Granite Point Mortgage Trust, Inc.

Third Quarter 2020 Financial Results

November 10, 2020 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

John "Jack" Taylor - President and Chief Executive Officer

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

Steven Plust – *Chief Operating Officer*

Marcin Urbaszek – *Chief Financial Officer*

Chris Petta - *Investor Relations*

PRESENTATION

Operator

Good morning, everyone. My name is Jamie, and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust's Third Quarter 2020 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.

At this time, I'd like to turn the conference call over to Chris Petta with Investor Relations for Granite Point. Sir, please begin.

Chris Petta

Thank you, and good morning everyone. Thank you for joining our call to discuss Granite Point's third quarter 2020 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 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. 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, 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 and thank you for joining our third quarter 2020 earnings call. We hope everyone continues to stay safe and healthy.

I am happy to report that we made substantial progress since we last spoke as we continue to navigate the historic challenges in our market and the broader economy. With a goal of further bolstering our balance sheet, we secured a $300 million strategic long-term financing commitment to enhance our liquidity and financial flexibility and to take advantage of future growth opportunities as they develop. With the improved liquidity, our Board reinstated our quarterly dividend as our portfolio continues to generate strong earnings and cash flows. As previously disclosed, we also entered into a definitive agreement with our manager to internalize the company's management function. This process is expected to be

completed at the end of the year, which I will discuss a bit later in my remarks. We remain focused on actively managing our portfolio and working with our borrowers through the ongoing dislocation within the real estate market to preserve value for our stockholders. We firmly believe that we have a lot of embedded value not only in our assets, but also in our business given our deep and experienced team and our investment strategy. We are confident that our time-tested experience managing through multiple cycles will ultimately deliver strong returns to our stockholders over the long-term.

Our portfolio continues to generate solid returns and overall credit performance remains strong as our sponsors protect their properties through the business interruptions. During the third quarter, and through the October payment dates, we have collected over 99% of our contractual debt service payments. As of quarter end, we did not have any loans risk rated five or any impairments or specific reserves for loan losses. However, we have been through multiple credit cycles over our long careers and have seen that real estate fundamentals and values often lag shifts in the overall economy. We would be too lucky for our portfolio to be unaffected by this environment and are mindful of the potential for borrower fatigue, as the negative impacts of the pandemic persist or drag out. The ultimate credit outcomes for our portfolio as well as those of others will significantly depend on the recovery path of the economy and the impacts on commercial real estate owners and their properties.

As we discussed on prior calls, one of our strategic goals has been to bolster liquidity and further stabilize our liabilities. We are extremely pleased with the $300 million financing commitment we obtained from a well-known and respected institutional investor. Our goal was to partner with a sophisticated institution that has a strong understanding of our business and shares our beliefs around the value of our assets and vision for the future of the company. This financing provides us with broad financial and operational flexibility to actively manage our business during these uncertain times and positions us well for the future. We have also maintained our constructive dialogue with our financing counterparties and continued to benefit from our longstanding relationships with our lenders. During the third quarter, we extended one of our margin call holidays and are considering other actions as we continue our efforts to further stabilize our liabilities.

Over the past few months, we've seen real estate transaction activity incrementally and slowly pick up as significant amounts of capital continue to form around commercial real estate with investors pursuing yield, as well as the safe haven of investments backed by a hard asset class in the United States. This sentiment in the capital markets continues to improve. We have experienced a pickup in loan repayments, which reinforces our view of the credit quality of our assets. We may well experience additional repayments over the rest of the year, but the exact timing and volume is very hard to predict.

As a result of our strategic term loan financing, select loan sales and repayment activity, as of last Friday, we carried a healthy cash balance of over $325 million. Going forward, we believe it prudent to maintain an elevated level of liquidity as we continue to assess the market, as well as any potential new investment opportunities. Given current conditions, our primary focus will remain defensive with an emphasis on further stabilizing our liabilities and actively managing our investment portfolio. I am very pleased with and proud of the performance of our business and our entire team as we work through this difficult environment. Our operating results in the third quarter showed the overall strength of our business with our portfolio generating strong returns. We have further strengthened our balance sheet while significantly improving our financial flexibility for the current market and for future success and growth opportunities. We remain confident that our extensive experience, managing through multiple cycles and maintaining strong relationships with our borrowers and lenders, will preserve and enhance the value of our assets with the primary goal of delivering strong returns for our stockholders over time.

