Granite Point Mortgage Trust Inc.

Third Quarter 2018 Financial Results

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CORPORATE PARTICIPANTS

Jack Taylor - *Chief Executive Officer, President and Director*

Marcin Urbaszek - *Chief Financial Officer*

Steve Alpart - *Chief Investment Officer, Co-Head of Originations*

Steve Plust - *Chief Operating Officer*

Chris Petta - *Investor Relations*

PRESENTATION

Operator
Good morning. My name is Anita, and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust third quarter 2018 financial results conference call. All participants will be on a listen only mode. After the speakers' remarks, there will be a question and answer period.

I would now like to turn the conference over to Chris Petta with Investor Relations for Granite Point. Mr. Petta, please go ahead.

Chris Petta
Thank you, and good morning everyone. Thank you for joining our call to discuss Granite Point's third quarter 2018 financial results. With me on the call this morning are Jack Taylor, our President and CEO, Marcin Urbaszek, our CFO, Steve Alpart, our CIO, and Steve Plust, our COO.

After my introductory comments, Jack will provide a brief recap of market conditions and some business highlights. Steve Alpart will discuss our third quarter originations, portfolio, and pipeline. And Marcin will highlight key items from our financials.

The press release and financial tables associated with today's call were filed yesterday with the SEC. If you do not have a copy, you may find them on our website or on the SEC's website at SEC.gov. In our earnings release and slides, which are now posted in the Investor Relations section of our website, we have provided a reconciliation of GAPP to non-GAPP financial measures. We urge you to review this information in conjunction with today's call. I would also like to mention that this call is being webcast and may be accessed on our website in the same location.

Before I turn the call over to Jack, I would like to remind you that remarks made by management during this conference call and the supporting slides may include forward looking statements. Forward looking statements reflect our views regarding future events and are typically associated with the use of words such as "anticipate", "expect", "estimate", and "believe", or other such words.

We caution investors not to rely unduly on forward looking statements. They imply risks and uncertainties, and actual results may differ materially from expectations. We urge you to carefully consider the risks described in our filings with the SEC, which may be obtained on the SEC's website at SEC.gov. We do not undertake any obligation to update or correct any forward looking statements if later events prove them to be inaccurate.

I will now turn the call over to Jack.

Jack Taylor
Thank you Chris, and good morning everyone. We would like to welcome you all and thank you for joining us for our third quarter earnings call.

We are excited to report another strong quarter for Granite Point. Our originations momentum from the second quarter has continued resulting in solid loan fundings in the third quarter and a health current pipeline of loans that have either already closed or are expected to close over the next couple of months.

We funded approximately $250 million of loans in the third quarter, which, when combined with limited prepayments, helps us grow our investment portfolio and increase our earnings and the dividend. We've continued to sign up new loans at a vigorous pace and generated a pipeline of new senior floating rate loans from approximately $600 million in total commitments and $400 million of initial fundings. To date in the quarter, we have funded over $130 million of loans.

With our solid originations and the strong forward pipeline, we have committed most of our investable capital. As a result, we chose to access the capital markets in early October, successfully issuing over $130 million of five year convertible loans. The net proceeds from that offering provided us with new capital to further grow our portfolio and earnings. It also allowed us to take advantage of the fact that our differentiated origination strategy continues to produce a large volume of attractive investment opportunities across a wide variety of markets.

In the third quarter, we generated core earnings of $0.40 cents per share, an increase of two cents per share over the second quarter. We also increased our common dividend by two cents to $0.42 cents per share, which is the second such raise this year and which we believe provides an attractive current yield to our shareholders. We expect our earnings and dividend to benefit as we continue to grow our portfolio.

At quarter end, our outstanding portfolio principle balance was $2.8 billion and $3.2 billon including our future funding commitments. Our portfolio is 100 percent performing with a weighted average stabilizing LTV of 63 percent and a weighted average asset yield of LIBOR plus five percent.

Senior loans comprise over 96 percent of our investments, and our portfolio is 98 percent floating rate which positions us well for rising short term rates. Consistent with our investment strategy, our portfolio remains diversified across geographic markets, both major and non-major markets, as well as by property type and sponsorship. The portfolio remains weighted towards the office and multifamily sectors, and we don't foresee our overall property type allocation changing significantly in the near term.

