July 19, 2022

Zacks Small-Cap Research

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Harbor Custom Development (HCDI-NASDAQ)

INITIATION: Diversified and pioneering real estate development company entering high growth phase. The company operates in growing and dynamic regional markets in the U.S.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe HCDI could be worth $4.00 per share. An economic or real estate downturn may lower this value.

Current Price (07/18/22)	$1.40
Valuation	**$4.00**

OUTLOOK

Harbor Custom Development is a unique and diversified real estate development company involved in all aspects of the land development cycle including land acquisition, entitlements, permitting, development, construction of project infrastructure, single and multi-family vertical construction, marketing, sales, and management of various residential projects. The company operates in high growth market areas which currently includes locations in Washington, California, Texas, and Florida. The company went public in 2020 and has strong liquidity and access to the capital markets at this time.

SUMMARY DATA

52-Week High	**$3.80**
52-Week Low	**$1.29**
One-Year Return (%)	**-50.11**
Beta	**0.10**
Average Daily Volume (sh)	**1,405,416**
Shares Outstanding (mil)	**13.8**
Market Capitalization ($mil)	**$21.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**13**
Insider Ownership (%)	**21**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**14.0**
P/E using 2023 Estimate	**9.3**
Zacks Rank	**N/A**

Risk Level	**Above Avg.**
Type of Stock	**Small-Growth**
Industry	**Real Estate**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					$50.4A
2021	$13.8 A	$14.1 A	$18.0 A	$26.3 A	$72.4A
2022	$28.6 A	$36.1 E	$43.3 E	$36.4 E	$144.5E
2023	$32.9 E	$42.1 E	$42.1 E	$36.0 E	$153.1E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					-0.84 A
2021	-$0.12 A	$0.06 A	$0.17 A	$0.16 A	$0.41 A
2022	-$0.03 A	$0.03 E	$0.06 E	$0.04 E	$0.10 E
2023	$0.02 E	$0.06 E	$0.06 E	$0.02 E	$0.15 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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KEY POINTS



Source: HCDI Investor Presentation

- Founded in 2014, Harbor Custom Development Inc. (HCDI) is a real estate developer that is active in all phases of the land-to-home development cycle.
- The company's uncommon business model provides flexibility for the monetization of land and properties at various stages of development.
- Harbor acquires land, entitles and permits the property, develops the land with horizonal infrastructure, constructs home, condos, or apartment buildings, then monetizes the real estate assets at different stages to take advantage of prevailing market conditions.
- The company builds superior homes built with quality materials and exceptional craftsmanship, carefully designed floor plans, and are located with a 20-to-60 minute commute from a major metropolitan area. The homes are designed for energy-efficiency which reduces the homeowner's environmental impact and energy costs.
- The business model is flexible in that the company facilitates partnerships with regional companies that specialize in their local markets, including residential builders, general contractors, and land developers. By partnering with these specialists, the cost structure can be closely managed while all internal shared services are centralized at corporate offices in Washington state.
- The company is considered a thought leader in the industry and believed to be the first real estate company to accept cryptocurrencies for the purchase of a newly constructed home.
- Harbor is currently operating in four high growth markets in Washington, Texas, California and Florida and seeking opportunities in other high growth markets around the country.
- The company is led by an experienced management team with the CEO and founder having 37 years of experience in land acquisition and development, residential construction, and syndication of apartment properties.
- The company has adequate liquidity as of the end of the 1st quarter ending March 2022 with $22.3 million in unrestricted cash and equivalents and $13.0 million available on its revolving line of credit.
- The company went public in 2020, currently has a market capitalization of $20.4 million, and we expect the company to generate approximately $144 million in revenues in 2022.
- Based on our EPS and EBITDA estimates for 2022, the company is selling at 14x EPS and approximately 4x EBITDA. Our discounted cash flow derived value using multi-factor scenario analysis is approximately $4.00.

OVERVIEW

Harbor Custom Development is a unique and diversified real estate development company involved in all aspects of the land development cycle including land acquisition, entitlements, permitting, development, construction of project infrastructure, single and multi-family vertical construction, marketing, sales, and management of various residential projects. The company operates in high growth market areas which currently includes locations in Washington, California, Texas, and Florida. As a land developer and builder of single-family homes, luxury homes, townhomes, condominiums and apartments, the core business strategy is to acquire and develop land strategically based on an understanding of population growth patterns, entitlement restrictions, land use evaluation, infrastructure development, and geo-economic forces.

The company strives to acquire land with scenic views to develop and sell residential lots, new home communities, townhomes and multi-story condominium or apartment properties within a 20-to-60 minute commute of some of the country's fastest-growing metro employment corridors such as Austin, Texas or Tacoma, Washington.

The company is believed to be the first national land developer and home builder accepting payment in the form of cryptocurrency for their properties. This offering has been active since January 2022 and is done in partnership with BitPay. Harbor takes no volatility risk with regard to accepting cryptocurrency due to the arrangement and processes with BitPay.

Harbor's portfolio of land, lots, home plans, and finishing options, coupled with a historic low inventory of residential and multi-family housing in their principal geographic areas of operation provides an opportunity to increase revenue and overall market share. In addition to single-family residential projects, the company plans to build and sell townhomes, condominiums, and apartments and anticipate commencement of land development and construction on ten multi-family sites in Washington and Florida in 2022.

