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Rocket Cos., Inc. (RKT)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Rocket Companies, Incorporated First Quarter 2022 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I'd now like to turn the conference over to Sharon Ng, Vice President of Investor Relations. Please go ahead.

Sharon Ng
Vice President, Investor Relations, Rocket Cos., Inc.

Good afternoon, everyone, and thank you for joining us for Rocket Companies' earnings call covering the first quarter of 2022. With us this afternoon are Rocket Companies' CEO, Jay Farner; our CFO, Julie Booth; and our President and COO, Bob Walters.

Before I turn things over to Jay, let me quickly go over our disclaimers. On today's call, we provide you with the information regarding our first quarter 2022 performance as well as our financial outlook. This conference call includes forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from the expectations and the assumptions we mention today. We encourage you to consider the risk factors contained in our SEC filings for a detailed discussion of these risks and uncertainties. We undertake no obligation to update these statements as a result of new information or further events, except as required by law.

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This call is being broadcast online and is accessible on our Investor Relations website. A recording of the call will be available later today. Our commentary today will also include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for our reported results can also be found on our earnings release issued earlier today as well as our filings with the SEC.

And with that, I'll turn things over to Jay Farner to get us started. Jay?

Jay Farner

Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

Thank you, Sharon. Good afternoon, and welcome to the Rocket Companies earnings call for the first quarter of 2022. On today's call, I'll share how Rocket will continue to navigate and win in today's rapidly evolving market. We'll discuss our strength with both purchase and cash-out refinance mortgage products and how we continue to thoughtfully expand the Rocket platform.

In the first quarter, Rocket Companies generated $1.9 billion of adjusted revenue and $450 million of adjusted EBITDA. We delivered adjusted net income of $293 million or $0.15 per adjusted diluted share.

The rapid increase in interest rates this year has been the largest in over 40 years. 30-year fixed rate mortgage rates are now north of 6% for the first time in more than a decade, increasing over 200 basis points in the past few months. This obviously creates challenging conditions for our industry.

Rocket Companies has always navigated successfully through turbulent times by protecting our margin and our profitability while continuing to invest in technology and marketing to grow market share. We will emerge stronger, grow market share through the cycle and reap the benefits as the ultimate market winner.

As we look forward, our second quarter guidance of $35 billion to $40 billion of closed loan volume reflects the impact of a market experiencing unprecedented rate increases. In our experience, the ability to successfully navigate this difficult market requires several key attributes: a strong national brand, broad and diverse channels to capture the top of the funnel, a scaled technology platform with high operational efficiency, an experienced leadership team with the willingness to roll up their sleeves and get into the business, best talent in the industry and a strong balance sheet, all areas where Rocket excels.

Rocket has intentionally built our platform ecosystem and multichannel business model to navigate tough market conditions. We have invested in the pillars of our platform for decades with more than $7 billion invested in our trusted brand, leveraging important performance marketing insights strengthened by more than 200 million client records in our vast data lake, investing heavily in cutting-edge technology, attracting the best talent in the industry and growing our premier enterprise partnerships.

Of significant importance is the fact that our servicing book has grown substantially and benefits from a rising rate environment. Servicing rights represent a $6.4 billion asset as of March 31, growing 19% quarter-over-quarter, while maintaining an industry-best retention rate of 92%.Our servicing portfolio alone generates $1.4 billion of annualized recurring cash revenue.

Turning to our capital position, the $4.4 billion of available cash and cash used for self-funding, along with our mortgage servicing rights, represent a total of $10.8 billion of asset value on our balance sheet as of March 31, or $5.49 per share. Rocket has amassed the financial strength and scale to weather the ebbs and flows of the market, while also maintaining the flexibility to expand our platform through strategic acquisitions, if and when the right opportunity presents itself.

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We will be disciplined with expenses during this changing market. And in the second quarter, we've taken significant cost reduction measures that included implementing a voluntary career transition program to certain team members, reducing our production cost, including renegotiating the large vendor contracts, and shifting our marketing spend. We continue to review every aspect of our cost structure and are committed to running an efficient and effective business. Julie will dive deeper into these specifics in a few minutes.

Our strong capital position and operating efficiencies allow us to be thoughtful about expenses, while maintaining flexibility to invest in key strategic areas that set us up well for the long-term. While we expect challenging times ahead, there are bright spots in the industry.

Home values have risen to new highs, creating $26 trillion of available equity. Home buying demand remains strong, particularly from first-time homebuyers and millennials, currently the largest generation by population. This is perfect for us. Since 75% of the clients who apply using Rocket's online platform or app, are first-time homebuyers or millennials.

