

# Invesco Mortgage Capital Inc. Second Quarter 2021 Earnings Call

August 5, 2021

**John Anzalone**  
Chief Executive Officer

**Kevin Collins**  
President

**Lee Phegley**  
Chief Financial Officer

**David Lyle**  
Chief Operating Officer

**Brian Norris**  
Chief Investment Officer



# Cautionary Notice Regarding Forward-Looking Statements

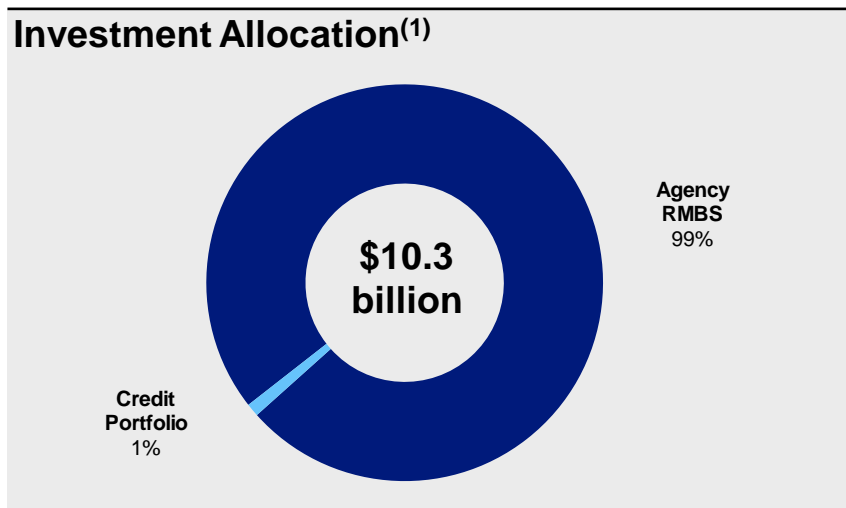
This press release, the related presentation and comments made in the associated conference call, may include statements and information that constitute “forward-looking statements” within the meaning of the U.S. securities laws as defined in the Private Securities Litigation Reform Act of 1995, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements include our views on the risk positioning of our portfolio, domestic and global market conditions (including the residential and commercial real estate market), the ongoing spread and the economic and operational impact of the COVID-19 pandemic, the market for our target assets, our financial performance, including our earnings available for distribution, economic return, comprehensive income and changes in our book value, our intention and ability to pay dividends, our ability to continue performance trends, the stability of portfolio yields, interest rates, credit spreads, prepayment trends, financing sources, cost of funds, our leverage and equity allocation. In addition, words such as “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” “projects,” “forecasts,” and future or conditional verbs such as “will,” “may,” “could,” “should,” and “would” as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks identified under the captions “Risk Factors,” “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K and quarterly reports on Form 10-Q, which are available on the Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov).

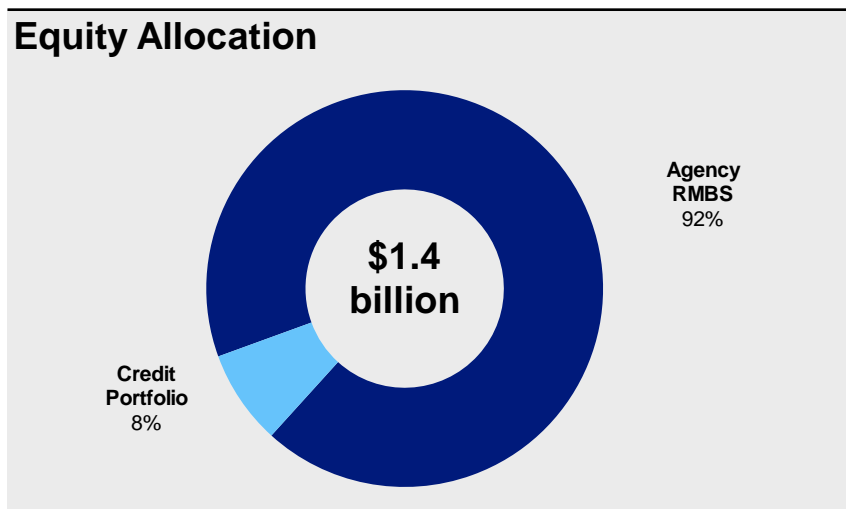
All written or oral forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

Invesco Mortgage Capital Inc.

