Fundamental Research Corp.
Investment Analysis for Intelligent Investors

December 16, 2022

Three Point Capital Corp.

Benefiting From Rising Demand for Alternative Lending

Expected Yield (2023): 7.1%
Rating*: 2
Risk*: 2

Sector / Industry: Mortgage Investment Corporations

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Highlights

- **2022 (9M) yield was 5.9% (in line with our estimate)** vs 6.0% in 2021 (full-year).
- At the end of Q3-2022, mortgage receivables were $173M (**the highest in Three Point's history**), up 27% YTD.
- The company remains focused on first mortgage on single family residential units. **We believe the portfolio's risk profile has increased** due to lower first mortgages, and higher construction mortgages, partially offset by a lower weighted average Loan-to-Value (LTV).
- After raising rates in seven consecutive meetings, the Bank of Canada (BoC) has signaled a potential pause in rate hikes. **Although rates are likely to remain high in H1-2023, we believe slower GDP growth and higher unemployment will prompt the BoC to start cutting rates in the second half.** The IMF recently lowered their 2023 GDP growth forecast for Canada from 1.8% to 1.5%. A recent survey by IG Wealth Management indicated that more than 50% of Canadians are worried about being able to make mortgage payments if rates continue to rise.
- We believe **alternative lenders, such as Three Point, should be able to grow their loan portfolios,** amid lower repayments and new loan requests from borrowers unable to qualify with traditional lenders.
- Residential real estate prices in Toronto and Vancouver are down 18% from their peaks earlier this year. Consensus estimates indicate that prices could fall another 5% over the next 12 months, before climbing back. **We believe Three Point's low LTV (53%) puts them in a comfortable position.**
- For conservatism, we are modelling a 100% increase in the allowance for loan losses in the next 12 months, for all the alternative lenders/MICs under our coverage. Banks and conventional lenders had raised their allowance by 100%-200% during past recessions.
- **Due to higher lending rates, we are projecting a yield of 7.1% in 2023, up from 5.9% in 2022.** We believe low-duration funds, such as MICs, offer attractive opportunities in a rising interest rate environment. **Due to a material increase in expected risk-adjusted returns, we are raising our overall rating from 2- to 2, while maintaining our risk rating of 2.**

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Head of Research

Alexis Cabel, B.A.Econ
Equity Analyst

Offering Summary	
Issuer	Three Point Capital Corp.
Securities Offered	Class A Shares
Unit Price	$1
Minimum Subscription	N/A
Distribution to Investors	Monthly
Redemption (penalties)	n/a
Management Fee	1.95% p.a. of NAV (AUM <$100M) 1.75% p.a. ($100M <AUM < $150M) 1.50% p.a. (AUM >$150M)
Sales Commissions	up to 1% p.a.
Auditor	Grant Thornton

Financial Summary	2018	2019	2020	2021	2022E	2023E
Mortgage Investments (net)	$69,167,136	$76,376,262	$100,066,946	$136,120,907	$175,000,000	$200,000,000
Debt as a % of Mortgage Outstanding	15%	0%	15%	25%	33%	33%
Revenues	$5,778,729	$7,085,110	$7,714,011	$9,256,099	$13,378,199	$18,468,750
Net Income	$3,659,283	$5,106,979	$5,273,502	$5,826,514	$6,708,765	$9,190,691
Net Asset Value	$0.99	$0.99	$0.99	$1.00	$1.00	$1.00
Investors' Returns (% of Invested Capital)	7.06%	7.21%	6.25%	6.04%	5.89%	7.09%

***See last page for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.**

The following table shows how Three Point's portfolio compares to that of other similar MICs (with AUM of over $100M) focused on single-family residential units.

