Sachem Renovates its REIT Loans

Price $5.46 **Recent Purchase** **September 30, 2021**

- 9.3% dividend yield.
- Conservative loan-to-value loans funding developers and house-flippers.
- Average loan term of 8 months, with a principal value of about $300,000.
- Mortgage portfolio yield at 11.7%, with over 90% of income is passed through to shareholders.
- Attractive valuation, yield, and growth potential.

Investment Thesis

Sachem Capital (SACH) is a mortgage REIT specializing in underwriting, funding, servicing, and managing a portfolio of shorter-term, high yield real estate loans. This strategy targets the "fix-and-flip" market with loans secured by both a personal guarantee by the principals of the borrowers and a maximum loan-to-value (LTV) of 70%. Currently, Sachem operates in 3 states and conducts lending services in 10 states.

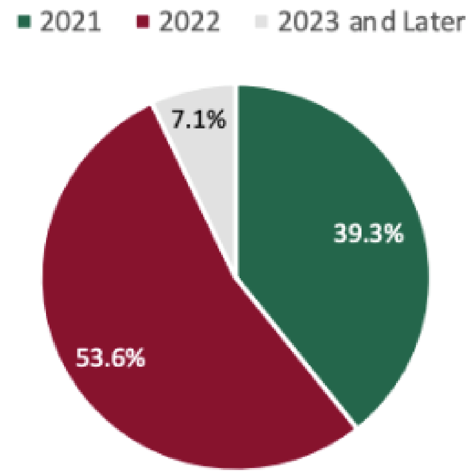
Due to its compelling valuation, low interest-rate-risk exposure, and high dividend yield, we believe that SACH is an excellent choice for dividend yield and moderate capital appreciation.

Products

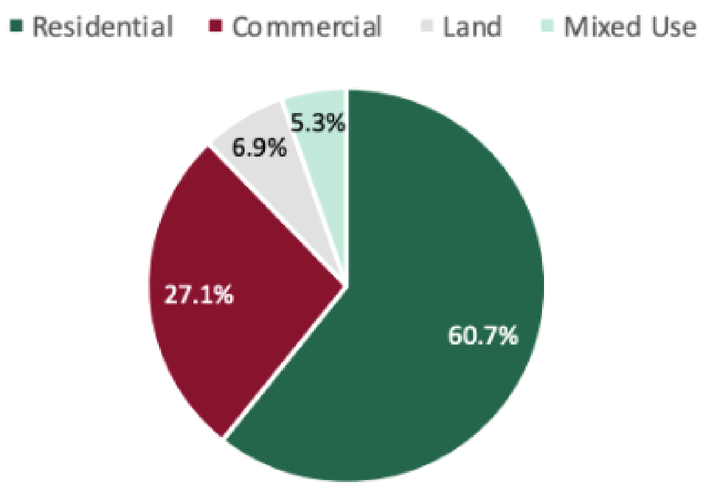
SACH offers several loan products, including fix-and-flip loans, foreclosure/distressed lender loans, bridge loans, new construction loans, and commercial real estate loans. These are not traditional mortgage loans like you would see in a mortgage bond. Instead, these loans have a range of $100,000-to 20 million a maximum LTV of 70%, a term of 1-3 years, a 1 to 2% fee, a minimum of 6.9% interest, and interest-only monthly payments with a lump sum at maturity.

The total loan portfolio has grown to $172.8 million with a favorable competitive landscape and a conservative LTV ratio. In addition, the average yield over the 1H of 2021, was 11.72%, and 88.5% of loans in the portfolio had under a year remaining.

SUMMARY DISTRIBUTION BY LOAN MATURITIES(2)

