

Newcastle University Investment Fund

Pathward Financial Inc – (NASDAQ: CASH)

Long: Target Price \$129.20 – (87% Upside)

Head Analyst:

Alexander Telpov

Analysts:

Josh Schofield

Aneesh Avvari



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Executive Summary

Pitch Summary

- Pathward Financial Inc is the holding company for Pathward National Association (NA), a federally chartered savings bank.*
- We believe Pathward Financial Inc is mispriced because the market is overestimating its sensitivity to falling interest rates, which will drive upside as earnings prove more resilient than expected.*

Valuation Snapshot

Scenario	Target Price	Weight	Weighted Target Price
Base	\$128.68	60%	\$129.20
Bear	\$112.74	20%	Weighted Upside
Bull	\$147.23	20%	
			87%

Our Thesis

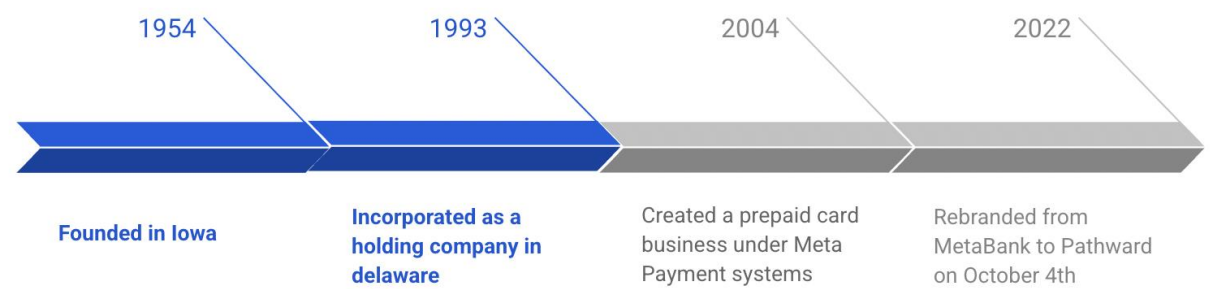
1. Significant Portion of Revenue from Non-Interest Income
2. Partner-Linked Deposits Provide a Natural Hedge Against Falling Rates
3. Loan Portfolio Design Reduces Interest Rate Sensitivity



Company Overview

Business Overview

- Pathward Financial Inc is the holding company for Pathward National Association (NA), a federally chartered savings bank offering traditional banking and financial services across the U.S.
- It also provides core financial infrastructure to fintech and enterprise partners through issuing (prepaid/debit cards), payments, and deposit-holding services.



Operations

- The company operates through three primary business segments: Consumer, Commercial and Corporate Services.
- Revenue mix is approximately 60% net-interest income and 40% non-interest income.

Consumer segment encompasses banking-as-a-service (BaaS), collaborating with partners across payments, issuing, and credit to serve end users and businesses. Also, includes providing tax solutions.

Commercial segment focuses on working-capital and equipment finance solutions.

Corporate Services includes treasury functions, investment portfolio, warehouse finance and wholesale deposit/borrowing operations.

Financial Performance

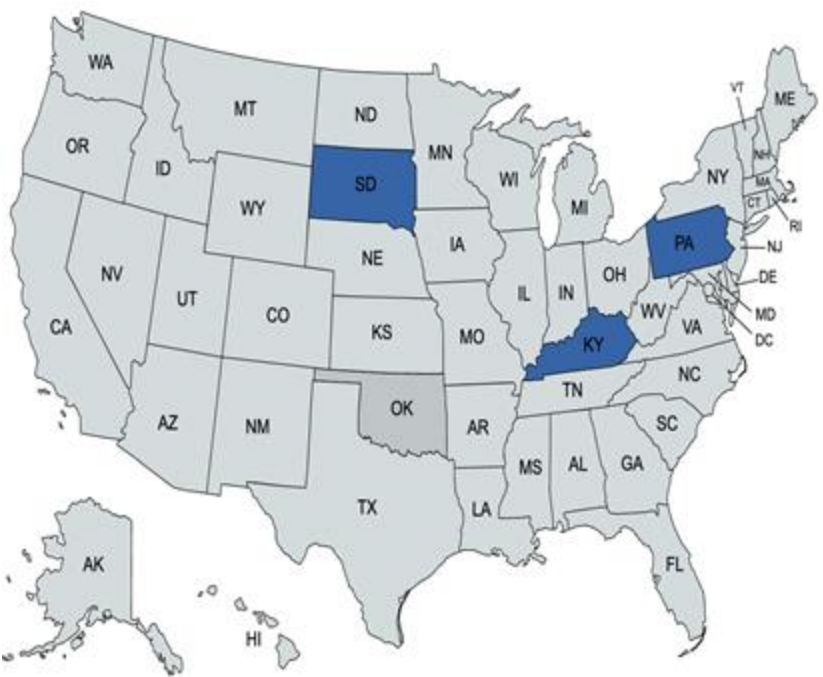
Financial Metric	2025 Q4	2024 Q4
Total Revenue	\$186.7 million	\$179.5 million
Net Interest Margin (NIM)	7.46%	7.32%
Net Income	\$38.8 million	\$33.5 million
EPS	\$1.69	\$1.34

