

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): May 15, 2023

SACHEM CAPITAL CORP.

(Exact name of Registrant as specified in its charter)

New York
(State or other jurisdiction
of incorporation)

001-37997
(Commission
File Number)

81-3467779
(IRS Employer
Identification No.)

568 East Main Street, Branford, Connecticut
(Address of Principal Executive Office)

06405
(Zip Code)

Registrant's telephone number, including area code (203) 433-4736

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
Common Shares, par value \$.001 per share	SACH	NYSE American LLC
7.125% Notes due 2024	SCCB	NYSE American LLC
6.875% Notes due 2024	SACC	NYSE American LLC
7.75% notes due 2025	SCCC	NYSE American LLC
6.00% notes due 2026	SCCD	NYSE American LLC
6.00% notes due 2027	SCCE	NYSE American LLC
7.125% notes due 2027	SCCF	NYSE American LLC
8.00% notes due 2027	SCCG	NYSE American LLC
7.75% Series A Cumulative Redeemable Preferred Stock, Liquidation Preference \$25.00 per share	SACHPRA	NYSE American LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On May 15, 2023, Sachem Capital Corp. (the "Company") issued a press release, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference, announcing its financial results for the three month period ended March 31, 2023.

Item 7.01. Regulation FD Disclosure.

On May 15, 2023, the Company hosted a conference call for investors to discuss its financial condition and operating results for the three month period ended March 31, 2023. A transcript of the call is attached hereto as Exhibit 99.2.

The information furnished pursuant to this Item 7.01 shall not be deemed to constitute an admission that such information is required to be furnished pursuant to Regulation FD or that such information or exhibits contain material information that is not otherwise publicly available. In addition, the Company does not assume any

obligation to update such information in the future.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
<u>99.1</u>	<u>Press release, dated May 15, 2023, announcing financial results for the three month period ended March 31, 2023.</u>
<u>99.2</u>	<u>Transcript of investor conference call held on May 15, 2023.</u>

In accordance with General Instruction B.2 of Form 8-K, the information in this Current Report on Form 8-K, furnished pursuant to Items 2.02 and 7.01, including Exhibits 99.1 and 99.2, respectively, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

* * * * *

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Sachem Capital Corp.

Dated: May 16, 2023

By: /s/John L. Villano
John L. Villano, CPA
President and Chief Executive Officer

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Exhibit Index

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Sachem Capital Revenue Increases 42.8% to \$14.7 Million for the First Quarter 2023

BRANFORD, Conn., May 15, 2023 (GLOBE NEWSWIRE) -- Sachem Capital Corp. (NYSE American: SACH) announced its financial results for the quarter ended March 31, 2023. The company will host a conference call today, Monday, May 15, 2023 at 8:00 a.m. Eastern Daylight Time to discuss in greater detail its financial performance and operating results for the first quarter ended March 31, 2023.

John Villano, CPA, the company's Chief Executive Officer, stated: "Our loan portfolio continues to perform well in a very challenging macroeconomic environment. While we are mindful of the opportunities that arise in times of market dislocations, we continue to take a prudent approach to minimize risk and insulate our loan portfolio. As we move ahead our experienced management team will be very selective in deploying our capital while pursuing new opportunities in the current environment. As the lending environment stabilizes, we will once again expand our services and capabilities in a judicious manner. As is our custom, providing our shareholders with attractive, sustainable risk-adjusted returns is our first priority."

Results of operations for quarter ended March 31, 2023

Total revenue grew 42.8% to approximately \$14.7 million compared to approximately \$10.3 million for the quarter ended March 31, 2022. The growth in revenue was due primarily to an increase in lending operations. For the first quarter 2023, interest income was approximately \$11.0 million compared to approximately \$8.5 million for the 2022 period.

Total operating costs and expenses for the quarter ended March 31, 2023 were approximately \$9.6 million compared to approximately \$5.9 million for 2022 period. Given the company's ongoing investments in its growth strategies, the largest contributor to this increase was interest and amortization of deferred financing costs, which were approximately \$6.9 million in the quarter compared to approximately \$3.9 million in 2022 period. The balance of the changes was attributable to (i) approximately \$785,000 of compensation (including stock-based compensation), fees and taxes and (ii) approximately \$266,000 general and administrative expenses.

