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Rocket Cos., Inc. (RKT)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and thank you for standing by. My name is Tiffany and I will be your conference operator today. At this time, I would like to welcome everyone to the Rocket Companies Inc. Second Quarter 2025 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 call over to Sharon Ng, Head of Investor Relations. Please go ahead.

Sharon Ng

Head of Investor Relations, Rocket Cos., Inc.

Good afternoon, everyone, and thank you for joining us for Rocket Companies earnings call covering the second quarter 2025. With us this afternoon are Rocket Companies CEO, Varun Krishna, and our CFO, Brian Brown. Earlier today, we issued our second quarter 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. This conference call includes forward-looking statements about, among other matters, expected operating and financial results, strategic initiatives, the recent Up-C Collapse and acquisition of Redfin and the anticipated acquisition of Mr. Cooper.

These statements are subject to risks and uncertainties that could cause actual results to differ materially from the expectations and the 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 our 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

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

Good afternoon, everybody, and thank you for joining our second quarter 2025 earnings call. There is a lot happening at Rocket these days and today I'm going to share our progress in a few key areas. First, I will recap our outstanding second quarter performance and the current market landscape. Next, I'll share a couple of execution wins from the quarter. And finally, I'll update you on the Redfin acquisition post-close and what lies ahead.

Let's start with the numbers. This was a very strong quarter for us. We demonstrated rock solid execution on the business as we closed the Redfin transaction and made progress on the integration of both Redfin and Mr. Cooper. Adjusted revenue reached \$1.340 billion, above the high end of our guidance. Net rate lock volume increased by 13% year over year. We served over 100,000 origination clients representing a 19% year over year increase with the growth of home equity loans being a key driver. Adjusted EBITDA was \$172 million, representing a solid 13% margin and adjusted diluted EPS of \$0.04. Given the Redfin transaction closed on July 1, Redfin's financials are not included in the second quarter results. I'm especially proud that we delivered these results in a tough housing market.

Last quarter we mentioned a delayed spring homebuying season, and that's exactly what played out. April was particularly challenging for the industry and set the tone for a slow forming season. June existing home sales came in 2.7% lower than May at an annualized pace of 3.9 million, more than 20% below pre-pandemic levels. This is a new normal. And while affordability remains a key challenge, we see signs of optimism. Consumer sentiment has recovered from the low point in April. Home price growth is beginning to slow. We're seeing prices soften in some areas. All signals that the market is slowly shifting in favor of buyers.

With this backdrop, our second quarter performance was driven by the strength of our team's execution. Purchase volume increased month over month from April to June, supported by our affordability programs, including ONE+, Rocket RentRewards and a host of seasonal promotions. We saw particularly strong growth in refinance volume quarter over quarter and year over year. During this time, we helped clients take full advantage when the 30-year mortgage rate dipped briefly to 6.6%.

Most notably, home equity loan volume nearly doubled year over year, once again hitting a new record for units and volume. Home equity loans, which help homeowners tap record levels of home equity without impacting their first lien, continues to attract new customers to Rocket, making up nearly half of all home equity loan clients.

In summary, one word to describe the quarter's results, execution. We focused on acquiring clients efficiently, delighting them, recapturing them for their next loan, and earning the right to be their lender for life, in line with our core strategy.

Next, let's turn to our execution wins. Since I became CEO, I have consistently communicated how AI is transforming our business. This quarter, I'd like to share a few more examples of how our momentum in this space is accelerating. Let's start with our bankers. The greatest value our bankers bring is their empathy, helping

clients achieve homeownership and building strong relationships with real estate agents. To enable our bankers to provide 10-star service to even more clients and agents, we've built an AI-powered communication platform that handles dialing, texting, follow ups and chat, which are fully automating administrative tasks. Recent enhancements we've made now dynamically prioritize the client follow-up pipeline for our refinance bankers and offer AI recommended next steps and text messages to streamline communication. As a result, daily refinance client follow ups have increased by nearly 20%.

On the operation side, agentic AI is transforming underwriting beyond traditional automation. Agentic AI breaks down complex manual processes into actionable steps that AI agents can handle autonomously. We are now launching new solutions in days instead of months. The Rocket agentic AI is powered by a technology called Model Context Protocol or MCP. MCP turns our tech stack into a dynamic, interconnected system. Unlike siloed AI tools, MCP enables intelligent agents to access companywide data instantly through deep integration with legacy systems and our years of technology investment.

An example of agentic AI at work is the reviewing of earnest money deposits or EMD. Managing EMDs used to require tedious manual work for tracking, validation and reconciliation. Today, agentic AI verifies EMD documentation and traces funds automatically, bringing only exceptions to underwriters. This technology now processes EMD for over 80% of purchase agreements and is estimated to save our operations team nearly 20,000 hours annually. The key result is that clients move through the process faster with fewer delays.