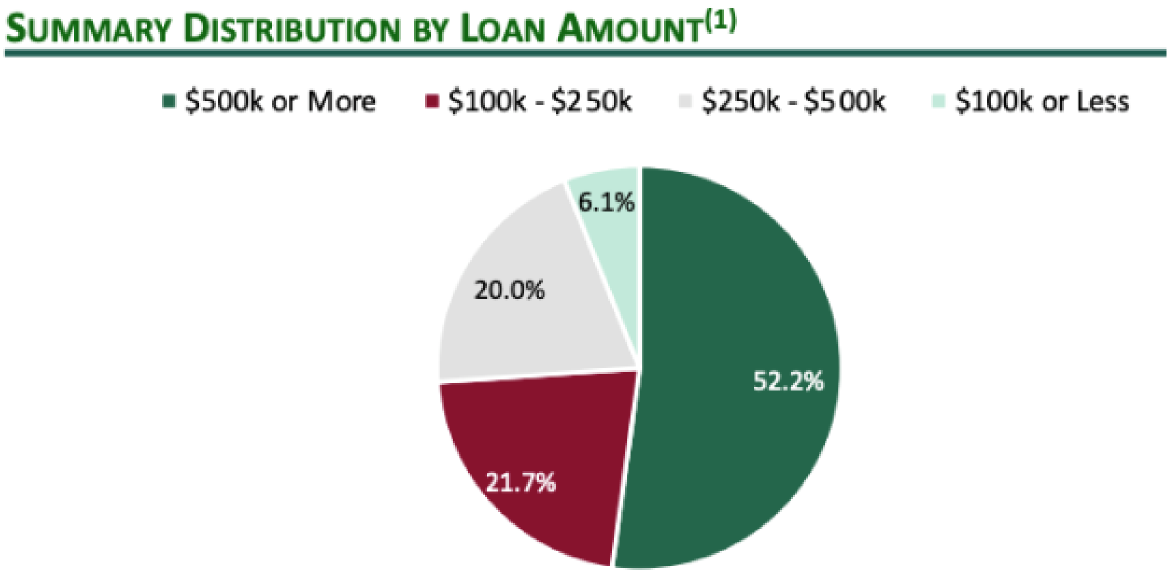


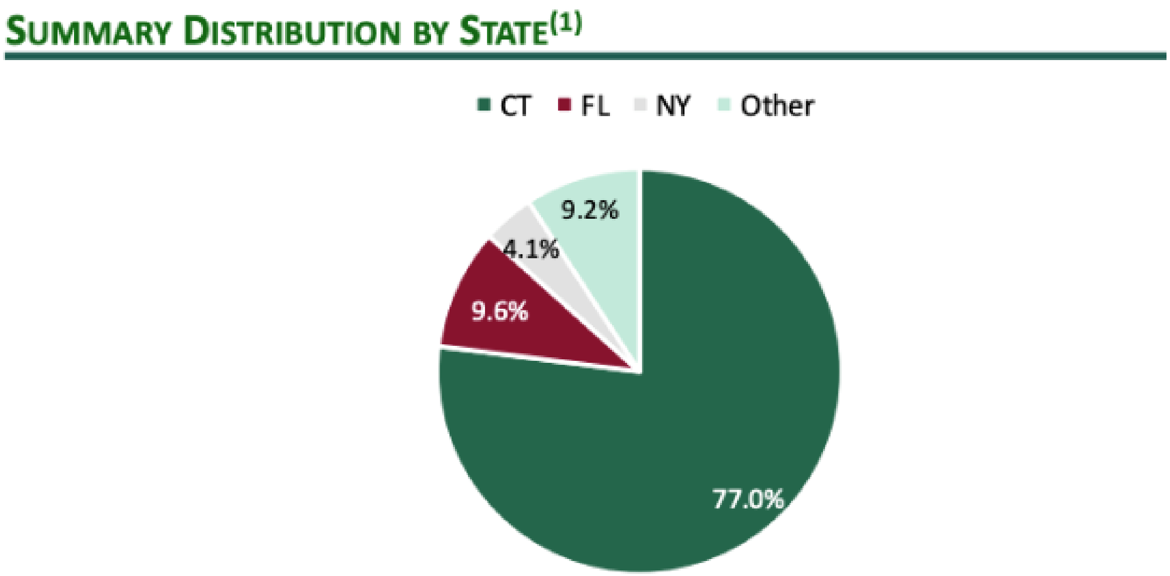
SUMMARY DISTRIBUTION BY REAL ESTATE TYPE(2)



Loan Portfolio Breakdown, Sept 2021 Investor Presentation

Diversifying mortgage portfolio outside of Connecticut and a wider variety of products such as larger multi-family dwellings and higher-end fix-and-flip properties. This latest initiative is focused on less than 1-year terms and collateral in the form of assets not as heavily tied to fluctuations in the real estate market. The company is intent on growing its portfolio in Florida and Texas.





