



**EQUITY RISK SCIENCES, INC**  
*Institutional Investment Data Analytics*

# **FANNIE MAE REPORT**

*December 10, 2019*

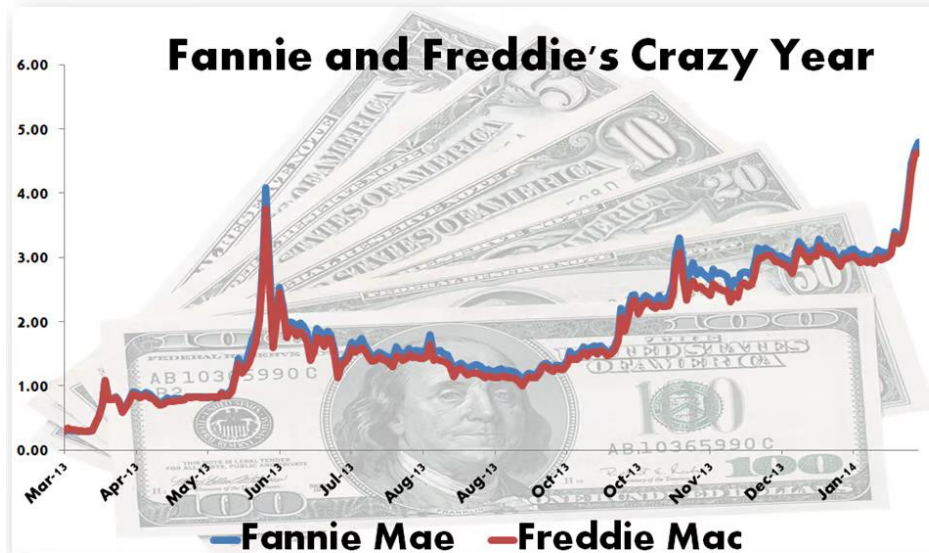
*(with January 11, 2023 update on page 6)*

# FANNIE AND FREDDIE: HOW HIGH CAN THEY SOAR?

[Ackman calls for a 10-bagger return. Does an adjusted earnings analysis agree?](#)

By Alexander MacLennan  
Mar 3, 2014 at 9:50AM

The content on the right is an excerpt from the above article in which Ackman suggested that Fannie Mae's price could rise as much as 10-fold.



“Shares of Fannie Mae (FNMA -3.86%) and Freddie Mac (FMCC -4.36%) have soared over the past few weeks as investors hope these GSEs can return to private hands. With these GSEs reporting billions in quarterly profits and big name investors jumping on board, it's time to examine what the potential upside really is for Fannie and Freddie shareholders.

“Earnings view

Current headlines show that Fannie Mae reported a profit of \$84 billion for 2013 however that figure is not a good way to measure company value. The \$84 billion is largely driven by the recognition of deferred tax assets, a one-time event rather than a recurring one. A more accurate picture would come from excluding the \$50.6 billion gain from the deferred tax assets resulting in \$33.4 billion in net income for 2013.

[...]

“Applying a 10 times price to earnings ratio to these settlement-adjusted earnings would give Fannie Mae a market cap of \$234 billion and Freddie Mac a market cap of \$128 billion. Investors also need to factor in the warrants owned by the Treasury to acquire 79.9% of Fannie and Freddie's common shares. With these warrants exercised, Fannie's shares outstanding would rise to 6.0 billion and Freddie's would rise to 3.3 billion.

“Taking these market caps divided by these shares outstanding yields **an estimate of \$39 for Fannie Mae shares** and \$38.79 for Freddie Mac shares. Of course these are just rough estimates -- a more realistic prediction would be that shares of the GSEs could reach the upper \$30 to lower \$40 range.”

# DID FNMA INVESTORS MAKE 10 TIMES? No!

On February 3, 2014, a month before the article came out, Fannie was trading at \$3.08.

Miraculously, a month later, the stock grew to \$4.56.

In the next 7 days, by March 10th, it was at \$5.82, a gain of 28%.

On March 18th, the stock was \$3.06, right back down to where it started – and a loss of 47% from March 10th.

