KKR Real Estate Finance Trust, Inc.

Q1 2026 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jack Switala – *Head of Investor Relations*
Matt Salem – *Chief Executive Officer*
Patrick Mattson – *President, Chief Operating Officer and Secretary*
Kendra Decious – *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the KKR Real Estate Finance Trust Inc First Quarter 2026 Financial Results Conference Call.

All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key, followed by “0”. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press “*”, then “1” on your telephone keypad. To withdraw your question, please press “*”, then “2”.

Please note, this event is being recorded.

I would now like to turn the conference over to Jack Switala. Please go ahead.

Jack Switala
Great. Thanks, Operator, and welcome to the KKR Real Estate Finance Trust earnings call for the first quarter of 2026.

As the operator mentioned, this is Jack Switala. This morning. I'm joined on the call by our CEO Matt Salem, our President and COO, Patrick Mattson, and our CFO, Kendra Decious.

I'd like to remind everyone that we will refer to certain non-GAAP financial measures on the call which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website. This call will also contain certain forward-looking statements which do not guarantee future events or performance. Please refer to our most recently filed 10Q for cautionary factors related to these statements.

Before I turn the call over to Matt, I will go through our results. For the first quarter of 2026, we reported a GAAP net loss of $62 million, or -$0.96 per share. Book value as of March 31, 2026, is $11.87 per share. We reported a distributable loss of $4 million, or -$0.06 per share. Distributable earnings before realized losses was $13 million, or $0.20 per share. Finally, we paid a $0.25 cash dividend in April, with respect to the first quarter.

With that, I'd now like to turn the call over to Matt.

Matt Salem
Thanks, Jack. Good morning, everyone and thank you for joining us. As we outlined last quarter, 2026 represents a transition year for the company. With the goal of narrowing the gap between share price and book value per share, our focus is on two key priorities. First, executing an aggressive resolution strategy across our watchlist assets and certain legacy office exposures. And second, positioning a portion of our REO portfolio for liquidity.

We have significant liquidity sitting at $653 million, today, in extensive capabilities across KKR to execute both our asset management and REO strategies. Today, I want to provide additional detail on our progress against those objectives and what you should expect, over the course of the year.

This quarter, book value declined by 9%, as we position our watchlist loans for resolution. Our action plan is designed to reposition the portfolio to optimize medium- and long-term performance.

However, as we execute, we may choose to incur book value declines as we seek liquidity on legacy assets to create a higher quality portfolio.

As we complete this transition, we see a clear path to redeploy capital in newer vintage, higher quality investments, which we believe will support a return to book value per share stability and over time, drive earnings and book value accretion.

Overall, our specific goals for 2026, as outlined on page 8 of the Supplemental, are to reduce our watchlist and legacy office exposure, rotate the portfolio into newer vintage, higher quality assets and reduce our REO footprint. With that, I want to walk through our action plan for 2026 in further detail.

First, reduce legacy office exposure from 21% to under 10%. We expect over half this reduction to come from par repayments with the remaining driven by resolution of our watchlist loans. We've already begun to action both prongs. Our largest office loan, $225 million loan in Bellevue, was refinanced in the first quarter, at par, with a CMBS single asset, single borrower transaction. And the property securing our largest watchlist office loan is currently being marketed for sale.

Second, we plan to resolve all of our current watchlist loans by year-end by positioning these assets for sale or modification and accelerating their resolution.

Third, address our life science exposure. Our goal is to have 100% of this exposure modified. We already have made progress here, having modified 19% and when including our Cambridge asset this quarter, we have modified 30% of our life science exposure. We also took a material increase in reserves for our Seaport loan in anticipation of a potential modification.

Finally, we are continuing to originate new investments, as we reposition the portfolio. As a result of this activity, loans originated between 2024 and 2026 are expected to represent approximately 50% of the portfolio, by year-end. This highlights the significant turnover into newer vintage assets, which we believe will have improved earnings potential.