Management

- Since October 2021, CEO Brett Pharr has led Pathward Financial Inc’s executive team. Under his leadership, the company has focused on growing its partner-driven business and strengthening its balance sheet strategy. Through its “Partner Solutions” platform (banking-as-a-service) and commercial finance operations, Pathward Financial Inc has sought to build sustainable fee-based revenue streams.

Geography

- Pathward Financial Inc operates across the United States, with a significant presence in South Dakota, Kentucky, Pennsylvania, and the wider Midwest region, serving both local communities and business partners.



Industry Overview (U.S Regional Banks)

Business Model

Regional banks have two sources of income, interest-based and non-interest based:

Interest-based

Banks receive money from their customers. The banks will then lend out these deposits to receive interest and make a profit. They can do this through a variety of methods such as:

Mortgages



Credit Cards



Other types of loans



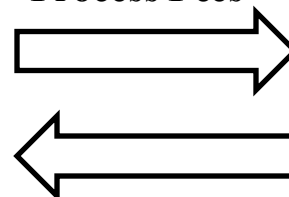
Non-Interest based

Banks can also receive payments not tied to interest by receiving fees such as:

Card Fees



Process Fees

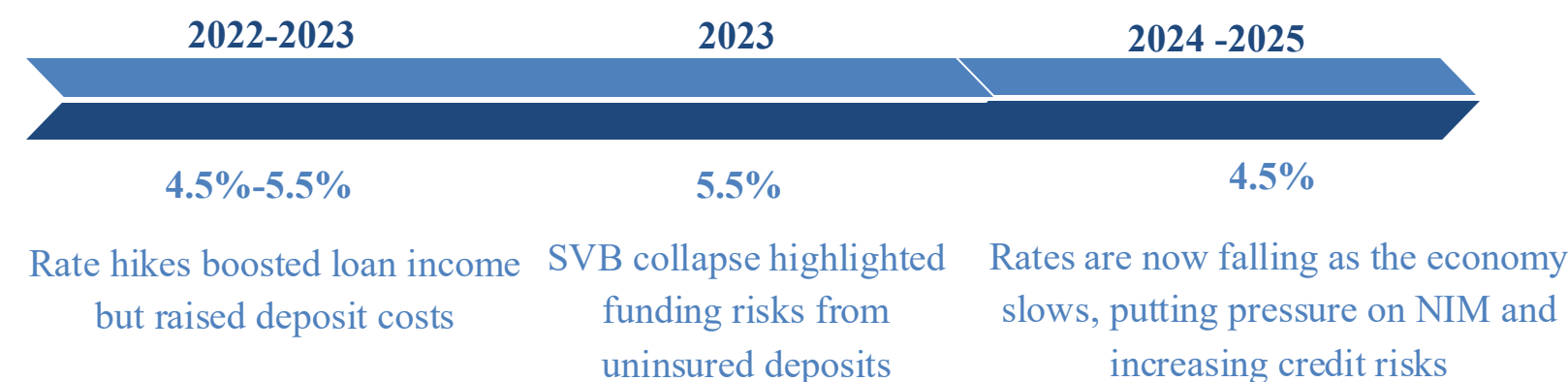


Professional Services Fees

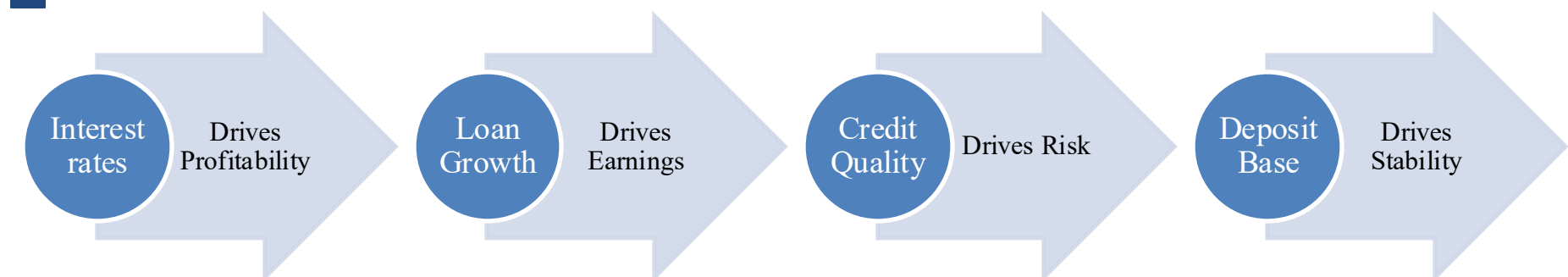


Banks also incur a variety of expenses such as employee salaries and regulatory compliance costs.

Recent Backdrop



Key Drivers



Current Industry Trends

Lower interest means lower profitability

The Federal Reserve is expected to cut interest rates over the next few years, narrowing banks' net interest margins and reducing returns on loans and bond investments

Lower GDP growth means higher risk

Slower GDP growth will raise credit risk as weaker business revenues and household incomes increase delinquencies and defaults, especially with falling asset prices reducing collateral values

Higher unemployment means higher risk

Fed Chair Jerome Powell noted in October 2025 that job gains have slowed, signaling softer labor demand and rising unemployment, which further weakens credit quality

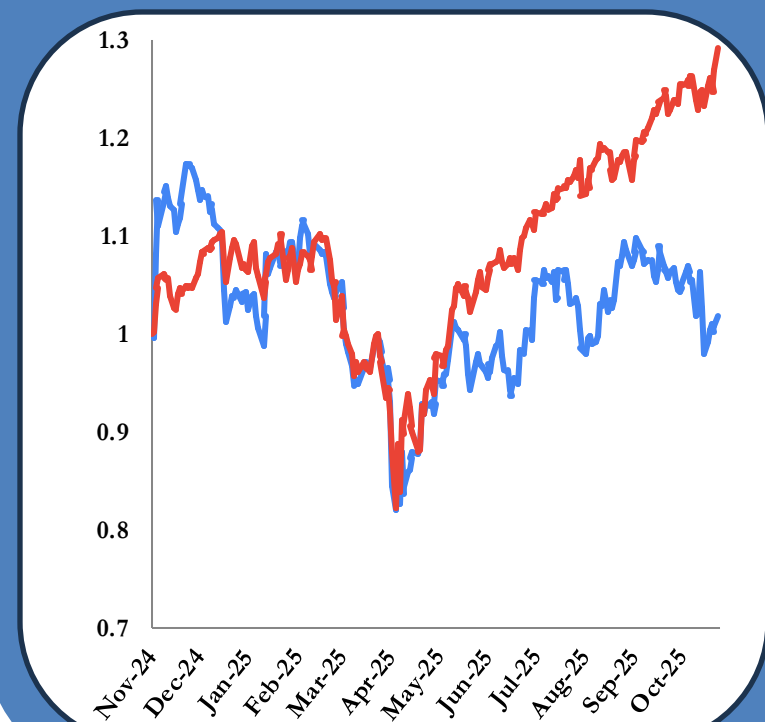
Higher inflation means higher risk

Inflation remains above target at about 2.8%, which increases the cost-of-living and erodes consumers' disposable income, weakening their ability to repay debt