In fact, recent securitization data shows that Rocket was the nation's largest lender to first-time homebuyers in 2021. Beyond purchase, this client pool represents a tremendous future opportunity when the market is once again ripe for rate and term refinances.

As the market has shifted from rate and term refinance in 2020 and 2021 to today's predominantly purchase and cash-out refinance market, Rocket's ecosystem has shown its ability to provide a strategic advantage. We had our best first quarter ever for purchase mortgages and cash-out refinances, driving more than 80% of our overall mortgage origination volume.

Each and every day, our bankers are having nearly 35,000 conversations helping Americans achieve their dreams. Our technology platform helps deliver the speed and certainty that are critical in today's purchase-heavy market that our clients as well as our real estate agents and broker partners need.

In fact, we recently launched the Fast 15 program for our mortgage broker partners, guaranteeing broker purchase loans will go from documents received to clear to close in 15 business days or less. In addition, for the first time, Rocket Pro TPO has gained the title of number one most favored brand among mortgage brokers for its account executives and operation support, according to a brand health study conducted by a third-party firm. This speaks to our commitment to helping our broker partners succeed and grow.

We look to further harvest our opportunity in cash-out refinance, leveraging exceptional marketing expertise, our vast data lake, client insights and highly trained Rocket cloud force. Our bankers are educating clients about using record levels of home equity to consolidate high interest debt, remodel their homes or help navigate life's events like marriage or growing family.

As we move into Q2, which has been seen by many as the official start of home-buying season, our purchase pipeline has been robust. Preapprovals had a record level in March and our verified approval letters grew by more than 40% year-over-year. We continue to invest and expand the Rocket platform.

Truebill, which became part of the Rocket ecosystem in December, has continued its impressive growth. The company now has 3.4 million members, up 142% from Q1 of 2021. Included in that 3.4 million members are 1.7 million paying premium members, more than doubling from Q1 of 2021. Truebill helps our clients manage their

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entire financial lives and keeps our clients engaged in our ecosystem, generating over $100 million and growing in annualized recurring revenue.

Rocket Homes notched two bests in March, setting a record for the number of real estate transactions and reaching 2.8 million monthly active users, more than doubling year-over-year. Our Canadian subsidiaries are growing rapidly.

Edison Financial, our digital mortgage brokerage, surpassed $500 million in cumulative funded loan volume from its first month of production in March of 2020 through March of 2022. Funded loan volume more than doubled and purchase volume more than tripled in Q1 compared to the same quarter last year.

And Lendesk, our fintech provider servicing brokers, successfully integrated the acquisition of Finmo and nearly tripled its mortgage submission volume from the first quarter of 2021 to the first quarter of 2022.

Rocket Solar continues its expansion. In fact, it currently operates in 27 major markets across nine states, including Arizona, Florida and South Carolina, and a full public launch is slated for early next month. We see exciting opportunity ahead to serve our clients better and in more ways, further extending client lifetime value by leveraging our platform.

With this new phase of the mortgage cycle, we look forward to executing on our playbook to exhibit the true strength of our platform. At the same time, we continue to move forward with fulfilling our mission to be the best at creating certainty in life's most complex moments so that our clients can live their dreams.

With that, I'll turn it over to Julie to go deeper into the numbers. Julie?

Julie Booth

Chief Financial Officer & Treasurer, Rocket Cos., Inc.

Thank you, Jay, and good afternoon, everyone. As we navigate through these rapidly changing market conditions, Rocket has continued to deliver profitable results while also further building out our platform and investing in key areas of our business. It's important to frame what we have experienced in the past few months.

Since the beginning of the year, market conditions have changed dramatically. The rapid increase in interest rates this year has been the largest in over 40 years. Just last week, the fed raised rates by 50 basis points, the first time in 22 years the Fed has raised rates by more than 25 basis points at any one time.

With this backdrop, our company continues to perform and we are proud of our first quarter results. Rocket Companies generated $1.9 billion of adjusted revenue in Q1 compared to $4 billion in Q1 of 2021. We had $450 million of adjusted EBITDA in the quarter, representing a 23% adjusted EBITDA margin. We delivered GAAP net income of $1 billion or $0.40 per diluted share and adjusted net income of $293 million or $0.15 per adjusted diluted share.

We generated closed loan volume of $54 billion during the quarter and net rate loss of $49.6 billion at a gain-on-sale margin of 301 basis points. As Jay mentioned, demand for purchase and cash-out refinance remains robust. The rise in home values has spurred demand for cash-out refinance transactions. As we are seeing in our own pipeline, purchase demand remained strong with record levels of pre-approvals in March.

