



Ken Majmudar and Sam Namiri

Ridgewood Investments





Best Ideas 2023
Hosted by MOI Global

Ridgewood Investments

973-544-6970

info@ridgewoodinvestments.com

January 17, 2023



This presentation is a publication of Ridgewood Investments. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the authors as of the date of publication and are subject to change.

This presentation is confidential and solely limited for use by MOI Global Members and its 2023 Best Ideas Conference Participants for their own private use. Any member and conference participant may not share the presentation with others without Ridgewood Investments expressed written permission

Ridgewood Investments is registered as an investment adviser with the SEC and only transacts business in countries and states where it is properly registered, or is excluded or exempted from registration requirements. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability.

Information on this presentation does not involve the rendering of personalized investment advice, but is limited to the dissemination of information for research and discussion purposes. Content should not be construed as an offer to buy or sell, or a solicitation of any offer to buy or sell the securities mentioned herein. This presentation mentions other companies and products as part of the general discussion. We disclaim any responsibility for information, services or products mentioned herein.

All investment strategies and investment ideas have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for an investor's portfolio. There can also be no assurances that any investment will match or outperform any particular benchmark.

As of January 17, 2023, Ridgewood Investments owns a position in NEWT stock in one or more of its accounts or strategies.

Ridgewood Select Value Fund*

Disclaimer *All results shown are net of fees and assume an investment at inception.

This document is intended for discussion purposes only. It is not an offer or a solicitation for the sale of a security nor the sale of any security in any jurisdiction where such offer, solicitation or sale would be unlawful. An investment in Ridgewood Select Value Fund, L.P. involves a high degree of risk, including the risk of complete loss of an investment, and may only be made pursuant to the Fund's written offering and subscription documents. Past performance of Ridgewood Select Value Fund L.P. and/or Ridgewood Investments, LLC or any of their affiliates, employees, members or principals are not indicative of future results and there is no guarantee that targeted performance will be achieved.

Results may reflect the returns for the Founding Partners' class which is charged a 0% management fee and a 20% incentive allocation. Results may also reflect the returns of the Non-Founding Partners' class where Non-Founding Partners are charged a 1% management fee and a 20% incentive allocation. All multi-year results are shown net of all fees and expenses. Monthly, Quarterly and YTD returns assume a January 1 investment in the Founding Partner class by a New Issue Eligible Investor. All figures included herein have been produced in good faith on a best efforts basis. All interim performance figures remain subject to the annual review performed by the Funds' auditors.

This document and any attachments are confidential and may be legally privileged. No confidentiality or privilege is waived or lost by any transmission in error. If you are not the intended recipient you are hereby notified that any use, printing, copying or disclosure is strictly prohibited; please delete this document and any attachments without printing, copying, forwarding or saving them and notify the sender immediately by email.

This update is provided for informational purposes and should not be construed as a solicitation or offer to buy or sell securities or any other financial instrument. Any comments or statements made herein do not necessarily reflect those of Ridgewood Investments, LLC, or the Ridgewood Select Value Fund LP or their subsidiaries and affiliates.

Ridgewood Investments – Presenter Bios



KAUSHAL “KEN” MAJMUDAR, CFA
PORTFOLIO MANAGER

- Founded Ridgewood Investments in 2002 and serves as its Chief Investment Officer
- Ridgewood Investments, a SEC registered advisor with over \$200MM in AUM, has continuously managed multiple portfolios grounded in value and dividend growth
- Graduated with honors from the Harvard Law School in 1994
- Honors graduate of Columbia University in 1991 with a bachelor's degree in Computer Science
- Prior to Ridgewood Investments, worked for seven years on as an investment banker at Merrill Lynch and Lehman Brothers
- Noted value investor who has written and spoken extensively on the subject of value investing



SAM NAMIRI – CO-PORTFOLIO MANAGER AND ANALYST

- Joined Ridgewood to concentrate on building our Select Value Fund focusing on Small and MicroCap companies.
- Prior to Ridgewood, Sam was an Investment Associate at Grand Slam Asset Management, a small cap value based Hedge Fund.
- Prior to Grand Slam, Sam was Founder and President of Shop Network, a jewelry company involved in television, media, manufacturing, distribution and e-commerce.
- Received his MBA from Columbia Business School in 2012.
- BS in Industrial Engineering and Operations Research from the University of California at Berkeley (2005)

