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Rocket Cos., Inc. (RKT)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Rocket Companies, Inc. Fourth Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, John Shallcross. Thank you. Please go ahead.

John Shallcross
Director-Investor Relations, Rocket Cos., Inc.

Good afternoon, everyone. Thank you for joining us for Rocket Companies' earnings call, covering the fourth quarter and full year of 2020. We're excited to share these strong results with you. But before I turn things over to Jay Farner, I will read our disclaimers.

Today's call is to provide you with information regarding our fourth quarter and full year 2020 performance, in addition to our financial outlook. This conference call includes forward-looking statements. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the earnings release that we issued today, as well as risks described in filings with the SEC, particularly in the section of these documents titled Risk Factors.

Our commentary today will also include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for our reported results can also be found in our earnings release issued today, as well as in our filings with the SEC.

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

Jay Farner

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

Good afternoon and welcome to the fourth quarter earnings call for Rocket Companies. Before we discuss another incredible quarter, I'd like to thank our 24,000 team members, many of whom are listening now. The excellent results that we're about to discuss and the innovations that drove them are a testament to your focus and dedication in what was an incredibly difficult year for the world. Your contributions to our clients and communities are a shining example of how successful our for more than profit mindset can truly be.

On today's call, I'll be speaking to a very important topic here at Rocket Companies, our platform. The platform continues to be the key to our long-term success in the verticals where we operate as well as the record results that we've achieved in 2020. Over the next few minutes, you'll see how the technology that we've built and refined over decades will continue to drive success not only in the products that you're familiar with today, but also in product extensions in entirely new verticals in the future.

If you were to ask us what our most important product is, we'd say it's the platform itself. In walking through our results, I'll provide updates on each of the key pillars of the Rocket platform: our technology, the strength of our brand, the Rocket Cloud Force – which I'll discuss later and our data science foundation. I'll finish today's remarks by talking about how our platform allows us to continue to grow and become more efficient in our existing lines of business, while also launching and rapidly scaling new businesses.

Our mission over the last several decades has been to take the most complicated and stressful transactions in life and simplify them with technology. Whether those transactions are mortgage, real estate, auto sales or any number of new initiatives we're currently incubating, we provide a simple digital process, exceptional client experience and certainty.

This mission began in 1998 when our Founder and Chairman, Dan Gilbert wrote an e-mail committing all of the company's resources to moving online. His vision was simple, but decades ahead of its time. Most of the Internet companies of that era focused on problems like search, advertising or basic e-commerce. Dan saw things differently. He spotted the potential to take the most complex transaction in a consumer's life, the buying and financing of a new home and leverage technology to make it accessible online to consumers across the country.

For more than two decades, we've been quietly building our technology platform right here in Detroit to transform the way our clients experience life's most important events. We've continued to strengthen our digital products and infrastructure in 2020, deploying nearly 4,500 product features throughout the year and delivering improvements to our platform every 28 minutes on average. Supporting our platform is our strong national brand that consumers and partners know and trust. As we grow, we continue to invest and find new ways to extend our reach and expand our marketing channels we leverage, allowing us to connect with more and more clients.

I'm pretty sure the majority of you were among the nearly 100 million fans who watched the Super Bowl a couple of weeks ago. In that game, we ran two 60 second advertisements, highlighting that certain is better when it comes to buying a home. We aired one commercial highlighting Rocket Mortgage and our technology that helps bring certainty to the home buying process, something that is needed now more than ever in today's red hot real estate market.

The second demonstrated the significant role mortgage brokers play in American homeownership. As you know, brokers are important partners as we continue to extend the reach of our platform. This massive exposure, the first ever national advertisement showcasing brokers during a Super Bowl allows them to align with the power of the Rocket brand to create differentiation in their local markets.

Our ads were ranked numbers one and two on USA Today's Ad Meter, which I am certain is the most prestigious consumer ranking of top Super Bowl ads. This means not only were our ads loved by millions of consumers, but also received tremendous lift and visibility through social media, news articles and TV networks playing our ads for free. All told, our Super Bowl activation resulted in more than 3.3 billion consumer impressions.

When you look at the areas where we continue to excel and set the standard, you see both a company and a brand that some of the most well respected organizations in the world want to associate with. We've talked about our relationship with American Express, with State Farm, Intuit, Charles Schwab and others in the past. On our last call, I also hinted that we would soon be announcing a new partnership.

Today, I am happy to share that Morgan Stanley and E*Trade have entered into a new agreement with Rocket Mortgage where our company will originate, close and service conforming mortgages for their clients. This arrangement allows Morgan Stanley to continue focusing on its jumbo lending, while allowing Rocket Mortgage to provide conforming loan options to the firm's millions of clients. We are very excited about this opportunity which will kick off this year.

Another pillar of our business model is the incredible Rocket Cloud Force, now consisting of more than 6,600 US based professionals, trained to advise our clients on complex transactions. The COVID pandemic truly proved that the power of our Rocket Cloud Force can be harnessed anywhere as our team members worked from home in locations across the country. The versatility and skill of this team allows us to continue exploring new verticals and services.

Our ability to build, train and license large-scale sales teams provides us a significant competitive moat. Today's consumer expects simple, powerful, digital experiences backed by support and consultation from trusted advisors. The Rocket Cloud Force's ability to seamlessly integrate into the online experience with timely, accurate and actionable information is a game changer. In markets where the legacy experience can be confusing and discouraging like buying or selling a home, searching for a car, or considering a personal loan, our digital solutions and trusted advisors provide confidence and certainty.