Net income attributable to common shareholders for the three months ended March 31, 2023 was approximately \$4.2 million, or \$0.10 per share, compared to approximately \$3.4 million, or \$0.10 per share for the three months ended March 31, 2022.

Balance Sheet

Total assets at March 31, 2023 were approximately \$597.0 million compared to approximately \$565.7 million at December 31, 2022, an increase of approximately \$31.3 million, or 5.5%. The change was due primarily to the growth in the company's mortgage loan portfolio and in its investment securities holdings, which increased approximately \$15.8 million and \$11.3 million, respectively. Total liabilities at March 31, 2023 were approximately \$368.0 million compared to approximately \$348.0 million at December 31, 2022.

Total indebtedness at quarter end included approximately \$280.6 million of notes payable (net of approximately \$7.8 million of deferred financing costs), approximately \$13.7 million balance on the margin loan account with Wells Fargo Advisors, approximately \$54.1 million outstanding on the master repurchase financing facility with an affiliate of Churchill Real Estate and approximately \$1.7 million outstanding on the mortgage loan with New Haven Bank.

Total shareholders' equity at March 31, 2023 rose approximately \$11.3 million to \$229.0 million compared to approximately \$217.7 million at December 31, 2022. The change was primarily due to additional paid-in capital of approximately \$9.5 million.

Dividends

Subsequent to quarter end, on April 24, 2023, the company paid a quarterly dividend of \$0.13 per share to shareholders of record as of the close of trading on the NYSE American on April 17, 2023.

The company currently operates and qualifies as a Real Estate Investment Trust (REIT) for federal income taxes and intends to continue to qualify and operate as a REIT. Under federal income tax rules, a REIT is required to distribute a minimum of 90% of taxable income each year to its shareholders and the company intends to comply with this requirement for the current year.

Investor Conference Call

The company will host a conference call today Monday, May 15, 2023 at 8:00 a.m. Eastern Time, to discuss in greater detail its financial results for the quarter ended March 31, 2023.

Interested parties can access the conference call via telephone by dialing toll free 1-888-886-7786 for U.S. callers or +1 416-764-8658 for international callers. A webcast of the call may be accessed on Sachem's website at <https://ir.sachemcapitalcorp.com/ir-calendar>.

The webcast will also be archived on the company's website and a telephone replay of the call will be available through Monday, May 29, 2023 and can be accessed by dialing 1-844-512-2921 for U.S. callers or +1 412-317-6671 for international callers and by entering replay passcode: 62285433.

About Sachem Capital Corp

Sachem Capital Corp. is a mortgage REIT that specializes in originating, underwriting, funding, servicing, and managing a portfolio of loans secured by first mortgages on real property. It offers short-term (i.e., three years or less) secured, nonbanking loan to real estate investors to fund their acquisition, renovation, development, rehabilitation, or improvement of properties. The company's primary underwriting criteria is a conservative loan to value ratio. The properties securing the loans are generally classified as residential or commercial real estate and, typically, are held for resale or investment. Each loan is secured by a first mortgage lien on real estate and is personally guaranteed by the principal(s) of the borrower. The company will also make opportunistic real estate purchases apart from its lending activities.

Forward Looking Statements

This press release may contain forward-looking statements. All statements other than statements of historical facts contained in this press release, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words "anticipate," "estimate," "expect," "project," "plan," "seek," "intend," "believe," "may," "might," "will," "should," "could," "likely," "continue," "design," and the negative of such terms and other words and terms of similar expressions are intended to identify forward-looking statements. These forward-looking statements are based primarily on

management's current expectations and projections about future events and trends that management believes may affect the company's financial condition, results of operations, strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to several risks, uncertainties and assumptions as described in the Annual Report on Form 10-K for 2022 to be filed with the U.S. Securities and Exchange Commission on March 31, 2023. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this press release may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Although the company believes that the expectations reflected in the forward-looking statements are reasonable, the company cannot guarantee future results, level of activity, performance, or achievements. In addition, neither the company nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. The company disclaims any duty to update any of these forward-looking statements. All forward-looking statements attributable to the company are expressly qualified in their entirety by these cautionary statements as well as others made in this press release. You should evaluate all forward-looking statements made by the company in the context of these risks and uncertainties.

