



Ares Commercial Real Estate Corporation - Fourth Quarter and Full-Year 2018 Earnings Presentation

February 21, 2019

Disclaimer

Statements included herein may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended, which may relate to future events or the future performance or financial condition of Ares Commercial Real Estate Corporation (“ACRE” or the “Company”), its external manager, Ares Commercial Real Estate Management LLC (“ACREM”), a subsidiary of Ares Management Corporation (“Ares Corp.”), Ares Corp., certain of their respective subsidiaries and certain funds and accounts managed by ACREM, Ares LP and/or their subsidiaries. These statements are not guarantees of future results or financial condition and involve a number of risks and uncertainties. Actual results and conditions may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in ACRE’s and/or Ares Corp.’s filings with the Securities and Exchange Commission (“SEC”). Any such forward-looking statements are made pursuant to the safe harbor provisions available under applicable securities laws.

Ares Corp. is the parent to several registered investment advisers, including Ares Management LLC (“Ares Management”) and ACREM. Collectively, Ares LP, its affiliated entities, and all underlying subsidiary entities shall be referred to as “Ares” unless specifically noted otherwise.

The information contained in this presentation is summary information that is intended to be considered in the context of ACRE’s SEC filings and other public announcements that ACRE or Ares may make, by press release or otherwise, from time to time. ACRE and Ares undertake no duty or obligation to publicly update or revise the forward-looking statements or other information contained in this presentation. These materials contain information about ACRE and Ares, and certain of their respective personnel and affiliates, information about their respective historical performance and general information about the market. You should not view information related to the past performance of ACRE or Ares or information about the market, as indicative of future results, the achievement of which cannot be assured.

Nothing in these materials should be construed as a recommendation to invest in any securities that may be issued by ACRE or any other fund or account managed by Ares, or as legal, accounting or tax advice. None of ACRE, Ares or any of their respective affiliate makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. Certain information set forth herein includes estimates and projections and involves significant elements of subjective judgment and analysis. Further, such information, unless otherwise stated, is before giving effect to management and incentive fees and deductions for taxes. No representations are made as to the accuracy of such estimates or projections or that all assumptions relating to such estimates or projections have been considered or stated or that such estimates or projections will be realized.

These materials may contain confidential and proprietary information, and their distribution or the divulgence of any of their contents to any person, other than the person to whom they were originally delivered and such person’s advisers, without the prior consent of ACRE or Ares, as applicable, is prohibited. You are advised that United States securities laws restrict any person who has material, non-public information about a company from purchasing or selling securities of such company (and options, warrants and rights relating thereto) and from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities. You agree not to purchase or sell such securities in violation of any such laws.

These materials are not intended as an offer to sell, or the solicitation of an offer to purchase, any security, the offer and/or sale of which can only be made by definitive offering documentation. Any offer or solicitation with respect to any securities that may be issued by ACRE will be made only by means of definitive offering memoranda or prospectus, which will be provided to prospective investors and will contain material information that is not set forth herein, including risk factors relating to any such investment.

This may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor’s. Such information has not been independently verified and, accordingly, ACRE makes no representation or warranty in respect of this information. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THIRD PARTY CONTENT PROVIDERS SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THEIR CONTENT, INCLUDING RATINGS. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Ares Commercial Real Estate Corporation

Fourth Quarter and Full-Year 2018 Results

Earnings

- Reported GAAP net income of \$10.0 million or \$0.35 per diluted common share and Core Earnings⁽¹⁾ of \$10.9 million or \$0.38 per diluted common share for fourth quarter 2018
- Reported GAAP net income of \$38.6 million or \$1.35 per diluted common share and Core Earnings⁽¹⁾ of \$40.8 million or \$1.43 per diluted common share for full-year 2018

Originations & Portfolio

- Originated \$181.6 million and \$608.6 million of gross new loan commitments for fourth quarter 2018 and full-year 2018, respectively
- Investment portfolio was \$1.7 billion in originated commitments and \$1.5 billion in outstanding principal⁽²⁾
- Portfolio total weighted average unleveraged effective yield⁽³⁾ of 7.1% as of December 31, 2018 versus 6.3% as of December 31, 2017
 - Senior mortgage loans weighted average unleveraged effective yield⁽³⁾ of 7.0% as of December 31, 2018 versus 6.2% as of December 31, 2017
 - Subordinated debt and preferred equity investments weighted average unleveraged effective yield⁽³⁾ of 14.9% as of December 31, 2018 versus 10.8% as of December 31, 2017

