U.S. Global Investors (GROW) – Q2 2025 Earnings Call Transcript

Company Participants

Holly Schoenfeldt - Director of Marketing
Frank Holmes - Chief Executive Officer and Chief Investment Officer
Lisa Callicotte - Chief Financial Officer

Holly Schoenfeldt

[Start Slide 3] 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 and 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.

On slide number four, as always to our loyal shareholders, we invite you to email us at info@usfunds.com and we would love to send you one of our hats seen here. So just shoot us a message with your mailing address and we're happy to get you some USGI swag.

All right. Now on slide number five, I will briefly review our company. U. S. Global Investors is an innovative investment manager with vast experience in global markets and specialized sectors. We are well known for expertise in gold and precious metals, commodities, the global travel industry and luxury goods. The company was originally founded as an investment club becoming a registered investment advisor in 1968. The company has a long standing history of global investing and launching first of their kind investment products, including the first no load gold fund. Finally, we are pioneers in smart beta 2.0 thematic products. Our investment team combines stock picking and portfolio construction to develop new products with thousands of hours of back testing and fine tuning on a quarterly basis.

Moving on to slide number six. This is a graphic we always like to begin our presentations with, the DNA of volatility. It acts as a reminder to investors about how various asset classes, especially the ones that we invest in, can move up or down over time. And this is where I want to hand the presentation over to CEO and CIO, Frank Holmes, to dive in a little more on this and give us a macro overview of the last quarter. Frank?

Frank Holmes

Thank you, Holly, and welcome, shareholders, and thank you for your loyalty and support. And before going into the details of the presentation and a recap before I can give you more granularity with Lisa Callicotte, our CFO, I'm going to go through and start the basic disclosure on volatility because volatility is so important to understand in capital markets. And each asset class and each stock has its own DNA of volatility.

As you can see here, the S&P and what that means is 1 sigma means that it's a nonevent, 68% or 70% of the time, to round it off, for the market to go up or down 1% at a time, and over 10 days is 3%. Gold is about the same as the S&P 500. And I can share with you that 25 years ago, it was always substantially greater the daily volatility and the 10-day volatility of bullion and the S&P. But now they're one.

And GROW itself used to have a much higher daily volatility, and it used to trade off of the crypto, and before that, it used to trade the volatility off the gold funds because they were so big. And our investments in the creation of HIVE Digital and owning a big share position seemed to really tweak the volatility. And then came along the JETS and JETS grew. So it's important to see what assets our investments are. They drive the revenue and they also drive that volatility.

The Dow Jones Asset Managers Index is the same as the S&P. But over 10 days, it's more. It's plus or minus 4%. And oil on a daily basis is much more volatile. And JETS, as you can see, is very strongly correlated with the price of oil, and that's because oil is the biggest line item for costs. So falling oil prices last year was extremely bullish for the airlines industry. And most analysts basically had a negative, cautious, cautious throughout the whole year, and the ETF was up 30-some-odd percent. In certain airlines we own like United, it was up 130%. So it's recognizing this DNA of volatility and what moves GROW up and down.

I'm happy to share with you that GROWS volatility over 10 days is less than the Dow Jones Asset Managers Index, and that's probably because of our total shareholder yield and that is the amount of stock buying back that we're doing, especially in the down days. Next, please.

I want to thank the long-term investors, in particular, Perritt Capital, who are experts in microcap stocks, a great fund group and then Vanguard. This shows up in their index of asset management and microcap stocks. Next, please.

So I'm the CEO and the Chief Investment Officer, and I own about 19% of all the shares outstanding, and I have approximately 99% of the voting control. And the voting control is really a structure to protect investors, the fund investors so that if there's a change of control of the investment advisor, all the fund shareholders have to know. And so that basically says that if GROW's shares trade more than 25% of shareholders in the course of a particular year, that you'd always be sending out proxies to the fund shareholders. So it was always structured that I would have the voting control, or a family trust has the voting control like we have, say, with Franklin Funds. Next, please.