Three Point has higher first mortgages, and lower LTV, and loan size

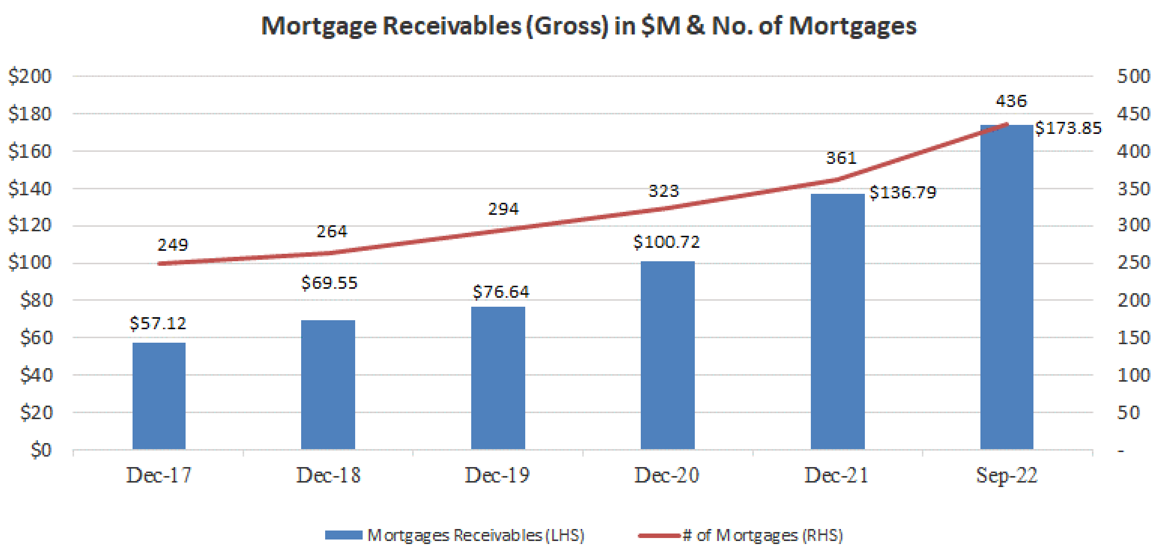
Yield is lower as Three Point has a lower risk profile due to high percentage of first mortgages

	ThreePoint	Average
First Mortgage	92%	84%
B.C.	62%	41%
ON	33%	44%
AB	4%	6%
Others	1%	9%
LTV	53%	58%
Yield	5.9%	7.0%
Debt to Capital	32%	25%
Average Loan Size	$398,745	$557,231
Delinquent/Foreclosures	2.0%	2.6%
Provision	0.4%	0.6%

