Granite Point Mortgage Trust, Inc.

First Quarter 2021 Financial Results

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CORPORATE PARTICIPANTS

Jack Taylor – *President and Chief Executive Officer*

Steve Alpart – *Chief Investment Officer and Co-Head of Originations*

Peter Morral – *Chief Development Officer and Co-Head of Originations*

Steve Plust – *Chief Operating Officer*

Marcin Urbaszek – *Chief Financial Officer*

Chris Petta – *Investor Relations*

PRESENTATION

Operator
Good morning. My name is Sarah and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust's First Quarter 2021 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 call to Chris Petta with Investor Relations for Granite Point.

Chris Petta
Thank you, and good morning everyone. Thank you for joining our call to discuss Granite Point's first quarter 2021 financial results. With me on the call this morning are Jack Taylor, our President and Chief Executive Officer; Marcin Urbaszek, our Chief Financial Officer; Steve Alpart, our Chief Investment Officer and Co-Head of Originations; Peter Morral, our Chief Development Officer and Co-Head of Originations; and Steve Plust, our Chief Operating Officer.

After my introductory comments, Jack will review our current business activities and provide a brief recap of market conditions. Steve Alpart will discuss our portfolio, and Marcin will highlight key items from our financial results.

The press release and financial tables associated with today's call, as well as our Form 10-Q, 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, which are uncertain and outside of the company's control. 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 similar expressions. 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, including our most recent 10-K and 10-Q reports, 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 to our first quarter 2021 earnings call. We hope everyone continues to stay healthy and safe.

The first quarter of 2021 was Granite Point's first as an internally-managed REIT and we are excited to report solid performance across our business. Yesterday afternoon, we reported strong distributable earnings of $0.38 per share, well in excess of our dividend of $0.25 per share. This was accomplished while we have continued to maintain an elevated level of liquidity on our balance sheet. Our earnings benefited from the in-the-money LIBOR floors on our loans, the continued strong credit performance of our portfolio, with 100% collections of contractual interest, and lower operating expenses. In March our Board decided to increase our dividend from $0.20 to $0.25 per share, and we believe the dividend has more room to grow as we rationalize our liabilities and grow our portfolio over time. The results generated by our business over the past year illustrate the resilience of our strategy across various market cycles.

With the improved tone in the real estate and capital markets, towards the end of the first quarter we restarted our new loan originations and continue to build our pipeline of attractive investment opportunities benefiting from the strong reputation Granite Point has established in the lending market. Commercial real estate transaction volume has been steadily increasing and the lending market is very active. Despite the level of competition among lenders, we believe the returns currently available on new investments remain compelling and similar to pre-pandemic levels. Over the course of the year and assuming a stable market environment, we will grow our pipeline of new originations to match and then exceed the volume of portfolio repayments, as we redeploy our excess capital.

Along with building our pipeline and growing our portfolio, we continue to execute on our strategy to further diversify our financing mix. As previously discussed, during the first quarter, we closed a new term financing facility with Goldman Sachs, which provided us with about $349 million of term-matched and credit non-mark-to-market funding. As a result, we currently have no outstanding borrowings on our Goldman repurchase facility and are negotiating a new term for this facility.

Additionally, and as announced earlier this week, we priced our third commercial real estate CLO, which is anticipated to close on or around May 14th. This $824 million transaction achieved very attractive terms with an 83.25% advance rate and a significantly improved cost of funds of LIBOR+162 basis points, before transaction costs, while financing 27 of our loans on a non-mark-to-market, term-matched and non-recourse basis. We have consistently viewed the CLO market as a highly beneficial component of our diversified funding sources and are very pleased to have accessed this market again. Upon closing of our CLO, the percentage of our credit non-mark-to-market financing will increase to about 70% of our loan-level borrowings, which achieves our previously discussed targeted goal of two thirds. Since 2018, we have issued three CLOs totaling about $2.5 billion and have established Granite Point as a well-respected, repeat issuer in this market, which we intend to opportunistically access over time as we grow our portfolio and continue to actively manage our liabilities.

