



## ARBOR REALTY TRUST, INC.

We are an industry leader in analyzing publicly traded loan portfolios and have a long history in analyzing accounting frauds including Enron. The last fraud accusation [we investigated](#) and then debunked was a complicated accusation of fraud in GE's long term care insurance. We also develop and own proprietary algorithmic models that provide accurate predictions for loan portfolios. [Arbor Realty Trust](#) (ABR) is a 44-billion-dollar originator, servicer, owner and manager in the multifamily loan market (apartments) that is accused of fraud by short sellers and is under investigation.

We were already [covering](#) Arbor before the [investigation was announced](#) so we're updating the model and addressing the allegations. Information on the investigation is not available at this time, but the word "practices" was used and this is a [Title 42](#) term which refers to discrimination under federal housing law. So far, we only have the allegations from [short sellers](#). These involve consolidation rules and loan recycling, areas we are familiar with. For Arbor we note that its primary assets are mortgages which are level 2 assets and fairly easy to value. If the allegations are true, management would be trying to get faulty valuations past Ernst & Young and risking bank fraud charges. Arbor is reporting increases in delinquencies that are in line with the market and this is a strong indication they are not hiding losses. We cannot make a definitive call but do not "see" indications of fraud at this time or what the benefit would be. So, with the available information, we believe the allegations are unlikely.

However, we are predicting medium-term challenges for the company. We raised our additional 2024-2026 loan loss estimates to \$696 million (default rate of 20% of the portfolio with a 71% recovery). Additional considerations were more difficult geographies such as Texas, the higher for longer interest rate environment and the trend at Arbor. For 1<sup>st</sup> quarter Arbor reported:

- 60 day plus delinquencies advanced to \$465 million from \$263 million.
- The Company modified 39 loans worth \$1.76 billion.
- less than 60-day delinquencies were reduced from \$957 to \$490 million.

Our current assumption reduces book value from \$12.94 per share to \$9.94 per share by 2026 and we predict the dividend will be reduced to \$1.25. The projected losses are aggressive but not life threatening to Arbor which stays EPS positive in our projection. Our reiterated hold rating and \$13 price target for the common is based on our current forecasts and management's capabilities. (note on the short reports at the bottom of page 2)

**\$13.11 / Recommendation: HOLD, target \$13**

Company Stats & Estimates \$	in MM
Shares & Units outstanding	205
Equity Market Cap	2,685
Total Assets	15,104
Total Liabilities & PFD	12,503
2024 Total Revenue	645
2024 Distributable EPS	1.82
2025 Distributable EPS	1.76
2024 Distributable Earnings	373
2025 Distributable Earnings	360
2024 Current Cash Flow Yield	13.89%
Enterprise Value	15,188
EBITDA (2024 Est.)	437
Dividend coverage @1.50	121%
Price to Dist. Earnings / Share	6.7 X
2024 YE book value / share	<b>\$11.40</b>
2025 YE book value / share	\$10.22
2026 YE book value / share	\$9.94

### [ABR INVESTOR RELATIONS](#)



## BROXTON CAPITAL ADVISORS ABR as of 3/31/2024

Saturday, July 20, 2024

share price \$13.11

### PROJECTIONS IN MM fiscal yr.

2024 2025 2026

#### Income Statement

**Interest Income** 1198 1078 1014

**Interest Expense** 813 732 688

**Net Investment Income** 385 347 326

Other Revenue 260 291 304

**Total Revenue** 645 637 630

Credit Provisions for losses 275 300 121

Total Expenses 526 554 379

Other Expenses 64 63 62

Net Income 55 20 188

**Net Income / Share GAAP** 0.29 0.11 1.00

Distributable Earnings 373 360 349

Distributable Earnings / Share 1.82 1.76 1.70

Interest Income YOY -10% -10% -6%

EBITDA 437 423 411

Cash Flow 373 360 349

**Dividend** 1.50 1.25 1.25

Common Dividend Coverage % 121.4% 140.6% 136.4%

Price to Dist. Earnings / Share 7.2 7.5 7.7

#### Valuations

Distributable Earnings Yield 13.9% 13.4% 13.0%

Dividend Yield 11.44% 9.53% 9.53%

PE ratio 45.1 124.6 13.1

Enterprise Value 15,188

Equity Market Cap 2,685 2,685 2,685

#### Capital Structure

**Shares & Units outstanding \*** 205

Senior Notes 1,617

**PFD Shares Face Value** 634

#### Liquidity

Dec. 31 2023

Cash 929

Borrowing Availability est. 1000+

Total Assets 15,104

Total Liabilities & PFD 12,503

Ratio 121%

#### Book Value

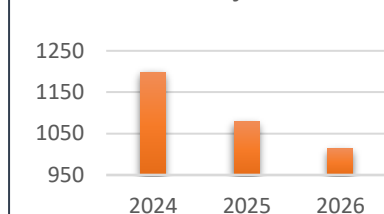
Estimated BV / Share \$11.40 \$10.22 \$9.94

Book Value

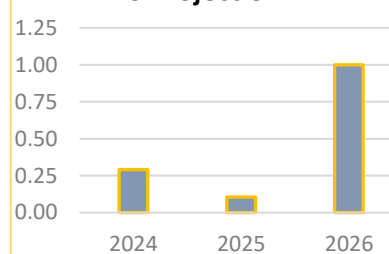
NOTES:

\*Additional dilution from the convertible Notes not included in Shares & Units outstanding: 17.3mm. ABR has been the subject of a few short reports, (Ningi Research & Viceroy) which we reviewed, in general we would say that the authors were not familiar with how to analyze the effect of defaults on loan portfolios which is known as default sensitivity analysis.

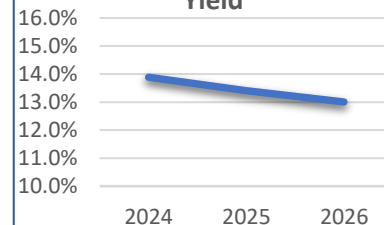
### Revenue Projection



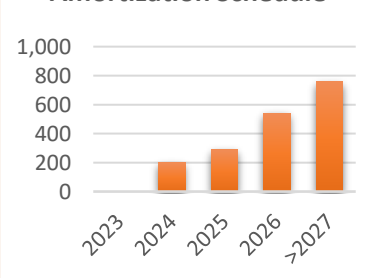
### EPS Projection



### Distributable Earnings Yield



### Bonds Only Amortization Schedule



## **Disclosures**

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. 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