27-Feb-2025

Rocket Cos., Inc. (RKT)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

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

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

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

MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Rocket Companies Inc. fourth quarter and full year 2024 earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. [Operator Instructions]

I would now like to turn the conference over to Sharon Ng, head of Investor Relations. You may begin.

Sharon Ng

Good afternoon, everyone, and thank you for joining us for Rocket Companies' earnings call covering the fourth quarter and full year 2024. With us this afternoon are Rocket Company CEO Varun Krishna and our CFO, Brian Brown. Earlier today, we issued our fourth quarter and full year earnings release, which is available on our website at rocketcompanies.com under Investor Info. Also available on our website is an investor presentation.

Before I turn things over to Varun, let me quickly go over our disclaimers. In today's call we provide you with information regarding our fourth quarter and full year 2024 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 assumptions we mentioned 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. This call is being broadcast online and is accessible on our Investor Relations website. A recording of the call will be posted later today. Our commentary today will also include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for a reported results can be found in our earnings release issued earlier today, as well as in our filings with the SEC.

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

Varun Krishna

Good afternoon, everyone and welcome to the Rocket Companies' fourth quarter and full year 2024 earnings call. Today I'll walk through three main topics, our performance over the past quarter and full year, our key investments and progress and lastly I'll comment a little bit on where we're headed looking forward.

Reflecting on my first full year as CEO, I joined Rocket for the immense potential to build a legacy, one that's still unfolding and one that will transform homeownership forever. Over the past year. We kick started this journey by executing a strategic evolution, realigning our resources, and sharpening our focus on homeownership. This transformation is powered by the dedication and passion of our team members. They are our heart, our mind and our spirit spearheading change, redefining possibility, and manifesting a better way to serve the homeowners of today and tomorrow.

In service to this, we are executing with velocity to realize our ambition of Helping Everyone Home. We see this in our financial results. I'd like to start by calling out just a few highlights. We closed the year with very strong momentum. In Q4 we generated $1.2 billion in adjusted revenue at the high end of our guidance range, representing growth of 34% year-over-year. Adjusted EPS was $0.04 a share. Our full year 2024 results reflect the same strong execution. Adjusted revenue for the year was $4.9 billion, a 30% year-over-year increase.

Our focus on efficiency drove significant operating leverage, resulting in 18% adjusted EBITDA margin, up from 2% the year prior and adjusted EPS came in at $0.23.

While our financial results speak for themselves, the true impact lies in the 365,000 clients we've helped achieve homeownership or leverage their home equity. Behind every number is a life changing moment. The excitement of a new homeowner opening the door to their first home or a family finding stability. Personally, this is the lasting impact of home ownership is what truly matters. Our financial performance was driven by profitable market share growth, our north star metric.

Purchase remains our focus for growth, with no single player holding more than a single digit market share. We grew our purchase share year-over-year through focused innovation and execution, improving every part of our business, and we are investing strategically to accelerate this growth. So what lies behind these numbers? It starts with what we call the Rocket Superstack - the platform advantage that fuels our growth and scale. It's built on four key layers; our end-to-end ecosystem, proprietary AI driven technology, a seamless multi-channel experience, and the strength of our iconic brand. We continue to make progress on each layer, and I'd like to unpack some examples.

Our ecosystem is the foundation of what makes Rocket unique, and its heart is our origination and servicing flywheel. The scale of both sides feed into and amplifies the other, allowing us to grow in non-linear ways. When we help clients become homeowners, it's just the beginning of our relationship, whether it starts with mortgage origination or servicing every client interaction, whether answering a buyers chat agree about affordability or providing immediate assistance after a natural disaster is a chance to strengthen that relationship. So we don't view our servicing portfolio is just a recurring cash flow asset. Each loan represents an opportunity to help a single mother own her first home or assist a family in paying for their child's college tuition or a hospital bill. This is what client first mentality means, and it's what drives our industry leading recapture rates. With clients returning to us at a rate 3 times higher than the industry average. In fact, 40% of our servicing clients have completed an origination transaction with us 2 or more times.

Beyond our differentiated client approach, we've built a leading origination business with over 40 years of expertise. Scaling in both servicing and mortgage origination requires immense activation energy. Not to mention a substantial ongoing investment in operational excellence and the continuous refinement of thousands and thousands of details over time at scale in 50 states. This creates a durable competitive advantage with our origination servicing flywheel serving as a foundational pillar of our long term growth strategy. We've strategically expanded our servicing portfolio through self-origination, bulk acquisitions and key partnerships. By the end of 2024, our portfolio reached $593 billion in unpaid principal balance, a 17% increase, while also welcoming 308,000 new servicing clients and bringing our total to $2.8 million.

As our servicing capabilities grow, so does our origination business. With housing affordability being the biggest challenge for many first time buyers, we are committed to innovating and delivering solutions that provide real relief. Our One Plus One Percent Down and Welcome Home Rate Break programs helped us more than double the volume of affordability products in 2024 compared to 2023. Welcome Home Rate Break lowers interest rates for eligible homebuyers by 2% in the first year and 1% in the second. And in February, we expanded the program to offer a 1% rate reduction in year one to an even broader group, making homeownership more accessible and affordable. This month, we launched Rocket RentRewards, helping renters turn monthly payments into a path to homeownership. Many of the 44 million renters in the US feel shut out of the housing market, and Rocket RentRewards completely changes that. Eligible renters can enjoy a promotional credit of up to 10% of their annual rent, which is a meaningful boost with the average two bedroom rent at $1,800 per month, or $22,000 per year. Both Welcome Home Break Rate and Rocket RentRewards are available through our retail bankers and wholesale broker partners.

