks. Other factors are not, but they're good for screening stocks. And then there's a magic about what portion of the portfolio is going to have mean reversion and what portion of the portfolio is going to have momentum of growth and revenue or operating income. And then they're both laws of physics. So the portfolio construction is -- this is critical as the factors for picking the stocks. Next, please.

The thematic lineup of Smart Beta 2.0 ETFs. JETS was the first, it's done its thing. It's done what the what that we went out to beat, the index and that quantum approach has done a phenomenal job. It is deeply undervalued on a relative basis to trains and trucks. The Dow Jones, Transport Index, includes a much bigger waiting and trains and trucks.

And if you just had a pure trains and trucks, the P/E ratios, the cash flow ratios, et cetera, for the airlines are much more attractive value proposition. But there's concerns of a recession, the negative news that's out there has impacted the sentiment in particular institutional investors out of that of Europe, that we have been able to witness as insurance companies. But overall, the retail and the family offices and big RIAs in the US are still actively involved in JETS.

GOAU, it's done -- I'm so proud of it because it's over-performed, the GDXJ, it's done what with the model suggested it would do. Both portfolio construction of 30% focused on gold royalties, and then the stock factors for bottom up stock picking and rebalancing each quarter. Our newest addition to the lineup is SEA, S-E-A. It has to do with cargo shipping in particular, heavily weighted towards shipping with a small portion of the portfolio into airline cargo only shipping.

And I think what's interesting is that last year, due to all the drama that's taken place in Russia, it impacted our Eastern European fund, even though we sold all of our Russian stocks before the war and before they became basically insolvent holdings, we were very fortunate for our shareholders that we went liquid very early but it didn't matter. People, the sentiment, people would rather speculate in technology stocks in America than be in the growth of Eastern Europe.

And further, same thing with the great concerns out of China, and its bullying tactics, its impacted the China fund. And so we shut down those two funds, mutual funds in the summer, and I think it's been a wise decision for the shareholders and for us.

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But how do we play this emerging market thesis, which has been so important in relative to the world of gold and luxury goods, et cetera? So one of the things in this journey of building JETS and what we witnessed is that cargo is one of the best arteries that understand the whole economy, the global economy. And it has a strong correlation to PMI and they trade a deep value relative cargo, ships trade, like JETS do they to trains and trucks on P/E ratios and cash flow.

And the dividend yields on the cargoes are much higher. So, I said, okay. How do we have a footprint for the global economy? What's the best trade-off between any emerging country exporting products to a manufacturing hub and then settling them back? It was cargo airlock, cargo shipping, and that's what we created SEA. Next, please.

So the shipping industry is a leading indicator to the health of the global economy and one way to play emerging markets. Next, please.

And it's highly correlated to a great leading indicator, which is called PMI, Purchasing Manufacturers Index. And what did we see this last year was rates were rising, the dollar is getting strong, a great contraction in PMI. That was a four tell warning of a slowdown in the global economy. And I think that every time this happens, governments panic and they start printing money. And this year, 40% of the world's population over 70 countries are gonna go through election.

In addition to America, which is the biggest GDP in the world, it's going through its fourth year of a presidential election cycle. It's important to recognize that, over 70 other countries are going through an election cycle and that usually is for the economy to get the votes and drop interest rates. I think an uptick in the PMI, it appears that its bottom, a sustaining run would be explosive to this category and voters for the emerging markets.

Again, another thing that you recognize at war, or bottlenecks, whatever it takes place in Panama Canal or the Red Sea, it gives tremendous pricing power to the cargo shipping companies. They put on a great spot here, are run in the past seven, no, probably about 14 weeks, run, with all the drama has taken place in the Red Sea. I think it's interesting to show you that choke points on supply, the world continues has to move blood through the arteries of the global economy. These guys, all they do is have pricing power. Next, please.

This is a outline that JETS, the overall as of ETF, we saw assets, decline, redeem and the bulk of those seem to be institutions from out of the country, that use JETS as a proxy. Next, please.

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Chinese stocks significantly underperformed Asian peers. As you can see here, Taiwan because the semiconductor business has done well. Japan, South Korea, but not Hong Kong and China has had a very rough year, as China's policies have been very much more war like rather than trade and economics, the policies against the technology sector.

Now they're wrestling with excessive JETS, debt as a percentage of GDP and real estate imploding around the leadership. I think that, shutting down the -- that China Fund, last early summer was a wise decision, from a macro theme point of view. Next, please.

