

# FRMO Corp.

## 2024 Shareholder Letter

Dear Fellow Shareholders,

In 2024, one might say that a milestone was passed inasmuch as Horizon Kinetics became a publicly traded company. This was accomplished via a reverse merger with the publicly traded Scott's Liquid Gold-Inc., which was renamed Horizon Kinetics Holding Corporation. At the time of this writing, the shares trade under the temporary symbol SLGDD. It should soon trade under its permanent symbol HKHC.

This transaction will have some positive balance sheet and net asset value implications for FRMO Corp. This should not be interpreted as a value realization event for FRMO as the company intends to hold all of its shares. Horizon Kinetics has a balance sheet structure similar to that of FRMO Corp. It is essentially free of debt, with over \$200 million of its own investment assets, including over \$10 million of digital assets, as of March 31, 2024 (see Horizon Kinetics Form 8-K filed on August 1, 2024).

These assets, as in the case of FRMO Corp., have largely been accumulated over the course of the past 15 years. One might be inclined to say that value investing has existed in a sort of financial wilderness for at least a 15-year period of time, and quite arguably, for 17 years. This is because in June 2007, Apple released the iPhone. This singular innovation carried implications that were at least as profound as Gutenberg's invention of the printing press.

The difference is that printing, with the gradual spread of literacy, impacted civilization over the course of hundreds of years. The invention of the iPhone made possible an expansion of the Internet that was far more rapid than any other technology growth phenomenon such as the growth of the automobile industry or the spread of electric power.

According to ourworldindata.org, in 2007, 1.37 billion people were users of the Internet. In 2020, this figure had expanded to 4.7 billion. This metric dramatically understates the growth, because in 2007, hardly any of the then-users had access to the Internet on a mobile basis. Social media as it is currently known is essentially inconceivable without mobile Internet. This made possible a vast expansion of Internet advertising and shopping as well as of the number of hours per day that a human is able or willing to spend on the Internet. According to Statista, the average time spent by an individual on the Internet as of the 4<sup>th</sup> quarter 2023 was six hours and 35 minutes. This phenomenon made possible the growth of the mega-capitalization enterprises that currently dominate modern investing such as Microsoft, Apple, NVIDIA, Alphabet, Amazon, Meta Platforms, Netflix, and Broadcom. The returns available from such investments vastly exceeded anything that could reasonably be expected from traditional value investing. Consequently, value investing entered the financial wilderness.

Another very alluring aspect of investing in mega-capitalization technology companies was that until quite recently, the enterprises were required to make only rather modest capital expenditure in relation to the scale of operations. As a consequence, these investments produced enormous

quantities of free cash flow. These companies very rapidly became the dominant exposure in the popular indexes such as the S&P 500.

The only way for an investor to produce a return that was consistently superior to the index was to overweight technology and thereby abandon the value discipline. Many value investors embarked upon this course of action, but to no avail. The reason that this did not produce the desired outcome was that once the value investor overweighted technology by a sufficient quantity to consistently outperform the S&P 500, it was no longer appropriate to compare this investor to an index like the S&P 500. The comparison was now to an investment index variant with an even greater technology exposure. Of course, in relation to a technology centric index, the value investor would perform poorly. That tactic could not save the art of value investing from the investment wilderness.

It could be argued that value investing is about to emerge from the investment wilderness and might already have emerged. This is because the leading technology companies are in the process of becoming capital-intensive businesses. The Internet functions upon the framework of the traditional landline telecommunications system, which was already in existence. Mobile towers did have to be constructed for the wireless leg of the communications pathway. However, these were constructed by specialized companies, separate and distinct from the technology giants. Consequently, much of the growing profits of the mega-capitalization technology companies was perhaps uniquely unburdened by the ordinary capital investment requirements of new and rapidly expanding businesses, leading to very considerable free cash flow.

The world is now approaching six billion smartphone subscribers. The world population is approximately eight billion people. Given these figures, it is self-evident that the Internet usage growth of the years since the introduction of the iPhone cannot continue in the same manner.

This does not mean that the growth of the mega-technology companies cannot continue. Nevertheless, to continue, it must shift to another basis. That basis is artificial intelligence, cloud computing, and data centers. But these businesses require massive capital investment.

Perhaps more importantly, these businesses require incredible amounts of electric power. A data center supporting cloud computing is a very different undertaking than cryptocurrency mining. In the latter instance, at times of peak power demand, it is always possible to reduce or limit cryptocurrency mining in a given geographical region to accommodate other power uses such as for data centers. On the other hand, data centers must be constantly available for Internet shopping, entertainment, social media, data download and retrieval, plus much more.

The practice of artificial intelligence requires vast and unprecedented amounts of data instantly available, as in the case, for example, of vehicle navigation systems. The consensus view of these matters predicts that soon education as well as the provision of medical services will be impacted by artificial intelligence.

In order to obtain the data needed for artificial intelligence and such recent innovations as Chat GPT, technology companies have digitized every book or scholarly journal ever written so that the computers can synthesize the knowledge contained therein and provide summaries to the vast Internet public. The problem is that the authors object to their data being used in this manner for zero compensation. They assert copyright infringement. One of many recently filed cases in this

matter is *Basbanes v. Microsoft Corporation*, Southern District of New York, No. 1:24-cv-00084, filed on January 5, 2024.

One of the glorious features of mega-capitalization technology investing is that the companies have never been required to pay for the data that is being provided to the vast Internet public. It seems likely that the data will no longer be without cost. In any case, the mega-capitalization technology companies are well on the way to becoming extremely capital-intensive businesses.

Viewed from the perspective of the value investment community, or at least what remains of the value investing community, this is a release from the wilderness. This is because indexes are dominated by the mega-capitalization issues, which can accommodate the huge investment pools that passive investing has accumulated. This has dominated financial markets and has absorbed more investment capital than any other strategy. This has displaced the value investors that cannot accommodate large investment flows and in any case concentrate upon relatively illiquid equities subject to non-symmetric information. Horizon Kinetics never departed from the value-centric investment approach. It currently manages almost \$8 billion. There no longer exist very many value-oriented active investment management firms with a multi-decade record.

A change away from conventional indexation with trading centered upon index baskets should serve to further increase the value of the FRMO investments in securities exchanges. In exchanges, trading in anything other than the most conventional liquid equity baskets carries higher profit margins. As of May 31, 2024, the FRMO investment in South LaSalle Partners, which is essentially an investment in Miami International Holdings (MIAX), was valued at \$11.448 million. The other exchange investments, which also includes MIAX, were valued at \$6.463 million for a total exchange investment value of \$17.911 million.

Separately, Horizon Kinetics is carried on the fiscal year-end balance sheet with a value of \$17,204,752. This is based largely, but not entirely, on the Horizon Kinetics securities positions. The FRMO interest in Horizon Kinetics is 4.95%. The fiscal year-end valuation of Horizon Kinetics in its entirety can be obtained by dividing \$17,204,752 by 0.0495, which is \$347,570,747. Subsequent to the FRMO fiscal year end, Horizon Kinetics completed its reverse merger and now has a public valuation. As of March 31, 2024, the now publicly traded Horizon Kinetics held \$177.33 million of investment assets primarily held in the Horizon Kinetics funds and \$10.342 million of digital assets that consist primarily of Bitcoin that was mined by Horizon Kinetics.

In terms of cryptocurrency mining, both FRMO and Horizon Kinetics conduct cryptocurrency mining activities. These are separate and distinct from the cryptocurrency mining operations of Winland Mining LLC, a subsidiary of Winland Holdings Corporation (WELX), and Consensus Mining & Seigniorage Corporation, which conduct cryptocurrency mining upon a larger scale. The FRMO digital asset holdings had a balance sheet value of \$10,978,796. This excludes cryptocurrency funds such as the Bitcoin Investment Trust (GBTC), which is considered to be an investment security for the purposes of classification. The depreciated value of the FRMO Digital Mining Assets was \$1,139,968.