Let's turn to our clients. AI-powered chat and fully digital refinance options are redefining what it means to have a seamless and fully digital experience. Our agentic chat capabilities continue to be up leveled. The power of chat lies in its ability to meet clients where they are, providing an experience they love, enabling us to scale efficiently and operating around the clock. This approach is reshaping client engagement. More than 80% of clients now choose to continue their application through chat, with over 10% of leads arriving outside traditional business hours. What's more, clients who begin their journey in AI chat convert at 3 times higher rates for purchase applications and 2.5 times higher for refinance applications compared to those who don't use chat.

We've expanded agentic chats capabilities to collect essential income, property, asset and credit information upfront. This accelerates client qualification and enables seamless handoffs to our bankers with AI supplying complete context and handling the administrative work behind the scenes. We've taken a big step forward by launching a fully digital refinance experience. Clients are now able to complete a digital refinance from application to rate lock in under 30 minutes, entirely online at any time of day, even outside of traditional business hours. From pulling credit and selecting a product and rate to completing the application, receiving automated approval updates, uploading documents, e-signing and even scheduling the closing, now all happens seamlessly online. And if clients need support, a banker is just one click away.

Looking ahead, we're focused on making the process even faster and more frictionless, aiming for completion in under 10 minutes and making refinancing as simple as pressing a refi button on any mortgage we service. All of these examples show how AI has led to higher team member productivity and expanded capacity while elevating client experiences. We've put our AI-powered capacity to the test when we run seasonal promotions that spike daily volume 2 to 3 times. We managed the surge without adding a single team member, demonstrating our ability to flex and scale operations in response to market activities such as rate drops, while maintaining efficiency and client satisfaction. I believe we're building a foundation for infinite capacity at Rocket, where our growth is supercharged by AI and human capacity is no longer a limiting factor.

Okay. Now let's turn to Redfin. Rocket and Redfin together represent a redefinition of the category. Redfin gives Rocket a new foothold in purchase and takes our presence in local markets to another level. Relationships with

50 million consumers every month reflect a deep connection with demand right at the top of the funnel and creates new purchase opportunities from both directions from Redfin to Rocket and Rocket to Redfin. Despite the early days, integration has moved at a rapid pace.

Within our first month, we executed a comprehensive brand update designed to bring a unified look to our digital presence. Today, Redfin's digital pages carry the unified Redfin powered by Rocket co-brand. We also made homebuying easier by introducing pre-qualification buttons on every home listing, allowing clients to take action seamlessly. In addition, we introduced Rocket Preferred Pricing, giving qualified clients who finance with Rocket Mortgage and work with a Redfin agent a 1 point rate reduction in their first year, or up to \$6,000 in closing credits. This delivers meaningful dollars to buyers and helps make homeownership more attainable.

On the product side, we expanded our lending portfolio to address more specialized needs. Super jumbo loans and non-qualified mortgage products are now available supporting clients with unique financial profiles. These solutions extend not just to Redfin clients, but to our retail bankers and our mortgage broker partners as well, empowering more professionals to serve a much wider array of buyers. Additionally, we added nearly 150 Bay Equity loan officers to our retail banking force this quarter, further expanding our presence in local markets.

Our momentum is strong and our team remains focused on execution. We're already seeing some exciting early results. Our very first Redfin client closed on a home in Colorado in just 10 days. And since July 1, we've seen over 65 Redfin clients close on their dream home with Rocket Mortgage. Plus, in the first three weeks, there's been a nice jump at the top of the funnel. Nearly 200,000 people have clicked on the get pre-qualified button within Redfin, indicating interest in home financing. Of those users with a Redfin account, 23% became a contactable lead at Rocket and 12% of all users who enter the funnel go on to start an application, taking a significant step toward homeownership. Now, I have spent most of my career working on consumer fintech conversion funnels and seeing such a positive response for a V1 that's not optimized is very promising.

In addition, 7,000 agent referrals have been sent to Rocket Mortgage. What's even better is that clients referred from Rocket to Redfin are 30% more likely than those from other channels to upgrade to verified approval letters, which is the strongest sign that they're moving toward closing. These results, while early, highlight the art of the possible when the Redfin and Rocket platforms are fully connected. Together, we're meeting our clients at their moment of intent and providing a seamless experience from home search to financing, fundamentally changing the way homes are bought, sold and financed.

In summary, we had a very productive quarter balancing short and long-term execution, and I also want to thank our teams for their speed, discipline and heart. A huge shoutout also to our servicing team for winning our 11th J.D. Power Award for servicing earlier this month. This recognition is a testament to our enduring commitment to loving, protecting and amazing our clients. It is this dedication that underpins our industry leading recapture rate and will be force multiplied with Mr. Cooper.