Granite Point is off to a great start to 2021 with strong earnings supported by the resilient credit characteristics of our portfolio, the benefits from the LIBOR floors imbedded in our loans, and our improving capital structure. We will continue to actively manage our investments and any potential credit events, which we believe will be relatively isolated though not unexpected considering the pandemic's impact on the real estate market, as certain loans are resolved. Given the improving economic and real estate market fundamentals, we are optimistic about our performance for the rest of the year and beyond. We believe we have positioned our company well to take advantage of emerging investment opportunities in the current environment and for future growth. We will continue on our strategy of delivering attractive risk-adjusted returns while providing meaningful downside protection by originating floating rate senior first mortgage loans on institutional quality properties owned by high quality sponsors with value-add business plans. Over time, we will emphasize redeploying our excess liquidity to support our earnings and dividends, rationalizing the mix of our liabilities while further diversifying our funding sources, and achieving greater economies of scale as we grow our business as an internally-managed REIT.

I would now like to turn the call over to Steve Alpart to discuss our portfolio and recent activities in more detail.

Steve Alpart
Thank you Jack, and thank you all for joining our call this morning.

Our portfolio has continued to perform well in 2021 with 100% of contractual interest payments received through April. We ended the quarter with a portfolio outstanding principal balance of about $3.9 billion across 100 loans, with around $450 million in future funding obligations, which account for only about 10% of our total commitments. During the first quarter, we funded $37 million of loan balances on prior commitments. We realized about $100 million of loan payoffs in the first quarter and an additional $120 million so far in the second quarter, including a $70 million hotel loan, as a result of continued improvement in market conditions and the credit quality of our portfolio. We expect this pace of loan repayments to continue with an acceleration in the latter part of the year as economic activity and transaction volume picks up, though the actual volume is likely to vary from quarter to quarter. Even during the challenged market of 2020, we had repayments in excess of $500 million, which we believe will be well exceeded this year.

Turning to asset management, over the last few months, we have seen a decline in the volume of loan modification requests, as market conditions continue to improve. We continue to work constructively with certain of our borrowers whose properties remain impacted by the pandemic. During the first quarter, we modified 9 loans with an aggregate principal balance of about $395 million. We also deferred and capitalized approximately $4.5 million of interest, which reflects these modifications as well as others that are currently effective from prior quarters. Most of the loans amended in Q1 had been previously modified on a shorter-term basis, and the general theme is that we are seeing institutional quality borrowers with high quality properties acting responsibly and making ongoing financial commitments to their assets. Last quarter, we highlighted $240 million of "watch list" loans that have been particularly impacted by the pandemic. We remain in active dialogue with these borrowers, and to date, there haven't been any major developments to report.

Our risk ratings were very stable in Q1 versus the prior quarter. At March 31st, we didn't have any new loans that were risk rated "5". We had one risk rated "4" loan that moved to "3" and the other credit migration was mainly positive, including one $70 million hotel loan being upgraded from a rating of "3" to a "2", in anticipation of a repayment, which as just mentioned earlier, occurred as expected in Q2. We are in ongoing discussions with the borrower on the $67 million hotel loan in Minneapolis that was risk rated "5" and are evaluating a variety of potential options. Overall, the credit quality of our well-diversified loan portfolio remains strong and we are confident it will deliver attractive results over time.

As Jack mentioned, we resumed new loan originations during the first quarter, consistent with the improving economy, overall market conditions and positive trends in our portfolio, and are beginning to redeploy some of our excess capital to take advantage of new investment opportunities. Our current investment pipeline consists of senior loans with total commitments of over $145 million and initial fundings of over $105 million. We expect most if not all of these loans to close during the second quarter. Our pipeline mainly includes loans to strong sponsors on multifamily properties with attractive credit and return profiles. We expect our pipeline of new investments to grow significantly in the coming quarters, as we review a dramatically larger set of investment opportunities and reinvest capital released from loan repayments and our most recent CLO. We will continue to focus on multifamily and other property types with favorable fundamentals, and will remain opportunistic in selecting the best investments for our portfolio that meet our desired return and credit characteristics. As we noted previously, our pace of new loan originations in 2021 will largely depend on the volume of loan repayments; however, we anticipate also redeploying some of our excess liquidity over the course of the year as market conditions continue to improve.

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

Marcin Urbaszek
Thank you, Steve. Good morning, everyone and thank you for joining us today.

Yesterday afternoon, we reported strong first quarter results, with a GAAP net income of $28 million, or $0.51 per basic share, which included $9.1 million, or $0.17 per share in decrease of our CECL reserves. The decrease in our reserves was mainly driven by the loan repayments and improving microeconomic forecasts employed in our analysis. At quarter end, our allowance for credit losses was $63.1 million, or $1.14 per share and represented about 146 basis points of our total loan commitments.