Next let's talk about technology. Technology is the bedrock of our investment strategy and it's at the very heart of our organization as well. It's what allows us to create magic to help our team members work smarter and in turn, serve our clients and partners better. So let me share a few quick examples. I'll start by highlighting Navigator, our AI powered workflow platform, which has become a force multiplier for our team members. Streamlining workflows, cutting tasks from hours to seconds and usage has doubled quarter over quarter. We have over a third of our team members now leveraging it. Without writing a single line of code, these teams have built more than 600 custom apps already, enabling fast, efficient development that boosts productivity and enhances client service.

Rocket Logic our AI powered loan origination system is transforming both how we serve clients on the front end and how we underwrite loans on the back end. Over the past year, we've revolutionized the banker experience equipping them with AI tools that make every client interaction more personalized and impactful. Rocket Logic Assistant automates paperwork, follow ups and documentation acting as every banker's personal AI. And Rocket Logic Synopsis serves as a rich client repository, instantly providing insights so bankers can tailor each and every interaction.

Beyond just the client interactions, Rocket Logic is transforming underwriting by replacing tedious manual reviews with AI powered automation. In 2024, we more than doubled automation rates for appraisal and asset verification, streamlining key steps while maintaining accuracy. Now we're expanding this automation across both retail and wholesale channels to drive even greater efficiency. The impact is clear. In Q4 2024 our bankers and operations teams served 54% more clients than the year before.

Over the year, AI driven automation in mortgage qualification alone saved 1 million hours of team member time, driving $40 million in efficiency gains. Building on this momentum, we are expanding Rocket Logic's capabilities to our wholesale broker partners in the coming months, bringing the power of this amazing AI driven efficiency to even more of the industry.

In our experience layer, we are revolutionizing the American homebuying journey through a seamless, AI powered digital experience. We are so proud to introduce the all new Rocket.com and our Rocket mobile apps, offering a homeownership platform that seamlessly integrates home search, financing and mortgage servicing into a single beautiful experience. We've seen more than a 7-fold surge in clients starting mortgage applications directly from home listing pages on Rocket.com compared to the previous Rocket Homes experience already. Now unlike other home search sites which cater to more casual browsers, we built Rocket.com meticulously after studying what truly works for serious homebuyers. We've streamlined the process with smart filters like commute time and unique photo viewing, allowing effortless exploration with a clean and ad free design. Rocket.com also features our proprietary AI powered chat assistant on every page, an ‘always on’ expert in local real estate and mortgages. Trained on millions of home listings and transcripts, terabytes of housing data and mortgage regulations across all 50 states. It provides instant data driven insights to homebuyers. So when buyers ask, “is this house priced correctly?”, they receive immediate, meaningful answers backed by real data they can trust. The assistant also connects buyers directly to bankers and agents, even taking mortgage applications and updating approval letters. We’ve effectively put a buy button on every home in America and created a site that is truly “alive”.

Last but certainly not least, is unleashing what we believe is the untapped explosive power of our brand. A trusted brand is one of the most powerful drivers of decision making. It creates an emotional connection that makes a lasting impression and when done right, it speaks not just to logic, but to the heart and to an irrational level of emotion, especially when it comes to something as important as homeownership. Under Jonathan's leadership, we have deliberately and strategically evolved our approach to marketing and positioning the Rocket brand with a fresh look and a deeper purpose. At this year's Super Bowl we introduced Own the Dream, our core creative idea through a commercial set to John Denver's “Take Me Home, Country Roads.” In a historic never been done before moment, the experience seamlessly transitioned from a television ad to a live stadium, as 65,000 fans at the Superdome joined in a full stadium sing-along. It was an unforgettable experience proving the power of music and the dream of homeownership and securing Rocket’s place in Super Bowl advertising history. The impact was immediate, traffic to our digital platforms surged, and according to the Harris Poll, Rocket’s brand awareness increased by nine points in familiarity and six points in consideration. The largest lift of any brand measured.

Our brand refresh is the first step in an ambitious journey to solidify Rocket as the leader in homeownership and make it one of America's most culturally relevant brands. This investment has two key objectives. First, we're investing to elevate Rocket into a true household name. While we're already the most recognized player in mortgage, we believe that Rocket should be a brand that people know, trust and connect with throughout the homeownership experience and we are making the investments to make that a reality.

Our Own the Dream core creative idea reinforces the belief that everyone deserves a shot at the American Dream. Designed for longevity, this concept celebrates the modern, diverse vision of homeownership while unifying our messaging across all platforms.