Looking ahead, our teams are fully engaged in the integration work needed to realize the full potential of our integrated homeownership platform. We are delivering on our milestones and remain on track to close the Mr. Cooper transaction in Q4. At Rocket, we live by an ISM. You'll see it when you believe it. As we bring Rocket, Redfin and soon Mr. Cooper together under one roof, we are building a homeownership experience that is simpler, faster and more affordable. And we're building a stronger company with an all-weather business model that thrives in any market and interest rate environment.

We're positioning Rocket to be in a category of its own, a business with a significantly larger lead funnel, a massive data lake, and AI-powered capacity - with a client acquisition cost to lifetime value model unseen in this

industry, all designed to eliminate waste from the system, lower costs for consumers, and create a more frictionless experience. The pieces are coming together, and we are working relentlessly to make this vision a reality. We believe.

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

Brian Brown

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

Thank you, Varun. And good afternoon, everyone. It's been a really busy and productive quarter, to say the least. We drove strong execution while taking steps to integrate transformative acquisitions and balance short- and long-term objectives. We pride ourselves on allocating our resources with financial discipline and concurrently making bold investments in our future. We clearly demonstrated this in the second quarter.

Today, I will highlight our second quarter performance, provide an update on the integration planning with Redfin and Mr. Cooper and discuss the cost actions we took to drive higher operational leverage. I'll conclude with our outlook for the third quarter.

Let's start with our financial performance. First, I want to echo Varun's remarks about how proud we are of the team's performance in the second quarter. We demonstrated strong execution in a volatile quarter that got off to a really slow start. All the while, we closed the Redfin transaction on July 1 and are working very hard towards the close of the Mr. Cooper transaction in Q4 of this year. This quarter's execution was truly a team effort.

From a top line standpoint, adjusted revenue reached \$1.340 billion, beating the high end of our guidance range and achieving 9% year-over-year growth. Net rate lock volume exceeded \$28 billion, an increase of 13% over the same period. Our gain on sale margin for Q2 was healthy at 280 basis points, in line with our average over the past 12 months.

On an adjusted EBITDA basis, we delivered \$172 million or a 13% adjusted EBITDA margin. We reported adjusted net income of \$75 million and adjusted diluted EPS came in at \$0.04. We delivered these results despite ongoing market headwinds. As we noted last quarter, extreme volatility in April delayed the start of the spring homebuying season. While purchase season was indeed slow forming and the market conditions remain challenging, we were right alongside our clients, supporting them with our affordability solutions like ONE+ and Rocket RentRewards. As a result, our purchase volume grew sequentially from April to June. Refinance volume was also a bright spot, with home equity loans doubling year over year.

The market is gradually rebalancing in favor of home buyers. In 11 of the 50 largest US metro areas, including several in Texas, Florida and California, home prices are softening and the income needed to purchase a home is declining. Home price growth is moderating, inventory is expanding by double digits year over year, and affordability is improving - albeit with elevated 30-year fixed mortgage rates. After years of constrained supply and rising prices, buyers are finally starting to gain more leverage in the market.

Now let's turn to Redfin. The acquisition is already enhancing our platform and expanding our reach and strengthening our position in the purchase market. Redfin brings direct access to 50 million monthly consumers and deep relationships with real estate agents across the country. Together, we're significantly growing our top of funnel and fueling purchase lead generation from both brands. Our combined 14 petabyte data lake also enhances our AI capabilities, enabling more personalized experiences, at scale.

As I shared when we announced the acquisition of Redfin in March, we expect \$200 million in total synergies. That's \$140 million on the expense side, and \$60 million in revenue. On revenue synergies, it's early, but we are encouraged by the results we're seeing so far. Varun highlighted the surge in leads and higher conversion rates we're already seeing from Rocket and Redfin's cross-pollination of leads, agent referrals and mortgage applications. This early momentum is exciting and points to tremendous growth potential ahead.

On the expense side, we have line of sight into the target synergies and have already started to take actions in the first four weeks since closing. We'll plan to provide more details in future quarters. Regarding Mr. Cooper, the integration planning is in full force and our teams are meeting and collaborating closely. We remain on track to close the Mr. Cooper transaction in Q4.

Now let's cover our capital position. It provides a competitive advantage, a robust funding profile and the flexibility to invest in our business over the short and long term. In June, we successfully issued \$4 billion in unsecured bonds to refinance Mr. Cooper's debt upon change of control. This transaction was nearly 3 times oversubscribed, with strong participation from a diverse investor base, including significant demand from investment grade funds, signaling confidence in our credit profile. If in the unlikely case the Mr. Cooper transaction doesn't close, the debt is extinguished and the cash is returned to investors.

Additionally, subsequent to June 30, we repaid approximately \$250 million of the Redfin term loan debt in connection with the change of control provisions. An outcome that also enabled us to further streamline our capital structure. Taken together, these actions position us well for a successful close and integration with Mr. Cooper in Q4.

