



NewtekOne, Inc. (NEWT)

Updated November 21st, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.88	5 Year CAGR Estimate:	5.8%	Market Cap:	\$365.1 M
Fair Value Price:	\$14.63	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/27/2024 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	01/13/2025
Dividend Yield:	5.5%	5 Year Price Target	\$14.63	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Newtek Business Services Corp. was 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 company 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 \$365.1 million company is based in New York, New York.

On January 6th, 2023, the company completed the acquisition of the National Bank of New York City, withdrew its BDC election, and became a financial holding company.

On January 13th, 2023, Newtek Business Services Corp. changed its name to NewtekOne. By becoming a financial holding company, NewtekOne no longer qualifies as a regulated investment company for federal income tax purposes and will no longer qualify for accounting treatment as an investment company. Going forward, Newtek Bank and the company's former portfolio companies and other subsidiaries will be consolidated in the company's financial statements. The company now consolidates its results and no longer uses investment company accounting. As a result, prior-period comparisons on both a sequential and year-over-year basis are somewhat meaningless.

On November 6th, 2024, Newtek reported its Q3 results for the period ending September 30th, 2024. This was the third quarter of the second year of Newtek reporting as a financial holding company following its completion of the National Bank of New York City acquisition. For the quarter, the company produced a net income of \$11.9 million, or \$0.45 per share. This compares to net income of \$10.9 million, or \$0.43 per share, for the prior-year period.

The company affirmed its outlook, expecting to achieve earnings-per-share in the range of \$1.85 to \$2.05 for 2024, the midpoint of which we have applied in our estimates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NIA²/share	---	\$3.32	\$1.88	\$2.25	\$1.91	\$2.13	\$1.59	\$3.69	\$1.34	\$1.70 ³	\$1.95	\$1.95
DPS	---	\$1.76	\$1.53	\$1.64	\$1.80	\$2.15	\$2.05	\$3.15	\$2.75	\$0.72	\$0.76	\$0.76
Shares⁴	---	10.8	14.5	17.3	18.7	19.3	21.1	22.7	24.2	24.4	26.0	30.0

We have set our NIA/share (moving forward earnings-per-share) and DPS growth estimates at 0%. The fact that the company initially lowered its FY2024 guidance from \$2.80 to \$3.20 to \$1.80 to \$2.00 and then raised it again to \$1.85 to \$2.05 in Q1 reflects the lack of certainty regarding the company future earnings growth. Overall, we are waiting to see

¹ Estimated dates based on past dividend dates.

² Net increase in assets per shares

³ From fiscal 2023, we are swapping out metric of interest from net increase in assets per share to earnings-per-share.

⁴ Share count is in millions.

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how the company's transition to a bank holding company will affect its operations, reporting metrics and growth prospects. This will likely become clearer after a few more quarters have passed, in our view.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	4.2	6.9	7.5	8.8	10.5	11.3	7.3	16.6	9.0	7.1	7.5
Avg. Yld.	---	10.6%	10.7%	9.6%	10.3%	9.7%	9.7%	11.6%	12.3%	4.7%	5.5%	5.2%

NewtekOne'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 being wary of the prospects of the BDC's transition to a holding company. It's also worth noting that after this transition, the company's yield should be expected to be considerably lower compared to its past levels. The company's ongoing quarterly dividend rate of \$0.19 implies a dividend yield of 5.5% on an annualized basis at the stock's current levels. The stock's valuation is opaque given the lack of future cash flow visibility. Thus, we have set our fair P/E at 7.5. Still that implies a potential valuation tailwind from here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