## Investment Allocation<sup>(1)</sup>



## Equity Allocation



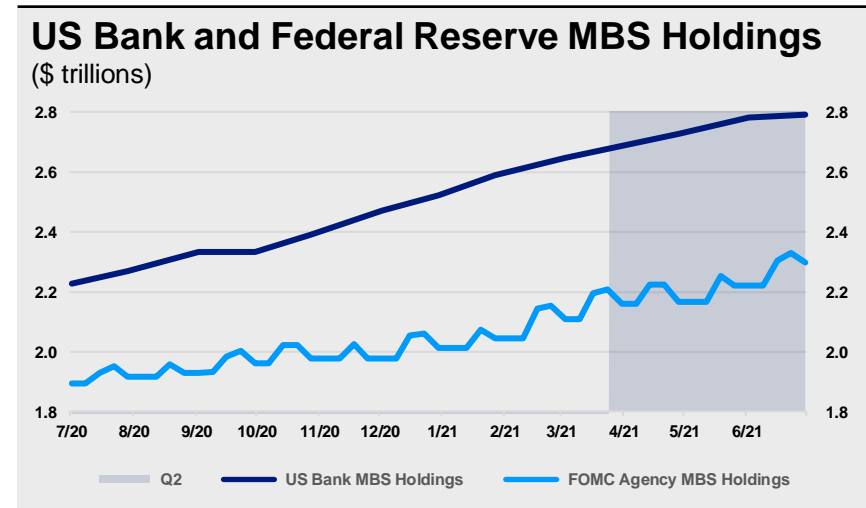
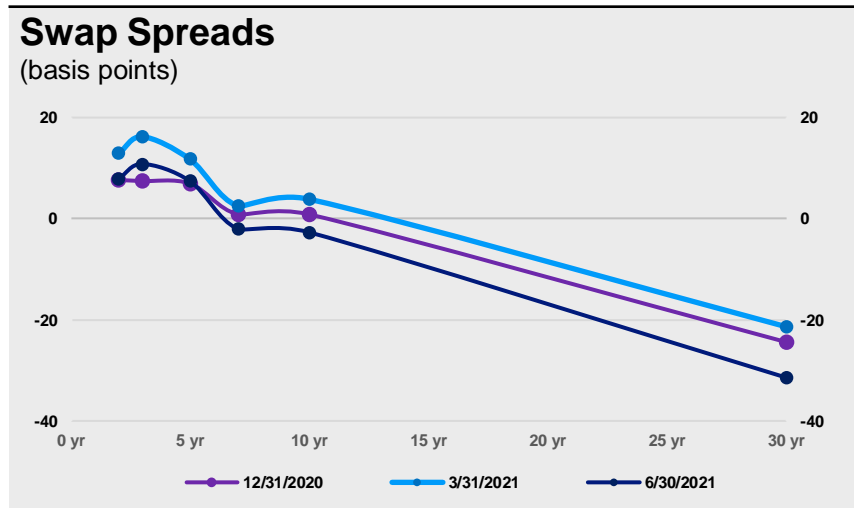
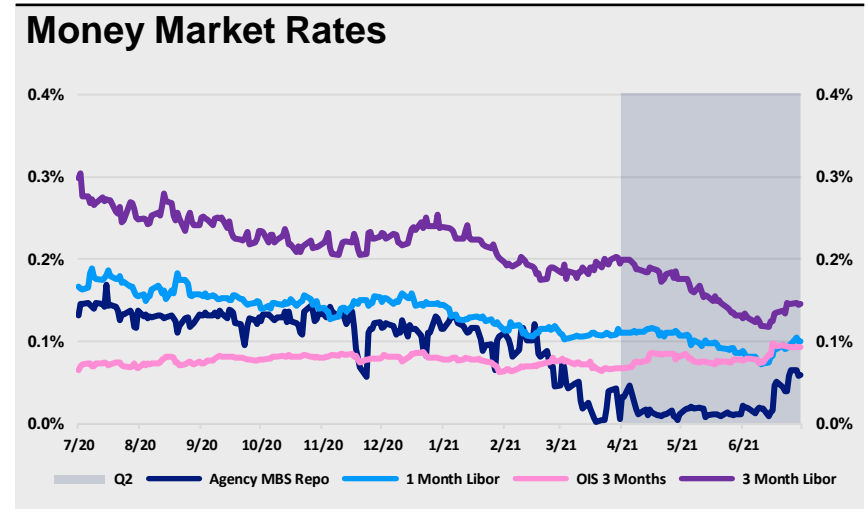
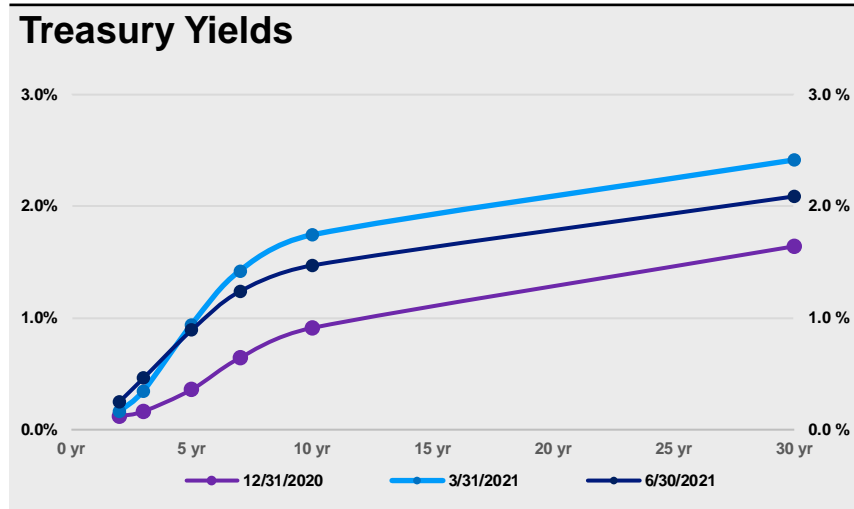
- Financial results
  - Net loss per common share of \$0.34
  - Earnings available for distribution per common share<sup>(2)</sup> of \$0.10
  - Book value per common share of \$3.21 at quarter end
  - Dividend per common share of \$0.09
  - Economic return of (9.6%)
  