Source: FRC / Various

Portfolio Update

Gross mortgage receivables were up 27% YTD, to $174M, by the end of Q3

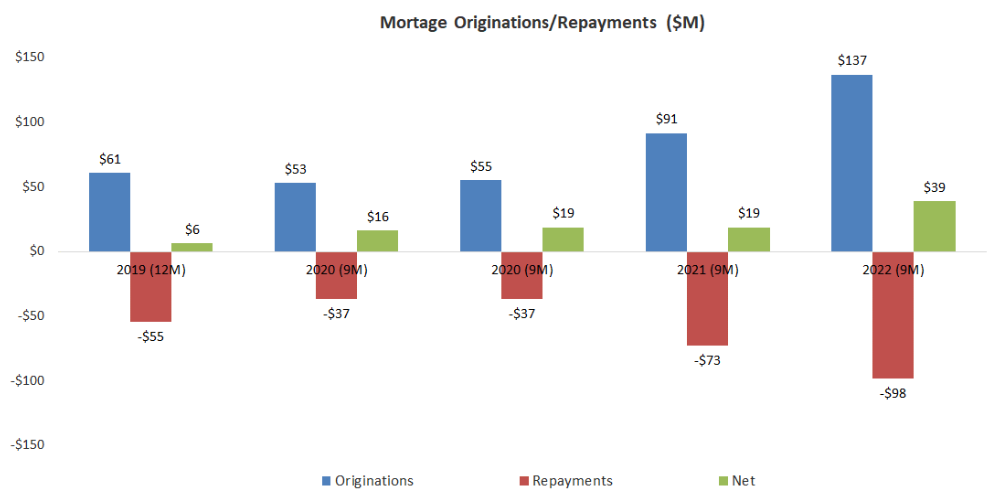


Source: Company / FRC

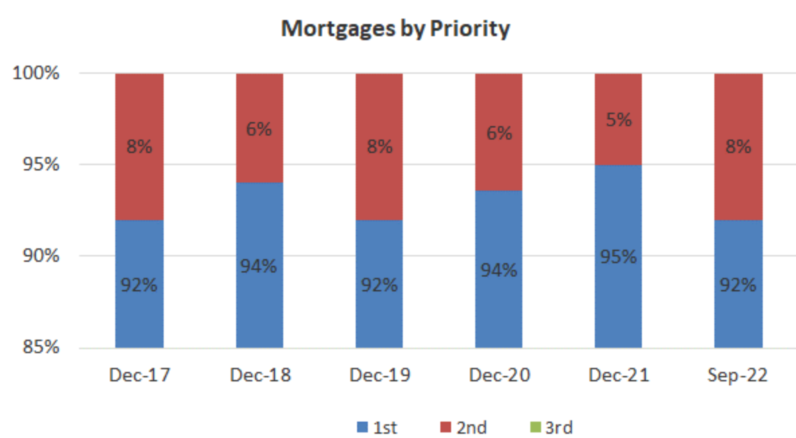
Debt to capital increased YTD (25% to 32%), implying higher risk; we believe MICs of comparable size have debt to capital of 20%-40%

Balance Sheet	2017	2018	2019	2020	2021	Q3-2022
Assets						
Cash	-	-	2,239,159	-	-	-
Accounts Receivable	$139,830	$0		55,174	74,878	
Prepaid Expense	$22,509	$20,596	16,722	31,292	36,849	280,262
Mortgage Investments (net)	$57,125,378	$69,167,136	76,376,262	100,066,946	136,120,907	173,092,777
Total Assets	**$57,287,717**	**$69,187,732**	**$78,632,143**	**$100,153,412**	**$136,232,634**	**$173,373,039**
Liabilities						
Loan Payable and accruals	$11,052,914	$7,581,036				
LOC				$15,319,156	$33,054,302	$53,763,013
Promissory Notes	$3,429,664	$3,036,033			$451,844	$1,866,450
A/P & Accrued Liabilities	$259,956	$173,059	$194,630	$255,983	307,195	$719,250
Dividends payable		$573,106	$736,725	$1,284,079	891,789	
Total Liabilities	**$14,742,534**	**$11,363,234**	**$931,355**	**$16,859,218**	**$34,705,130**	**$56,348,713**
Share capital			$77,403,629	$77,403,629	$100,808,942	$115,501,433
Retained earnings			$297,159	$297,159	$718,562	$1,522,893
Net Asset	$42,545,183	$57,824,498	$77,700,788	$83,294,194	$101,527,504	$117,024,326
SE + Liabilities	**$57,287,717**	**$69,187,732**	**$78,632,143**	**$100,153,412**	**$136,232,634**	**$173,373,039**
Debt to Capital	25%	16%	0%	16%	25%	32%
Debt as a % of Mortgage Outstanding	25%	15%	0%	15%	25%	32%
Interest Coverage Ratio	7.0	8.3	20.3	28.4	10.3	4.1

Mortgages advanced increased 50% YoY in 2022 (9M); repayments were up 35% YoY



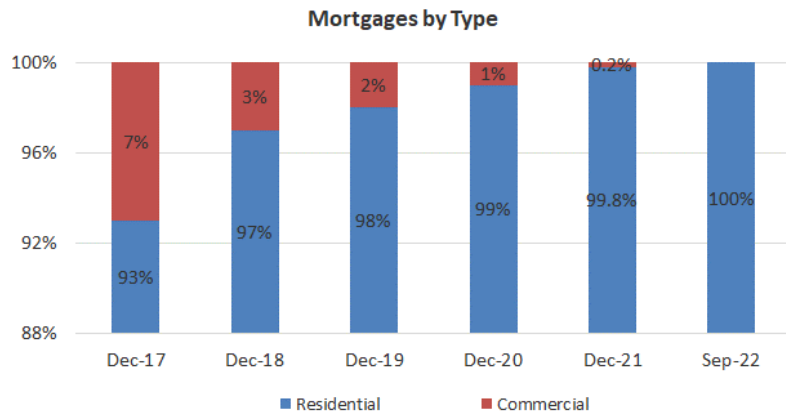
Exposure to first mortgages decreased, implying higher risk