In an effort to manage the company's growth expectations, Harbor signed a lease in October 2021 for new office space in Tacoma, Washington which is now home to the company's headquarters. This office space is designed with a hybrid workforce in mind and takes into account employment trends that arose after the COVID-19 global pandemic, specifically the increase in hybrid or remote employees.

The company has grown rapidly since inception in 2015 with revenues increasing in each year of operations. For 2021, revenues were $72.4 million, an increase from $50.4 million in 2020. As of December 31, 2021, the backlog of fully executed contracts for the sale of developed residential lots and single-family homes was $13.7 million, which compares to $9.1 million on 12/31/2020.

The company's infrastructure development division constructs a diverse range of residential communities and improved lots in a cost-effective manner. Harbor owns and leases heavy equipment which is used to to build and develop residential subdivisions and multi-family communities. The equipment is primarily used for land clearing, site development, public and private road improvements, installation of wet utilities such as sewer and, water sewer lines in addition to construction of dry utility lines for power, gas, telephone, and cable service providers. The company is typically acts as a general contractor to construct single-family homes, townhomes, condominiums, and apartments utilizing a base of employees in conjunction with third-party subcontractors.

As of March 31, 2022, Harbor owns or controls 26 communities in Washington, Texas, California, and Florida, containing more than 2,700 lots in various stages of development. As of March 31, 2022, the company had a strong cash position and real estate leverage ratio that was not excessive. The liquidity position was strong at $35.2 million comprising $22.3 million in unrestricted cash and $13.0 million

available under a revolving line of credit. Real estate assets as of March 31, 2022 were valued at $129.1 million.

In 2022, we expect the company to generate approximately $144 million in revenues, a 99% increase from 2021. We also expect the company to generated adjusted EBITDA of approximately $17.6 million. We believe the cost of real estate assets being purchased to remain elevated in the near term. We are optimistic on the company's future growth plans and value HDCI stock at approximately $4.00 per share based on a DCF calculation and other methodologies.

STRATEGY

The company's operating and long-term strategy is driven by a number of factors and strategic goals.

The company's expertise allows for a diversified product strategy that enables them to better serve a wide range of buyers, adapt quickly to changing market conditions, and optimize performance and returns while strategically reducing overall portfolio risk. The company has the resources and skills to build to the surrounding communities' needs, including single family homes, townhomes, condominiums, and apartments. This flexible business model allows for the targeting of a wide and diverse range of customers including those looking at lower income housing options through condominiums and apartments, to those seeking to buy high-end luxury single-family homes.

The company stated goal is to provide a "positive and memorable" experience to homeowners and residents. Homes are built with quality materials and advanced craftsmanship, thoughtfully designed floor plans, and located with a 20-to-60 minute commute from major metropolitan areas. The company engineers the homes to be energy-efficient which reduces the homeowner's environmental impact and overall energy costs. The company's competitive advantage in the selling process focuses on the home's features, design, and premium locations with scenic views. New home-buyers' needs are met across multiple communities and price points by maintaining a substantial inventory of ready-to-build lots and designer home plans.

The significant appreciation in rental rates over the past year, combined with moderate capitalization rates and low inventory of rental housings in the company's target markets, have created a substantial opportunity to expand the company's product portfolio within the multi-family vertical space. A product agnostic building model provides the flexibility to accommodate the current rapidly changing market conditions.

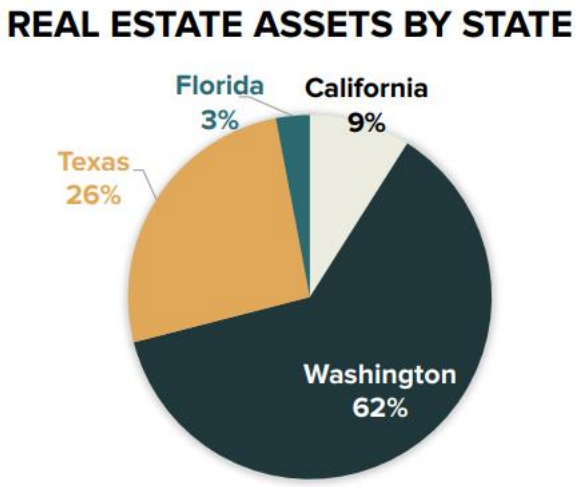
The company is very focused on cost control through a disciplined planning process. Detailed budgets are prepared for all cost categories. Budgets are closely monitored throughout the building process as budgets are revisited and update on an ongoing basis. Many development components are provided by subcontractors and significant efforts are made to assure that scopes of work are complete and satisfactory. Contract variances and change orders are closely scrutinized for appropriateness.