Ridgewood Select Value Fund

Launched in April 2018

- Focused on Small and MicroCap equities
- Concentrated positions
- Long-term investment horizon
- Private equity approach to public company investing
 - Thinking like an owner
- Thorough due diligence / scuttlebutt
 - Emphasis on company site visits and trade shows
 - Emphasis on management and capital allocation ability
- Email sam@ridgewoodinvestments.com to be added to our quarterly letter distribution list

Ridgewood's Previous MOI Presentations

Price \$5.05 (as of 1/16/23)



- Ticker: FARM
- Price: \$31.70 (as of 1/4/2018)
- Market Cap: \$529 Million, Enterprise Value: \$596 Million (as of 1/4/2018)
- 2 year projected price target of \$45.79 (44% return)

Changed ticker to AX (Axos Bank)

Price: \$41.40 (as of 1/16/23)



- Ticker: BOFI
- Price: \$42.40 (as of 6/19/2018)
- Market Cap: \$2.652 Billion
- 2 year projected price target of \$63 (53% return)

Price \$123.72 (as of 1/16/23)



- Ticker: CRAI
- Price: \$57.85 (as of 1/19/2021)
- Market Cap: \$450 Million
- 2 year projected price target of \$108 (86% return)

Price \$22.89 (as of 1/16/23)



- Ticker: ACU
- Price: \$32.38 (as of 1/11/2022)
- Market Cap: \$115 Million
- 2 year projected price target of \$53.12 (64% return)

Disclosure: Ridgewood Investments currently owns shares of FARM, AX, CRAI and ACU

Investment Idea: Newtek Business Services Corp. (NASDAQ:NEWT)



Newtek Business Services Corp.

- Ticker: NEWT
- Price: \$18.36 (as of 1/13/2023)
- Market Cap: \$425.5 Million
- 2 year projected price target of \$36 (96% return)
- Historically a non-bank lender and owner of portfolio companies that provide a wide range of business and financial services to small businesses.
- Originate mostly SBA 7(a) and SBA 504 loans. Company also provides customers Payment Processing, Point of Sale (think Square or Clover), IT Services, Payroll and Benefit Solutions.
- Effective capital allocation and organic growth which we expect to compound returns over time
- Valuation opportunity arises due to change from BDC to 40 act company and acquisition of a Bank, which coincides with dividend likely to be cut.

Disclosure: Ridgewood Investments currently owns shares of NEWT

Background on Newtek Business Services (Continued)

Company History

- During 2021 the company was able to obtain record profits from originating PPP loans and earning fee income
- This also decreased the need for traditional SBA loans as PPP loans were available and preferred, masking SBA 7(a) loan growth
- Announced acquisition of National Bank of New York City in late 2021 and has just finalized process of converting to a Bank Holding Company from BDC
 - BDC must pay 90-100% of profits as dividend, but is not taxed at corporate level
 - Bank will be taxed, however its dividends will be qualified
 - Bank will be able to use more leverage and have much lower cost of capital
 - On last call, CEO said dividend will likely be aligned with other banks (2-4%? Compared to 10-15% as BDC)
 - Paid \$2.75/share in dividends in 2022