Strategy and tactics. Our strategy is to create thematic products that are sustainable. And this is using a smart beta 2.0 strategy. This requires rigorous back-testing and ongoing detailed analysis of data graphs. When you pull the data up every quarter, there's always glitches in the data pull. And so you do have this active way of looking at these particular products. And it does show itself as a very systematic way of running money, managing money, especially in thematic products. And I'm happy to say that when we've gone to create these products up against an index, over time, they have shown underperformance. At U.S. Global Investors, our mission is to make people feel financially happy and secure, their wealth is consistently growing.

And that really comes into our investors. We have two types: we have the trader that comes in and out on technical factors; and then we have a person that's an asset allocator that buys our particular products. Strategically buy back stock. As a company, we believe we're deeply undervalued, and we have a disciplined algorithm for flat and down days. We manage to preserve cash for future growth opportunities and market corrections.

We're always looking at M&A activity to acquire fund assets and grow our subscriber base and followers. It's really important from a marketing point of view because you can put a net present value on the number of followers you have. If in YouTube, you have 1 million followers, you can get revenue sharing, which can be up to $1 million a year. So that is a very important part of metric for marketing is to show how the subscriber base is growing, and it's been growing over the past year. Next, please.

So a big part is the Board of Directors and the hardest part was to go out and actually find someone that had detailed experience of running the capital markets, understands what they call mutual funds and ETFs are under what they call the 40-Act, the Act for Investment Advisors written in 1940, but a public company is -- as those rules and regulations are called the SEC '33-'34 Act. So it's really a challenge to find someone that has that tacit knowledge and that explicit knowledge of managing a business in both of those highly regulatory rulemaking.

And so Bobby Duncan, I reached out to, and he said, sure, I'd like to come back and be a Director at this time, not an executive, but he has lots of executive experience, over 17 years at U.S. Global. He was a CFO, he was the Chief Operating Officer, he was the CEO, and he understands all this regulatory world we live in and the importance of the different departments. So it's a great addition to the team. Next, please.

So I'll try to explain the stock. And the stock has had these incredible runs and surges. And the last time we had this huge surge going in 2020, '21 was a combination of our high position being trading 1 billion shares and going up exponentially, along with the growth in JETS. JETS ETF went from $40 million in assets to a peak of $4 billion in assets. It was an incredible run. All those Reddit investors and people that follow on Twitter, followers that trade these stocks, it's interesting that Warren Buffett capitulated and got out of all the airlines in the second quarter of 2020 with the COVID scare.

Whereas millennials, they were coming in, buying the stock, and the stock went from $10 to $28, fell back to $18, $19. Now we're up to $25 again. So I think that our stock price is now highly correlated to the airline industry. But what we've shown here since 2019, before COVID, how the Russell Microcap Index has done and how has GROW done on a relative basis. So touch wood, we have outperformed that overall index over a long period of time. Next, please.

Macro trend. The gap narrows between active and passive ETFs. This is very important for technical aspects of launching ETFs that they wanted to have, the people who were putting up the capital, to see these ideas really were strict about that they knew what the basket always was going to be. They didn't want a active. And I think that people like Ark and Cathie Wood really changed that landscape of active ETFs and more growing, and we're pretty happy about it.

So we launched our first smart beta 2.0, but it's an active view, but we create our own type of index, and we have something to beat and track. But I think what's important here for investors is that as mutual fund redemptions continue, active ETFs are growing. And I think that this is very positive for fund groups like U.S. Global. Next, please.

Warren Buffett highlights the value proposition of buying back one's stock at value-accretive prices, and it benefits all shareholders, not just the biggest holders. Warren Buffett celebrated his 94th birthday on August 30, blowing and going. I was with one of his key executives, a program I go every year at Harvard with other CEOs. And it's interesting, he said, his brain is so sharp, he has a cane, if he has to walk quickly. But his brain in the financials are following everything. I guess, all that bridge playing is helping and being around very smart people. And one of those big parts of this very smart person is buying back your stock. Next, please.