Source: Company / FRC

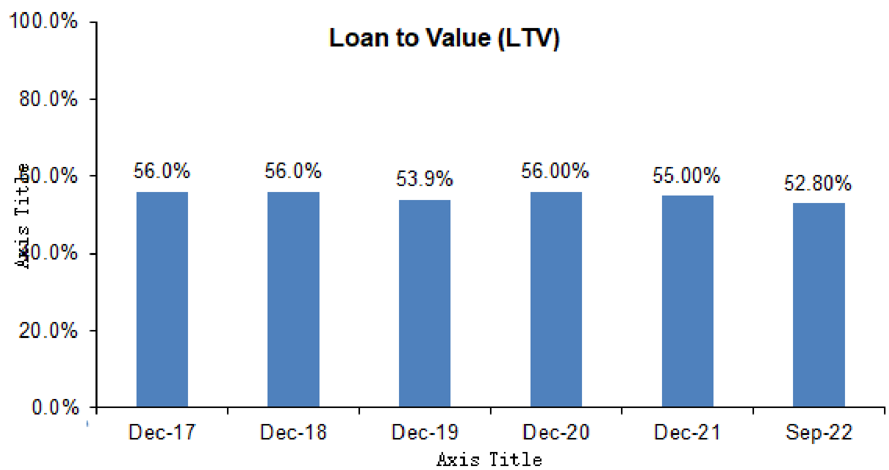
Focus remains on already-built single family residential properties

However, exposure to construction mortgages increased, implying higher risk



Loan by borrower type	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Sep-22
Residential Homes	79.0%	89.0%	92.0%	94.4%	97.0%	94.0%
Vacant Land	3.0%	3.0%	2.0%	1.4%	1.0%	1.0%
Construction	11.0%	5.0%	4.0%	4.4%	1.8%	5.0%
Residential	93.0%	97.0%	98.0%	99.0%	99.8%	100.0%
Commercial	7.0%	3.0%	2.0%	1.0%	0.2%	0.0%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