In recent years, FRMO has greatly expanded its cryptocurrency mining exposure via further investments in Winland Holdings. As of fiscal year end, FRMO held 1,712,311 Winland shares.

This investment has evolved gradually. One reason for the gradualist approach is that the dynamics of obtaining adequate electric power at good prices is itself evolving. The gradualist approach has facilitated improving power purchase costs. Another reason for the gradualist approach is that the mining equipment depreciates very rapidly. It is also subject to sometimes abrupt technological change; even state of the art equipment could become obsolete very rapidly. Yet another reason for the gradualist approach is that Winland is able to change, in a relatively short period of time, its coin mining mix. In the past year, Winland has evolved a multi-coin mining approach.

This is a very unusual and eccentric approach relative to that of other mining companies, which focus on large-scale and rapid capital deployment as the pathway to growth. Nevertheless, it is necessary. It also requires some degree of explanation. Firstly, the use of the term mining in relation to cryptocurrency is a very unfortunate choice of word. The term obviously invites the comparison with more conventional mining as in gold and silver mining. The intent of the comparison, of course, is to imply that cryptocurrency is digital gold. In the case of Bitcoin mining, there is a salient difference.

A gold mining company rarely retains gold on its balance sheet. The mined gold is immediately sold and converted into revenue. In fact, this is the case in any business that produces a product. The object of the exercise is to convert the entirety of the production into cash and thereby earn a profit.

In the case of a gold mining company, one might almost say that this is imperative in light of the fact that gold prices can remain depressed for decades. For instance, in October 1980, gold traded as high as \$678 per ounce. In August 2001, gold was trading as low as \$275 per ounce. Similarly, silver traded as high as \$37 per ounce in January 1980 and as low as \$4.38 per ounce in March 2003. Currently, silver trades for slightly in excess of \$27 per ounce.

Bitcoin differs from precious metals in a number of ways. One salient difference is that Bitcoin has limited issuance designed into its protocol. At the time of this writing, there exist 19,738,484 Bitcoin. There will be only 21,000,000 in the year 2140. In the case of gold and silver, supply will tend to increase with price without any inherent limit.

A more important feature of the Bitcoin protocol is something known as the “halving.” This is the process by which the block reward (the payment in Bitcoin for validating transactions) is reduced by half or 50% every four years. The next halving will occur in approximately 1,345 days subsequent to the date of this writing. This entails the consequence that immediately after the halving, one will require twice as many mining devices to produce the same quantity of Bitcoin that was possible prior to the halving. This is mathematically equivalent to the statement that, all other factors being equal, the cost of Bitcoin production will double.

Of course, not all factors are equal. For instance, the cost of electric power to operate mining devices will usually increase. This will serve to further increase the cost of producing Bitcoin, and in turn the Bitcoin price over time. If one believes that the price of Bitcoin will rise in the fullness of time, it is reasonable to hold rather than sell the Bitcoin in question. The problem is that at least some Bitcoin must be sold to cover operating expenses. One wishes, of course, to minimize the Bitcoin that must be sold.

One solution to the problem is to mine coins other than Bitcoin for a cash profit. These profits can then be used to pay the operating expenses of Bitcoin mining, and hence, enable the enterprise to hold as opposed to selling all or most of the Bitcoin that is mined. Towards this end, Winland has been gradually building a business in mining cryptocurrencies other than Bitcoin that will produce operating profits to fund the Bitcoin mining expenses that will enable the maximum amount of the mined Bitcoin to be held. This itself has been a gradual and ongoing process.