Along with our powerful Rocket Cloud Force, our company also continues to rapidly grow its use of ethical artificial intelligence and machine learning to streamline the business. This acceleration is made possible thanks to our vast data lake which includes proprietary first-party data on more than 58 million consumers and extends to 220 million consumers in total or 85% of the adults in the United States.

We have the benefit of millions of clients working with us each year to buy a car, get a personal loan, buy a home or refinance a mortgage. And we've been able to leverage this information to build sophisticated models to ensure our brand is in front of our clients and top of mind when they're ready to transact. In fact, since the beginning of 2019, data science has driven more than $75 billion in application volume.

The importance of data cannot be overstated. It is this information that allows us to quickly innovate, anticipate the market and in some cases develop new companies altogether. These real-time insights are a significant market advantage and consistently guide us to the right decisions with incredible efficiency.

Together, these pillars of our business, our scalable platform, our national brand, our Rocket Cloud Force and our strategic use of data combine to create a technology powerhouse that continues to accelerate at scale. Consider this, it took our company 25 years to close our first 1 million loans. In 2020 alone, we have helped more than 1.1 million clients with their mortgage, automotive, real estate or personal loan needs. Innovation and execution paired with a highly trained Rocket Cloud Force creates a flywheel that continues to rapidly accelerate.

I'm even more excited about where we're going in the future. Just three years ago, we launched Rocket Auto with the belief that we could leverage our platform and Rocket Cloud Force to help simplify the process of purchasing a car. Everyone knows buying a car is complicated and intimidating. It's an experience that few consumers look forward to, but we've been able to make it approachable and enjoyable.

Starting from zero in 2017, we've organically scaled Rocket Auto to more than $750 million of gross merchandise value in 2020. Now that we've validated the model, we will continue to invest in accelerating the growth in 2021 and beyond.

Our Partner Network is another increasingly important growth driver for Rocket Companies. We continue to evolve and diversify from our original Direct-to-Consumer business model. Partner volume made up 38% of our closed loan volume in 2020, up from 23% just two years ago. We view this evolution similar to Amazon's past decision to open up its marketplace to third-party sellers. Like Amazon, we've built a proprietary platform and have the capacity to process millions of transactions a year. The Partner Network brings growth and diversification to our business.

Supporting these efforts, in late January, we announced that we launched a directory of nearly every broker in the country on RocketMortgage.com. We then promoted that directory with the Super Bowl ad that I mentioned earlier. The impact has been tremendous. In less than a month since launching, we've had tens of thousands of consumers visit the directory and click through to contact a broker.

All of these elements together have created an incredibly profitable company that has shown an ability to grow, strengthen and scale in any market environment. The fourth quarter of 2020 was no exception. All of our businesses performed above expectations, leading to a full-year adjusted revenue of $16.9 billion and adjusted EBITDA of $11.1 billion. As a result of our exceptional financial performance, Rocket Companies has generated substantial capital. And today, we're excited to announce that we are sharing our success with our shareholders. As Julie will soon explain, our board has authorized a special dividend of $1.11 per share for holders of our stock as of March 9 to be paid on March 23.

We're also accelerating our long-term approach of launching and scaling new businesses from the ground up. I am pleased to announce the creation of Rocket Labs. Rocket Labs' mission is to incubate new businesses within Rocket Companies that leverage our platform and provide our clients with services that complement our existing core products. Our approach is to empower small independent teams to work on big ideas and concepts which will form the core of our future products. We are excited about Rocket Labs and the possibilities it represents.

Before I turn things over to Julie to share our financial results, I'm going to take a moment to give her a proper introduction. Julie and I have worked together inside this company for 17 years. During that time, she's led the finance and accounting teams and done a tremendous job managing all aspects of our liquidity. It's Julie's foresight that has helped us continue to grow in all market cycles. Not only that, but there's nobody who knows the financial side of this industry better. We're all lucky to be working alongside her.

With that introduction, Julie, take it away.

Julie Booth

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

Thanks, Jay, and good afternoon, everyone. I'm pleased to, again, report strong financial results for Rocket Companies. For the full year 2020, Rocket Companies generated $16.9 billion of adjusted revenue and $11.1 billion of adjusted EBITDA as we wrapped up a record-setting year.

In discussing today's results, I'll walk through some of the key advantages of Rocket Companies business model. In particular, I'll highlight the power of our platform to unlock scale, drive efficiency and serve the launch pad for new businesses focused on simplifying complicated transactions. I will also provide some insights on our capital allocation priorities.

Our 2020 results demonstrate true growth at scale. For the full year 2020, we generated $320 billion of closed loan volume, representing an increase of 121% year-over-year. Our success in 2020 was broad based, with consistent increases across both our Direct-to-Consumer and Partner Network channels. Our growth was also balanced between new and existing client relationships.

2020 was also a year of robust growth across Rocket Companies, with particular strength at Amrock, our title company, with revenues increasing 124% to $1.3 billion during the year. Rocket Auto, our automotive retail marketplace, also generated robust results, orchestrating more than $750 million in gross merchandise value of automotive e-commerce transactions. This equates to just over 32,000 auto units in 2020, up more than 60% as compared to 2019.