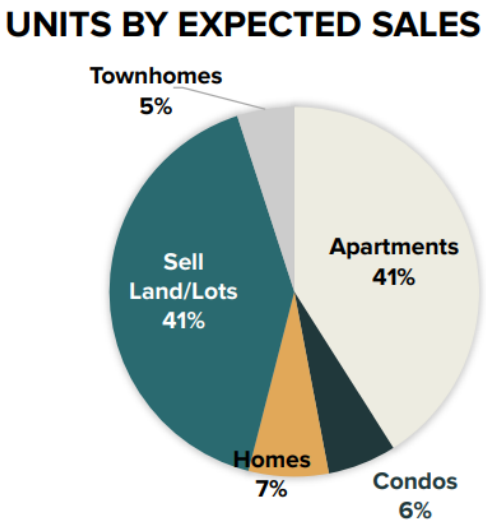
At the sale and closing of each home in a project, the estimated and final margins are compared and variances are identified and investigated to better control future project costs. The company believes their disciplined process of setting realistic budgets and expectations, monitoring, and evaluating them and making any necessary adjustments to correct deviations going forward enables us to prudently control costs.

The business model is flexible and facilitates partnering with companies that specialize in their local markets, including residential builders, general contractors, and land developers. By partnering with these specialists, the overall cost structure can be closely managed. Further, all internal shared services are centralized at corporate office in Washington state. Centralized functions include purchasing, accounting, finance, operations, legal, human resources, transaction coordination, and permitting. Centralizing these important functions keeps infrastructure costs under tight control.

REAL ESTATE PORTFOLIO

Harbor operates in four distinct high growth regions at his time, Washington, California, Florida and Texas. As of March 2022, the company owns or controls 26 communities in these states. The company engages in comprehensive research to identify prime markets to make real estate investments. Some of these factors include population growth, employment growth, a reasonable proximity to major shipping and rail transportation hubs, diversified employment base, and above average household income.





Source: HCDI Investor Presentation

Washington

The company owns or controls 2,492 units or lots in the state of which 40% are owned by the company and 60% are controlled. The controlled properties are those that are under contract to be purchased and the company is typically engaging in due diligence on these assets.

The real estate is diverse across most of the company's offerings and includes developing and selling lots, building and selling apartment complexes, building and selling townhomes, selling entitled land and building homes. The communities are principally based in the cities of Blaine, Belfair, Bremerton, Tacoma, Olympia, Port Orchard, Poulsbo and Yelm.



Source: HCDI Investor Presentation

In May 2022, the company sold three undeveloped multi-family land tracts in its Horizon at Semiahmoo subdivision in Blaine for $5.4 million. The total size of the sale was 15.44 acres for all three tracts. The purchaser, Noffke Landholdings, plans on building residential homes which will feature a mix of two-story triplexes and fourplexes, ranging from approximately 1,600 to 1,900 square feet, and will have views of Birch Bay and the Cascade Mountains.

As of March 31, 2022, the value of real estate assets in Washington state were carried on the balance sheet at $79,461,661 which is the cost incurred to date.





Source: HCDI Investor Presentation

California

Operations in this state are focused on developing and entitling residential lots to be sold to the public. The company is not building homes in this community. The Darkhorse community is located in the city of Auburn, a growing city located approximately 30 miles northeast of Sacramento, which is California's state capital. The company originally purchased 68 lots for this project and as of May 24, 2022, 63 remain unsold.



Source: HCDI Investor Presentation

As of March 31, 2022, the value of real estate assets in California were carried on the balance sheet at $11,094,219 which represents costs incurred to date.

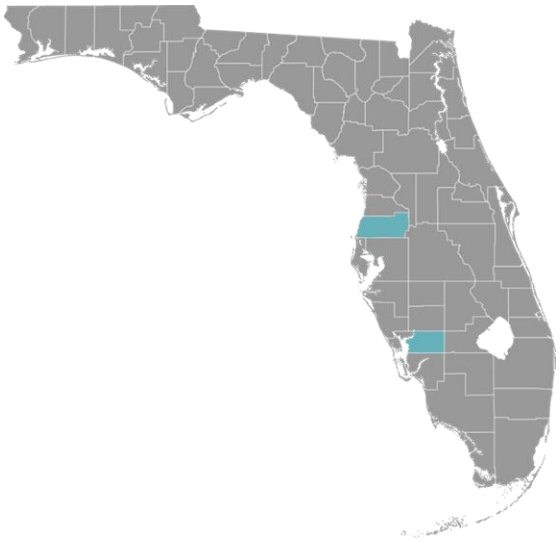




Source: HCDI Investor Presentation

Florida

The company is developing a waterfront condominium project in the city of Punta Gorda which is located 25 miles north of Fort Meyers and 100 miles south of Tampa. The property is under development at this time and when finished will contain 189 luxury condominiums. We estimate an 18-month build window but are unable to estimate a final completion date. We do expect the company to begin the process of selling condo units at some point in 2023.



Source: HCDI Investor Presentation

As of March 31, 2022, the value of this project in Florida was carried on the balance sheet at $5,009,706.







Source: HCDI Investor Presentation

Texas

The company operates in various communities in the Austin metropolitan area and is involved in all aspects of the residential real estate life cycle including building and selling residential homes. The original project purchased 242 lots on which the company will develop the land and construct homes. The company will sell both lots and completed homes. Of the 242 original lots or homes, 209 remain unsold as of March 31, 2022.