Market Expectations

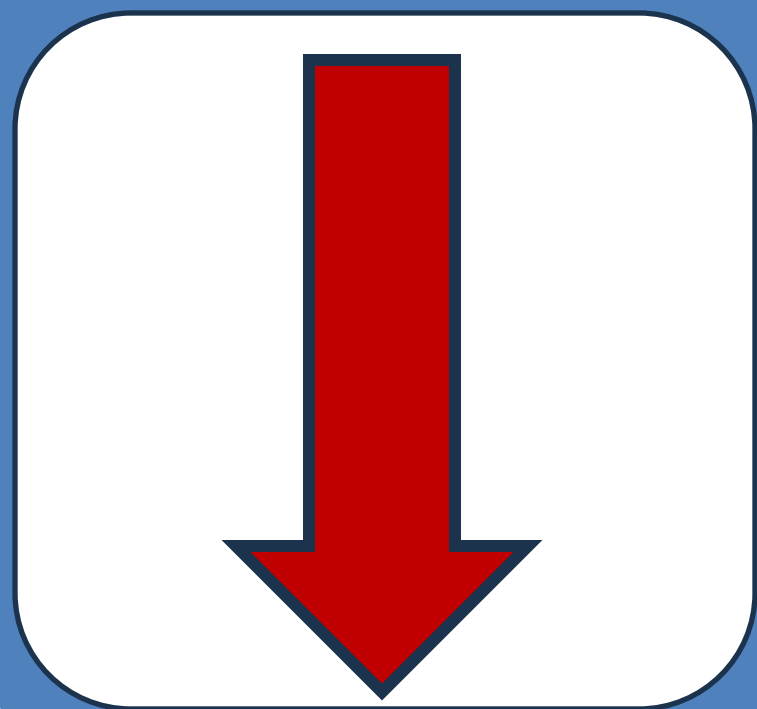
The market is assuming interest rate will result in lower NIM for banks

The KBW Nasdaq Regional Banking Index is underperforming the Nasdaq composite by nearly 30% over the past year.



The market is applying this trend to Pathward Financial Inc

The market is heavily shorting Pathward Financial Inc 7.32% of their shares have been sold short, and this has increased by 307 bp over the past three months.



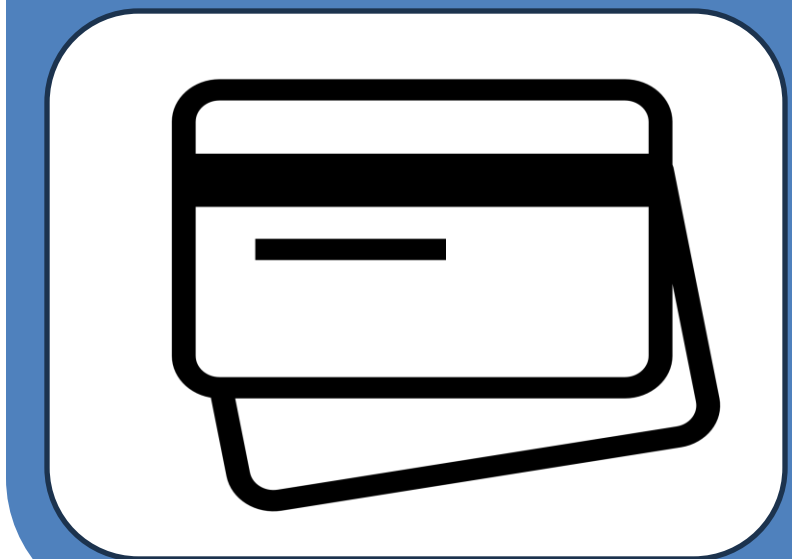
This is because the market is assuming Pathward Financial Inc is just another a regional bank

The market is assuming Pathway Financial Inc will suffer along with other US regional banks. This is because the market is treating Pathward Financial Inc as just another regional bank, as GICS and various indexes classify it as such, despite its different business model.



The market is ignoring Pathward Financial Inc move to non-interest and fee-based income

Non-interest income represents ~40% of total revenue with the CFO stating that their EPS growth was “primarily driven by strong growth in non-interest income” in their latest earnings call. Despite this, Pathward Financial Inc valuation is still being impacted by the threat of interest rate cuts.



The market assumes that Pathward Financial Inc will be negatively affected by declining interest rates, similar to other regional banks.

This opportunity exists because:

Pathway Financial Inc is a small-cap stock with only two analyst ratings and therefore very easy to overlook

