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Rocket Cos., Inc. (RKT)

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CORPORATE PARTICIPANTS

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

OTHER PARTICIPANTS

Terry Ma
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Terry Ma
Analyst, Barclays Capital, Inc.

All right. So we'll kick it off. Very pleased to have Rocket here today. And joining me on stage is Brian Brown, President and Chief Financial Officer. So welcome, Brian.

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

Thanks, Terry. Thanks for having me.

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QUESTION AND ANSWER SECTION

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Yeah, very happy to have you. So maybe we'll just set the table with some market questions. 2026 originations volumes have come in below expectations relative to the start of the year. What needs to happen for the housing market to become healthier and for the mortgage market to expand? And how are you thinking about the mortgage market size over the next several quarters?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Sure. Yeah. Happy to take that. Good to see some familiar faces. Thanks for the support. Yeah, I think, Terry, you've done a nice job timing this conference around some market news today, so it's probably an appropriate question to start with as we see the 10 year starting to touch a five handle. So yeah, look, there's a couple of different things. I'll start with the things that I think are obvious and we know are challenges, but there's no question that there's a lot of inflation based in the system, and that's with energy or without energy. That's putting pressure on mortgage rates. I do think there's some room and spreads still to compress. But all in all, the increasing 10-year Treasury is putting pressure on mortgage rates, we know that.

Interestingly enough, I think just this morning, Fannie came out with a new mortgage forecast for the year, assumingly incorporating a lot of this data that we're all reading and digesting today. And the interesting piece is they took their assumptions of the purchase market down a bit, but it's still very close to 2025 levels in terms of the total expected amount of purchase volume to be done in the market. And that feels just about right to us. So while there is a lot of pressure and I'll be the first to say I would like it if rates cooperated a little bit more and inflation slowed down. I think there's still a lot to be excited about and a lot of opportunity ahead of us. That purchase volume that I mentioned, if that stays reasonably close to 2025 levels, again, maybe not as high as we'd like, but provides a ton of opportunity in the market.

And then the other thing I don't think folks are talking about quite as much, but we have to remember that we are experiencing record equity levels in homes today. That presents a huge opportunity for Rocket. Most of you probably know this, but we are the number one home equity lender and that's even – we only do second liens, we only do second mortgages. But we're number one, even when you include the home equity lending side, the revolving line. So having a product to allow consumers to tap into their most valuable asset, being the home that they own and the equity that they've built up has been – still presents a great opportunity even in this market. And then, of course, depending on the loan size, or the amount of cash that you need to get out of your home, a cash out refinance can still make a lot of sense for you. So, overall, we'd like it to – we'd like rates to cooperate, but we also know that there are still opportunities ahead of us.

Maybe just one more thing to double click on the home buying side. I think sometimes we can look at national statistics, and those can be misleading because we do know that inventory is starting to pick up in certain areas, but that's offset by some really competitive markets where if you're listing your home, you're probably still getting 10 offers or 13 offers. But there is some – if you really break it down, there is some interesting geographies that are starting to show some green shoots. So, Nashville comes to mind. San Jose comes to mind. Seattle comes to mind. We're seeing big inventory unlocks in these areas. So it just goes to show you that having a 50-state national platform being scalable – you know that we have several – our business is very diversified now. So we have brokers that sit out in all of these markets, we have local loan officers that are feet on the street, we have a

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centralized loan officer base. And when you add that up, we're in all 50 states, all 3,000 counties. And so we get a really nice read on what's going on across the market nationally. But it also presents a bunch of opportunities. Because while some markets are still hot, and it's really tough on buyers, other markets actually have plenty of inventory, and it's turning into an actual buyer's market.