We continue to have ample sources of capital to finance our business. We benefit from an array of financing tools across markets as well as from a diversified set of financing counterparties. This all provides us with an attractive and very competitive mix of funding. We continue to evaluate all options available when managing our funding mix and investable capital.

The overall market for commercial real estate lending continues to be favorable, particularly for our strategy focused on second floating rate loans. Real estate fundamentals remain strong across most markets and property types, with ongoing rent growth and improving occupancies. We continue to see strong credit quality in the loans we originate and lending standards in the overall market generally remain rational. Property valuations overall continue to improve, and we believe they are supported by growth in cash flows and strong economic trends.

Competition for loan assets remains lively and has continued to put pressure on loan spreads, though this trend is evading, as we noted in prior calls would likely happen. Even so, we have been able to continue to source ample attractive investment opportunities for our portfolio, in part, we believe due to our differentiated origination strategy and also due to our reputation as a reliable counterparty built through the relationships our team has made through decades of lending.

Improvements in our financing costs, whether through the execution of our CLO or the better funding spreads on our credit facilities, have generally helped us maintain an attractive overall return profile. We don't believe that recent interest rate volatility should have a material impact on our borrowers, their business plans, or real estate transaction buying. In our view, the higher interest rates are a function of a strong economy, which provides fundamental support to the real estate sector.

Now, I will turn the call over to Steve Alpart to discuss our investment activity in more detail.

Steve Alpart
Thank you Jack, and thank you all for joining. We appreciate your time this morning.

I'll spend a few minutes reviewing our third quarter originations and highlighting our progress so far in the fourth quarter. Following strong originations in the second quarter, we maintained our momentum in originations in further building our pipeline.

We closed six new loans with total commitments of approximately $300 million in the third quarter. The decline in our originations quarter over quarter was solely related to the timing of loan closings, as a few of our loans that appear likely to close in September were slightly delayed and ended up closing in early October. The exact timing of loan closings in this business can be difficult to predict with any degree of certainty and can be impacted by many factors during the loan negotiation and documentation process.

Our total fundings in the third quarter were approximately $250 million, comprised of $214 million from initial fundings for the six new loans, two million from upsizing three existing loans, and $34 million from our preexisting loan commitments. The loans we closed in the third quarter are secured by existing, high quality, income producing properties across our target markets. They have a weighted average LTV of 59 percent and a weighted average yield of LIBOR plus 402.

As you may remember from our last earnings call, in the second quarter $100 million plus retail loan prepaid as a result of the business plan being very well executed ahead of the anticipated timeline by a strong sponsor. That loan's prepayment was an excellent result and indicative of the approach we take on retail related investments.

Additionally, at the same time, we also highlighted a large, high quality retail loan that we had in our pipeline. We successfully closed that loan in the third quarter, which because of its size, skewed our origination statistics for the quarter by property, type, and geography.

Both of these loans are examples of the strength of our origination platform, which enables us to find high quality retail assets managed by institutional quality sponsors with track records of successfully executing on their business plans. Overall, our retail exposure remains low, and we feel very comfortable with our retail investments.

We also originated loans in the multifamily and office sectors in the third quarter, which we continue to view favorably. Our mix of property types and markets will vary from quarter to quarter, as will our volume of originations. However, over time, we would expect our portfolio diversification across markets and property types to be pretty consistent unless we see significant shifts in the lending market.

We continue to see a healthy flow of attractive investment opportunities, and we have maintained our strong momentum building our pipeline. We have made total commitments of about $600 million on new senior floating rate loans with initial fundings of about $400 million. We've already funded over $130 million of loans and expect the remainder to close later in the fourth quarter and some potentially in the first quarter of 2019, subject to the typical closing conditions.

We anticipated a low level of prepayments and amortization, and we realized about $27 million in the third quarter. We expect to see prepayments during the remainder of the year as our portfolio seasons. So, it is difficult to predict the amount and exactly when they will occur. As we stated previously, we believe that on a stabilized basis, our portfolio will likely pay off at an annual rate of approximately 25 percent as it becomes more seasoned.