Investor & Media Contact:

Email: investors@sachemcapitalcorp.com

**SACHEM CAPITAL CORP.
CONSOLIDATED BALANCE SHEETS
(unaudited)**

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Assets		
Cash and cash equivalents	\$ 20,332,516	\$ 23,713,097
Investment securities	35,837,202	24,576,462
Mortgages receivable, net	476,469,464	460,633,268
Interest and fees receivable, net	6,645,909	6,309,845
Due from borrowers, net	6,037,966	5,276,967
Real estate owned	6,138,912	5,216,149
Investments in partnerships	35,322,234	30,831,180
Property and equipment, net	4,792,472	4,121,721
Other assets	5,420,367	4,983,173
Total assets	<u>\$ 596,997,042</u>	<u>\$ 565,661,862</u>

Liabilities and Shareholders' Equity

Liabilities:		
Notes payable (net of deferred financing costs of \$7,793,640 and \$8,352,597)	\$ 280,608,110	\$ 280,049,153
Repurchase facility	54,055,815	42,533,466
Mortgage payable	1,660,000	750,000
Line of credit	13,673,930	3,587,894
Accrued dividends payable	—	5,342,160
Accounts payable and accrued liabilities	2,007,450	1,439,219
Advances from borrowers	11,314,622	9,892,164
Deferred revenue	4,681,060	4,360,452
Total liabilities	<u>368,000,987</u>	<u>347,954,508</u>

Commitments and Contingencies

Shareholders' Equity:

Preferred shares - \$0.001 par value; 5,000,000 shares authorized; 2,903,000 shares designated as Series A Preferred Stock; 1,909,187 and 1,903,000 shares of Series A Preferred Stock issued and outstanding at March 31, 2023 and December 31, 2022, respectively	1,909	1,903
Common shares - \$0.001 par value; 200,000,000 shares authorized; 43,756,724 and 41,093,536 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	43,757	41,094
Paid-in capital	235,709,499	226,220,990
Accumulated other comprehensive loss	(469,853)	(561,490)
Accumulated deficit	(6,289,257)	(7,995,143)
Total shareholders' equity	<u>228,996,055</u>	<u>217,707,354</u>
Total liabilities and shareholders' equity	<u>\$ 596,997,042</u>	<u>\$ 565,661,862</u>

**SACHEM CAPITAL CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)**

	Three Months Ended	
	March 31,	
	<u>2023</u>	<u>2022</u>
Revenue:		
Interest income from loans	\$ 10,983,326	\$ 8,511,375
Investment gain, net	274,796	117,337
Income from partnership investments	549,723	272,488
Origination and modification fees, net	1,475,920	1,843,841
Fee and other income	707,605	608,564
Unrealized gain (loss) on investment securities	716,389	(1,052,230)
Total revenue	<u>14,707,759</u>	<u>10,301,375</u>
Operating costs and expenses:		
Interest and amortization of deferred financing costs	6,872,967	3,898,389
Compensation, fees and taxes	1,779,318	993,962

General and administrative expenses	898,115	631,948
Other expenses	83,722	99,272
(Gain) Loss on sale of real estate	(148,100)	65,838
Allowance for credit losses	101,515	105,000
Impairment loss	—	155,500
Total operating costs and expenses	9,587,537	5,949,909
Net income	5,120,222	4,351,466
Series A Preferred Stock dividend	(924,762)	(921,766)
Net income attributable to common shareholders	4,195,460	3,429,700
Other comprehensive loss		
Unrealized gain on investment securities	91,637	242,808
Comprehensive income	\$ 4,287,097	\$ 3,672,508
Basic and diluted net income per common share outstanding:		
Basic	\$ 0.10	\$ 0.10
Diluted	\$ 0.10	\$ 0.10
Weighted average number of common shares outstanding:		
Basic	42,792,509	34,892,883
Diluted	42,792,509	34,898,666

