

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

Thérèse Byars – Corporate Secretary

Good afternoon, everyone. This is Thérèse Byars speaking, and I'm the Corporate Secretary of FRMO Corp. Thank you for joining us on this call.

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Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer. They will review key points related to the 2025 third quarter earnings.

There was an error in the press release. The number of presenters on this call was sent out to the public, and I just wanted to ask if you received that number? And would you please mute your line so that we can hear Mr. Stahl and Mr. Bregman clearly? Thank you so much.

And now I'll turn the discussion over to Mr. Stahl.

Murray Stahl – Chairman & Chief Executive Officer

Thanks, Thérèse. And thanks, everybody, for dialing in and having patience with us during the little technical issue. We'll begin with some conceptual things. The balance sheet and the earnings, I think they speak for themselves. The numbers are self-evident.

I think that we should give you an idea of how we look at these numbers. We look at these numbers in the spreadsheet a bit differently than you might.

You'll observe that we released our holdings of the cryptocurrency securities. You know what our big holdings are. We separate out the digital assets, and we don't look at the balance sheet and the holdings holistically like you might. So, let me tell you how we look at them. You'll see on the balance sheet there's roughly \$13.7 million of digital assets. It's primarily bitcoin—those are coins that we mined over the course of time. You'll see about \$1 million of digital mining assets. Those are mining rigs, which we use to mine the digital assets. And then, you'll notice we own 1,997,007 shares of Winland Holdings (WELX), as of February 28th. We own a little bit more now, because we resumed buying it after a hiatus due to our 10b5 program.

Those assets, in our humble opinion, can't be viewed as mere holdings. The reason is, the purpose of putting cryptocurrency mining into a corporation and viewing it as a business is that the digital

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

assets will increase numerically, meaning the number of bitcoin we own will increase as a consequence of the mining. That's a separate question from valuation. The other Bitcoin investments that we have, a lot of that is in the funds. There's nothing wrong with having them in the funds, and we expect they'll appreciate. But the only way we're going to have more of those securities is if we buy more. They can grow in price, and so they can grow in value; they can't, however, grow organically. But in the world of mining, your digital assets *can* grow organically. That's what happens in Winland.

So, you have two agglomerations of digital assets, and one is just net asset value, because it can only grow in price. The other can grow in price, of course, but it can also grow numerically. We believe that should trade at a premium to net asset value. If it didn't trade at a premium, there'd be an arbitrage between the two. How much of a premium to NAV? One can debate, but you can see that, because Winland's a publicly traded security, it actually trades at a premium to net asset value. That's one of the reasons we are undertaking to expand it the way we are. That's a salient difference, and I think it needs to be reflected upon.

Another minor point in this regard is, we're in the process of buying some more Winland and HK Hard Assets I, which we never did before. This'll increase our pro-rata ownership of Winland, but we've gotten to the point where there's a fair amount of cash flow in HK Hard Assets I, and we'd like to make use of that. And so, in theory, if we keep doing that, our investment in Winland will grow a little faster. That's the idea.

The goal of Winland, and the goal of FRMO, is to show that a digital mining business is far superior to an ETF. Basically, if you're interested in cryptocurrencies, you can obtain them in only two ways. You can either buy it or you can make it. I think this is self-evident, but it's worthwhile pointing out that making it is a lot more difficult than buying it. Nobody is going to go through the effort of manufacturing or making it if there isn't an advantage to doing so, and there is such an advantage. It's just not well recognized in the world of asset classes. The simple reason is that cryptocurrency is really a brand-new asset, and the world is still learning about it. I think, in due course, the world's going to view cryptocurrency mining in a very, very different way than it does now.

I should also point out that what we do in Winland in terms of mining is very, very different than what the other publicly traded cryptocurrency mining companies do. To give you an idea, if you bought the top-of-the-line Bitcoin mining rig today, plugged it in, and paid for electric power at the going rate, it'd be very hard to get a payback profit before the halving. It's another way of saying that after the halving, that machine will not be profitable. So, you have to do some pretty creative things to make it work. In other words, it takes effort.

In due course, Consensus Mining is going to be a publicly traded security, and hopefully we'll have more Winland, and we'll be able to disclose more of what those companies are doing. For now, let's just leave it at this: I think you'll be pleasantly surprised by what's happening in both those companies. It's an important part of what FRMO's doing in its transition to a cryptocurrency business. Historically, I talked about the various businesses we wanted to get into. And for various

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

and sundry reasons, which I won't repeat, we ended up excluding a lot of things. And we ended up with cryptocurrency. So, some exciting things are happening there, and it's worthwhile talking about it.