So for all those reasons, despite rates maybe not being where we'd want them to be, I'm still really excited for the year ahead and into next year because I just think it's still a big market, it's still fragmented. And even though we're the biggest player, we still have single digit share in purchase. So there's still a lot of room to run.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. That's super helpful color. So what type of market environment would you say is best for Rocket? Do you prefer a more challenging market like the one we're in where execution and scale matter more, or just a more favorable market where a rising tide lifts all boats?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah, I love this question. It's a good question. And I don't want to give you a flippant answer, but we really try to build this business, particularly through the more recent acquisitions and some of the investments we made is a have your cake and eat it too business. And what I mean by that is it would be very obvious for me to be up here in front of you and say, well, a lower rate market is clearly the best market because we'd love to help consumers lower their monthly payments or even term refinances, which isn't too much of now. But I actually think that our house view for many years has been that rates would stay higher for longer. In fact, I was just talking to someone in the back there, and they said something about buying Mr. Cooper and accessing that, which I'm sure we'll talk about.

And they were like, I assume you were buying Mr. Cooper because you expected rates to go down and you wanted to take advantage of all the rate and term refinances. And, of course, that is part of the thesis that's very important. But that wasn't actually why we bought Mr. Cooper. We bought Mr. Cooper because the house view is that rates would stay higher for longer and that diversification, bringing that servicing income into the mix. Now, 70% of our income – or excuse me, 70% of our revenue being from less rate sensitive products, which I couldn't have told you about sitting up here five years ago or three years ago is a big change in our business model.

So I – going back to our comments on the market, I actually think that this market presents enough opportunity for us to continue to grow the top line and the bottom line, which we've done very successfully over the past couple of quarters, taking share and growing EBITDA margins.

But the other thing, Terry that does get me a bit excited about this market is I think it's tougher out there for everyone else. I really do. Most of you probably follow this to some extent, but we are the only mortgage company that has less than 1 times leverage. We're the only mortgage company that has an investment grade rating from Fitch. We have an investment grade company rating from Moody's. They look a little bit more down on the industry. So we're working on that. And we're the only mortgage company with $3 billion of cash on our balance sheet, $11 billion of liquidity that we have access to. So if there's someone that is in a position to benefit from a higher rate environment, it's definitely Rocket.

We've seen industry consolidation pick up at quite a rate over the past, I'll call it maybe eight months. I expect some of that to continue. I expect some of the best players like Rocket to continue to grow and take share while many other companies in this space are struggling with free cash flow, they're struggling on the unit economic

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side, and they're saying all the right things in terms of how they want to bring costs out of the system. But I don't necessarily think that they have the strength in the balance sheet that Rocket does to continue to invest in the cycle.

So to answer your question, I, of course, would like rates to cooperate a little bit more. But we didn't build this business for a low rate environment. We built it for a high rate environment without giving up the ability to capture the upside when rates move. It wasn't that long ago that we were sitting in the first quarter. And rates did cooperate for a very short period of time and that's one of the quarters that I'm most proud of because you've been able to see Rocket capitalize, pick up share, take that extra capacity without adding any fixed costs. When rates cooperated, we sit here in the third quarter, they're not cooperating and we're still growing EBITDA margins and taking share.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. I wanted to touch on affordability briefly. That remains one of the biggest challenges for homebuyers. And maybe just talk about what Rocket's doing to help address the affordability issues for clients.

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah, this is a top priority for us and you've heard us talk about it quite a bit. It's so important because going back to what we were just talking about, it's very market dependent, whether it's a buyer's market today or a seller's market today. But regardless if it's a buyer's market or a seller's market, consumers feel pressure. There's no question. When you look at the percentage of people's total income or even disposable income that goes towards their mortgage payment now compared to what that was five years ago, it's a much bigger percentage. So consumers are very focused on it.

And I think that's the beauty of Rocket. We are in it with the consumers and we have assets that other companies don't have. We have a search portal, we have our own brokerage plus a partnership with Compass, and access to hundreds of thousands of brokers. We are the biggest lender and financer, but we also have our own title and closing company. And then of course, after all that's said and done, we retain the servicing on the back end. We have the lowest cost of service. Thanks to Mr. Cooper and the capabilities that we have there.

So if you were in our shoes and you had all those assets and capabilities, you would believe, like we do, that we are ripe for helping consumers fix this affordability problem. We can't change interest rates, Terry, I haven't figured out how to do that yet. Maybe you know. But what I can do is, I can collect revenues and cash flows off of multiple assets in the transaction, and I can share some of that back with the consumer because I'm capturing more revenue across the different assets than anyone else. And you see us in market doing that right now. We have special pricing. If you use Rocket Mortgage, and you use Redfin and a Redfin Agent, we can give you up to $6,000, maybe $10,000.

