CORPORATE UPDATE

THE OLD NEW HORIZON KINETICS—GOING PUBLIC BUT STAYING THE SAME

Not all clients are aware that Horizon Kinetics has gone public; this officially occurred on August 2, 2024.[1] Naturally, some consider this a significant turning point and have asked for background and context.

On a transactional level, the listing was achieved through a reverse merger with an already publicly traded company called Scott's Liquid Gold-Inc. (OTCM Pink Ticker: SLGD). The "new" Horizon Kinetics will briefly continue to trade as SLGD[2] on the OTC Pink, until the ticker conversion to HKHC is approved, which is expected in a few weeks. It will be roughly 96%+ owned by the existing Horizon Kinetics shareholders, who will have three of the seven Board seats.

The primary—or, at least, proximate—reason for going public was to provide liquidity for the heirs of a non-employee founding shareholder as well as other owners. They had no alternative way to exit from a private entity other than a negotiated sale to the company itself. The fairest of the two options for these shareholders was via the public market. On a going-forward basis, we at Horizon Kinetics will continue pretty much as before, though there are some changes for the better. Our new CFO[3] is a quite creditable presence, as a glance at his resume will confirm, and he has already elevated our capabilities.

Horizon's public debut pretty much coincides with the 30th anniversary of our founding in late 1994. More interesting still, Horizon's lifespan coincides with the beginning—and the now-prominent signs of the ending—of an extraordinary interlude in the financial markets. This period also reveals much about our investment philosophy and practice, both for ourselves and our clients, amidst those historical market changes. This is a very relevant moment; a turning point, even.

A bit of origin story as it relates to investment thinking and practice. We try to manage investment portfolios the way we try to manage our business: to think about the process of investing, rather than just investments. About what must be done *long term* to advance one's *long-term* financial condition while, on the other hand, guarding against the most serious long-term risks. To try to notice the logical consequences of events and trends that appear

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[1] Horizon Kinetics Holding Corporation Announces Closing of Merger with Scott's Liquid Gold-Inc. Shares Will Continue Trading on a Pre-Reverse Split Basis - https://www.accesswire.com/viewarticle.aspx?id=895357

[2] Subject to necessary regulatory approvals, SLGD will tentatively effect a 1-for-20 reverse split of its common stock. The Company's common stock will trade under temporary ticker symbol "SLGDD" for approximately 20 trading days before trading under its permanent symbol "HKHC."

[3] https://horizonkinetics.com/about/team/

benign in the moment but which, unrestrained, will eventually become extreme and unsustainable. To not fall into the human habit of habituating (H^3!) to extremes; just because a condition persists doesn't mean it's normal or sustainable (your overstuffed rollaboard hasn't broken yet, but that doesn't mean it won't).

Amid the market's noisy day-to-day fog-of-war character, which tends to induce tactical reactions, the long view induces clearer strategic thinking about building generational wealth and avoiding emergent risks. In that vein, we tried to make our business development strategic in nature, not just about raising more assets (which itself can be counterproductive). Risk avoidance or control precedes each growth effort; the latter can't succeed, at least not serially, without the former. Anyone who's tried to build a business has probably learned that you walk a thousand roads, each the beginning of strategic possibilities and relationships, only a few of which come to the meeting-of-minds and let's-do-this handshake stage. Even then, getting to fruition is one more road. Here are a few of those touchstones that trace our history.

Our original growth plan as an asset management firm, for instance, included two essential risk control measures. First, before we knew if there *would* be any growth, we recognized that we couldn't truly practice long-term value investing if we weren't insulated from the investment world's transitory capital model. (More on this in a moment, because that requires explanation). We also wanted to avoid the portfolio management and long-term performance risks of being captive consumers of Wall Street "sell-side" research. So, we did our own. And research was also our first source of revenue, which would sustain our initial operations and keep the doors open.

Independent Research

Even before we left our former employer (Bankers Trust Private Bank, now part of Deutsche Bank), we had noticed that so-called sell-side research was becoming ever more reportorial and less fundamentally analytical. This was irrespective of the high piles of industry-sector and company-specific reports that would arrive on our desks each Monday from the likes of (using defunct or acquired names in the interest of delicacy) Alex Brown, Bear Stearns, Donaldson Lufkin Jenrette, Paine Webber, and Smith Barney. It's called "sell-side" because the overwhelming majority of Wall Street research is produced by investment banks and brokerage firms, whose research reports are tie-ins to their core sales businesses: investment banking and brokerage, which survive on frequent transaction activity and inventory turnover. Imagine a rep for DLJ in 1994 trying to sell the idea of a stock that has a five-plus year expected holding period, just one trade, one commission. There's a reason for the

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layered structure of recommendations—hold, near-term buy, accumulate, long-term buy, strong buy, the earnings announcement updates and so forth. Each update and refinement is a possible transaction catalyst.