The same procedure is being applied to Consensus Mining, in which FRMO currently holds a modest position. This policy is very contrary to normal industry practice. It has been rather difficult for most cryptocurrency mining enterprises to accumulate Bitcoin, since there is the problem of expanding mining computational power, known in the industry as hash rate, to offset the continual impact of the periodic halving. Bitcoin is sold in order to fund the purchase of new mining equipment. It should be obvious that this approach is suboptimal—one is always purchasing more equipment to offset the impact of a halving by selling coins that will probably appreciate because of the halving. Thus, one can never truly or fully benefit from the planned digital scarcity and production cost increases inherent in the Bitcoin protocol.

The other approach is simply to use the capital of a firm to purchase Bitcoin and thereby avoid the mining problem entirely. This was a successful strategy in the era prior to the introduction of cryptocurrency ETFs. Most managers were not permitted to purchase cryptocurrency. However, it was permissible to purchase shares of a company that held cryptocurrency. The demand for the shares of a company of this type had the intriguing consequence that such an equity would trade at a premium to its net asset value. Once this value was established, more such equity could be sold to willing buyers at a premium to net asset value for the purpose of purchasing yet more Bitcoin. Since the equity to fund the purchase of more Bitcoin sold at a premium to net asset value, this was an anti-dilutive transaction that in itself created yet more net asset value. It is one of those rare instances in investing in which a virtuous circle is created.

The problem with virtuous circles is that these are not sustainable. A “C” corporation holding Bitcoin is not, in principle, different than an ETF holding Bitcoin. However, there is a practical difference. The C corporation must accrue and pay taxes while the ETF has no such requirement. As a consequence, in the long run, the Bitcoin ETF will grow net asset value more rapidly than the C corporation. Since the ETF will trade at net asset value and the C corporation must have a lower return, it should logically follow that the C corporation should trade at a discount to net asset value.

Following the same logic, a mining enterprise mining several coins and using the cash profits from other crypto coins to pay the expenses of Bitcoin mining should be able to not only hold its mined Bitcoin but increase the Bitcoin held, both in aggregate as well as Bitcoin-per-share terms. In the case of a Bitcoin ETF, the number of Bitcoin held per share will only increase if the Bitcoin declines in relation to the U.S. dollar. This is true, since dollars are raised to fund Bitcoin purchases by the sale of shares at net asset value.

Accordingly, a cryptocurrency mining enterprise with a cash operating profit can use that cash to increase its computational power and thereby grow its Bitcoin held on a per share basis. It seems reasonable to conclude that such an enterprise, assuming that the business plan can be successfully executed, should trade at a premium to net asset value. In any case, this is the Winland plan.

One salient difference between FRMO and Winland is that the bulk of the substantial FRMO cryptocurrency exposure is in investment funds such as the Grayscale Bitcoin Trust (GBTC) and the Grayscale Mini Bitcoin ETF (BTC). FRMO does hold Bitcoin that it has mined. However, it has not, as of yet, expanded its mining operation sufficiently to mine coins for a cash profit. Winland is gradually becoming an increasingly important asset for FRMO.

The largest position of FRMO remains Texas Pacific Land Corporation. FRMO increased its holdings during the course of the fiscal year. Shares of TPL were also purchased by HK Hard Assets I using the cash resources of that entity. The Permian Basin remains by far the most prolific energy production region in the United States.

The enormous continual growth in data centers, high-performance computing, cloud computing, and artificial intelligence projects will greatly increase the demand for electric power. This will require more fossil fuels such as natural gas, since data centers cannot be operated on an intermittent basis—they must have continual uninterrupted power.

In order to access these resources, it is readily conceivable that data centers will be constructed in the Permian Basin upon a large scale. Subsequent to the end of the fiscal year, FRMO established a position in LandBridge Company LLC (NYSE: LB) that may well benefit from this contingency. LandBridge owns 220,000 acres in the Permian Basin. Much of the property is located in Loving, Reeves, Winkler, and Andrews counties in Texas. Some of the property is located in New Mexico. Much of the property is contiguous. Horizon Kinetics has become a cornerstone LandBridge investor<sup>1</sup>.

The power demands of data centers in the U.S. are beginning to outpace the ability of the established utility industry to provide power in densely populated areas. It is therefore reasonable to conclude that the next evolution of data centers will be to locate or perhaps even relocate to lightly populated areas with large supplies of inexpensive natural gas.