We finished 2020 on a particularly strong note, with fourth quarter rate lock volume of $96 billion and closed loan volume of $107 billion, both significantly exceeding the high end of our expectations. Multiple drivers contributed to the outperformance in Q4. In particular, we are seeing a consumer that is increasingly comfortable completing large, complex transactions online.

Continuing the trend we've seen throughout 2020, our automated self-serve digital experience was our fastest growing channel in Q4. We also saw strength in Q4 from our branded partnerships and mortgage broker partners after launching the Rocket Pro TPO brand to the broker community and releasing multiple enhancements to our TPO software portals during the fourth quarter. Rocket Homes also finished the year on a strong note as they assisted clients with nearly $1.6 billion of real estate transactions during the fourth quarter alone.

While current industry estimates on market size vary widely, it is clear that Rocket gained meaningful market share in 2020. Our full year closed volume growth of 121% substantially exceeded any estimate of the overall industry's growth from third party sources, which estimate 67% growth on average. Our platform business model is the key to enabling our growth at scale that is truly unmatched.

To put this in perspective, Rocket Mortgage's incremental closed volume of $175 billion in 2020 was more than double the growth of any other market participant. In fact, our incremental gain in 2020 alone was nearly large enough to eclipse the entire all-in closed loan volume of the nation's second largest originator last year. Growing at this pace in a complex category like home loans requires a platform with broad reach, scalable infrastructure and centralized software-driven operations. The Rocket platform is built to perform and grow in the largest, most complex markets.

Our infrastructure also leads to a highly efficient economic model with substantial operating leverage. Our 2020 results demonstrate Rocket's ability to drive increased scale from a single platform with limited incremental cost. For the full year 2020, Rocket's adjusted revenue increased by $11 billion year-over-year. We drove this revenue growth while only adding $2 billion of expenses during the year or $3 billion of annualized operating expenses based on our fourth quarter.

To demonstrate the efficiency of the business model, Rocket's transactions per production team member in 2020 were roughly triple the industry average. While our low-cost platform model is driving record profitability, we're continuing our long term strategy to reinvest in the business. Key targets for investment include our brand, product development and initiatives to drive growth in the purchase market. We continue to invest in talent growth, particularly in technical roles. As an example, our data science team now includes over 300 professionals. We're seeing high performers choose to join Rocket across multiple teams, including the ongoing expansion of our technology and product strategy teams.

Our brand is another key investment priority, including our recent Super Bowl ads, which generated significant brand recognition and drove record traffic to our online and mobile properties. Among our key product development priorities is Rocket Logic, the next generation of our core workflow management platform. The new platform guides users through the next best action resulting in faster, more accurate workflows. We are very impressed with our initial pilot where we are seeing 20% improvement in turn times within the pilot group.

What's even more exciting is that Rocket Logic can be applied to enhanced processes beyond mortgage origination. We expect Rocket Logic and our many automation initiatives to drive continued efficiency in the business model. The core of our economic flywheel is that we are constantly leveraging our profitability advantages to reinvest in the business, further strengthening our competitive position.

Another key advantage of the Rocket Companies platform is our ability to test, launch and rapidly scale new business models. This entrepreneurial approach can be seen in our scaled mortgage operations. In two years, our Partner Network has grown from less than $20 billion in closed loan volume to $120 billion on an annual basis. We see similar opportunity within our early stage rapidly expanding businesses such as Rocket Auto, Rocket Loans and Rocket Homes. To that end and as Jay announced a few minutes ago, the launch of Rocket Labs will further accelerate our focus on expanding the business in ways that leverage our platform and serve our client base. We believe our clients will be greatly served over time with these additional business lines.

Turning to our first quarter outlook, we expect closed loan volume of $98 billion to $103 billion compared to $51.7 billion in the first quarter of 2020; net rate lock volume of $88 billion to $95 billion, up from $56 billion in the first quarter of 2020; and gain on sale margins of 3.6% to 3.9% compared to 3.25% in the first quarter of 2020. We're excited about the continued strength and momentum of the Rocket platform.

We ended 2020 with an extremely strong balance sheet, including $2 billion of cash and $7.7 billion of total liquidity. Total liquidity includes cash on hand, undrawn lines of credit, undrawn MSR lines and corporate cash used to self-fund loan originations which could be transferred to funding facilities at our option.

As we communicated at the time of our IPO last summer, our capital allocation priorities always start with properly capitalizing and reinvesting in the business. As I discussed earlier, we are actively deploying capital with investments in our platform, our brand and our talent. We also want to deploy through add-on acquisitions that would be additive to our economic flywheels and bring value to our client base.

Our next priority is to return capital to shareholders through dividends, opportunistic use of share buybacks or a combination of the two. Given our record level of profitability in 2020, the board approved a special dividend of $1.11 per Class A common share funded by an equity distribution of $2.2 billion. Our substantial cash generation provides us significant optionality to drive long-term value for our shareholders. Additionally, we remain authorized to repurchase up to $1 billion of Rocket Company's common stock.

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

QUESTION AND ANSWER SECTION

Operator: Great. Thank you. [Operator Instructions] And your first question here comes from the line of Timothy Chiodo from Credit Suisse. Please go ahead. Your line is now open.

Timothy Chiodo
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you so much for the question – for taking the question. So you touched on I think very nicely during the prepared remarks around some of the other businesses. They may be sometimes get a little bit less attention given they're a smaller percentage of revenue today, but represent a bigger opportunity longer term. I wanted to just touch on the auto business briefly, both in terms of the direct and some of the indirect benefits to the overall platform and then if you don't mind, a brief follow up on Rocket Homes.

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

A

Thanks, Tim. Jay Farner here. Absolutely. When we think about Dan Gilbert's vision for the company over 20 years ago, I think I referenced the e-mail that Dan has sent out about our ability to transform these major life events that people have leveraging the Internet. Well, here we are 20 years later and we're talking about mortgage. We're talking about real estate. We're talking about auto sales. As you know, that's over a $5.5 trillion market that we're playing in.

And these investments that I discussed in the prepared remarks around our technology platform, the brand that we have built, the Rocket Cloud Force that allows us to step in and take action at the right moment with consumers, and then this massive data lake that allows us to market to consumers as well. Now, we're leveraging that across multiple channels, this platform that you're asking about.

So one thing I'll draw your attention to, we did $750 million in gross merchandise value at Rocket Auto in 2020. We're looking to see that double as we go into 2021. So that's really kind of our direct impact. But you also asked about the indirect. If you think about the importance here with the retention rate that's – I think nearly 90%, industry tops, then these points for us to help our clients with other transactions and have a car delivered directly to their doorstep that keeps our engagement strong. And so the next time they need to purchase or refinance or roll in debt or have a life event, we're right there. And they think about us as more than a mortgage lender.

On our real estate side, even with COVID and some of the delays that we saw in the springtime with home buying, we did $6 billion in transaction value from Rocket Homes. We've invested heavily in our MLS platform and launched that new technology here in January. We're rapidly adding states, I think we'll be up to 45 states by the end of March, and so that gives us great reach into the client base out there that's thinking about buying a home. And now, we're interacting with them at the top of the funnel and we can bring them through for mortgage title. And if they're not ready to buy a home right now, well, that's okay, maybe a car is the right thing for them. So you're starting to see the power of this platform that we're building.

Timothy Chiodo
Analyst, Credit Suisse Securities (USA) LLC
Q

All right. That's excellent. Thank you so much. You sort of touched on it there with the follow-up on homes, but maybe you could just dig into a little bit in terms of the listings, the quality of the listings, what might be unique about them, the extent of your coverage in terms of the MLS listings, any data points around that that could give us a better sense of just how broad that platform has become?

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

Yeah, I think not only how broad it can be, but it moves us up the top of the funnel as we see our clients starting to think about or purchase a home. The other important component, though, is that we've got more than just MLS, ForSaleByOwner.com which allows us to help clients who aren't ready to transact with a real estate agent. We've got a realtor network. So those who are ready we can refer off to the best agents in the country. And, of course, then we can supply with our full blown approvals to ensure that anybody that's interacting with our real estate agents is an active buyer. And as you know, in a real estate market that's red hot with such low inventory, the need for that client to walk through the door with a Rocket Mortgage full approval is absolutely critical. So it's really tying all of those threads together that gives our client the best shot at getting the house from start to finish. And all along the way, we're able to collect data to determine someone's interest and then make sure that we're putting our Rocket Cloud Force in the right point at the right time to help that client through the process.

Timothy Chiodo
Analyst, Credit Suisse Securities (USA) LLC
Q

Excellent. Thank you so much for taking both of those.

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

Of course.

Operator: Your next question comes from the line of James Faucette from Morgan Stanley. Please go ahead. Your line is now open.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

Thank you very much. Jay, Julie, I'm wondering if you can help shed some light on what we should expect in terms of new applications and growing – continuing to grow the business particularly in a rising rate environment. You guys, obviously, have the benefit of a long history through lots of different interest rate cycles. So how are you anticipating that borrowers and homebuyers will react to kind of the current move and where should we be particularly sensitive to where rates could go is kind of my first question.

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

A

Well, as we've been on this journey for 35 years as a company, 25 years for me here and Julie 17, Bob 24, rates will tick-up and rates will tick down. Our real focus is making sure we're providing an experience that draws clients, consumers into our funnel and allows us to grow market share in particular when things get a bit more challenging and others tend to step away from investments in marketing, in technology and other things.

We're seeing strong consumer demand, especially in the housing market and it's the strongest that it's been here in the last decade. And current rates are still incredibly low. So that means it's very affordable to buy a home and there's still millions of Americans out there that can save well over $100 a month on their monthly payment by refinancing their home. There are also many Americans out there that are looking to invest in their home, home improvements and those sorts of things. So like I said, we're seeing strong consumer demand.

I know Julie's given the guidance for the next quarter which is kind of where we're willing to go at this point in time. I'll draw your attention to the fact that overall we were able to grow volume twice as fast as the industry in 2020. And so when we think about our opportunity to invest in marketing, invest in technology and continue to grow market share in 2021, we feel very strong about that. And we think that that investment, it will not only grow our market for mortgage and real estate, but it will start feeding these other businesses like I talked about auto for example on our platform.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

That's really useful. And Julie, you did give very specific guidance for the first quarter, so we appreciate that. How should we think about particularly the evolution of gain on sale through the course of a year, at least directionally, and any color you can give us to help us think about like what the current environment is for selling of loans and how you're anticipating that roughly to evolve over the year?