Reduced Pricing and Expanded Access to Capital and Liquidity

- In December 2018, amended the Citibank Facility to (1) decrease the interest rate on advances from a per annum rate equal to the sum of one-month LIBOR plus an indicative pricing margin range of 2.25% to 2.50%, subject to certain exceptions, to a per annum rate equal to the sum of one-month LIBOR plus an indicative pricing margin range of 1.50% to 2.25%, subject to certain exceptions, (2) increase the facility's commitment amount from \$250.0 million to \$325.0 million and (3) extend the initial maturity date to December 13, 2021
- In December 2018, amended the Wells Fargo Facility to (1) decrease the interest rate on advances from a per annum rate equal to the sum of one-month LIBOR plus a pricing margin range of 1.75% to 2.35% to a per annum rate equal to the sum of one-month LIBOR plus a pricing margin range of 1.50% to 2.25% and (2) extend the initial maturity date to December 14, 2020

1. See slide 10 for reconciliation of GAAP net income to non-GAAP Core Earnings.

2. The weighted average unpaid principal balance was \$1.633 billion for the quarter ended December 31, 2018 and \$1.679 billion for the year ended December 31, 2018.

3. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of December 31, 2018 as weighted by the outstanding principal balance of each loan.

Ares Commercial Real Estate Corporation

Fourth Quarter and Full-Year 2018 Results (continued)

Dividends

- Paid dividend of \$0.31 per share for the fourth quarter 2018
- Paid dividend of \$1.16 per share for full-year 2018, representing a 7.4% increase from full-year 2017

Subsequent to Year-End 2018

Expanded Access to Capital and Liquidity

- In January 2019, the Company announced that it (through its wholly-owned subsidiary) privately placed \$172.7 million of additional investment grade notes in the 2017-FL3 Securitization. Together with \$272.9 million of investment grade notes issued to a third party in the initial March 2017 private placement, the 2017-FL3 Securitization investment grade notes now total \$445.6 million, with a blended initial weighted average coupon of LIBOR plus 1.70%, representing a 15 basis point reduction in the borrowing spread. In addition, the reinvestment period of the 2017-FL3 Securitization was extended two additional years to March 2021.

Dividends

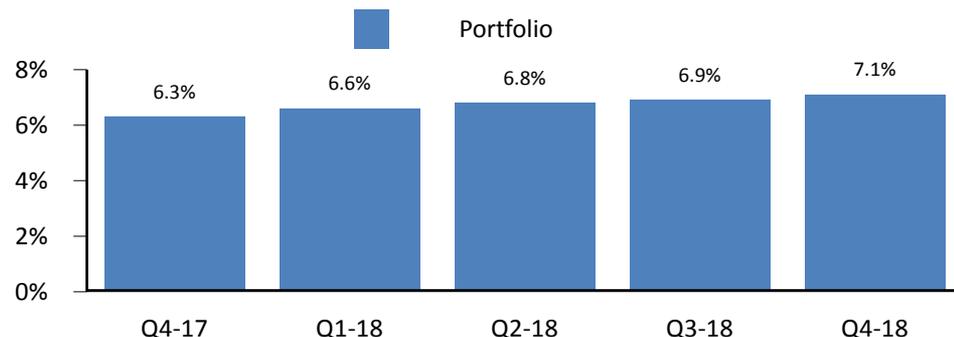
- Declared a \$0.02 per common share increase in the quarterly dividend to \$0.33 per common share for the first quarter 2019, representing the fourth quarterly dividend increase since the beginning of 2018, and a \$0.06 per share increase over the fourth quarter 2017 dividend.

Portfolio⁽¹⁾

Summary

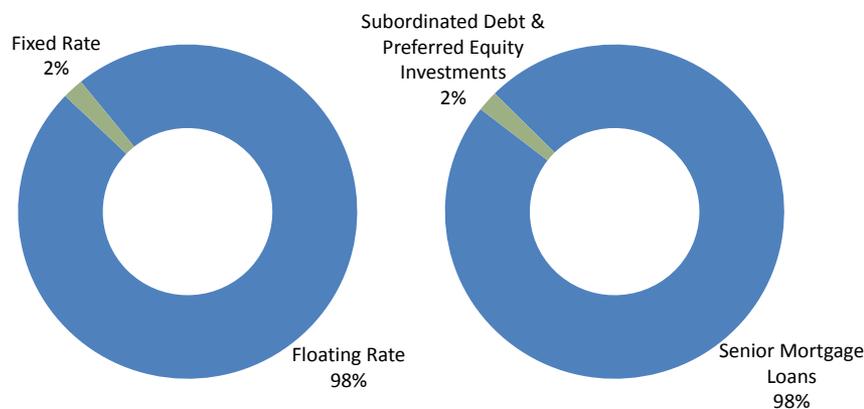
- \$1.5 billion in outstanding principal
- \$1.7 billion in originated commitments
- 98% of the loan portfolio is floating rate
- Portfolio total weighted average unleveraged effective yield of 7.1%⁽²⁾
- 2.7x debt to equity
- No impairments