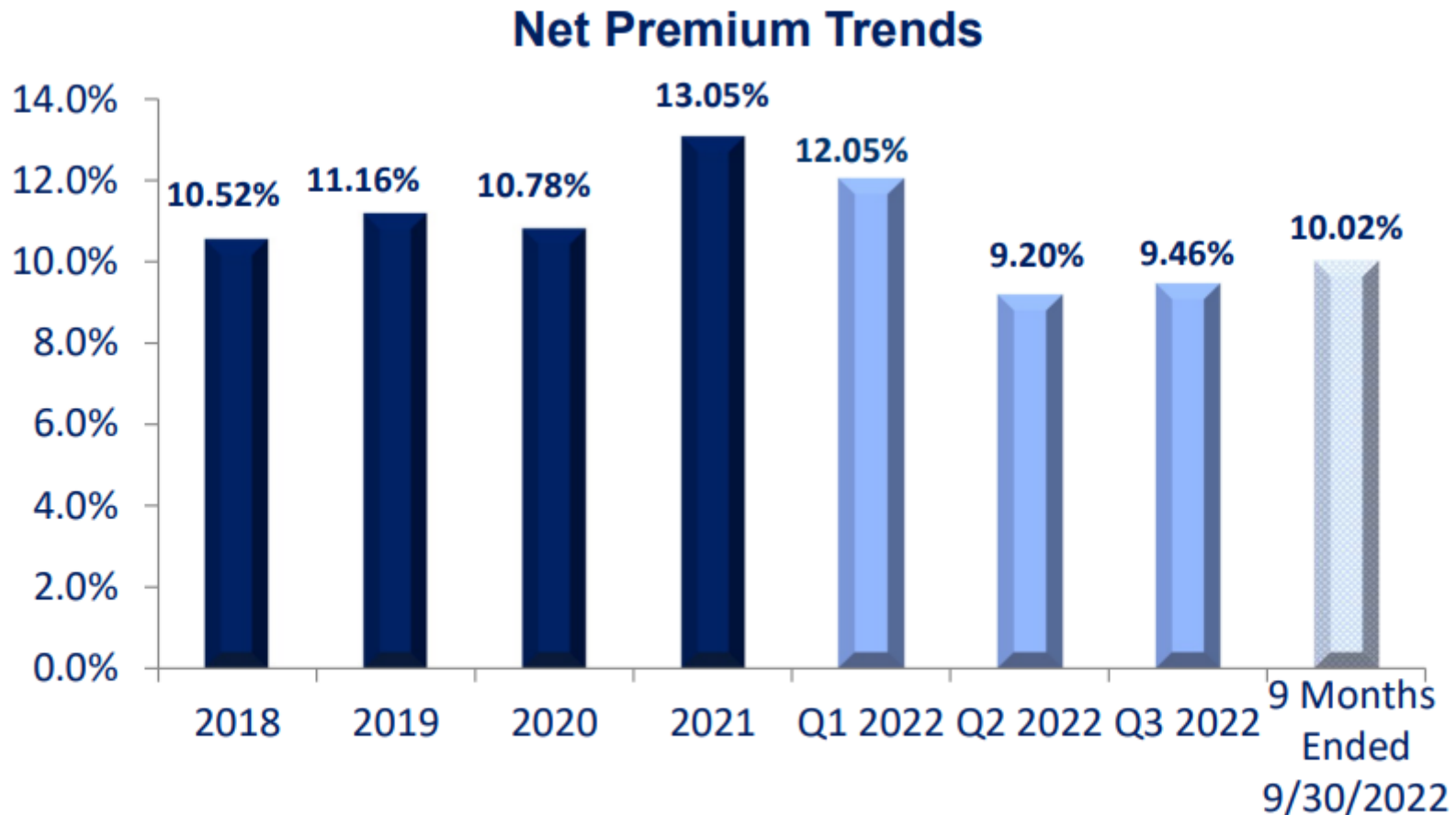
Background on Newtek Business Services (Continued)

Lending Business

- Predominantly originate SBA 7(a) loans (2022E @ \$775M)
 - 75% guaranteed by SBA
 - The guaranteed portion is subsequently sold off at approximately 10% premium currently
 - Loans are historically adjustable and at Prime + 2.25-2.75%
 - New loans are at Prime + 3% (Prime is currently 7.5%)
 - Remaining 25% that is not guaranteed NEWT is pari-pasu with SBA in event of default (725 Fico score weighted avg)
 - This amount is held and later backed by a bond issue while the full loan amount is serviced by NEWT
 - Provides NEWT with reliable cash flows for servicing as well as a quick upfront payment
- SBA 504 Loans
- Non-conforming Loans

Background on Newtek Business Services (Continued)