Let's shift gears and talk about Horizon. Horizon is also at a turning point. I think the following is true of just about every value-oriented investment company, not just Horizon. The period from roughly 2007 to 2024 was very difficult for active managers, because of the rise of indexation. Indexes existed before 2007, so why should indexation have been uniquely problematic during that period? In order to illustrate this, I'm going to read you some numbers. Forgive me for taking a few minutes to read them, but I think it illustrates more than would a verbal analysis.

Basically, what happened was that large multinational companies were able to dramatically lower their tax rates in ways that domestic companies—in other words, companies that we would ordinarily buy—weren't able to do. So, I'll read you the name of a company, its current tax rate, and the tax rate as it was in 2007. There are 14 of these examples, and I think these 14 represent, in round numbers, about one-third of the market capitalization of the S&P 500. This will tell you a lot of what you need to know about indexation.

Let's start with Apple. Apple, of course, is the largest company in the S&P. Its current tax rate is 14%, while its 2007 tax rate was 30.2%. Microsoft's current tax rate is 17.7%, versus a 2007 tax rate of 30%. NVIDIA is the only company where the tax rate actually went up: current tax rate, 12.3%, 2007 tax rate, 9.37%. Then there's Amazon, with a current tax rate of 10.3% and a 2007 tax rate of 27.9%.

Meta Platforms, I can't go back to 2007, because it wasn't even a publicly traded company. So I found the earliest data, which is 2010's 39.9%; its current tax rate is 12%. Alphabet, formerly known as Google, has a current tax rate of 17.6%. In 2007, it was 25.9%.

Broadcom is another interesting example. Its current tax rate is 0%, which was also the case in 2007. Tesla's current tax rate is 15.7%, and going back as far as I could, its 2008 tax rate is irrelevant, because they had no profits. Netflix has a current tax rate of 12.4%, while the 2007 tax rate was a hair under 40%. Eli Lilly's current tax rate is 12.5%, as compared to its 2007 tax rate of 23.8%. Visa has a current tax rate of 17.4%, versus a tax rate of 39.8% in 2007. Mastercard's current tax rate is 14.1%. Its 2007 tax rate was 35%. Coca-Cola has a current tax rate of 18.6% and a 2007 tax rate of 24%. Finally, Johnson & Johnson's current tax rate is 11.7%, versus a 2007 tax rate of 20.4%.

So, had the tax rates remained the same, the earnings of these companies would not have grown nearly as much, and obviously they wouldn't have done as well. Will the tax rates go back to what they were historically? I personally think not, but it's certainly possible. But a more relevant question is: Can the tax rates continue to decline? They have declined from 2007 to 2024. I think not, because it would be an absurdity to have the bulk of the S&P paying no taxes. I don't even think it's politically tolerable.

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

So, there's a huge change happening in the world of investing that greatly favors the stock pickers. In principle, an index investor was merely investing in a diversified portfolio of companies, but in practice, an index investor was really investing in a sort of tax shelter, which can't continue to be a tax shelter at the same rate. It is arguable that taxes might remain as low as they are right now, or perhaps go even lower. The reasons for the decline in the tax rates is not germane to our conversation. I don't want to belabor it, but if you want to ask in the Q&A, I'll go into it in greater detail as to why it ended up this way, but these are right out of the SEC filings.

I think it's more important just to enumerate them and talk about the consequences rather than about why it happened. It just happened, but it can't continue at the same rate. Therefore, the non-index investments are likely to do better than indexation, because that advantage is now being eliminated. Without the advantage of continuous lower tax rates—and maybe quite possibly this trend running in reverse—the edge now moves to the active manager. That gives an active manager like Horizon a big advantage, as opposed to the disadvantage we had for a very long time.

The next thing I'd like to talk about is the reconceptualization of small-cap investing. To put it in its most simplistic terms, if you want to define small capitalization, the best way would be the way the Russell indexes do it. The top 1,000 market capitalization companies comprise the Russell 1000 Index. And the next 2,000 market capitalizations in sequence are included in the Russell 2000 Index. It doesn't get any simpler than that.

Within the top 1,000 companies, surely there will be a number of firms that don't do well. Their returns on capital will decline. It always happens. Some will decline to losses. Others will not decline to losses, but if they decline enough, their stock prices will follow. And they will be purged, so to speak, because their market capitalizations won't support a position in the Russell 1000. What happens to them? They go to the Russell 2000.

