IVR | Invesco Mortgage Capital Inc.

Invesco Mortgage Capital Inc.

Fourth Quarter 2024 Earnings Call

February 21, 2025



John Anzalone
Chief Executive Officer

Kevin Collins
President

Mark Gregson
Chief Financial Officer

David Lyle
Chief Operating Officer

Brian Norris
Chief Investment Officer

Cautionary Notice Regarding Forward-Looking Statements

This 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 Agency RMBS, Agency CMBS, residential and commercial real estate markets), 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, liquidity, capital structure 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.

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.

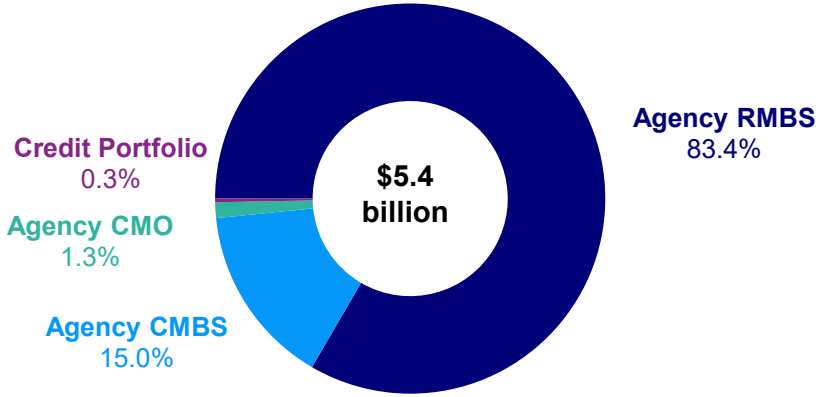
Invesco Mortgage Capital Inc.

Q4 2024 Results

Financial Results

	Q4 24	Q3 24
Net income (loss) per common share	$(0.09)	$0.63
Earnings available for distribution per common share[1]	$0.53	$0.68
Book Value per common share[2]	$8.92	$9.37
Common stock dividend per share	$0.40	$0.40
Economic Return[2]	(0.5)%	5.4%
Debt-to-equity ratio[2]	6.7x	6.1x

Investment Allocation[3]



Company Activity

- Redeemed Series B Preferred Stock on December 27, 2024
- Repurchased Series C Preferred Stock with a carrying value of $1.7 million
- Issued $8.3 million of common stock under the at-the-market program
- Held $389 million of unrestricted cash and unencumbered investments at quarter end

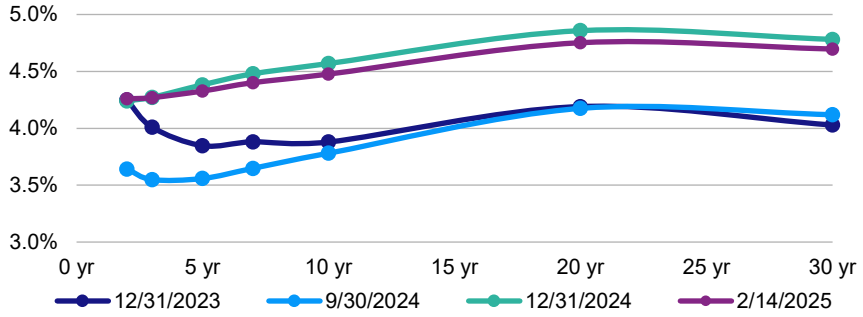
1. *Earnings available for distribution is a non-GAAP financial measure. Refer to Appendix for additional information*
2. *Refer to Appendix for additional information*
3. *Agency RMBS includes specified pools at fair value and TBAs at implied market value. Credit portfolio includes non-Agency CMBS and non-Agency RMBS*