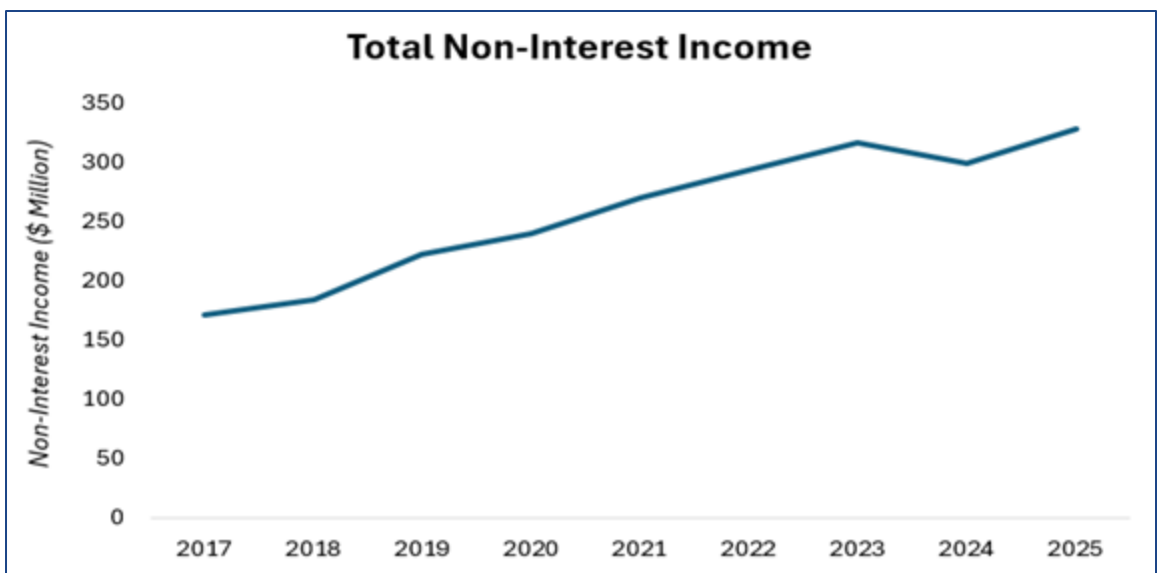
It is easy to group Pathward Financial Inc with other banks, despite differing models, as investors rarely have time to thoroughly review every regional bank.

Thesis

We believe Pathward Financial Inc is mispriced because the market is overestimating its sensitivity to falling interest rates, which will drive upside as earnings prove more resilient than expected.

Significant Portion of Revenue from Non-Interest Income

- Pathward Financial Inc generates a significant portion of its revenue from non-interest income sources, reducing reliance on rate-sensitive interest income.
- In FY2025, non-interest income accounted for 38.5% of total revenue, highlighting the strength of its fee-based business model.
- The absolute value of non-interest income has grown consistently year-on-year, supporting a more stable and predictable earnings profile.



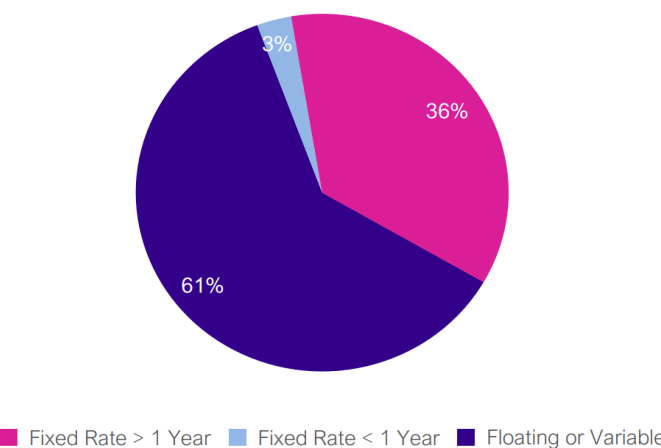
Partner-Linked Deposits Provide a Natural Hedge Against Falling Rates

- Pathward Financial Inc's funding model features a unique embedded hedge: roughly 62% of deposit balances are held under partner-agreements in which processing costs are directly indexed to the Effective Fed Funds Rate.
- Unlike a standard bank, where deposit costs are fixed or change only gradually when interest rates shift, Pathward's partner-linked processing costs reprice immediately with rate changes. When the central bank lowers rates, these costs drop at the same time providing a near-instant reduction in funding expense.
- This results in pressure from asset-side yield compression being partially offset by a decline in the cost of funding, enhancing earnings resilience in a falling-rate environment.