Lending Business



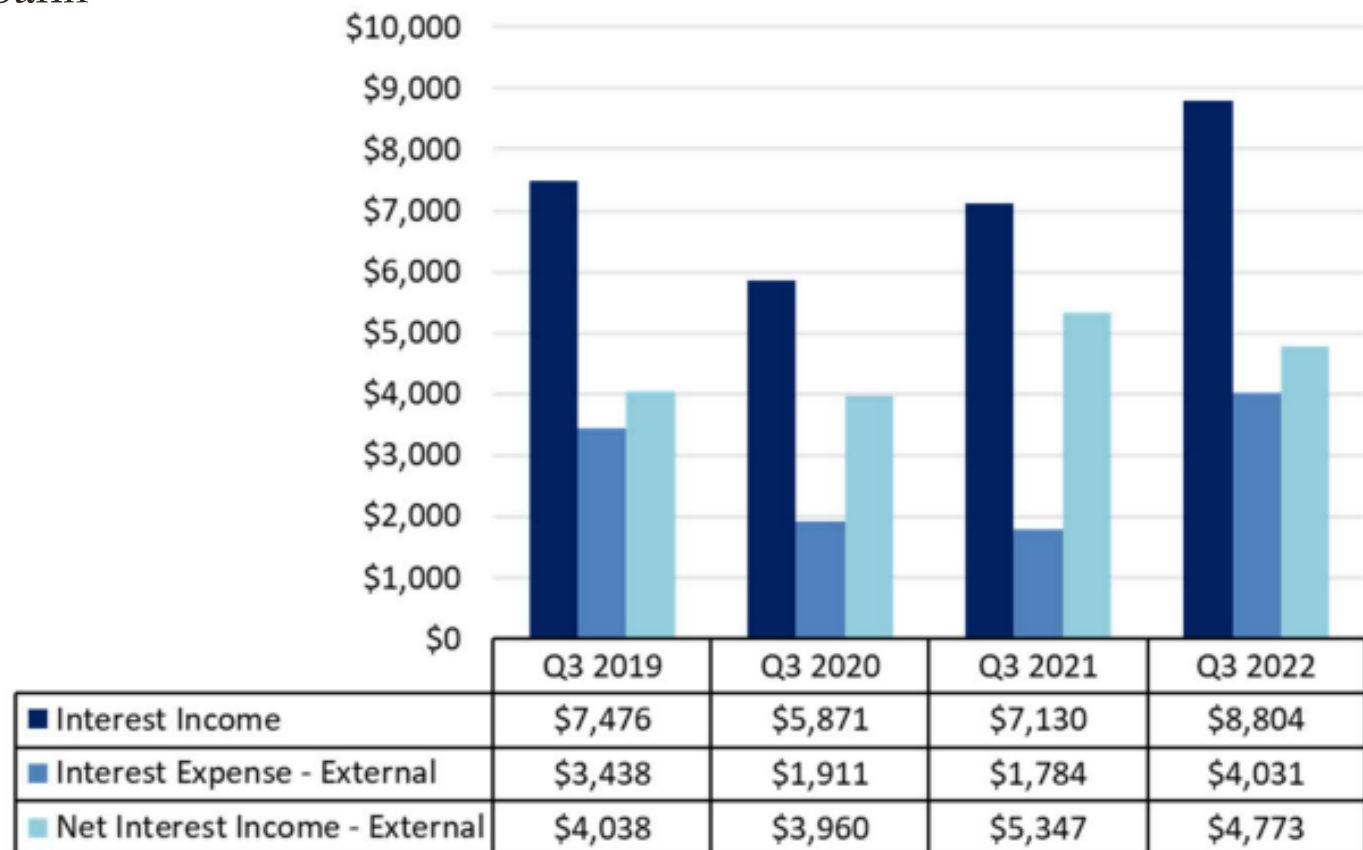
- For the three months ended September 30, 2022, the weighted average net premium received on the sale of guaranteed portions of SBA 7(a) loans was 9.46%, a slight improvement over the second quarter of 2022. The decline reflects, among other things, the lagging prime rate and other market pressures that we do not believe will exist forever

Background on Newtek Business Services (Continued)

Lending Business

- Interest expense should decrease a lot as a bank with lower cost of funding

NSBF Net Interest Income Trend



Background on Newtek Business Services (Continued)

Service Businesses

- Newtek Payment Processing Companies
 - Newtek Merchant Solutions and Mobil Money
 - 2022E EBITDA of \$16M for the combined companies.
 - About \$12M of Net Debt
- Newtek Technology Solutions
 - Cloud computing company providing managed services
 - 2022E EBITDA of \$4M
 - About \$11M of Net Debt
- Newtek Payment Systems (POS on Cloud)
 - Competitor to Square and Clover
- Newtek Payroll and Benefits Solutions
- Newtek Insurance Solutions

Background on Newtek Business Services (Continued)

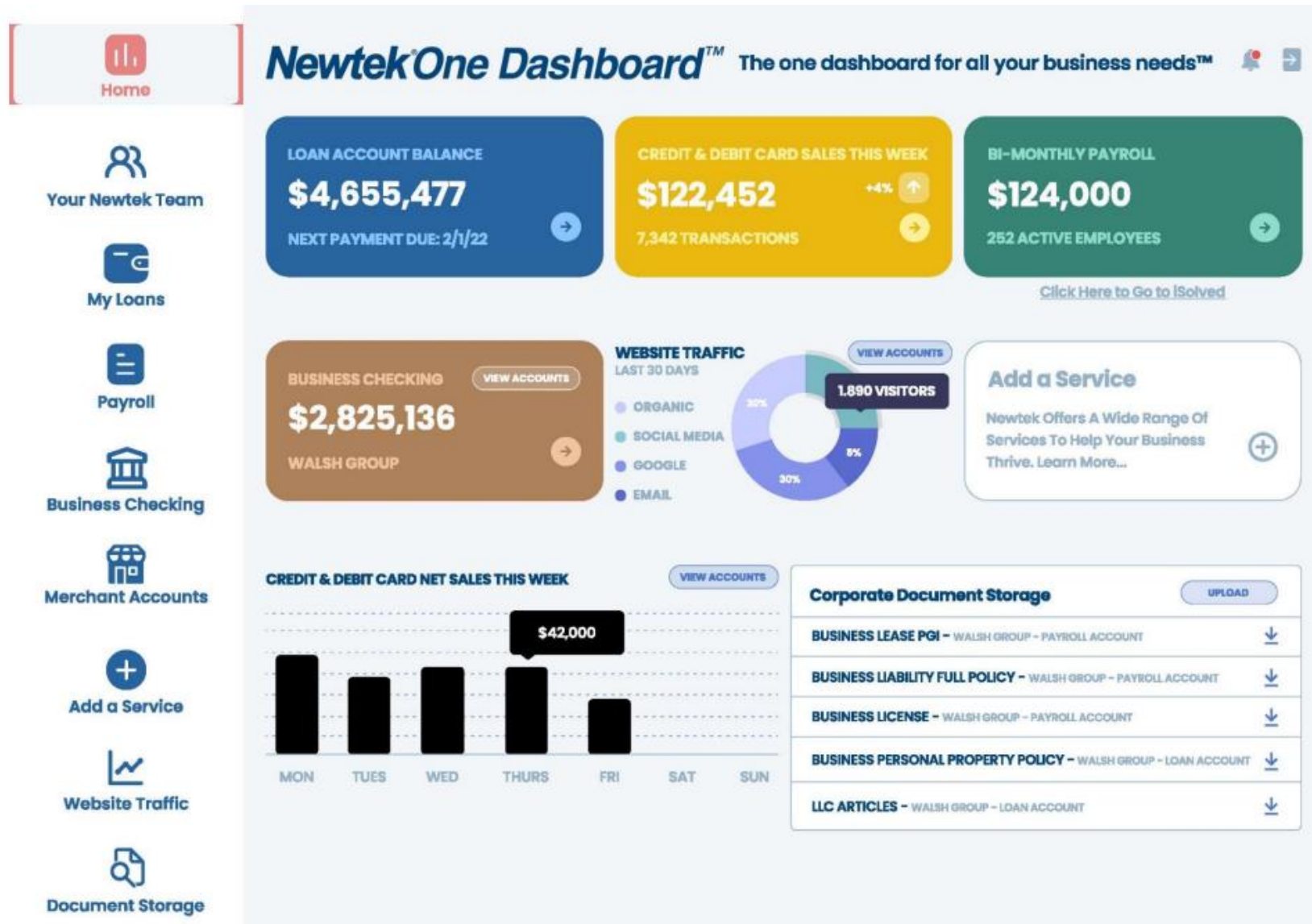
Service and Lending Businesses All Will Lead To:

“Speak with a specialist” – Newtek Dashboard



Background on Newtek Business Services (Continued)

Service and Lending Businesses All Will Lead To:
Potential White-labeled offering to other banks



Background on Newtek Business Services (Continued)

CEO is aligned with Shareholders

- Chief Executive and Founder owns 4.8% of the company
- According to the latest proxy statement (see below)
 - Shares currently valued at \$21M
 - Base Salary of \$700k
- This is very important for us as shareholders

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
<i>Interested Directors:</i>		
Barry Sloane ⁽¹⁾	1,149,273	4.8 %

Newtek Business Services (Continued)

What to expect as a bank:

	Profitability Targets FY 2023	Profitability Targets FY 2024
ROAA	3.0 – 4.0%	3.5 – 4.5%
ROATCE	18 – 22%	25 – 30%
Bank Cost of Deposits (DDA Accounts, High Yield Savings & CDs)	2.75 – 3.50%	3.50 – 4.50%
Deposits / Total Funding	~40%	~50%
Earnings Per Share	\$1.70 – \$2.00	\$2.80 – \$3.20

Newtek Business Services (Continued)

Compared to AXOS a very well run and efficient bank, NEWT's targets put it in top 90% of banks

Axos is a Top Performer Versus Bank Peer Group



	Axos Bank	Peer Group	Percentile
ROAA	1.62%	0.73%	89%
Return on equity	16.80%	7.32%	89%
G&A	1.99%	2.36%	28%
Efficiency ratio	42.74%	67.19%	7%

The 89% on ROE means that the Bank outperformed 89% of all banks. The 7% efficiency ratio ranking means that only 7% of banks have lower expenses in comparison to their revenues. Peer group includes savings banks greater than \$1 billion.

Newtek Business Services (Continued)

What to expect as a bank:

- Don't need to issue equity like they did as a BDC to grow
- Can lever the company more than the BDC
 - Up to 10 times as a bank compared 2 times as BDC
- Cost of capital much lower as a bank
 - Starting off cost of deposits will be high, but can use their business referrals to get cheaper deposits over time
- Banks with ROAA > 2% and ROATC > 15% are in the top performing 10% of banks
 - Newtek is targeting 3-4% and 18-22% respectively in 2023
- On low end range of \$1.70 in earnings, 24M shares outstanding and assumed 3% dividend means the company will retain nearly \$40M after 1 year to invest in its growth

Why this opportunity exists

Shareholder base is transitioning

- Company has a history of paying dividends as a BDC
 - These dividends have generally grown over time
 - Slightly dropped in 2022 versus 2021
 - Company has not announced that it will definitely continue its dividend when no longer a BDC
 - Shareholders that were looking for high yielding dividend stocks have dumped shares
- CEO really understands value of growing Earnings Per Share
 - Concerned about dilution that needed to be done to grow as a BDC
 - Wants lower cost of capital and debt by being a bank, in addition to the ability to have more leverage versus a BDC
 - Company can provide banking services to the same customers and leads it obtains for its loans and other business services
 - Has vision to provide services with a virtual specialist over video

Why this opportunity exists

Shareholder base is transitioning

- Getting approvals to become a bank was uncertain and took over 1 year!
 - BDC investors left and bank investors were sitting on the sidelines
 - Bank valuations have come down and are depressed (interest rate and economic concerns)
- Accounting for BDC's and Banks are very different
 - As a BDC all of the subsidiaries could not have full accounting and instead the parent owned shares of all of the companies and line items were not included, just NAV and dividend distributions
 - As a bank, all of the line items will be consolidated and likely broken out by segment as well, providing more transparency to investors
- No financials have been filed as a bank, so bank investors and analysts can't look at any financials to do the typical analysis
- Paying \$2.70 of dividends in 2022 gives confidence in 2024 estimates