So if you're a service client, that can be up to – a client in our ecosystem already, and you're a returning customer, remember, those come with very little cost of acquisition because they're already in our ecosystem. It can be up to $20,000. Those are market winning deals in a great way to show we are in it with the consumer, and they can get something here that they can't get anywhere else. Now, the beauty of these are obviously smart financial people here. And, the question we get is, well, isn't that going to impact your profitability margins? And the answer is, because we're collecting revenue over those asset classes, and because we are very efficient, and we are continuing to take costs out of the system through integration, and synergies, and even beyond which we

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talked about in our last earnings call, our EBITDA margins continue to increase despite offering pricing incentives that others in the business can't offer.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. So you've talked about having a more balanced business model in recent public calls. What exactly do you mean by that? And how has Rocket's business model evolved following Redfin and the Mr. Cooper acquisition?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

It's a couple of things. One is, is the revenue diversification. There's a slide we put out in our investor deck recently, and it shows what I was speaking to before that 70% of our revenue now comes from less rate sensitive products. For those of you that have been following Rocket for a long time, even five years or three years ago, that was completely inverted. I would have had to sit up here and tell you 70% of our revenue came from [ph] term refinances (00:12:00). And of course, it's not always fair to look at it on a percentage basis because the important part is you maintain those recurring sources and capture the upside.

But as we sit here today, 70% comes from purchase transactions. It comes from Rocket Money, it comes from servicing, it comes from Rocket Loans, and it comes from some of those tapping into your home equity products that I mentioned, which are much less rate sensitive. We know that because we're doing a bunch of them today, even when rates are higher. And only in the remaining 30% is really rate and term refinance or some of the more interest sensitive things that are attached to servicing like escrow. So that's one way I describe the balanced business model is that's a significant change for Rocket to have these recurring cash flows dropping to the bottom line in a rate environment like this.

But I think the other important aspect of having a balanced business model is the cost of the house. Because I get asked a lot, how are we going to continue to increase EBITDA margins in a challenged environment? And a lot of that has to come from the middle of the P&L too. We will continue to grow top line, and we will continue to drive revenue even in this market, but we have to be disciplined while we do it. And we talked a lot about the synergy math and achieving that early, but that was really a business combination and you would expect us to achieve synergies that way. I still look at a bunch of opportunity going forward. The cost side of the house are – when I look at the velocity of which innovation is pacing in this organization, I have never seen anything like it. We are shipping more code per engineer record levels. And by the way, it's not just engineers shipping code anymore. Product managers are shipping code. Designers are shipping code. Even better than that, business people are shipping code.

These AI tools have made it so that you don't have to be a technical engineer anymore to make configuration changes to your system. So think about things like when there's product changes from the GSEs or things are changing your business. Traditionally, that was an engineer, it was a probably a product person who had to write a story, and an engineer to pick it up and code it, and then a business would come in and test it. Today, you can skip all that. The business can make it. You still got to do the testing and make sure it works effectively, but you can almost skip two or three steps in the process.

So the reason I bring that up in this question is because I think continuing to focus on an efficient business model back when rates were low in COVID, we IPOed, and we're all happy that big margins were dropping to the bottom line. But if we're being honest, the way we captured a lot of that upside capacity was through human capital. We hired, and we were like really good at it. We were some of the best recruiting. We're like basically a loan officer recruiting firm, or a underwriter recruiting firm, or a loan officer licensing firm. And while that all still matters to

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some extent, being able to do $300 billion, and growing of capacity through this system with a much lower apples to apples head count number than we did during COVID is a much more balanced business model.