Past performance is not a guarantee of future results

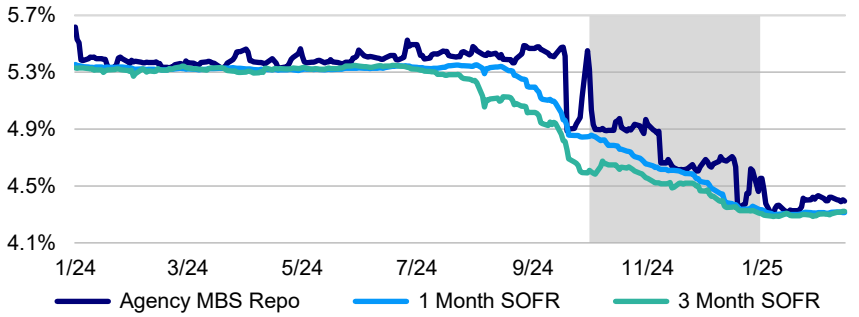
Macro Environment

Interest rates rose across the yield curve and expectations for monetary policy adjusted to a higher neutral rate as the disinflationary trend stalled and economic growth remained robust

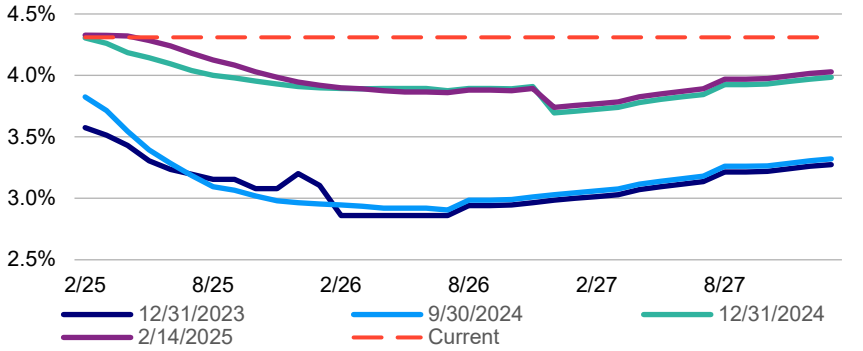
Treasury Yields



Money Market Rates

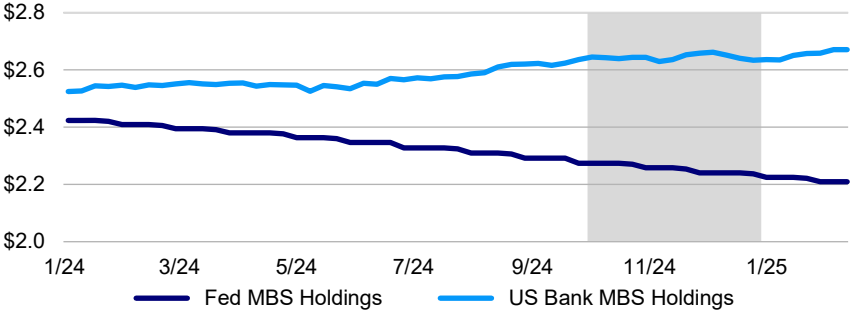


Federal Funds Futures



Agency MBS Holdings

(in trillions)



Data as of 2/14/2025
Sources: Bloomberg, JP Morgan and Federal Reserve Economic Data

Agency RMBS Market

Valuations deteriorated in the 4th quarter as interest rate volatility increased while specified pool pay-ups were negatively impacted by the upward shift in Treasury yields

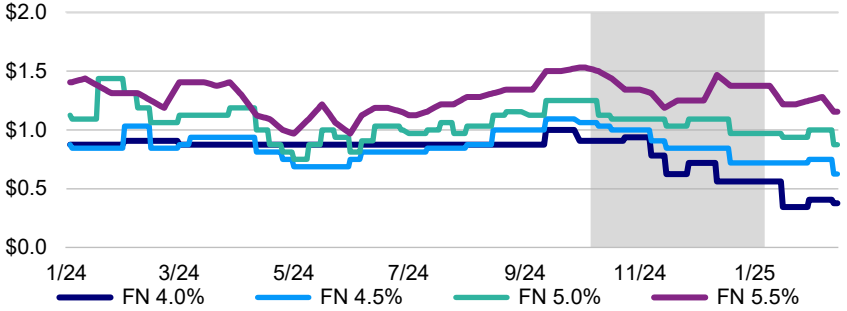
Performance vs. Treasuries[1]

(basis points)



Specified Pool Pay-ups

($200k max, in points)

