Early Public Offering

CALIBER

THE WEALTH DEVELOPMENT COMPANY

Investment Memorandum
Prepared August 7, 2020

Summary of Opportunity

CaliberCos Inc. ("the Company", "Caliber") is a regional private equity real estate sponsor with over $400M in Assets Under Management ("AUM"). The Company is currently raising a Series B preferred round at a $130M pre-money valuation, with a maximum round size of $50M. In 2019, the Company exited their largest fund to date, an investment in the "Palms Apartment", which generated 3.5x returns for investors, and is their largest exited fund to date. The Company was one of the first to create a tax-advantaged opportunity zone fund, now one of its largest funds by AUM.

An investment in Caliber in this offering is not a direct investment in any of the Company's real estate funds, but rather is an investment in the Company as the managing entity ("General Partner") of these funds, along with its associated income streams. The Company primarily earns income through asset management fees, carried interest ("carry") above a specified preferred return on each fund, capital raising, brokerage and other associated fees, construction and development, and property management.

Unlike many investments on the SeedInvest platform, Caliber is not a startup. The Company is a stable business with significant cash flows, and as such does not need to generate the 7-10x returns associated with successful startup investments. A 2.0-2.5x return over the next 3-5 years (an exit valuation of $230M-$325M) would be considered a successful investment.

There are several key considerations in assessing Caliber's current valuation, each of which will be addressed in the sections below.

1. The ability of the Caliber team to raise an increasing amount of capital each year.
2. The ability of the Caliber team to generate attractive returns to its Limited Partners ("LPs"), the investors in its funds, while increasing Assets Under Management ("AUM")
3. The impact of coronavirus on Caliber's current assets and funds, especially those assets in the hospitality segment.

Caliber has a track record of real estate investment success, especially in residential assets, and has, within the past six years, expanded to the hospitality industry (now 57% of AUM). Prior to coronavirus, the Company's valuation would have been considered very fair, as the Company has a strong track record of capital growth and successful investments. However, hospitality real estate valuations have dropped significantly this year, and it is uncertain when they will recover. Publicly traded hospitality-focused REITs have lost 60% of their value since the start of the year. The Company's significant exposure to the impact of coronavirus with its many hotel properties will significantly reduce the Company's ability to earn carried interest from its current funds. The Company's other revenue streams, including brokerage and construction, will likely also be affected, along with its ability to raise new capital in the short-term. As such, the Company's strategy and plans for the future are sound, I consider it overvalued at this time, and would wait for the company's proposed IPO in the next year to reconsider an investment in Caliber.

Caliber Funds

As of December 2018, Caliber had 31 active funds across the hospitality ($225M AUM, 57% of AUM), residential ($75M, 19%), and commercial ($88M, 22%) segments, and two fully owned residential properties ($7.7M, 2%). Caliber also has four diversified funds ($218M AUM), which invest in the funds

from the other segments. As of 2019, the Company had closed eight non-debt funds, including its notable 3.5x equity return on the Palms Apartments properties, and 4.7x on South Mountain Square. The Company's largest fund is 3-Airport Hotels Hilton, a fund of three hotels located at the Phoenix airport, which, as of 2019, was valued at $114M.

More detailed financial information for the company can be found in the ***Financial*** section.

Industry Overview & Impact of Coronavirus

Caliber is influenced by two primary industries–the market for alternative assets, specifically, real estate, and the real estate market in the geographies in which the Company operates (Alaska, Arizona, Colorado, Nevada, Utah). The former, the market for alternative assets as a whole, has an impact on the Company's ability to fundraise, while the latter affects the Company's ability to find investable assets, and the performance of their funds. The Company's exposure to the real estate market can be further segmented into the hospitality, residential, and commercial segments.

Real estate private equity is a nearly $1T industry, with over $100B in capital raised every year. While competition for capital is strong and fundraising is challenging, there is no shortage of capital for projects and investors that consistently generate above market risk-adjusted rates of return. At present, it is unclear how COVID-19 will affect investments into alternative assets. Some experts believe real estate investment activity will continue to grow, as investors flee to historically more stable assets like real estate, while others believe investors will wait until more certainty is found in the aftermath of the pandemic.