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

A

Yeah. Sure. First, I'll say we're still in a very strong demand environment with the Fed buying 95% or so of all conforming mortgage production today, the demand environment is very strong. One thing to remember about us as well, as the market leader, we also benefit from the scale of our business when we execute into the secondary market. So we have advantages because of that.

So we've seen gain on sale margins of 4.52% in Q3 of this year and then we saw continued strength as we came into Q4, coming in at 4.41%. And then as we look ahead into Q1, our expectations, as I said for gain on sale margins are between 3.6% and 3.9%, and this is up from 3.25% in Q1 of last year. So margins are still well ahead of where they were a year ago.

And then I'll also point out, at the same time, we're still seeing strong closed loan volume, our closed loan volume in Q4 of $107 billion and then looking ahead into Q1, between $98 billion and $103 billion. With those numbers, that would be the second biggest quarter in our company's history. So to put this in perspective just a little bit more, the midpoint for our guidance is roughly 95% higher than our Q1 volumes. So the flexibility of our platform that we talked about allows us to really run our business for long-term growth and for profitability in any environment and we're really feeling good about the momentum that we're seeing.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

That's great. Thank you.

Operator: Your next question here comes from the line of Ryan Nash with Goldman Sachs. Please go ahead. Your line is now open.

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

Q

Hey. Good evening, everyone.

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

A

Good evening.

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

Q

Can you maybe just talk about the mechanics of the special dividend? How is the $2.2 billion split, how is it funded across the different classes? I think you mentioned by an equity distribution. So I just wanted to clarify. And second, last quarter, with the large profitability, you did a $1 billion buyback. This quarter it's a $2.2 billion special. And I appreciate Julie outlining the capital priorities, but maybe you can just help us understand what your – how your framework came to the conclusion one quarter buyback, another quarter special dividend and how we should think about use of capital in a time where you're experiencing really record profits? Thanks.

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

A

Yeah, sure. I'll start with the dividend mechanics and then maybe I'll let Jay comment on your other questions. So, the way to think about the dividends is that the $2.2 billion is being distributed to all shareholders based on their economic interest. So, our public Class A shareholders have roughly a 6% economic interest and then RHI has a 94% economic interest. So they are each receiving a dividend in proportion to that economic interest.

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

A

All right. And then maybe going into the capital allocation, just to be clear, the board approved up to $1 billion share repurchase. We have not repurchased shares up to this point in time. In looking at, and Julie walked through the waterfall nicely, I'll recap it again, we always, first, are focused on maintaining a very strong balance sheet, which we have today. Second is just investing in our business, like we've been doing now for 35 years, whether it's the brand activity, you saw the Super Bowl spots, the technology platforms here that we have been rolling out, strengthening, adding features to Rocket Labs, which I talked about, which is an important investment for us to make sure we're incubating all of these ideas that we can grow and then add to the platform and we're very active and looking for acquisitions that would allow us to grow.

After going through that waterfall, we determined at this moment in time, the best use of those funds was to issue a dividend. And we'll follow that process moving forward here as we got a great track record of being profitable and throwing off a lot of cash, what's the best use in the long-term for our shareholders. And so that's the process we use. That's a process we'll continue to use. And we'll be opportunistic. If we feel like the share prices is at a place where the right thing to do is buy back those shares, we will do that as well.

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

Q

Got it. And maybe I can ask a follow up to an earlier question. Jay, can you maybe just talk about some of the competitive dynamics you're seeing, given the changing rate backdrop and I was hoping you can maybe talk about it in the context of the Direct-to-Consumer and the Partner segments. I think there was a competitor in the Partner segment talking about exiting parts of the market. So I was hoping you can maybe talk about how that's evolving. And if we do continue to see rates going up, like, where do you inevitably see margins getting to over time? Thanks.

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

A

Well, I'll start with the Partner segment. I know we made an announcement today that Morgan Stanley and E*Trade will be joining the platform. They'll be joining Charles Schwab, State Farm, Intuit, Mint, TurboTax, Realtor.com. So as the market becomes more challenging and others experiencing headwind, typically what we find is that large partners like this will look for the steady driving force in the market and that's us. And so that usually bodes well for our opportunity to grow market share and grow partnerships.

When it comes to our third party or what we call TPO space, it's the same situation. Brokers out there who are in a more challenging market are going to look for somebody who will deliver the technology, a brand that they can lean into and that's why we did the Super Bowl spot to give them that Rocket brand that they could leverage to grow their business. And so, usually, as we see these interest rates tick up a bit, what we're going to see is an opportunity for us to lean in to spend more money and now to talk about the retail or Direct-to-Consumer space, same situation here. There are so many marketing opportunities out there for us.

And as others tend to step away or back away from the space, this is where we can lean in, we can grab market share. And not only are we thinking about the profitability that we achieve on the first transaction, we're thinking about the lifetime value of that client and we're now thinking about the lifetime value not only over mortgage, but real estate, auto, and these additional businesses that we'll be adding. So, I guess you can tell we're pretty excited about it and don't see interest rates going up or down really having an impact on our business one way or the other.

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

Q

Got it. Thanks for all the color.

Operator: Your next question here comes from the line of Jason Kupferberg from Bank of America. Please go ahead. Your line is now open.