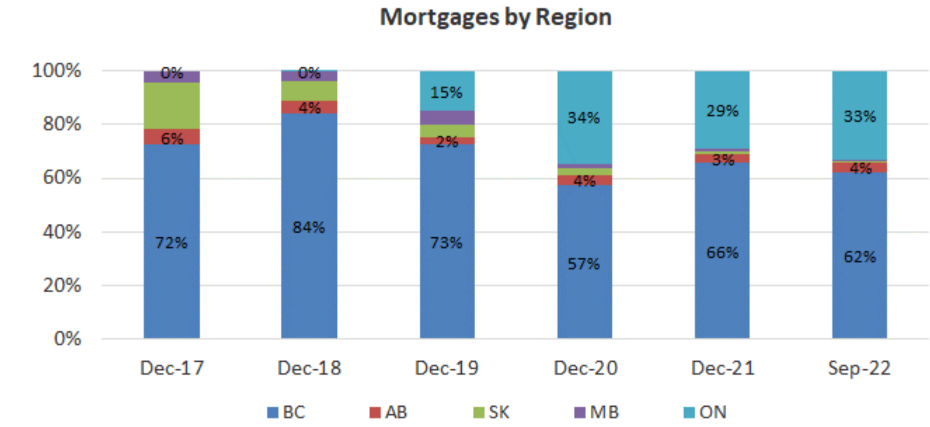
LTV decreased, implying lower risk



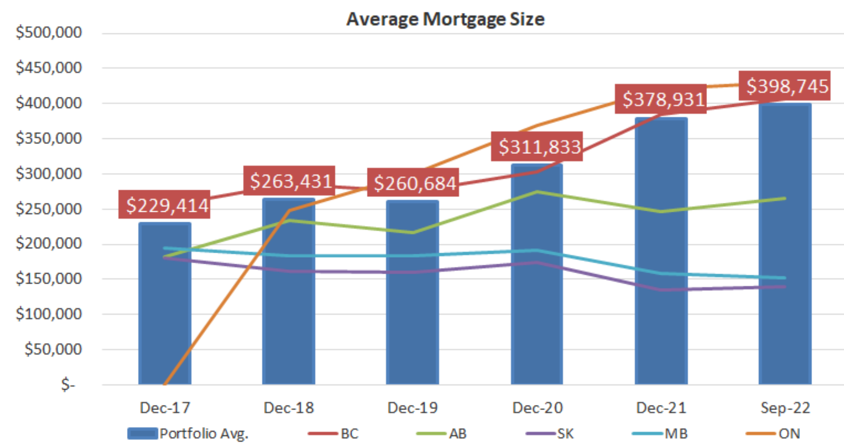
Mortgage LTV distribution	Dec-18	Dec-19	Dec-20	Dec-21	Sep-22
<25%	3%	3%	2%	2%	3%
25% to 45%	15%	14%	12%	19%	14%
46% to 65%	46%	50%	53%	44%	57%
66% to 75%	35%	30%	31%	34%	26%
>75%	1%	2%	2%	1%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

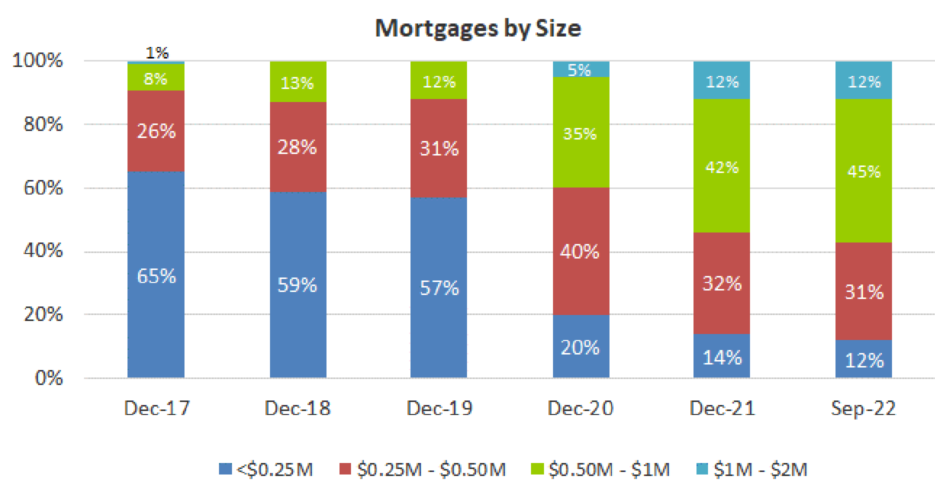
Source: Company / FRC

Increased exposure to ON, while reducing B.C., implying enhanced geographical diversification



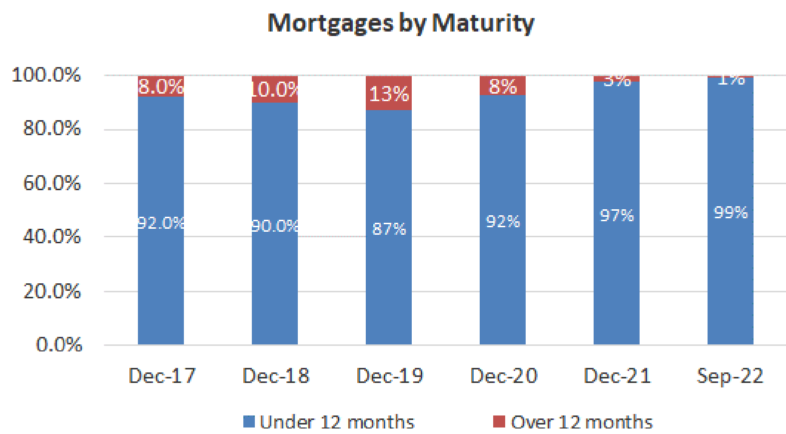
The average mortgage size was up 5% YTD, due to higher $0.5-$1M mortgages





Source: Company / FRC

Duration decreased, implying lower risk, allowing the MIC to adjust its rates quicker