So, in summary, we continue to successfully execute on our strategy and are excited to further build out business and deliver attractive returns to our shareholders.

I will now turn the call over the Marcin for a more detailed review of our quarterly financial results.

Marcin Urbaszek
Thank you Steve, and good morning everyone. Thank you for joining our call. Over the next few minutes, I will review our financial performance as well as our capitalization and liquidity.

Our GAPP net income for the third quarter was $16.5 million or $0.38 cents per share versus $15.2 million or $0.35 cents per share last quarter. Our co-earnings were $17.4 million or $0.40 cents per share versus $16.4 million or $0.38 cent per share in the second quarter.

Actual income for the third quarter was $18.4 million or $0.42 cents per share. The difference between our GAPP and tax income was mainly related to the GAPP to tax differences resulting from our formation transaction last year.

We declared a third quarter dividend of $0.42 cents per common share, which was an increase of two cents per share versus the second quarter. We believe that our dividend offers an attractive current yield to our investors.

Our book value at September 30th was $19 per common share. Our improved earnings and the dividend are a result of the successful deployment of our available capital, higher LIBOR, and improving financing costs.

Our third quarter originations and strong forward pipeline essentially committed our available liquidity early in the fourth quarter. As a result, we access to capital markets in early October, issuing over $130 million of five year senior unsecured convertible debt to provide us with new growth capital and to further diversify our balance sheet.

The net proceeds from this transaction were approximately $127 million, inclusive of the partial exercise of the overallotment option. We are quite pleased with the offering, and we believe it positions us well for future growth.

As a result of this transaction and the interest expense associated with the convertible notes, we expect a moderate drag on earnings in the near term. We believe the impact will be temporary and anticipate that we should return to growing our earnings over the next couple of quarters as we deploy the new capital.

As of September 30th, we had approximately $1.3 billion outstanding on our repurchase agreements and a total borrowing capacity of $2.3 billion across five large institutional lenders. The interest rate on the financing of our newly originated loans has declined anywhere from 25 to 50 basis points, depending on specific assets over the last couple of quarters. This resulted in the overall interest rate on our total outstanding balances of our credit facility decreasing about eight basis points, quarter over quarter.

The lower financing costs on new loan originations, combined with the attractive CLO financing have helped us to offset much of the spread compression on our new loan investments. While the cost of fund and repurchase agreements may vary quarter to quarter, as it is a function of asset mix and repayments, we anticipate that the overall trend of lower financing costs on new originations should continue.

We are pleased with our mix of financing alternatives, and we will continue to evaluate various options available to us to further diversify our balance sheet and continue to optimize our overall cost of capital.

We ended the third quarter with a debt to equity leverage ratio of two and a half times, including the non-recourse CLO debt. We believe we will get closer to three times debt to equity over the next couple of quarters as we deploy the available capital.

Accounting for our pipeline, we currently have liquidity to originate over $400 million of new loans without including any additional potential repayments, which we may realize over the remainder of the year. As we get closer to being fully invested, we will examine different capital raising alternatives at that time to provide us with additional funds to grow our business.

Thank you again for joining us today, and now, I will ask the operator to open the call to questions.

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

The first question today comes from Stephen Laws with Raymond James. Please go ahead.

Stephen Laws
Hi. Good morning. Congratulations on a nice quarter and the continued portfolio growth.

Jack Taylor
Thank you.

Stephen Laws
Jack, I guess, if we could maybe start with--with following up on--on your competition comments. You know, appreciate the color you provided. But, can you maybe give us a little bit more detail on what you're seeing on the largest, say, ten or 15 MSAs versus what you're seeing in the MSAs below that, which I think is probably a little bit more where you operate, given your average loan size. So, maybe a little color on competition across different MSAs.

Jack Taylor
Well, what I'd say is, first, thank you for your question, and it's good to speak with you. I would say that keep in mind that we're active in the top five MSAs for probably something like 40 percent of our portfolio. So, we expand into MSAs six and above. But, we're not only active there.