We also noticed that a goodly portion of those reports relied on the interview method of analysis, asking management pertinent questions about growth prospects and operational results. Some of the best analysts had some of the best relationships with management. As Bankers Trust employees, we also noticed that we would get frequent visits and early calls from those analysts because we worked at a firm that parceled out significant trade volume. We had no illusion about whether a newly formed Horizon Kinetics would rate a first, second, or third call (or any call). Nor did we relish the prospect of waiting on one end of the phone to find out what bad thing had happened to an investment and why. We thought we might do better on our own. Not that we wouldn't make our share of errors, but at least they would be our errors, not someone else's.

Since we intended to do our own research anyway, we learned there was a very small but avid group of professional investors—whether family offices, hedge funds, or mutual fund managers—who would pay for "buy-side" research. That is, for the very type of analysis we were doing for ourselves, as if we were working directly for them. Paid like a magazine subscription, there is no purpose in simply producing volume unless there is sufficient value-added content to merit renewal. Unlike a brokerage firm, no value-added or actionable stock or bond analysis, no business.

The Horizon research, though an exceedingly modest portion of our business today, was actually our first rank of risk control after raising the necessary capital. It was our immediate and primary source of revenue, since we started with no investment advisory accounts, meaning zero AUM. That revenue is what paid the rent and seriously extended the staying power of our starting capital.

The research paid unexpected dividends as well. It's one thing to peruse some financial filings, appreciate the circumstances surrounding, say, a fallen angel stock or discounted bond, scribble down some valuation formulas and decide to purchase. It's quite another to put it into expository form of sufficient clarity and detail to satisfy a paying subscriber.

Aside from taking many times longer than the scribble approach, a certain discipline is enforced by the requirement to integrate the quantitative analysis with the critical qualitative variables, to outline the context that created the circumstance and what would cause the eventual value realization. The old expression has it wrong.

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It's not, "Those who can't do, teach," but rather, "If you can't teach it well enough, you don't understand it well enough."

By explaining it well enough, instead of relying on the standard conclusory, proprietary model style of report, the transparency of the analysis that was typical of independent research invited feedback and questions from the subscribers. Often enough, they were more sophisticated than I in one area or another. Early on, a subscriber called me, wanting to know what my EBITDA valuation was on one of the companies I'd recommended. Not wanting to confess to my complete ignorance of the term—I wasn't even certain I'd heard the acronym right; it just wasn't in the CFA tests when I took them—I asked him in return, "Well, what definition of EBITDA are you using?" Saved by the skin of my teeth, because he did tell me the definition he was using (thank goodness there could be variations), whereupon I had enough definition to satisfactorily finish the conversation.

The Transitory Capital Problem

This issue is faced by all investment advisory and fund management businesses: Money flows in and out at the whim of short-term market fluctuations. That confounds the best interests of portfolios. When markets decline, assets are withdrawn just as the value manager is poised to buy, turning temporary price declines into permanent capital losses. Conversely, bubble mode is exactly when there is maximal pressure to purchase, despite maximal valuation risk.

The answer to that problem was to somehow secure a sufficiently large amount of permanent capital upon which to earn cash flow independent of market vicissitudes. If we could manage to do that, we could immunize ourselves from the periodic pressure to alter our best judgment practices. So, perhaps our greatest form of long-term risk control was contrary to the norm for almost every investment firm, law firm, or medical practice. Rather than pay out our earnings to live well today, our "monetary policy" was to retain our earnings and build a secure balance sheet so that we might live safely tomorrow. It took a very long time, but it was the first pathway toward maintaining our independent freedom of action.

Strategic Risk Control

Horizon Kinetics was originally just **Horizon Asset Management Inc.**, which managed individual private wealth portfolios. **Kinetics Asset Management LLC**, which focused on mutual funds, came a bit later, in 1996. Keeping them separate was largely a risk diversification decision: if one business failed, the other could continue. Speaking

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of risk, the first Kinetics fund was the Internet Fund, then one of only three of its kind, and ultimately extraordinarily successful. The two businesses were merged in 2011, after we had sufficient capital that, separation was no longer needed.

Another pathway toward permanent capital sufficiency was to create a publicly traded vehicle. In 2001, beginning with total balance sheet assets of $10,000, which was our going-public cost—perhaps a record low, if it could be verified—we created FRMO Corp. as a spin-off from an existing publicly traded company. **FRMO Corp.** was owned by the original Horizon principals in essentially the same proportions. Its mission was to acquire interests in new investment products of Horizon, before it was known if they would be successful or not—a captive form of venture capital investing—with the goal of accumulating a portfolio of advisory and incentive fee revenues.

That should sound familiar to clients today: royalty streams. In royalty business model tradition, FRMO Corp. required only two employees (Murray Stahl and yours truly, Steven Bregman), who refrained from accepting any salary. Interestingly, the auditors required that we accept at least the appearance of salary, because there are tax implications, so a non-cash compensation entry was (and continues to be) made on the books, balanced by a credit to shareholders' equity.