Similarly, there'll be some number of companies that excel in the Russell 2000, and their stock prices will rise commensurately. Those companies will graduate, so to speak, into the Russell 1000. So, the Russell 1000 has a mechanism for purging itself of its worst performers. The Russell 2000 has a mechanism of purging itself of its best performers, but a wonderfully performing stock in the Russell 1000 will just trade at a higher price. If it keeps trading at a higher price, it'll always be in the Russell 1000.

So, the Russell 1000 will not purge itself of its best-performing members like the Russell 2000 would. But of course, the Russell 2000, like any index, will have companies that have deteriorating returns on capital. Their stock prices will decline, but how can they be purged? There's no place to which they can be purged. Therefore, what happens over time is that the constituents of the Russell 2000—the smaller-capitalization index, the index that the active managers draw their expertise from—those are the least-efficient stocks, at least in principle. Those indexes will build up, over time, a large number of companies that just have low returns on capital. As a consequence, if there's enough build-up, that ultimately will affect the returns on the index.

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

If you looked at the returns on the index over the last decade, you'll see they're not very robust; certainly not very in relation to the Russell 1000. The 1000 has all the tax advantages, and of course, all the companies that I mentioned are in the 1000. So, it's a problem if you're an active manager and you want your portfolio to look something different than the index. There's a structural disadvantage that's now about to turn into an advantage.

There's another problem, which has to do with another competitive asset class: private equity. At least insofar as I can determine, there's about \$7 trillion of money in private equity. If you follow that asset class, one of the things you'll notice is that in the last several years, the number of exits has declined by about 85%. An exit is a monetization of a private equity position. A monetization can be when another company buys the private equity. That happens, but what more frequently happens, at least historically, is that those private companies become public once again. They become monetized. This has become very problematic in recent years, because with all the money that has gravitated to indexation over many years, a company going public can't get itself into the index, or it can't be put into the index, until it trades for a certain amount of time. That constitutes what's known as seasoning. It must be seasoned.

For example, to qualify for inclusion in the S&P 500, a security not only has to have a sufficiently large market capitalization, but it also must trade for a certain period without being in the index. That requires a constituency of buyers. What can a constituency of buyers be? It must be non-indexed buyers, but non-indexed buyers have been losing capital to the indexed buyers. So, how can a greater number of private equity securities be monetized in the equity capital markets with an investor base that is shrinking due to loss of assets under management to indexation? It's very difficult to do. The same seasoning process applies to the small-capitalization securities as well.

There's this illiquidity backdrop in private equity that ultimately is going to cause some type of problem, because private equity exists ultimately for one reason, which is to realize profits. That requires a monetization event. The structure of the securities market—unintentionally and inadvertently, as no one planned it this way—doesn't allow for that. So, all those stresses and strains added together were a very favorable investment climate for an active manager like Horizon. One final point: Because of what happened over the years, the amount of competition has been greatly reduced.

Horizon, as a business, is in its best position in probably 18 years. Of course, you're aware that Horizon is now a publicly traded security, and it has much more disclosure than it had in the past, and anyone can read the documents and see what that's all about. So, we're in a really interesting period for the kind of investing we do, and that's a thought I primarily want to leave you with.

There's one other minor point that I want to touch on regarding the balance sheet, before I turn it over to my colleague, Steve, who might have some comments. I usually ask you to take note of an item on our liability side, which is our short-sale position, and I would invite you to compare the cost to the market value.

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

What we basically do is, we continually short path-dependent ETFs. In an efficient market, path-dependent ETFs shouldn't even exist, but they do. These ETFs are basically destined to decline in price, so it's the perfect short. Ultimately, you get margin release, which contributes to our cash. You can see the difference between market and cost and that difference basically ends up in our cash balance, and that's how we built up our cash balance over the years. So, it's really important to keep track of that. It's a business in and of itself, and I think it's a unique business.

With that, I'll just ask you, Steve. Do you have anything you want to add?

Steven Bregman – President & Chief Financial Officer

No, not yet, but I'll listen anyway.

Murray Stahl – Chairman & Chief Executive Officer

Not yet? Okay.

So, maybe the next thing to do, Thérèse, is if you have some questions for us that people submitted by email, we'd be delighted to answer them.

Thérèse Byars – Corporate Secretary

Yes, we have some.

Questioner 1

Why doesn't TPL use its free cash flow to acquire the rest of the complementary checkerboard sections of nearby land?

Murray Stahl – Chairman & Chief Executive Officer

Well, I'm not the person that you should ask. I really think you should ask TPL management that. I will just tell you, as a generalization, if you're interested in buying land, it takes two to make a bargain. It's not like a publicly traded stock, where you have cash and you could say, "Why don't I just fill in the shares," and you'll know. In the case of land, you have to have a willing seller, and since almost everybody owns the land at essentially a zero-cost basis, you'll find people, in my personal opinion, who might think they'd do better holding onto their property. But that's just my opinion, and I think that question really should be directed at TPL.