Tickers	Company Name	Market Cap - (USD, mn)	P/E 2022E	P/E 2023E	P/E 2024E	Diluted EPS (Consensus) - FY2022 (USD)	Diluted EPS (Consensus) - FY2023 (USD)	Diluted EPS (Consensus) - FY2024 (USD)	Stock Price - Last Traded Price
BHLB	Berkshire Hills Bancorp Inc	1,386	15.61x	12.44x	11.79x	1.97	2.48	2.61	USD 30.79
DCOM	Dime Community Bancshares Inc	1,283	8.88x	8.25x	7.75x	3.75	4.03	4.29	USD 33.25
EFSC	Enterprise Financial Services Corp	1,904	10.06x	9.21x	8.90x	5.09	5.55	5.75	USD 51.14
FBNC	First Bancorp (North Carolina)	1,728	10.14x	9.70x	9.28x	4.18	4.37	4.57	USD 42.42
FCF	First Commonwealth Financial Corp	1,349	10.20x	8.53x	8.30x	1.42	1.69	1.74	USD 14.45
HTH	Hilltop Holdings Inc.	2,041	21.24x	21.47x	18.70x	1.49	1.47	1.69	USD 31.60
LOB	Live Oak Bancshares Inc	1,413	7.49x	13.95x	12.03x	4.29	2.30	2.67	USD 32.13
NBHC	National Bank Holdings Corp	1,659	14.96x	10.98x	10.92x	2.95	4.02	4.04	USD 44.13
NBTB	NBT Bancorp Inc.	1,885	12.20x	12.10x	10.72x	3.61	3.64	4.11	USD 44.01
OBNK	Origin Bancorp Inc	1,157	11.45x	8.43x	8.13x	3.29	4.47	4.64	USD 37.71
OFG	OFG Bancorp	1,353	8.41x	8.05x	7.78x	3.38	3.53	3.66	USD 28.44
SASR	Sandy Spring Bancorp Inc	1,589	9.86x	9.84x	8.88x	3.61	3.62	4.01	USD 35.59
SBCF	Seacoast Banking Corp of FL	2,014	22.44x	15.53x	11.54x	1.46	2.11	2.84	USD 32.76
SRCE	1st Source Corp	1,322	11.00x	11.18x	11.70x	4.88	4.80	4.59	USD 53.63
STBA	S & T Bancorp Inc	1,325	10.07x	10.19x	10.28x	3.37	3.33	3.30	USD 33.96
TCBK	TriCo Bancshares	1,671	12.83x	10.87x	10.99x	3.91	4.61	4.56	USD 50.14
TFIN	Triumph Financial Inc	1,271	13.20x	19.76x	14.35x	3.93	2.63	3.62	USD 51.92
Average		1,550	12.36x	11.79x	10.71x	3.33	3.45	3.69	USD 38.12
Median		1,413	11.00x	10.87x	10.72x	3.61	3.62	4.01	USD 35.59
Max		2,041	22.44x	21.47x	18.70x	5.09	5.55	5.75	USD 53.63
Min		1,157	7.49x	8.05x	7.75x	1.42	1.47	1.69	USD 14.45
NEWT	Newtek Business Services	445	6.68x	9.92x	6.12x	2.75	1.85	3.00	USD 18.36

Bringing it all together

- By 2024 we expect EPS to get to \$3 due to lower interest expenses in addition to growing SBA loans and selling more business services
 - Currently 2024 forward bank multiples average around 11 times EPS
 - This is a depressed level compared to the past 10 years and for banks that will likely have lower ROE and ROA
 - LOB is best comp and trades at 12 times 2024E EPS
 - TFIN is probably next best comp at 14 times 2024E EPS
 - While we think that NEWT can get a higher multiple due to best in class ROE and ROA for a bank, which should deserve a 15 to 20 times EPS multiple, we will conservatively give it a 12 times for our valuation
 - \$3 EPS X 12 P/E multiples = \$36 price target in 2024
- BDCs are excluded from Russell 2000 and Institutions excluded from buying BDCs due to certain rules

Risks

- Demand for loans drop or many of the borrowers default
 - De-risked by SBA government guarantees, personal guarantys by borrowers, and real estate and other asset backed collateral on many of the loans.
- Our model assumes that the company can get some loan growth and does not increase defaults dramatically
- NewtekOne Dashboard does not create any cross selling synergies and the company is not able to attract deposits
- Deploy excess capital poorly, such as a poor acquisition
 - This is de-risked as the company has a lot of organic growth ahead of itself and needs to integrate the bank into its offerings and new dashboard platform
- Government stops guaranteeing the portion of the SBA loans



QUESTIONS?

Ridgewood Investments

973-544-6970

info@ridgewoodinvestments.com