So why do we buy back stock? Because the company believes the stock is undervalued, and therefore, buys back shares of GROW when the price is flat or down from the previous trading day using an algorithm. This is part of the company's two-pillar strategy to enhance shareholder value by increasing the dividend as well as the buyback, because we know that any major surge in our assets, like we've seen in JETS or GOAU or our new one, WAR, can have a significant impact on the upside of the stock price. So if people are not betting, like we are, long term, that's okay. We continue to buy back our stock for and the long-term investor gets that benefit. Next, please.

So for the 3 months ended December 31, 2024, the company repurchased a total of 236,731 Class A shares using cash of approximately $587,000. Next, please.

As you can see, our buyback has gone from 192,000 up to 679,000 and then in 2024, 807,000. So we have been buying back stock as the stock has drifted lower. And I believe most of that drifting takes place because the JETS ETF, even though it has done so well, people keep redeeming, and I think the sentiment on negative news is driving that. But if you look at the bookings, there's no low -- there used to be a high season, a low season for travel. It's all high season or very high season. The price of tickets are still, if you look to buy a ticket for a year out, there are no discounts, and it's just recognizing the baked-in revenue.

But Wall Street is not as bullish. They always try something to micromanage it. I have no idea, but there's none of these analysts who thought United is going to be up 130% last year and the spectacular growth of the industry. So I think that this is where smart investing comes along, growth at a reasonable price. And our model, our smart beta 2.0 demonstrates that it's very, very efficient and effective for someone that wants to play an industry that is really quite remarkable because every day 1 million people around the world go to work to make the airlines function.

But when you look at the growth of all the -- making the airplanes, the service providers, et cetera, for the airline industry, it is close to 9% of global GDP. So it's really interesting that this one product, thematic product on the airlines industry can capture 9% of global activity. So I think it's very exciting, and we've expanded the footprint in Latin America, in Colombia and Chile, Mexico. So the idea that if the dollar is strong, then tourism going to Latin America actually will go up. The Americans will be traveling more. And I think these are -- you can see this in the bookings of these flights. Next, please.

Growing dividends. The yield is -- the share price of $2.45 is 3.67%. It's slightly under the 5-year government bond yield. But with the stock buyback, let me call the next slide, the total shareholder yield, it's extremely attractive value proposition. And so the shareholder yield model is dividends plus buybacks and debt reduction, and we have no debt. So market cap wise, it's got a very high yield. Next slide, please.

5-year is 4.38%, 10-year is 4.58%, and buying back your stock, those dollars end up generating what they call a shareholder yield of 10%. So it's a very attractive value proposition, and that's why we continue to buy. Next, please.

So on a relative competitive nature, looking at WisdomTree, which is 100% ETFs and looking at their profit margins, they're higher. So they end up trading at a higher price to book and the returns on their assets have grown nicely, whereas U.S. Global is down from, but it's still higher than where the infamous QQQ is. So it just gives you an idea to try to explain the relative valuation metrics. The cash dividend at Invesco is higher, but buying back the stock and the total shareholder yield is lower. And if these thematic ideas if you believe in, which I believe in, then I think that there's a huge upside potential. Next, please.

Company has a steady cash flow, despite challenging macro numbers. The company has a strong balance sheet, which includes both cash and other investments to weather these downdrafts in capital markets. The company continues to buy back stock on flat and down days and pay a monthly dividend. Next, please.

Smart beta 2.0 investing is our quantamental investment strategy which combines cutting-edge technology with robust data analysis to help optimize returns and manage risk effectively for our shareholders. We believe the use of smart beta 2.0 factors in our thematic fund lineup sets us apart from our competition. We know that when the application of that for like our luxury goods fund, we're the only one with a mutual fund in luxury goods, and it works. That fund has done a great job of outperforming the other luxury-related products that are out there, and most of them are in Europe. So we're very happy with this sort of structured discipline.

The quant approach has back-tested for thousands of hours over decades of data to determine the optimized portfolio construction. And that's what makes it special. It's not just the factors for picking the stocks like low PE or low cash flow or high free cash flow yield, it's also looking for momentum year-over-year revenue growth, cash flow growth. These factors that when you do portfolio construction and look at various industries, you have to have a system like a [Indiscernible] that does a back-testing, and it gives you a data point after looking at 40 quarters or 600 months, a statistical meaningful analysis that this product is robust and up and down the cycles.

