



# Newtek Business Services Corp. (NEWT)

Updated November 16<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$15.43	<b>5 Year CAGR Estimate:</b>	15.9%	<b>Market Cap:</b>	\$376.8 M
<b>Fair Value Price:</b>	\$18.53	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	12/16/2022 <sup>1</sup>
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.7%	<b>Dividend Payment Date:</b>	12/30/2022
<b>Dividend Yield:</b>	17.8%	<b>5 Year Price Target</b>	\$18.53	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Newtek Business Services Corp. is a business development company (BDC) specializing in providing financial and business services to the small and medium-sized business market in the United States. What makes NewTek a unique BDC is that a good portion of its income is derived from subsidiaries that provide a wide array of business services to its large client base. The company also gets a significant amount of its income from being an issuer of SBA (Small Business Administration loans), which only very few BDCs are licensed to do. This is not your typical BDC that only generates income from interest rate spreads, but also from a much wider range of small business services. The \$376.8 million company is based in New York, New York.

*On August 2<sup>nd</sup>, 2021, the company announced that it agreed to acquire the National Bank of New York City, a nationally chartered bank with approximately \$204 million in total assets. The company believes that while its BDC structure has been a great growth vehicle, transitioning into a bank holding company will allow it to unlock further efficiencies.*

*On May 2<sup>nd</sup>, 2022, the Newtek filed a definitive proxy statement seeking shareholder approval of a proposal authorizing the Company's Board of Directors to discontinue the company's election to be regulated under the Investment Company Act of 1940. Management highlights the fact that if shareholders authorize the discontinuance of Newtek's regulation under the 1940 Act, and the company receives the required regulatory approvals to close the acquisition of the National Bank of New York, investors should expect Newtek to be the same company, in the same businesses, just in a different corporate and financial structure.*

Therefore, we note that Newtek's dividend could be "cut" following the lack of mandatory payouts due to the change of its legal structure. Consequently, anything from the company's reporting metrics (investment income, book value, etc.) to our own growth assumptions is not to be taken as standard, as they will soon be transformed.

On November 7<sup>th</sup>, 2022, Newtek reported its Q3-2022 results for the period ending September 30<sup>th</sup>, 2022. The company produced an adjusted net investment income of \$15.0 million or \$0.62 per share compared to \$12.6 million or \$0.56 per share in the prior-year period. Besides Newtek's latest results, both management and investors remain focused on the company's upcoming transforming acquisition, currently subject to certain regulatory approvals. Following a Q1 DPS of \$0.65, a Q2 DPS of \$0.75, and a Q3 DPS of \$0.65, management plans to pay total dividends of \$2.75 for the year, implying a Q4 DPS of \$0.70. We have applied this figure in our estimates, along with a NII/share of \$2.85.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>NII/share</b>	---	---	---	\$3.32	\$1.88	\$2.25	\$1.91	\$2.13	\$1.59	\$3.69	<b>\$2.85</b>	<b>\$2.85</b>
<b>DPS</b>	---	---	---	\$1.76	\$1.53	\$1.64	\$1.80	\$2.15	\$2.05	\$3.15	<b>\$2.75</b>	<b>\$2.75</b>
<b>Shares<sup>2</sup></b>	---	---	---	10.8	14.5	17.3	18.7	19.3	21.1	22.7	<b>24.3</b>	<b>30.0</b>

We lower both our NII/share and DPS growth estimates to 0%, waiting to see how the company's transition to a bank holding company is about to affect both of these metrics or their upcoming equivalents.

<sup>1</sup> Estimated dates

<sup>2</sup> Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/NII	---	---	---	4.2	6.9	7.5	8.8	10.5	11.3	7.3	5.4	6.5
Avg. Yld.	---	---	---	10.6%	10.7%	9.6%	10.3%	9.7%	9.7%	11.6%	17.8%	14.8%

Newtek's valuation has historically been very close to the industry average, with its P/NII around the high single-digit to low double-digits. The stock's valuation has plummeted recently, with investors likely exhausted waiting for the BDCs transition to a bank. This has caused the yield to skyrocket to a massive 17.8%, implying the possibility of a cut. While these metrics remain somewhat meaningless before the actual transition occurs, we believe Newtek is significantly undervalued. Even if the dividend were to be halved once the transition is completed, its yield would remain massive.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