Q

Hi. This is [ph] Mihir (00:37:17) on for Jason. I actually wanted to ask just a little bit, maybe just following up a little bit on that. As we think about rates increasing, maybe you can talk about what is the right level of profitability longer term for the mortgage business and just how you're thinking about – you have pretty optimistic, if you will, market share aspirations over the long-term. So how are you thinking about taking advantage of that opportunity as rates rise and just balancing that market share gains with those margins? Thanks.

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

A

Well, maybe I'll let Bob speak a moment about the margin because we've got a pretty long track record of protecting that over time, and then I can dive a little bit into the things that we'll do to continue to grow market share.

Robert D. Walters
President & Chief Operating Officer, Rocket Cos., Inc.

A

Yeah, Jay, I think it's a good question. It's important one. In a lot of ways, when interest rates have risen in the past, those have been – we've made some of the most powerful share gains. We have a lot of advantages that our competitors don't have. And as Jay and Julie touched on, because of a brand, because of our brand, there's only one national mortgage brand, it really allows for the consistency of those margins. So not only are we able to protect those, but also gain share in these sorts of environments. And there's a lot of different areas that we are gaining those shares.

We have multiple channels, a lot of our competitors don't have those multiple. We talked about the Pro channel and we – certainly the Direct-to-Consumer channel. And there's also a pretty persistent market of less interest rate sensitive products, whether it be mortgage insurance, whether it be equity extraction, so cash out, you know that homes have risen in an incredible amount. The amount of equity in the market is really substantial. That is something that really will drive the market in the years to come. And then there's also a very, very robust purchase market and that we're very active in. So you asked for that ideal channel or ideal, it's really – it is these sorts of markets that we have grown in the past and taken advantage of a lot of the attributes that we have that our competitors don't.

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

A

Yeah, maybe I'll jump in here. If you think about our operational efficiencies and how much of every dollar we earn in revenue drops to the bottom line and the scale that we have in our platform, and you can see the guidance that Julie provided in Q1, we've obviously seen market shifting and changing the last few months and our guidance is based on that. We have this very unique advantage to make the investment in marketing, and that can be marketing to drive more purchase leads to our 6,600 Cloud Force individuals that can be marketing with our partners like Realtor.com to drive purchase leads, that can be marketing inside of E*Trade clients or Schwab clients. And so, as Bob touched on, those operational efficiencies give us the opportunity to increase our investment and grow that market share, and we're fortunate to have so many different places to go spend those dollars. That's what you will see us do and that's the plan that we will execute on to continue to grow through 2021.

Q

Understood. And maybe just really quickly, Jay, you mentioned earlier as you're thinking about capital, the priorities, the flowchart, if you will, on a waterfall of capital allocation, you mentioned acquisitions and I was curious, what you were thinking, is like mortgage, non-mortgage, both, just if – to the extent it is, just what are you thinking in terms of opportunities right now in that long term? Thank you.

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

A

Yeah, I'll give you maybe themes that we're looking at. I want to be cautious about going too far down the funnel there. But we're thinking about the tech stack that exists in auto. One of the key differentiators for us on the Rocket Auto piece is connecting the highly fragmented buyers across America with the highly fragmented distributors across America. And so there's a unique tech stack opportunity there that could accelerate our growth. We look at other add-ons that could bring efficiency or accelerate growth in mortgage, out of mortgage. We look at other tech add ons that could allow our Rocket Homes platform to grow efficiently. So, you'll find us exploring things that we can add on to our platform that will accelerate your organic growth that we're already seeing.

Q

Thank you.

Operator: Your next question here comes from the line of Dan Perlin from RBC. Please go ahead. Your line is now open.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Thanks, and good evening, everyone. Julie, I had a question about the investments, I might have missed it, but is there a way you can kind of dimensionalize size of the investments you're planning, maybe the cadence throughout the year that those are expected? And then really the second part of the question is, you outlined three areas and Jay you talked about it as well in your prepared remarks. I'm just wondering how do we think about how those investments break down as it pertains to really focus areas outside of mortgage, right, in order to continue to diversify the business over time?

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

A

I'll start and I guess I'll say continuing to invest is something that we will do, as Jay mentioned, in terms of looking at things from an ROI standpoint and is that investment going to be one that is going to be a good use of our capital. So we'll evaluate the opportunities based on that and think about best use for our capital. So, that's one of the things that we certainly think about as we evaluate the amount of capital in the business.

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

A

Yeah. Maybe a clarifying question, when you mentioned investments, are we talking capital allocation or are you speaking specifically to the non-mortgage, the Rocket, the loan and the homes investments that – and platform – added components to our platform today?

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

I was talking more broadly when you said brand and growth of the purchase market and product. So I mean it's a more of a holistic question. I'm not trying to pin down on one area in particular. And given the significant outperformance that you guys have had and just leveraging the platform that clearly shows through, I'm just trying to figure out what that number, size of that number, cadence of that number might look like throughout the year?

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

A

Yeah. I would say that we feel very good about how we invested in 2020 and so I think you'll see similar investments in 2021. Behind the scenes, a lot of the incredible work that was done to our tech platform, supporting our brand that occurred in very similar in 2020 to 2021. The one area you'll probably see us lean into even more is our performance marketing and that's an area where we can invest, grow our brand, but also grow revenue and lifetime value and it's very, very measurable. And so that'll be probably an area you'll see even increased investment in 2021.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you so much.