I would say that we are seeing a bifurcation in the market generally of CLO related assets, meaning those that qualify for CLOs. We're more likely to be found in the upper MSAs, six and above and maybe in the top five just because of the rating agency approach from them. And so, that puts some spread pressure on the smaller markets compared to the top five.

However, I would say we're still finding more pricing power in the smaller markets, in MSA six and above. So, you're right that we were doing smaller loan sizes. That's true also in the top five markets. But, the competition for the top five markets is more fierce than it is for the markets six and above.

Stephen Laws
Great. That's helpful, Jack. Appreciate that. Steve, following up on your comments on the portfolio, especially around repayments, looking at the top 15 loans, it looks like asset 12 has an original maturity of this month. Of the others, it's really only asset five in the first half of next year.

Are there any other material repayment loans we should consider there? I know it's a little bit difficult to project. But, outside of those two, can you provide us any more color on how we should think about taking your origination volume and moving that towards a net portfolio growth number?

Steve Alpart
Hey, good morning. Thank you for the question. It's Steve Alpart. So, Steve we mentioned earlier an annual run rate base of 25 percent still feels like a pretty good number to us. We have a couple of loans that we're tracking that we expect to pay off in 2019. It's hard to predict when they'll pay off. So, we don't really want to be specific about what we'll pay off in Q1 or Q2. But, I think, overall, the 25 percent number, on an annual basis, still feels like a pretty good number to us.

Stephen Laws
Okay. Thanks. And lastly, Marcin, one question for you on the tax GAPP difference. I know it was roughly aligned with taxable and core year to date, I believe, taxable income has exceeded dividend due to exceeded dividend due to some accounting around the formation transaction. Can you provide us any color with what difference remains that'll be realized over time? I don't know if that's two quarters or six quarters or what that time period is. But, any color on that--the remaining taxable GAPP difference that'll come into play?

Marcin Urbaszek
Good morning Steve. Thanks for joining us.

I would say we are largely done with that. There's a few million dollars left. It is highly dependent on when the original portfolio repays or prepays. So, what you saw in Q3--we really didn't have any significant repayment. So, taxable income was much closer to our GAPP and core earnings.

That said, if we have significant prepayments over the next two quarters and those happen to be the loans from that original portfolio, we will advertise probably the rest of that difference. But, at this point, I think I would say it shouldn't be a major driver of our results going forward and our dividends and core should be closer than they have been in the past.

Stephen Laws
Great. Again, congratulations on a great quarter, and thanks for taking my questions.

Jack Taylor
Thank you.

Operator
The next question comes from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Thanks very much. Can you discuss your approach to asset management, how proactive you are in dialogue with borrowers and also if you're seeing any credit issues in the portfolio?

Steve Plust
Hey Jade. This is Steve Plust. I can handle that one.

Asset management's pretty critical to our organization and our investment philosophy. Our culture is that our originators maintain ownership of the assets from closing through final repayment. And they're primarily responsible for tracking the performance of the loans.

Given the nature of these assets, there are periodic conversations that are had between us and the borrowers budget reviews, lease approvals, capital events of that nature. We're pretty active in conversation with our borrowers.

We have a third party servicer. We have multiple third party servicers to engage in what I'll call ministerial data collection and processing. But, we maintain the primary decision making authority over how to manage our portfolio.

That being said, our portfolio is 100 percent performing. We don't have any loans ranked four or five in our risk rankings. And we don't see any potential impairments in our loans in the near term.

That being said, we're managing a portfolio comprised of a large number of loans secured by transitional properties. So, it wouldn't be unexpected or out of the ordinary if, from time to time, one or more loans may migrate downward.

Jade Rahmani
Have you had any recent loan modifications?

Steve Plust
Not from a credit perspective. We had amended a number of our loans to retain them and harvest the value from them as the business plans progress and the sponsors needs differ over time.

Jade Rahmani
In terms of the slowdown in repayments that took place in the third quarter, was there any specific drivers of that since most of the industry is showing a pretty big spike in repayments?