The novel coronavirus has also had an impact on each of Caliber's real estate segments. The hospitality segment has been hit the hardest, with occupancy rates and RevPAR (revenue available per room, a measure of room pricing) dropping by as much as 50% YoY. Caliber, with 57% of its holdings in hospitality, is likely to be significantly affected by this impact. Hospitality-focused REITs have lost an average of 60% of their value since the start of 2020. While the Company's assets have not been publicly reappraised in 2020, it is reasonable to assume that the Company's hospitality assets have not escaped a reduction in fair market value.

While the impact on commercial and residential real estate has not been as significant, neither fully escaped the impact of coronavirus. Commercial REITs have lost an average of 16% of their value, due to decreased rents from office buildings, and residential REITs have lost 15%, as unemployment has spiked and residents struggle to make rent.

While these impacts will present many opportunities for investors in the future, they likely have had a negative effect on the Company's current assets. See **Appendix 1** for comparable hospitality-, commercial-, and residential-focused REITs.

Adding to the uncertainty around real estate investments is the upcoming presidential election. Former Vice President Joe Biden has publicly stated that he would like to raise the capital gains tax for those earning over $1M, which would affect most accredited investors who are able to invest in Caliber funds. There is also uncertainty as to whether Opportunity Zone tax incentives, which the Company took advantage of with its Tax-Advantaged Opportunity Zone fund, its largest fund to date, would remain under a new administration. These publicly policy changes could negatively affect the amount of capital the Company is able to raise in the future.

Competition

The Company competes with REITS, banks, other private equity funds, private investors, and others for deals. Competition for real estate deals is intense, which contributes to the Company's strategy of using its network to find off-market deals. The Company also competes for investment dollars against REITS, traditional stocks and bonds, other real estate private equity funds, and other types of alternative assets.

Comparison with REITs

While many who want to invest in real estate choose publicly traded REITs, according to the SEC in 2015, only 85% of capital invested in REITs goes to real estate. The remainder goes to commissions and fees. In addition, due to SEC investing requirements regarding capital deployment, REITs are frequently unable to find properties with above market returns. In comparison, Caliber estimates 96% of invested funds go to real estate investment.

Key Executives

Chris Loeffler–CEO, Chairman of the Board

As CEO, Chris directs and executes global strategy, oversees investments and fund management, and contributes to private and public capital formation. He is also a co-founder of Caliber.

Jennifer Schrader–President/COO

Jennifer directly oversees all Caliber asset management activities including the execution of each investment's business plan and the management of the real estate services delivered by Caliber or third-party vendors to Caliber's assets. In addition, Jennifer oversees daily operations at Caliber and manages talent development and resource management. She is a Caliber co-founder.

Analysis

It is difficult to assess executive performance independent from the Company as a whole. In this respect, the executive team has certainly succeeded. The Company has raised 21 funds since 2010, has over $400M in assets under management, and has succeeded in providing attractive investor returns on the funds that have closed thus far.

Voting Rights and Governance Concerns

Mr. Loeffler and Ms. Schrader each own Class B Common Stock in the company, which provide "super-voting" rights, where each share of stock holds ten votes. Currently, Class B shares own 88.95% of the voting rights in the Company, which is expected to decrease to 80.06% after the conclusion of the Series B Preferred round. This means that the Company's two top executives have nearly full control over the election of the board of directors, compensation arrangements (for themselves and other executives), corporate transactions, and other matters. This is not entirely unheard of: Google founders Larry Page and Sergey Brin have a similar class of shares, which allows them to keep control of the Company, and other founders of public companies have similar voting rights. While this structure gives the executive team significant of power and is a corporate governance concern, allowing executives to put their own interests before those of the firm, it can also allow executives to make decisions with the Company's long-term plan in mind, rather than focusing exclusively on short-term performance. As the Company plans to IPO in the near future these rights could become a concern for shareholders, however.

Financial Analysis

As with most real estate private equity firms, Caliber's income comes from two main sources: management fees, calculated as a fixed percentage of assets under management, and carried interest, which is a percentage of the profits from each fund, after investors receive the amount of their initial

investment, plus a set preferred return. Caliber earns a 1.5% management fee on assets under management, and a 20-35% carry. Caliber also collects capital raise fees, financing fees, and other fees associated with the operations of the properties in its portfolio.