As of June 30, inclusive of the \$4 billion in unsecured bonds related to Mr. Cooper, we held \$6 billion in available cash and \$7.6 billion in mortgage servicing rights, totaling \$13.6 billion in balance sheet value. Total liquidity stood at \$9.1 billion, including \$5.1 billion of cash on the balance sheet, \$0.9 billion in corporate cash to self-fund originations, \$1.1 billion in undrawn lines of credit, and \$2 billion in undrawn MSR credit facilities.

Before I discuss our third quarter outlook, I'd like to take a moment to focus on a very important topic, operational efficiency. We take a very disciplined approach to expense management and capital allocation, which are foundational to how we operate. These principles guide every decision we make as we scale and optimize across search, origination and servicing with the customer always front and center.

We recently took further actions to streamline our operations. In the second quarter, we completed the shutdown of Rocket Mortgage Canada. Also in July, we initiated the winddown of the Rocket Visa Signature Card program. While there will be a financial benefit from these decisions, our primary objective is to sharpen our focus and double down on our homeownership platform and our mission to help everyone home.

Beyond discontinuing these two business lines, earlier this month, we restructured G&A teams that support the mortgage origination business. These changes were a result of our investments in AI and automation, which have allowed us to reduce redundant roles and retire legacy workflows. We expect these actions to collectively deliver approximately \$80 million in annualized savings, the majority of which will be recognized on a full quarter run rate basis starting in Q4. It's also worth emphasizing that these efficiencies are separate from the synergies previously announced as part of the Redfin and Mr. Cooper transactions.

As we look ahead to the third quarter, we're cautiously optimistic about this summer homebuying season as the market continues to shift in favor of buyers. While we know that the homebuying season typically slows around Labor Day, as kids return to school and families settle down, our current approval letter pipeline indicates that the

summer homebuying season will be extended, with strong activity continuing through the third quarter. This trend is reflected in our sequential month over month growth in approval letters over the past couple of months, bucking the typical seasonal slowdown we see this time of year.

This is the first quarter that we'll be incorporating Redfin into our guidance. For the third quarter, inclusive of Redfin, we expect adjusted revenue to be between \$1.600 billion and \$1.750 billion. On a Rocket standalone basis, we expect adjusted revenue to be in the range of \$1.325 billion to \$1.475 billion.

Now, with regard to expenses, let me walk you through a couple of the key cost drivers expected in the third quarter. On a consolidated basis, including Redfin in non-recurring items, we expect total expenses to increase by approximately \$335 million compared to the second quarter. Importantly, this projected increase is based on revenue at the midpoint of our guidance. It reflects \$275 million in Redfin related costs and \$90 million in non-recurring items, partially offset by a reduction in Rocket standalone expenses. The decline in Rocket standalone expense reflects the planned step down in brand marketing as we transition out of the upfront investment phase of our brand restage.

We are now operating in a more optimized run rate while continuing to build on the elevated brand awareness established early this year. The \$90 million increase in non-recurring items relates to the Redfin and Mr. Cooper transactions. Of that, \$30 million reflects severance and transaction costs, which will be classified as one-time expenses. The remaining \$60 million reflects interest expense incurred from refinancing Mr. Cooper's debt ahead of closing. Post-close the newly issued bonds will substitute Mr. Cooper's existing debt and the associated interest expense.

Last, to reiterate, the internal cost actions, including the reduction in head count at Rocket, paired with the winddown of the Rocket Mortgage Canada and credit card businesses are expected to yield \$80 million in annualized savings. Due to the timing of these actions, there will only be minimal impact in the third quarter and the full run rate savings are expected to be realized in the fourth quarter.

In summary, our results in the second quarter show the impact of our execution and focus, as we continue to deliver value for our clients, team members and stakeholders. We are even more excited by what we can achieve going forward with the combined strength of Rocket, Redfin and soon Mr. Cooper. We are building an integrated homeownership platform the industry has never seen, one that delivers modern, seamless and more affordable homeownership experiences, and one with an all-weather business that is both resilient and thrives across market conditions. We will continue to prioritize operational efficiency, move with speed and agility, and execute with focus on our mission to help everyone home.

Operator, we're now ready to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Lucas Haimes with Goldman Sachs. Please go ahead.

Lucas Julian Haimes

Analyst, Goldman Sachs & Co. LLC

Q

Hey, good evening Varun. Good evening, Brian. I wanted to ask for your outlook for 3Q and the rest of 2025. On costs, what do you view as the core run rate from here in 3Q and beyond? And how are you thinking about the pacing of revenue growth and expenses from here?

Varun Krishna

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

A

Hey Lucas. I'm going to start by just talking a little bit about the outlook. And then I think, Brian, you can jump in on anything related to cost in our guide. So let me start by just taking you back to our last quarter. We were on this same call. We were talking about the home buying season. And what we shared was at that point, it was going to be a slower forming season, but that momentum would build up over time. So ultimately, that basically leads to a longer spring home buying season. And that's pretty much what we've seen play out this quarter.