Let me turn to liquidity and capital allocation, which is another priority for us, as a management team for 2026. We announced a dividend reduction to $0.10 per share, per quarter, payable on July 15th. This decision is not driven by liquidity constraints. In fact, as we look ahead through the year, we expect to have over $500 million of capital to invest, largely, driven by over $2 billion of expected repayments in 2026.

Rather, the dividend decision reflects a disciplined approach to capital allocation. At this stage, we see more attractive opportunities, including repurchasing our stock and funding new originations.

While we have ample liquidity to pay dividends at the current level, the new dividend level has the added benefit of being aligned with our expectations for distributable earnings per share before realized losses, as we work through repositioning our portfolio. While we expect $0.40 per year of dividends to be covered by earnings excluding losses, quarterly results may vary in the near term, with earnings expected to trough in the second half of 2026, into the first half of 2027. Once we get through this period, we expect distributable earnings per share to increase.

Regarding capital allocation, given our current trading levels relative to book value, we believe share repurchases represent an attractive opportunity to drive accretion to book value per share, while also providing greater strategic flexibility. We were largely inactive with respect to share buybacks this past quarter due to trading restrictions, while we were actively evaluating our dividend policy. With that process now complete and our dividend framework established, those constraints have been lifted.

On April 14, our Board authorized a new $75 million share repurchase program, providing us with meaningful flexibility to deploy capital. As a management team, together with our Board of Directors, we have not taken this dividend decision lightly, but given where the stock is trading, we believe the dividend cut and meaningful share buybacks are in the best interest of shareholder value creation.

With that, I will turn the call over to Patrick.

Patrick Mattson
Thanks, Matt. Good morning, everyone. Let me start with a few changes to the watchlist. This quarter, we downgraded our Philadelphia office assets along with two smaller Texas multifamily loans from risk rated three to four.

As previously previewed on last quarter's earnings call, we also downgraded our Boston Life Science asset from risk rated three to five. We upgraded our Cambridge Life Science from risk rated five to three, following the loan restructuring that includes new sponsor equity commitment and a loan paydown. As a result, we recorded CECL provisions of $74 million, bringing our total allowance to $260 million. These actions are part of our broader action plan to, proactively, reposition the portfolio.

Turning next to our REO portfolio. We are actively managing these assets with a clear focus on monetization and value realization. To help frame it, we've grouped these assets into near, medium, and longer-term monetization buckets.

Starting with the near-term bucket, West Hollywood condos, where units are currently listed and actively being marketed, with proceeds returning equity as closings occur. Raleigh, North Carolina multifamily, where we're completing targeted upgrades to common areas and expect to list the asset for sale, by year-end. Philadelphia office, where our business plan is largely complete. The asset is now approximately 85% leased, and we plan to sell the property this year.

In the medium-term bucket, we have Mountain View, California, office, where our platform, market positioning, and patience have driven meaningful value creation. As we announced in March, we signed a long-term full property lease with OpenAI. We expect to bring this asset to market within the next 12 to 16 months, as we complete the remaining work and the tenant takes occupancy.

Portland redevelopment, where we've executed on our plan and are near final entitlement on over 4 million square feet of mixed-use space and expect to begin our monetization strategy over the course of the year.

And finally, in the longer-term bucket, Seattle life science, where our focus is on leasing and stabilizing the asset, and we expect to hold it longer given current market conditions. Boston life science, currently a risk-rated five loan, which we expect to transition to REO in the second quarter, this is expected to result in a realized loss of approximately $37 million, though we were adequately reserved as of the first quarter. Similar to Seattle, we plan to stabilize the asset and hold the property until market conditions improve.

As we monetize these assets and redeploy the capital into new investments, we estimate the potential to generate more than $0.15 per share of incremental quarterly earnings, over time, nearly half of that being driven by our Mountain View REO asset. This reinforces our focus to convert these assets into liquidity and redeploy that capital into higher earning opportunities.