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Looking ahead to Q2, we expect our business to face headwinds due to the rapid increase in rates that has occurred year-to-date. For the second quarter, we expect closed loan volume in the range of $35 billion to $40 billion and net rate lock volume between $31 billion and $38 billion.

We expect second quarter gain-on-sale margin to be in the range of 260 to 290 basis points. Our gain-on-sale margin in the first quarter included a few onetime benefits due to the rapid move in bond markets, which lifted Q1 gain-on-sale margin by 15 basis points. Excluding this 15 basis point lift, our first quarter gain-on-sale margin would have been 286 basis points.

Moving on to expenses, as a result of the rapidly changing mortgage market, we are taking significant cost reduction measures throughout the remainder of the second quarter. We expect to incur a onetime charge of approximately $50 million to $60 million related to the voluntary career transition program that we rolled out in the second quarter. Excluding this onetime charge, we expect Q2 expenses to be down approximately $200 million to roughly $1.4 billion as compared to first quarter total expenses of $1.6 billion.

Around $100 million of the decrease is related to lower production expenses. The remaining decrease of approximately $100 million is expected to be driven by cost savings from a partial quarter of our voluntary career transition program and reductions in other non-team member related costs. On an annualized basis, the cost savings from our voluntary career transition program are expected to be around $180 million or roughly $45 million per quarter.

We are focused on serving our clients and taking care of our team members. We will be disciplined with expenses, while continuing to invest in key areas of our business to support the growth of our platform and ecosystem to position Rocket well for long-term growth.

As we've talked about on prior calls, our servicing book is a strategic asset for Rocket. As of March 31, our servicing portfolio included 2.6 million clients with $546 billion in unpaid principal balance. During the first three months of 2022, the value of our mortgage servicing rights increased by $1 billion or 19% compared to Q4, including newly created MSRs and the mark-to-market adjustment to $6.4 billion.

While the mark-to-market change in MSR portfolio value is excluded from our adjusted net income metrics, it's worth noting that the positive market adjustment on the portfolio was $739 million in the first quarter, which is countercyclical in a rising rate environment.

As a reminder, the mark-to-market increase in the value of the servicing portfolio is a result of the assumption that with the higher interest rates, servicing cash flows will extend and therefore, our recurring cash revenue will be greater.

Our net client retention rate was 92% as of the first quarter of 2022 and reflects our ability to drive substantial client lifetime value for clients coming into our mortgage servicing book and positions us well to serve our clients for their next mortgage and across products in the Rocket ecosystem. We also drive a considerable amount of annualized recurring revenue from servicing our clients' mortgages.

During the first quarter, annualized recurring revenues from our servicing book were over $1.4 billion. As Jay mentioned, when considering the cash flows from our servicing portfolio and Truebill, we have more than $1.5 billion of annualized recurring revenue as of March 31.

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From a capital allocation perspective, we have always prioritized maintaining a well-capitalized balance sheet with substantial liquidity capable of navigating different market conditions while remaining opportunistic. We exited the first quarter with $2.3 billion of cash on the balance sheet and an additional $2.1 billion of corporate cash used to self-fund loan originations for a total available cash and self-funding of $4.4 billion.

Total liquidity stood at $7.7 billion as of March 31, including available cash plus undrawn lines of credit and our undrawn MSR line. Our $4.4 billion of available cash and self-funding combined with $6.4 billion of mortgage servicing rights represent a total of $10.8 billion of asset value on our balance sheet as of March 31. This equates to $5.49 per share. We are well positioned in the current environment and will continue to deploy our capital in a strategic and disciplined manner to generate long-term shareholder value.

With that, we are ready to turn it back to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] In the interest of time, please limit yourself to one question and one follow-up. [Operator Instructions] Our first question comes from Ryan Nash from Goldman Sachs. Please go ahead.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good evening, everyone. So Jay and Julie, maybe we could flush out the guidance a little bit more. So you talked about voluntary separation and other non-head count-related cost reductions. I'm guessing there's an element of scaling back in marketing. So – and when you put all this together, given the revenue backdrop, do you think you have enough leverage on the cost side to remain profitable in the near-term? And then second, just stepping back, how do you see the next few quarters of this cycle playing out? And what is sort of the Rocket playbook in terms of how you expect to navigate through the cycle from a profitability perspective? And I have a follow-up.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

Sure. I'll get started and I think Julie can chime in. But as I've been telling some of our team members, we're kind of in the third inning here of this process and one that we've lived through before, certainly back in 2008, 2009, 2010. We saw a little glimpses of this in 2014 and 2019, but something that you've got to have a long-term view while you're taking short-term actions to ensure that the company is set up for success. And that's exactly what we've been doing. I think you can tell from my comments and from Julie's comments that – and I'm very proud of the team and how quickly we've been making adjustments.