Second, we have a significant opportunity to expand our reach and connect with key growth audiences. America's demographics are shifting, the average first time buyer is now 38, nearly a decade older than just 10 years ago. And by 2030, 56% of first time buyers will be Hispanic, while single female buyers will outnumber males 2 to 1. So, to serve this next generation of homeowners, Rocket's brand must be inclusive, dynamic and reflective of today's ambitious and diverse America. If there's one message I hope sticks with you today, it is simply this: we are shaping the future of homeownership-modern, personalized, centered around the client. We're eliminating the hurdles that have made homebuying complicated for decades, we are replacing them with a seamless, intuitive experience that is unmistakably Rocket. 2024 was a foundational year for the next chapter of Rocket and we're carrying that momentum into 2025 with a simple purpose to help more people achieve homeownership. The opportunity ahead is immense, and we're investing and executing with urgency to seize it. So we're dreaming big. We're executing bigger. And I couldn't be prouder of what we've built, or more excited about what's ahead.

Thank you. And with that, I will turn it over to Brian.

Brian Brown

Thank you, Varun and good afternoon, everyone. On this call, I'll review our strong fourth quarter and full year performance highlight key achievements from 2024 and share our outlook for the first quarter. I'm incredibly proud of our financial results and the exceptional execution by our team. Looking back at 2024 two things stand out: strong, top and bottom-line growth and disciplined capital allocation across every layer of our Superstack, our key competitive advantage. We are building a company that will shape the future of homeownership. I couldn't be more excited for what's ahead.

Our strong execution translated into impressive financial performance. For the fourth quarter, adjusted revenue reached $1.2 billion, which was at the high end of our guidance range. This represents a 34% increase from the same quarter last year and marks our sixth consecutive quarter of year over year adjusted revenue growth. We generated $24 billion in net rate lock volume up 47% year over year. We reported adjusted net income of $85 million or $0.04 of adjusted diluted EPS.

For the full year, 2024, adjusted revenue grew 30% to $4.9 billion, with net rate lock volume increasing 28% to $101 billion. Our gain on sale margin increased to 295 basis points, up 32 basis points from 2023, driven by growth in both the Direct-to-Consumer and Partner Network channels. We delivered an 18% adjusted EBITDA margin, significantly expanding from just 2% the prior year. Adjusted diluted EPS came in at $0.23. This profitability expansion was fueled by revenue growth, disciplined expense management and AI driven efficiency gains.

Key achievements across origination, servicing, and AI, powered our 2024 success.

First, origination volume grew nearly 30% year over year, driven by both purchase and home equity loan growth. Purchase remains our biggest opportunity, with no player holding more than single digit market share. Over the past year, we intensified our focus like never before and grew purchase market share by 8%. Our success was driven by a deliberate, strategic approach. We launched innovative home buying products like One+ and Welcome Home Rate Break, which resonated with homebuyers in a challenging market. In fact, mortgage volume associated with affordability products doubled year over year. We also strengthen our relationships with our RocketPro wholesale partners, reinforcing our commitment to their growth. By providing choice, industry leading products and advanced technology, we are empowering them to thrive, while driving our own purchase growth. In the fourth quarter, this strategic focus led to double digit gains in wholesale market share and broker wallet share year over year. Our home equity product continued to shine with volume more than doubling year over year, further solidifying our position as the nation's largest originator of closed end second mortgages. Homeowners increasingly turn to this solution to tap into record high equity while preserving their low existing rates on their first lien mortgage. Notably, over half of these home equity clients were new to the Rocket ecosystem, creating a strong pipeline of future refinance opportunities as rates decline. This success highlights the strength of our innovative products targeted marketing and capital markets expertise reinforced by nine successful securitization deals in 2024.

The second major area of growth has been the expansion of our origination-servicing flywheel. By the end of 2024, our servicing portfolio grew to $593 billion in unpaid principal balance, a 17% increase over 2023. This growth was primarily driven by our inorganic strategy, which added $77 billion of UPB. During the year, we generated $1.5 billion in recurring servicing cash revenue. More importantly, we expanded our portfolio to 2.8 million loans, adding 308,000 new clients this year, each representing an opportunity to earn the right to be their lender for life. As Varun outlined, expanding our servicing portfolio is a critical part of our long-term growth strategy. Our industry leading recapture rates are built on a singular focus: delivering an exceptional client experience at every interaction. No matter how a client enters our ecosystem, our goal is the same: serve them as homeowners for life.

Finally, AI is delivering tangible, transformative results across our organization, enhancing our ability to scale and driving operating leverage in our business. For example, Rocket Logic Docs, our intelligent document processing platform has been crucial in efficiently onboarding servicing portfolios. In December alone, this platform automatically classified over 21 million documents nearly five times the volume from June, requiring no additional staffing. This proprietary technology positions us for continued growth in our servicing portfolio.

In 2024, we unlocked over 1 million team member hours through AI automation with benefits that continue to compound. AI powered tools enabled bankers and operations team members to serve 54% more clients year over year in Q4. AI is fundamentally transforming the experiences of our clients, team members and partners, and the results are real. Our massive data lake, early adoption and deep AI expertise have positioned us far ahead of our peers, and we believe the gap will only widen from here. As Varun shared, we are reimagining every task, every process and every team member role through AI supercharging, efficiency speed and accuracy.