Cities in which the company operates development projects include Austin, Driftwood, Horseshoe Bay, Dripping Springs, and Georgetown. The company has indicated that luxury homes in this region started closing during the 1st quarter with sales prices of approximately $400 per square foot.



Source: HCDI Investor Presentation

This is region is known as the Hill Country of Texas and remains one of the fastest growing metro areas in the nation. It is considered one of the most beautiful regions in Texas with its rolling hills, spring-fed rivers, and many lakes. Many of Harbor's communities are close to prestigious golf courses, prominent wineries, and unique shopping. The Hill Country is home to the state's capital, Austin.

Harbor closed on the sale of its first two single-family homes in the Driftwood community of La Ventana in March 2022. The company followed that sale with nine additional homes under contract that are expected to close later this year. There are currently 23 other lots in various stages of construction throughout the Hill Country and nearby Horseshoe Bay.

A detailed portfolio breakdown of the original lots includes the following communities in the Austin MSA:

- Bunker Ranch, Dripping Springs (4 lots)
- Cimarron Hills, Georgetown (5 lots)
- Creek's Edge, Austin (2 lots)
- Flintrock Falls, Austin (1 lot)
- La Ventana, Driftwood (9 lots)
- Siena Creek, Horseshoe Bay (35 lots)
- Stone House, Horseshoe Bay (68 lots)
- Summit Rock, Horseshoe Bay (108 lots)
- The Trails of Horseshoe Bay, Horseshoe Bay (10 lots)

Harbor's luxury homes in this region range from 2,200 to 4,200 square feet, with prices ranging from $900,000 to more than $2,000,000. Most homes feature four-five bedrooms, three-four bathrooms, and two-three car garages. The design encompasses styles of that region with contemporary modern farmhouse elements reminiscent of Hill Country, such as vaulted ceilings, accent beams, stone and natural wood tones, modern light fixtures, barn doors, metal or tile roofing, quartz countertops, and high-end appliances.

As of March 31, 2022, the book value of the real estate assets associated with these projects in Texas is carried on the balance sheet at $33,503,863, or the cost incurred to date.





Source: HCDI Investor Presentation

CRYPTOCURRENCY PURCHASES

Harbor is believed to be one of the first real estate companies to accept cryptocurrencies as a form a payment when purchasing a home. Real estate homebuyers and investors can use Bitcoin and many other digital currencies to purchase the company's properties in Washington, California, Texas, and Florida. In January 2022, the company formed a partnership with BitPay, one of the early innovators in the cryptocurrency space, in order to facilitate these transactions.

Some of the advantages of buying real estate with cryptocurrencies include converting a volatile asset class to a more stable, long-term asset such as lots or homes. In addition, cryptocurrency transfers avoid many of the hurdles and paperwork associated with a traditional mortgage-funded home sale that can often be a slow and tedious process. Lastly, cryptocurrency purchasers are typically not subject to traditional banking fees associated with a fiat currency transaction.

The process is not exactly like a typical wallet-to-wallet cryptocurrency transaction, it more resembles a traditional cash real estate transaction. A buyer will work with Harbor's real estate broker to write a purchase and sale agreement based in US dollars. Once the agreement has been mutually accepted, the contract will be sent to Harbor's escrow partner where the process for converting the digital currency funds into dollars beings in conjunction with BitPay. Once the transfer of funds is complete, the escrow company confirms the recording, the funds are wired to the seller in dollars, and the property and title are transferred to the buyer.

FINANCIAL REVIEW

Harbor has been growing rapidly in recent years. Revenues in 2021 increased to $72.4 million from $50.4 million in 2020, an increase of 44%. Gross profit was $21.9 million compared to only $2.0 million in the prior year, which was a gross margin of 30.3% last year. The increase in gross margin was largely due to the sale of entitled land with a margin of 43.3% and the sale of developed lots with a 40.8% margin. The company generated adjusted EBITDA of $14.9 million in 2021 compared to under $1.0 million in 2020.

The company invested $98.5 million in real estate assets in 2021 which shows up as a working capital investment under Cash Flow from Operations in the financial statements. These purchases were financed with a combination of construction loans, proceeds from common and preferred stock offerings, and cash on hand. For 2021, the company showed a use of Operating Cash Flow of $86.4 million due to these real estate investments.

The company's leverage at year-end was not excessive with unrestricted cash of $25.6 million, real assets of $122.1 million, total debt of $55.1 million, and outstanding preferred stock of $66.5 million.

The company's strong growth continued in the 1st quarter of 2022 with sales of $28.6 million compared to $13.9 million in the prior period. Gross profit was $6.1 million which was a gross margin of 21.2%. The company was profitable showing net income of $1.65 million, but shows a net loss attributed to common shareholders ($366,700), or an EPS loss of ($0.03) due to the payment of just over $2 million in preferred dividends. Adjusted EBITDA came in at $3.9 million (adjusted for non-recurring items and stock compensation).

The 1st quarter showed an investment in real estate of $6.3 million which created a use of Operating Cash Flow totaling $9.4 million. This operating cash flow loss, plus capital expenditures of $1.0 million, was largely financed by proceeds from the company's revolving line of credit.