So you asked a question or made a comment about marketing. It's not as much a reduction in marketing, as it's a shift in marketing. And so as you start thinking about performance marketing opportunities, what we're starting to see is finally now capacity beginning to come out of the industry. And that's the first step in the process is that you've got to see that capacity that was built up to handle $4.5 trillion come out to more of a $2 trillion or a $2.5 trillion market, which is I think – where we think we're going to be at. And as that happens, then opportunity starts presenting itself.

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So when we look at our marketing and our reach, although the market's moving from $4.5 trillion to $2 trillion, certainly, our ability to reach clients who are interested remains much stronger than that. And so, that sets us up for long-term success.

The next phase of that process is leading your team. And this isn't something you're going to see on a spreadsheet or probably read about in an earnings release. But you've got all of your team members, in particular, your marketing team members, your mortgage bankers, your operations folks who are now moving into a brand-new mortgage market. And so the amount of effort that our leaders are putting in, day in and day out, meeting, coaching, adjusting mindset. I mean, this is the hard work that you don't necessarily read about in business books, but – that you have to do that our leaders are doing day in and day out to position our banker force to be successful. And I'm watching it. I'm on the floor. I'm seeing it. And I'm seeing the shift in the change that gives me incredible confidence.

So on that offensive side, shift to marketing, leverage the data, ensure we're reaching the right client with the right offer, get the operations, marketing and team members adjusted to the new market, and then go out there and hit the rock every single day. And in the end, you win. And that's what we've demonstrated over 36 now, almost 37 years.

On the more defensive side, and Julie can speak to this, get your expenses in order and ensure that you've got a tight grasp on everything you're spending and it's the right place to put your dollars. And she can kind of talk about where we're at and where we're headed. And then, of course, leverage your balance sheet. And so we're in a better position than we've ever been in. We talked about the asset value of our organization. But as we see people pull back, as we see capacity get reduced, as we see people struggle, there will be opportunities. And if they're the right ones, we're positioned from an asset perspective to take advantage of those opportunities that will position us to grow.

And then the last thing I'll say before I turn to Julie is keep investing. And so we talk about the Rocket platform, not just Rocket Mortgage. And clearly, our history has been originating mortgages. But if you look at the hundreds and hundreds of people we have today in our product strategy group, in our marketing group, in our platform tech group, they are working on things that will grow out our technology platform to serve consumers far beyond mortgage.

And you want to keep investing in that. Here is why. The more clients that we engage with and bring into our ecosystem at higher interest rates, the more people we will be able to help when interest rates fall. And I don't need to explain that to you. You can just go back and look at 2020 and 2021 to see what our company is capable of when we see a reduction in interest rates.

Now, magnify that by continuing to have other services, Truebill, Rocket Homes, Rocket Auto, where we're engaging with clients. And we're setting ourselves up to have relationships with those clients and data about those clients so we can assist them in the future, we're setting ourselves up for the next opportunity to reap those benefits, but you got to do the hard work now and you've got to manage the business now. We've demonstrated our ability to manage it profitably for 36-plus years. So Julie, maybe you want to comment on how we think about expenses and the process that we're working through there.

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yes. I sure can. And as we've said many times before and just to reiterate what Jay said, the decisions that we're making are intended to position the business for that long-term growth. So we won't make short-term decisions on

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expenses that are going to sacrifice long-term profitability. We've seen time and time again we've been through these cycles. The amount that we can save today is going to be dwarfed by what we can make in the future when the upside opportunity comes to us by holding a little bit of extra expense, we've seen that time and time again.

So that being said, we're certainly very, very diligent and responsible about how we're looking at our expenses. So this is why we're seeing our second quarter expenses coming down roughly $200 million from $1.6 billion in the first quarter to about $1.4 billion in the second quarter, excluding the onetime charge of the $50 million to $60 million related to our voluntary career transition program.

So it's something that we are going to continue to be focused on throughout the year. Costs do take some time to come out. We'll have – through natural attrition, through looking at non-team member expenses, there will be other opportunities to continue to impact our expenses.

And maybe just to put a little bit of a final point on some of these savings. The cost savings that we'll get from our voluntary career transition program are expected to be around $180 million on an annual run rate basis, so $45 million a quarter. About half of that $45 million a quarter is going to be realized in the second quarter. So we'll see a full quarter of that in the third quarter as well.