Turning to financing and liquidity, at quarter end, we had $653 million of liquidity, including $135 million of cash on hand and $500 million of undrawn capacity on our corporate revolver. Additionally, we had over $500 million of unencumbered assets on the balance sheet. Total financing availability was $7.2 billion, including $2.6 billion of undrawn capacity.

Originations totaled $184 million for the first quarter, while repayments were $415 million, with approximately 75% of the repayments driven by legacy office.

Looking ahead, in the first three weeks of the second quarter, we've already closed or circled over $400 million of new loans. We continue to benefit from our connectivity with KKR Capital Markets. And 77% of our financing remains non-mark-to-market, providing stability across market environments. We believe we remain well-capitalized and positioned to manage the portfolio.

Importantly, we have no final facility maturities until 2027 and no corporate debt due until 2030. Our debt-to-equity ratio was 2.2x, and our total leverage was 4.0x, consistent with our target range.

As we move through this transition year, we believe we are well-positioned. Our focus remains on executing a resolution strategy and redeploying capital into high-quality opportunities, including share repurchases, with a clear path to improving and rebuilding earnings power. We believe the actions we're taking today position the company for long-term value creation. With that, we're happy to take your questions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your touchtone telephone. If you are using a speakerphone, please pick up your handset, before pressing the keys. To withdraw your question, please press "*", then "2".

At this time, we will pause momentarily to assemble our roster.

First question is from Tom Catherwood, BTIG.

Tom Catherwood
Thank you and good morning, everybody. Maybe starting with the portfolio target of 50% newer vintage loans, by year-end. By our math, that implies something in the neighborhood of $1.0 billion to $1.2 billion of origination activity over the coming quarters. Are we in the ballpark with that?

Matt Salem
Hey Tom, thanks for the question. It's Matt. I can take that, and thanks for joining the call. That's certainly in the ballpark of what we're looking at. Obviously, certainly will depend a little bit on the share buyback amount. But that's a good projection for now.

Tom Catherwood

Perfect, actually, fair point on the share buyback and it's kind of the use of liquidity is something we're thinking of. With leverage ticking up to the top end of the range in Q1, will those originations and the $75 million allocation for buybacks, will those be tied to REO asset sales, or are you comfortable using liquidity on your balance sheet and then just kind of back funding that, as you sell assets?

Matt Salem
Yeah, I can start, it's Matt again. Let me start off a little bit. I think most of that liquidity, as we commented on the prepared remarks, is really coming from natural loan repayments. So in the course of the year, we think we're going to have $2 billion of repayments. We got about $400 million or so in the first quarter, second quarter, and to be clear, it's always a little bit hard to predict these things, quarter to quarter.

But you know, we look at the second quarter right now, and from what we can see, it could be close to half of that total repayment for the year could come through the second quarter. So I'd say most of this liquidity that we're looking at, which translates into like $500 million of investable capital, if you will, and then we can talk about the sources, to your point, is really going to come from that, from the just loan repayments and natural velocity within the loan portfolio.

Tom Catherwood
Okay, so you don't need to line up the timing of REO sales in order to achieve that 50% new loan target?

Matt Salem
No.

Tom Catherwood
Got it. Perfect. And then last one for me. On the watchlist, roughly six assets on there, when you account for the Boston life science loan in 2Q, or that it's going to go REO, you obviously mentioned Minneapolis office is on the market. For the remaining six, what are your expectations as far as the amount that are repaid versus those you expect to modify or bring on balance sheet?

Matt Salem
Yeah, let me jump in, again. Maybe just looking on, you know, on page 12 here, you know, the goal is to try to monetize the vast majority of these. I think on the life science piece of it, you know, we mentioned we will be taking title to one of those, over the course of time here. But you know, outside of that, I think a lot of this will be some combination of modifications, note sales, as well.