Our momentum in 2024 lays the foundation for even greater opportunities in 2025. To strengthen our leadership and shape the future of homeownership we are making strategic investments in three key areas, marketing, servicing and technology. First, in marketing, we're making bold moves to elevate the Rocket brand and engage the next generation of homebuyers. Our previous brand strategy was successful, but as the consumer landscape has evolved, it was time for a refresh. Rocket is the most recognized mortgage brand, yet today it doesn't stack up against some of the more prestigious brands outside of our category, leaving room to grow. In fact, our unaided awareness prior to the brand restage was just 12%, and the engagement among mortgage borrowers was only 17%. Even among those familiar with Rocket, many didn't see us as a brand that represented them. We weren't fully connecting with the growth audiences, driving the future of homeownership-female, Hispanic and aging first time homebuyers.

Our brand must resonate with their aspirations today and in the years ahead. We launched our brand restage and Own the Dream core creative idea at the Super Bowl, one of the biggest stages, alongside the debut of Rocket.com, our all-in-one home ownership platform. These moves are already accelerating brand awareness and expanding our reach. Our Own the Dream core creative idea is an asset that we believe stands the test of time continuously delivering value and forging authentic connections with the next generation of Rocket clients. We've made a full-scale shift toward an integrated approach across brand performance and product marketing.

This investment cements Rocket is America's homeownership platform with a brand that reflects our vision, mission and unwavering commitment to helping millions achieve homeownership. Second, we're accelerating our origination servicing flywheel building on 2024's success in bulk acquisitions and strategic partnerships. This is a strategic growth area where Rocket holds a clear advantage, leveraging both our industry leading recapture rates and our scale across origination and servicing. We will sustain market leading recapture rates by sticking to what works, delivering exceptional client experience at every touchpoint. Our approach blends the human touch with AI driven enhancements, creating frictionless, modern experiences on Rocket.com and our digital apps.

We will remain highly selective when deploying capital to acquire MSR portfolios, ensuring every investment aligns with our long term strategic vision. Additionally, we see tremendous potential to expand through partnerships like our collaboration with Annaly, while using AI and automation to streamline onboarding and operations.

Finally, we will continue to double down on AI and automation to supercharge our team members and transform how we operate. This builds on decades of technology investment and our comprehensive data platform. AI is already unlocking business value by enhancing team member efficiency. Empowering 14,000 team members with AI allows us to iterate faster, work smarter, and achieve more with the same resources. Looking ahead, we believe AI will enhance every aspect of Rocket from boosting conversion rates through greater personalization to making mortgage manufacturing more efficient, all while preserving the human touch that defines our client experience.

Our technological advantage - and our expanded reach across retail, wholesale, enterprise partnerships, and servicing - positions us to capture a significantly larger share of the market. From a capacity standpoint, today, we believe we can originate $150 billion in volume while keeping our fixed costs flat.

Our investments in marketing, servicing, and AI, are setting the foundation for long term growth in market leadership.

Our financial strength allows us to invest aggressively while competitors pull back. We ended the year with $2.9 billion in available cash and $7.6 billion in mortgage servicing rights. A combined $10.5 billion of value on our balance sheet. Our $2.9 billion in available cash includes $1.3 billion on the balance sheet and $1.6 billion in corporate cash used to self-fund loan originations. As of December 31, total liquidity stood at approximately $8.2 billion, including available cash and undrawn lines of credit. This financial flexibility allows us to make bold strategic investments at pivotal moments, something we've done consistently throughout our history. With AI transforming our industry, Rocket is positioned to lead the next chapter and seize opportunities ahead.

Now let me turn to our outlook for the first quarter. We expect adjusted revenue to be in the range of $1.175 billion to $1.325 billion. The midpoint of this range represents roughly 7% year over year growth and our expectation of continued market share gains. We expect total expenses in the first quarter to increase by $100 million on a year over year basis. There are three items driving this. We expect variable costs to increase as a result of higher production year over year.

Turning to marketing, Rocket Money spent additional advertising dollars to drive record customer growth in the month of January. And finally, as many of you saw, we launched our brand restage and core creative idea at the Super Bowl. Aside from these three items, we expect our expenses to be relatively flat year over year.

As always, our forward-looking guidance is based on our current outlook and intra-quarter visibility. As we look ahead, we're entering a defining moment in Rocket's journey. Throughout our history, we've consistently maintained a strong capital position while making strategic long-term investments. This approach has given us the resilience to navigate market cycles and the ability to seize opportunities others simply cannot.

Today, we are writing a new chapter, one defined by bold strategic moves. We're investing decisively in our future, pursuing ambitious goals, and accelerating execution, all while keeping our focus on creating sustainable long-term shareholder value.

With that, we're ready to turn it back over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Your first question comes from Jeff Adelson with Morgan Stanley. Your line is open.