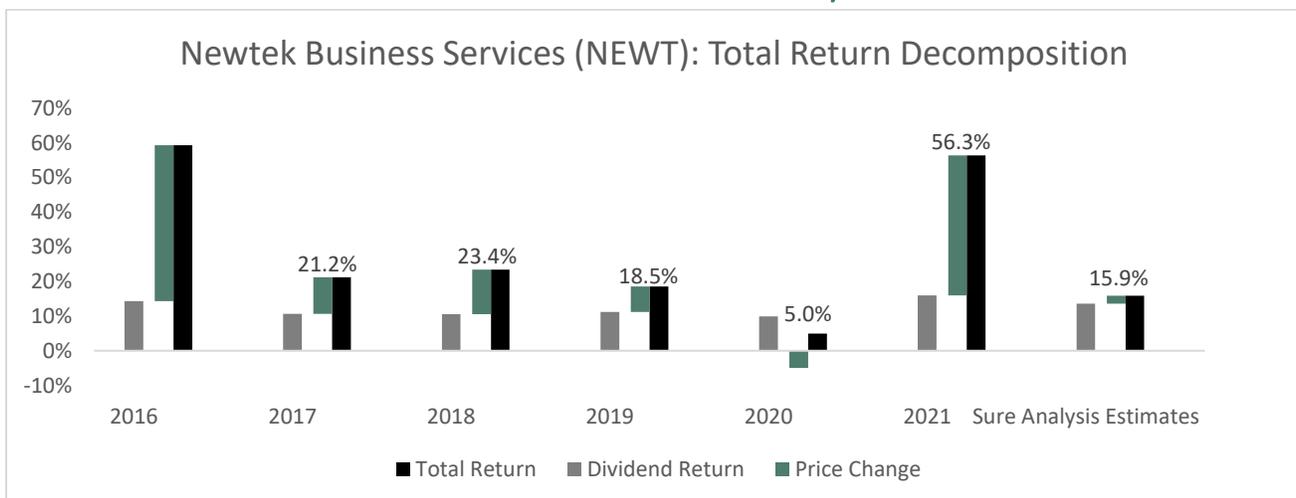
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	53%	81%	73%	94%	101%	129%	85%	96%	96%

We believe that Newtek's distributions are safe, as the company was proved resilient, despite the adverse economic conditions that the ongoing pandemic imposed on small and medium businesses. Again, however, the payout policy is about to be changed. Its performance throughout the pandemic remained robust, while management's recent dividend guidance was robust, and its short/medium-term growth catalysts remain promising. Additionally, due to BDCs needing a special license to provide SBA loans, the company should face weaker competition than its peers and maintain resilient profitability spreads. However, despite its several positive qualities, the company has been operating as a BDC for a limited number of years and therefore has not been tested under a full-on recession or various economic cycles, which could possibly risk its future returns.

## Final Thoughts & Recommendation

Newtek Business Services is a genuinely unique BDC, benefiting greatly from its internal structure, management, stability, and safety from the governmentally sourced SBA loans. We forecast annualized returns of 15.9% based on Newtek's dividend yield and possible valuation tailwinds. While this level of projected return normally results in a buy rating, we note that the relevant metrics are about to change drastically following Newtek's transition to a holding company. Investors should be aware of this before purchasing shares.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	62	64	77	78	89	75	140
SG&A Exp.	---	---	13	16	16	18	29	28	6
Net Profit	---	---	36	27	39	36	41	34	84
Net Margin	---	---	57.3%	42.5%	50.9%	45.9%	46.3%	45.3	60.0%
Free Cash Flow	---	---	(38)	(14)	(73)	(74)	(89)	18	141
Income Tax	---	---	1	5	2	1	3	(1)	1

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	352	401	520	653	797	841	1057
Cash & Equivalents	---	---	4	2	2	2	2	2	2
Total Liabilities	---	---	148	192	241	366	475	502	653
Accounts Payable	---	---	15	14	17	25	21	28	---
Long-Term Debt	---	---	133	171	216	332	442	460	481
Shareholder's Equity	---	---	204	209	278	287	322	339	404
LTD/E Ratio	---	---	0.65	0.82	0.78	1.15	1.37	1.36	1.19

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	13.0%	7.2%	8.5%	6.1%	5.7%	4.1%	8.9%
Return on Equity	---	---	19.3%	13.2%	16.0%	12.6%	13.5%	10.2%	22.6%
ROIC	---	---	13.8%	7.6%	8.9%	6.4%	5.9%	4.3%	10.0%
Shares Out.	---	---	10.8	14.5	17.3	18.7	19.3	21.2	22.8
Revenue/Share	---	---	5.79	4.42	4.42	4.15	4.59	3.55	6.16
FCF/Share	---	---	(3.53)	(1.00)	(4.24)	(3.97)	(4.61)	0.84	6.18

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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