SACHEM CAPITAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

	Three Months Ended	
	March 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,120,222	\$ 4,351,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs and bond discount	600,215	469,251
Depreciation expense	40,132	22,239
Stock based compensation	173,315	106,879
Allowance for credit losses	101,515	105,000
Impairment loss	—	155,500
(Gain) loss on sale of real estate	(148,100)	65,838
Unrealized(gain) loss on investment securities	(716,389)	1,052,230
(Gain) loss on sale of investment securities	(275,879)	154,135
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Interest and fees receivable	(366,191)	(395,924)
Other assets - miscellaneous	(499,651)	(210,688)
Due from borrowers	(783,302)	(292,302)
Other assets - prepaid expenses	9,955	42,220
(Decrease) increase in:		
Accounts payable and accrued liabilities - accrued interest	95,221	121,913
Accounts payable and accrued liabilities - accounts payable and accrued expenses	(84,738)	10,720
Deferred revenue	320,608	232,794
Advances from borrowers	1,422,458	1,563,852
Total adjustments	(110,831)	3,203,657
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,009,391	7,555,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(13,971,218)	(27,545,183)
Proceeds from the sale of investment securities	3,780,522	51,705,055
Purchase of interests in investment partnerships, net	(4,491,054)	(11,358,017)
Proceeds from sale of real estate owned	515,136	622,737
Acquisitions of and improvements to real estate owned, net	(103,136)	(177,336)
Purchase of property and equipment	(710,883)	(3,658)
Principal disbursements for mortgages receivable	(58,883,818)	(88,735,230)
Principal collections on mortgages receivable	39,884,300	27,106,768
Other assets – pre-offering costs	25,111	(57,768)
NET CASH USED FOR INVESTING ACTIVITIES	(33,955,040)	(48,442,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (repayment of) line of credit	10,086,036	(9,898,667)
Net proceeds from repurchase facility	11,522,349	7,857,960
Proceeds from mortgage	910,000	—
Accounts payable and accrued liabilities - principal payments on other notes	(4,252)	(6,627)
Dividends paid on Common Stock	(5,342,160)	(3,927,600)
Dividends paid on Series A Preferred Stock	(924,762)	(921,766)
Proceeds from issuance of common shares, net of expenses	9,181,158	15,547,815
Proceeds from issuance of Series A Preferred Stock, net of expenses	136,699	—
Gross proceeds from issuance of fixed rate notes	—	50,000,000
Financings costs incurred in connection with fixed rate notes	—	(1,839,034)
NET CASH PROVIDED BY FINANCING ACTIVITIES	25,565,068	56,812,081

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,380,581)	15,924,572
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	<u>23,713,097</u>	<u>41,938,897</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 20,332,516</u>	<u>\$ 57,863,469</u>

SACHEM CAPITAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW (Continued)
(unaudited)

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION	Three Months Ended	
	March 31,	
	<u>2023</u>	<u>2022</u>
Interest paid	<u>\$ 6,191,398</u>	<u>\$ 3,307,225</u>

Real estate acquired in connection with the foreclosure of certain mortgages, inclusive of interest and other fees receivable, during the three months ended March 31, 2023 amounted to \$1,186,663.

Sachem Capital Corp. NYSEAM:SACH FQ1 2023 Earnings Call Transcripts

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SACHEM CAPITAL CORP. FQ1 2023 EARNINGS CALL | MAY 15, 2023

Call Participants

EXECUTIVES

John L. Villano

Interim CFO, Chairman, CEO & President

Nicholas M. Marcello

Vice President of Finance & Operations

Unknown Executive

ANALYSTS

Christopher Whitbread Patrick Nolan

*Ladenburg Thalmann & Co. Inc.,
Research Division*

Gaurav Mehta

EF Hutton, Research Division

Matthew Erdner

*JonesTrading Institutional Services, LLC, Research
Division*

Tyler Anton Batory

Oppenheimer & Co. Inc., Research Division

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SACHEM CAPITAL CORP. FQ1 2023 EARNINGS CALL | MAY 15, 2023

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Sachem Capital Corp. First Quarter 2023 Earnings Conference Call.