April was pretty abnormal. There's a lot of volatility. You had tariffs, you had rates dipping and climbing, you had consumer sentiment dropping. And so in general, affordability was a little bit challenged. And so in terms of the start of the season, it was a little bit laggy. But as we look ahead, we're definitely seeing signals that suggest momentum and I'll give you two interesting stats that actually come from Redfin. The first one is around nationwide home price growth, and that's actually been cut in half year over year. So it's gone from 6.9% to about 3.4%. The other thing is that in about 11 major markets, Redfin has actually seen home prices come down.

And so the good news is that the market is starting to shift in favor of buyers. And that's a great signal that the purchase season will extend. So it's a great opportunity for buyers who have been on the sidelines. And we expect that demand to extend. We expect it to carry through the traditional Labor Day drop off. And again, that gives us optimism. And you see that optimism and confidence reflected in our outlook, in our guide. And our guide is up 6% year over year. And so maybe, Brian, you can unpack a little further in terms of guide and expense.

Brian Brown

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

A

Yeah, sure. Thanks, Lucas. Appreciate the question. First just to start, I want to double down that Q2 was a really strong performance quarter. We're very proud of the team. As Varun said, it got off to a very choppy start. But the good news is the start of the third quarter really picked up where we ended the second quarter, so that momentum is continuing.

And when we look at the pre-approval pipeline on the purchase side, as we said in our prepared remarks, it's our belief that the home buying season is going to continue on. It was slow forming to Varun's point, and it likely will continue past the traditional September Labor Day holiday. And so that's all baked into the guidance.

And then just a reminder for the group that this guide does include Redfin for the first time. And we talked about the \$270 million that's baked in there. So if I take a step back and I look at the guide for the quarter, I see \$1.6

billion to \$1.75 billion \$270 million of that's Redfin. So to Varun's point, if I take out Redfin, we're up 6% year over year and 4% quarter over quarter.

If I look at the MBA forecast quarter over quarter, they're looking at flat, for example. So we think that it's a really strong guide. We think that it shows another quarter of growth. And I'll leave you with just a little bit of commentary on volume and margins. We believe that margins will be relatively consistent with Q2. So that means that the revenue growth on the RKT standalone basis is really coming from production and coming from share gains.

On the expense side of the house. Look, operational excellence, financial rigor, that's what we do. That's in our DNA. And I think this quarter was a really nice example of that execution. Looking forward, remember that this quarter, it also includes Redfin on the expense side of the house. And we said in the prepared remarks on the consolidated basis, we expect Q3 expenses to be up about \$335 million. That includes that \$275 million of estimated Redfin expenses.

But I think there's a couple of other things I want to point out. One, it also includes estimate of \$30 million less in the Rocket Mortgage marketing, and that's due to the brand spend, the brand restage that we talked a lot about in the first half of the year, starting to work and roll off and the brand spend starting to return to more traditional levels. I talked a lot about that last quarter.

And then we got to think through the one-time costs too. So we're estimating about \$120 million of non-recurring expenses in Q3. That's \$90 million more than last quarter. And as I said in the prepared remarks, that's about \$30 million in severance and one-time costs associated with the Cooper and Redfin transactions, the Up-C Collapse. And then there's about \$60 million of estimated interest expense, and that's associated with that \$4 billion bond issuance that we did, which we'll use to pay down Cooper unsecured debt upon close.

But finally, as I said in my prepared remarks, we also did take significant actions during the quarter to streamline our business and narrow our focus. And that included a head count reduction in July across some of our G&A teams and the Rocket Companies proper and the winddown of two businesses, which was Rocket Mortgage Canada and the credit card business. And the combined impact of those two winddowns as well as the head count reductions is about \$80 million on an annualized basis. And we won't fully realize that until the fourth quarter. But I did want to point it out here.

And the last point you may be thinking about the Rocket Mortgage Canada business and the credit card winddown. There is a small financial benefit from winding down those businesses as they were operating at a slight loss. But really, the most important reason is the lack of product market fit and the fact that we're just obsessing about narrowing our focus and doubling down on the homeownership platform.

Lucas Julian Haimes
Analyst, Goldman Sachs & Co. LLC



Great. Thank you for the color.

Operator: Your next question comes from Bose George with KBW. Please go ahead.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.



Hey, good afternoon. Actually, historically, you guys obviously didn't hedge your MSR, given the very high recapture rates, but just given that the recapture rates on the Cooper MSR will be lower, just given a lot of that is

acquired, et cetera, just what are your thoughts about the hedge strategy and on a combined basis going forward?