At quarter-end, Harbor had $22.3 million in unrestricted cash, $64.8 million in total debt, and stockholders equity of $99.6 million. With revolving line of credit availability of $13 million, the company's liquidity position was approximately $35 million. The real estate leverage ratio was 37.2% based on construction loans of $48 million and real estate assets of $129.1 million. The real estate value consists of $55.4 million in land held for development, $58.3 million in construction in progress, and $15.4 million in real estate held for sale.

In March 2022, the company entered into a senior secured revolving credit facility for $25.0 million. The credit facility has a 2-year term, with a maturity date of March 7, 2024. The unpaid principal balance carries a fluctuating rate of interest per year equal to the daily simple secured overnight financing rate (SOFR) plus 4.75% (approximately 6.25% recently). The credit facility is used to fund general working capital needs which includes real estate investments.

The company further breaks down revenues and gross profit by four reportable segments:
1) Homes, 2) Developed lots, 3) Entitled land, and 4) Fee build.

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenue by segment		
Homes	$ 17,654,600	$ 37,276,400
Developed lots	26,825,500	12,538,000
Entitled land	20,625,000	—
Fee Build	6,802,900	—
Other	444,700	582,600
	$ 72,352,700	$ 50,397,000
Gross profit (loss) by segment		
Homes	$ 2,486,100	$ 2,136,400
Developed lots	10,940,200	(715,800)
Entitled land	8,935,900	—
Fee Build	811,600	—
Other	(1,240,500)	582,600
	$ 21,933,300	$ 2,003,200

Source: HCDI SEC Filings

For the 2022 1st quarter, segment breakdown was as follows:

	Three Months Ended March 31,	
	2022	2021
Revenue by segment		
Homes	$ 12,274,500	$ 6,814,200
Developed lots	9,080,000	7,000,000
Entitled land	4,480,000	—
Fee Build	2,713,900	—
Other	32,600	60,000
	$ 28,581,000	$ 13,874,200
Gross profit (loss) by segment		
Homes	$ 1,723,000	$ 753,400
Developed lots	1,016,600	155,700
Entitled land	3,767,100	—
Fee Build	149,100	—
Other	(601,100)	(301,900)
	$ 6,054,700	$ 607,200

Source: HCDI SEC Filings

The highest margin category based on segment gross margins has traditionally been entitled land followed by developed lots. Going the forward, we expect that trend to continue, although not likely at past levels as gross margins are dependent on project specifics and other factors.

In May 2022, the company authorized a stock repurchase plan of up to $5.0 million which may be used to repurchase shares outstanding common stock, warrants to purchase shares of common stock, and shares of preferred stock over the next 12 months. Harbor CEO Sterling Griffin stated: *"The Board's decision to authorize a second stock repurchase plan demonstrates their confidence in management's ability to execute on Harbor's stated business objectives and the positive outlook for the company's growth over the long term."*

INDUSTRY POSITION

We believe Harbor has one of the most versatile and diverse real estate operating models among its competitors in terms of being able to operate in substantially all areas of the real estate lifecycle with the ability to generate revenues at very stages in the process based on prevailing market conditions.

Harbor Outshines Peers in Versatility

COMPANY	SYMBOL	MARKET CAP*	DEVELOPER/ BUILDER	ACQUIRES LAND	ENTITLES LAND	CONSTRUCTS INFRASTRUCTURE	BUILDS HOMES	DEVELOPS CONDOS	DEVELOPS APARTMENTS
Forestar Group	FOR	$822.7M	Developer	✓	✓	✓			
Howard Hughes	HHC	$4.5B	Builder & Developer	✓	✓		✓	✓	✓
Taylor Morrison Home	TMHC	$3.5B	Builder & Developer	✓	✓		✓		
Stratus Properties	STRS	$355.4M	Developer	✓	✓		✓	✓	
Green Brick Partners	GRBK	$1.2B	Builder & Developer	✓	✓		✓		
Century Communities	CCS	$1.8B	Builder	✓	✓		✓		
M/I Homes	MHO	$1.3B	Builder	✓	✓		✓		
Hovnanian Enterprises	HOV	$293.8M	Builder	✓	✓		✓	✓	
Beazer Homes USA	BZH	$505.2M	Builder	✓	✓	✓	✓	✓	
HARBOR Custom Development, Inc.	HCDI	$30.3M	Builder & Developer	✓	✓	✓	✓	✓	✓

*Market Cap calculated at close of market on May 17, 2022 (rounded).
*Data presented in this table was compiled by the Harbor CustomDevelopment Inc. teamthrough an analysis of each company's w ebsite and other public communications.

HARBOR CUSTOM DEVELOPMENT | INVESTOR DECK 19

Source: HCDI Investor Presentation

IPO AND CAPITAL RAISES

In September 2020, the company sold 2,031,705 shares of common stock in its initial public offering (IPO) at a price of $6.00 per share. Net proceeds to the company were approximately $10.8 million. From the period of the offering until the end of 2020, the company used the proceeds for land purchases and development totaling $3.3 million, the purchase of land from Olympic Views for a total of $3.4 million, $1.1 million in debt reduction and $0.89 million in operating expenses.