Distributable earnings for the first quarter were $20.7 million, or $0.38 per basic share and excluded the non-cash decline in CECL reserves. Our book value increased by $0.30 per share to $17.22 at March 31 from $16.92 at year end. The increase was the result of the release of our CECL reserves and earnings meaningfully covering our dividends. In March, our Board of Directors declared a regular common stock cash dividend of $0.25 per share, which was increased from $0.20 per share in the prior quarter. Going forward, the main factors influencing our run-rate earnings are expected to be the volume of loan repayments, the pace of deployment of our excess liquidity, and potential interest expense savings from refinancing of our term loan, which will be largely dependent on capital market conditions. Our earnings continue to benefit from the LIBOR floors embedded in our loans, with a weighted average of 157 basis points. Over time, as we receive more loan repayments and originate new investments with lower LIBOR floors, our net interest spread is likely to compress.

We ended the quarter with about $255 million in cash. And as of May 5, we had approximately $229 million in cash plus our option to draw an additional $75 million in term loan proceeds through the end of September of this year. Our total debt-to-equity leverage at March 31 was 3 times, down from 3.2 times in the prior quarter and our recourse leverage, which excludes our CLOs and other non-recourse borrowings was at 1.7 times. Given current market conditions, we would anticipate our total leverage to be in the range of 3 times to 3.5 times debt-to-equity depending on developments in our portfolio, such as the pace of new loan originations and volume of repayments. As Jack mentioned, earlier this week we announced the pricing of our third CLO, an $824 million transaction with an advanced rate of 83.25%, at a cost of funds of LIBOR plus 162 basis points before accounting for transaction expenses. We are very pleased with this transaction, as it provides us with very attractive cost of funds and increases the percentage of our non-mark-to-market low level financing to about 70%. In addition, upon closing, the CLO is expected to also release about $50 million of additional liquidity, which we expect to redeploy into new originations in the coming months.

Finally, I would like to discuss the warrants we issued as part of our term loan last year and their potential impact on our book value. As a reminder, we issued a total of about 6.1 million warrants for the entire $300 million commitment. However, since we initially drew $225 million, there are about 4.6 million warrants that are effectively outstanding currently. The remaining 1.5 million warrants would vest if we decided to draw the remaining $75 million in proceeds on the term loan. Upon exercise, these warrants can be settled in either cash or net shares at the company's option. At a recent stock price over $13 per share, dilutive effect on our book value would be approximately 3%, assuming the cash settlement option and about 4%, in the case of the net share settlement option.

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

QUESTIONS AND ANSWERS

Operator
Thank you. 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 from the question queue, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Doug Harter with Credit Suisse. Please go ahead.

Josh Bolton
Good morning, everyone. This is Josh Bolton on for Doug, appreciate the time. Hopefully you can talk about your thoughts around liquidity. The cash on hand update was helpful. It still feels elevated, especially versus where you guys are running pre-COVID. So, just trying to get a sense of what a steadier state level of liquidity looks like, as the market normalizes. Thanks.

Marcin Urbaszek
Hi Josh good morning, It's Marcin. Thank you for joining us. Thanks for your question. Yes, so as we said, and in prior calls, we have some excess liquidity, but also, as you just heard us say on our prepared remarks, we intend to deploy some of it over time. It's hard to tell exactly what the balance is going to be. It obviously will depend on pace of originations and pace of repayments, which as you just heard, we expect to accelerate a little bit in the second half of the year. On a net basis we expect the excess liquidity to go down over time.

Josh Bolton
Great, it makes sense. Then I guess shifting gears a little bit, the $70 million hotel loan that was upgraded and prepaid in the second quarter. Any color you can give us around what type of hotel that was or any what was the resolution? Was it a sale or a refinance or something else? Thanks.

Steve Alpart
Hi, good morning Josh, it's Steve Alpart. No real update from last quarter, the type of hotel, it's a full-service hotel that we mentioned last quarter. It's located in the Minneapolis CBD, it's a great asset.

Jack Taylor
Steve, he was asking about the loan that's paid off.

Steve Alpart
Yes, also a full-service hotel and the resolution on that one was that it was purchased by a large private equity firm at a very attractive price.

Josh Bolton
Great. Thanks for details.

Operator
Again, if you would like to ask a question, please press star, then one. Our next question comes from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Thank you very much. Could you elaborate on the warrants and how you are thinking about potential settlements, I know that you gave color.

Marcin Urbaszek
Hi Jade, its Marcin.