Lending rates increased with market rates

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Sep-22
Weighted Average Interest Rate	**8.35%**	**8.59%**	**8.65%**	**7.88%**	**6.94%**	**7.31%**
Interest rate distribution	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**	**Sep-22**
<7%	10%	9%	11%	25%	59%	45%
7.00% - 7.99%	25%	19%	19%	33%	30%	26%
8.00% - 8.99%	37%	30%	32%	26%	7%	18%
9.00% - 9.99%	21%	34%	26%	10%	3%	8%
10.00% -10.99%	3%	5%	9%	4%	1%	3%
11.00% - 11.99%	3%	2%	2%	1%	0%	0%
12.00% - 12.99%	1%	1%	1%	1%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Nil realized losses

Allowances reduced by 5 bps YTD

For conservatism, we are modeling a 100% increase in the allowance for loan losses in the next 12 months

	2018	2019	2020	2021	2022 (9M)
Actual Losses	17,239	9,852	83,025	71,140	-
% of Mortgage Receivables	0.03%	0.01%	0.09%	0.06%	0.00%
Stage Three	-	-	2,168,452	878,221	253,802
% of Mortgage Receivables	0.00%	0.00%	2.15%	0.87%	0.15%
Distributions	$3,558,899	$4,923,754	$5,067,078	$5,611,535	$5,057,440
Reinvested	$2,440,946	$3,704,564	$3,421,060	$4,706,926	$3,813,095
% of Distributions	69%	75%	68%	84%	75%
Redemptions	$1,711,136	$3,586,595	$6,308,266	$3,557,363	$3,131,268
% of Invested Capital	3.4%	5.3%	7.8%	3.8%	3.0%
Loan loss reported	$210,175	$75,966	$296,090	$86,334	$87,324
Loan loss allowance (year/quarter ended)	$378,769	$444,883	$657,948	$673,142	$760,144
% of Mortgage Receivables	0.55%	0.58%	0.66%	0.49%	0.44%
	$396,008	$454,735	$740,973	$744,282	$760,466

Source: Company / FRC

At the end of Q3-2022, 1% of the portfolio, or four mortgages ($1.96M), were in default (60+ days delinquent) vs 1%, or $1.5M at the end of Q3-2021.

In summary, we believe the portfolio's risk profile has increased (four red vs three green signals)

Parameter	Risk Profile
Average Mortgage	↑
Geographical Diversification	↑
Debt to Capital	↑
Priority	↓
LTV	↓
Property Type (lower-risk properties)	↓
Defaults	-
Duration	↓

- red (green) indicates an increase (decrease) in risk level

Source: FRC

Financials

2021 revenue was up 20% YoY (0.9% lower than our estimate), and net profit was up 10% YoY (2.2% lower than our estimate)

2022 (9M) revenue was up 41% YoY, and net income was up 14% due to higher mortgage receivables, inline with our expectations

Income Statement	2018	2019	2020	2021	2021 (9M)	2022 (9M)	
Revenues							
Interest Income	$5,197,158	$6,355,245	$6,967,749	$8,378,222	$6,021,103	$8,407,393	40%
Fees & penalties	$581,571	$729,865	$746,262	$877,877	$631,646	$985,769	56%
	$5,778,729	**$7,085,110**	**$7,714,011**	**$9,256,099**	**$6,652,749**	**$9,393,162**	**41%**
Expenses							
G&A	$125,187	$117,499	$230,690	$399,823	$256,976	$333,203	30%
Management Fees	$1,281,610	$1,519,888	$1,721,234	$2,316,858	$1,653,984	$2,373,608	44%
Loan Loss Provision	$210,175	$75,966	$296,090	$86,334	$2,733	$87,324	3095%
Interest on Loan Payable	$502,474	$264,778	$192,495	$626,570	$364,450	$1,628,955	347%
	$2,119,446	**$1,978,131**	**$2,440,509**	**$3,429,585**	**$2,278,143**	**$4,423,090**	**94%**
Net Income	**$3,659,283**	**$5,106,979**	**$5,273,502**	**$5,826,514**	**$4,374,606**	**$4,970,072**	**14%**
Dividends	$3,558,899	$4,923,754	$5,067,078	$5,611,535	$3,450,014	$5,057,440	47%
Net Asset Value	$0.99	$0.99	$0.99	$1.00	$1.00	$1.00	0%
Shares Outstanding	58,212,515	78,319,904	83,822,734	101,886,694	99,271,009	116,607,397	17%
Payout Ratio	97%	96%	96%	96%	79%	102%	