So, there's a lot that we will continue to look at here as we go through the rest of the year, but that's how we're looking at our of Q2 earnings. And if you annualize that run rate, if you think about $200 million coming out from Q1 to Q2, another $20 million coming out in the third quarter when we fully implement all the savings from the transition program, it's about $880 million of annualized expenses that we're going to be taking out here.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

And if I could just ask a follow-up question as it pertains to gain-on-sales. So the guidance for next quarter implies slight pressure. And to Jay's comments, we're starting to hear capacity coming out, which is a good sign. However, just given how rapid the markets move from – Jay, from $4.5 trillion down to $2 trillion to $2.5 trillion, I'm curious how you think about what the environment can mean for margins just beyond the next quarter, particularly, if we don't see capacity coming out at the pace commensurate with the size in which the market is adjusting to.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

Yeah. I think capacity is coming out quite rapidly. As I watch and talk to other leaders across the mortgage space, in particular, and as you listen to Julie's comments, excluding kind of the onetime effect of margin in Q1, I think she referenced 285 basis points...

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

286 basis points. Yeah.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

286 basis points. And then if you look at the guidance that she provided for Q2, I think it's kind of in the similar ballpark.

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Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

260 to 290 basis points.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

260 to 290 basis points. So I think you're seeing us kind of in a range that we've seen in the past as well.

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. I think that's right, Jay. As you look at margins from 2020 into 2021, by the second quarter of 2021, I think we were at 278 basis points for gain-on-sale margin. You kind of see it hold steady Q3, 305 basis points, then to 282 basis points in the fourth quarter. 301 basis points, as I mentioned, that would have been 286 basis points. So as you look at our guidance, 260 to 290 basis points, it really is leveling out here over the past several quarters.

Operator: Our next question comes from Doug Harter from Credit Suisse. Please go ahead.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Jay, just following up on a comment you made about wanting to kind of invest and get as many higher coupon customers. How do you think about MSR purchases and using that liquidity that you have to possibly do invest in MSRs?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

Yeah, a very good question. And certainly, one of the ways that we can continue to add to the servicing book, especially in the rising rate market, I'd say there's some important strategies that we are working on to inform that decision.

And I referenced our Rocket Central team, because as we think about Truebill, as we think about some other programs we're working on to launch this year, the engagement of that client is critical for us. As the number one servicer ranked by J.D. Power, we're already at an advantage if we purchase MSRs because people are going to have a great experience coming on our servicing platform. But it's also important to remember, when we buy an MSR, the client doesn't have the opportunity to originate through our system. And so they don't have that experience to kind of rely on.

So in developing and then employing these other engagement tools that we're working on, so as we purchase MSR, we can extend the lifetime value of that client, has been our mission. And you see our 92% retention rate. And we know that that works. And that, of course, gives us great confidence that we want to continue to bring clients on to our book because we know in the future, we'll reap the benefits. But the next strategic move is to build out or continue to build out these additional components of our platform because they do exactly what you're asking. They engage clients that we purchase – if we purchase as an MSR and kind of turn their conversion rates similar to ones that we would originate, and that's a very strategic advantage to us.

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So I'm sure as we continue forward this year, in subsequent calls, we'll talk more about the work that we're doing there. So, important strategy, being really thoughtful about it, but also wanting to make sure that we've got all of the components that we think are critical to maximizing the lifetime value of those MSRs that we bring on the platform.

Julie Booth
Chief Financial Officer & Treasurer, Rocket Companies, Inc.
A

Yeah. Maybe while we're on the topic of MSRs, just to put some numbers around that. In 2021, we did about $200 million of capital acquiring MSR. So it is something that we are in the market looking at these potential opportunities. And if there's a one that makes sense for us for the reasons that Jay just mentioned, we're going to take that opportunity.

That asset is a very strategic one for us for many reasons. In terms of value, just – year-to-date, in the first quarter, the asset increased by about $739 million. As interest rates continue to rise, that asset becomes more and more valuable, as those cash flows continue to expand. In fact, through April, it's up about another $250 million in value to us, so nearly $1 billion now.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.
A

Yeah.

Julie Booth
Chief Financial Officer & Treasurer, Rocket Companies, Inc.
A

Interest rates at June 30, it will ultimately depend – or determine where that total value is for the quarter, but it's very, very valuable to us.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.
A

Yeah. And the last thing I'll mention that maybe people – kind of catch people off guard. Sometimes people will say, well, you want to buy MSRs at a lower weighted average cost or interest rate, because you want to refinance it. I suppose in a falling rate market, it's always beneficial. But actually now, it benefits us to be buying MSRs at a higher weighted average coupon because we set ourselves up to take advantage of that opportunity with that client when it's appropriate in the future.