One of the unusual features of the growth of technology since the introduction of the iPhone in June 2007 is that while it surely has displaced certain businesses like conventional telecommunications, newspapers, radio, television, and even traditional retailers, it has yet to stimulate new industries, as was the case with the growth of automobiles.

The growth of the automobile industry stimulated a vast program of highway and road construction. Automobiles required fuel, which was stimulus for the oil and gas exploration industry, for the construction of a vast national pipeline network, as well as for the development of an extensive oil refinery system. Automobiles require tires, and this stimulated the rubber industry. Although there certainly was demand for steel prior to the advent of the mass automobile market, automobile fabrication greatly stimulated the demand for steel.

The current evolution of the technology industry into a series of enormous capital-intensive enterprises—the impact of which is already apparent in their financial statements—is in the process of stimulating other businesses in much the same manner as was the case with automobiles more than one century ago. Some of these businesses, such as land ownership, require no further

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<sup>1</sup> [https://www.sec.gov/Archives/edgar/data/1995807/000105682324000015/xslSCHEDULE\\_13D\\_X01/primary\\_doc.xml](https://www.sec.gov/Archives/edgar/data/1995807/000105682324000015/xslSCHEDULE_13D_X01/primary_doc.xml)

capital to meet these demands. Thus, it is quite possible that the incremental revenue received will exhibit extraordinarily high operational leverage and operating margins. In contradistinction to highways, pipelines, oil refineries, and steel mills, new land cannot be created. We are very pleased with our current asset positions.

It should be noted that shareholders' equity on May 31, 2024 was \$242.136 million attributable to the company, which is a record amount. The fiscal year-end cash balance was \$39.189 million. FRMO possesses the liquid assets to continue to expand operations at the current rate or even a vastly accelerated rate if the opportunity to proceed thusly were to present itself.

We wish to thank our shareholders for their continued support over the years. If this shareholder letter does not address all matters of interest, please do not hesitate to pose questions at our upcoming annual meeting.

Murray Stahl  
Chairman and CEO

Steven Bregman  
President and CFO

**FRMO Cryptocurrency & TPL Holdings Summary**  
**Data As Of 5/31/2024**

	<b>Held Directly<sup>(1)</sup></b>	<b>Held Indirectly Through Public and Private Companies<sup>(2)</sup></b>
Grayscale Bitcoin Trust (GBTC) shares	9,168	618,147
Grayscale Ethereum Classic Trust (ETCG) shares	233	4,596
Grayscale Bitcoin Cash Trust (BCHG) shares	252	49,751
Grayscale Litecoin Trust (LTCN) shares	18	17,812
Grayscale Zcash Trust (ZCSH) shares		641
Grayscale Bitcoin Cash Trust (BCHG) shares (Restricted)		22,495
Grayscale Litecoin Trust (LTCN) shares (Restricted)		7,371
Bitcoin (BTC)	157.40	26.89
Litecoin (LTC)	2,105.89	748.94
Ethereum (ETH)	34.97	-
Ethereum Classic (ETC)	662.69	3.32
Bitcoin Cash (BCH)	67.22	184.74
Zcash (ZEC)	61.95	18.91
Bitcoin Gold (BTG)	-	235.51
Dogecoin (DOGE)	-	-
Bitcoin Tracker One (COINXBT SS) shares	-	6,305
iSHARES Bitcoin Trust (IBIT) shares	265	46
<b>Texas Pacific Land Corp.</b>	<b>29,514</b>	<b>158,710</b>

**Important Notes regarding as of Dates**

<sup>(1)</sup>Includes holdings of FRMO Corp. and Fromex Equity Corp.

<sup>(1)</sup>This data has been compiled in good faith by FRMO Corp. However, you should be aware that this information may be incomplete, may contain errors or may have become out of date. FRMO reserves the right to add, modify or delete any information at any time.