Steve Plust
I can handle that one as well. I can't speak to our competition. But, a couple of factors are, one, our portfolio may be perhaps a little bit younger than that of some of our peers. So, it's possible that our business plans haven't ripened as much as other portfolios. That's one possibility.

Another is, as I alluded to before, we've been fairly active in amending loans over time to harvest them and maintain the asset balances. We work fairly closely with our borrowers. We're aware of their plans, and we've been pretty successful doing so.

Jade Rahmani
Do those amendments show up as new originations or--and are there any modification fees that would result?

Steve Plust
The answer to both is no.

Jade Rahmani
And in terms of how you modify the loans, are you talking about extending the term and adjusting the rate or anything else?

Steve Plust
Extending the term, adjusting the rate, getting more call protection are the three biggies. Situationally, we may provide additional capital for their business plans. We may re-characterize certain future funding from one bucket to the other as the business plan changes, and that's the share of what we're dealing with.

Jade Rahmani
Bigger picture question: What impact do you think additional interest rate hikes are going to have on overall commercial real estate transaction volumes and cap rates, mainly with respect to the stabilized and fixed rate business rather than the transitional floating rate side?

Jack Taylor
This is Jack. Hi Jade.

I'm glad you specified because we don't think it's having much of an effect on the transitional floating rate market, and that's for all sorts of reasons. But, I'll address your question on the fixed rate market.

Interest rates going up should have a dampening effect--but I don't believe a huge effect--on loan volumes in the fixed rate market. Most people are seeking the long term--on a take out of a loan and seeking the long term fixed rate financing as the natural consequence of the evolution of their business plan and the property reaching stabilization.

The rates have not actually--if you look at the forward curve, it's not really predicted to be going up that much over the next period of time. But, if it does, people are still going to be wanting to lock in their rates. So, our view is that the loan volumes in the CMBS market, for example, could be noticeably but not dramatically reduced.

Jade Rahmani
Just as far as how you think about the organization strategically in considering capital constraints, are you considering additional business lines that could complement the core focus and expand the type of products you could provide customers, make better leverage the lending platform you have and existing relationships, joint ventures and things of that nature?

Jack Taylor
Yes. Thank you for that. And what I'd say is we're always evaluating various business opportunities that will drive returns for our business. Our team, as you may know, has strong capabilities to execute on a variety of investment strategies because we've done so over a long set of careers in commercial real estate.

But, since going public last year, we've really been solely focused on deploying our capital, growing the balance sheet, and getting our business to a more run rate performance, if you will. So, we're not currently actively looking to expand our business.

But, that's not to say we wouldn't rule out potential partnerships, JVs, or other initiatives in the future as long as they make sense from a strategic and risk perspective and are beneficial to our shareholders. So, not now, but potentially in the future.

Jade Rahmani
Thanks for taking the questions

Jack Taylor
Thank you Jade.

Operator
Again, if you have a question, please press star then one. The next question comes from Chris Muller with JMP Securities. Please go ahead.

Chris Muller
Hey guys. Thanks for taking the questions. Most of them are answered already. I guess the last one I have here--could you just touch on the CLO market a little bit, what you're seeing competition wise, and then, your appetite for tapping into that again?

Jack Taylor
This is Jack. Thank you for your question.

Let me just make sure I understood. It was a little hard to hear you. The first part was the effect it's having on competition. Was that it?

Chris Muller
No. What you're seeing competition wise in the CLO market with spread compression. Do you think things are bottoming out there at all? And then, just your appetite for turning to that in the future.

Jack Taylor
Alright. Thank you. I understand.

We view the CLO market as a highly beneficial market for firms such as our own because of its advantages having the non-mark to market, non-recourse financing, et cetera and, as you may know--it sounds like you do--we did issue earlier in this year. So, we're always evaluating that market, and we believe that it stays open to issuers like us and still retains the benefits that we looked at earlier in the year.

With respect to its effect on competition, I would say it's a fool's errand to try to predict where bond spreads are going to be going. But, they seem to be holding in nicely. People are originating across the market or originating to CLO execution take outs on their spreads and their loans that they're selecting.