Caliber also earns revenue by providing real estate services to the funds it manages. These include construction and development, property management, and real estate brokerage. All of these services primarily serve the Caliber funds: the proportion Caliber funds contributed to each segment's revenue in 2019 was 83%, 100%, and 37%, respectively.

While these additional services allow the Company to capture incremental revenue from their assets under management, ultimately Caliber derives, and will continue to derive, most of its income from management fees and carried interest, both of which are driven by the Company's AUM and investment performance. Caliber also makes small co-investments its funds, which allow it to share in a greater proportion of the profits of each fund.

Cash Flow Projections

Caliber's future cash flow, and by extension its valuation, is based on its ability to:

1. Raise new investment capital, increasing cash flow from management fees and potential carry
2. Earn high returns on this capital, increasing carry and giving the firm an attractive track record

In addition, Caliber's valuation must consider the Company's potential to earn carry on the assets currently in its portfolio, and earn a return on its co-invested funds.

It is important to note that Caliber consolidates the financial statements of all of its funds due to GAAP requirements, however, Caliber is not actually entitled to all of these cash flows. As such, the cash flows attributable to Caliber itself must be separated out before analysis can be done. Income projections for Caliber can be found in **Appendix 2.**

Ability to Raise Capital

In 2017, 2018, and 2019, Caliber raised $39M, $52M, and $91M, respectively, in investor capital. They have also grown their accredited investor base at a CAGR of 27% over the past 3 years, with 804 investors in their funds in 2019. In order to justify a $130M pre-money valuation, Caliber would likely need to raise Capital AUM (the total capital from investors across their funds) from $211M in 2019 to ≈$700M by 2025, a CAGR of 22%. As the Company believes 2020 will be a slow year for new capital growth, Caliber will need to grow the amount of capital raised by 20%+ each year, raising approximately $200M annually by 2025.

While aggressive, I believe this is an achievable target for the Company, especially if the proposed M&A strategy of purchasing smaller private equity funds affected by COVID comes to fruition. Caliber presents its funds well and appear to be skilled fundraisers with a track record of successfully raising capital. In order to achieve this, the Company will likely need to continue to expand its geographic range to find deal opportunities in geographies that may currently be outside its current network and area of expertise.

Ability to Generate Returns on Future Capital

Caliber has achieved an impressive average 2.3x realized equity return for investors on the funds it has closed to date, which have mostly been in the residential segment. Caliber's strategy is, primarily, to use its network to find off-market deals, make improvements, manage the properties, and resell at a premium when the time is right. This is a well-tested strategy, and Caliber uses it successfully. As the Company's capital AUM grows, its network will need to grow proportionally to originate enough deal flow to continue to generate above-market investor returns. Caliber has moved aggressively into the hospitality

segment, and it is unclear, especially post-COVID, whether the Company will prove to be successful investors in this segment long-term. Historically, market downturns and volatility have created great opportunities for smart investors, and Caliber is well-positioned to take advantage of these opportunities as they appear.

Ability to Generate Returns on Current AUM

Due to coronavirus, the Company's current real estate assets are the largest cause for concern, particularly its hospitality assets. Hospitality-focused REITs have decreased in value by 60% on average since the start of the year, and it is almost certain that the Company's hospitality assets will devalue significantly as well. The Company's hospitality-focused funds also have nearly $100M in notes payable coming due through 2021. While these loans will likely be able to be extended, the terms of these loans may be significantly less favorable for the Company, at higher interest rates. The Company has also expressed a smaller, but still significant, impact on its residential assets, as tenants are unable to make rent due to unemployment. Given these strong headwinds due to COVID, I would not expect the Company to generate any significant amount of carried interest at least 2021. The Company's exposure to the hospitality industry is the single biggest factor negatively affecting its valuation at this time. The Company's brokerage, construction, and other revenue streams are also likely to be affected.

Other Concerns

Currently, the use of proceeds for this Series B preferred round, if the maximum is reached, includes the repurchase of $7.8M of stock held by company executives Chris Loeffler and Jennifer Schrader, as well as Mrs. Schrader's spouse, who is a significant shareholder in the Company. While it is not uncommon for executives to use a capital raise to get liquidity on their shares, as frequently a significant portion of their net worth is tied to the Company, given the current pandemic and corresponding underperformance of the Company's assets I would question that decision at this time, especially as this repurchase represents nearly 20% of net proceeds to the Company, after fees. Caliber filed this offering prior to COVID, and it is possible their use of proceeds in this respect will change. It is also unclear how many, if any, executive shares will be repurchased if a lesser amount is raised. As a potential investor, I would prefer the executive team hold their shares until the Company's expected IPO a year from now, when the public market will decide a fair valuation.