So that's again, back to the lifetime value and our retention rate and all the things that we're building give us a strategic advantage to even be purchasing these MSRs at a higher interest rate level. So you'll see us continue to lean in as time goes on there.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC
Q

Thank you.

Operator: The next question comes from Kevin Barker from Piper Sandler. Please go ahead.

Kevin J. Barker
Analyst, Piper Sandler & Co.
Q

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Good afternoon. I just wanted to dig in a little bit further in regards to the volume that you're producing. I mean, obviously, cash-out refis are a large portion of it. You started to increase a significant amount of purchase volume, but it's still not quite keeping pace – or it appears it's not quite keeping pace with the direction of purchase volume relative to the market. Meanwhile, you have an enormous amount of cash and your leverage is the lowest we've seen. And while you have tangible common equity ratio of 34%, it would appear you have a significant amount of cash that you could deploy.

Why not look to maybe some strategic acquisitions that could be accretive to your equity and potentially increase your capacity to garner more purchase originations? And then at the same time, you can apply some of the Rocket technology to make that – those operations more efficient on some of those acquisitions. Love to hear your thoughts on that.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.
A

Yeah. Well, first, I think when we look at the record level of pre-approvals that we were able to originate in Q1, when we look at, I think, setting a record for the most purchase volume closed in Q1 compared to any other Q1 we've had, we continue to see traction in purchase. I think that will be amplified by the fact that the capacity is coming out quickly, and in particular, in areas where people don't have the strong resources to continue to market. So I feel very confident about our way to – our ability to organically grow purchase.

That said, your other comment about the availability of strategic opportunities that may allow us to lean into the purchase market, there are a handful of those type of opportunities that exist. And I think it's just a matter of staying close to them, watching them and ensure that we are making the right – if we make an investment, making the right investment at the right time. And like Julie always says we've got the capital to be strategic, and that's what we'll do.

Kevin J. Barker
Analyst, Piper Sandler & Co.
Q

And do you also see it as an opportunity to potentially increase your float, just given the limited amount of float that exists for today?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.
A

I don't know about increasing the float. I think we see it as an opportunity to be buying our shares back, as I've been doing and we've been doing at this point in time. So...

Kevin J. Barker
Analyst, Piper Sandler & Co.
Q

Got it. Okay. Thank you for taking the questions.

Operator: The next question comes from James Faucette from Morgan Stanley. Please go ahead.

Blake Netter
Analyst, Morgan Stanley & Co. LLC
Q

Hi. This is Blake Netter on the line for James. First question, certain competitors are leaning into HELOCs. In addition, the cash-out refi as a means of making up for the decline in refi volumes, is that something you consider

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given that you currently aren't in the HELOC space as far as I'm aware? And what are some of the puts and takes there?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.
A

Yeah. Our product strategy team and our team in capital markets is very actively looking at additional programs that we can offer. I think they've rolled out a few different programs here recently, in particular, to our TPO space. I was reading something here a week or two ago.

And so we're active there, whether it's a HELOC or a second or those type of things. I know they'll continue to think about the right products that help our clients not only today but then allow us to build the relationship to a system in the future.

One of the things that we've stood a team up here recently on is the rolling in of seconds and solar and/or home improvement loans because certainly, it makes sense for those clients to do so even in a rising rate market. And so we'll continue to think about those products and rolling them out and understand not only the revenue that it brings us today, but also the future revenue we'll gain when it's time for those clients to refinance again.

Blake Netter
Analyst, Morgan Stanley & Co. LLC
Q

Got it. That's helpful. And then moving on, given the recent volatility in rates, can you discuss any challenges you faced in terms of hedging your pipeline? And how big of an uptick have you seen, if any, around hedging costs?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.
A

I would say that our capital markets team is doing an excellent job hedging the pipeline. And think about where our pipeline was here a year or so ago, from a size perspective, it's well in hand and very pleased with the results that they've been delivering.

Operator: The next question comes from Brock Vandervliet from UBS. Please go ahead.

Brock Vandervliet
Analyst, UBS Securities LLC
Q

Good afternoon. Thanks for the question. Just in terms of – as you kind of rejig your marketing outlook and your resource commitments, how has that affected your orientation toward direct-to-consumer versus partner? And this – also in this rate backdrop, how is that orientation changed, if at all, how should we think about that?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.
A

Yeah. Very good question. Look, all of our – we're leaning into all of our different channels. Some we have more direct control over than others. And so from a direct-to-consumer perspective, that gives us the ability to make adjustments almost on an hourly basis in terms of how we market, how we allocate leads, all of those things. So we're probably most active there.