Brian Brown

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

A

Yeah. Thanks for the question, Bose. So as it relates first, I'll start with your – answer your question directly on the Cooper side, but I do want to talk a little bit about just the Rocket proper side and the hedge there, too. So as it relates to the Cooper side, the plan is to continue hedging the combined portfolios. Cooper does a really nice job of that. I think they target around 70% coverage. So if you're thinking about, hey, it's the day after close, I don't expect any change there. And the reason for that is because we have to prove to ourselves that these recapture synergies are going to come in. And as we start having more data and real information, we will continue to reevaluate that because to your point, there is a real natural hedge between the MSR value fluctuations and the recapture business.

But on the Rocket side we haven't hedged. I want to point that out. And we primarily hedged the MSR assets that we plan to sell. So it's been more of a temporary hedge. But as we continue to evaluate our strategy, we did layer on a hedge during the quarter really around that float assumption. And that's to preserve the float earnings component of the MSR value, particularly on those lower note rates that are unlikely to pay off anytime soon. So you'll see that in the financials when we file the Q. We're being very thoughtful about it. But that float earnings assumption, which is based on the short term side of the curve, we did put a hedge on to try to preserve that.

Bose George

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, great. Thanks for the details.

Operator: Your next question comes from Mark DeVries with Deutsche Bank. Please go ahead.

Mark DeVries

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. Appreciate all the comments you made on Redfin. Just wondering if there are any other thoughts you'd want to share about what you've learned, kind of post closing of that deal and how you're feeling about the synergy guidance?

Varun Krishna

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

A

Yeah, absolutely. And I'll start by just sharing what we're seeing and some context around why we're so excited about the deal. And then, Brian, maybe you can comment further as well. Let me just start with why Redfin and I think it's important just to really internalize that this is all about our strategy around purchase. And purchase is something that we have declared as a company level imperative. We think purchase is a durable bet for the long-term growth of the company.

And what's interesting about purchase is that there are a few things around the purchase funnel that really make it interesting and complex. The lead flow is expensive. It takes a long time to nurture relationships with the client. You need deep relationships with clients, you need relationships with realtors. You also have this kind of local dynamic where every market is a little bit different.

And this is really why the connection with Redfin is so powerful, because Redfin essentially solves all of those challenges. This is a company with relationships with 50 million consumers at the top of the funnel. Most of those consumers are daily active users that use a mobile app. Redfin is incredibly connected, right, with the local ecosystem, thousands of local agents. And what's also interesting is of all of the US homebuyers that are purchasing a home this coming year, nearly one in four at some point are going to touch the Redfin platform during their search and real estate journey.

The other thing is that Redfin is just beloved, right? It's a very trusted brand with high awareness, high affinity. And so those are the reasons that we love this integration and we love this company. But in terms of the actual integration, I do want to share that I am so proud of just the amount of work that was completed before and after close, leading us to just be integration ready on day one. I'm super proud of the team.

On day one we had co-branding, Redfin powered by Rocket. On day one, we had launched pre-qualification buttons on every home listing page. On day one, we launched a Preferred Pricing bundle saving consumers money. On day one, we had the ability for realtors to refer to Rocket, as well as the ability to create demand from Rocket to Redfin as well. And we're seeing some awesome early data. We're seeing that the quality of traffic is very high. In fact, clients that we're actually referring from Rocket to Redfin are 30% more likely to upgrade to what we call a VAL or a verified approval letter. And that really matters. And what's important is that verified approvals are the strongest indicators of conversion in purchase. So it is early days, but I would say that we're very pleased with the integration.

The last thing I would say before I ask Brian if there's anything he would want to add is that it's all about culture. Brian and I actually were out in Seattle last week with our leadership team, we were meeting with Glenn Kelman and his leadership team and just the energy and momentum of these companies is so inspiring. You can see the soul, you can see the culture of the company that's already becoming very deeply connected. And what I look at as a very healthy sign is that you just can't see where one company ends and the other company begins. So this is just the beginning, but we're very excited about the progress. Brian, is there anything you would add in terms of synergies or financial standpoint?

Brian Brown

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

A

Yeah, sure, Mark. Well, it's good to hear from you. So just as a reminder for the group, we set upon announcement that we expect \$200 million in synergies. \$60 million of that was revenue, \$140 million of it was expense. And to Varun's point it's early days. We're only four weeks in. But I agree it's exceeding our expectation, particularly on the demand and the lead creation side. So I'll probably reserve the right to comment more on the revenue over the next couple of quarters since it's early days.

And then on the expense side, look, we have direct line of sight into the \$140 million. We've already started taking significant actions in July. And those actions are completely separate and distinct than the other things I mentioned at Rocket. So if I had to summarize it, we feel really good about achieving and dare I say, even exceeding our expectations on both the revenue and expense side of the synergy house.

Mark DeVries

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Your next question comes from Ryan McKeveny with Zelman. Please go ahead.