Jade Rahmani
Thanks. Hi, Marcin. I know you gave color on the potential dilutive effect. Is the company's perspective that given its cash position that cash settlement is more likely? Thanks.

Marcin Urbaszek
Thank you for the question. The warrants can't be exercised for the first year. So, that's one thing. They can't be exercised through September of this year. The option we like is the optionality of cash versus stock, because depending on where the stock price is at the moment, if they get exercised, we can help limit dilution. Obviously, today because stock is below book value, cash is cheaper on a relative basis in terms of dilution effect. I think it will largely depend on where we are in terms of valuation and our balance sheet overall, if they get exercised.

Jade Rahmani
Okay, and do you think they are likely to be exercised or is it too hard to predict at this point?

Marcin Urbaszek
It's really hard to tell.

Jade Rahmani
Okay. Turning to the outlook for M&A, there has been a lot of discussion this quarter from mortgage REITs about it. Jack, I was wondering if you could give your thoughts and whether do you think combining with another firm that perhaps doesn't have middle market emphasis that Granite Point has would make sense and could be accretive?

Jack Taylor
Well, we are focused on growing our book, and we are not in any discussions. We wouldn't be able to tell you if we were, but I will tell you we are not pursuing anything like that. The whole industry is in a recovery and reacceleration mode, including us. So, there has been some discussion in mortgage REITs, I think often prompted by questions from a particular analyst. But my point is that we are not looking to that in the near or intermediate term.

Jade Rahmani
Okay. Thanks very much.

Jack Taylor
Thank you.

Jade Rahmani
The watch list loans, I think the dollar amount you said was $240 million. Just want to make sure I got that correct.

Stephen Alpart
That's correct.

Jade Rahmani
Okay, and that was unchanged from last quarter.

Stephen Alpart
That is correct.

Jade Rahmani
Okay, over what timeframe do you anticipate those loans to come to some type of resolution?

Stephen Alpart
That's a great question. We are really good monitoring all of these loans, and obviously these four watch list loans in each particular situation is obviously a little bit different. So really, I guess all I would say that there is no real update from last quarter. We will give this information as we have it, but there is no specific timeline on that right now.

Jade Rahmani
Okay. Lastly, is there just one loan on non-accrual at this point?

Stephen Alpart
Yes, that's correct. It's the same. It's a relatively small loan that was put on non-accrual, I believe in the fourth quarter. It's the same one that's on non-accrual in the fourth quarter.

Jade Rahmani
Thanks for taking the questions.

Stephen Alpart
Thanks Jade.

Operator
Our next question comes from Chris Muller with JMP Securities. Please go ahead.

Chris Muller
Hi, guys, thanks for taking the questions. I am on for Steve today. On the CECL reserve release I appreciate your comments on it Marcin. Just thinking a little bit deeper, was the majority of that driven by macro assumption improvements or specific loans either paying off or improving on the risk scale?

Marcin Urbaszek
I would say it's a mix. I think the majority of it is related to the macro assumptions. Obviously, we had a lot of hotel loans repay. In the second quarter there was a little bit allocated to that, but it was mostly on a macro level.

Chris Muller
Alright. Thank you. Other than multifamily, which you guys mentioned in your comments, are there any other asset classes that you like going into 2021? I know we have heard competition of Multifamily elevated right now? Thanks.

Jack Taylor
I will address that. We are doing two things. We are always balancing our competing interests and needs. So, there's levels available in the market. There is also portfolio composition, and also credit dynamics. So, giving all that together, we are shifting our mix a bit so it's more, at least initially, of a focus on Multifamily and Warehouse Logistics, as well as some Self-Storage, Life Sciences, and some well leased Office. This is largely driven by portfolio composition and trends that we think will occur over time. For example, Multifamily are across our portfolio and others, the ones that are prepaying the fastest. So, to maintain your balance on that you need to originate more. For example, and we'll also

de-emphasize more of the impacted classes, such as hotel and retail, at least in the near-term. But we've always classified, talked about, and originated these assets over many years, know them well, like them and know how to pursue them.

Chris Muller
Great. Thanks for the comments, everyone and congrats on strong start today.

Jack Taylor
Thank you.

CONCLUSION

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

Jack Taylor
Thank you for all your questions. Thank you everybody for listening to our call today. We look forward to a continuation of a very strong first quarter into the rest of the year, both as the market recovers and as the economy opens up, and as we take advantage of the opportunities ahead of us. Thank you again and we wish you all a good safe healthy next quarter. Thank you.

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