Unleveraged Effective Yield⁽²⁾⁽³⁾

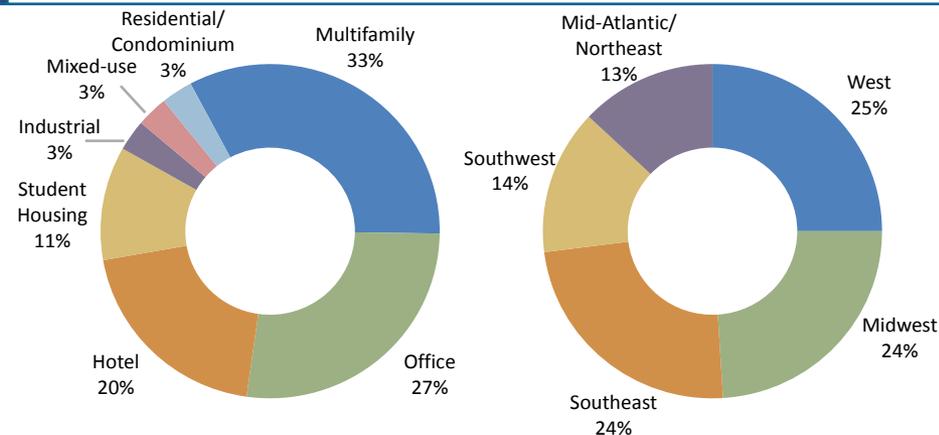


	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18
Senior mortgage loans	6.2%	6.5%	6.7%	6.8%	7.0%
Subordinated debt and preferred equity investments	10.8%	11.0%	11.1%	13.4%	14.9%

Loan Portfolio Characteristics⁽³⁾



Portfolio Diversification⁽³⁾

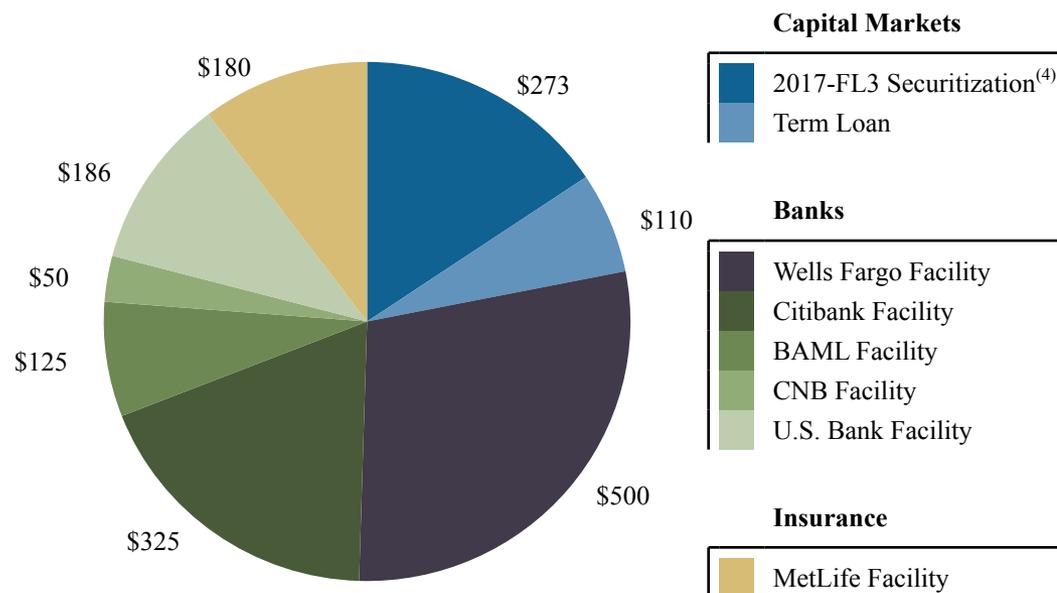


1. Data as of December 31, 2018.
2. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of December 31, 2018 as weighted by the outstanding principal balance of each loan.
3. Calculated based on outstanding principal balance.