Our goal on the cost side is grow our capacity at the same or less fixed cost, and no longer rely on human capital. I know, Terry, you're probably doing a bunch of these today, and I don't know what others will say up here. But I do know even today you're hearing people still talking about needing to meaningfully grow their loan officer count and out there hiring. And we're always hiring the best loan officers, of course, as you'd expect us to do, and rebalancing the portfolio through attrition and gaining. But we are laser focused on growing the capacity while not growing the human cap, not growing human capital and head count.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. Rocket doesn't sound like a traditional mortgage company. When you use terms like ecosystem, platform, and distribution, what do you really mean by – what do those mean to Rocket?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah, let me start with platform. I think it's an important question. So to me, the platform is the foundation. If you think about a home, it doesn't matter what you build on top of it if the foundation isn't solid. And I think this is, frankly speaking, where a lot of companies, at least in our space, go wrong. I think about the foundation being the infrastructure, the technology layer, but maybe more importantly, the data layer. That is one of the most valuable assets that we own is the amount of client data that we have, but that's only the half of it. Being able to access that client data, being able to build propensity models on top of it is really a secret sauce. Everyone today has access to the same LLMs. The same frontier models for the most part. You can have some anything you thought was an exclusive partnership or something that you were doing with an LLM is going to be short lived. It just is. So the value that we have that others don't have really comes through the amount of data that we have. And being able to train these models on top of the richest data from a 40 year mortgage company, largest lender, biggest servicer, 50 million people coming to Redfin every single month and searching for homes, 5 million plus people going to Rocket Money and having a premium subscription. Hundreds of thousands of clients getting personal loans with us and being able to combine that data and those attributes, being able to [indiscernible] (00:17:56) personalize our messaging and our marketing for our clients is something that's hard to replicate. So I think of that is the foundation, the platform.

The ecosystem to me are really the assets that you put around it. Going back to some of our previous talking points. That's being able to say we have this really strong foundation. Now we need to put the assets and capabilities around it. So that things like the search portal, the brokerage, the loan officers, the underwriters, the servicers, and the closers, and the title people and the processors, all doing a job on top of this foundation, on top of that platform.

And to your last point around distribution, I think this is something that gets overlooked in our space. If we were at a different conference, a technology conference, or we were meeting with other firms, they would talk a lot about their access to distribution. You don't really hear mortgage companies talk about distribution, but I'd argue it might be the most important thing. How many contacts do you have? What's the network effect of those? That's why having all these brokers out on the field, all these service clients, all of the 50 million Redfin clients out there. That's why the Compass partnership was so important because having these contact points with realtors, bringing new clients, that low cost of acquisitions and going through your purchase process with them, all of that matters.

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At the end of the day, we all have a client base and we all want to market to that client base and make sure they choose us first for their financial products, particularly in this case, their mortgage. And no one has a bigger client base than us and no one has more different levers and channels to pull on. I just don't hear most people think about it like this. I think some people on the servicing side are just beginning to think about servicing as a distribution channel or a very important client base that they can mine and do their next loan. That was how we built servicing, but I do think there's even fewer companies thinking about the number of clients that they get to have a search interaction with or the number of clients using Rocket Money is another major advantage to us. So we really think about the platform, and the ecosystem, and distribution is sort of words to describe how we think about the business, and how we think about tackling share gains, and accessing clients in a way that's less traditional in this space.

Just real quick, Terry, to wrap up this. When I first got the space, I was always surprised how mortgage companies in particular would just keep rebuying the same clients. They will do the loan one time and then the next time they'll buy the same client again because the infrequency of mortgage just makes it hard to maintain a relationship over time. It's kind of obvious when I say it. However, I think a lot of people still haven't cracked the code. They're still repurchasing or rebuying that client or they're – we know they're losing that client on their next transaction because the industry numbers tell us that 70% of the time the client is going to choose a different lender on their second mortgage from their first lender. And of course, at Rocket that's inverted and the majority of the time they're going to come back to Rocket. But that's not the case for the industry.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. Super helpful. So let's talk about integration. We're approaching one year since we closed the Mr. Cooper and Redfin acquisitions, the two large public companies. What surprised you most during the integration process and what should investors expect over the next 12 months?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. I'll start with the – we have the good and the bad, so I'll be balanced and transparent with this group. Integrations are very hard. They are very hard. And I think like any good president or CFO, it's easy to pencil out the numbers in an Excel file, and on paper, and get very excited about the synergy value. But then you quickly realize you're talking about real human beings, you're talking about real consumers, you're talking about real systems, and real processes. So I'm very proud of what the team accomplished, and it wasn't easy by any stretch. It's a big – it has to be your first, second, and third priority in business. It cannot be something that's a part time job that includes myself, and Varun, and the leadership team. You have to focus on it every single day bringing – despite the fact that I do think these companies that we combined with were culturally aligned, for the most part. You always find challenges when you really get under the hood and you start working together.

So first of all, I want to say it's not an easy process and I'll even continue on. I'd say one of the biggest things we learned was just the servicing transfer. Getting all those service clients over to the Mr. Cooper platform. Mr. Cooper was before Rocket, the biggest acquirer of servicing. Not even close. So they had built a pretty good process to get loans on boarded and transferred. And they've built some proprietary technology, in fact, to help them do that. But doing 2.5 million loans is a different story, and doing it all in a very short period of time with focusing on the client experience is a tough nut to crack. So I'm very proud of what we accomplished.

You're never done, done, done. I don't think in integration. But giving all those loans now fully over to the Mr. Cooper platform is a huge unlock. It's a huge unlock because now we can have these propensity models, and these recapture models train on one dataset that is now mirrored across 9.5 million clients. We were duct tape,

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and doing all the good stuff to make sure we didn't miss out on any opportunities. But now being on one system is a big deal. Obviously, you've heard about it, but I'm very proud of what the team has accomplished on the cost side of the house. We were happy to report that we've got the full – on a run rate basis, we've got the full expense envelope with Mr. Cooper, $400 million a year ahead of plan. More than a year ahead of plan.

On our last earnings call, we talked about line of sight into an additional $100 million. Some of that is a jumping off point from the further synergy value we expect to realize for really getting in there even more. So, look, you're never totally done, but I am very proud. I think a couple of things come to mind. One is a good partner. Number one, a good, make sure you're culturally aligned and you're aligned in what you want to accomplish starting very early before the integration, before the actual closing, to the extent you can. Getting alignment there was a huge thing, so you can get out of the gates. Paying attention to the cultural impact is very important.

Just to touch on the revenue side, Terry, too. We said all along that there is a couple of things that are going to impact the revenue synergies, particularly starting with Mr. Cooper's recapture rate. We knew it all along. We exceeded our expectations in bringing up that blended recapture rate between Rocket and Mr. Cooper, and the isolated Mr. Cooper recapture rate quite substantially. But I'll tell you the thing, Terry, that I'm actually most excited about. One of the things that we learned at Rocket, just doing recapture, we think, pretty well, was there's always a different recapture rate on the clients that you acquire versus the clients you originate yourself. One of the reasons Rocket's recapture rate is and was so well is because we did buy some servicing over the time, but our portfolio was largely originated by Rocket. Meaning the client went through the experience of getting a loan through Rocket. They got on boarded to servicing. They had already gone through our experience. They hopefully had a really high NPS and an award winning experience. And then it was kind of a no brainer for them to come back and do their next one with us because they had such a good experience. The first time and we have built a relationship in between loans.

But what has always been much more challenging in the industry is what about the MSRs you acquire? What about the MSRs that you might have gotten through correspondent lending, or a bulk acquisition, or just you didn't do the loan? That's how Mr. Cooper really grew, right? They grew through acquisition of MSRs. They, of course, had a direct-to-consumer business and originated some of their own. But the majority of their portfolio was purchased either through a company or a bulk acquisition. And so seeing those recapture rates go up is a huge unlock, not just for the Mr. Cooper portfolio itself. But when you think about our ability to grow MSRs and acquire MSRs to the extent we can continue to almost double or triple the industry recapture rates on those purchased MSRs, that is just such a unlock. Because in a simple way that just means the MSR should be worth more to us than anyone else because we have the best return because we are able to do that next loan even on clients that didn't go through our process.