I was really pleased to see the third-party survey that was given to us here just a week or two ago, we're now – in the wholesale space, we're the most favored brand based on our account executives and operations group. We

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know we've been delivering excellent service in that space, but it's great for a third-party to reiterate that fact. And our broker partners have been asking for more assistance as they think about having to grow out their marketing platform in a more challenging market. So we're providing that assistance to those partners. And some of our other relationships are more long term and strategic.

So as we leverage our Salesforce partnership and start integrating with banking institutions, these are not relationships that are going to be – we're focused on driving revenue in a month or two. These are long-standing relationships where the focus is in the next two, three, four years. And the ability for us to be plugged in directly to these financial institutions will allow us to grow at scale down the road.

So we're not taking a, hey, how's the originations today approach there. We're really being more thoughtful about what kind of originations can that drive in the years to come, especially in years where we start seeing interest rates drop back down again, whether that's four, six, eight years, no one can predict exactly when that will happen. But when it happens, with all that tech work being done fully integrated, it will just accelerate our ability to take advantage of a drop – a lowering rate market in the future.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

Okay. And as a follow-up regarding gain-on-sale, I heard the overall guidance, which is helpful. Is there any particular contours you'd call out again, in terms of the direct-to-consumer versus partner break on gain-on-sale?

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

No. It's really been fairly consistent quarter-over-quarter.

Operator: The next question comes from Ryan McKeveny from Zelman & Associates. Please go ahead.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Hi, thank you very much. So looking around the fintech space, broadly, there's obviously a lot of turmoil, as rates have moved higher, and the necessity of profits and cash flow come into focus. So in relation to your business, obviously, the mortgage business has remained profitable and cash generative, but you've also continued expanding in the newer aspects of the platform, whether it's Auto or Rocket Homes or Solar or Truebill. And I believe in the past, you've referenced the profit-first approach when expanding into new segments.

So I guess if you can comment, how do you feel about your positioning today for continued investment and expansion in those non-mortgage businesses? Are you driving profits across those businesses today? And I guess, given what's going on from a macro or competitive dynamic across the fintech space, any change in the outlook for just how you see those businesses growing and penetrating the market moving forward?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

Yeah. So I think Julie can make a few comments here. But our philosophy has been, certainly, when you're standing up young businesses, the infrastructure and the growth is the primary objective. I talked a bit about the success we're seeing in Canada today, both on the tech side with Finmo and Lendesk technology, and then the Edison side with the growth there in the brokerage. That's a few years of investment that we're now really starting

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to see the traction. And it's a very interesting market for us because folks are refinancing their mortgage there every three or four years regardless of interest rate.

And so now we'll start thinking about those businesses as they get their feet underneath them from a profitability perspective on things like Rocket Homes or Rocket Solar. Those businesses offer some very good unit economics. Rocket Homes, in particular, allows not only for our clients to have a great experience, but has an impact across our platform. And so when we think about that business and how it impacts both mortgage and title and real estate, we think about that as being operated as a profitable business.

And Solar, although early on in its growth, and I announced the fact that here in a month or so, we're going to have our client-facing website will be launched, but the unit economics there are quite good, and especially the interest that our current client base is showing in these states, which, of course, gives us a virtually incredibly low CAC on that client.

So we think about that as a business that can grow, but also can move to profitability fairly quickly. And that's really where Julie has been focused is, across the board, ensuring that we're being very thoughtful about how we manage these businesses to ensure that we're in a strong position today and in the future.

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.
A

That's right. Yes. And today, we are – those businesses are in various maturity stages in their life cycle and we're investing in some and others are profitable on their own. Some of them were going to continue to invest for the next several quarters here as they continue to get their feet under them. But from an ecosystem perspective – and there's lift that we get in other aspects of the business, the mortgage business from those other new start-up businesses and vice versa.

So it's also about what we gain as a company as a whole from each of those businesses working together and the synergies that we get in addition to the individual profitability of those businesses, but we do have certainly a path to each one of those being profitable beyond the investment phase.

Ryan McKeveny
Analyst, Zelman & Associates
Q

That's great. Helpful. Thanks, Jay and Julie. So one more question. Just back to capital allocation, I know this has somewhat been asked, but obviously, with the strong balance sheet, but an uncertain macro environment. And I guess just looking at what's been done thus far, obviously, pretty significant capital returns via special dividends and share repurchases. So I guess how should we think about the capital allocation priorities and plans for shareholder returns into what is looking to be a more uncertain backdrop going forward?

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.
A

Yes, it's a good question. And if you look at cumulatively, now we have bought back 25.3 million shares and have executed $359 million of our $1 billion buyback program at this point. So we're continuing to look at the opportunity there to buy back shares. As we've said in the past and talked about on this call, we're always going to look at investing in the business first.