Deep Sources of Diverse Funding Enhances ACRE's Portfolio⁽¹⁾

Diverse Sources of Liquidity from Banks, Insurance Cos, Capital Markets Providers and Private Capital⁽²⁾⁽³⁾

Disciplined Approach to Funding



- Match Funded**
 - Portfolio has weighted average remaining life of approximately 1.8 years
 - The Company's financing agreements have a weighted average remaining term of approximately 4.0 years assuming the Company exercises available renewal options⁽⁵⁾
- Diverse sources of liquidity provide additional strength to the Company's competitive position**
 - \$1.7 billion⁽⁴⁾ of capacity

- Data as of December 31, 2018.
- Dollars in millions of borrowing capacity. Represents total commitments. Ability to draw on available capacity is subject to available collateral and lender approvals.
- The weighted average borrowings was \$1.257 billion for the quarter ended December 31, 2018 and \$1.312 billion for the year ended December 31, 2018.
- On January 11, 2019, the 2017-FL3 Securitization was upsized. Subsequently, the outstanding investment grade notes issued to a third party is \$446 million and the total debt capacity of the Company is \$1.9 billion.
- Comprised of Secured Funding Agreements and Term Loan as of December 31, 2018 that are used for funding ACRE's loans held for investment.

Appendix



ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 11,089	\$ 28,343
Restricted cash	379	379
Loans held for investment (\$289,576 and \$341,158 related to consolidated VIEs, respectively)	1,524,873	1,726,283
Other assets (\$843 and \$945 of interest receivable related to consolidated VIEs, respectively; \$51,582 of other receivables related to consolidated VIEs as of December 31, 2018)	66,983	15,214
Total assets	<u>\$ 1,603,324</u>	<u>\$ 1,770,219</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	\$ 777,974	\$ 957,960
Secured term loan	108,345	107,595
Collateralized loan obligation securitization debt (consolidated VIE)	270,737	271,211
Due to affiliate	3,163	2,628
Dividends payable	8,914	7,722
Other liabilities (\$541 and \$414 of interest payable related to consolidated VIEs, respectively)	8,604	3,933
Total liabilities	<u>1,177,737</u>	<u>1,351,049</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at December 31, 2018 and 2017, and 28,755,665 and 28,598,916 shares issued and outstanding at December 31, 2018 and 2017, respectively	283	283
Additional paid-in capital	421,739	420,637
Accumulated earnings (deficit)	3,565	(1,750)
Total stockholders' equity	<u>425,587</u>	<u>419,170</u>
Total liabilities and stockholders' equity	<u>\$ 1,603,324</u>	<u>\$ 1,770,219</u>

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	<u>For the three months ended December 31, 2018</u>	<u>For the year ended December 31, 2018</u>
Net interest margin:		
Interest income from loans held for investment	\$ 30,882	\$ 118,284
Interest expense	(16,357)	(63,002)
Net interest margin	<u>14,525</u>	<u>55,282</u>
Expenses:		
Management and incentive fees to affiliate	2,116	7,418
Professional fees	510	1,945
General and administrative expenses	892	3,307
General and administrative expenses reimbursed to affiliate	946	3,570
Total expenses	<u>4,464</u>	<u>16,240</u>
Income before income taxes	<u>10,061</u>	<u>39,042</u>
Income tax expense, including excise tax	43	446
Net income attributable to common stockholders	<u>\$ 10,018</u>	<u>\$ 38,596</u>
Earnings per common share:		
Basic and diluted earnings per common share	<u>\$ 0.35</u>	<u>\$ 1.35</u>
Weighted average number of common shares outstanding:		
Basic weighted average shares of common stock outstanding	28,553,540	28,529,439
Diluted weighted average shares of common stock outstanding	28,709,145	28,656,660
Dividends declared per share of common stock	\$ 0.31	\$ 1.16

Reconciliation of Net Income to Non-GAAP Core Earnings

The Company believes the disclosure of Core Earnings provides useful information to investors regarding the calculation of incentive fees the Company pays to its manager, Ares Commercial Real Estate Management LLC, and the Company's financial performance. Core Earnings is an adjusted non-GAAP measure that helps the Company evaluate its financial performance excluding the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current loan origination portfolio and operations. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. Core Earnings is a non-GAAP measure and is defined as net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of the Company's target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between the Company's external manager and the Company's independent directors and after approval by a majority of the Company's independent directors.

Reconciliation of net income attributable to common stockholders, the most directly comparable GAAP financial measure, to Core Earnings is set forth in the table below for the three and twelve months ended December 31, 2018 (\$ in thousands):

	For the three months ended December 31, 2018	For the year ended December 31, 2018
Net income attributable to common stockholders	\$ 10,018	\$ 38,596
Stock-based compensation	324	1,102
Incentive fees to affiliate	540	1,150
Core Earnings	\$ 10,882	\$ 40,848