[Operator Instructions]

Note that this call is being recorded on May 15, 2023.

And I would like to turn the conference over to Kevin Reed, ICR. Please go ahead, sir.

Kevin Reed

Senior Vice President, ICR Inc.

Good morning, everyone, and thank you for joining Sachem Capital Corp.'s First Quarter 2023 Conference Call. On the call from Sachem Capital today is Chief Executive Officer and Interim Chief Financial Officer, John Villano, CPA, and Vice President of Finance and Operations, Nick Marcello.

This morning, the company announced its operating results for the quarter ended March 31, 2023, and its financial condition as of that date. The press release is posted on the company's website, www.sachemcapitalcorp.com. In addition, the company will file its quarter-end Form 10-Q with the U.S. Securities and Exchange Commission later today, which can be accessed on the company's website as well as the SEC's website at www.sec.gov. If you have any questions after the call or would like any additional information about the company, please visit our website.

As a reminder, remarks made on today's conference call may include forward-looking statements. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those discussed today. We do not undertake any obligation to update our forward-looking statements in light of new information or future events. For a more detailed discussion of the factors that may affect the company's results, please refer to our earnings release for this quarter and to our most recent SEC filings.

During this call, we will be discussing certain non-GAAP financial measures. More information about these non-GAAP financial measures and reconciliations to the most directly comparable GAAP financial measures are contained in our earnings release and SEC filings.

With that, I'll now turn the call over to John.

John L. Villano

Interim CFO, Chairman, CEO & President

Thank you, and thanks to everyone for joining us today. I am very pleased to report that Sachem had a solid start to 2023 despite an increasingly uncertain economy. This quarter, we achieved revenues of \$14.7 million, an increase of more than 42% over the first quarter of 2022 and net income attributable to common shareholders of \$4.2 million or \$0.10 per share for the quarter. These results underscore the strength of our business, the resiliency of our loan portfolio and our disciplined underwriting, even amid the evolving economic conditions and turmoil in the banking sector.

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As we know, the capital markets continue to signal concerns about further bank troubles in the future. Furthermore, since some potential bank failures have hard money lending businesses or provide capital to hard money lenders, it will likely have significant implications for our lending industry for years to come. Given the uncertainty and quickly evolving economic backdrop, we continue to execute a cautious approach to our lending practices and will most likely maintain that stance for at least the next few quarters.

Given these market dynamics, we will maintain a vigilant eye on the implications these factors may have on property appraisals, our cost of capital and normal loan payoff activity. That said, during the first quarter, we funded approximately \$58.9 million of mortgage loans, including loan modifications and construction draws. As we said last quarter, we anticipated our originations would be lower this year than last but that we would be opportunistic, yet prudent in how we lend.

During the quarter, our originations were focused on borrowers with strong credit and proven results. Importantly, most originations in the first quarter carried gross returns of over 15%, so we have been able to maintain spreads as our cost of capital increased even as we have tightened underwriting standards and partnered with better credit borrowers. And given our disciplined stance, we have maintained strong liquidity. The one constant is that there is no shortage of opportunities in our pipeline. We will look to opportunistically capitalize on situations when they arise, where banks and other smaller, less capitalized competitors cannot fulfill obligations.

Importantly, our 4 key strengths that position us to perform well in the current environment include: a diversified mortgage portfolio across multifamily, single-family, fix and flip loans and commercial real estate projects. Our loan portfolio is spread across 15 states, and we continue to strategically grow in the Southeast.

Second, our loans are generally short term in nature. As of quarter end, approximately 16.3% of the loans in our portfolio had a term of 1 year or less, allowing us to reprice our capital quickly to better protect our margins.

Third, we have a deep experienced and cycle-tested management team. We have underwritten approximately \$1 billion in loans through many different investment environments. Sachem Capital was borne out the great financial crisis and we will continue to use our experience as a guide to navigate the current environment.

Fourth, we have a strong balance sheet with \$597 million in assets, including \$20.3 million of cash and cash equivalents, offset \$339.3 million in total debt outstanding. In the quarter, we further augmented our capital structure, entering into a \$45 million revolving line of credit, expandable to \$75 million that carries an interest rate of prime minus 1/4 or 4.5%, whichever is higher and matures in 2026.