Now before turning the call over to Steve Alpart, I'd like to briefly comment on the internalization process. In October, we announced that we had entered into a definitive agreement with our manager to internalize

the company's management function. As part of this agreement, Granite Point will make a one-time cash payment for $44.5 million to the manager in connection with the completion of the internalization. The internalization transaction, which was negotiated and approved by an independent committee of our Board of Directors, is expected to be effective on December 31, 2020. At that time, the management agreement between the company and the manager will be terminated and Granite Point will no longer pay any management or incentive fees going forward. Following the completion of the internalization, we will be an internally managed commercial real estate finance company. We anticipate an orderly and timely transition of all required functions, including retaining our excellent team, such that our business will continue its normal operations without interruption. Our Board of Directors and the management team are highly confident that the internalization will enhance the company's value proposition and drive meaningful benefits for stockholders. We believe that transitioning Granite Point to an internally managed company is an important milestone in our evolution and a significant step in lowering costs and more fully realizing Granite Point's growth and earnings potential.

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

Stephen Alpart

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

Our portfolio of senior first mortgage loans generally performed well in the third quarter, delivering positive results benefiting in part from our LIBOR floors. Our borrowers have been highly engaged and have worked with us in supporting their properties. Some property types, in particular hospitality and retail, continue to experience significant challenges and we are monitoring those situations closely. Debt service collections were again strong in Q3 with over 99% of our loans current under contractual payments after taking into consideration certain loans that have been modified, mainly due to COVID-19. At September 30th, we had no impairments and no loans on non-accrual status.

We remain engaged in ongoing discussions with many of our borrowers as part of our proactive asset management strategy. During the third quarter, we saw a decline in the number and dollar amount of loan amendments, modifying 12 loans with an aggregate principal balance of about $319 million. Our loans are secured by strong properties in vibrant markets with institutional sponsors. In general, the pandemic has extended the time needed to implement their business plans, so for the most part, our approach has been to provide our borrowers with short-term relief. These amendments involve some combination of interest deferral, reallocation of reserves, waiver of an extension condition usually coupled with additional equity commitments from the sponsors who remain focused on protecting the equity in their properties.

As real estate market fundamentals were relatively unchanged in the quarter, it is not surprising that the risk rankings of our portfolio also remained largely unaffected in Q3. At September 30th, we maintain the risk ranking of 4 on the same 18 loans with an aggregate principal balance of about $820 million that were risk-rated 4 last quarter. Most of the loans risk-rated 4 are secured by hotel and retail properties. We have no loans that are ranked "5". Given that real estate fundamentals often lag the broader economy and that the duration of the current market dislocation remains unclear, the level of credit stress in 2021 may be elevated.

As of September 30th, our well-diversified portfolio of 110 discrete investments had a principal balance of approximately $4.1 billion and $4.7 billion inclusive of our future funding commitments. Our portfolio was comprised of 99% senior first mortgage loans with no exposure to securities as a weighted average stabilized LTV at origination of less than 64%, and is widely distributed by geographic market, property

type and sponsor. The benefits of a granular, highly geographically diversified portfolio have become very clear over the past few quarters. We did not close any new investments during the quarter and funded about $55 million of our existing loan commitments. The decline in the balance of our portfolio was driven by the previously disclosed sale of six loans, totally $191 million in principal balance that was part of our liquidity management strategy, as well as a pickup in loan repayment activity. During Q3, we realized over $209 million of loan repayments and principal amortization across various property types, which included the full repayment of our two CMBS positions. Since the end of the quarter, we have realized an additional $158 million of loan repayments. The loan repayments reflect a modest increase in real estate transaction activity, and we believe the high credit quality of our loans as we saw our borrowers completing refinancings and sales in a slowly improving market. While the volume of loan repayments remains significantly below our historical pace, we may realize a few additional repayments before the end of the year, but the exact timing is uncertain.

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 third quarter GAAP net loss of $24.7 million or $0.45 per share, which included $43.7 million or $0.79 per share of restructuring charges related to our internalization process and $10 million or $0.18 per share of realized losses on the previously disclosed sale of six loans. The realized loss was partially offset by a $5.3 million or $0.09 per share decrease in our CECL reserves, which was mainly driven by the decline in the outstanding balance of our portfolio. At quarter end, our cumulative allowance for credit losses was $80.7 million and represented about 173 basis points of our total loan commitment.