But I think the goal really is to clear all this up by the end of the year. And you know, things like the multifamily component here, I'm sure we'll get questions on this later, so I can just address it now. These are just coming up on maturity and these are in the process of getting sold. So, you know, sponsors outselling these assets. We downgraded these just because the sales price is going to be close to the debt and we may take small losses or not on those loans. We wanted to make sure we identified those.

We don't think that's really indicative of the rest of multifamily. We've always been on these calls saying there can be noise in multifamily, but we don't think there's like material losses in that, in the loan portfolio on the multifamily side. And this is probably a good example of what we're looking at. Like there's going to be a little bit of noise here. We could take small losses as they sell these assets into the market and it trades right around the debt. But some of these will just be sales from sponsors, if you will.

Tom Catherwood
Got it, got it. Appreciate those answers. Thanks Matt.

Matt Salem
Thank you.

Operator
Next question is from Chris Muller, Citizen Capital Markets.

Chris Muller
Hey guys, thanks for taking the questions. So I just wanted to start with the dividend and just make sure I heard you guys right. So, the new $0.10 dividend is well below the $0.20 ex losses you guys put up in the quarter. I also heard the comments on both the new buybacks and also near term pressure as you guys get more aggressive on resolutions.

So I guess the question is, do you guys expect earnings ex losses to be around that $0.10 level, or does that just give you some optionality? And I think I just missed what you guys said in the prepared remarks.

Matt Salem
Yeah, it's Matt, let me jump in. We think earnings are going to trough towards the back half of this year into next year. And a lot of that, we start to come out of it as we think about liquidate more of the REO portfolio, especially as you think about Mountain View, you know, where we've obviously signed the lease there and that'll be positioned for liquidity over the next, call it, 12 to 18 months.

So that's, you know, when you think about the light at the end of the tunnel, that's a little bit of the timing as to we can build back up earnings. When we mentioned the $0.10 here, you know part of this is just capital allocation, right? Like look about, think about where the stock trades, today. And we've got pretty good uses of capital, right now, in terms of just share repurchases.

So obviously, it ties into some just overall capital allocation discussions. But when we think about it just versus earnings, we expect to cover that on kind of an annualized intermediate basis. But there certainly could be a little bit of noise and certain quarters where we're not fully covering that, as we continue to push through and reposition the portfolio.

Chris Muller
Got it. And then I guess on the $42 million CMBS investment, was that a more attractive investment than deploying into bridge loans or was it more just a place to park some cash until it can be redeployed? And should we expect to see more of this, going forward?

Matt Salem
Yeah, so we've been, that number sounds fine. Let me double check the amount for the quarter. We've been evaluating different options for portfolio diversification. Whether that's expanding into Europe and leveraging the platform that KKR has built in that market or just duration, as well, and just access to different investing markets. You know like, CMBS.

So from a relative value perspective we thought that was a particularly unique opportunity for us. And I think you're right on terms of the $42. I just want to double-check that. But yeah, I mean, we're evaluating everything on a relative value basis. The CMBS is providing a little bit duration.

I think in this case it was a little bit more single asset, single borrower. So solving more of the relative value component of it.

Chris Muller
Got it. Makes a lot of sense. And thanks for taking the questions.

Operator
Next question is from Jade Rahmani, KBW.

Jade Rahmani
Yes, have you seen any green shoots in leasing in life science?

Matt Salem
Hey, Jade, thank you for joining today. We are. I think it's a little bit market dependent. They're all in a little bit different stages of recovery. I think in South San Francisco you're seeing two things happening. One, you're seeing a revitalization of office, particularly as it relates to AI tenants and growth, which is creating tension in the overall market. And as you well know, some of these assets, including some that we have, can be leased as office. So, there are some pretty tight pockets of office there.

And then we're also starting to see life science companies turn back on, as well. When we think about our other exposure, our larger exposure in Boston, and I'd say there, it's probably a little bit behind what we're seeing in South San Francisco, but we are seeing tenants in the market. Most of the assets that we have there are oriented to big pharma, and there are tenants in the market today, like actively engaged, you know, trying to lease space, including one of the assets that we have.

So, we are seeing tenants starting to come back, but it still feels, you know, early and, but at least you're having some sense of recovery starting.

Jade Rahmani
And in terms of your REO expectations, from your standpoint today, is it your view that there'll be just one additional life science REO?

Matt Salem
That's the current expectation, yes.

Jade Rahmani
And then can you discuss some of your approach to credit risk management? Because I have seen migration from risk three loans to five, as maturity approaches. And you know, usually, what we see is a risk three to a risk four then to a risk five. So the skipping ahead, you know, makes me a little worried about the risk three loans in the portfolio.

I know it's multifamily and you don't expect material losses there. But just generally speaking, you know, how are you thinking about that?

Matt Salem
Yeah, that's a great question. I would say the normal progression for us, and obviously the peers as well, as you go three, four, five. And I'd say the vast majority of cases, that's what's happened. And by the way, we do analysis, every quarter, evaluating what's happened with our four loans and that's obviously a dynamic number. But up to this point, roughly half have gone to five and

half have gone to three, which is I think, what a four is supposed to be. It's not just an indicator that it goes to five.

Obviously, depending on the property type, it may be more heavily weighted to that, over time. But in terms of, I think we've had a couple go from three to five. The only one we had this quarter was really the Life Science deal, which we flagged last quarter as going to get downgraded, depending on what these modification discussions look like, it would be a four or five. We weren't exactly sure at the time and we had went ahead and moved it over to a five.

So I'd say it's unusual. The multifamily loans we put into the four bucket just because, one, it's not material we don't think, and two, we're not exactly sure what's going to happen now as these sales processes play out.

But I think you're right in the sense that vast majority of time, you're going to have these natural linear progressions. But sometimes there's jump risk around a maturity date or around a modification discussion and we obviously need to just reflect our best-case scenario at the time or best guess at the time.

Jade Rahmani
Thank you. And then on the Minneapolis office, it's a risk five loan, so I believe there should be something around 23% loss assumption there, reserves that you currently have. And I think that your slides show that the price per square foot at your basis is $182, but that's before CECL. So you know, if we stress that for a 25% severity assumption, I'm just curious if you think that is where the market is or if, you know, based on the sale process, there might be some further loss.

Patrick Mattson
Jade, good morning, it's Patrick. I'll take that one. So yeah, I think the number you're kind of backing into is a blend, is an average. Obviously, as we've seen in the office segment, some of those loss numbers have been higher than average. If you think about what's also in that bucket, we've got multifamily, as an example. So, it's just a proxy. Clearly, that's an asset that we've been working for some time here and we think it's appropriately reserved for. But the number that you're quoting is just an average.

Jade Rahmani
Okay, thanks a lot.

Operator
Again, if you have a question, please press “*”, then “1”. Next question is from Gabe Poggi, Raymond James.

Gabe Poggi
Hey, good morning, guys. I've got a couple questions. On capital allocation, capital management, as you guys think about the buyback versus making new loans to kind of keep a DE run rate going, how do you manage that relative to leverage? If your total capital right now to equity around 4x and your leverage to common’s 5x plus, how much of that buyback, how do you think about leverage relative to that buyback? That's question one.

Matt Salem
Hey, Gabe. Yeah, it’s Matt, let me start out and try to answer that. I would say we're not changing our leverage targets. I think that's the first thing we're kind of solving for, right? We want to kind of stay in that 3.5x to 4.0x range. So I think we ended this quarter around 4.0x, at the higher end

of our range. If we didn't originate any loans, we could bring that leverage way down because we have so many repayments coming in. So we have a lot of flexibility on that, but that's probably the first thing we're solving for, which is like, okay, let's make sure we stay, kind of leverage neutral, if you will.