We are excited to have expanded our bank group to include Needham Bank as we successfully boosted our available liquidity and enhanced our financial flexibility. As of March 31, 2023, we had approximately \$63.3 million of available liquidity within our debt facilities to supplement our cash and cash equivalents on hand. We believe having that dry powder will allow us to capture market share in what we believe will be a prolonged economic downturn.

Turning to our financial highlights of the quarter. We generated total revenue of approximately \$14.7 million, up over 42% compared to approximately \$10.3 million for the prior year's first quarter. This change was due to an increase in our lending operations and overall portfolio growth and is reflected in our interest income and our income from partnership investments, which rose approximately 29% and 90%, respectively.

Total operating cost and expenses for the quarter were approximately \$9.6 million compared to approximately \$5.9 million for the first quarter of 2022. The change was due to higher interest and amortization of deferred financing costs, compensation fees and taxes and G&A.

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SACHEM CAPITAL CORP. FQ1 2023 EARNINGS CALL | MAY 15, 2023

Interest and amortization of deferred financing costs increased from approximately \$3.9 million in the first quarter of 2022 to approximately \$6.9 million this quarter, an increase of almost \$3 million or 77%.

Net income attributable to common shareholders for the quarter was approximately \$4.2 million compared to approximately \$3.4 million for the first quarter of 2022. Earnings per share for the first quarter 2023 was \$0.10, in line with the first quarter of 2022.

With regard to our portfolio, as of March 31, 2023, we had 406 loans, with total principal balance of \$476.5 million at an average interest rate of 11.69%, not inclusive of fees earned. We had loans with a principal balance of approximately \$90.1 million on nonaccrual status. Of that \$90.1 million, there were 52 loans in pending foreclosure by the company, representing approximately \$40.6 million of unpaid principal interest and charges.

In the case of each of these loans, we believe the value of the collateral exceeds the total amount due. As we have discussed in the past, a troubled or distressed loan rarely loses 100% of its value and usually over the term of the loan, when interest income, origination and other fees are considered, the overall transaction is profitable. Importantly, we have the expertise to work through these issues given our successful track record through prior cycles.

At the start of 2023, we adopted CECL, first went to ASC 2016-13. In accordance with the framework, we established an opening reserve balance of approximately \$2.5 million, the details of which are discussed in our footnotes. The impact to net income quarter-over-quarter for credit losses was approximately \$102,000.

Turning to our balance sheet. As of March 31, 2023, real estate owned was \$6.1 million at March 31, 2023, compared to \$5.2 million at year-end 2022. Specifically, real estate owned included approximately \$813,000 held for rental and \$5.3 million held for sale. Currently, Sachem is negotiating the sale of 2 REO properties totaling approximately \$2.1 million. The company intends to recover all invested costs on the eventual sales of these 2 properties.

We ended the quarter with assets of approximately \$597 million, up \$31.3 million from year-end 2022. Total loan balance at quarter end was approximately \$476.5 million. Current partnership investments of approximately \$35.3 million. We had total cash and cash equivalents of approximately \$20.3 million, along with total debt of approximately \$339.3 million. We believe our low leverage as compared with our peers, underpins the strength of our balance sheet as a whole.

Our performance and results in the first quarter underscore the strength of our platform, the resiliency of our loan portfolio and our prudence in capital deployment. While we expect additional challenges will emerge, we believe maintaining a prudent approach to lending in the coming quarters focused only on the best and highest quality credit will be the right approach for the foreseeable future.

Before we conclude our prepared remarks, I wanted to point out that while we do not provide financial guidance on future expectations, we do want to provide additional perspective. Specifically, given this unique and very uncertain economic and financial market landscape, as we communicated earlier, we will prudently continue to strengthen our balance sheet by building our cash and overall liquidity. This is certainly the right approach to set us up for the future, but it does come with a near-term cost, meaning it will create a drag on earnings.

Additionally, as part of the balance sheet effort, we will continue to exercise a disciplined approach to our originations, focused on fewer opportunities that we believe will drive

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Moving forward, while our results may be impacted on a relative basis, we believe these steps are the proper approach to maintain profitability as we navigate the headwind.