On October 3rd, 7 months later, the stock was \$1.89:

- A loss of 68% from 3/10/14
- A loss of 39% from 2/3/14

Fannie Mae Price, 2/3/14 to 10/3/14

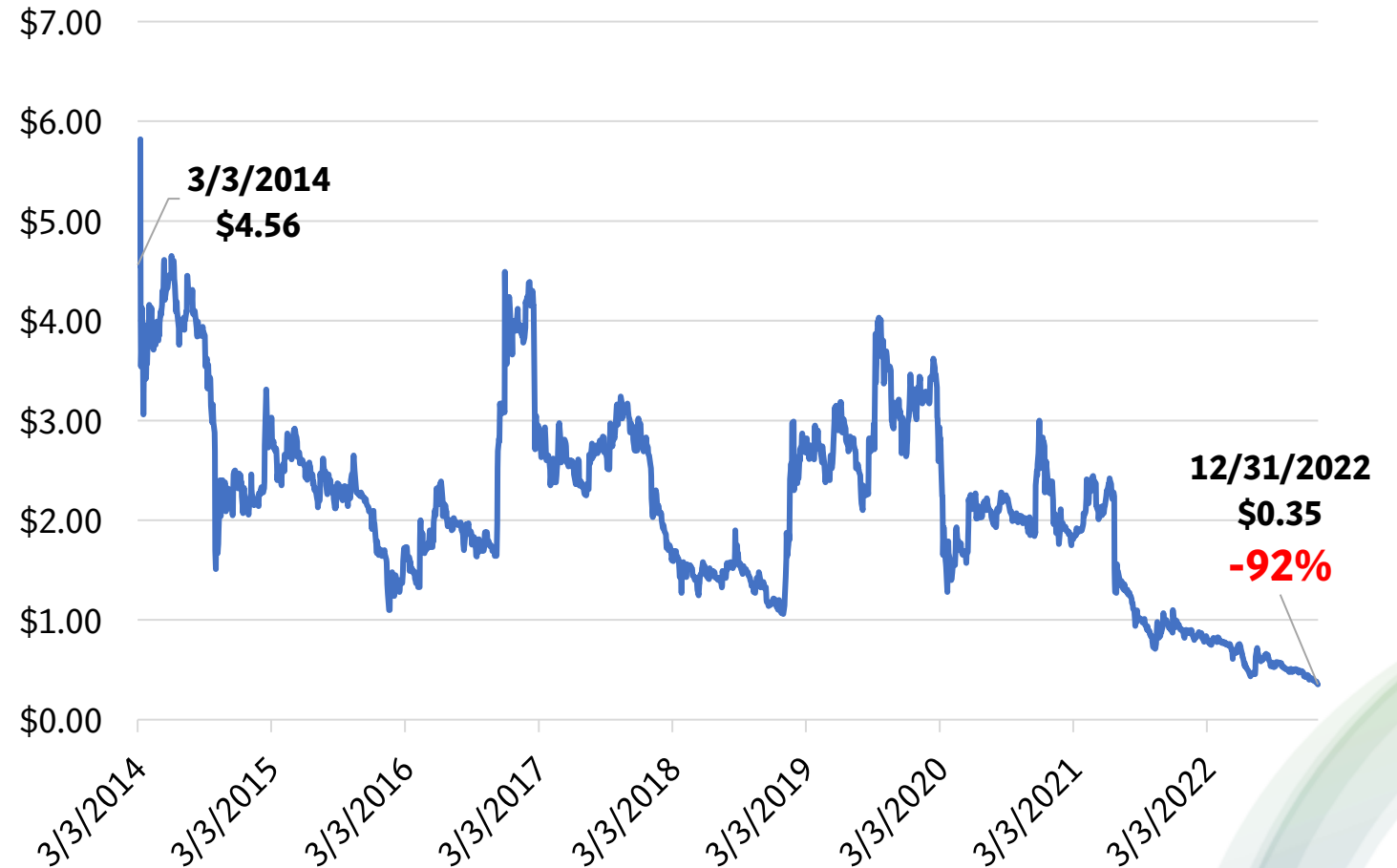


# DID FNMA INVESTORS MAKE 10 TIMES? No!

In the almost 9 years since the article about Ackman's "10-bagger" prediction came out, Fannie Mae's price has fallen by 92%.

In other words, instead of **making 10 times** their money, investors' share are now worth **less than 1/10<sup>th</sup>** of what they were worth on 3/3/14!

Fannie Mae Price 3/3/14 to 12/31/22



# THE 10 YEARS LEADING UP TO FANNIE MAE'S PRICE COLLAPSE IN 2008

On 6/30/1998, 10 years before its price collapsed, Fannie Mae had:

- Revenues of \$5.6 billion
- Market cap of \$62 billion
- Net income of \$3.2 billion

At its peak price, Fannie Mae had a market cap of \$98.8 billion on 6/22/01, and its price was \$87.50. It had revenue of \$7.4 billion, and its liabilities were \$684.9 billion.