Our core earnings for the third quarter was $15 million or $0.27 per share and excluded the one-time internalization related restructuring charges, as well as the decline in our allowance for credit losses. Our GAAP book value per share at September 30th was $16.93 per share and included $1.47 per share impact related to the adoption and application of CECL. Given the significantly improved liquidity position of the company, we reinstated our common stock dividend for the third quarter in the amount of $0.20 per share, which was easily covered by our core earnings. As we discussed in our last call, the suspension of our common dividend in the first half of the year was largely driven by our liquidity management strategy rather than earnings generation of our business. At September 30th, we had approximately $29 million in undistributed taxable income. We will continue to monitor taxable income and work with our Board of Directors to take measures if necessary, to ensure we maintain our REIT status and satisfy minimum distribution requirements.

Our portfolio continues to perform well in light of the challenging real estate market. Aided by LIBOR floors on over 95% of our loans at a weighted average rate of 155 basis points, our net interest income for the third quarter showed relative stability despite an 8% decline in total portfolio balance to about $4.1 billion reflective of the loan prepayments and divestitures. Along with the decline in the portfolio balance and pay downs of the associated asset level borrowings, which were partially offset by the new term loan financing, we ended the quarter with total debt-to-equity leverage ratio of about 3.2 times.

I'd like to conclude my remarks by discussing our new financing and liquidity. As previously disclosed, we secured a $300 million strategic financing commitment in the form of five-year senior secured term loan facilities, which carry an annual coupon of 8%. The gross proceeds from the initial draw under the facilities were $225 million and it will retain an option to borrow up to an additional $75 million for six months and can extend it for another six months, subject to payment of an extension fee.

Concurrently with the closing of this financing, we issued six-year net share settled warrants purchase

up to a little over 6 million shares of our common stock. Approximately 1.5 million of these warrants are subject to vesting, which depend on future draws under the term loan facilities. The warrants cannot be exercised for the first year and the company has an option to settle any exercise warrants in shares or in cash. We view this capital as very attractive given the current environment and believe it provides us with much flexibility to actively manage our business. As of November 6th, we had over $325 million of cash on hand. We anticipate that our cash balance will decline through year end, as we potentially further delever our financing facilities, continue to fund our existing loan commitments and pay the cost associated with our internalization process, which is expected to close on December 31.

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time we'll begin the question and answer session. To ask a question, you may press star and then one using a touchtone telephone. To withdraw your question, you may press star and two. If you are using a speakerphone, we do ask that you please pick up the handset before pressing the numbers to ensure the best sound quality. Once again that is star and then one to ask a question.

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

Douglas Harter

Thanks. Given the potential uses of liquidity you just talked about Marcin, you didn't mention funding new loans. Can you just talk about when you might think about that and how you are thinking about where the portfolio size might stabilize?

Jack Taylor

Hi, Doug. Thank you. This is Jack Taylor. I'll actually answer that and it's good to hear from you today. We will be making new loans and we intend to grow our portfolio, but not just yet. We're in a more defensive position while we focus on our current assets and liabilities and also while we monitor the progress of the overall investment market. I would say not before year end, and sometime in the first quarter we'll be reassessing.

It's hard to say when we'll start originating because that will depend on a variety of factors, including the pace of prepayments on our portfolio, our assessment of the alternative uses of capital, and I'd say the attractiveness of new loan investments at the time. So it's difficult to specify right now, but not before year end and we'll be constantly monitoring that going into the beginning of the year.

Douglas Harter

Got it. How do you think about what is the right level of liquidity now when you're in a more defensive positioning and then ultimately as you move to kind of a more neutral span some point into the future?

Marcin Urbaszek

Hi, Doug. This is Marcin. Good morning. Look, I think we will probably be north of $200 million for the foreseeable future. As Jack mentioned, considering the environment and being a little bit defensive, I think over time that's likely to decline, but for the foreseeable future I would expect us to be over $200 million.

Douglas Harter

Okay. Thanks, Marcin.

Operator

Our next question comes from Steve DeLaney from JMP Securities. Please go ahead with your question.

Steven DeLaney

Good morning, everyone. Congrats on the progress you've made. Marcin, in your comments regarding the reinstatement of the dividend and your ongoing dialogue with the Board, you mentioned a true-up at year-end. Can you comment as to whether you in fact have any undistributed REIT taxable income at this time? And if so, maybe give us some range or estimate?