In summary, with a well-diversified portfolio comprised of shorter-duration loans and experienced and cycle-tested management team, along with a strong balance sheet, we are well positioned to navigate the short-term volatility and to grow long-term shareholder value.

With that, we will open the call for questions. Operator.

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Question and Answer

Operator

[Operator Instructions]

And your first question will be from Gaurav Mehta at E.F. Hutton.

Gaurav Mehta
EF Hutton, Research Division

I wanted to ask you on your loan repayments. I think you said gross originations for the quarter was \$58.9 million. Can you provide some color on what was the net origination for the quarter?

John L. Villano
Interim CFO, Chairman, CEO & President

So our originations in comparison to the first quarter of 2022 are down almost 25% from \$88 million to \$60 million. The \$60 million of this quarter includes construction loan finance, which is modifications and extensions. So our originations are down throughout. Mostly what we're doing now is fulfilling construction requirements with prior closed loans. So our basic origination platform is -- listen, it's not on a stall, it's being very selective. We look to originate around \$40 million a quarter for the first quarter, which we did and \$40 million for the second quarter, which we are going to do. And we're just playing very close to the vest in managing our cash.

Gaurav Mehta
EF Hutton, Research Division

Okay. Second question on the nonaccruals, I think in your prepared remarks, you mentioned \$91 million loans were in nonaccruals, which would imply around 19% of the principal value in nonaccruals? It seems like is higher than what the nonaccruals were in 1Q -- I'm sorry, in 4Q. Can you provide some color on the nonaccrual loans.

John L. Villano
Interim CFO, Chairman, CEO & President

Yes, for sure. Our business is basically, as they say, fix and flip. Our borrowers, they come to us to be efficient, to move quickly and to give them the seed capital to get a project started and completed in a timely manner. Our problem in the first quarter, Gaurav, was really quite simple. The banks have stepped away from the finance, the refinance of our borrowers. We're normally taking out within somewhere between 11 and 13 months in the local banks, and they've kind of -- they've gone into their shelves. As they have stepped back, our loans have now moved past due, so to speak.

What we will do, and even though that's a large number, a significant portion of these nonaccrual loans will be remodified, reconsidered by the company, basically re-underwritten. And if the original terms and conditions are still in place, we will extend these loans for another year.

Operator

Next question will be from Tyler Batory at Oppenheimer.

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Tyler Anton Batory
Oppenheimer & Co. Inc., Research Division

So the follow-up, just in terms of your approach to originations and whatnot. I mean given this commentary, trying to be more disciplined, I mean I think in the previous answer you mentioned maybe \$40 million is a good run rate to be using going forward. Multiple part question here for you. I guess talk a little bit more about kind of the pipeline and the opportunities for that \$40 million? And maybe what sort of things are you looking at to perhaps ramp things up a little bit more? I imagine you want to see the overall environment improve. But just kind of curious if there's a scenario here where you could get back to where you were perhaps mid-last year in terms of the amount of loans that you're funding.

John L. Villano
Interim CFO, Chairman, CEO & President

Okay. Yes, for sure. Our pipeline is huge. And I always say \$100 million, it's a lease debt. We are seeing loans from brokers, competitors, banks, everybody is looking for a home for the deal, right? Everybody is looking for money. What we are doing in our underwriting team and our underwriting officers they're trying to determine the best low-risk position that Sachem can take in one of these deals because we try to get our \$40 million quota. So right from the bat -- right off the bat, we're looking for certain MSAs. We're looking for significant cash in the deal. We're looking for experience. And at that point, once we could start ticking and time off from some of these items, we then try to see what type of property it is. We're still looking at resi and multifamily as being #1 and #2 on the list, commercial being third and ground-up construction being kind of last on our list.

So we're trying to work through a little bit of a framework to pick and choose what we see as an abundance of opportunity and truly some of this opportunity is absolutely horrendous. They're coming through here looking for a home, but we're trying to pick the best that we can. We expect this pipeline to increase as money becomes a little more scarce, Tyler. But we're not -- we only have so much money that we can lend. And our cost of capital, if we went into the markets to raise money is quite significant at the time, whether it be preferred or equity or even another debt offering. So we're marshaling cash and using our cash to manage the pipeline.