Ryan McKeveny

Analyst, Zelman & Associates



Hey, thanks, Varun and Brian, congrats on the quarter. Thanks for all the detail as always. On the purchase side and also a bit of a tangential follow up on the Redfin topic. Really encouraging commentary on the initial traction with the pre-approval button. You called out the expansion of the local market presence. I guess one thing we've seen over time in the residential broker space is that the number of real estate agents can really influence market share to brokerage. So with Redfin sitting at about 2,200 agents, I'm curious, as you and the team with Glenn strategize on the business, should we expect the agent count side of Redfin to potentially meaningfully expand or at least directionally continue expanding as it has been over the last year.

And then secondarily and kind of bigger picture on purchase, we're about a year removed from Investor Day. So I'm just curious if you can kind of refresh on conviction levels in the multi-year purchase market share targets that you laid out at that time? Thank you very much.

Varun Krishna

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



Thank you so much for the question. I would just start maybe with the second part of the question and just frame up our holistic purchase strategy. So purchase obviously is a major strategic area of focus for us as a company. It's a massive market. It's incredibly inefficient, it's fragmented, it's expensive, and it's full of friction. And so for us, it's imperative that we fix it, right. We really want to represent that as a future platform for growth.

And we think there's a huge opportunity for transformation here. And so I just want to recap our building blocks that are ultimately focused on building a durable strategy around purchase. The first piece of that, as we've already talked about, is Redfin. Redfin essentially provides an incredibly efficient, high quality, top of funnel experience. It will connect us to more consumers, more realtors and it really will allow us to build an efficient, lead nurturing pipeline for purchase.

The second is servicing, in particular what we call recapture. And as we know, Rocket already has leading recapture rates. And that's because we deliver an amazing servicing experience. And so when you think about the addition of Mr. Cooper, it essentially super charges our recapture flywheel, which is essential to our purchase growth strategy because it will allow us to serve more purchase clients by essentially becoming their lender for life through servicing and then recapturing their next loan and creating a great Rocket experience.

The third thing I would also call out is our wholesale strategy with respect to broker. I mean, wholesale is a critical part of our purchase engine. This is a space that we're definitely doubling down on. We're now live on the ARIVE platform. We're seeing great momentum there in terms of wallet share, which is growing quarter over quarter and year over year. And we're also launching a lot of new innovation in the broker space. We have more compensation flexibility, we have better pricing technology, and we have improved processes for pulling and working with more credit options. So those are the key building blocks for us to grow in scale in purchase.

In terms of the agent piece, two things that I would highlight. One is Redfin has an in-house agent network. It also has an extensive partner network of thousands of agents. The second thing that I would highlight is that we're bringing together the Rocket Homes agent network together with the Redfin agent network as well. And so that allows us to achieve more synthetic scale. And then the third thing I would highlight is that the key thing that we also have with the Redfin experience is really the traffic. It's the relationships with 50 million consumers at the top of the funnel and the ability to connect directly with those consumers in addition to having the agent network

as well. And those are the reasons that we really believe that we have a scalable strategy around purchase and we're on track to hit our goals and we're feeling great about the progress.

Ryan McKeveny

Analyst, Zelman & Associates

Q

That's very helpful. Thank you.

Operator: Your next question comes from Jeff Adelson with Morgan Stanley. Please go ahead.

Jeffrey Adelson

Analyst, Morgan Stanley & Co. LLC

Q

Hey, good evening, Varun, good evening Brian. Thanks for taking my questions. I was hoping we could maybe just talk quickly about Mr. Cooper. I know the deal is still not closed yet, but now that another several months has gone by, I'm just curious whether you still think those synergies are on track and maybe you could comment a little bit on if you've done any more work or incremental work into whether you think that that 65% recapture rate assumption could be considered the correct number, et cetera? Thank you.

Varun Krishna

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

A

Yeah, thanks for the question, Jeff. I'll start just by talking about the context and progress that we're making on the deal, and then I'll ask Brian to jump in as well. But let me just start by talking about why Mr. Cooper and Rocket make sense. And at the heart of it is just our ability to build lifetime value, long-term relationships with clients. And that's essentially what servicing represents, right, the ability to serve a client for the entirety of their loan experience. And our thesis is that if we do a good job with that, we earn the right to recapture them for a new loan, which is core to our strategy. And ultimately, if we do that right, we end up reducing the cost of acquisition, which allows us to pass on more value, more savings directly to the client.

Now, I would say in terms of our progress toward closing, we're very pleased with the progress. We're on track for a Q4 close. We received HSR approval. We're advancing with state level regulators, with the GSEs and of course with FHFA. It is a large, complex transaction, but the process is moving as expected and the teams from both organizations are collaborating very closely and it is our number one priority across the company. Brian, is there anything you would want to add?