In January 2021, the company closed on a follow-on offering by selling 9,200,000 shares of common stock at a price of $3.00 per share. Gross proceeds were approximately $27.6 million, and the funds were used for additional land acquisition, construction, development costs, and working capital.

In June 2021, the company closed on the public offering of 1,200,000 shares of 8.0% Series A Cumulative Convertible Preferred Stock and 4,140,000 warrants to purchase one share of common stock at an exercise price of $5.00. The company received gross proceeds of $30.0 million from the combined offering which was also used for land acquisition, construction, development, debt reduction, and working capital. In October 2021, the company offered an additional 2,400,000 shares of 8.0% Series A Cumulative Convertible Preferred Stock and 13,800,000 warrants to purchase one share of common stock. Gross proceeds from this transaction were approximately $36.0 million and the proceeds were used for land acquisition, construction, development, and working capital.

MANAGEMENT TEAM

Sterling Griffin
Chief Executive Officer

Mr. Griffin began his career at James S. Griffin Co. in January 1985 as a principal and Vice President of Marketing, where he focused on the syndication of apartment properties, raw land, and retirement home facilities in the Puget Sound region of Washington State. Beginning in June 1989, Mr. Griffin co-founded several businesses over a 12-year period, while actively self-employed as a real estate broker, investor, and developer. In January 2012, he became the Chief Operating Officer for Hudson Homes LLC, a Washington-based residential builder and developer focused on construction of upscale homes in Pierce and Kitsap Counties, where he was responsible for land acquisition, construction, marketing, and sales. In 2014, Mr. Griffin founded the Company. Mr. Griffin is a lifelong Washington resident who graduated from Colorado College with a Bachelor of Arts degree in History in 1984.

Jeff Habersetzer
Chief Operating Officer

Mr. Habersetzer is the Chief Operating Officer and also serves as General Counsel and Corporate Secretary. Mr. Habersetzer has vast legal experience forming and managing corporations, business contracts, litigation, disputes, and representing lenders in real estate closings and debt agreements. Mr. Habersetzer has served as General Counsel since 2019, playing an integral role in four successful capital raises for the company, as well as quarterly and annual SEC reports. Mr. Habersetzer holds a Bachelor's degree from the University of Washington and both a law degree and MBA from Seattle University.

Lance Brown
Chief Financial Officer

Mr. Brown serves as Chief Financial Officer. Prior to joining Harbor, Mr. Brown was Vice President and Chief Accounting Officer at Select Interior Concepts where he was responsible for Finance, Accounting, SEC Reporting, and Tax. Mr. Brown developed the public company accounting and reporting infrastructure, was extensively involved in the diligence and integration for multiple completed acquisitions, assisted with divestitures, and provided support for the sale and go private transaction of SIC. Mr. Brown started his career in public accounting at PricewaterhouseCoopers. He holds a Bachelor of Business Administration degree from the University of Georgia and a Master of Accountancy from Auburn University. Mr. Brown is a Certified Public Accountant.

RISK FACTORS

- The housing market may not continue to grow at the same rate as it has in the past, or may decline, and any decline in the company's markets or for the homebuilding industry in general may materially and adversely affect the business and financial condition. Other areas of unpredictability include regional difficulties, mortgage rates, lands costs, construction costs, consumer lending, reduced consumer income, tighter bank requirements, and the effect of pandemics.

- Substantially all of the company's home buying customers finance their home purchases through lenders that provide mortgage financing. Mortgage interest rates have generally trended downward for the last several decades and reached historic lows in 2020 and 2021, which made the homes the company sold more affordable. Starting in the 1st quarter of 2022, mortgage lending rates began to rise as the U.S. Federal Reserve began raising short-term rates to fight inflation. Higher mortgage rates may negatively affect the company's financial results.

- Real estate is an illiquid asset and typically cannot be sold quickly. The capitalization rates at which properties may be sold could be higher than historic rates, thereby reducing the potential proceeds from sale. Consequently, the company may not be able to change real estate or land inventory promptly in response to changes in economic or other conditions. These factors could adversely affect the company's core business, financial condition, and operating results.

- Inflation could adversely affect the real estate business and the company's financial results by increasing the costs of land, raw materials and labor needed to operate the business. If the markets in which the company operates have an oversupply of homes, relative to demand, the company may be unable to offset any such increases in costs with corresponding higher sales prices for home sales.

- The company operates in a very competitive environment that is characterized by competition from a large number of other homebuilders and land developers in each geographical market in which the company has operations. There are relatively low barriers to entry into the homebuilding business and the company competes with numerous large national and regional homebuilding companies as well as smaller local homebuilders and land developers.

- The company's operations are located in many areas that are subject to natural disasters, severe weather or adverse geological conditions such as hurricanes, tornadoes, droughts, floods, brushfires, wildfires, prolonged periods of precipitation, landslides, soil subsidence, and earthquakes. The occurrence of any of these events could damage land parcels and projects, cause delays in completion of certain projects, or reduce consumer demand for housing or land.

- The homebuilding and land development industry is capital-intensive and requires significant up-front expenditures to acquire land parcels and begin development. If internally generated funds are not sufficient, the company would need to seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financings and/or securities offerings. These sources of capital may not be available during times of economic distress.