Tech stocks distort performance of the S&P. The S&P is market cap weighted, but there's another S&P Index, and it's equally weighted. 500 names equally weighted and you can see it far underperformed for the market cap weighted. Next, please.

And then this is the magnificent seven. They're up 5.4x as much as the equal weighted NASDAQ Index since January of 2020. I mean, it's quite, quite incredible to see what the especially the growth of NVIDIA, what it's done, and everyone else jumping into AI. Next, please.

GROW's investment in HIVE Digital. HIVE also has infrastructure build-out in the AI business. There's been a very attractive investment, paying monthly principal down payments every quarter. The yield on has been much higher than you would earn on a five year or a 10 year government bond. We've been very happy, with that. Next, please.

I'm going to turn over to Lisa Callicotte, CFO, to give you more granularity in the numbers.

Lisa Callicotte

Thank you, Frank. Good morning. First, I'll start with our financial highlights on the next slide.

Average assets under management were \$2 billion for the quarter ending December 31, 2023. Operating revenues were \$2.8 million, and our quarterly net income was \$1.2 million, which was an increase 45% over the prior year same quarter and our earnings were \$0.09 per share.

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The next slides will provide more detail of the results of operation for December 31, 2023. On Slide 37, we see our total operating revenues of \$2.8 million for the quarter, which was a decrease of \$910,000 or 24% from the \$3.7 million from the same quarter last year. The decrease is primarily due to decreases in assets under management, especially in our JETS ETF, as Frank discussed.

Operating expenses for the current quarter were \$2.6 million, a decrease of \$194,000 or 7%, primarily due to decreases in employee compensation and benefits of \$168,000 or 15%, mainly due to decreases in bonuses.

On the next slide, we see our operating income for the quarter ending December 31, 2023, is \$192,000 or a decrease of \$716,000 compared to the same quarter for fiscal year 2023. And you can also see that our other income increased \$1.3 million compared to the prior year, and that was mainly due to unrealized gains on equity securities in the current quarter for \$279,000 compared to unrealized losses in the prior year of \$937,000. Net income after taxes for the quarter was \$1.2 million or the \$0.09 per share, which was an increase of \$382,000 compared to the net income of \$847,000 or \$0.06 per share the same quarter last year.

On the next slide, we see that we still have a strong balance sheet. It includes high levels of cash and securities. And on the following page, we see that we still have no long-term debt. We have a net working capital of \$38.3 million, which is an increase of \$840,000 or 2% since June 30, 2023, and our current ratio is 18.8:1.

With that, I'll turn it over to Holly to discuss marketing and distribution initiatives.

Holly Schoenfeldt

Thank you, Lisa. All right.

On the next slide, I want to briefly point out some of the upcoming events that U.S. Global will be attending or speaking at. The first is ETF Exchange, where our head trader will be headed to next week in Miami and then following that the week after Frank Holmes will be attending and speaking at the Oxford Clubs Investment E-Conference, there, he will be sharing his thought leadership on the various industries that we invest in and how to gain exposure to these industries via our funds.

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And then in March, Frank will head over to Zurich for the Swiss Mining Institute, where he will be speaking alongside other industry leaders in the gold and precious metal space.

Then on the next slide, I want to point out a quick stat about our website traffic during the quarter ended December 31. We've had over 0.5 million visitors from around the world visit usfunds.com. Many repeat visitors, but even more new visitors, many of whom came to read the award-winning Frank Talk blog or sign up for the Investor Alert newsletter, which we've seen tremendous growth in subscribers on for the last several months.

Then moving on to the next slide. Don't forget that our educational content does not only come in the form of the Frank Talk blog or the Investor Alert newsletter. We love educating our shareholders through video content as well. So make sure you're subscribed to our YouTube page to get video updates on everything from gold to airlines to luxury goods.

Then lastly, as we wrap up today's presentation, I just want to remind everyone that we do share a majority of our new content as well as announcements about upcoming events across all of our social media platforms, which continue to grow across the board.

Then on the next slide, I just encourage you to follow us on all of these platforms. So you stay up to date with what's going on with GROW, our funds and our broader market insights.

And then just as a friendly reminder to our audience as we wrap up today, if you do have any questions, please email those to info@usfunds.com and we will gladly follow-up with you to get anything clarified that you may need more information on. Thank you so much for tuning in today.