Jeff Adelson
Analyst, Morgan Stanley

Q

Hey, good evening. Thanks for taking my question. So I just wanted to unpack the first quarter revenue a little bit. Brian, you mentioned the 7% at the midpoint. I know it seems like it's flat to up 12% sequentially as well. Can you just unpack the drivers of this forecast as it relates to the gain on sale, the origination volumes and other?
And then as we think about the rest of 2025, market expectations and forecasts have sort of come in in recent months. I think we're now looking for 15% growth versus the prior 30%. How are you thinking about your growth outlook for the rest of the year and what kind of progress do you think you're going to be able to make on your market share goals? Thank you.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

Jeff, thanks for the question. I want to start by maybe unpacking the macro view on the year and then we'll jump down into our guide and I'll ask Brian to comment on that a little further. I think if I were to use one word just to describe how we feel about the year and our market outlook, the word is optimism. We think 2025 will be better than 2024. I think the big question is just how much better and what the pace of recovery will really look like. There are a few things that I would just sort of explain in terms of the underlying factors. I think first, obviously, you take into consideration inflation, which is running a little bit higher. Obviously, the impact of things like tariffs is still relatively unknown. But if you really click down into the housing industry, you start to see some pretty interesting green shoots. You're seeing more inventory. You're seeing more homes selling at or below listing. You're seeing equity at an all-time high at $35 trillion. You're seeing new listings increase. In fact, in January, that was up 13%. That's the biggest in three years. So that's really good. So you put all that together and when you look at the forecast, that leads you to believe that there's going to be a higher market for the mortgage industry. I believe the forecasts expect the 2025 originations will be around $1.9 trillion. And the good news is that's up like 10% to 15% from 2024. And then internally, the biggest thing that we look at is just our own execution. And this posture, I think, is a good example that we can grow our share in any market, and we view that as a source of strength. And if that market is bigger, then obviously we like that even more. So we're positive on the market. We're positive on our execution and in totality that's the reason for optimism for 2025. And with that context, Brian, maybe you can jump in and talk about the quarter and specifically our guide.

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

A

Yeah. Sure. Thanks, Varun. And hey, Jeff. Good to hear from you. So, yeah, let me start with talking a little bit about the quarter, then I'll try to unpack the guide. But if you think about the first quarter, January's always a tough month for mortgages for the industry, and this January was no exception. But here's the good news. We saw a really nice rebound in February, sort of up to the moment in this call. And February has actually started to exceed our expectations, which is great. And then as I look ahead to March, we're also seeing some positive signs, particularly in the homebuying space as we come into 2025. Our own internal purchase pipeline is up 10% over the prior year. So that feels really good. And then if I break that down a little bit further for you, our purchase pipeline is measured in different ways, but one thing we look at is VALs or Verified Approval Letters. Those are fully underwritten clients ready to buy, and those are really high intent clients. The percentage of VALs of the total pipeline is also up. So some really nice green shoots leading into March. So to your point, Jeff, yeah, the guide is about 7% year over year, up 7% at the mid and 14% at the high end. But one thing it's important to note is that is really driven by volume increases year over year. We expect gain on sale margins in the first quarter to be relatively consistent with gain on sale margins in the fourth quarter, which is also a good sign. But if I take you back to Q1 of last year, we did have some elevated gain on sale margins. I think it was about 311 basis points due to some discrete items. So it's a really positive guide because we're keeping gain on sale margins consistent with Q4, but also foreshadowing that volume will be quite a bit higher. So just in summary, from my perspective, it's a great start to the year. It sets up 2025 for a better year than 2024 both from a top line and profitability perspective.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

I would just add just one more point on guidance, especially when you look at forecasters and potentially many others typically are predicting that the industry, when you look at Q4 to Q1, that it's actually going to be down anywhere from 20% to 24%. And so when you look at our guide, Q4 to Q1 is actually up and it just gives you an indication of our resilience and strength and just the objective to be able to take share really in any market.

Operator: The next question comes from Ryan McKeveny with Zelman. Your line is open.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Hey. Afternoon. Thank you and nice job on the quarter. So Brian, that was really useful color on some of the February and early March dynamics. Another question around the topic of maybe early indicators, I guess with the brand refresh with the launch of Rocket.com, obviously Rocket Homes, the search piece had been out there and presumably maybe the simplicity of Rocket.com you know draws more traffic just integrates better with the brand and the various products. I guess any early indications or signals that you're seeing from the relaunch specifically whether it's in terms of application activity happening through the sites and the connections with the consumer on the site or connections to mortgage brokers, connections to real estate agent partners.

anything you can share there, I know it's very early, but that would be useful. Thank you.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

Yeah. Thank you, Ryan. Great to hear from you. I want to start maybe by just talking a little bit about the high level strategy with both our brand restage and marketing in general, and Rocket.com, and then we'll go into some of the more details of how we're tracking our way on an ongoing basis. I think just stepping back, I think the most important thing to just sort of share is that today, ironically, we're the biggest and most recognizable brand in the space. And despite that, our aided and unaided awareness metrics are nowhere near what a brand could be. And so when you look at a brand that's at 12% unaided awareness, which is where we are today, we have a lot of opportunity to grow. And that to us really stuck out as a big opportunity to increase the efficiency of our full funnel. So what we've done here is very intentional, very strategic. We have a new core creative idea, Own the Dream, and we have a durable approach to marketing that. We have a durable client segmentation. We've launched them all in the same month very intentionally, and we've launched that with an integration to a product, a digital product which is Rocket.com. And as we talked about, obviously Rocket.com is a little different. You know, we're competing for a specific type of traffic, high intent traffic, a more integrated experience with search, financing, servicing, and it's obviously seamless, ad free and clean. We've seen, I would say, very promising early results that has exceeded our expectations. We talked a little bit about the Harris poll, but it is one of the most reputable surveys out there. And it shows that our brand lift rose 30%, which is a solid increase in familiarity and consideration. And when you look at things like Rocket.com, it is significantly exceeding the expectations compared to Rocket Homes in terms of things like session lag time on page and just the ability to connect to the conversion funnel, which it is sort of early days and we'll continue to report on in more detail in the quarters to come. With that said, across both of these assets, we have a very rigorous plan and how we're going to track the ROI. And I would love for Brian to just expand on that a little further.