- Company activity
  - Fully redeemed 7.75% Series A Preferred Stock of \$140.0 million
  - Issued \$145.9 million of common stock
  - Reduced earning assets given elevated valuations and increasing headwinds for the Agency RMBS sector
  - Rotated Agency RMBS allocation into higher coupon specified pools
  - Held \$651.1 million of unrestricted cash and unencumbered investments at quarter end

(1) Agency RMBS includes specified pools at fair value and TBAs at implied cost. Credit portfolio includes non-Agency CMBS, non-Agency RMBS, a commercial loan and investments in joint ventures

(2) Commencing with the second quarter of 2021, the Company changed the title of its non-GAAP measure of core earnings to earnings available for distribution.

# Macro Environment

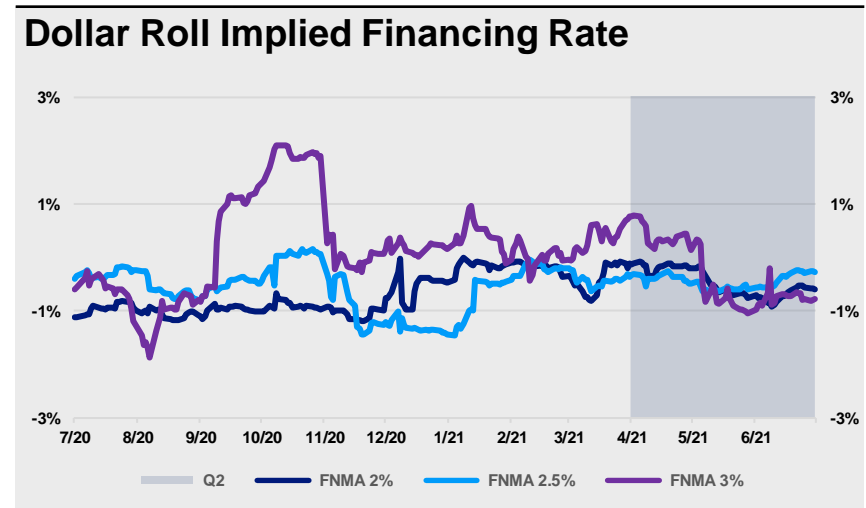
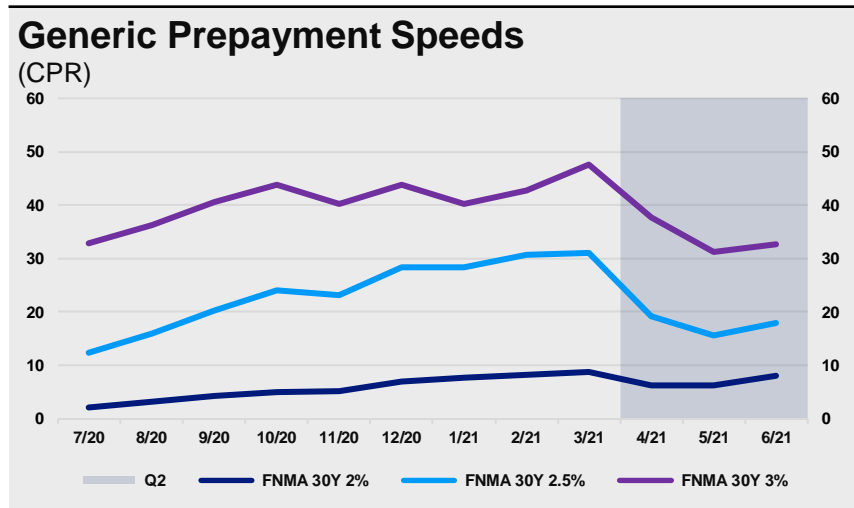
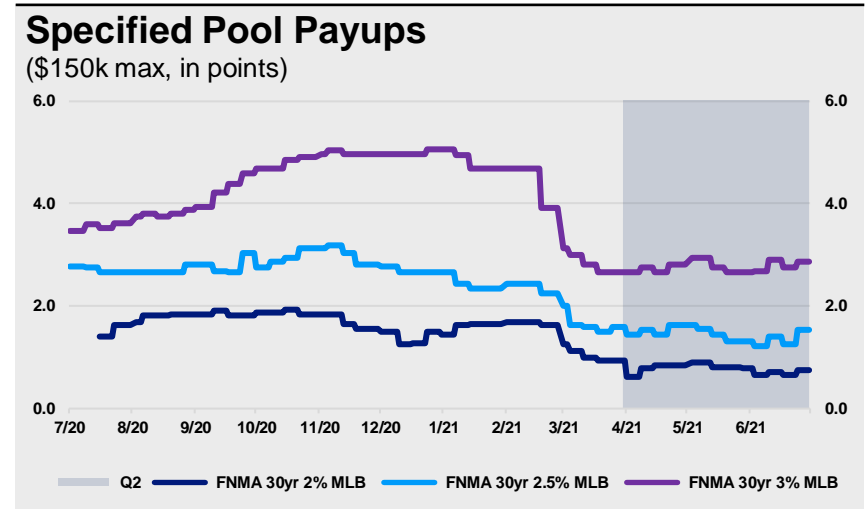
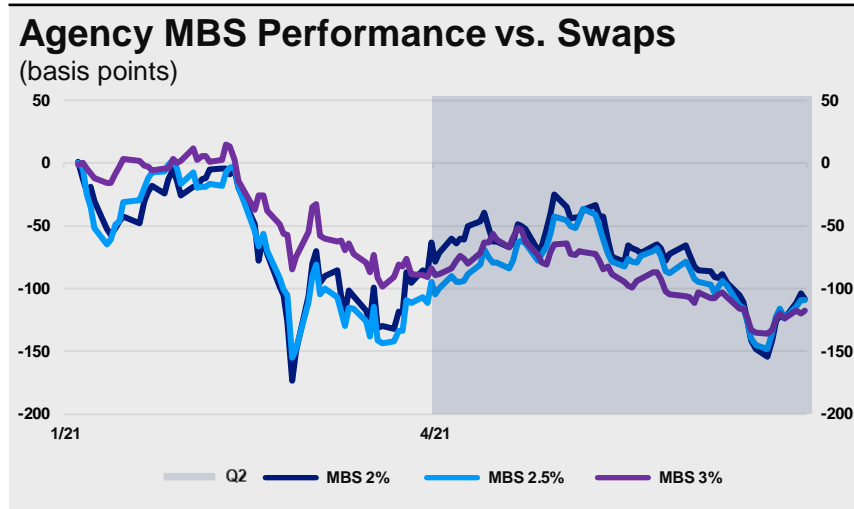
*Long-dated Treasury yields and swap spreads declined sharply, amidst a hawkish shift in the Federal Reserve and increasing concerns on the impact of the Delta variant on the economic recovery*



Data as of 6/30/21  
Sources: Bloomberg and JP Morgan

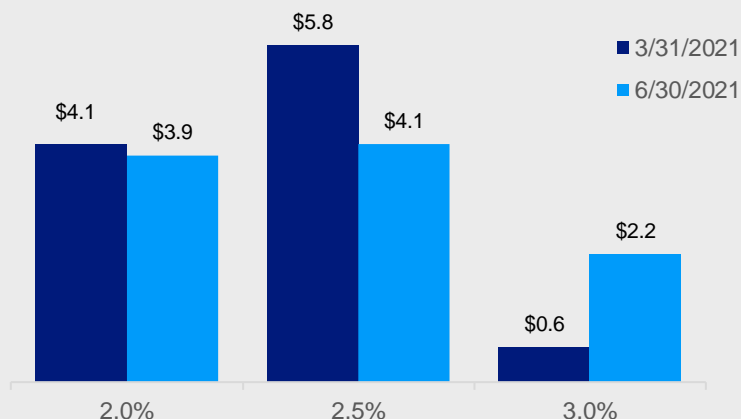
# Agency RMBS Market

*An increased probability of an earlier than expected tapering of asset purchases led to lower valuations on lower coupons, while higher coupons were negatively impacted by lower mortgage rates*



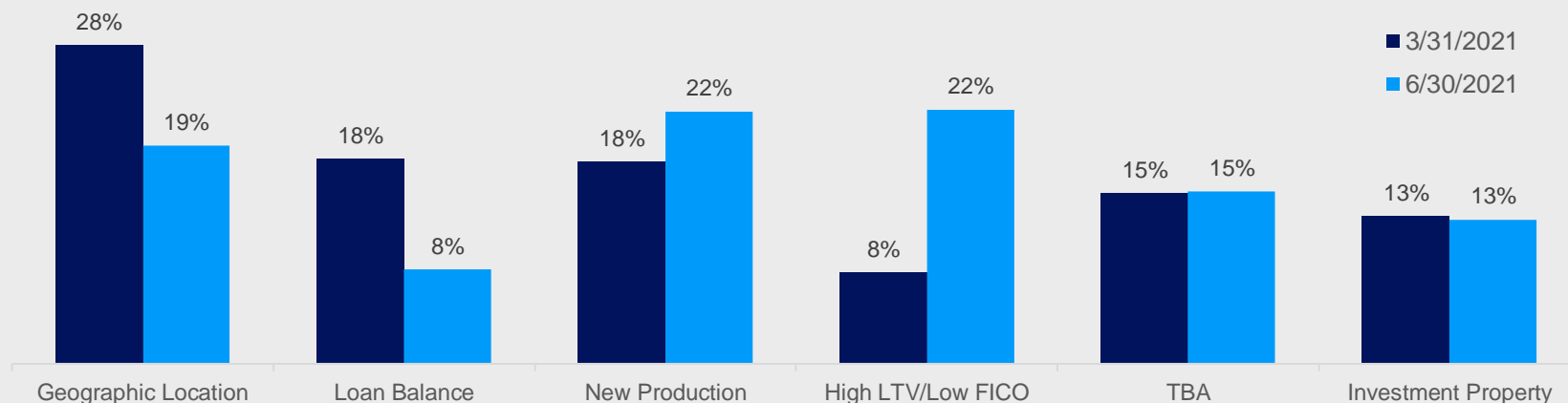
Data as of 6/30/21  
Sources: Bloomberg and JP Morgan

## Coupon Distribution (in billions)



- Reduced investment in Agency RMBS by 3.2% to \$10.2 billion given headwinds for the sector
  - Rotated \$2.4 billion of lower yielding, higher pay-up pools into higher yielding, lower pay-up pools to reduce pay-up risk in lower coupon specified pools
  - Purchased \$1.6 billion of 30 year 3.0% specified pools, funded via sales of 30 year 2.5% specified pools as relative value supported increased coupon diversification
- Q2 2021 specified pool characteristics:
  - 6.4% CPR
  - Weighted average yield of 2.04%
  - Weighted average specified pool pay-up of 0.6 points

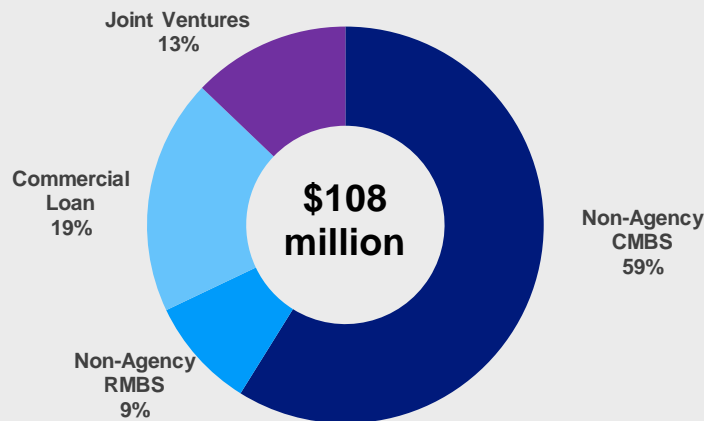
## Specified Pool and TBA Allocation



Charts reflects Agency RMBS at fair value and TBAs at implied cost

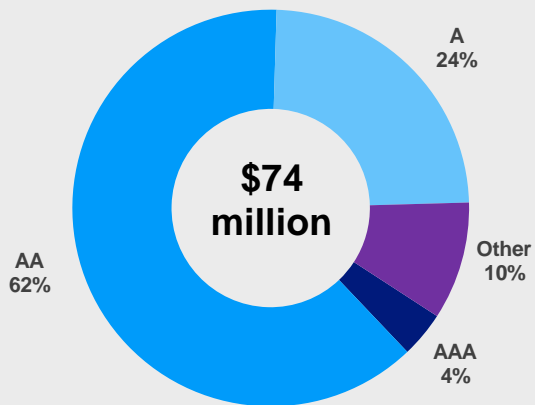
# Credit Investment Characteristics

## Credit Allocation



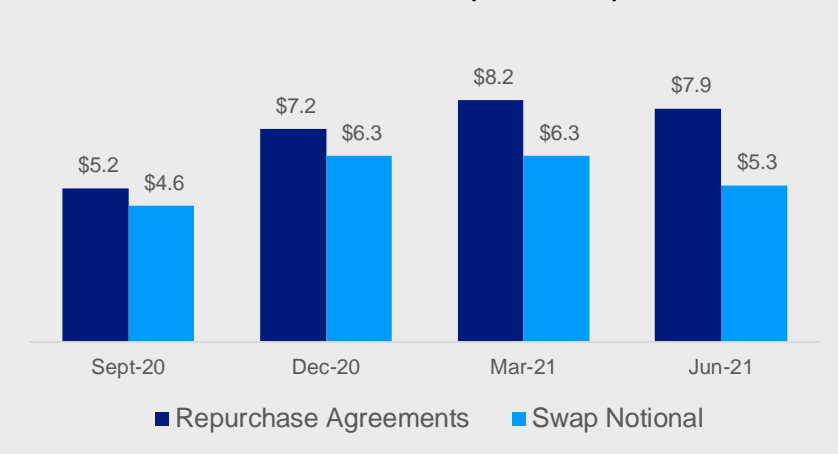
- 90% of credit investments are rated single-A or higher<sup>(1)</sup>
- Majority of non-Agency CMBS investments are collateralized by loans benefitting from property type diversification and improved underwriting following the 2008 global financial crisis
- An improving economic outlook, limited supply, and strong investor demand have benefitted credit investment valuations

## Credit Securities by Rating<sup>(1)</sup>



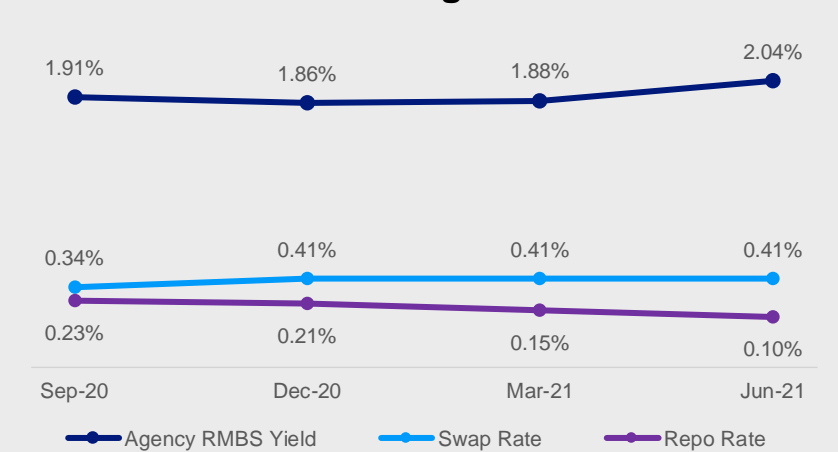
(1) Ratings source: Bloomberg. "Other" includes investments rated below BBB and unrated investments. Excludes commercial loan and investments in joint ventures.

## Cost of Funds Protection (in billions)<sup>(1)(2)</sup>



- Financed Agency RMBS investments with repurchase agreements across 18 counterparties
- All credit assets are unlevered
- Hedged 67% of our borrowing costs with a net \$5.3 billion notional of pay fixed / receive floating interest rate swaps with a weighted average life of 6.7 years<sup>(2)</sup>
- Hedged additional yield curve exposures with \$1.3 billion notional of forward starting pay fixed / receive floating interest rate swaps with a weighted average life of 21.2 years
- Debt-to-equity ratio was 5.7x
- Economic debt-to-equity ratio<sup>(4)</sup> was 6.8x

## Asset Yields and Funding Rates<sup>(3)</sup>



(1) Chart reflects carrying value of borrowings and notional amount of interest rate swaps

(2) Swap notional includes \$6.3 billion pay fixed / receive floating interest rate swaps net of \$1.0 billion receive fixed / pay floating interest rate swaps as of June 30, 2021

(3) Agency RMBS Yield and Repo Rate reflect the period-end weighted average asset yields and weighted average cost of funds for Agency RMBS, respectively

(4) Economic debt-to-equity ratio is a non-GAAP financial measure. Refer to page 12 for additional detail



- Seek to provide attractive risk-adjusted returns generated by real estate-related investments, primarily through dividends and secondarily through capital appreciation
- Enable investors to:
  - Capitalize on opportunities in our target assets, including residential and commercial mortgage-backed securities and direct loan investments
  - Avoid risks associated with utilization of mark-to-market funding on illiquid credit assets
- Portfolio size will allow IVR to take advantage of shifting relative value opportunities within our target assets
- Provide access to an established global asset manager\* with extensive mortgage and real estate expertise
  - Depth and breadth of Invesco's investment and operational resources are committed to support IVR
  - Ready access to in-house sector specialists to be utilized as market opportunities evolve

\*IVR is externally managed and advised by Invesco Advisers, Inc., a registered investment adviser and an indirect, wholly owned subsidiary of Invesco Ltd., a leading independent global investment management firm.

# Appendix - Non-GAAP Financial Information Invesco Mortgage Capital Inc.

The Company's business objective is to provide attractive risk-adjusted returns to its stockholders, primarily through dividends and secondarily through capital appreciation. The Company uses earnings available for distribution as a measure of its investment portfolio's ability to generate income for distribution to common stockholders and to evaluate its progress toward meeting this objective. The Company calculates earnings available for distribution as U.S. GAAP net income (loss) attributable to common stockholders adjusted for (gain) loss on investments, net; realized (gain) loss on derivative instruments, net; unrealized (gain) loss on derivative instruments, net; TBA dollar roll income; (gain) loss on foreign currency transactions, net; amortization of net deferred (gain) loss on de-designated interest rate swaps; and net (gain) loss on extinguishment of debt.

By excluding the gains and losses discussed above, the Company believes the presentation of earnings available for distribution provides a consistent measure of operating performance that investors can use to evaluate its results over multiple reporting periods and, to a certain extent, compare to its peer companies. However, because not all of the Company's peer companies use identical operating performance measures, the Company's presentation of earnings available for distribution may not be comparable to other similarly titled measures used by its peer companies. The Company excludes the impact of gains and losses when calculating earnings available for distribution because (i) when analyzed in conjunction with its U.S. GAAP results, earnings available for distribution provides additional detail of its investment portfolio's earnings capacity and (ii) gains and losses are not accounted for consistently under U.S. GAAP. Under U.S. GAAP, certain gains and losses are reflected in net income whereas other gains and losses are reflected in other comprehensive income. For example, a portion of the Company's mortgage-backed securities are classified as available-for-sale securities, and changes in the valuation of these securities are recorded in other comprehensive income on its condensed consolidated balance sheets. The Company elected the fair value option for its mortgage-backed securities purchased on or after September 1, 2016, and changes in the valuation of these securities are recorded in other income (loss) in the condensed consolidated statements of operations. In addition, certain gains and losses represent one-time events. The Company may add and has added additional reconciling items to its earnings available for distribution calculation as appropriate.

To maintain qualification as a REIT, U.S. federal income tax law generally requires that the Company distribute at least 90% of its REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gains. The Company has historically distributed at least 100% of its REIT taxable income. Because the Company views earnings available for distribution as a consistent measure of its investment portfolio's ability to generate income for distribution to common stockholders, earnings available for distribution is one metric, but not the exclusive metric, that the Company's board of directors uses to determine the amount, if any, and the payment date of dividends on common stock. However, earnings available for distribution should not be considered as an indication of the Company's taxable income, a guaranty of its ability to pay dividends or as a proxy for the amount of dividends it may pay, as earnings available for distribution excludes certain items that impact its cash needs.

Earnings available for distribution is an incomplete measure of the Company's financial performance and there are other factors that impact the achievement of the Company's business objective. The Company cautions that earnings available for distribution should not be considered as an alternative to net income (determined in accordance with U.S. GAAP), or as an indication of the Company's cash flow from operating activities (determined in accordance with U.S. GAAP), a measure of the Company's liquidity, or as an indication of amounts available to fund its cash needs.

# Appendix - Non-GAAP Financial Information

The table below provides a reconciliation of U.S. GAAP net income (loss) attributable to common stockholders to earnings available for distribution for the following periods:

	Three Months Ended		Six Months Ended
	June 30, 2021	March 31, 2021	June 30, 2021
<b>\$ in thousands, except per share data</b>			
Net income (loss) attributable to common stockholders	(88,340)	(20,382)	(108,722)
Adjustments:			
(Gain) loss on investments, net	(72,620)	331,857	259,237
Realized (gain) loss on derivative instruments, net	155,947	(282,250)	(126,303)
Unrealized (gain) loss on derivative instruments, net	25,765	(9,260)	16,505
TBA dollar roll income	9,680	10,545	20,225
(Gain) loss on foreign currency transactions, net	(16)	16	-
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(5,429)	(5,368)	(10,797)
Subtotal	113,327	45,540	158,867
Earnings available for distribution	24,987	25,158	50,145
Basic income (loss) per common share	(0.34)	(0.09)	(0.45)
Earnings available for distribution per common share	0.10	0.11	0.21

# Appendix - Definitions

**Agency RMBS** – Residential mortgage-backed securities ("RMBS") that are guaranteed by a U.S. government agency such as the Government National Mortgage Association ("Ginnie Mae") or a federally chartered corporation such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac")

**Book value per common share** – Total stockholders' equity less the liquidation preference of the Company's Preferred Stock (\$155.0 million and \$287.5 million for Series B and Series C Preferred Stock as of June 30, 2021, respectively, and \$140.0 million, \$155.0 million and \$287.5 million for Series A, Series B and Series C Preferred Stock as of March 31, 2021, respectively); divided by total common shares outstanding

**Credit portfolio** – Investments in non-Agency CMBS, non-Agency RMBS, commercial loans and unconsolidated joint ventures are included in credit portfolio

**CPR** – The constant prepayment rate is the standard measure of prepayment speeds, also known as the conditional prepayment rate

**Dollar Roll Implied Financing Rate** - The reinvestment rate at which an investor is indifferent between rolling a TBA contract forward and holding MBS

**Economic return** – Economic return for three months ended June 30, 2021 is calculated as the change in book value per common share from March 31, 2021 to June 30, 2021 of (\$0.44); plus dividends declared of \$0.09 per common share; divided by the March 31, 2021 book value per common share of \$3.65

**Economic debt-to-equity ratio** – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$7.9 billion as of June 30, 2021) and TBAs at implied cost basis (\$1.5 billion as of June 30, 2021) to total stockholders' equity (\$1.4 billion as of June 30, 2021)

**Non-Agency CMBS** – Commercial mortgage-backed securities that are not guaranteed by a U.S. government agency or a federally chartered corporation

**Non-Agency RMBS** – Residential mortgage-backed securities that are not guaranteed by a U.S. government agency or federally chartered corporation

**TBAs** – To-be-announced securities forward contracts