Loan Portfolio Design Reduces Interest Rate Sensitivity

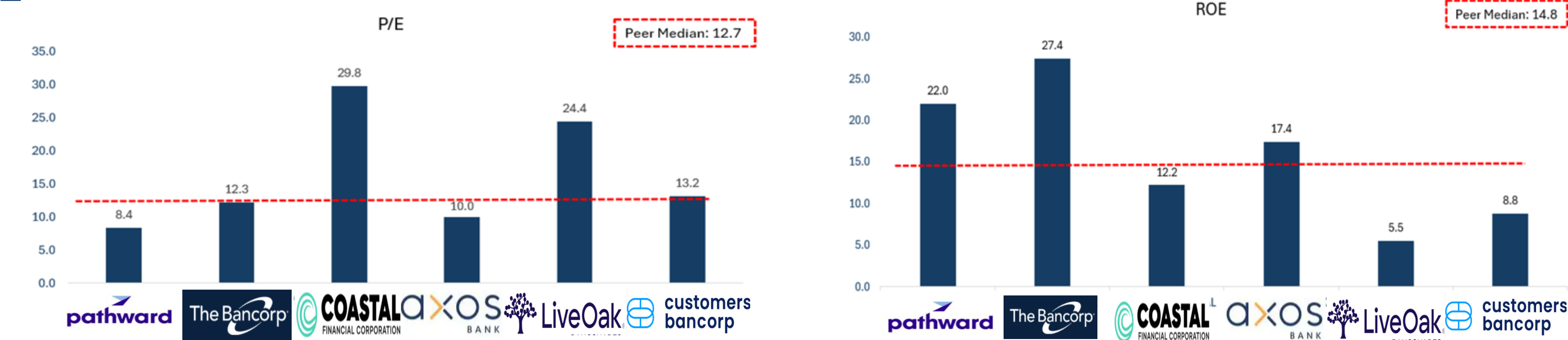
- Pathward Financial Inc's loan book structure significantly limits downside NIM pressure during interest rate cuts. Unlike most regional banks that suffer margin compression when asset yields fall faster than deposit costs, Pathward Financial Inc is structurally insulated.
- Approximately 97% of its variable-rate loans have contractual rate floors, meaning many won't reprice lower even if the Fed cuts rates. Combined with a sizable book of fixed-rate leases and equipment finance, this creates "stickiness" in average loan yields.
- This makes Pathward Financial Inc's net interest margin (NIM) far less sensitive to rate cuts than peers, supporting our non-consensus view that the market is overstating downside earnings risk in a falling-rate environment.

TOTAL LOAN AND LEASE PORTFOLIO PRICING ATTRIBUTES



Valuation

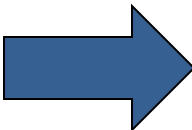
Relative Valuation



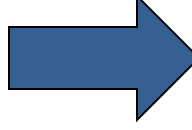
Intrinsic Valuation

This table presents the output of the intrinsic valuation model.

For a detailed breakdown of assumptions and methodology, refer to the appendix.



Scenario	Target Price	Weight
Base	\$128.68	60%
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Weighted Target Price
\$129.20
Weighted Upside
87%

Risks and Catalysts

Pathward Financial Inc faces a series of potential catalysts and risks that could trigger volatility in the company's share price

Risks

If interest rates don't decrease, investors won't get evidence that Pathward Financial Inc's earnings are resilient, which could delay a re-rating or prevent it altogether

Loss or underperformance of a top BaaS program could dent fee income and shake confidence in durability

Even if fee income outperforms, shares may not re-rate if investors view those earnings as volatile or low-quality

Catalyst

The next Federal funds rate announcement on December 10th 2025, will provide information regarding the movement of interest rates

Announced onboarding/scaling of new partners that lift non-interest income and diversify partner concentration.

Investor Presentation with clear rate-sensitivity and fee-mix disclosures. This would reduce uncertainty regarding performance and future profitability.

Appendix: RIVM

To work out the intrinsic value of equity, the Residual Income Valuation Model (RIVM) was applied, using the formula presented.

$$\text{Intrinsic Value per Share} = B_0 + \sum_{t=1}^T \frac{(\text{ROE}_t - r) B_{t-1}}{(1+r)^t} + \frac{(\text{ROE}_T - r) B_T}{(r-g)(1+r)^T}$$

The future book value was calculated using the following formula.

$$B_{t+1} = B_t + (\text{ROE}_t \times B_t) \times (1 - \text{Payout Ratio})$$

The accompanying table outlines the base-case assumptions used in the calculation. Under the bear and bull case scenarios, terminal growth was varied by $\pm 0.5\%$ and projected ROE by $\pm 1\%$ to test the model's sensitivity.

Input	Value
<i>Book Value per Share as at 29/01/2025 (B_0)</i>	37.68
<i>Cost of Equity (r)</i>	9.73%
<i>Dividend Payout Ratio</i>	2.50%
<i>Forecast Horizon</i>	5 years
<i>Terminal Growth Rate (g)</i>	1.8%
<i>Projected ROEs T1,T2,T3,T4,T5</i>	19.82%,19.57%, 19.24%, 19.24%, 19.24%

Disclaimer

Analyst Disclaimer

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