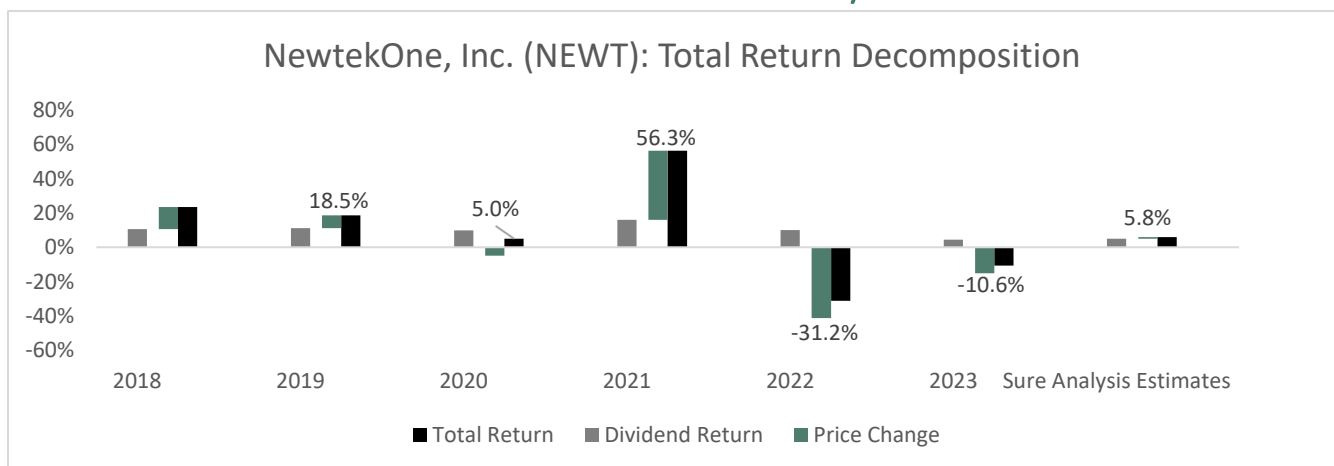
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	53%	81%	73%	94%	101%	129%	85%	205%	42%	39%	39%

We believe that NewtekOne's dividend is safe, as the company was proved resilient, despite the adverse economic conditions that the ongoing pandemic imposed on small- and medium-sized businesses. Again, however, the payout policy has been 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 companies needing a special license to provide SBA loans, NewtekOne should face weaker competition than its peers and maintain resilient profitability spreads. That said, we remain open regarding how the company's qualities and risk profile will form following its recent transition.

Final Thoughts & Recommendation

NewtekOne is a genuinely unique company, benefiting greatly from its internal structure, management, stability, and safety from the governmentally sourced SBA loans. We forecast annualized returns of 5.8%, primarily powered by the stock's dividend yield, and the possibility of a valuation tailwind. We rate the stock as a hold. Note that our assumptions are speculative. Until we form a more complete view of Newtek's investment case, our estimates will remain this way.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	62	64	77	78	89	75	140	105	185
SG&A Exp.	---	13	16	16	18	29	28	6	15	88
Net Profit	---	36	27	39	36	41	34	84	32	47
Net Margin	---	57.3%	42.5%	50.9%	45.9%	46.3%	45.3	60.0%	30.5%	25.4%
Free Cash Flow	---	(38)	(14)	(73)	(74)	(89)	18	141	(62)	(170)
Income Tax	---	1	5	2	1	3	(1)	1	6.5	(2)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	352	401	520	653	797	841	1057	999	1430
Cash & Equivalents	---	4	2	2	2	2	2	2	54	153
Total Liabilities	---	148	192	241	366	475	502	653	624	1180
Accounts Payable	---	15	14	17	25	21	28	---	---	37
Long-Term Debt	---	133	171	216	332	442	460	481	547	644
Shareholder's Equity	---	204	209	278	287	322	339	404	375	229
LTD/E Ratio	---	0.65	0.82	0.78	1.15	1.37	1.36	1.19	1.46	2.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	13.0%	7.2%	8.5%	6.1%	5.7%	4.1%	8.9%	3.1%	3.9%
Return on Equity	---	19.3%	13.2%	16.0%	12.6%	13.5%	10.2%	22.6%	8.3%	15.2%
ROIC	---	13.8%	7.6%	8.9%	6.4%	5.9%	4.3%	10.0%	3.6%	5.2%
Shares Out.	---	10.8	14.5	17.3	18.7	19.3	21.2	22.8	24.2	24.4
Revenue/Share	---	5.79	4.42	4.42	4.15	4.59	3.55	6.16	4.35	7.60
FCF/Share	---	(3.53)	(1.00)	(4.24)	(3.97)	(4.61)	0.84	6.18	(2.58)	(6.97)

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

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