Questioner 2

Has the desalination technology in the Permian proven itself?

Murray Stahl – Chairman & Chief Executive Officer

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

That's a scientific question, and I'm pretty excited about it, but I think that's a question that the technical experts at TPL are better informed to answer than I. Sorry for punting the question back to them, but I'm not the spokesperson for TPL. They're more than able to speak for themselves, so to the extent you need an update, I think they're the appropriate party to give one.

Questioner 3

Why not merge RENN Fund with FRMO to take advantage of the loss carryforwards at the RENN Fund? Plus, Horizon Kinetics Holding Corp. would earn a management fee.

Murray Stahl – Chairman & Chief Executive Officer

That's a question I can answer. My understanding of tax law is, if we were to try that right now with our current structure, we would lose the tax loss carryforwards. There are laws that prevent more than a certain quantity of these shares turning over in any discrete period. So, you can't simply make a bid for the shares and expect to retain tax loss carryforwards, unless you first acquired over time a fairly large position. That's basically what the tax law says.

Questioner 4

I'm having a hard time squaring the excellent increase in book value with the fact that it appears the company also took a hefty loss in the last quarter. I appreciate any clarity you can give.

Murray Stahl – Chairman & Chief Executive Officer

Sure. We didn't take an operating loss. You'll recall, of course, that our prior quarter-end was November 30, 2024, so all you need to do is look at the price of Texas Pacific Land Corporation on November 30. The next mark-to-market date is February 28, 2025. Compute the difference and, give or take a rounding error, you have what appears to be the loss on the income statement. It's just a mark-to-market entry. I wish TPL would go up in every 90-day time period, but unfortunately, it doesn't do that, as much as we'd like that to happen. This is one of those 90-day periods when it declined in price. And the financial statements speak for themselves.

Questioner 5

Anything further that you can share on indirect Bitcoin mining as teased on the Horizon Kinetics Holding Corp. call?

Murray Stahl – Chairman & Chief Executive Officer

First of all, I didn't tease it. I just wanted to introduce it. Basically, why would you mine if you didn't think that Bitcoin was going to rise in price? I won't repeat the arguments for Bitcoin rising in value over time, but I endorsed many of those arguments, so I believe them myself. There are

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

other coins that don't have the same appreciation prospects, and one of the reasons is, there are other coins that are mined that have no halving.

Bitcoin is going to go through a halving in, I think, 1,086 days. That means the number of coins you get for solving a block is going to be cut in half. That's why they call it the halving. Just for the purpose of this narrow point, assuming Bitcoin trades at the same price, your revenue would be cut in half. But the expenses—meaning electric power, because that's your primary expense—the day before the halving is going to be the exact same as after the halving.

So, if your expense is the same and your revenue declines, another way of looking at it is, if you want to mine the same number of coins, you must have twice as many devices and use twice as much electric power. In practice, it doesn't work that way, exactly. The machines eventually become more power-efficient, but nevertheless, it's going to take more effort to mine the same number of coins.

Let's say we're talking about wheat, and there were a certain acreage of land that produces X bushels of wheat. And every several years, that land became less productive, meaning it could produce less wheat, and that was true of all the acres of land everywhere, not just your unique acreage. Well, the price of wheat would go up. That's what happens to Bitcoin. It's engineered to appreciate.

As I said earlier, there are coins that have no halving, so that doesn't happen—and it doesn't get more expensive, in principle, to mine those other coins. If it doesn't get more expensive, there's no engineering of appreciation. So, if there's no engineering of appreciation, why should anyone mine them? They would mine them because the momentary return, or cash return, of mining them is higher than the momentary return of mining bitcoin.

Said another way, in mining bitcoin, there's the momentary return; in other words, how much you usually spend a day to make a Bitcoin, versus what that Bitcoin's worth. But you have to add in what appreciation happens over time. What if there's less appreciation? In your momentary return, the return of that moment should logically be higher. So, let's say there are such coins. If there are such coins, and your momentary return is higher, and you could take those coins, you could turn them into cash essentially instantaneously. So, what if your momentary return on coin X is higher than your momentary return on Bitcoin? Why not mine coin X, convert the cash instantaneously, and take that cash and buy the bitcoin?

And you will find that you can buy more bitcoin—meaning you can, at the end of one day, add more bitcoin to your portfolio than you would have if you mined it directly, which we call indirect mining. None of the other publicly traded companies that I've observed do that. We've been doing that at Winland, and we've been doing that in Consensus Mining, which is gradually adding to the indirect mining. As a matter of fact, we're in the process of increasing our indirect mining effort in both Winland and Consensus right now. In theory, and at least historically in practice, we've been able to grow our bitcoin per share at a higher rate by the indirect mining effort than we actually experienced via direct mining effort. That's what indirect mining is all about,

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

simply put. Sorry, I didn't mean to tease it. I tried to make it as simple to understand as possible.

Questioner 6

Does the \$4.6 million payable to FRMO on Horizon Kinetics Holding Corp.'s latest 10-K represent the 2024 revenue-stream performance fee payment? And if so, has it been paid yet?

Murray Stahl – Chairman & Chief Executive Officer

Yes, it represents that. Has it been paid yet? I believe it has been paid. I'm going to have to check on that. I don't look every day, but I think it's been paid. If it hasn't been paid, it's going to be.

Questioner 7

Does the company target a specific percentage of assets for the short portfolio and path-dependent ETFs, or are they primarily used to deploy excess cash to cover collateral calls?

Murray Stahl – Chairman & Chief Executive Officer

The answer to that question is, neither. We could add a lot to the short position on the balance sheet if we wanted to. Why don't we? Two reasons. The first is, believe it or not, on certain days when we would very much like to short path-dependent ETFs, we either literally cannot borrow them, or we can borrow them, but we can only borrow them in a very small quantity. There are days when we get allocated literally 25 shares. That's the first point.

The second point is, with path-dependent ETFs, they're so volatile. It turns out that it was a blessing in disguise. It's not a good idea to just pick a certain day to add greatly to your position, because you never know what's going to happen on the subsequent days. So, if that's the way it is and we can't borrow mass amounts of shares, we just content ourselves to borrowing a little bit. Some days we're able to borrow a little bit more, and in the fullness of time, we have a pretty big position. You're a lot better off doing a little bit, because you don't know, if you did it on a given day, that it is going to be successful several days later.

What you do know is, in the fullness of time, it's going to work out. So, if we do a little bit every day, the chances are, relative to the cost of that day, in not very many months, no matter what happens in the marketplace, you will have a profit. It turns out you have a much more exponentially smooth rate of return, and is much less disruptive, if you do a little bit at a time. That's not the way we originally envisaged it, but we were sort of constrained into that posture. But it turns out to be a fortuitous happenstance, and we like it that way, and we wouldn't change it.

Steve, maybe you'd like to add a point to this, or maybe not?

Steven Bregman – President & Chief Financial Officer

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

When you asked me before if I'd like to say something, I was thinking with my FRMO hat, but I really should be thinking with the Horizon hat, too, since much of FRMO's value is tied to the results of Horizon. In respect to the conversation you were having about some decades-long reversals happening, the way corporate profits have been distributed in the stock market, and the way the weightings of different kinds of companies have been distributed, there's a frustration I have as a portfolio manager, periodically.

I can speak as eloquently as I might, not as eloquently as you, of course, but some people have said I can do it sometimes, in trying to explain to, let's say, a prospective institutional investor client about our long-term approach. Behind that person stand many, many potential sub-advisory accounts for us to potentially manage, and such people are very sophisticated. They're really analysts of portfolio managers, and they're often portfolio managers themselves. I'll talk about our long-term approach. I'll talk about how we don't track the market. I talk about how we're value-conscious, and so forth and so on, and the way we go about things. They nod their heads, and they seem to agree, and yet, if we lag for a while because we don't own things that are going up, somehow, they forget what we said, and then assets leave us, which is what you were describing.

Contrarily, when our securities—and our portfolios—go up for a while, and the market doesn't, and especially if we're up when the market is down, they come back. They come back when I haven't even spoken to them. And it's happened lately. So, what we've been preparing and positioning ourselves for, for a long time, and what we've written about extensively for years and years, these underlying forces are beginning to manifest themselves.

I'll paint you an anecdotal picture, because I don't know how many of you on the call actually pay attention to the performance of the various Horizon Kinetics Asset Management strategies, or what the asset flows are, whether you are students of portfolio structure. I'll just give you some responses I've had in the last few months.

In November of last year, I had a client send me just a four-sentence email. She was glued to her iPad when the market was going up a lot. As you recall, I think the market was up 26% as of November. She wrote, "I'm glued to my iPad. I keep thinking this is totally nuts. What do you say? Are we in the Roaring '20s?"