And naturally, past performance is no guarantee of future results, but so far, it works. It's a much better discipline before launching an idea of a product that you have a rigorous test. And when you hire other young people that come along and work under CFA, it's proven to be a great way for them to learn about capital markets and application of this sort of structured discipline. Next, please.

So introducing U.S. Global Technology and Aerospace & Defense ETF, WAR, was launched in December 30, allows it to get picked up by the Morningstars. But really, what took place is the journey, and the journey from knowing gold reached out to try to launch the first

Bitcoin ETF because the relation between gold and Bitcoin is very high. We couldn't do that in 2017, and it took until 2024 before it became the fastest-growing ETF. But we would have waited all those years.

And we went out, and we created the first crypto mining company to go public HIVE. And so, it's an interesting journey. You don't realize that then we get into a gold mutual fund because we learn about from mutual funds and we go into luxury goods because gold is related to luxury and 60% of gold demand is actually called a love trade. And it's really quite remarkable that you learn along these steps.

And launching HIVE, it's a data center business. And Bitcoin mining is all about data center business. And then you realize about cybersecurity. And then HIVE was buying all these NVIDIA chips for its mining of Ethereum. And then the AI business has been building. And then you realize that the airline industry, and the overlap with aero-defense, and all of a sudden you say, there is no product out there that is really focused on the application of AI to reinvigorate our military bases and what we're doing for defense and cybersecurity.

And so in that process, we find out that data centers are key. Guess what? We started this product 18 months ago and now data centers are the big boom spend along for NVIDIA chips and aerospace companies and drone companies are all buying GPU chips from companies like NVIDIA. So we believe this is a secular trend. So this particular ETF owns semiconductors, it owns data centers, it owns cybersecurity like the Palantirs of the world.

And it also owns major military, aerospace and defense companies. But we apply this discipline every quarter to recalibrate and rebalance and go back, like I said earlier, 600 months or over 40 quarters to see how it did in up and down cycles. And it was pretty compelling that we -- this is really a technology product, but it's for cybersecurity protection along with the military.

And then in that research, we had a China fund. We ended up shutting down. We were the first to have a China region fund, and it had spectacular growth. And then all of a sudden, we realized that no one is really interested in China and their dictator that comes in, has really been a crackdown on the technology sector, and he's had a very aggressive program of building ports around the world, in particular, using them for military.

And that's woken up that America is quite concerned about China's slow and predatory practices. This also lends into WAR, the WAR ETF. And it also explains why we shut down our China Region Opportunity Fund because China, in their predatory practices of brilliant marketing of One Belt, One Way and helping infrastructure spending for countries in Africa and Latin America, they end up supporting the rogue nations, they end up supporting authoritarian regimes, they end up supporting anything that undermines democracy. And we can see that a lot of these countries end up going anti-America or they're anti-Taiwan. And so, we see that the landscape has changed dramatically. Next slide.

There's huge spending going to take place in the military space over the next 10 years. So we think this is just a great product for those people that are cautious about global economy, and you have to look where money is being spent, follow the money. Military spending will continue to grow, and AI applications to all the military is only going to accelerate. Next, please.

And this is why the New Red Cold War, three good-looking guys who want to invest in the defense industry because of their predatory practices. South Korea has the risk if Ukraine falls that the dictator of North Korea will invade South Korea. Then the dictator of China will invade Taiwan. So these are all real events that are taking place in real time. There is the thought process of cutting back on spending. I can't see that for many reasons. A classic would be China that doesn't have nothing with the Arctic and all of a sudden builds three icebreakers and they're making claims to the Arctic for cargo, and they try to build a military location port in Greenland.

And so, we've seen recently President Trump talk about Greenland and Panama. That is highly related to the China fear and the predatory practices of Xi Jinping. And Xi Jinping is now supporting military material for Putin and North Korea is testing its soldiers and have sent in soldiers to work in helping Putin's army fight in Ukraine. So we're seeing a real change around the world. And so, I think the technology is a key part. Next, please -- especially with military.

China's growing influence in Latin America. You can see many of these countries, what they do, in particular, in Peru, they come in and they want you to buy their telecom, their software, and then they try to support authoritarian leaders. So you just have to be really aware when you look at this, how many places they are located. Next, please.

The 5 key industries shaping the defense sector, semiconductors, aerospace, data centers, cybersecurity, and homeland security. Next, please.

Global defense spending is on a rise to $2.4 trillion. If you really spent the money on purchasing power parity, China is -- we are way behind with China's spending. When China goes and spends $100 billion, their output is so much greater because the cost of living is so much less and what they have to pay their workers. So we do have a catchup, and it was interesting to see Japan recently rocketing up in their spend because they're cautious and worried about what China is doing in Asia. They're building islands to basically say that within 12 miles is their land, their waterways, and they're trying to take over the Philippines water rights. So that would have a big impact in Japan. So we are seeing these changes, and it's good to have, I think, a product like this that is focused on military and technology. Next, please.

JETS, our biggest product, continues to show record number of people flying. It's interesting to see that this year, the airlines are continuing to show positive developments. And if you look a year out, you can see that there's no discount. So it's baked in high revenue growth. And these stocks trade at basically 1/4 of the S&P P/E ratio cash flow multiples, so they're deeply undervalued. Next, please.

So JETS beats the market, and we're very, very happy about our smart beta 2.0. When we created it, we wanted to beat the New York Stock Exchange Arca Global Airline Index. And as you can see, it's done that by a wide margin. And last year, it also outperformed the S&P 500, which was a big thrill for us. Next, please.

JETS continues to outperform the market airline index over different time periods here. As you can see, since August, it's had a huge run. We did a webcast, and it's interesting, people were blah-blah, and the fund just took off. And then I had calls and people talking to me saying, I'm sorry, we didn't listen. You nailed it. The industry has so much disclosure and bookings, as I mentioned earlier, are strong for next year. So I think the airline industry, which trades at under 10x earnings, versus the market trades over 20x earnings, is offering great growth and a reset button. Next, please.

This is JETS's outperformance since COVID, as you can see. This is interesting for me because if we go to the bottom of COVID. So COVID had its crisis, the JETS fell and then the rebound has been pretty strong. It's pretty strong performance, especially in the past year. Now what really helps drive a lot of this is last year was the price of oil was down. So we do find a huge shareholder base of oil-trading investors strategically will buy JETS with inverse to the movement of oil. Oil is rising, they're out; oil is falling, they're in. Next, please.

Average annual gold price, this always shocks people, has advanced 84% of the century. That is because I believe that the G20 countries are practicing modern monetary theory, which has been devaluing countries' currencies all over the world, in particular the U.S. dollar. And it lends itself that you should have this 10% weighting and rebalancing share. Next, please.

There's another way of looking at it. If gold is money, and in various currencies, how much has gold appreciated. As you can see that in Chinese yuan, it's appreciated 11.6%, in U.S. dollar it's 10.5%, in British pound it's up 8%, against the euro it's up 7%, and against the Japanese yen it's up 5%. So the global theme is pretty strong that gold is rising in all countries' currencies and having a 10% weighting in this asset class is only wise and prudent. Next, please.

GOAU beating gold mining stocks in 2024. Next, please. And since inception, smart beta 2.0 has done a great job. Our other product called SEA, it was interesting, I shared with you, the yield was 18%. So the overall investor yield last year was positive 2.4% because the dividend yield paid out was so high. Next, please.

So GROW has this investment in HIVE. It's slowly getting paid down. It pays 8% plus principal every quarter. Next, please. So GROW's approximately $2.45, $1.5 billion in assets, $2.2 million quarterly operating revenue. Next, please. Earnings per share, Lisa will give you more granularity why we lost $0.01. Next, please.

Now I'm going to turn it over to hard-working, Lisa Callicotte.

Lisa Callicotte

Thank you, Frank. Good morning. First, I'll start with our financial highlights on the next slide. As you can see, our average assets under management were $1.5 billion, operating revenues were $2.2 million, and we did have a net loss of $86,000.

On the next slide, it talks a little bit more about our earnings. So we have both operational earnings, and we have investment earnings. Both the operational earnings and our realized earnings hit our cash flow where our unrealized earnings don't. But both, because our operational earnings are based on our advisory services and then our investment earnings are really the realized and unrealized gains, they both are affected by stock market forces. So that's what you'll see is some of the fluctuation and volatility in our income.

On the next slide, this is part of our income statement. And you can see that our total revenues were $2.2 million for the quarter, which was a decrease of $587,000, or 21%, from the $2.8 million in the same quarter last year. This decrease is primarily due to a decrease in assets under management, especially in our JETS ETF.

And our operating expenses for the quarter were $2.8 million. This was an increase of $144,000, or 5%, and was mainly due to an increase in employee compensation and benefits and was partially offset by a decrease in general and administrative expenses.

On the next slide, we see our operating loss for the quarter was $539,000, and it was an unfavorable change of $731,000 compared to the same period last year. Other income decreased $1.1 million compared to the prior year, and it was mainly due to unrealized losses on equity and debt securities in the current period of $221,000 compared to unrealized gains in the prior period of $414,000.

We also had realized foreign currency losses of $239,000 compared to $92,000 gains in the prior period. Net loss after taxes for the quarter was $86,000, or $0.01 per share, which was an unfavorable change of $1.3 million compared to the net income of $1.2 million, or $0.09 per share for the same quarter and fiscal year 2024.

Moving to the next slide. You can see we still have a strong balance sheet. It includes high levels of cash, which will allow us to weather through this lower asset period. Cash and cash equivalents was $26 million, and we had current investments of $9.7 million.

On the next slide is the detail of our other assets, and included in there are some other investments, which totaled $9.6 million. On the next slide, our liabilities decreased from June 2024, approximately $134,000, and we still have no long-term debt. On the next slide, you see our stockholders' equity detail. At December 31, 2024, the company had a net working capital of $38 million, which increased $182,000 since June 2024, and we had a current ratio of 20:1.

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

Holly Schoenfeldt

Thank you, Lisa. On this slide, we are proud to report that we continue to provide original, timely market insight through our YouTube channel. We have numerous new videos here and on our TikTok channel that we invite you to explore. We know one of the best ways to reach new and existing shareholders is increasingly through education, in particular, in the form of videos. So if you haven't checked out our YouTube channel yet, I highly recommend that you do so.

All right. On the next slide, I want to highlight that our most popular piece is now available on our website. This is the Periodic Table of Commodity Returns for 2024 that shows exactly how various commodities fared in the prior year. This is an interactive feature as well as a downloadable PDF, so I encourage you to check it out on our website if you haven't done so already.

And on this slide, in case you missed it, as Frank mentioned earlier in the presentation, our new aerospace and defense ETF, ticker symbol WAR, launched in the last quarter on December 30. And then on January 9, we hosted a webcast with Frank, and it was cohosted by Lieutenant General Retired, John Evans, seen here, about the state of the global defense market and how WAR can offer a diversified way to gain exposure. So you can request a copy of the replay by sending us an e-mail at info@usfunds.com.

On the next slide, we always like to recap the most read Frank Talk blogposts during each quarter. As you can see here, the top themes seem to focus on gold and precious metals as gold was continuing to reach a new all-time high as well as defense and cybersecurity. If you aren't a subscriber already, be sure to visit usfunds.com and sign up. It's completely free.

So finally, on my last slide, I do encourage you to follow U.S. Global across social media. We are on Twitter or X, LinkedIn, YouTube, Instagram and Facebook. So wherever you prefer to get your news, be sure to check us out. This way, you're up-to-date with what's going on with GROW, our funds, and the broader market insights.

All right. Just as a reminder to our audience today, if you have any questions, you can e-mail those to info@usfunds.com, and we will gladly follow up with you to get anything clarified that you may need more information on. So thank you for tuning in today. That concludes our webcast summarizing the second quarter fiscal year 2025.