Marcin Urbaszek

Sure. Good morning, Steve. Thanks for joining us.

Steven DeLaney

Sure, Marcin.

Marcin Urbaszek

Yes. As I said in my prepared remarks, we have about $29 million of undistributed taxable income through September 30. So we'll be discussing different options in terms of how to manage that with our Board as we go into year end, we'll see what our fourth quarter looks like. Obviously, we want to maintain our REIT status, so TBD on that but, yes, we do have some undisturbed taxable income.

Steven DeLaney

Sorry, I missed that in your remarks, apologies. But you do have some flexibility, I believe in rolling some of that into 2021, if I'm not mistaken. Should we assume that would not be your plan to take advantage of that roll over opportunity just to help with liquidity?

Marcin Urbaszek

We do have some flexibility and we obviously will do whatever is necessary to maintain REIT status, but at the same time, protect book value as much as we can. It's hard to get into any specifics at this point, but we will look at any and all options to kind of come up with the most optimal solution.

Steven DeLaney

Great. Well, that was my primary question. I appreciate the detailed response. Thanks.

Operator

Our next question comes from Jade Rahmani from KBW. Please go ahead with your question.

Jade Rahmani

Thank you very much. I think that your comments around credit in 2021 seems a bit cautious. Can you elaborate on what your expectations are? I think you said credit threats in 2021 may be elevated.

Jack Taylor

Hi, Jade. I'll speak to that, and then pass it onto Steve Alpart. We are very experienced in going through cycles and we see that real estate fundamentals will often lag the overall economy. It's really driven by the duration of the pandemic. Yesterday's news was very positive with respect to Pfizer and its partner's development on the vaccine. But if we relate it more to the idea of how long over the last couple of weeks, there's been a kind of a whipsaw. There was a growing sense that this would be a much longer duration in the pandemic and then yesterday that kind of reversed. But we're just saying that we're looking forward to 2021 cautiously because of the ongoing nature of the pandemic.

Do you want to elaborate, Steve?

Stephen Alpart

No, I think that covered it, Jack.

Jade, how are you? And thanks for joining this morning. I would just add for our portfolio. It's mainly focused around hotel and retail. For hotels, we saw a reopening, but if you look at hotels nationally a lot of hotels are still running at 10% to 40%, 50% occupancy, and there's an expected slow ramp back up. Our feeling has been that once we have a vaccine and people feel comfortable traveling again, we'll see this sector come back.

But as Jack just mentioned even with yesterday's positive news, it just feels too early to predict the timing of the recovery. We're generally having a more cautious outlook right now and those similar comments apply to the retail sector.

Jade Rahmani

How are you thinking about office exposure? I just saw a survey in terms of housing; there is expected to be something like 10 million households that plan to have a significant amount of work from home going forward. How are you thinking about the office exposure in the portfolio?

Stephen Alpart

Sure. Well, there's short-term and long-term, and in the short-term, what we're seeing industry-wide and in our portfolio is that collections have been strong since the pandemic started. We saw some early requests for relief from rent from some of our borrowers. But the collections have been strong overall, and there's not been a huge factor. We don't have much exposure to co-working. You're really getting

some of the broader trends about work from home. It feels very early to make these predictions. Look, I would say that the office market is a very broad diverse market. Our portfolio is very diverse by geographic location, primary markets, secondary markets type of office. We also don't have a lot of exposure to some of the harder hit COVID markets. But as far as the broader trends, I mean, that has to just play out over time.

Jade Rahmani

Okay. You mentioned the management team has experience in multiple cycles and looking at some of the legacy mortgage REITs and the ones that survived and actually thrived coming out of the global financial crisis, many of them that did take advantage of the market were able to buy, for example, their own CLOs below $0.50 on the dollar, which NorthStar NRF famously did and that allowed book value to start accreting upwards and be on a growth trajectory, which gave investors confidence.

Looking at GPMT, the stock is about 48% or 50% of book value. There’re a few others that are in that similar position. Are you seeing any outsized investment opportunities away from loan originations where you could make such accretive discounted purchases, including perhaps buying back some of Granite Point’s CLOs?

Jack Taylor

Hi, Jade. This is Jack. I will say that we continue to be focused on our liquidity management and creating additional stability of our balance sheet and that will likely require some additional deleveraging and some other actions. And it's our general policy not to comment on any potential buybacks or timing. But it's a good question and it's something that along with many other possible uses of our capital. We're always focused on generating the attractive risk adjusted shareholder returns, and where we're trading now, we think that would be a potential for us keeping our eye on it.