I didn't know why she was saying that. But I realized, as I looked at her portfolio, it wasn't the market she was looking at. The market was up 26%. Her portfolio was up 100% at that point, and while I was speaking to her, it was up another 5% that day, so that's what she thought was nuts. Rather than addressing the market, I addressed her portfolio more. What I saw was that the lion's share of the excess returns really came from two positions. One was Texas Pacific Land Corp., and the other were some Bitcoin-related trusts, and that trade on the New York Stock Exchange.

And I said that those are up a lot, and they're large positions. In a sense, it seems like it happened all at once, but in her particular account, we had owned each of those positions for about eight years. So, in a sense, they were now manifesting the result of underlying financial compounding,

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

different types for each of those holdings, and the price was suddenly reflecting that. So, in one sense, it really wasn't so very sudden. There was a rational basis for it, but that's the problem that active managers face, because they're being judged against an artificial performance benchmark with artificial measuring elements to it. As it happens, it's continuing this year, because our accounts for the most part are up a fair amount, and the market's down. So all of a sudden, we're getting many more accounts, and they're from people I haven't even spoken to.

That's the way it works in this industry. You think you're communicating well, and maybe you are, but it doesn't mean that anybody's really paying attention to that. Very often, they're paying attention to something else. But based on what we're seeing and our positions, if I had to make a wager, I would say that at Horizon Kinetics, the asset gathering experience is probably going to be rather rewarding, and it may very well be attached to performance fees as well.

Time will tell, but it's something to pay attention to, which you're not going to see on the FRMO balance sheet in any direct way. Now you can, at the Horizon Kinetics financial statements and through the various disclosures. At FRMO, you'll just see it through the revenue share. Anyway, I hope I didn't go on too long, but it's worth paying attention if you're a student of FRMO Corp. You can now be a better student of Horizon Kinetics, too.

Murray Stahl – Chairman & Chief Executive Officer

Well, that's excellent. Thanks for saying that. I'll just add one thing to that, which is, the numbers I read out about taxes, we like to think of ourselves as a research company. Just looking at financial statements and extracting the tax rates for different years is hardly a difficult exercise. And we're talking about the biggest companies in the world. Tax rates did decline a lot over, at least in a historical sense, a not-very-lengthy period, and they clearly added to the performance of the shares.

You would think, because taxes are such a controversial issue, there would be front-page stories about the tax rates, either for or against. When I made that table, I decided to look. I can't even find a story about it, either a story thinking it's a good thing or it's a bad thing. Maybe you can find them. It's one thing to have one opinion or another opinion. There is no opinion on it, because there's no commentary on it. What does that tell me? That the world has stopped doing research, and the world is going to return to research. That's the thought I'd leave you with, for FRMO and Horizon.

At the end of the day, it comes down to research. This kind of research is not obscure research. This kind of research is trivial research. But even the trivial research is not being done. Can you imagine what's happening to the consequential research? There's a lot to be gained by a research-oriented company. I'll just leave you with that thought.

So, any further questions, Thérèse?

Thérèse Byars – Corporate Secretary

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

That was our last question. So, if you have any further closing remarks, this would be the time. Otherwise, we can just wrap it up.

Murray Stahl – Chairman & Chief Executive Officer

Okay, just to say thanks so much for attending the call. I liked the questions, and I thought they were very perceptive. And of course, it always happens at the end of a call, someone's going to think of something they would have liked to ask but they didn't. So, don't hesitate to contact us, and we'll get you an answer to whatever your question is. And of course, we'll reprise this approximately 90 days from now. Thanks so much for listening, and we'll do this again soon. Good afternoon.

Thérèse Byars – Corporate Secretary

Murray, I'm sorry to interrupt that lovely closing, but apparently, we do have a couple more questions.

Murray Stahl – Chairman & Chief Executive Officer

Well, in that case, ignore the closing remarks. Let's hear the questions.

Questioner 8

Do you have any thoughts on how the tariff wars get resolved? What are the implications for inflation once they are resolved?

Murray Stahl – Chairman & Chief Executive Officer

To begin with, you can't separate the tariff war from the tax question. Let's give an example. The most quintessentially American company I can think of is Coca-Cola. It might astonish you to learn that around 35% of Coca-Cola, which is consumed in the U.S., is manufactured in Mexico. If there were a Mexican company, and it just so happened they produced a drink that people liked more than Coca-Cola, I would say more power to them, and I guess Coca-Cola just has to work harder. But at least part of our trade deficit with Mexico is not a Mexican company coming up with a drink that is perceived to be superior to Coca-Cola. It's Coca-Cola distributing its product, manufactured in Mexico, in the U.S. That's something that international trade theory doesn't tell you about.