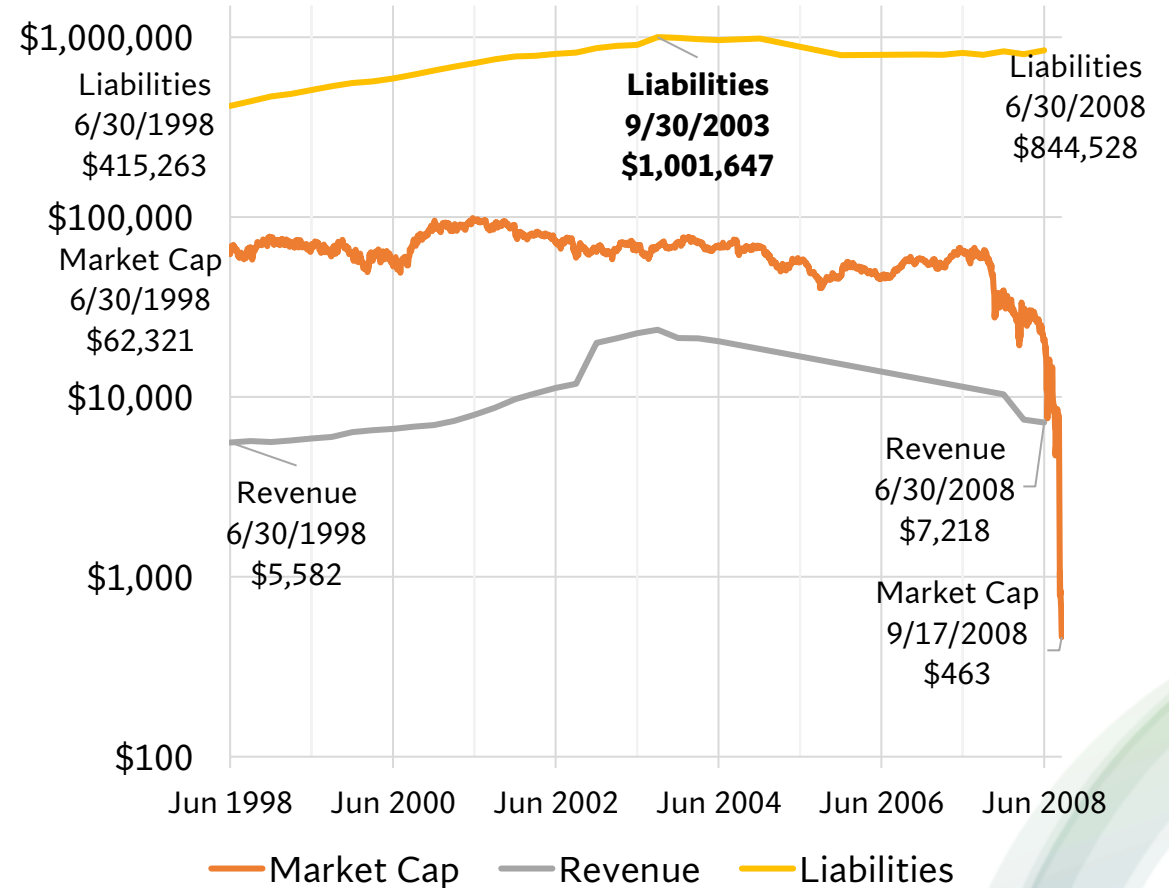
At that point, their net income was \$4.68 billion, which means they had net income to revenue of 63%.

From 6/30/1998 to 6/30/2008, their revenue grew by 29%, but their liabilities grew by 103%.

On 9/17/08, Fannie Mae had:

- Revenues of \$7 billion
- Market cap of \$468 million
- Net **loss** of \$11.68 billion

Fannie Mae, 6/30/1998 to 9/18/2008



# UPDATE TO FANNIE MAE REPORT, 1/11/2023

10 years ago on 9/30/2012,  
Fannie Mae had:

- Revenue of \$31 billion
- Liabilities of \$3.26 **trillion**
- Net income of \$84 billion.

...and its 4D Rating™ was 100.

Fannie's price today, 1/11/2023, is \$0.44 – a **decline of 92%** from its previous high on 3/10/14.

Today, 1/11/2023, their revenues are \$19.4 billion and their liabilities are \$4.2 trillion.

Fannie's revenues decline, their earnings decline and their liabilities are growing.

Why would anybody own this company?