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

Sure. Thanks, Varun. Even just before I jump into that, I'll just give you one more reason to believe. And Ryan, one of the things that's true for us and it's true for many players in the space today, is there's still a decent amount of traffic that comes from what I'll call affiliated sites or other brands think about lead buy and forms like that. And the problem with that, they can be a profitable source of client acquisition, but they're just not scalable and they're tapped out in a lot of ways. And they also usually come with a much higher cost of acquisition. And it's also not the best consumer experience. The best consumer experience is coming and interacting with our digital properties and our brand and our super powerful loan officers. And if you're coming – if there's a middleman in that process, it doesn't usually end up in the past NPS score.

So to Varun's point, in terms of the measurement and how we're thinking about it, I think the first thing I should probably start with is, in our world that no dollar gets a free pass, every single dollar needs to be accounted for. The question we get a lot is like, well, how do you measure the brand spend and how should we think about that? And let me be clear, the north star is client acquisition costs, but it's not the right question to me is not necessarily how you measure the brand spend. It's how brand and performance come together to drive positive ROI on your marketing spend. And over the years, I think we've proved we're pretty good at that. Today, I feel even better because we have very robust mixed media models, both internal proprietary models. We also leverage a lot of agency data. We measure everything from traffic to trial to conversion and other attributes. So I feel better today about the way to measure the ROI on the spend, I understand than I ever have, and we'll continue to do that throughout the year and we'll continue to be very diligent.

Ryan McKeveny
Analyst, Zelman & Associates
Q

That's very helpful. Thank you, guys. And I guess as a follow up question on the expense side of things. I heard you on the commentary on 1Q and some of the kind of one timers to think about. But if we can look backward at the fourth quarter, I believe the guidance was to be flattish and it came in $50 million roughly better than that. So I guess I'm curious what drove the outperformance in 4Q And I'm kind of wondering, is there anything on the AI tech efficiencies that maybe drove some of that outperformance and seemingly this might be topics we could think about in the year ahead?

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

Yeah. Happy to answer it. So yeah. Thanks for the call out on Q4, one of the things Varun mentioned in his prepared remarks, which is so important as we compare Q4 to Q4, we were really 54% more efficient. Volume was up about 47% and headcount was down a bit year over year. And that really, to your point, Ryan, is the power of AI at work and the operating leverage that's in this business. If I just kind of take you back to our goal, what we've been talking about since the beginning is, look, we – the top line growth and the market share, that is absolutely what we believe we will achieve this year. We mentioned the market size being larger, so now we just need to execute. But we want to do that by keeping our fixed cost structure flat and we want to drive operating leverage and we want to superpower our team members to use cutting edge technology and AI to be more efficient and gain capacity. And you could see that in 2024 now, of course, that comes with optionality. If that if we're building that capacity every single day and the market cooperates, we have an opportunity to react. But as I look ahead to 2025, to your original question I don't expect anything to be different. We'll be very disciplined on the expense side of the P&L. You mentioned the one timers in Q1, so I'll just touch on them while I have you here. But the first thing you got to consider is that if I take you back to the revenue guide, it's up quite substantially year over year, and it's up on a gain on sale margin that's going to be more consistent with the fourth quarter. So you have more volume and more variable costs that are going to come through. The other thing that's worth noting is Rocket money has a record January and that's the big time for them is when New Year's resolutions and people get their financial house in order there is about $10 million to $15 million of profitable marketing this year that they didn't have last year. That acquisition has worked out extremely nicely. And then finally, there's the $50 million in the brand stage that we talked about as well.

Operator: The next question comes from Ryan Nash of Goldman Sachs. Your line is open.

Ryan Nash
Analyst, Goldman Sachs

Q

Hey. Good afternoon, guys. Maybe just to follow up a little bit on the cost and just to put a bit of a finer point on it, when I think about it, Brian, you're talking about stable, fixed cost, which makes sense. And you kind of outlined some of those other buckets. But sort of a two part question, how much, if $100 million do you expect to have as recurring over the course of the year, do you expect there to be incremental costs related to this and if I look at the 1Q guide, obviously one quarter doesn't make a trend, but revenue is up 7 costs up in the high single digits. How do we think about what is going to drive operating leverage over the course of the year? Thank you.