In international trade theory, they speak in the abstract. Again, we're back to research versus philosophical abstractions. In international trade theory, there's Nation A and there's Nation B. Nation A might produce wheat, and Nation A has a real advantage in producing wheat relative to Nation B, but Nation B might be very good at producing textiles. International trade theory says Nation A should focus on wheat, because that's what they do well, and let free trade happen. The wheat's going to go and be produced and sold into Nation B, and Nation B is very good at

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

producing textiles, and that'll be sold to Nation A, and all is right with the world. No international trade theorist with whom I am conversant has ever undertaken to study the question of a company domiciled in a certain market producing its product outside of that country and bringing it into that country. So, why is that a problem?

Again, if it were a Mexican company, then I would say more power to them. Why is it a problem if Coca-Cola does it? The reason is, because of transfer pricing, the profit is realized in Mexico and not in the U.S. In other words, if you can produce a bottle of Coca-Cola in Mexico, the issue is not what the cost is in producing in Mexico. It's actually more expensive to make a bottle of Coca-Cola in Mexico than it is to make it in the U.S., because Mexican electricity prices are higher. You don't make Coca-Cola with people. You make it with machinery. So, it's more expensive to make it in Mexico, and you have to ship it a longer distance. It's liquid. It's heavy. It costs money to ship, so why would you make it in Mexico? Because you have a tax advantage.

I'm making up numbers just for illustrative purposes, because it's easier to do it this way. These aren't the actual numbers. Let's say it costs a dollar to make a bottle of Coca-Cola in Mexico. Coca-Cola Mexico sells that bottle to Coca-Cola U.S. at \$2, and it retails for \$2 in the U.S., so that Coca-Cola U.S. doesn't make any money. The entire corporation, Coca-Cola Consolidated, made \$1, but that dollar is taxed in Mexico; it's not taxed in the U.S.

The World Trade Organization has strict rules about giving your domestic companies a tax advantage. That would be forbidden. There's no rule about giving a foreign company a tax advantage relative to their own market, and that's what's going on. You could apply the same concept to Apple or any other company. That's the problem that has to be resolved.

You can see from the numbers that I read to you, if it was allowed to continue this way, what would end up happening is, the U.S. would be denuded of tax revenue from corporations. How could that be allowed to continue? So, the proposed remedy, whether it works or not, we'll have to see. There are a lot of potential remedies for this problem. One remedy, which you don't have available, is you can't assign a bigger tax rate, because everyone accepts transfer pricing. You can't raise the corporate tax if there are no profits book-wise in the U.S. You could raise, of course, the corporate tax, but you're not going to get any more money.

So, basically, the tariff is designed to negate and overwhelm the tax advantage of making a product in a foreign nation, so as to force the company to bring the manufacturing back to the U.S. If Coca-Cola brought those bottling plants back to the U.S., it would create a small number of jobs. It's not going to make a meaningful statistical difference in U.S. employment, but it will bring in corporate tax revenue, and that's the point. And if it doesn't, it'll bring in tariff revenue. That's the logic, so it's not designed to be inflationary. It's designed to be a tax equilibrium strategy. Whether it works or not is an entirely different debate, but that's what it's all about.

Questioner 9

At what point does Horizon become capacity constrained?

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

Murray Stahl – Chairman & Chief Executive Officer

I'm going to take the liberty of interpreting that as assets under management, and the truthful answer is, I don't have a hard and fast number. The reason I don't have a hard and fast number is, it would have to be by strategy. I can't say we can manage this much money, because look at how many different strategies we have. First, we have a small-cap strategy. We also have a large-cap strategy. Obviously, there's a finite amount of capacity we have in small capitalization, but it has nothing to do with what we can do in cryptocurrency. And then, we have some private equity investments that we have other plans for, and that has nothing to do with the other strategies. So, I don't know.

In round numbers, we're currently managing \$11 billion. I could just say this: Our goal is not to bring in billions of dollars of new assets. We'd like to bring in some, but as we say internally, we want to make money, not raise money. The assets under management that we have now, we didn't get \$11 billion to manage and now it's still \$11 billion. We got a considerably smaller sum that belonged to our investors, and it appreciated greatly over the years. That's how we've come to run \$11 billion. And we'd like to continue to do the same, so we're not going to make a heroic effort to bring in \$1 billion dollars a month. I don't think such a thing is going to happen, but if it were to happen, we'd have to do something and stop it.