Brian Brown

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

A

Yeah. Thanks, Jeff. The only thing I would add is every day that we've made progress since the last update, we just keep building on the conviction around the synergy numbers. This is similar to the Redfin update other than the fact we're not closed here. I would say the line of sight on the expense side makes us feel really good and the work that we're doing in terms of tearing apart the recapture only gives us more conviction. So as we sit here today, the only way I can probably answer that question is conviction continues to increase. And we're very confident in the numbers.

Jeffrey Adelson

Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And if I could just circle back on the Redfin. I appreciate all the color and numbers you provided thus far. I was just curious, do you have any early line of sight into how the attach rates that you highlighted in 2024 for

Redfin. You mentioned 27% on mortgage, 61% on title and escrow. Do you have any sort of update on how that's trended or how you performed on that since the deal closed?

Brian Brown

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

A

Yeah, of course, I can give you an update on that. I mean, I'll kind of take a step back. And if I look at Redfin's business model, again, to your point, it's early days, but we've seen a couple of really positive things. One has been an increase in traffic. Obviously, this is an exciting time of year for homebuyers and you're expecting to see activity but some of the Redfin brand and performance marketing is clearly paying off and we're starting to see some nice returns there. So traffic is actually up, which is good.

And then the second thing you mentioned, which is true, is we are starting to see some exciting green shoots on the attach rate side. We had to take the time to get the loan officers transitioned over and that was really important. And we're happy to report we were successfully able to do that with the vast majority of the Bay Equity loan officers coming over to Rocket. And since that and to Varun's point, we had a really good pre-planning exercise, so we were able to do a lot of it on day one. We've seen the recapture rates actually improve from the historical Redfin recapture rates, which is obviously really good news for achieving those revenue synergies.

Jeffrey Adelson

Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Thank you, guys.

Operator: Your final question comes from Doug Harter with UBS. Please go ahead.

Douglas Harter

Analyst, UBS Securities LLC

Q

Thanks. One of the pillars for market share growth that you laid out in Investor Day was MSR acquisitions, obviously a big part of the Cooper transaction. But can you talk about your appetite to continue to acquire MSRs both while waiting for the deal to close and after it closes?

Brian Brown

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

A

Yeah. Thanks, Doug. Let me jump in there. So just a little market color. If I kind of look at the first half of this year compared to the first half of last year, overall transfers are down something like 30% last time I checked. So it's been more of a muted market, there's no question there, on the supply side.

On the demand side, of course, it's still high, it's quite high. So it's competitive, I guess is a short way to say that. So if I think about our bidding strategy at Rocket, which we've talked about many times, the nice part for us is to the extent we see assets with high recapture potential, very interesting to us and we'll continue to be active in that market. And then as I think about the two companies, Rocket and Coop coming together, I'm also really excited. One, because it does put together a really competitive bid process, obviously with our capital levels and our recapture abilities. But it's also nice because we have option value and that option value really comes from the combined entities having a really good fulfillment engine for the servicing book through the Rocket organic growth, having a wholesale channel, a retail channel, correspondent channel, even a co-issue channel.

So said differently, we don't have to be active in the bulk market. It allows us to be opportunistic and stick to really high expected return thresholds that if we can meet them, we'll be active and will bid at those levels. And if we

can't, we don't have to be. So, so far this year, a bit muted just in terms of the general activity and what's coming to market, but no changes in the Rocket bid strategy, just maybe a little bit of change and less supply coming to the market.

Douglas Harter

Analyst, UBS Securities LLC

Q

Appreciate that. And then you highlighted some of the benefits of AI replacing legacy workflow. Can you talk about how much more potential is there? How you're thinking about how those impacts might impact the capacity of origination volumes and just how we should think about the longer term trajectory of core Rocket expenses?

Varun Krishna

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

A

Yeah. Thanks, Doug. I mean, I would say that I expect the longer-term trajectory to geometrically accelerate. We're building a platform where scale is basically no longer constrained by people or cost. Today, we easily handle \$150 billion in originations without really any increase in fixed expenses. And that's not theoretical. It's happening. The results are measurable. And you can see it in our operations with the thousands of hours saved. You see it in our communication platform and telephony. You see it in the client experience with now more and more fully digital flows from start to finish.

So I don't view this as just kind of automation. I view it as a structural advantage and it's a better experience. It's changing the shape of our business model, and we're very excited about it. We think that this foundation is the foundation for infinite capacity. It's not sort of a pipe dream. It's very real and we're just getting started. So I expect that our progress will accelerate geometrically.

Douglas Harter

Analyst, UBS Securities LLC

Q

Great. Appreciate that Varun.

Operator: That concludes our question and answer session. I will now turn the call back over to Varun Krishna for closing remarks.

Varun Krishna

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

Thank you, everyone, for attending the call and we look forward to seeing you next quarter.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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