Not to mention, by the way, that we are the lowest cost of service. So that gives us a major ROI advantage right out the gate given our scale and our proprietary system. So I'm very proud of the work we've done on the integration side, both on revenue and the expense side. But I would equally say I'm even more proud of just how these cultures have come together. And we continue to find success.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. Maybe just a quick follow-up. What's driving the performance on Mr. Cooper's MSRs? What's the special sauce you've been applying?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

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Yeah, good question. Well, I'll start with something that sounds obvious, but I promise you, in the industry, it doesn't happen every day. It all starts with the transfer onto the new platform when you acquire the MSR. And that's not any different than onboarding the Mr. Cooper loans or the Rocket loans onto the Mr. Cooper platform. But going through someone selling your servicing or selling your loan, if you've ever experienced it before, is absolutely horrible. In most cases, you're having to update your autopay. In most cases, the acquiring servicer is contacting you, and asking you for information on a loan that you did 5 years, or 7 years, 10 years ago. So you could imagine how that phone call goes. Like, what loan are we talking about here? That's crazy.

So building this technology that Mr. Cooper really invested in, and Rocket was also simultaneously investing in to make sure that transfer goes really well, or the first experience the client has with you is the acquiring servicer is so important. So we do things to get well ahead of that. We've built the technology to make it as seamless as possible. But introducing yourself to the client early, giving them a white glove treatment with specific client relations folks to reach out to, making sure they never have to update their autopay, making sure their escrow carries over. It's kind of the nuts and bolts doesn't sound sexy, but it's very important. That's the first aspect.

The second aspect comes back to something we were talking about earlier, which is really just the data and information. Bringing that data over and the data attributes over that you know are important to your propensity models, and your marketing engine to be able to message and personalize messages to that client base is really, really important. Mr. Cooper was good at that. They were probably second in line in recapture after Rocket, and then a big drop off after them. But I would argue the Rocket propensity models were much more fine tuned, and conversion obviously was better. So incorporating the right attributes, and the right data right off the bat to be able to have the right personalized marketing to them.

Then the last thing, Terry, is again, something that I think we have that you just don't see others. You can imagine having marketing and messaging going to those service clients about Redfin, in the Redfin search property. If we get a service client to use Redfin, we have better signal and better intent than anyone else in the world because we now know what that client is looking for. We now know are they saving certain homes or are they just searching because they're interested in their neighbor's home or are they searching because they actually have high intent? Are they liking homes or are they saving homes? How many times are they coming to the platform? And now we have the ability to not only get in front of them on Redfin, but bring some of that experience into Rocket Mortgage servicing in an integrated way. So it's not a simple answer because it is never just one thing. There's a bunch of inches around there. But we built a servicing platform different than others, we built it as a marketing platform, and a relationship platform, and a CRM platform. Most people built it as an accounting platform to try to lower the cost of service. So I think you add all those things up and that translates to those industry leading recapture rates.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. That's great color. Maybe just switching gears, let's talk about channel mix and market share. Purchase market share reached 6.2%. Refinance share reached 14.3% last quarter. Both of those are approaching your long term targets of 8% and 20% respectively. How should investors think about the path to achieving those targets?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. Well, one, it's a lot of what we talked about, about the synergy values between these companies and the business combinations that happen. But the other thing is it's just channel diversification, right. I get asked the question often around Rocket participates in all of these different channels and don't you have channel conflict?

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And it's a fair question, I don't take it lightly. However, it's going back to our earlier point about the market. The market is still huge, right? It's really, really big. And no one has reached saturation yet. So surprisingly, we don't deal with channel conflict quite as much as you might expect just because no one, no single player is that big yet. So it allows us to, in certain geographies, really, really lean into the wholesale business, and the broker business, and drive profitable purchase volume. That way allows us to do things like partner with Compass agents, and in some cases pair them with brokers that are in our ecosystem, and in other cases pair them with our centralized loan officer, or whatever makes the most sense for that particular agent, or for that particular client they're working with. It allows us to lean on things like correspondent volume that we were talking about to acquire MSRs that way and build a book of business that we can recapture later and that we can have really good free cash flows coming off of the servicing business. It allows us to do – once they're boarded on servicing, do really good recapture, and it allows us to leverage the Rocket brand which no one has a brand that's this strong, and test this well in unaided awareness in the space to just acquire new clients out in market.