INSIDER TRADING AND OWNERSHIP

Name and Address of Beneficial Owner(9)	Amount and Nature of Beneficial Ownership: Number of Shares of Common Stock	Percentage of Class
Directors and Named Executive Officers:		
Sterling Griffin, Chief Executive Officer, President, and Director	2,795,657(1)	21.0%
Jeff Habersetzer, Chief Operating Officer, General Counsel, and Secretary	100,575(2)	*
Lance Brown, Chief Financial Officer	27,003	*
Richard Schmidtke, Director	168,374(3)	1.3%
Larry Swets, Director	117,950(4)	*
Dennis Wong, Director	148,166(5)	1.1%
Wally Walker, Director	83,200(6)	*
Karen Bryant, Director	7,500(7)	*
Chris Corr, Director	17,460(8)	*
All directors and executive officers as a group (nine persons)	3,465,885	25.7%

*Less than 1.0%
(1) Includes options to purchase 87,568 shares of common stock and 2,500 restricted stock units.
(2) Includes options to purchase 68,925 shares of common stock.
(3) Includes options to purchase 20,000 shares of our common stock and 2,500 restricted stock units.
(4) Includes options to purchase 53,784 shares of our common stock and 2,500 restricted stock units.
(5) Includes options to purchase 20,000 shares of our common stock and 2,500 restricted stock units.
(6) Includes options to purchase 20,000 shares of our common stock and 2,500 restricted stock units.
(7) Includes 2,500 restricted stock units.
(8) Includes 2,500 restricted stock units.
(9) Unless otherwise indicated, the address of each beneficial owner is 11505 Burnham Drive, Suite 301, Gig Harbor, Washington 98332.
Source: HCDI SEC Filings



Source: HCDI Investor Presentation

VALUATION

We believe Harbor can continue to generate profitable growth due to its flexible business model and ability to generate revenues at various stages in the real estate development process based on prevailing market conditions. In May 2022, the company reiterated its previously announced guidance for $160 million in revenues and $20 million in adjusted EBITDA. In April 2022, the company announced it has listed for sale, six Western Washington apartment projects. These six projects combined has 734 individual units and the combined listing value is $278 million.

Utilizing a Discounted Cash Flow process, we arrive at three different values.

Bull Case – The company is able to achieve its stated goals of $160 million in revenues and $20 million in adjusted EBITDA in 2022. Under this scenario, we assume long-term EBITDA growth rates above national GDP growth rates due to the company's focus on regional markets that are typically growing faster than national averages. This creates a derived value of $5.08 and we apply a probability factor of 50.0%.

Base Case – The company does not achieve its 2022 financial goals but does generate revenues at roughly twice the levels that were achieved in 2021. Under this scenario, we assume long-term EBITDA growth rates are approximately in line with national GDP growth rates. This creates a derived value of $4.22 and we apply a probability factor of 30.0%.

Bear Case – The company faces a recessionary environment within the next five years and average annual revenue growth over that five-year period is roughly flat. Margins do not improve over that period which creates a derived value that is roughly equivalent to todays stock price of $1.42 and we apply a probably factor of 20.0%.

The discount rate used in these DCF scenarios is 12.0% which is our estimate of the company's weighted average cost of capital (WACC). The weighted average price from these scenarios is approximately **$4.00**.

On an Enterprise Value / EBITDA valuation, we believe the company is trading at approximately 4.1x 2022 estimates of EBITDA. This is based on a market cap of $18.2 million, total outstanding debt of $64.8 million as of 3/31/22, and 2022 EBITDA estimate in the range of $19-$20 million.

On a Price/ Book Value basis, HCDI is selling at 18.3% of stockholders equity which uses total common shares outstanding of 13.2 million. On a more conservative basis utilizing fully diluted shares which includes warrants and preferred stock and totals 36.1 million shares (as of 3/31/22), the stock is trading at approximately 50% of book value. The home builder industry Price/Book ratio has declined year-to-date due to higher interest rates and recessionary fears, yet still trades at an average Price/Book value of approximately 1.0x currently. We believe even with volatile earnings that may be associated with real estate development companies, the company can continue to add earnings to shareholders equity and increase book value.

SUMMARY

The recent increase in mortgage rates may affect the company negatively to some degree, however we feel Harbor may be well positioned to manage a rising rate environment. In certain markets such as Texas, there exists a very strong supply/demand imbalance which could support home sales going forward. In addition, many buyers in Texas markets come from high real estate value states such as California in which cash purchases are common. Further, if a high mortgage rate environment does eventually affect home or lot sales, this may drive individuals and families to rental situations in which the company also participates through multi-family projects in certain regions in which the company operates.

From a longer-term perspective, the home ownership sector does have positive tailwinds due to the demographics of the millennial population. Aging millennials are expected to drive home ownership rates higher from the 30% range for those in their late 20's to over 60% once they reach the age of 30 or above.

In addition, there still appears to be a shortage of homes in the country based on current needs and population growth. Mark Zandi, chief economist at Moody's Analytics, estimates there could be a shortfall of close to 1.6 million homes. The biggest culprit in the recent phenomenon of rising home prices is the historic housing shortage.