You saw us purchase Truebill just here in the fourth quarter, and continue to look for opportunities there. We do think there's – kind of early on in the cycle here to see additional opportunities come to market just yet. And

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returning capital to shareholders through buybacks will be something that we continue to look at. And nothing's changed per se in the way we look at our capital structure from what we said in the past.

Operator: Our last question comes from Richard Shane from JPMorgan. Please go ahead.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Thanks, everybody, for taking my questions. Two questions. First, there was a conversation about MSR and the impact of higher rates. But ultimately, MSR valuations are really a function of CPRs.

And as we sort of approach what's likely to be a terminal CPR, how much more room do you think there is for appreciation of the servicing rights?

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah, that's a great question. As we do see CPR floors get kind of closer and closer, the upside that we have is less significant. Now I just said $250 million is the year-to-date – or sorry, quarter-to-date in Q2 increase. So there's still room for increase. Interest rates also drive that. The earnings on float is very significant to the assumptions that drive the value as well. And that is what is driving a lot of the increase in the second quarter. So you'll have both of those at play with still some upside room. But you're right, the levels upside does start to diminish.

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

Yes. And that actually is an interesting opportunity perhaps because as we think about and Julie spend a lot of time thinking about or talking about the management of this business, when she referenced, on an annualized rate, the $800 million or $880 million of cost savings that we've now taken action on. And we talk about the margin and we talked about the direct-to-consumer, we talk about the profitability. We're in a situation where holding MSRs still benefits us, and we discussed our platform and lifetime value. I imagine that we'll see others have to sell MSRs to raise capital to continue operations. And that should present an opportunity for us to strategically be purchasing those MSRs as there's more pressure in the market for those who need it to sell. So that, along with origination platforms, tech platforms, all under pressure means that thoughtfully exploring these opportunities, bolt-on or otherwise, is an important place for us to focus our energies as we go through the year.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Got it. That's helpful. Second question, and again, I want to be sensitive to the context of this, which is that some of the new sort of alternative products in the mortgage business are very small in the context of your balance sheet and your overall business. But one of the hallmarks of Rocket as a public company has been mitigating liquidity risk related to originations by focusing on the conforming markets. And when we think about some of the other products that you're expanding into, I suspect that there is greater liquidity risk or uncertainty in terms of execution. Can you just talk about that a little bit and how you manage that?

Jay Farner
Vice Chairman & Chief Executive Officer, Rocket Cos., Inc.

A

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Well, if you look at what we're originating today from a mortgage perspective, we've got great liquidity. We'll always be thoughtful about anything that we're doing and whether we do want to hold any of that because we think it's a good financial investment for us, but always also making sure that we've got other avenues for that product.

And if you're talking about products outside of mortgage, same situation. Everything that we're working on today, it's really our option whether we would want to hold that or whether we want to sell it, but there's multiple buyers in the marketplace for us. And I think that's an important philosophy that we've had for many years and we will continue to have.

Julie Booth

Chief Financial Officer & Treasurer, Rocket Companies, Inc.

A

Agreed. We will always be looking first out, making sure we have liquidity for those products that we originate, whether it be immediate liquidity, certainly to finance it, to consider securitizing it down the road as the volume grows. And that's always, first and foremost, in our minds as we're setting up.

Jay Farner

Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.

A

And I think this is a great place to end because life is one of those situations where you're living in the moment, sometimes it's very challenging to see past, the month you just lived or the month that you're in. And it's critical that we keep a long-term view, like we have for many decades now, of this business.

So originating a product that today might add a little bit of revenue to the top line of our business, but has a concern around liquidity would be something that we would not be interested in doing. Our focus would be on making sure our business is strong because it's not a matter of if, but when rates shift, change and move and there's opportunity. The key is that you're there, that you can move quickly, that you have capacity and you have a strong company. And the way that we're setting up our platform and the way that we're continuing to grow our business as we bring on higher interest rate, and the entire industry brings on higher interest rate clients, is that what we've done in the past we will be able to do it again, but at even greater scale.

And so we would never want to put any of that at risk over some sort of short-term decision around a product that's not liquid. Our focus here is continuing to invest in all of the things that we know that will build out this platform for the long run to have success and take care of our clients and take care of our team members.

Operator: This concludes our question-and-answer session. I'd like to turn the conference back over to Jay Farner for any closing remarks.

Jay Farner

Vice Chairman & Chief Executive Officer, Rocket Companies, Inc.

Well, thanks, everybody, for joining us. We appreciate all the thoughtful questions, and we look forward to catching up with you again here at the next call. Having a great night.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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