Key Risks

At this time, the primary risk to the Company is the continued effect of COVID on its assets. Many of Caliber's assets have significant levels of debt, and a continued lack of income will make it difficult for the relevant funds to make the required interest payments. A loss on these assets would permanently affect the Company's track record, potentially making it more difficult to raise capital in the future, and, more immediately, would negatively affect income and the Company's valuation at IPO.

Conclusion

Caliber has a strong track record investing in real estate, particularly in Arizona, and in raising capital from investors, however, due to the likely impact of coronavirus on its assets, I believe it is overvalued at this time. Once more is learned about COVID's impact on the firm and its assets, an investment can be reconsidered, as the Company is planning an IPO in the near future.

Appendix 1
REIT Performance by Real Estate Segment

Hospitality REITS	Price		
Symbol	Jan 2, 2020	Aug 5, 2020	Pct. Change
DRH	$ 11.02	$ 4.81	-56.4%
HST	$ 18.23	$ 10.91	-40.2%
INN	$ 12.24	$ 5.41	-55.8%
SOHO	$ 6.71	$ 2.81	-58.1%
RHP	$ 85.88	$ 32.50	-62.2%
RLJ	$ 17.56	$ 8.38	-52.3%
HT	$ 14.04	$ 5.30	-62.3%
BHR	$ 8.87	$ 2.47	-72.2%
AHT	$ 24.80	$ 4.01	-83.8%
Average			**-60.3%**

Commercial REITs	Price		
Symbol	Jan 2, 2020	Aug 5, 2020	Pct. Change
ARE	$ 159.49	$ 176.49	10.7%
OFC	$ 28.97	$ 27.18	-6.2%
CUZ	$ 40.43	$ 31.04	-23.2%
HIW	$ 48.38	$ 38.85	-19.7%
KRC	$ 82.49	$ 57.82	-29.9%
CIM	$ 20.59	$ 8.87	-56.9%
EXR	$ 104.73	$ 105.12	0.4%
NSA	$ 33.37	$ 31.56	-5.4%
Average			**-16.3%**

Residential REITs	Price		
Symbol	Jan 2, 2020	Aug 5, 2020	Pct. Change
INVH	$ 29.47	$ 29.67	0.7%
AMH	$ 25.90	$ 29.17	12.6%
IRT	$ 13.86	$ 11.36	-18.0%
ACC	$ 46.09	$ 35.45	-23.1%
UDR	$ 46.12	$ 35.18	-23.7%
AIV	$ 50.58	$ 36.55	-27.7%
ESS	$ 298.28	$ 214.27	-28.2%
Average			**-15.3%**

Appendix 2
Financial Projections

Caliber–Cash Flow Projections

		Projected Growth Rate	*5%*	*15%*	*27%*	*27%*	*20%*	*20%*
Cash Flow Projections (Annual)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Total Capital AUM (y/e)	$ 144,000,000	$ 211,000,000	$ 221,550,000	$ 254,782,500	$ 323,573,775	$ 410,938,694	$ 493,126,433	$ 591,751,720
New Capital Raised		*$ 95,800,000*	*$ 52,750,000*	*$ 77,542,500*	*$ 119,747,775*	*$ 152,079,674*	*$ 164,375,478*	*$ 197,250,573*
Management Fee Revenue								
Percentage Management Fee	2.18%	1.65%	1.60%	1.50%	1.50%	1.50%	1.50%	1.50%
Fixed Asset Management Fee revenue	$ 3,134,287	$ 3,491,815	$ 3,544,800	$ 3,821,738	$ 4,853,607	$ 6,164,080	$ 7,396,896	$ 8,876,276
Capital Raise Fees	$ 906,781	$ 2,798,011	$ 1,645,800	$ 2,946,615	$ 4,672,711	$ 5,934,343	$ 6,328,456	$ 6,509,269
Other Mangement Fees (financing)	$ 4,340,932	$ 3,023,174	$ 2,500,000	$ 2,875,000	$ 3,651,250	$ 4,637,088	$ 5,564,505	$ 6,677,406
Total Management Fee Revenue	**$ 8,382,000**	**$ 9,313,000**	**$ 7,690,600**	**$ 9,643,353**	**$ 13,177,568**	**$ 16,735,511**	**$ 19,289,857**	**$ 22,062,951**
Revenue from Carried Interest/Real Estate Gains	$ 28,000	$ 4,862,000	$ -	$ -	$ 2,000,000	$ 4,500,000	$ 7,200,000	$ 8,640,000
Revenue from Brokerage	$ 1,892,329	$ 1,662,281	$ 1,000,000	$ 1,600,000	$ 2,032,000	$ 2,580,640	$ 3,096,768	$ 3,716,122
Revenue from Real Estate Sales	$ 6,289,000	$ 2,219,000	$ 1,500,000	$ 1,725,000	$ 2,190,750	$ 2,782,253	$ 3,338,703	$ 4,006,444
Revenue from Property Management	$ 564,710	$ 338,589	$ 355,518	$ 408,846	$ 519,235	$ 659,428	$ 791,314	$ 949,576
Revenue from Construction	$ 9,434,776	$ 7,486,926	$ 7,486,926	$ 8,609,965	$ 10,934,655	$ 13,887,012	$ 16,664,415	$ 19,997,298
Total Revenue	**$ 26,590,815**	**$ 25,881,796**	**$ 25,723,644**	**$ 31,630,516**	**$ 44,031,775**	**$ 57,880,355**	**$ 69,670,914**	**$ 81,435,341**
Expenses								
Cost of Construction	$ 8,824,608	$ 5,042,024	$ 6,022,377	$ 6,925,733	$ 8,795,681	$ 11,170,515	$ 13,404,619	$ 16,085,542
Cost of Real Estate Sales	$ 5,435,336	$ 1,417,426	$ 1,127,272	$ 1,296,362	$ 1,646,380	$ 2,090,903	$ 2,509,083	$ 3,010,900
Cost of Brokerage	$ 1,033,162	$ 907,562	$ 545,974	$ 873,558	$ 1,109,419	$ 1,408,962	$ 1,690,754	$ 2,028,905
Operating Costs	$ 7,637,037	$ 8,240,184	$ 7,788,906	$ 9,577,458	$ 13,332,457	$ 17,525,692	$ 21,095,775	$ 24,657,946
General & Administrative	$ 4,322,000	$ 2,507,000	$ 3,336,367	$ 4,102,490	$ 5,710,938	$ 7,507,104	$ 9,036,345	$ 10,562,195
Interest Expense	$ 1,504,000	$ 1,284,000	$ 1,348,200	$ 1,550,430	$ 1,969,046	$ 2,500,689	$ 3,000,826	$ 3,600,992
Total Expenses	**$ 28,756,143**	**$ 19,398,196**	**$ 20,169,095**	**$ 24,326,032**	**$ 32,563,921**	**$ 42,203,865**	**$ 50,737,402**	**$ 59,946,480**
Pre-tax Cash Flow	$ (2,165,328)	$ 6,483,600	$ 5,554,549	$ 7,304,484	$ 11,467,854	$ 15,676,490	$ 18,933,512	$ 21,488,861
Tax	$ -	$ -	$ -	$ 1,460,897	$ 2,293,571	$ 3,135,298	$ 3,786,702	$ 4,297,772
FCFE (approximation)	**$ (2,165,328)**	**$ 6,483,600**	**$ 5,554,549**	**$ 5,843,587**	**$ 9,174,283**	**$ 12,541,192**	**$ 15,146,810**	**$ 17,191,089**
Discounted Cash Flow			*$ 5,554,549*	*$ 4,869,656*	*$ 6,371,030*	*$ 7,257,634*	*$ 7,304,596*	*$ 6,908,713*
							Terminal Value	**$ 206,293,062.19**
							Discounted TV	$ 82,904,555

Discount Rate	20%
Terminal CF Multiple	12.0x
Valuation	**$ 121,170,733**

**Cash flow metrics are approximate, and do not include the effects of working capital or change in net debt.*