The interesting part about where the world is going and you think about first time homebuyers today is that so many first time homebuyers want a couple of things. Where do they start looking for a home? It's always on a search portal. It makes sense, right? They go to Redfin and they look around just like all of us do. But the second thing they need to do is figure out how much they can afford. So the amount of first time homebuyers that come to the mortgage company well before they ever get connected with a realtor, grows every single month. And it kind of makes sense because a lot of these Gen Zs, and [indiscernible] (00:33:44) I see even millennials, they don't want to talk to someone yet. The agent is important [indiscernible] (00:33:48) way to get in the house. But first they want to see what they like. Second, they want to see what they can afford. That provides a really nice opportunity for Rocket. And then we can connect them with an agent in our network.

So to answer your question, the channel diversification is important. When I get asked, how are you going to achieve your market share goals? I never give one answer because as you can tell, we're growing share in each of these channels individually and respectfully. And that's all part of the plan all along. I said it's going to take a multichannel approach to achieve our goals, which make sense given our size and scale.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. So I want to touch on AI. You said before that AI changes the shape of Rocket's business model and it creates a foundation for "infinite capacity". What do you mean by that and how does AI contribute to Rocket's durable cost advantage?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. Comes back to that innovation and the velocity of innovation that we've been achieving. And a question, Terry, you may be alluding to that we do get asked a lot is, yeah, but doesn't that benefit everyone else too? And I think the simple answer is yes, it definitely should. And I'm imagining it does. I haven't seen that totally come to fruition in some of our competitors, but I imagine they're up here saying a very similar thing. But I can say with a lot of confidence, there's one major differentiation which comes back to that data layer that we have and the amount of data that we have on our clients. And the second thing is the proprietary systems of which we operate. Most people in this space are on a third party LOS and they're on a third party servicing system. And when I say most people, I mean 90-plus percent. You know who the big players are and which systems they're using.

I think in this case, at least from what we found, that's a disadvantage. There's probably some advantage in terms of cost leverage, and theoretically everyone using the same system, driving the cost down. But from our own experience and as you guys know before Mr. Cooper, we were on some of these systems, particularly the

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servicing system. Being able to control your product roadmap, and make it AI ready, and do the right APIs matters a lot. And for us, given we're the biggest player with the most scale weighting on a third party system to get the product roadmap right, or allowing us to API in the right way is just unacceptable. We need to be able to control our destiny. So when you combine the data layer that we have, which is the richest in the space and you combine the aspect of we own, and built, and engineer these systems ourselves, I think that gives us a major advantage.

Everyone, like we said, they're using the same LLMs. We've talked a lot about a partnership we have with Sierra, which has been very fruitful and helpful, mostly because of the data that we can train it on. Everyone could be using it and a lot probably are. That's kind of an equal playing field. But when we have 60 million call logs, and we have 9.5 million clients that we're interacting with, and we're saving that data, and mining that data, and using the models to train on that data, we come up with a different experience than other people.

Terry Ma
Analyst, Barclays Capital, Inc.

Q

Got it. Again, super helpful. So in closing, it's been a busy and transformative year for Rocket. As investors look ahead, what should they expect from the company over the next 12 months and what excites you most about what's ahead?

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

I think what excites me the most is we are through these integration for the most part, and now we can really look ahead. We talked a lot about the balanced business model. We talked about the fact that this rate environment is actually good for Rocket and we think tougher on our competitors. So I have never been more excited in my seat and I've been at Rocket for over 11 years. The leadership team is firing on all cylinders, it's an excellent blend of folks that have come from the West Coast and Silicon Valley with a lot of technologists, with true mortgage professionals that have been in this business a long time, working side by side. We have the assets and capabilities. We have assets and capabilities that no one else in the space has. We have to execute on them. And that's a challenge that I'm willing to accept. Because over the years, if we proved one thing, we are an operational monster. We can execute at a high level and I'll take that bet any day.

Terry Ma
Analyst, Barclays Capital, Inc.

Okay, great. I think we'll end it on that positive note.

Brian Nicholas Brown
President, Chief Financial Officer & Treasurer, Rocket Cos., Inc.

Thanks, Terry. Appreciate it.

Terry Ma
Analyst, Barclays Capital, Inc.

Thank you. Thanks, everyone. Thank you.

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