Beginning life as a publicly traded company with $10,000 of assets was considered a quixotic venture by most observers. Even a board member asked how such a miniscule amount could compound to anything remotely relevant! Today, FRMO's and Horizon Kinetics' auditors would categorize an accounting discrepancy of $10,000 as formally immaterial.

In 2013, in order to simplify arrangements, those FRMO revenue streams were sold back to Horizon in exchange for two assets: just under 5% of Horizon Kinetics and a 4.2% revenue interest in the company. Today,[4] 23 years later, FRMO Corp's book value is $242 million. It did take a long time; that's sort of the point.

A third pathway to de-link our asset management revenue from market cyclicality was to find another operating business to complement the core business. Over the years, many opportunities came our way, including a turnkey specialty casualty insurance operation. But every conventional business model was either outside our circle of competence, priced too high, was too time- and employee-intensive, or didn't appear to have sufficient longevity.

[4] As of the May 31, 2024 financial statements, really.

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This long series of negations was, again, because risk evaluation had to precede the act of committing capital and seeking returns.

As time passed, Horizon did accumulate sufficient balance sheet capital—after-tax earnings, basically—for its existential safety. That balance sheet portfolio, aside from substantial cash balances, did not simply buy stocks and bonds as a default allocation, but focused on strategic assets like Texas Pacific Land Corp. and private securities exchanges.

Eventually—by around 2016—we found "It," a complementary operating business that:

- Required limited initial capital investment and operating cost
- Was at an early stage of development and offered a strategic growth path
- Afforded the opportunity to learn from the ground up and control the risks
- Could be profitable even at a small scale, yet was very scalable

Importantly, it was entirely independent of the financial markets and their cyclicality, which is not an easy thing to find. And with the added benefit that it could be suitable for client investing, too.

That was about eight years ago, when my colleague and our CEO Murray Stahl became intrigued by cryptocurrency and cryptocurrency mining.

Horizon Kinetics Cryptocurrency Research

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Our mining efforts began as an extension to our research in better understanding the unique monetary policies of this new form of money—fixed-supply money?!—because what is better than learning by doing? We started in our cautious way, with one mining server plugged into an electrical outlet in our office. But it was a start. And it was a learning experience from the moment that server was turned on. It was very loud, like running a vacuum cleaner, so the lesson was that you wouldn't want to run very many of them in a non-controlled environment. And who would have been thinking about electricity costs at such a moment?

Eight years later, Horizon Kinetics and its associated publicly traded crypto mining and crypto mining-related companies—**Consensus Mining & Seigniorage Corp.** (originally two limited partnerships for qualified clients), **FRMO Corp**., and **Winland Electronics**—form a not-insubstantial aggregation of cryptocurrency mining capacity.

Horizon's Future

As for Horizon Kinetics' two historical subsidiaries, they both have humble beginnings. Kinetics Asset Management, with its one initial mutual fund, began with less than $20,000, mostly for SEC fees and printing costs. Horizon Asset Management, being in the face-to-face client business, required more in the way of office space, comfortable chairs, personnel, and portfolio management infrastructure. Nevertheless, the initial capital requirement was on the order of $500,000.

The implied value of Horizon Kinetics today, using the lowest sample valuation in the Scott's Liquid Gold proxy statement and the recent $1.00 share price of Scott's, is a bit over $300 million (somewhat lower after the roughly 5% minority interest allocation to the Scott's Liquid Gold shareholders). The proforma post-merger book value following the contribution of Horizon Kinetics' net tangible assets and operating business amounts to approximately $450mm. That valuation does not include the limited partner distributions that were made over the years.

It certainly took a while, but Horizon Kinetics was and remains a long-term investment project, and the decisions along the way had to be consonant with that time frame, just as we believe portfolios should be treated. Compounding takes time, and includes saying no to all sorts of beckoning baubles. And compounding is very difficult to rush. But with patience and care, some seemingly unattainably distant goals—even when starting with a small amount of capital—can attain critical mass (if you speak physics) or bear fruit (if you speak botanically).

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Important Disclosures

In December 2023, we announced our intention to bring Horizon Kinetics LLC public through a reverse merger with Scott's Liquid Gold-Inc., a publicly traded company with shares listed in the United States on OTC Markets (OTC Pink: SLGD).

In May 2024, Scott's Liquid Gold-Inc. filed a definitive proxy with the SEC. More details can be found in the 14A file document: https://www.sec.gov/Archives/edgar/data/88000/000095017024058628/slgd-hk_def_14a.htm

The proxy was approved with overwhelming support from existing SLDG shareholders. On June 26, 2024, Scott's Liquid Gold Announces Results of Special Meeting of Shareholders and Anticipated Effective Date of Reverse Split, and Other Upcoming Corporate Changes: https://feeds.issuerdirect.com/news-release.html?newsid=7194712149357473

On August 2, 2024, Horizon Kinetics Holding Corporation Announces Closing of Merger with Scott's Liquid Gold-Inc. Shares Will Continue Trading on a Pre-Reverse Split Basis: https://www.accesswire.com/viewarticle.aspx?id=895357

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