At the moment, there's nothing to do. We could raise some money, but we don't raise sums that require us to impose any impediments to opening new accounts. So, you can see why we didn't formalize it. And incidentally, I went through this before, so I won't dwell on it, but you see what the numerical formalization did in the world of small-capitalization equity. It creates all sorts of dysfunctional things. We didn't numerically formalize it—we just know we shouldn't raise tremendous amounts of money, and we're going to leave it at that. I hope that's an adequate answer.

Questioner 10

The dividend and interest income line looks high relative to \$43.8 million of cash balance. Where does this all come from?

Murray Stahl – Chairman & Chief Executive Officer

For dividend income, don't forget, there are securities. The income is obviously interest income. You know what the rate is. We're going to get the same rate everyone gets, give or take a few basis points. On our short-term investments, you see what the cash balance is. You can compute that sum, but don't forget, we have securities like TPL. There are some others, like Mesabi Trust.

For example, in November, our Mesabi Trust position collected an extraordinary dividend. I don't remember the exact amount, but it was something like \$6 per share. That's an extraordinary

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

dividend. Things like that happen periodically, but most of our income comes from dividends, not from interest income.

Questioner 11

Related to that question, is the fee and other income line all from Horizon Kinetics Holding Corp's latest quarter? It is disproportionate compared to the nine months. Can you explain?

Murray Stahl – Chairman & Chief Executive Officer

Yes, it's disproportionate because of the performance fee. Some years, we get a performance fee, and this year, we got the biggest performance fee in the history of Horizon. As an aside, it turned out to be problematic for Horizon, because the performance fee has to be estimated on December 15th, even though we don't know what the fee is going to be until December 31st. It has to be estimated, because we have to pay estimated taxes on the 15th as a publicly traded corporation.

We never contemplated getting a performance fee that big, and we almost didn't have enough cash to pay the taxes. Happily, we did have enough cash, but we didn't provide for it. We didn't think it could ever happen, because it simply had never happened before. We had plenty of liquidity; we had plenty of securities. We could have sold securities and raised any amount of money required, but any securities we would have raised we would have sold at a gain, and that would have increased our tax liability. We certainly didn't want to do that, so I guess there's a downside to getting big performance fees, but that's why the management income is so large, essentially.

Questioner 12

Can you elaborate on the source of the fee and other income line on the income statement? All from the HKHC 4.42% participation? Second, can you elaborate on the source of the dividends and interest income line? In addition to the interest on the \$44 million of cash balance, where else does this come from?

Murray Stahl – Chairman & Chief Executive Officer

I think I pretty much answered this; I'll just recapitulate, then. In the management fee category, the primary factor was the performance fees. It was bigger than any time in Horizon's history, and we only get that at the end of the year. That's the way the funds work. It doesn't matter how much appreciation we have, we can't get that in the next quarter. We can be up 100%, because it crystallizes at the end of the year. It's just so we know, so don't try to forecast the next quarter based on our performance. All we can do is accrue, but we can't crystallize, so we're not going to get it, no matter what our performance is.

In terms of dividends and interest income, that kind of income, as I said previously, is primarily dividends and securities. One thing I'll say that I didn't say before: That's the great thing about keeping securities for a long period of time. Because companies raise their dividends over time,

FRMO Corp. Q3 2025 Conference Call
Tuesday, April 22, 2025

your cash flow increases when you didn't do anything. It's just that the company pays you more money, so it's really a very pleasant experience when that happens.

And sometimes, like when it happened to us in the prior quarter, in the case of Mesabi Trust, we actually got an extraordinary dividend. Of course, we're not getting an extraordinary dividend every quarter, but we got a dividend, and that dividend was much higher than the quarter one year ago. We have a fairly sizeable position in the Mesabi Trust, and Horizon itself owns, as you can see by the filings, a very large position in the Mesabi Trust. I think we're the largest holder of Mesabi.

Thérèse Byars – Corporate Secretary

Those were the last questions.

Murray Stahl – Chairman & Chief Executive Officer

Okay, so I'm going to assume that those were indeed the last questions. I'm going to speak very slowly, because I want to answer every question, so I'm giving you an opportunity to email yet another question. I'd be delighted to answer, but if a question doesn't occur to you now, and it occurs to you once you hang up the phone, please don't hesitate to contact us. We will get you an answer. Apart from that, in about 90 days, we're going to reprise this call, and we're going to answer all your questions. I thought this was a good meeting, and I really enjoyed the questions. I liked the give and take, and as you can see, we really don't have a lot of secrets in FRMO or Horizon, so please don't hesitate to contact us if you want to know things. And we look forward to the next set of questions, so thanks so much for attending today.

So, I think this meeting's adjourned. Right, Thérèse?

Thérèse Byars – Corporate Secretary

Yes, the conference has ended. You may now disconnect.