So, we do see an ongoing bifurcation in the market where there are loans that can easily fit into the CLO context, and they're being bid up. There are loans that don't fit so well, and they're not being bid as aggressively. And there are many, many variables that go into that.

But, we are witnessing it, especially it seems as firms get closer to doing prints in the CLO market. You can look back over the past month or so and see that they were getting more and more aggressive on assets and seeking to print. Does that answer your question?

Chris Muller
Yeah, that's helpful. Thank you.

Jack Taylor
Thank you.

Operator
The next question comes from Ben Zucker with BTIG. Please go ahead.

Ben Zucker
Good morning everyone. Thanks for taking my questions.

I wanted to ask about the retail loans a little bit. I know it popped out as a big component in your quarterly originations, and I think I heard your comments about loan sizes skewing that metric a little bit or a lot perhaps.

Still, I think it's clear that you guys haven't red lined that property type. So, just given, the heightened attention around the retail sector, could you discuss what it is that you guys are looking for when you're underwriting a retail property?

Steve Alpart
Hey Ben. It's Steve Alpart. Thank you for the question and for joining.

So, you probably heard us on prior calls talk about retail where we're continuing to be very selective. We're focusing mainly on defensive retail, defensive centers where the tenant's providing essential goods or services, where the tenants are going to be more Internet resistant. It could be grocery anchor neighborhood center. It could be a lifestyle center. We find that that type of retail tends to be the most resistant to threats from ecommerce criteria.

We're very focused on sponsorship. We're very focused on strong demographics, mix of the tenancy. If you'll look at the loan that payed off and the loan that we just did, they're similar size. The one that we just did this quarter was kind of more of an urban lifestyle entertainment center, part of a larger mixed use project, very strong in fill, submarket, very experienced sponsor with lots of equity behind us in the deal, good basis for our loan, good in place cash flow, a light lift type business plan with some upside in the future.

So, that's the big picture and the loan that we just closed this quarter very much fits into that. But, we are still being very selective on retail. We don't have any retail in the pipeline currently, from what I recall, which is not to say that we wouldn't do a retail loan in the fourth quarter. But, right now, we have no retail in the portfolio.

And if you look at the percent of the portfolio, we have no specific limit. But, it's been the level that we're at now where it's been the last couple of quarters.

Ben Zucker
As a quick follow up on that, are you observing less competition now for the retail lending product perhaps marking the risk return profile more attractive from the vantage of a senior secured lender?

Steve Alpart
I think that's probably somewhat true. And the reason I say somewhat true and not very true is because we are focused on very solid credits with the strong--with all the things I just mentioned. So, yes, you can get paid a little bit more on a retail loan. But, the spreads aren't dramatically different because we're being very selective and focusing on what we believe are very--most strong credits.

Ben Zucker
I hear you there. And then, I guess, just lastly--most of my questions were asked and answered. But, how should we think about the pace of deployment around your future funding pool? I think that's like $450 million right now.

I'm wondering is there a quick and dirty kind of schedule you would of provided for repayments, something like 25 percent per year funding, something like that?

Steve Alpart
So, if you look at the end of the third quarter, we had about $440 million of future funding commitments. We typically think of that that not 100 percent of that will fund because often times the loan will prepay before the loan's fully funded. But, we think about it that probably 90 to 95 percent of that will fund over time.

You can see in the third quarter, we funded about $36 million, and we've been seeing, as the portfolio grows, a steady increase in those fundings, quarter over quarter. It's hard to predict an exact number each period. But, funding about 10 or 15 percent of the total remaining balance per quarter is probably a decent estimate with the caveat that that will very much vary quarter to quarter.

Ben Zucker
Sure. That's just helpful to have some kind of a timing estimate. That's it for me guys. Thanks for taking my questions, and congrats on the nice portfolio growth.

Jack Taylor
And thank you for joining us.

Operator
This concludes our question and answer session. I would now like to turn the conference back over to Jack Taylor for any closing remarks.

Jack Taylor
Well, thank you Anita, and we'd like to thank everyone for joining us today and for everyone's support of our business. We look forward to speaking with you all again soon. Thank you.

Operator
This conference is now concluded. Thank you for attending today's presentation. You may now disconnect.