Source: Company / FRC

2021 yield was 6.0% (our forecast was 6.1%) vs 6.3% in 2020

2022 (9M) yield was 5.9%

% of Mortgage Receivable	2018	2019	2020	2021	2022 (9M)*
Interest Income	8.23%	8.73%	7.90%	7.09%	7.25%
Fees & penalties	0.92%	1.00%	0.85%	0.74%	0.85%
Interest Income + Others	**9.15%**	**9.74%**	**8.74%**	**7.84%**	**8.10%**
Less:					
Management Fee	-2.03%	-2.09%	-1.95%	-1.96%	-2.05%
G&A Expenses	-0.20%	-0.16%	-0.26%	-0.34%	-0.29%
Loan Loss Provision	-0.33%	-0.10%	-0.34%	-0.07%	-0.08%
Interest	-0.80%	-0.36%	-0.22%	-0.53%	-1.40%
Net	**5.79%**	**7.02%**	**5.98%**	**4.93%**	**4.29%**
Investors' Returns (% of Invested Capital)	**7.06%**	**7.21%**	**6.25%**	**6.04%**	**6.17%**
Actual Dividends	**7.17%**	**7.03%**	**6.28%**	**6.04%**	**5.85%**

*Annualized

Note that the above figures may be slightly different from the figures reported by Three Point due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.

Source: Company / FRC

FRC Projections and Rating

We are projecting a yield of 7.1% in 2023

Our forecasts are conservative as we are assuming a 100% increase in the allowance for loan losses over the next 12 months

Our estimate for the 2023 yield varies between 6.3% and 7.5%, using various YoY increases in the allowance for loan losses

Financial Summary	2018	2019	2020	2021	2022E	2023E
Mortgage Investments (net)	$69,167,136	$76,376,262	$100,066,946	$136,120,907	$175,000,000	$200,000,000
Debt as a % of Mortgage Outstanding	15%	0%	15%	25%	33%	33%
Revenues	$5,778,729	$7,085,110	$7,714,011	$9,256,099	$13,378,199	$18,468,750
Net Income	$3,659,283	$5,106,979	$5,273,502	$5,826,514	$6,708,765	$9,190,691
Net Asset Value	$0.99	$0.99	$0.99	$1.00	$1.00	$1.00
Investors' Returns (% of Invested Capital)	7.06%	7.21%	6.25%	6.04%	5.89%	7.09%

Allowance for Losses (X% Increase)	2023 Yield (FRC Est.)
0%	7.49%
50%	7.29%
100%	7.09%
200%	6.70%
300%	6.30%

Source: FRC

Although the portfolio's risk profile has increased, we were pleased with the MIC's ability to grow its portfolio, without materially comprising its lending mandate and key operating metrics, such as exposure to first mortgages, LTV, duration, and focus on single-family units. Yields are expected to increase from 5.9% this year, to 7.1% in 2023. **We are raising our overall rating from 2- to 2, while maintaining our risk rating at 2.** We believe low-duration funds, such as MICs, offer attractive opportunities in a rising interest rate environment.

FRC Rating	
Expected Yield (2023E)	7.1%
Rating	2
Risk	2

Source: Company/FRC

Risks

- Loans are short term and need to be sourced and replaced quickly
- Timely deployment of capital is crucial
- Lower housing prices will result in higher LTVs
- **Shareholders' principal is not guaranteed**, as the NAV per share could decrease from current levels (due to loan losses)
- The fund has the ability to use leverage, increasing exposure to negative events
- Although the MIC's primary focus is on first mortgages, it may invest in second mortgages that carry higher risk
- Annual redemptions may be limited to 10% of the total invested capital
- **Default rates can rise during recession**