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

A

Yes.

Operator: Your next question here comes from the line of Arren Cyganovich from Citi. Please go ahead. Your line is now open.

Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. I was wondering if you could touch about the purchase market, you highlighted that you had a record level of purchase volume and some of the steps that you're taking to ensure that you capture a sizable piece of that refi eventually burns off. One of the areas that I thought was interesting was the Rocket Pro Insight. You had highlighted 25,000 real estate agents already signed up on that. How's that tracking versus your expectations and what's the level of engagement you're seeing there?

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

A

Yeah. You touched on an important component and there are quite a few. I always stop, Bob Walters always reminds me that regardless of interest rate market, refinance makes up a very large portion of mortgages done in this country each and every year. So as we touched on before there, of course, our cash out, people are investing in their home at record levels. We're seeing that in some of the non-revolving debt that's increasing across the country. Of course, there's always life events that cause people to move and we're also seeing second home investment be very strong.

So, we'll keep seeing, I think, refinancing, regardless of interest rate, but to the purchase question that you're asking, we touched on our Realtor.com relationship and partnership. So, we're thinking about how we bring more clients directly to our 6,600 Rocket Cloud Force team members. That's the investment in Rocket Homes, which will allow for the same ForSaleByOwner.com. Large partnership like E*Trade gives us access to great clients who are saving money and thinking about investing in homes, as does the Schwab network, which I think is having a –

or had a record year in 2020. So all of these things give us reach into people at the very front-end of when they're thinking about purchasing.

But then there's another important component as well, which is our broker network, and the thousands of brokers that we're working with that we're supporting and we continue to support more and more, not only with great technology and a great sales force, but also a great marketing. And that's why we mentioned the Super Bowl spot, because we are now turning the millions of people that come to our Rocket Mortgage website onto the fact that they can work with a broker as well as our Rocket Cloud Force. And so that will help drive more purchase volume into our funnel.

And then let's go to Insight, because Insight and the thousands of agents that are joining there, they want certainty and they want visibility into what's happening with the real estate transaction. And we believe we're uniquely positioned to provide this because we've also got thousands of agents that are already signed up on our Rocket Homes platform. So, we're working with them each and every day. We're getting feedback from them. We're taking that. We're sending it into product strategy. We're adding features to that technology to give them that visibility and that certainty. And I think that's why we're seeing such growth. So to answer your question about the pace, the pace is exactly where we thought it would be for Insight, and as we get into the purchase home buying market, we think that will continue to grow.

Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

A

You bet.

Operator: Your next question here comes from the line of Ryan McKeveny from Zelman & Associates. Please go ahead. Your line is now open.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Yes, thank you and congratulations on the great results this year. So we're all obviously very focused on the rise in the 10-year, the relationship there between spreads, gain on sale margins and apologize because I realized this is a bit repetitive with other analyst questions. But around the concept of just protecting gain on sale, I'm hoping you can talk to how the competitive environment has historically influenced things because I guess an environment of higher rates, capacity in the industry that has expanded, still probably not scaled, but I think there is a level of concern that we're approaching a period of just more competition amongst lenders. And I understand what you're saying on the market share side, the opportunity to take incremental share in tougher periods, but how does this competitive side of things play into that gain on sale margin and I guess why or why not should we trend backwards "normal levels" of getting on sale or someday, obviously, they have to go below average? So, can you help me tease that out a little bit?

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

A

Sure. And maybe I'll start and Bob, you can give your thoughts as well as you've been watching that for quarter of a century now. So, if you'll kind of maybe take a step back, as the market – as we see rates tick down, what you'll typically see is a lot of folks join the industry and you referenced increasing capacity. But when they join the industry, it's not with hundreds of millions or billions of dollars in investment in technology. It's not with billions of dollars of investment in brand and that's why they don't see $0.85 or $0.80 or wherever we were, Julie can clarify, drop to the bottom line the way that we do.

So, then as the market compresses and these things happen pretty quickly, folks who decided to get into the market by hiring folks and adding bodies and spending money, they find that it gets very hard to be in the mortgage business very quickly. And so the same slack that – or the same capacity that went in comes out. And so, sure, there can be ups and downs in margin and interest rate for a short period of time as that kind of works it through, but as we get to the other side of that, what you find is, usually, fewer competitors. And so for those remaining, not only does the margin stabilize and give you the opportunity to see that increase, but it also gives you what you pointed out great opportunity to grow market share.

And then, again, I'll mention this because it's so critical to our business model. For us, as we think about the acquiring of clients onto our platform, we're sitting in a situation where not only will we recognize the profitability of that first transaction with our operational efficiency, but if people are coming in at a higher interest rate and we're servicing now nearly 2.2 million clients, well, then the minute that rates tick down, we'll have the opportunity to help them with a lower interest rate, thus recognizing the profit, again, at a higher margin with no marketing cost. And then, of course, help them with the purchase of a new home through Rocket Homes, help them with a purchase of a car through Rocket Auto. So, it really is a very exciting opportunity for us as we see rates tick up a bit because it creates this process I just discussed, which leads to market share growth and leads a lot of sight to really strong future profitability as well for us. Bob, anything to add?

Robert D. Walters
President & Chief Operating Officer, Rocket Cos., Inc.