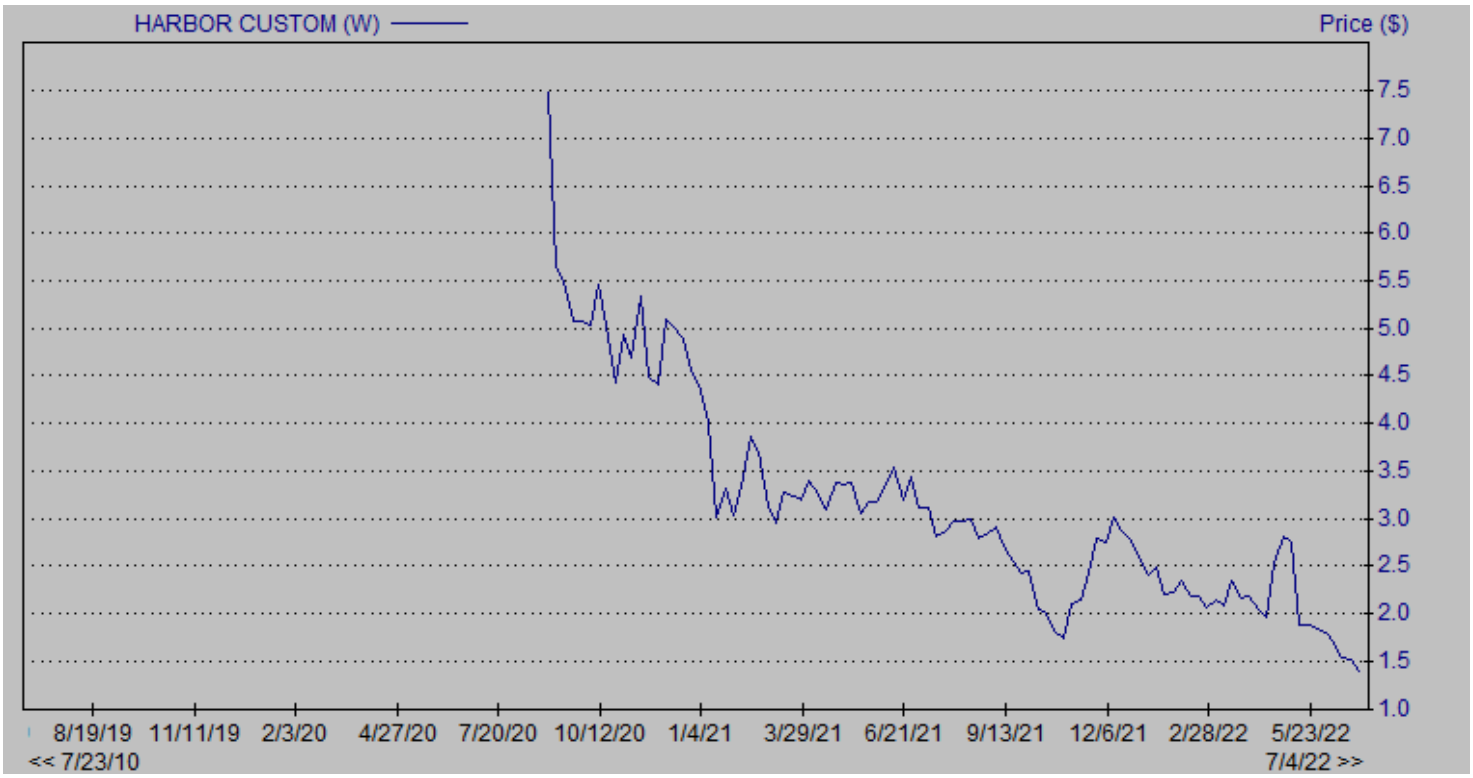
Currently, investor sentiment remains very low on homebuilder stocks due to rising mortgage rates and investor fears about a potential recession in 2022 or 2023. Homebuilder stocks tend to underperform the market during periods of rising rates and ahead of recessions, however this effect may already be priced in for real estate related equites.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Harbor Custom Development
Income Statement and Balance Sheet
(Dollars in millions, except EPS data)

	12/20	12/21	12/22E	12/23E	12/24E	12/25E
Sales	$50.4	$72.4	$144.4	$153.1	$159.2	$165.6
Cost of Goods Sold	47.8	49.3	111.5	118.2	122.1	126.2
SG&A	5.5	11.1	15.2	15.6	15.9	16.2
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Interest and other	0.2	0.2	0.3	0.3	0.4	0.5
Net Income	-4.0	6.1	4.2	5.4	6.8	8.4
Reported EPS	-0.89	0.41	0.10	0.15	0.19	0.23
Cash & Marketable Securities	$2.4	$25.6	$31.2	$37.4	$44.9	$54.0
Current Assets	4.1	34.2	48.5	57.0	67.2	79.4
Current Liabilities	3.6	11.4	22.7	26.0	29.7	34.0
Long Term Debt	21.8	54.6	N/A	N/A	N/A	N/A
Shareholder's Equity	6.4	99.7	104.0	109.4	116.3	124.6

HISTORICAL STOCK PRICE



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