But with respect to the best use of capital, it's not what we're thinking is a tomorrow event, but it's something that we're looking to position ourselves for whether or not it's stock buybacks or CLOs, and we have the broad ability with the capital that we raised to use it for such activities as well.

Jade Rahmani

Okay. And just a final one. I wanted to ask a follow-up because it sounds like you really are prioritizing liquidity management, yet you agreed to make any one-time cash payment to Pine River of close to $45 million by December 31. What in your mind and in the Board's mind justifies that use of liquidity? I don't believe, at least at the outset, it's going to be accretive to earnings on a full run rate expense ratio. Why use that $45 million of liquidity if you expect that 2021 could have potentially elevated credit issues? Why not either issued shares are postpone that internalization transaction?

Jack Taylor

Well, I would answer that there’s a lot of questions embedded in what you just asked. First, it was a Board run process and the company entered into a binding arbitration process with the manager. And I'll remind you the amount payable, the company’s manager was decided by an arbitration panel.

We believe as we stated in our prepared remarks that the benefits to the internalization are quite substantial, well worth the investment, and we have the liquidity adequate to meet the demands of the current situation as we see it now, including making this payment. And in fact, in the capital that we raised in terms of sizing that this was taken into account.

I don't think you can look at just the immediate next couple of quarters to try to assess the benefit of the internalization. We have every intention of growing this company and growing it dramatically and it's during those growth periods that the benefits are most expressed for the internalization.

Jade Rahmani

Okay. Thank you very much.

Operator

Once again if you would like to ask a question please press star and then one. To withdraw your questions, you may press star and two. Our next question comes from Charlie Arestia from J.P. Morgan. Please go ahead with your question.

Charlie Arestia

Hi, good morning, guys. Thanks for taking the questions today. I appreciate the LIBOR floor disclosures that you guys provide. I think it does a better job of illustrating the nuance there than a simple weighted average floor.

If I'm looking at slide 10 correctly, as those 2017 loans begin to roll off, which might be slower than anticipated given where repayments are in the space, this should drive the overall for higher, right, because there's a pretty big jump in the 2018, 2019 vintages from a floor perspective. I'm just trying to get a sense of the net interest income trends given the new financing facility and the continued benefit of your floors.

Marcin Urbaszek

Hi, Charlie. It's Marcin. Yes, I think in general you can think of it that way. Again, it really depends on the timing and which loans repay when. Then as Jack mentioned earlier, if we have a lot of repayments, we do intend to start originating the loans, so it'll depend on kind of what those loans look like from a return perspective, LIBOR floors and things like that. So again, it's hard to say. I think you hit on an important point.

Our net interest margin will shrink going forward right now as we haven't really recognized a lot of interest expense related with a new term loan. The first full quarter of that will be Q4. So please keep that in mind as you all model earnings, that'll be over $5 million per quarter impact to our interest expense. But again, on the LIBOR floors, obviously we benefit from it now and we'll see what happens going forward, but we do expect the NIM to compress over time.

Charlie Arestia

Okay. Thanks Marcin for that color. And then if I could just get an update on the California retail property, it's the largest one in the portfolio and the original maturity was I believe over the summer. Just curious if you could give us an update on how that asset is performing?

Stephen Alpart

Hi, Charlie. It's Steve. How are you? Look, it's a well-located lifestyle center. It was performing well prior to the pandemic. As a result of the pandemic, operations were certainly impacted. There were limitations

on the ability to stay open or operate a full capacity. Our borrower here has institutional capital partners and a very large equity position to protect here. Like a lot of our assets particularly the hotels and retail, we're in constant dialogue with these guys as this whole pandemic plays out.

Charlie Arestia

Thanks very much for taking the question.

Stephen Alpart
Sure.

CONCLUSION

Operator

And ladies and gentlemen with that we will end today's question and answer session. I'd like to turn the conference call back over to Jack Taylor for any closing remarks.

Jack Taylor

Thank you, Jamie. I want to say we really appreciate all of you joining us today and taking the time to be with us. We will look forward to speaking with you again very soon to give you further updates on how we are doing. Most particularly we wish everybody in our analyst community, our investment community, and anybody else listening in good health and safety throughout this period. And thank you again. We appreciate it.

Operator

And ladies and gentlemen, with that we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.