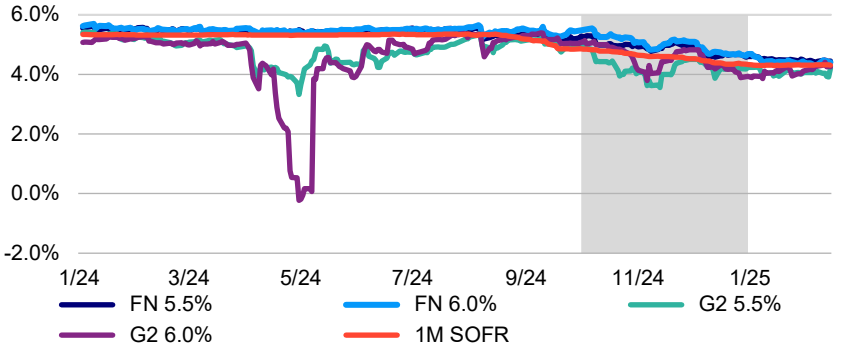


Spread to Treasuries[2]

(basis points)



Dollar Roll Implied Financing Rate

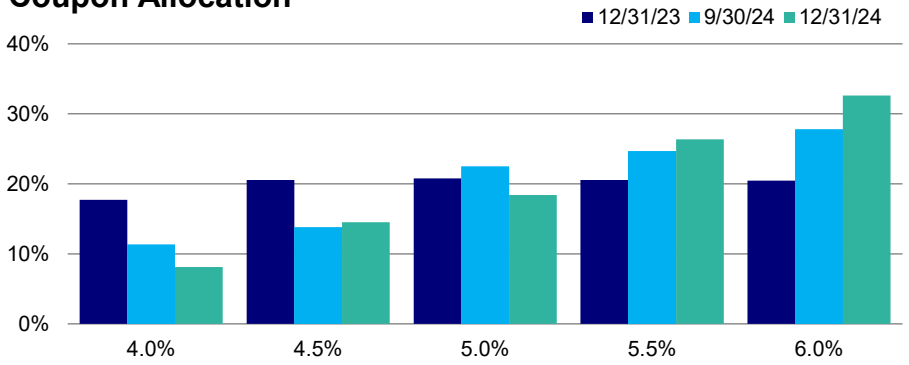


1. 30 year current coupon hedged performance vs. Treasuries
2. 30 year current coupon zero volatility spread to Treasuries

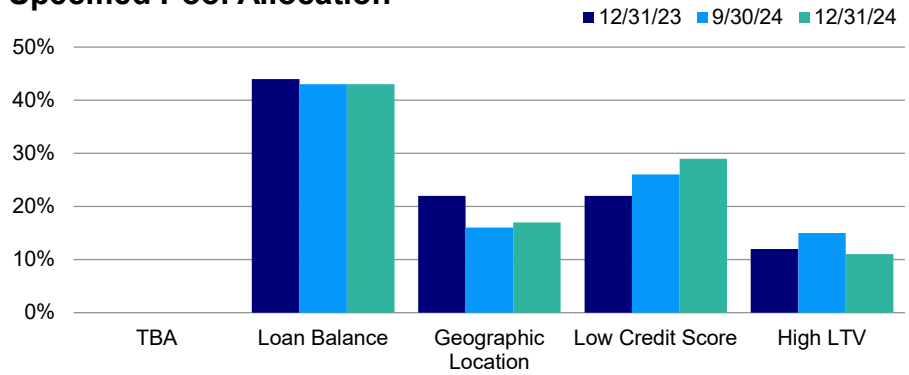
Data as of 2/14/2025
Sources: Bloomberg, JP Morgan