And then we're looking at excess capital, beyond that. And then we're trying to think about, okay, what's the appropriate amount of share buybacks? First, I would say, just given where the stock price trades, how much should we be buying back? The Board authorized $75 million. You put that in context, that's a lot of firepower, right? We have a lot of liquidity – we have $500 million of liquidity, so what are we going to do with it? $75 million we authorized for buybacks, and that's roughly 25% of the public float. It's a lot of buyback. So, that's probably what we're looking at, next.

And then we have excess capital, right? And that's like, okay, what else should we be doing and thinking about? And that's why we obviously want to think about the ongoing business supporting a dividend and not stretching the company too much. And that's where the final piece of it, I think, comes in, which is the loan origination side.

So, hopefully, that gives you some context and how we're, from a decision tree perspective, going through it.

Gabe Poggi
Yeah, no, that's helpful. Thanks, Matt. Second question, is there any contemplation from KKR, the manager, during this transition period regarding a fee cut, fee waiver. Just as you guys get from point A to point B, call it, you know, mid-2027.

Matt Salem
Yeah, thanks. Listen, I think we're evaluating, you know, everything, all options, I think on the table. At the KKR level as manager, at the KKR level as the largest shareholder in this company and then, obviously, the KREF level and the Board. So, you know, I wouldn't, you know, we're looking at a number of different, obviously, a number of different options.

Gabe Poggi
Yeah, and I asked that just in the context of obviously getting from point A to point B, knowing KKR is a large shareholder and thinking about just kind of getting, you know, more oomph to the bottom line, during the transition. There was nothing pointed in that question, just so you guys know.

Last question is, is there any more detail you can provide around the Mountain View lease? Just any term details, things of that nature to give folks some granularity on how you're thinking about the potential value there, as you think about monetization over the next 12 to 18 months?

Matt Salem
Yeah, we're subject to a pretty tight NDA, so we'd love to provide more. But obviously, we have a contractual agreement with our tenant. What I can say is that it's a long term lease that we think will trade like a net lease so we can effectively sell it to net lease type of buyers, right, on a long term lease basis. So, that's really what we're looking at. Let's just take a step back, right? I mean, where the stock is trading today, there's a lot of uncertainty in the world, clearly. And so, it's hard to like project forward.

You know, what happens whether it's in with the war in Iran and oil prices and inflation, whether it's, you know, AI and you know, impact on jobs or growth or GDP. So, there's just a lot out there, right, I would say, right now. But when we look at book value and we're willing to, I think you saw it this quarter, unfortunately, we're willing to pay some bid offer to find liquidity to clean up the portfolio. It is putting pressure on book value. And like we said, we've got a little bit of ways to go here. We're going to choose to do that going forward, to get to a spot where we can feel good about it and have a portfolio that's earning well and give the all clear.

It's not like we're sitting here and looking at this portfolio and our book value and saying, oh, this is going to get down to like a single digit type of book value, per share. So like we're not exactly sure what the market's pricing. And that doesn't include like back to this discussion around 350 Ellis, where we think we've got a big gain in that asset, right.

You know, we've marked that down, significantly. Now we have a tenant, we've got a good lease, it's a long-term lease. We feel like we can sell that and liquidate that asset over time, and that'll be accretive to book value, so we can actually start building this back up a little bit. And then of course, with share buybacks we can do the same.

So that's a little bit of how we're thinking about it. And I know we've been pressed on this a number of times on Mountain View, is timing. We'll sell this as soon as we feel like we can optimize value. But we're giving the 12 to 18 months because that's kind of the stabilized moment. And if we have options before that, you know, of course, we'll look at those very, very carefully. But we want to be, you know, I think, conservative and judicious as we think about the timing and what's realistic.

Gabe Poggi
Thanks Matt. That's helpful.

CONCLUSION

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

Jack Switala
Great. Thanks, Operator. And thanks everyone for joining today. Please reach out to me or the team here, if you have any more questions. Take care.