April 22, 2024

Dynex Capital, Inc. Announces First Quarter 2024 Results

GLEN ALLEN, Va.--(BUSINESS WIRE)-- Dynex Capital, Inc. ("Dynex" or the "Company") (NYSE: DX) reported its first quarter 2024 financial results today. Management will host a call today at 10:00 a.m. Eastern Time to discuss the results and business outlook. Details to access the call can be found below under "Earnings Conference Call."

Financial Performance Summary

- Total economic return of $0.28 per common share, or 2.1% of beginning book value
- Book value per common share of $13.20 as of March 31, 2024
- Comprehensive income of $0.35 per common share and net income of $0.65 per common share
- Dividends declared of $0.39 per common share for the first quarter of 2024
- Renewed the Company's share repurchase program authorizing the repurchase of up to $50 million of the Company's Series C Preferred Stock and $100 million of its common stock
- Raised equity capital of $86.8 million during the first quarter through at-the-market ("ATM") common stock issuances
- Liquidity of $577.1 million as of March 31, 2024
- Leverage including to-be-announced ("TBA") securities at cost was 8.1 times shareholders' equity as of March 31, 2024

Management Remarks

"We believe Dynex is uniquely positioned for this environment," said Byron L. Boston, Chairman and CEO. "We are generating income from highly liquid, Agency-guaranteed securities. We have an experienced team, with a stewardship mindset, a disciplined process, and a track record of performance. Our returns this quarter are a result of our preparation and execution of our long-term strategy."

Earnings Conference Call

As previously announced, the Company's conference call to discuss these results is today at 10:00 a.m. Eastern Time and may be accessed via telephone in the United States by dialing 1-888-330-2022 and providing the ID 1957092 or by live audio webcast by clicking the "Webcast" button in the “Current Events” section on the homepage of the Company's website (www.dynexcapital.com), which includes a slide presentation. To listen to the live conference call via telephone, please dial in at least ten minutes before the call begins. An archive of the webcast will be available on the Company's website approximately two hours after the live call ends.

Consolidated Balance Sheets

($s in thousands except per share data)	March 31, 2024	December 31, 2023

ASSETS	(unaudited)	
Cash and cash equivalents	$ 295,715	$ 119,639
Cash collateral posted to counterparties	122,614	118,225
Mortgage-backed securities (including pledged of $5,570,076 and $5,880,747, respectively)	5,840,559	6,038,948
Derivative assets	8,386	54,361
Accrued interest receivable	27,899	28,727
Other assets, net	9,324	9,850
Total assets	$ 6,304,497	$ 6,369,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 5,284,708	$ 5,381,104
Derivative liabilities	1,314	—
Cash collateral posted by counterparties	8,507	46,001
Accrued interest payable	35,672	53,194
Accrued dividends payable	10,990	10,320
Other liabilities	4,774	8,396
Total liabilities	5,345,965	5,499,015
Shareholders' equity:		
Preferred stock	$ 107,843	$ 107,843
Common stock	641	570
Additional paid-in capital	1,494,893	1,404,431
Accumulated other comprehensive loss	(175,770)	(158,502)
Accumulated deficit	(469,075)	(483,607)
Total shareholders' equity	958,532	870,735
Total liabilities and shareholders' equity	$ 6,304,497	$ 6,369,750
Preferred stock aggregate liquidation preference	$ 111,500	$ 111,500
Book value per common share	$ 13.20	$ 13.31
Common shares outstanding	64,160,931	57,038,247

Consolidated Comprehensive Statements of Income *(unaudited)*

	Three Months Ended	
($s in thousands except per share data)	**March 31, 2024**	**December 31, 2023**
INTEREST INCOME (EXPENSE)		
Interest income	$ 71,525	$ 71,188
Interest expense	(74,717)	(73,465)
Net interest expense	(3,192)	(2,277)
OTHER GAINS (LOSSES)		
Unrealized (loss) gain on investments, net	(70,024)	263,992
Gain (loss) on derivative instruments, net	124,635	(228,603)
Total other gains, net	54,611	35,389

EXPENSES		
General and administrative expenses	(10,880)	(8,318)
Other operating expense, net	(421)	(490)
Total operating expenses	(11,301)	(8,808)
Net income	40,118	24,304
Preferred stock dividends	(1,923)	(1,923)
Net income to common shareholders	$ 38,195	$ 22,381
Other comprehensive income:		
Unrealized (loss) gain on available-for-sale investments, net	(17,268)	59,267
Total other comprehensive (loss) income	(17,268)	59,267
Comprehensive income to common shareholders	$ 20,927	$ 81,648
Weighted average common shares-basic	59,008	56,691
Weighted average common shares-diluted	59,717	57,304
Net income per common share-basic	$ 0.65	$ 0.39
Net income per common share-diluted	$ 0.64	$ 0.39
Dividends declared per common share	$ 0.39	$ 0.39

Discussion of First Quarter Results

The Company's total economic return of $0.28 per common share for the first quarter of 2024 consisted of a decline in book value of $(0.11) per common share and dividends declared of $0.39 per common share. Operating expenses for the first quarter of 2024 included a $0.05 increase in share-based compensation expense due to accelerated vesting conditions for certain March 2024 grants.

Net gains on the Company's hedging portfolio exceeded net losses on its investment portfolio by $37.3 million. Though the 10-year U.S. Treasury rate increased over 30 basis points during the first quarter, which negatively impacted the fair value of the Company's investment portfolio, losses were offset by modest spread tightening on some of the Company's investments and gains on U.S. Treasury futures used as interest rate hedging instruments.

Book value was also impacted by approximately $(0.07) per common share from equity issued during the first quarter. The following table summarizes the changes in the Company's financial position during the first quarter of 2024:

($s in thousands except per share data)	Net Changes in Fair Value	Components of Comprehensive Income	Common Book Value Rollforward	Per Common Share [(1)]
Balance as of December 31, 2023 (1)			$ 759,235	$ 13.31
Net interest expense		$ (3,192)		
Operating expenses		(11,301)		
Preferred stock dividends		(1,923)		

Changes in fair value:				
MBS and loans	$ (87,292)			
TBAs	(15,175)			
U.S. Treasury futures	139,810			
Total net change in fair value		37,343		
Comprehensive income to common shareholders			20,927	0.35
Capital transactions:				
Net proceeds from stock issuance (2)			90,533	(0.07)
Common dividends declared			(23,663)	(0.39)
Balance as of March 31, 2024 (1)			$ 847,032	$ 13.20

(1) Amounts represent total shareholders' equity less the aggregate liquidation preference of the Company's preferred stock of $111,500.

(2) Net proceeds from common stock issuances includes $86.8 million from at-the-market ("ATM") issuances and $3.7 million from amortization of share-based compensation.

During the first quarter of 2024, the Company added over $1.0 billion of Agency mortgage TBA securities when spreads widened. The following table provides detail on the Company's MBS investments, including TBA securities as of March 31, 2024:

	March 31, 2024			**December 31, 2023**		
($ in millions)	**Par Value**	**Fair Value**	**% of Portfolio**	**Par Value**	**Fair Value**	**% of Portfolio**
30-year fixed rate RMBS:						
2.0% coupon	$ 696,233	$ 559,217	6.8%	$ 708,528	$ 586,361	7.9%
2.5% coupon	598,717	502,714	6.1%	608,580	525,018	7.1%
4.0% coupon	347,937	326,119	4.0%	354,382	339,212	4.6%
4.5% coupon	1,363,175	1,307,279	15.8%	1,383,019	1,348,108	18.2%
5.0% coupon	2,037,775	2,000,866	24.3%	2,070,473	2,057,309	27.7%
5.5% coupon	885,118	887,012	10.8%	897,520	907,524	12.2%
TBA 4.0%	262,000	242,974	2.9%	262,000	248,040	3.3%
TBA 4.5%	223,000	212,529	2.6%	223,000	216,415	2.9%
TBA 5.0%	518,000	505,940	6.1%	518,000	512,982	6.9%
TBA 5.5%	1,250,000	1,244,695	15.1%	200,000	201,047	2.7%
TBA 6.0%	200,000	201,961	2.4%	200,000	203,219	2.7%
Total Agency RMBS	$8,381,955	$7,991,308	96.9%	$7,425,502	$7,145,235	96.2%
Agency CMBS	$ 117,984	$ 111,762	1.4%	$ 121,293	$ 115,595	1.6%
Agency CMBS IO	*(1)*	124,484	1.5%	*(1)*	133,302	1.8%
Non-Agency CMBS IO	*(1)*	21,105	0.2%	*(1)*	26,416	0.4%
Non-Agency RMBS	—	—	—%	150	103	—%

Total	**$8,499,939**	**$8,248,659**	**100.0%**	**$7,546,945**	**$7,420,651**	**100.0%**

(1) CMBS IO do not have underlying par values.

The following table provides detail on the Company's repurchase agreement borrowings outstanding as of the dates indicated:

	March 31, 2024			**December 31, 2023**		
Remaining Term to Maturity	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**
($s in thousands)						
Less than 30 days	$2,440,188	5.48%	58	$2,855,917	5.61%	92
30 to 90 days	2,305,208	5.46%	71	2,525,187	5.58%	86
91 to 180 days	539,312	5.42%	182	—	—%	—
Total	$5,284,708	5.46%	76	$5,381,104	5.59%	89

The following table provides information about the performance of the Company's MBS (including TBA securities) and repurchase agreement financing for the first quarter of 2024 compared to the prior quarter:

	Three Months Ended					
	March 31, 2024			**December 31, 2023**		
($s in thousands)	**Interest Income/Expense**	**Average Balance (1)(2)**	**Effective Yield/ Cost of Funds (3)(4)**	**Interest Income/Expense**	**Average Balance (1)(2)**	**Effective Yield/ Cost of Funds (3)(4)**
Agency RMBS	$ 64,281	$5,938,131	4.33%	$ 63,816	$5,917,053	4.31%
Agency CMBS	925	119,286	3.04%	923	121,939	2.97%
CMBS IO[5]	2,654	160,261	6.28%	2,625	175,518	5.36%
Non-Agency MBS and other	22	1,773	4.86%	27	2,064	4.99%
	67,882	6,219,451	4.36%	67,391	6,216,574	4.32%
Cash equivalents	3,643			3,797		
Total interest income	$ 71,525			$ 71,188		
Repurchase agreement financing	(74,717)	5,365,575	(5.51)%	(73,465)	5,168,821	(5.56)%
Net interest expense/net	$ (3,192)		(1.15)%	$ (2,277)		(1.24)%

interest spread				

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes securities pending settlement if applicable.
(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.
(3) Effective yield is calculated by dividing interest income by the average balance of asset type outstanding during the reporting period. Unscheduled adjustments to premium/discount amortization/accretion, such as for prepayment compensation, are not annualized in this calculation.
(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.
(5) CMBS IO ("Interest only") includes Agency and non-Agency issued securities.

Hedging Portfolio

The Company uses derivative instruments to hedge exposure to interest rate risk arising from its investment and financing portfolio, and some of these derivatives are designated as hedges for tax purposes. As of March 31, 2024, the Company held short positions in 10-year U.S. Treasury futures with a notional amount of $4.5 billion and short positions in 30-year U.S. Treasury futures with a notional amount of $0.7 billion.

Comprehensive income included unrealized gains of $165.5 million and realized losses of $(25.7) million from interest rate hedges for the first quarter of 2024. Realized gains and losses on interest rate hedges are recognized in GAAP net income in the same reporting period in which the derivative instrument matures or is terminated by the Company, but are not included in the Company's earnings available for distribution ("EAD"), a non-GAAP measure, during any reporting period. On a tax basis, realized gains and losses on derivative instruments designated as hedges for tax purposes are amortized into the Company's REIT taxable income over the original periods hedged by those derivatives. The benefit expected to be recognized in taxable income is estimated to be $25.7 million, or $0.44 per average common share outstanding, for the first quarter of 2024. The Company's remaining estimated net deferred tax hedge gains from its interest rate hedging portfolio was $830.2 million as of March 31, 2024. These hedge gains will be part of the Company's future distribution requirements along with net interest income and other ordinary gains and losses in future periods.

The table below provides the projected amortization of the Company's net deferred tax hedge gains that may be recognized as taxable income over the periods indicated given conditions known as of March 31, 2024; however, uncertainty inherent in the forward interest rate curve makes future realized gains and losses difficult to estimate, and as such, these projections are subject to change for any given period.

Projected Period of Recognition for Remaining Hedge Gains, Net	**March 31, 2024**
	($ in thousands)
Second quarter 2024	$ 25,509
Third quarter 2024	25,583
Fourth quarter 2024	25,680

Fiscal year 2025	103,523
Fiscal year 2026 and thereafter	649,895
	$ 830,190

Non-GAAP Financial Measures

In evaluating the Company's financial and operating performance, management considers book value per common share, total economic return to common shareholders, and other operating results presented in accordance with GAAP as well as certain non-GAAP financial measures, which include the following: EAD to common shareholders, adjusted net interest income and the related metric adjusted net interest spread. Management believes these non-GAAP financial measures may be useful to investors because they are viewed by management as a measure of the investment portfolio's return based on the effective yield of its investments, net of financing costs and, with respect to EAD, net of other normal recurring operating income and expenses. Drop income generated by TBA dollar roll positions, which is included in "gain (loss) on derivatives instruments, net" on the Company's consolidated statements of comprehensive income, is included in these non-GAAP financial measures because management views drop income as the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date.

However, these non-GAAP financial measures are not a substitute for GAAP earnings and may not be comparable to similarly titled measures of other REITs because they may not be calculated in the same manner. Furthermore, though EAD is one of several factors management considers in determining the appropriate level of distributions to common shareholders, it should not be utilized in isolation, and it is not an accurate indication of the Company's REIT taxable income nor its distribution requirements in accordance with the Internal Revenue Code of 1986, as amended.

Reconciliations of the non-GAAP financial measures used in this earnings release to the most directly comparable GAAP financial measures are presented below.

	Three Months Ended	
($s in thousands except per share data)	**March 31, 2024**	**December 31, 2023**
Comprehensive income to common shareholders	$ 20,927	$ 81,648
Less:		
Change in fair value of investments, net (1)	87,292	(323,259)
Change in fair value of derivative instruments, net (2)	(125,903)	227,759
EAD to common shareholders	$ (17,684)	$ (13,852)
Weighted average common shares	59,008	56,691
EAD per common share	$ (0.30)	$ (0.24)
Net interest expense	$ (3,192)	$ (2,277)
TBA drop loss (3)	(1,268)	(844)
Adjusted net interest expense	$ (4,460)	$ (3,121)
Operating expenses	(11,301)	(8,808)

Preferred stock dividends	(1,923)	(1,923)
EAD to common shareholders	$ (17,684)	$ (13,852)
Net interest spread	(1.15)%	(1.24)%
Impact from TBA dollar roll transactions (4)	0.14%	0.18%
Adjusted net interest spread	(1.01)%	(1.06)%

(1) Amount includes realized and unrealized gains and losses from the Company's MBS.

(2) Amount includes unrealized gains and losses from changes in fair value of derivatives (including TBAs accounted for as derivative instruments) and realized gains and losses on terminated derivatives and excludes TBA drop income.

(3) TBA drop income/loss is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

(4) The Company estimates TBA implied net interest spread to be (0.35)% and (0.23)% for the three months ended March 31, 2024 and December 31, 2023, respectively.

Forward Looking Statements

This release contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “plan,” "may," "could," "will," "continue" and similar expressions identify forward-looking statements that are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Forward-looking statements in this release, including statements made in Mr. Boston's quotes, may include, without limitation, statements regarding the Company's financial performance in future periods, future interest rates, future market credit spreads, management's views on expected characteristics of future investment and macroeconomic environments, central bank strategies, prepayment rates and investment risks, future investment strategies, future leverage levels and financing strategies, the use of specific financing and hedging instruments and the future impacts of these strategies, future actions by the Federal Reserve, and the expected performance of the Company's investments. The Company's actual results and timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements as a result of unforeseen external factors. These factors may include, but are not limited to, ability to find suitable investment opportunities; changes in domestic economic conditions; geopolitical events, such as terrorism, war or other military conflict, including the wars between Russia and the Ukraine and between Israel and Hamas and the related impact on macroeconomic conditions as a result of such conflicts; changes in interest rates and credit spreads, including the repricing of interest-earning assets and interest-bearing liabilities; the Company’s investment portfolio performance, particularly as it relates to cash flow, prepayment rates and credit performance; the impact on markets and asset prices from changes in the Federal Reserve’s policies regarding purchases of Agency RMBS, Agency CMBS, and U.S. Treasuries; actual or anticipated changes in Federal Reserve monetary policy or the monetary policy of other central banks; adverse reactions in U.S. financial markets related to actions of foreign central banks or the economic performance of foreign economies including in particular China, Japan, the European Union, and the United Kingdom; uncertainty concerning the long-term fiscal health and stability of the United States; the cost and availability of financing, including the future availability of financing due to changes to regulation of, and capital requirements imposed upon, financial institutions; the cost and availability of new equity capital; changes in the Company’s use of leverage; changes to the Company’s investment strategy, operating policies, dividend policy or asset allocations; the quality of *performance of third-party servicer providers, including the Company's sole third-party service provider for our critical operations and trade functions; the loss or unavailability of the Company's third-party service provider's service and technology that supports critical functions of the Company's business related to the Company's trading and borrowing activities due to outages, interruptions, or other failures; the level of defaults by borrowers on loans underlying MBS; changes in the Company's industry; increased competition; changes in government regulations affecting the Company's business; changes or volatility in the repurchase agreement financing markets and other credit markets; changes to the market for interest rate swaps and other derivative instruments, including changes to margin requirements on derivative instruments; uncertainty regarding continued government support of the U.S. financial system and U.S. housing and real estate markets, or to reform the U.S. housing finance system including the resolution of the conservatorship of Fannie Mae and Freddie Mac; the composition of the Board of Governors of the Federal Reserve; the political environment in the U.S.; systems failures or cybersecurity incidents; and exposure to current and future claims and litigation. For additional information on risk factors that could affect the Company's forward-looking statements, see the Company's Annual Report on Form 10-K for the year ended December 31, 2023, and other reports filed with and furnished to the Securities and Exchange Commission.*

All forward-looking statements are qualified in their entirety by these and other cautionary statements that the Company makes from time to time in its filings with the Securities and Exchange Commission and other public communications. The Company cannot assure the reader that it will realize the results or developments the Company anticipates or, even if substantially realized, that they will result in the consequences or affect the Company or its operations in the way the Company expects. Forward-looking statements speak only as of the date made. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances arising after the date on which they were made, except as otherwise required by law. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements included herein or that may be made elsewhere from time to time by, or on behalf of, the Company.

Company Description

Dynex Capital, Inc. is a financial services company committed to ethical stewardship of stakeholders' capital, employing comprehensive risk management and disciplined capital allocation to generate dividend income and long-term total returns through the diversified financing of real estate assets in the United States. Dynex operates as a REIT and is internally managed to maximize stakeholder alignment. Additional information about Dynex Capital, Inc. is available at www.dynexcapital.com.

View source version on businesswire.com:
https://www.businesswire.com/news/home/20240422758139/en/

Alison Griffin
(804) 217-5897

Source: Dynex Capital, Inc.