Agency RMBS Investments

Coupon Allocation



Specified Pool Allocation

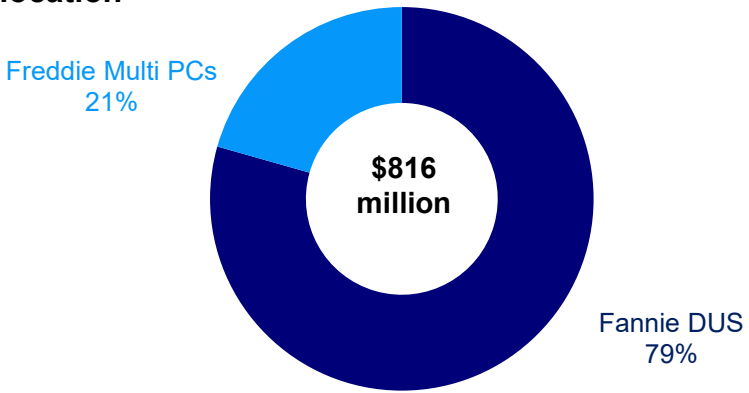


- Agency RMBS investment portfolio decreased 11% to $4.5 billion in Q4 2024
  - Rotated $129 million lower coupon specified pools into 30-year 6% specified pools
  - Sold $181 million specified pools and reallocated into Agency CMBS
  - Increased allocation to low credit score specified pools due to attractive relative value vs. similar low pay-up alternatives
- Q4 2024 specified pool characteristics
  - 8.7% CPR
  - Weighted average coupon of 5.3%
  - Amortized cost to principal balance ratio of 98.1%
  - Period-end weighted average specified pool pay-up of 0.7 points

Agency RMBS investment portfolio includes specified pools at fair value and TBAs at implied market value

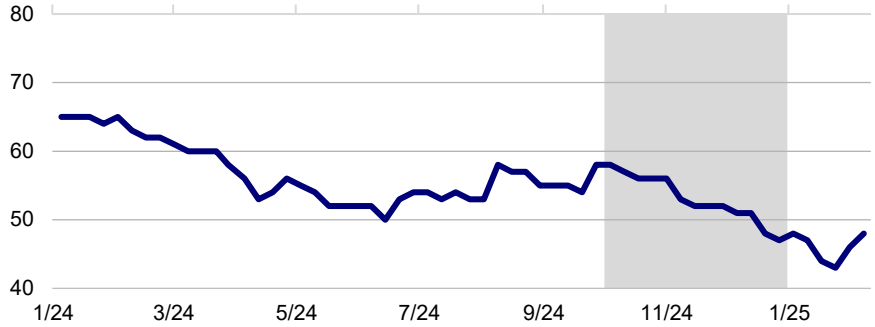
Agency CMBS Investments

Allocation



Spread to Treasuries

(basis points)

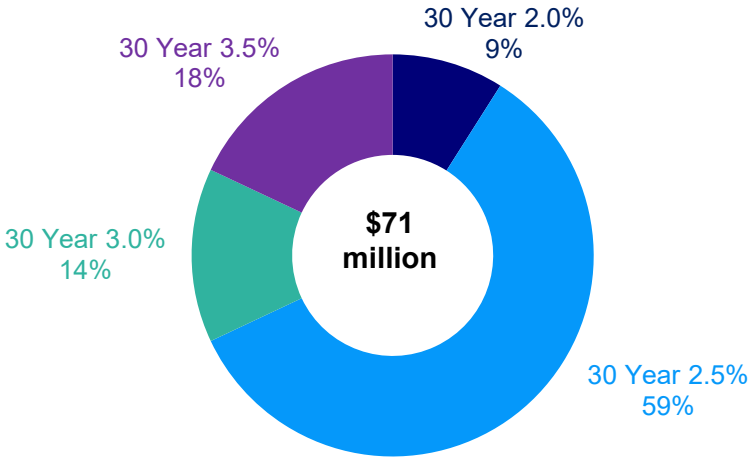


- Added $181 million of Fannie DUS in Q4 2024
- Agency CMBS benefits from:
  - Guarantee of principal and interest from the issuing agency or federally chartered corporation
  - Lower sensitivity to interest rate volatility than Agency RMBS given prepayment protection and balloon payments at maturity
  - Favorable financing terms with multiple counterparties
- Agency CMBS risk premiums declined as investor demand for stable cash flow profiles increased amidst elevated interest rate volatility

Fannie DUS 10/9.5 spread data as of 2/7/2025
Source: JP Morgan DataQuery

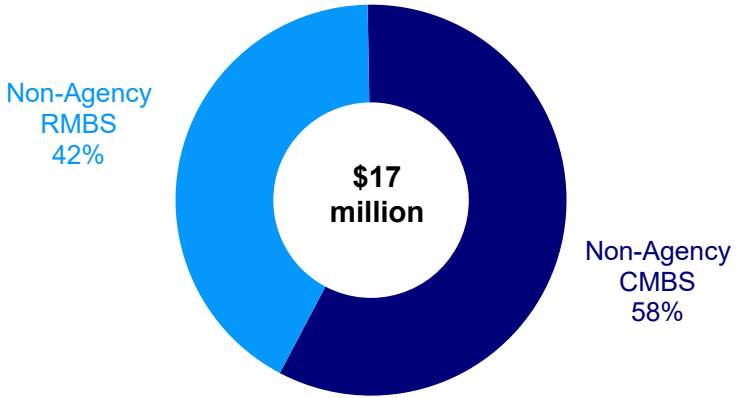
Agency CMO and Credit Investments

Agency CMO Allocation



- Q4 2024 Agency CMO characteristics
  - All investments are interest only securities
  - 4.6% CPR
  - Period-end weighted average yield of 9.20%
  - Period-end weighted average coupon of 2.58%

Credit Allocation

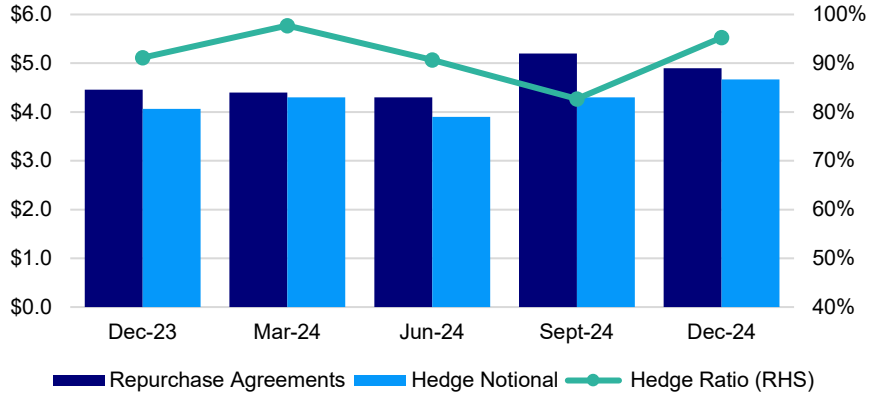


- Credit investments benefit from collateral diversification
- Favorable subordination levels support credit investment valuations

Financing & Hedging

Cost of Funds Protection[1]

(in billions)



Hedge Portfolio Composition

Maturities[2]	Treasury Futures Notional ($ millions)	Interest Rate Swap Notional ($ millions)	Interest Rate Swap Pay Rate[3]
Less than 3 years	-	1,730	1.06%
3 to 5 years	-	375	0.39%
5 to 7 years	-	750	0.57%
7 to 10 years	1,193	-	-
10+ years	209	410	1.83%
Total	**1,402**	**3,265**	**0.97%**

- Financed Agency RMBS and Agency CMBS investments with repurchase agreements across 20 counterparties
- Hedged 95% of borrowing costs with interest rate swaps and U.S. Treasury futures
- Debt-to-equity ratio of 6.7x and economic debt-to-equity ratio[4] of 6.7x at quarter end

1. *Chart reflects carrying value of repurchase agreement borrowings and total hedge notional amount of interest rate swaps and U.S. Treasury futures*
2. *Grouped according to weighted average years to maturity for interest rate swaps and the average remaining years to maturity of the delivery basket for U.S. Treasury futures*
3. *Represents period-end weighted average as of December 31, 2024*
4. *Economic debt-to-equity ratio is a non-GAAP financial measure. Refer to Appendix for additional detail*

Capital Structure

Improved capital structure and reduced cost of capital by redeeming Series B Preferred Stock

	As of December 31, 2024		As of September 30, 2024	
	Common Stock	**Preferred Stock**	**Common Stock**	**Preferred Stock**
NYSE Ticker	IVR	IVR-PC	IVR	IVR-PB / IVR-PC
Shares Outstanding	61.7 million	7.2 million	60.7 million	11.5 million
Share Price	$8.05	$24.24	$9.39	$24.62 / $24.05
Book Value per share[1]	$8.92	$25.00	$9.37	$25.00
Quarterly Dividend per share[2]	$0.40	$0.46875	$0.40	$0.4844 / $0.46875
Annualized Dividend Yield[3]	19.9%	7.7%	17.0%	7.9% / 7.8%
Shareholders' Equity	$551 million	$180 million	$569 million	$288 million
% Shareholders' Equity	75%	25%	66%	34%

1. *Refer to Appendix for additional information*
2. *Final Series B Preferred Stock dividend of $0.4844 per share paid December 27, 2024*
3. *Calculated as the annual dividend per share divided by the period end share price, by class respectively*

Appendix - Non-GAAP Financial Information

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 on repurchase and retirement of preferred stock; foreign currency gains (losses), net and amortization of net deferred (gain) loss on de-designated interest rate swaps.

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. 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 – Reconciliation of GAAP to Non-GAAP Financial Information

$ in thousands	Three Months Ended December 31, 2024	September 30, 2024	December 31, 2023
Net income (loss) attributable to common stockholders	$ (5,472)	$ 35,271	$ 22,280
Adjustments:			
(Gain) loss on investments, net	187,714	(165,168)	(165,340)
Realized (gain) loss on derivative instruments, net	(157,864)	172,797	199,137
Unrealized (gain) loss on derivative instruments, net	7,629	(4,569)	(8,576)
TBA dollar roll income	249	39	-
Gain on repurchase and retirement of preferred stock	(1)	(25)	(760)
Amortization of net deferred (gain) loss on de-designated interest rate swaps	-	-	(900)
Foreign currency (gains) losses, net	(2)	-	-
Earnings available for distribution	$ 32,253	$ 38,345	$ 45,841

$ in thousands, except per share data	Three Months Ended December 31, 2024	September 30, 2024	December 31, 2023
Net interest income	$ 13,679	$ 7,510	$ 8,302
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	-	-	(900)
Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	32,321	40,883	48,981
Effective net interest income	46,000	48,393	56,383
TBA dollar roll income	249	39	-
Equity in earnings (losses) of unconsolidated ventures	-	-	(5)
(Increase) decrease in provision for credit losses	(236)	80	(108)
Total expenses	(4,781)	(4,693)	(4,750)
Dividends to preferred stockholders	(5,444)	(5,474)	(5,679)
Issuance and redemption costs of redeemed preferred stock	(3,535)	-	-
Earnings available for distribution	$ 32,253	$ 38,345	$ 45,841
Earnings available for distribution per common share[1]	$ 0.53	$ 0.68	$ 0.95

1. *Earnings available for distribution per common share is equal to earnings available for distribution divided by the basic weighted average number of common shares outstanding.*

Appendix - Definitions

Agency CMO – Interest Only - An interest only security is created by separating the principal and interest portions of the payments on the underlying loan pool and selling them as distinct products. The investor in the interest only security benefits when the prepayment rate on the underlying debt is low and interest rates are rising.

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 Series B Preferred Stock and Series C Preferred Stock ($0 and $180.2 million as of December 31, 2024, respectively, and $106.2 million and $181.9 million as of September 30, 2024, respectively), divided by total common shares outstanding

Credit portfolio – Investments in non-Agency CMBS and non-Agency RMBS 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 quarter ended December 31, 2024 is defined as the change in book value per common share from September 30, 2024 to December 31, 2024 of $(0.45) plus dividends declared of $0.40 per common share; divided by the September 30, 2024 book value per common share of $9.37

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements ($4.9 billion as of December 31, 2024) and TBAs at implied cost basis ($0.6 million as of December 31, 2024) to total stockholders' equity ($730.7 million as of December 31, 2024)

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 a federally chartered corporation

The Secured Overnight Financing Rate (SOFR) – A broad measure of the cost of borrowing cash overnight collateralized by Treasury securities

1 month and 3 month SOFR – Indices published by the Chicago Mercantile Exchange (CME) that provide an indication of the forward-looking measurement of overnight SOFR, based on market expectations for their respective tenors implied from derivatives markets

TBAs – To-be-announced securities forward contracts