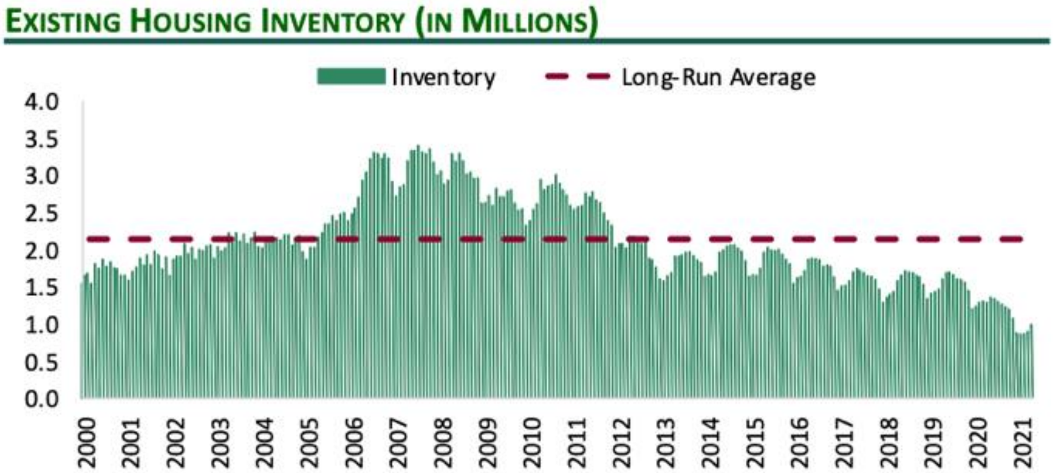
Loan Portfolio Breakdown, Sept 2021 Investor Presentation

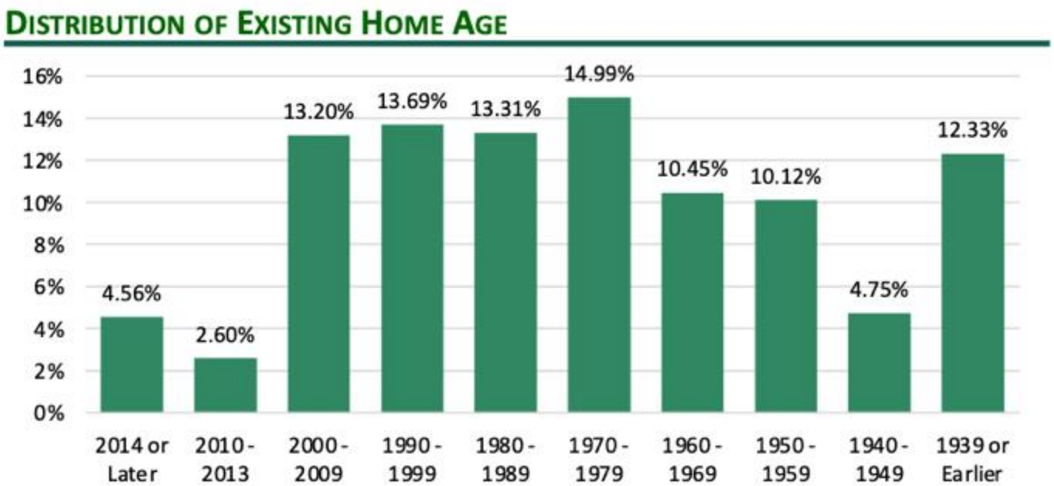
Macroeconomic Conditions

Over the last 25 years in the United States, new single-family additions have lagged household formation causing demand to outstrip supply. In addition, COVID-19 accelerated the move to the suburbs and second home purchases, further juicing demand. This means the collateral backing loans is increasing in value which, combined with low loan-to-value (LTV), results in extremely low bad debt expense (low is an understatement as the company has not had losses on its portfolio since 2016).

On top of this, fewer than 10% of the existing housing stock was built after 2010, with the average housing stock age being 40 years old. This opens a massive opportunity for fix-and-flip loans: house flipping profits hit an all-time profit high of $66,300 on average per home in FY2020.

The advantage of a private lender like Sachem is that developers and builders face ever-increasing restrictions and delays in getting loan approvals. Larger loans from the SBA can often take over 6 months, lending criteria are tighter than ever, and demand for property has outpaced the supply of available developments. Sachem distinguishes itself from bank competition by quickly turning around loans in as little as 5 days. This does not make Sachem a slouch when it comes to choosing borrowers; they require lenders to put up collateral for loans instead of the traditional mortgage model of credit rating and income of the borrower or the estimated property cash flows.





Economic Condition Breakdown, Sept 2021 Investor Presentation

Risk

COVID-19 economic downturn greatly affected the housing market as the development of new properties stopped, and many people could not pay their mortgages on time. While there has been significant recovery, conditions in the housing market are something to note. Sachem came through with minimal bad debt expense, although some payments were delayed and restructured. While approximately 0.5% of the loan portfolio has some amount of unpaid principal, interest, or borrowing fees, the amount of collateral exceeds the amount due in every case. Since the funds listing in 2016, it has experienced no losses on the portfolio.

Currently, the company has a heavy concentration (77%) in Connecticut, so it is exposed to high geographic concentration risk.