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

A

Yeah. Thanks, Ryan. So let me talk about the quote, unquote one time expenses. So there is the variable costs with the higher production year over year. So, I wouldn't consider that one time, that's just the cost of originating more loans. The Rocket Money cost is really just taking advantage of some lower media costs in the month of January, which they actually refer to as their Q5 is when they have their biggest growth month. So that's happening because they seize the opportunity and that growth is profitable. But I think where you're probably heading and I want to take a second and break it down is the brand restage, which is the $50 million left in that. And there's let me kind of talk about what makes that. So you have a few things. You have one, as you guys all hopefully saw the Super Bowl commercial and there's a couple of components of that, right you have the media by itself, you have the ad placement, you've done all the creative content. So there's that. But any time you're going to do a brand restage, you have to achieve a sustained media plan and amplification right. You don't do a Super Bowl commercial and then not continue your buy after that because you have to get your message across in a big way over multiple channels. But for us, it's even more than that, because if you think about when the Super Bowl is, it's the absolute perfect time to kick off purchase season itself. So when I think about our marketing spend and the brand side in general, it's almost always front loaded to the first half of the year. And when I think about what we spend this year, it's really a couple of things. It's doing the brand restage in the Super Bowl, which we don't do every year. So I kind of leave it to you to decide if you consider that one time or not. But it's also getting ready for all the product marketing rollout, things like Rent Rewards and things that we would be doing anyways aside from the brand restage. And then of course, you know, as it relates to the additional capacity that we have, we talked about the $150 billion that we're achieving today that just gives us a lot of optionality and flexibility in the cost structure.

Ryan Nash
Analyst, Goldman Sachs

Q

Got it. And maybe as my follow-up and I did watch the Super Bowl and see it, but as a diehard Giants fan, it was painful to watch. But...

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

A

I didn't want to bring that up, Ryan. I wasn't going to bring it up.

Ryan Nash
Analyst, Goldman Sachs

Q

It's been a long three years, but maybe just as my follow-up question, when you guys think about the overall operating environment, I think Varun mentioned the potential for 10% to 15% larger market. When you think about the kind of backdrop we're in, volatile rates, homeowners, home affordability still low. How do you – when you think about the ability to drive market share gains across purchase and refi, how do you think about in this kind of environment where you're going to be able to see the greatest opportunities for market share gains? Thank you.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

I think I'll just focus, Ryan on the purchase side of the question, because I think that's where a lot of our strategic focus is. And we grew purchase market share by 8% in 2024, and that really came from really two big vectors. We expanded our reach. We simplified the process. If I look at just what drove the success over this past year, I think the rebrand launching the Own the Dream campaign, introducing Rocket.com, happened a little later. But we had success with one place with Welcome Home Rate Break. We doubled the number of affordable products that we had in terms of volume in 2024. We also just focused on a lot of what we call inches internally. We ramped up our AI automation. We're serving more clients than we were before. We built a more bespoke funnel. We dedicated resourcing, we focused on specific segments, we tweaked our conversion flow. And when you look ahead, I think we have a couple of really key building blocks that we think will help us accelerate that growth. Obviously, the top of funnel expansion, as Brian said, we expect to get maximum ROI by frontloading some of those investments that will have ROI through the year. We are also optimizing the purchase model, so we have a significant opportunity to increase AI automation, targeted engagement, better lead nurturing, just to drive higher, what we call lead-to-close conversion. We're doubling down on wholesale. We're extending the API capabilities of our Rocket Logic platform. So we're going to enable over 25,000 of our amazing brokers in our ecosystem to be able to integrate with and get benefit from the capabilities of our internal technology platform. We expect that to have a huge impact in cutting loan processing times for them, by as much as 30%, if not greater. And then we also have purchased recapture where we have expanded our portfolio by 17%. We've added 300,000 new clients. But those clients are our strategic foundation for future growth and purchase. We have the servicing channel. And so, a lot of this, what I hope to convey is that we've got some successes in 2024, but these are key investments that we expect to accelerate share growth in 2025 as well. Clear impact, clear benefit and then growth kind of across all of the channels that we do business.

Operator: The next question comes from Mark DeVries with Deutsche Bank. Your line is open.

Mark DeVries
Analyst, Deutsche Bank

Q

Yeah. Thank you. One more follow up on the market share questions around purchase. Can you give us an indication of where you're seeing more of the market share gains, whether that's in direct to consumer or in the partner channels?

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

A

Yeah. Sure. Happy to answer Mark. It came from both channels, which was probably the best answer we could hope for. The retail channel really benefited from top of the funnel growth and conversion, as well as better retention, net retention from the servicing book on the purchase side of the house, of course. And then, you can see the numbers on TPO, but we continue to do two exciting things that are take share and purchase, but also increase what we call wallet share, the share of our existing brokers. So not only are we adding new partners and taking share that way, but just increasing the wallet share of our existing partners.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

Yeah. I would just add that we view our cross channel strategy as a strength. It's sort of a continuum. And having multiple channels, we believe, is actually the key to accelerate growth because both of these channels, or actually all three when you include partnerships, they have immense potential and we are under-penetrated in all of them. And so that's why we're investing in the strength of our platform is the benefits of the technology that we build in one channel naturally extends to serve the other channels as well, which is just a statement toward the capability of our platform. And as we lean into AI further and further, we expect that innovation to have a force multiplier effect as we then are able to deploy that across different channels, train better models, have more data, build distribution, which is sort of a self-reinforcing opportunity for us to grow further.

Mark DeVries
Analyst, Deutsche Bank

Q

Got it. Next question, could you just discuss your preparedness to transition from closed end second marketing to more of a cash out first lien refi as if rates fall enough in any field for how much you really need to see rates fall from here before that becomes a more viable option?