A

Yeah, I think just a couple of things to that. We have the luxury of being a 35 year old company. If you look back decades, you will see a very consistent track record of gain on sale and it's really one of the, I think, one of the hallmarks of the company and there's a number of reasons for that. Jay's also talked a lot about lifetime value. You mentioned the service clients, over $400 billion of service clients. So in a rising rate environment that becomes incredibly valuable and let alone all the other things that we talked about, the other businesses and markets that we are in. So quarter-to-quarter, we don't spend a lot of time thinking about, it's just gaining share and gaining lifetime value.

Ryan McKeveny
Analyst, Zelman & Associates

Q

That's very helpful. Thank you. And second question, on the topic of just the strength of the platform, obviously, very robust dynamics in the mortgage space, strong traction with the ancillary channels, auto, homes. I guess this concept of just launching into entirely new verticals, I'm curious what are the characteristics there that you think are kind of most critical for us to think about? And when you talk about new verticals, are you still thinking within the realm of real estate, lending, auto or can there be bigger opportunities above and beyond that necessarily relate to those aspects of the business?

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

A

Yeah. We'll have Dan join the call next time to discuss this. I go back to the comments that he made or in the letter. Our real mission is to take complicated transactions that humans tend to shy away from because of the complexity and the fact that they're not that frequent and make them simple for people. And so that's where you're going to see us focus in on because that's the power of our platform between the data that we have, the incredible client experience we can deliver with our Rocket Cloud Force, the marketing brand that brings confidence and the technology that streamlines these complex things, that's where we can win. That's where we differentiate.

So, of course, real estate is kind of center to that. We think auto is right there as well. But other things of that nature are of interest to us. In addition, we're always looking for the things that come natural with the purchase of a home or the ownership of a home or a car. And so think about when you buy a house, now, what are the other things that you have to invest in, the other things that you have to keep track of. As we got a relationship with the client, as we have the data around that, from the appraisal data, to the credit data, how can we assist that client in streamlining all these ginormous fragmented markets that surround the home or the auto. And so those are the places, when we talk about Rocket Labs in investing and setting up these two piece of teams to quickly develop technology and put it into the wild, we can leverage our servicing book and other client bases to test it out, that's where you're going to see that those groups focus.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Very helpful. Thanks, Jay.

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

A

Absolutely.

Operator: Your next question here comes from the line of Rick Shane from JPMorgan. Please go ahead. Your line is now open.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Thanks, everybody, and good afternoon and appreciate you taking my question. A couple of things. Can we talk a little bit about the dividend policy and how we should think about the special dividend? Should we think about that in the context of fourth quarter earnings? Should we think about that in the context of earnings since going public or should we think about it in context of all of 2020 earnings?

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

A

Yeah. I would say that at any point in time, we're more looking at the capital that we have in the business and certainly this year was a year when we generated a lot of capital. It gave us the opportunity to not only continue to invest in the business, but also to think about whether there's additional capital that it might be the right time to return some of that to our shareholders. So after evaluating that here just recently, we decided that the right thing to do was to do this dividend and we're really excited to be able to share in the successes that we have had here in 2020 with our shareholders.

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

A

The only thing that I'll add is and you've probably heard that through the entire call, our focus is long term and our focus is the – what we believe this company will be over the coming years and satisfying these challenging problems for consumers across multiple industries. And so growth is our focus and because of the platform that we've got, and Julie just touched on this, the scale and the efficiency, we can generate profits very quickly, large profits very quickly. And so we have to take into consideration all the opportunities that are in front of us to grow the business in the long run, but we've also got to think about situations where we're – we made $11 billion last year. We're making $1 billion a month even with all those opportunities out there, it still may be the best thing to do to issue a dividend to our shareholders. So we're fortunate to have these choices and we'll – but we're always thinking the long-term success and growth of this business first.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Look, no question, I think about the investments you made in 2018 and 2019, and you didn't necessarily expect that they would manifest in terms of the – at the time, the level of profitability you enjoyed in 2020. So, makes sense to continue to do that.

One other question, when we think about your guidance, historically, it's been conservative in terms of volume and gain on sale margin. When we look at the guidance on gain on sale for the first quarter, how should we think about that in context of primary, secondary spreads had come in pretty significantly, but also, and this is the – I think the more interesting nuanced point, how are you thinking about your pipeline hedge and potentially inversing a decrease in fallout with the spiking rates?

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

A

Yeah, a great question. I can tell you that those type of things are what our capital markets folks are looking at every day and the data that we have, and I'm going to go back to the importance of the data from the top of the funnel, even pre-application to understand pull-through rates and so those type of data points are priced in to the guidance that Julie has provided.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Got it. So you're changing that pipeline hedge constantly based upon a dynamic in pull-through rates or fallout rates?

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

A

That's right.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thank you, guys.

Operator: Thank you. That is all the time that we have for questions. I will turn the call back over to you, Jay, for closing comments.

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

Thank you. Thank you. Yeah, I just want to thank everybody and particularly our team members who are listening, couldn't be more proud of the year that we had, of course, the record revenue and profitability, but I think even more importantly, all the impact that we're able to have on the communities that we live and work and play in, supporting the city of Detroit, the massive investments that we've made here in COVID, not only of our money, but of the time, energy and effort that so many team members did to support the community, just so proud. And so thanks to all of you, and thanks to our investors and we'll keep plugging away here to do great things at Rocket Companies.

Operator: Thank you. And ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect.