Granite Point Mortgage Trust, Inc.

First Quarter 2019 Financial Results Call

May 7, 2019 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Jack Taylor - *President & Chief Executive Officer*

Steve Alpart - *Chief Investment Officer*

Steve Plust - *Chief Operating Officer*

Marcin Urbaszek - *Chief Financial Officer*

Chris Petta - *Investor Relations*

PRESENTATION

Operator
Good morning. My name is Mike and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust First Quarter 2019 Financial Results Conference Call. All participants will be in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period.

I would now like to turn the conference call over to Mr. Chris Petta with Investor Relations for Granite Point. Mr. Petta the floor is yours sir.

Chris Petta
Thank you and good morning everyone. Thank you for joining our call to discuss Granite Point's first quarter 2019 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 summary of our business activities and brief recap of market conditions; Steve Alpart will discuss our first quarter originations, our 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 GAAP to non-GAAP 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 our first quarter 2019 earnings call. Granite Point had an excellent year in 2018 and we are off to a strong start in 2019 as we continue to execute on our strategy. Notwithstanding the elevated market volatility at the end of the fourth quarter, which resulted in a pronounced slowdown in real estate transaction and lending activity earlier this year, we funded about $280 million of loans during the first quarter. These new fundings combined with our active asset management approach to preserve attractive investments resulted in the growth of our portfolio's outstanding principal balance to

approximately $3.4 billion and to about $4 billion inclusive of our future funding commitments. After record originations in the fourth quarter, which had largely deployed our investable capital, we raised over $150 million of common equity during the first quarter to support further growth of our business.

Additionally, as the fixed income capital markets began to stabilize, in February, we successfully issued our second CLO, an $825 million securitization which was well received and further broadened our CLO investor base. This transaction has a two-year reinvestment period providing us with an enhanced flexibility to actively manage the loan collateral, effectively extending the maturity and thereby, increasing the utility of this financing vehicle. Currently, about half of our loan portfolio is financed through CLOs providing us matched term, non-recourse, and non-mark-to-market financing at attractive terms. Granite Point remains well-positioned to be a repeat issuer in the CLO market. Our investment strategy, which focuses on senior floating rate commercial mortgages, remains a very good fit for the CLO financing markets.

In a further diversification of our funding mix, at the end of April, we closed on a new $150 million financing facility. It is term matched and non-mark-to-market, and structurally resembles an A note type financing. As we continue growing the portfolio, we are also pleased to be increasing and diversifying our financing mix.

Following the slowdown in the market, we have been actively building the investment pipeline and have so far generated over $230 million of senior floating rate loans. We are producing a healthy flow of attractive opportunities for the portfolio and expect to return to our historical originations pace over the rest of the year. The credit quality of the new loans we are originating remains strong and the portfolio is 100% performing. The overall economic backdrop, along with relatively low interest rates, offer a solid operating environment for commercial real estate. Values continue to improve in the first quarter suggesting that the demand for real estate remains strong, which combined with the extensive dry powder still held by the real state property funds, should generate more attractive opportunities for lenders such as Granite Point. Competition for loans has remained rather active and we have seen renewed pressure on loan spreads, driven by, we believe, a number of factors, such as the desire to put money to work after the year end slowdown, new capital allocations, and the CLO market revival, among others. We still find the real estate finance markets attractive and lending standards generally rational.

We are confident about the prospects for our business. We have positioned Granite Point well for future growth, supported by our differentiated origination strategy, our highly talented and respected team, long standing borrower relationships and attractive well-diversified funding mix. We are off to a strong start in 2019 and we look forward to another great year for Granite Point.

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 first quarter originations, our portfolio and our forward pipeline.

Following our record originations in the fourth quarter of 2018, we were able to continue to grow our portfolio in the first quarter, despite higher prepayments and the overall slowdown in transactional lending activities caused by the year-end market volatility. In the first quarter, we closed nine loans, with total commitments of approximately $276 million. Our total fundings were approximately $280 million, comprised of about $235 million of initial fundings for the new loans, about $39 million from our pre-existing loan commitments and about $6 million for an upsized loan. The loans we closed in the first quarter are secured by existing, high-quality, income-producing properties across our target markets and are well diversified across multi-family, office and hotel properties. They have a weighted average LTV of 65% and a weighted average yield of LIBOR plus 376. The property and market concentration of our quarterly originations will vary from period to period, but we don't anticipate the overall portfolio mix changing significantly in the near term.

During the first quarter, we realized about $156 million of prepayments, which were largely driven by the payoff of one of our biggest assets, a $90 million industrial loan. Even though Q1 prepayments were higher than the very low level we realized in the prior couple of quarters, we don't view this prepayment activity as unusual, considering the size and seasoning of our portfolio. This industrial loan is a great example of our active approach to portfolio management, loan-structuring expertise and strong borrower relationships. We emphasize not just credit monitoring, but also preserving attractive investments in our portfolio by amending loans, where appropriate, and potentially enhancing our returns in case of early repayments. Last year, we identified this particular loan as one that could repay early and proactively amended it to provide our borrower with a slightly lower spread in exchange for longer call protection. As a result of the extended yield maintenance period, when the loan repaid, we realized over $900,000 of prepayment fee income in the first quarter.

Despite the higher prepayments, we grew the outstanding principal balance of our portfolio to approximately $3.4 billion and fully committed balance to approximately $4 billion at quarter end. Our investments continue to exhibit strong credit quality with a weighted average stabilized LTV of 63% and a weighted average asset yield at origination of LIBOR plus 471. Senior loans comprised 98% of our investments and over 98% are floating rate. Our portfolio remains diversified across geographic markets, both primary and secondary, as well as by sponsorship and property type with office and multi-family assets accounting for two-thirds of our investments.

Following the slowdown in the overall market activity earlier this year, so far in Q2 we have made total commitments of over $230 million of senior floating rate loans, most of which we anticipate to close towards the end of the quarter, subject to the typical closing conditions. With the new equity capital we raised during the quarter, we will further grow our investment pipeline and expect the new funds to be deployed over the next two to three quarters, depending on the level of prepayments we may realize going forward.

In summary, we are growing our business and look forward to continue delivering attractive returns to our shareholders. I'll now turn the call over to 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. I will now review our financial metrics, capitalization and leverage.

In the first quarter, our overall earnings were up from the prior period with total Core Earnings growing about 4% quarter-over-quarter. However, as we discussed on our last call, our per-share results were impacted by the $150 million of equity capital we raised during the quarter to support further growth of our business. We would anticipate that our results will be affected by the additional shares outstanding over the next couple of quarters, as we continue to commit the new capital and the new loans move through the closing process.

Turning to specifics, our GAAP net income for the first quarter was $16.9 million or $0.35 per share and our Core earnings were $18 million or $0.37 per share. We declared our first quarter dividend of $0.42 per common share, which at our current stock price offers an attractive yield to our investors of approximately 8.7%. Our book value at March 31st was $18.81 per common share, reflecting the dividend exceeding our earnings, as well as the restricted stock grants in January.

In addition to our first common equity offering since our IPO, as Jack mentioned earlier, during the first quarter we also executed our second CRE CLO, which financed about $825 million of our loans at attractive terms. This transaction has a two-year reinvestment period, which provides us much more flexibility to manage the underlying loan collateral and effectively increases the efficiency of the structure. As a result of our CLO issuance, the outstanding balance in our financing facilities decreased by over $500 million from the fourth quarter to just under $1 billion as of March 31st. We have total borrowing capacity on our facilities of about $2.5 billion across six large institutions. We expect our utilization of these facilities to increase over the course of the year as we invest our new capital.

We ended the first quarter with a total debt-to-equity ratio of 2.4 times, including the non-recourse, non-mark-to-market CLO debt. Excluding the non-recourse securitizations, our leverage was only about 1.2 times at March 31st. Both metrics currently reflect our larger equity base and we would expect our leverage to increase over the course of the year as we grow our portfolio and lever the new capital.

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

QUESTIONS AND ANSWERS

Operator
Thank you, sir. 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 the handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. Again, that is star then one to ask a question. At this time, we will just pause momentarily to assemble our roster.

Our first question will come from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani
Thanks very much. I wanted to see if you can give an update on the two risk rated-4 loans from last quarter? And can you comment on whether there are any defaulted loans in the portfolio or any negative credit migration in the past quarter?

Steve Alpart
Hi, Jade, it's Steve Alpart. Good morning. Thank you for joining. Overall credit quality in the portfolio remains high. It's 100% performing. No loans are on non-accrual status. All loans are current. Overall, I feel very good about the credit quality of the portfolio.

Regarding the two previously risk rated-4 loans, we're maintaining those risk ratings for Q1. Both loans are current on debt payments. We do not expect to create any reserves for either of these loans, and we feel that both are well secured. We have no other loans that are risk ranked four or five.

As you know the nature of this business is that some loans will perform, some will go faster than planned, some will go slower than planned. We're closely monitoring the entire portfolio, but we have no major concerns on credit performance in general and again maintaining risk rating on these two loans.

Jade Rahmani

In terms of the renewed pressure that you cited on loan spreads, what's driving that? Is that really just seasonality as people look to rebuild their pipelines and deploy capital early in the year? Some of the other commercial mortgage REITs have actually shown uptick in all-in yields and loan spreads, so just wondering what's driving that.

Jack Taylor
Hi, this is Jack Taylor. Thank you for your question and for joining us. I'd say the competition for loans has returned in full force, and as I said earlier it's pretty elevated. Luckily for the market it's still largely on price rather than on loan structure. In addition to the things that I mentioned earlier, the desire to put money out and capital allocation, the CLO market is not only stabilizing but coming back strongly now.

I would add in response to your question, I think there's a greater conviction by investors both in the private and in the public vehicles as to the appeal of commercial real estate debt investing, and so there continues to be flows into the space.

We've seen an acceleration with spread compression probably in the area of 25 basis points over the last few months on average. Again, that's starting to bifurcate non-CLO and CLO assets with the greater pressure being on multi-family and CLO eligible assets with very strong bids developing, including us for multi-family assets.

Jade Rahmani
Okay. That's good to hear and also good to hear the update on credit quality being stable. Lastly, regarding the earnings outlook and G&A in particular, was the 1Q G&A rate inclusive of stock compensation? Is that in-line with where we should project for the full year on an annualized basis, or were there any acceleration of stock grants and other fixed costs in that number? And a related question, when do you expect Core earnings to fully cover the dividend?

Marcin Urbaszek
Hey, Jade, it’s Marcin. Good morning. Thanks for joining us and for your question. Our overall expenses for Q1 were driven by multiple factors. Our management fees obviously grew as we raised capital. It was the first quarter where we recognized an incentive fee, our servicing expenses were a little higher this quarter, as our portfolio grew and we also did the CLO.

We recognized a higher non-cash equity comp expense this quarter related to the change in accounting methodology for restricted stock, which went from being based on prevailing stock price to the grant price, which those are just new rules. We also had some new grants in January so that increased the expense as well. I wouldn't expect that number to be $1 million a quarter going forward, Q1 is definitely higher. We also had some few one-time items, including costs related to our office move and double rent we incurred for the quarter as we were preparing our new space, which combined probably for about $0.01 per share and some higher comp costs.

I would say, we would estimate a run rate for G&A, which includes other G&A expenses, plus servicing costs, that's kind of how we're looking at it, probably in the low 2% of capital though there may be some variability quarter-over-quarter.

Regarding earnings and the dividend, as we deploy the capital that we have right now, which we probably have liquidity for over $800 million of loans as we sit today, I would expect Core get closer to the dividend in the second half of the year.

Jade Rahmani
Thanks very much.

Marcin Urbaszek
Thank you.

Operator
Again, as a reminder, if you would like to participate in today's Q&A, please press star then one on a touchtone phone. Again, that is star then one to ask a question. We will just pause momentarily to assemble our roster. We have a follow-up from Jade Rahmani, KBW.

Jade Rahmani
Hello, again. In terms of the second quarter do you anticipate an uptick in earnings, or will the full impact of the equity raise cause a decline in earnings from the $0.37 you reported this quarter?

Marcin Urbaszek
Hey, Jade. It's Marcin again. It's hard to say. Obviously, there's going to be a full impact of the shares. I think some of the one-time items I mentioned on the expenses will go away. It's hard to predict exactly what the earnings will be. Based on our pipeline right now, what Steve mentioned in his prepared remarks, we would expect the portfolio to be slightly higher in Q2 with most of the loans closing towards the end of the quarter. So I would, again say it's hard to predict what exact numbers will be, but some of these factors I mentioned will play out.

Jade Rahmani
Thanks very much.

Marcin Urbaszek
Thank you.

Operator
Again, as a reminder, please press star then one to join the question queue. Next we have Steve Delaney of JMP Securities.

Chris Muller
Hi, guys. It's actually Chris Muller on for Steve today. Just a quick one on repayments and closings in the quarter, do you think that the repayments are going to come late in the quarter as well, or is there going to be a little bit of a mismatch there with the closings expected to come a little later? Thanks.

Steve Plust
Hi, Chris. This is Steve Plust. With respect to prepayments, I think it's accurate to say that prepayments that occurred this quarter should occur later in the quarter. With respect to originations, I will turn it over to Steve Alpart.

Steve Alpart
Yes. So I think that for Q2, I would say most of the originations will occur towards the end of the quarter.

Chris Muller
Got it. Thank you.

CONCLUSION

Operator
At this time we're showing no further questions. We'll go ahead and conclude the question-and-answer session. I would now like to turn the conference call back over to Mr. Jack Taylor, Chief Executive Officer. Mr. Taylor?

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

Operator
We thank you, sir and to the rest of the management team for your time today. The conference call has now concluded. At this time, you may disconnect your lines.