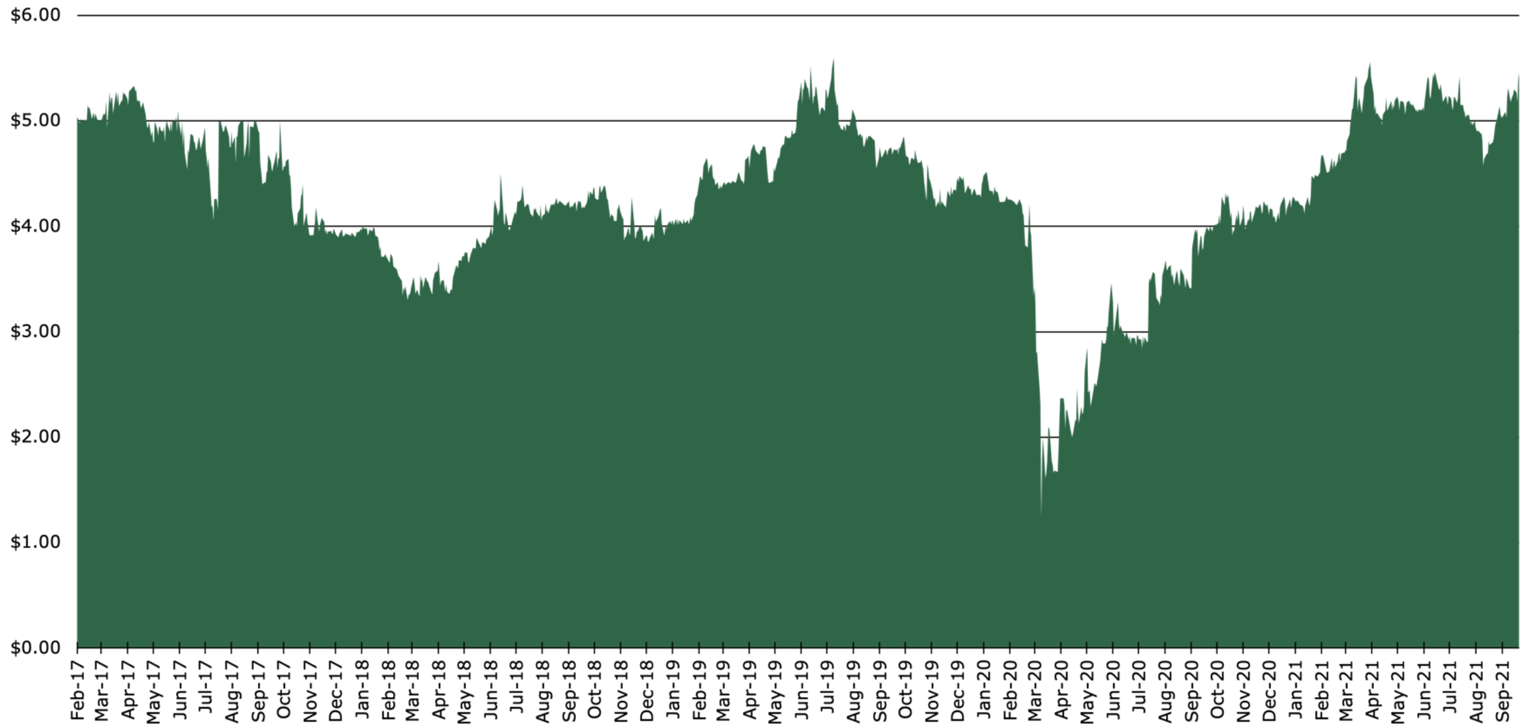
Metrics

Record annual revenue, increasing 56% year over year from Q2 2020, with a 43% increase in interest income. Total asset value CAGR since 2016 is 51%, with room to grow as Sachem expands into Florida and Texas and deepens penetration in its 10-state footprint.

Sachem maintains a debt-to-equity ratio of 0.9x, lower than their COVID-19 high of 1.7x but still higher than their long-term average of 0.5x. As Sachem has profitably grown, it has been able to raise additional equity capital and is now availing itself of more attractive debt financing facilities, which should allow the company to lower interest expenses and expand margins.

Estimated Next 12 Months	Dividend Yield	Price-to-Book	Price-to-Earnings
Sachem Capital (SACH)	9.3%	1.3	10.9
First National Financial (FN)	5.7%	4.1	10.9
HomeStreet (HMST)	2.6%	1.1	9.2
Bankwell Financial Group (BWFG)	2.2%	1.1	9.0
Arlington Asset Investment (AAIC)	1.1%	0.6	14.2

Sachem Capital (SACH)



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