Tyler Anton Batory
Oppenheimer & Co. Inc., Research Division

Okay. I appreciate that. Can you talk about spreads right now through, just kind of remind us how the competitive environment is impacting that as well?

John L. Villano
Interim CFO, Chairman, CEO & President

Yes. So in our little world of New England and Branford, Connecticut, we really have no pricing barriers at the moment. The demand for cash for us, it's what we have to lend. Our current pricing is 13% and 3%. And if there's some construction finance involved, there's another 2% on top of that. Our cost of capital is somewhere between 8% and 9%. Nick, do you have an exact number on our cost of capital?

Nicholas M. Marcello
Vice President of Finance & Operations

Yes. We're just over 8% right now on our debt costs with equity, obviously being quite a bit higher right now.

John L. Villano
Interim CFO, Chairman, CEO & President

So we still had a great spread that really has -- our spread has not been compressed as rates have moved. We're able to price into it for now.

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Operator

Next question will be from Christopher Nolan at Ladenburg Thalmann.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

John, I estimate that your interest income declined quarter-over-quarter since the fourth quarter. If so, was that related to the increase in the properties and foreclosure?

John L. Villano
Interim CFO, Chairman, CEO & President

It was. And once loans are 90 days old, we put them on nonaccrual and we had 1 or 2 large loans fall into this nonaccrual status because refinancing packages fell through at the last minute. We expect those to be corrected. And I think next quarter, you'll probably see a better result with respect to these outstanding nonaccruals.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Great. And then in your comments in terms of slowing down growth, keeping more cash liquidity, how should we look at the leverage ratio?

John L. Villano
Interim CFO, Chairman, CEO & President

So right now, we have a significant amount of cushion with respect to our bond covenant, which is an asset coverage ratio of 1.5x we are being very, very careful with that, of course. We don't feel that we can take on significant amounts of future debt without raising either equity or preferred equity at this level is just not the right idea. And if preferred right now is too costly. So we're kind of in a holding pattern. We're lending what we collect to an extent. And again, it's just marshaling cash and picking the best out of the bunch.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Final question. Was the change in the ending share count related to ATM issuances?

John L. Villano
Interim CFO, Chairman, CEO & President

Yes. I think we access the ATM once or twice during the quarter. So we weren't -- obviously, with our share price down here, it was not really prudent to get too crazy, but we did use the ATM once or twice during the quarter.

Operator

[Operator Instructions]

And your next question will be from Jason Stewart, Jones Trading.

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Matthew Erdner

JonesTrading Institutional Services, LLC, Research Division

This is Matthew on for Jason this morning. So could you just describe the average length of these construction loans and what kind of projects there on? And then as a follow-up to that, could you talk about the dividend just a little bit and explain what your thoughts are there?

John L. Villano

Interim CFO, Chairman, CEO & President

Sure. Our construction projects were varied. It could be a 2-family remodel. It could be a 10-unit building. It could be a 50-unit building. There could be some ground up with a significant sponsor. Most of our construction is very experienced sponsors, well capitalized, and the kind of projects that should take us through this little period of uncertainty in the market, let's say. Our construction, I mean, there's significant projects in Charlotte. We had projects in Connecticut. We have some in Florida, all of which are moving according to plan. And as of right now, we think these things will come outside of this little hiccup we're having.

With respect to the dividend, as I touched during our call, there could be some pressure on our dividend, right? Let's just not sugar coat them. As we build cash here, cash that hangs around is not earning and there might be some pressure. I don't know how bad it will be. We're very proud of what we've done with our dividend. We will defend it as long as we can. So as we build cash to be protective, we can see a little bit of a slip in the dividend.

Operator

At this time, I would like to turn the call back over to our presenters for closing remarks.

John L. Villano

Interim CFO, Chairman, CEO & President

Thank you all for joining us today. We look forward to updating you once again next quarter. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does conclude your conference call for today. Once again, thank you for attending. At this time, we do ask that you please disconnect your lines.

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