APPENDIX

Income Statement	2019	2020	2021	2022E	2023E
Revenues					
Interest Income	$6,355,245	$6,967,749	$8,378,222	$12,055,935	$16,875,000
Fees & penalties	$729,865	$746,262	$877,877	$1,322,264	$1,593,750
	$7,085,110	**$7,714,011**	**$9,256,099**	**$13,378,199**	**$18,468,750**
Expenses					
G&A	$117,499	$230,690	$399,823	$447,011	$562,500
Management Fees	$1,519,888	$1,721,234	$2,316,858	$3,150,099	$3,750,000
Loan Loss Provision	$75,966	$296,090	$86,334	$256,173	$512,346
Interest on Loan Payable	$264,778	$192,495	$626,570	$2,816,151	$4,453,212
	$1,978,131	**$2,440,509**	**$3,429,585**	**$6,669,434**	**$9,278,059**
Net Income	**$5,106,979**	**$5,273,502**	**$5,826,514**	**$6,708,765**	**$9,190,691**
Dividends	$4,923,754	$5,067,078	$5,611,535	$6,440,414	$8,823,064
Net Asset Value	$0.99	$0.99	$1.00	$1.00	$1.00
Shares Outstanding	78,319,904	83,822,734	101,886,694	116,886,694	131,886,694
Payout Ratio	96%	96%	96%	96%	96%

Balance Sheet	2019	2020	2021	2022E	2023E
Assets					
Cash	2,239,159	-	-	0	0
Accounts Receivable		55,174	74,878	78,622	82,553
Prepaid Expense	16,722	31,292	36,849	38,691	40,626
Mortgage Investments (net)	76,376,262	100,066,946	136,120,907	175,000,000	200,000,000
Total Assets	**$78,632,143**	**$100,153,412**	**$136,232,634**	**$175,117,314**	**$200,123,179**
Liabilities					
Loan Payable and accruals					
LOC		$15,319,156	$33,054,302	$57,062,526	$66,637,817
Promissory Notes			$451,844		
A/P & Accrued Liabilities	$194,630	$255,983	307,195	322,555	338,682
Dividends payable	$736,725	$1,284,079	891,789	936,378	983,197
Total Liabilities	**$931,355**	**$16,859,218**	**$34,705,130**	**$58,321,459**	**$67,959,697**
Share capital	$77,403,629	$77,403,629	$100,808,942	$115,808,942	$130,808,942
Retained earnings	$297,159	$297,159	$718,562	$986,913	$1,354,540
Net Asset	$77,700,788	$83,294,194	$101,527,504	$116,795,855	$132,163,482
SE + Liabilities	**$78,632,143**	**$100,153,412**	**$136,232,634**	**$175,117,314**	**$200,123,179**
Debt to Capital	0%	16%	25%	33%	34%
Debt as a % of Mortgage Outstanding	0%	15%	25%	33%	33%

Cash Flow Statement	2021	2022E	2023E
Operating Activities			
Net Income	$5,826,514	$6,708,765	$9,190,691
Loan Loss Provision	$86,334		
	$5,912,848	$6,708,765	$9,190,691
Changes in non-cash Working Capital			
Accounts Receivable	-$19,704	-$3,744	-$3,931
Accounts Payable and Accured Liabilities	$51,212	$15,360	$16,128
Interest Payable		$44,589	$46,819
Prepaid Expenses	-$5,557	-$1,842	-$1,935
Cash from Operating Activities	**$5,938,799**	**$6,763,128**	**$9,247,772**
Investing Activities			
Net Puchase of Mortgage Investments	-$36,140,297	-$38,879,093	-$25,000,000
Cash from Investing Activities	**-$36,140,297**	**-$38,879,093**	**-$25,000,000**
Financing Activities			
Debt Proceeds	$451,844	$23,556,380	$9,575,291
Dividends	-$1,296,897	-$6,440,414	-$8,823,064
Equity	$13,311,405		
Cash Received on Subscription		$15,000,000	$15,000,000
Cash from Financing Activities	**$12,466,352**	**$32,115,966**	**$15,752,227**

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	31%	Risk - 2	10%
Rating - 3	46%	Risk - 3	39%
Rating - 4	8%	Risk - 4	33%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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