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

Yeah. Let me start, Mark and then Varun may want to jump in too, but at least this is our view. You can tell me if you think about it differently that the closed end second product has quite the extended life on it. I mean, even it just depends. Right. It depends on the consumer and the specific note rate of that consumer. But if you're sitting on a 3.5% note I think the closed end second is exciting for many years to come, depending on your view on rates, if you're sitting on 6.5% or 7%, maybe not so much. So just to be clear in our answer, we don't plan on slowing down on the marketing front for closed end seconds. I mean, just a few things you talked about. But one, we doubled the volume on that year over year. But the most exciting part, at least for my seat about that closed end seconds is 50% of that volume comes from new clients and we get to onboard those to our servicing books and then potential consolidation at first and secondly, if the rates move.

Operator: The next question comes from Derek Sommers of Jefferies. Your line is open.

Derek Sommers
Analyst, Jefferies
Q

Hey. Good afternoon, everyone. How should we be framing the AI investments, should we think about it as more of a way to improve expense efficiency through back office automation, or more of a productivity driver for mortgage bankers to drive top line growth and to be mindful of any timeline for these benefits to be realized?

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.
A

Yeah. Thank you for the question. I think that the clear answer is that the beauty of the AI is that it impacts both top line growth and bottom line efficiency. And for that reason, it is our most strategic imperative. At the end of the day, our view of AI is quite simple. There's three things you got to do to win in an AI world. You've got to invest in data. You have to have the best technology. You have to be able to do that at scale. So those are the areas that we've obviously focused on for the past five years. That's why we've spent over $500 million in creating that infrastructure. And it's starting to pay off, right. It's changing the way we work to give you a few examples, we're scaling document processing. We're enabling client experiences. We're creating more capacity. And we're nowhere near done. You will continue to hear more and more quantifiable examples of how this is actually driving our business to improve both top and bottom line. One example I would just share with you is a more recent one is, December of 2024, we have a technology that we call Rocket Logic Synopsis. And we developed a model that we call the fence-sitter model. And what this model did is it went out and analyzed a bunch of data and it automatically identified 2,000 clients who had expressed price sensitivity that were sitting on the fence. And this is an example of a business that would have been lost, essentially business that would have just left our ecosystem. But the model triggered a notification. And as a result, we had our amazing mortgage banking team re-engage that population with personalization, with context, with data. And as a result, they added $27 million in lock volume that would have been lost. Rocket Logic Documents that's now classified 21 million documents. That's 5 times more than six months prior. Massively efficient. We've saved our team members 1 million hours compared to 2024. So that's powerful stuff. And I expect that this will increase in a non-linear way because, for Rocket, what's unique about this business is that it's sort of at the nexus of humanity and technology. The human touch is super central to the client experience, but the AI benefits are also real in terms of automation, simplification, personalization. So we expect this to impact efficiency, velocity and experience at scale. And ultimately, we'll be able to serve more clients, serve them better, and then ideal – and empower our team members to do even more. So plenty of room to grow, plenty of room to have more impact. But also, we're starting to see significant benefits from the investments that we've made already.

Derek Sommers
Analyst, Jefferies

Q

Got it. Thank you for that color. And one more follow up for me. How's transaction activity in the bulk MSR market shaping up to start the year. And how much of a priority will capital allocation be to acquiring these packages be for Rocket?

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

A

Yeah. Let me start and Varun feel free to jump in on this one, too. But listen, I think if we look at what I think starting with 2024 is a good place to start. So we saw MSR volume, the actual trades in the market down a bit from the previous three years and we still acquired, north of $70 billion. Now some of that was the sub servicing relationship, but there was a big chunk of that over $50 million that was the bulk MSR acquisitions as well. So I think if you're basically saying how do we look at it next year, we're very bullish on it. It's one of our biggest priorities. It's one of the best uses of capital that we can do. We can deploy. The only question is how much will trade next year. That's the part that, of course, no one really knows. We would love to see the trade volume come back to more historical levels because we're going to of course, you don't want to win all the bids that you make. You want to, we are price sensitive and we want to hit the expected return levels. But in terms of our activity and our willingness to be out there in the market, I expect it to be very high again.

Operator: Your final question comes from Doug Harter with UBS. Your line is open. Doug, your line is open.

Doug Harter
Analyst, UBS

Q

Yeah. Sticking with the MSR strategy. I was just wondering if you could share kind of how the acquired pools performed, in kind of the September, October mini refi wave in terms of recapture compared to loans that came in through Rocket.com?

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

A

Yeah. Thanks, Doug, for the question. Yeah. I mean, listen, you have to look at the – in the moneyness of the pool when you're evaluating how well it performed for the loans that were acquired to your point during that bit of a refi boom, which felt really good, by the way, for the ones that were in the money, it was – if not right on top, just better than our expectations of where we would have planned at that rate environment. Of course, our retention rates are very high and we've talked a lot about the difference between the retention rates and the organically generated clients versus the ones that purchased and what it makes us very excited about being in the market and purchasing more as we continue to sort of outperform our expectations on the inorganic acquisitions.

Operator: This concludes the question and answer session. I'll turn the call to CEO Varun Krishna for closing remarks.

Varun Krishna

Thank you, everyone, for listening to our call. And we look forward to seeing you next quarter.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect.