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Better Home & Finance Holding Co.

(BETR)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

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Reginald L. Smith
Analyst, JPMorgan Securities LLC

James E. Friedman
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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Pam. And I will be your conference operator today. At this time, I would like to welcome everyone to the Better Home & Finance Holding Company First Quarter 2024 Results. 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] Thank you.

I would now like to turn the conference over to Hana Khosla, Vice President of Corporate Finance and Investor Relations at Better. You may begin.

Hana Khosla
Vice President - Corporate Finance & Investor Relations, Better Home & Finance Holding Co.

Welcome to Better Home & Finance Holding Company's first quarter 2024 earnings conference call. My name is Hana Khosla and I am the Vice President of Corporate Finance and Investor Relations at Better. Joining me on today's call are Vishal Garg, Founder and Chief Executive Officer of Better; and Kevin Ryan, Chief Financial Officer of Better.

Certain statements we make today may constitute forward-looking statements within the meaning of federal securities laws that are based on current expectations and assumptions. These expectations and assumptions are subject to risks, uncertainties and other factors as discussed further in our SEC filings that could cause our actual results to differ materially from our historical results. We assume no responsibility to update forward-looking statements other than as required by law.

During today's discussion, management will discuss certain non-GAAP financial measures, which we believe are relevant in assessing the company's financial performance. These non-GAAP financial measures should not be considered replacement for and should be read together with our GAAP results. These non-GAAP financial measures are reconciled to GAAP financial measures in today's earnings release, which is available on the Investor Relations section of Better's website and one filed in our quarterly report on Form 10-Q filed with the SEC.

I will now turn the call over to, Vishal.

Vishal Garg

Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

Thank you, Hana, and welcome to our first quarter 2024 earnings call. We appreciate everyone joining us today. I'd like to start by highlighting some of our key achievements during the quarter. As noted in our last earnings call, growth is our main focus, having emerged from a very challenging macro environment over the last couple of years where the focus was on scaling back and significantly reducing expenses. I'm pleased to say that we are growing again while continuing to maximize our operating efficiency.

This April, we more than doubled our monthly origination volume compared to our low point in November 2023. In the first quarter, we leaned into certain growth expenses to drive increased market share, balanced with continued efficiency improvements and disciplined cost management to target reaching profitability in the medium term. In short, we've delivered on growth in the first quarter, while many other companies in the mortgage space were at or down sequentially.

Compared with the fourth quarter of 2023, funded loan volume rose by 25% and revenue rose by 26% in the first quarter of 2024. While still being a low cost provider, we have been testing strategies to improve revenue per loan. This combined with additional income generated from prudently invested cash and investments, helped contribute to our revenue growth. Further, the growth in the first quarter of 2024 was combined with continued strict management of expenses, with total expenses increasing 7% compared to a revenue increase of 26% sequentially versus Q4 2023. This also represented a 30% reduction in total expenses year-over-year and an even larger reduction compared to when we began downsizing in 2021.

As discussed on our Q4 2023 earnings call, I'd like to remind everyone of our strategic priorities for 2024. Our first priority is thoughtfully leaning into growth against which we showed early progress this quarter, increasing our funded loan volume and revenue since Q4 last year.

Our second priority is improving operational efficiency, which we also demonstrated in the first quarter. While we leaned into certain growth expenses to produce higher volumes, we grew our revenue faster than our expenses demonstrating operating leverage quarter-over-quarter sequentially.

Our third priority is growing our B2B channel, enabling us to further leverage our industry leading technology. We remain excited about the ongoing conversations we are having with potential partners. Now to provide an update on each priority from the first quarter. Starting with our first priority of leaning into growth. As I mentioned over the past two years, we have been intensely focused on significantly reducing expenses and maximizing operating efficiency during a highly challenging macro environment.

We are now seeing an opportunity to thoughtfully lean into growth to make sure we are well positioned when consumer demand returns in order to capture increased market share across our three main mortgage products; purchase, refinance and home equity lines of credit.

Looking at volume growth for each product compared sequentially with the fourth quarter of 2023, purchase loan volume increased 12%, refinance loan volume increased 232%, and HELOC loan volume increased by 54%. In purchase, we are seeing strong early results of the benefit of having experienced loan officers, nurturing homebuyers through their journey. In refi, we are leaning into cash out refi to improve sales and operational excellence as well as consumer education around the suite of products available and helping them weigh their options against their financing goals. In our second lien product, we are seeing strong momentum given home values have appreciated while rates for primary mortgages have remained high and customers are looking to access their home equity without resetting their first lien mortgage. We've been pleased with the strong reception to our one day HELOC product and the still early launch of the Better Home Equity Loan, which is the latest addition to our suite of digital products.

This product enables qualified homeowners to access up to 90% of their home equity as cash at a fixed interest rate in 30 states today. Eligible customers can borrow against primary, secondary and investment properties with 10, 15, 20 or 30-year loan terms available. Throughout Better's history, we have been the low cost provider to consumers, but we are seeing opportunities to increase our revenue per loan while still remaining highly cost competitive.

In the first quarter, we saw pricing improvements with gain on sale margin increasing to 2.37% in the first quarter of 2024, compared to 2.03% for the full year of 2023. Drivers of this margin improvement include increased pricing while still remaining the low cost provider, efforts to limit the use of sales concessions and our focus on driving customer retention to improve service versus discounting, as well as continued efforts to optimize for the best execution across our network of loan purchasers, including the GSEs. We are also continuously evaluating our loan repurchase reserve and saw our revenue benefit through realizing recoveries in the first quarter of 2024.

Moving to our second priority of operational efficiency and variablizing loan production expenses. As mentioned last quarter, we've adopted a new operating model and compensation structure for our sales teams. With lower bases and higher commissions to better align costs with volumes and drive conversion outcomes, and also enable us to recruit seasoned loan officer and empower them via our tech platform in a way we were never able to do before.

We continue to showcase that we can hire experienced loan officers to prepare for purchase season. We have seen positive early results of this shift on loan officer productivity, with our loan officers closing significantly more loans per month on average than a peer set of large independent consumer direct lenders, based on a third party benchmarking study Better participated in. From this study, we learned that in 2023, Better's loan officers closed an average [ph] 17.7 (00:08:03) purchase loans per month while the peer set average was in the mid-single digits.

We believe the future lies in uberizing the loan officer, giving them leads generated by Better on our proprietary tech platform and customer interface and having them be more productive. Additionally, we have continued leaning into marketing efforts as discussed on our fourth quarter call. Our marketing and advertising expenses increased 27% from $3.6 million in Q4 2023 to $4.6 million in Q1 2024 and we expect these to further increase as the year goes on. These customer acquisition initiatives are highly programmatic and done in a controlled manner, predominantly through digital marketing on existing and new channels, we can immediately evaluate return on acquisition spend and modulate up or down based on performance.

We're still early in our expansion into a handful of new marketing channels, but are seeing positive early results that we expect to scale as the year progresses. We are also excited to announce a leadership update for our mortgage business. Chad Smith joined us last week as President and Chief Operating Officer of Better Mortgage Corporation. Chad brings a wealth of experience to Better and has a proven track record of building sales and operations teams into high growth mortgage industry leading platforms. He joins us with over 25 years of mortgage experience under his belt, working with companies like Caliber Home Loans, Discover, loanDepot and LendingTree.

Most recently, Chad served as CEO of Mission Home Loans (sic) [Mission Loans] (00:09:27), with Chad's valuable experience and deep expertise, I feel confident he will help drive our growth and contribute meaningfully to the success of Better. Chad will be responsible for helping us set our long term strategy and scale our marketing, sales and operations teams as well as help drive performance and accountability for delivering results that align with our strategic vision.

Finishing with our third priority of growing our B2B Mortgage-as-a-Service distribution channel, we continue to see demand for our technology and origination capabilities from new partners with strong brands who are looking to offer mortgages to their customers in a cost efficient way. We believe the conversations we are having as part of our continued pipeline demonstrate a strong product market fit for our B2B offerings and demand for our technology.

Looking beyond 2024, the medium term opportunity for Better remains very exciting. We are focused on first, enhancing our go-to-market with growth being our north star and second continuing to invest in automation through the cycle.

In terms of go to market, we expect our experienced loan officers to drive improved customer conversion in a cost efficient manner, specifically converting website visitors to funded customers, particularly on the purchase side. We expect to manage cost to a highly variable sales compensation model and continue to automation that drives down non-customer facing costs.

Further, we expect the expansion underway across our B2C acquisition channels, in addition to the B2B partnership pipeline to expand the breadth of customers we are reaching. We continue to invest in Tinman our proprietary technology platform to improve the customer experience and further drive down labor cost, making our platform more efficient and scalable, and enabling us to provide our customers with lower rates, higher approvals and certainty early in the mortgage process. Tinman powers our highly differentiated competitive advantage and drives our better, faster and cheaper customer experience.

In summary, we have a large and attractive market opportunity, a track record of knowing how to scale for growth when the macro environment permits and how to reduce expenses when it doesn't. Our business model that is balance sheet and credit risk light, a competitive advantage powered by our technology and industry leading products, a medium term plan for growth and profitability and a healthy cash position. We are excited to be leaning back into growth in the first quarter 2024 and excited about the market green shoots we are seeing thus far in Q2.

With that, let me now turn it over to Kevin Ryan, our Chief Financial Officer, who will discuss the quarterly performance and our financial strategy. Kevin?

Kevin Ryan

President & Chief Financial Officer, Better Home & Finance Holding Co.

Thank you, Vishal. As mentioned, we are excited to report that Better is growing again while continuing to be laser focused on maximizing operating efficiency, while we expect improvement in the mortgage market in the medium term, this will likely take some time. To that end, we will continue to thoughtfully lean into certain growth expenses to drive increased revenue and market share, which will be balanced by continued cost discipline to target reaching profitability in the medium term.

I'll turn now to the financial results of the first quarter. This quarter, we made a number of changes to the presentation of our statement of operations as well as reclassifications to the previously reported P&L to align with the new presentation. With these changes, we seek to provide increased transparency to the nature of revenue and costs and better align our P&L presentation to peer public companies.

We reclassified our revenue reporting alignment with key components of our revenue. Gain on loans, net, net interest income and other revenue, while we also include loan repurchase reserves activity in gain on loans and net interest income generated by our large amount of invested cash and net interest income, both components of revenue.

We also reclassified our cost line items to align with the key components of expenses, specifically loan origination expenses, compensation and benefits, marketing and advertising, technology, general, administrative and depreciation and amortization. During the first quarter of 2024, we generated funded loan volume of $661 million. This was above the high-end of our prior guidance of approximately $600 million to $650 million. We generated revenue of approximately $22 million and an adjusted EBITDA loss of approximately $31 million.

Our first quarter funded loan volume is 54% generated through our direct-to-consumer channel and 46% generated through our business-to-business partner channel. It was [ph] 18% (00:14:03) purchase loans, 12% refinance, and the remainder was HELOC by dollar volume.

Now, I'll touch briefly on our balance sheet and capital positioning. We ended the first quarter of 2024 with $509 million of cash, restricted cash and short-term investments. We believe that our cash position is well in excess of other originators of our size. Therefore, we are well capitalized for growth as our cash position provides us with the liquidity to continue executing against our vision and corporate objectives. In addition, we retain strong relationships with our financing counterparties to manage mortgage working capital even in this lower volume environment. As of March 31, 2024, we had three warehouse facilities for total capacity of $425 million.

I'll turn now to our full year 2024 outlook. We are in growth mode. We continue to expect funded loan volume to increase in 2024 compared to the 2023 as we prudently increase customer acquisition spend in the highest returning channels and increase origination capacity to limited hiring and production goals. For the second quarter of 2024, we expect to generate a funded loan volume of above $800 million, a quarter-over-quarter increase of more than 20% versus the first quarter of 2024 and more than 50% versus Q4 of 2023. As we grow in our volume increases, we have not forgotten cost management.

We will continue to reduce our corporate overhead, our vendor costs, and other costs will reduce due to further automation. Accordingly, we expect operating leverage in the business during 2024. As a result of increased growth expenses, offset by continued expense reductions, we expect total expenses to be approximately flat in 2024 compared to 2023 with revenue higher.

Lastly, we expect customer conversion to improve with continued investment in Tinman increasingly variable sales compensation plans, improved purchased product offerings and investments in real estate agent relationships.

Thank you for your interest in Better. And I'll now turn it back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Ryan Tomasello with KBW. Please go ahead.

Ryan Tomasello
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning, everyone. Thanks for taking the questions. You touched on it in your prepared remarks, but I was hoping you can provide additional color on the traction you're seeing in expanding the B2B channel. How the pipeline there is looking and generally how conversations are moving around potential new relationships.

Kevin Ryan
President & Chief Financial Officer, Better Home & Finance Holding Co.

A

Sure. Hey. Good morning, Ryan. It's Kevin. And I'm sure, Vishal will jump in as well. Look, our dialogue is as good as it's ever been in this channel, and I think there's a few components to that. I think we feel like we're at or hopefully just came through the low point of the cycle. So I think our primary target on B2B are banks, a lot of banks have pulled back in mortgage. It's been tough to make money for them, but it's a core offering for their consumers. And anybody who's in consumer banking [ph] also (00:18:12) offer mortgage. And so our dialogues are very strong. We have a partnership with Infosys. Infosys is a like a BPO provider to hundreds of banks across the United States. They helped us make get some additional introductions to people that we're not talking to already. Obviously, we have a pipeline of people we're talking to.

The only thing to say about B2B and we love the channel, we're going to grow the channel and it's a big focus of ours. These things take time. People have legacy technology contracts that run two, three, four years before they would migrate over to our Tinman platform. That's a component to this. They have other strategic priorities just given what's going on in the banking sector, for example. So that takes some time. So I think our dialogue is as high as it's ever been. Certainly in the four years I've been here. This is the best dialogue we've ever had. But these things take time. It takes time to win the business, it takes time to set it up, to integrate, et cetera. And so we're very hopeful for 2025, 2026, and we're going to keep pushing ahead on it.

Ryan Tomasello
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. And then as a follow-up here, a separate topic. Could you just elaborate on some of the efforts underway to improve conversion? Any specific changes you're making throughout the funnel and within the Tinman platform that I think you alluded to, Kevin. Any early stats there you can share around conversion where it was, where it is, could be helpful or generally where do you think it should go over time if some of these efforts are successful?

Kevin Ryan
President & Chief Financial Officer, Better Home & Finance Holding Co.

A

Sure. Thank you. That's a great question. We've seen some dramatic improvements in conversion as we have been, particularly in the purchase product, as we've been hiring experienced loan officers and getting them up and running. We're taking loan officers that were doing one to two loans a month and they're coming on board and we're in two months to three months able to get them to do 10 loans a month. So that's a dramatic improvement in their productivity.

One of the things that these experienced loan officers know how to do that, I would admit that our unexperienced loan officers that we hired primarily for our refinance business in the first eight years of the company, didn't know how to do, [ph] let's (00:20:35) talk to the realtor and inject confidence into the product. So historically, one out of five deals where Better was the pre-approval provider would be where Better ends up being the loan that gets funded. And so that means for every five pre-approvals we were issuing, only one of them was actually turning into a loan if that person went to buy a house. And so the other four were getting funded by other people. And what we're seeing now is a dramatic change in that.

So we think that that's going to improve our unit economics dramatically because while we acquire customers, we're now going to be actually able to generate revenue from those customers in a much more meaningful manner. And we look forward to sharing that data with you in deeper granularity as we start to continue to make progress on the experienced loan officer hiring that we're doing.

Ryan Tomasello
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks for taking the questions.

Operator: Your next question comes from the line of Reginald Smith with JPMorgan. Please go ahead.

Reginald L. Smith
Analyst, JPMorgan Securities LLC

Q

Hey, good morning and thanks for taking the question. I guess kind of a more of a bigger picture question. Thinking about the HELOC product, it feels like just anecdotally, it's a product that consumers haven't really used or looked at in probably 15, almost 20 years. A question for you guys is how aware do you think consumers are of the products and does it require a level of education to get people on board with it now? And I have a follow up. Thank you.

Vishal Garg
Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

A

You're 100% right. We have to explain HELOCs and HELOANs to an entirely new generation of American homeowners, as well as re-explain it to a generation of homeowners that you haven't had access to it for almost 15 years. And as you know, there really isn't a dominant HELOC provider in the market. There's no brand associated with HELOCs. And so all of us are trying to do customer education and help consumers make the right choice between credit cards and personal installment loans, which now have had almost 10 years of education on the personal installment loan side and obviously like 50 years of education on the credit card side.

We're trying to re-educate these consumers. We think there's a huge potential out there. And we believe that the game has yet to even start. We're in the first inning of HELOCs, and we've got a industry leading product with one day HELOC where we're able to take a consumer from a [ph] clicks (00:23:33) to a commitment letter on a HELOC within one day, which is unrivaled in the industry. And we believe that as we are able to ramp our marketing budget, explain the HELOCs to the consumers, scale that, there's just significant growth ahead for us in that.

The HELOC product also is very similar to the refinance product in that – there isn't any realtor intermediation. And so, we believe that in HELOCs, we can long-term achieve the same kind of market share that we used to achieve in refinance, which is around 2%. So and that's just to get started on the HELOC product as we ramp it up and make it more of a focus here at the company.

Kevin Ryan
President & Chief Financial Officer, Better Home & Finance Holding Co.

A

Yeah. I mean, we will – we get data on web traffic and people searching for what is a HELOC? How can it help me is really high compared to a traditional mortgage. So as Vishal said, Reggie, we 100% agree with you. And look in a higher for longer scenario which seems more and more likely just given economic data, very few home transactions, high HPA, so people have a lot of equity in their homes.

Vishal Garg
Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

A

Right.

Kevin Ryan
President & Chief Financial Officer, Better Home & Finance Holding Co.

A

And given consumer debt, as you've kind of run through the COVID stimulus, this is a very attractive alternative, as Vishal said, the credit cards, personal loans, et cetera. So our gut is the industry will grow meaningfully over this next 12 months, meaning HELOCs...

Vishal Garg
Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

A

Yeah.

Kevin Ryan
President & Chief Financial Officer, Better Home & Finance Holding Co.

A

...and we have a really big part to play now and we have a one day offering. So we think we have the best offering in the marketplace.

Reginald L. Smith
Analyst, JPMorgan Securities LLC

Q

No, that makes a lot of sense. And I guess if we could dig in a little bit deeper. So thinking about today, how you get a HELOC customer, I would imagine that like you said, maybe they're searching for it and they're coming in that way. Is there – is that the case or are you may be partnering or is an opportunity maybe to partner with other financial institutions that may offer, I don't know, personal loans that are turning those people down, like, it seems like there is opportunity to kind of collaborate. And I guess I'm curious like, how are you thinking about that? Am I totally off on that? Because there seems to be – I cover personal loan companies and they're tightening up in this product, the HELOC product, lower interest rate than personal loans, credit cards, et cetera, like so my question is, how are you thinking about collaborating with others in the industry?

Vishal Garg
Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

A

We're thinking about collaborating with the personal installment loan players. We're thinking of collaborating with the folks that, now that we have the one day HELOC product that usually would have gone to the – a home installment loan or a home improvement loan players. And we're working on collaborating with a few banks on HELOC-as-a-Service where these banks have mortgage divisions that are fairly active and have a large servicing book, but don't have a HELOC product to offer to those customers. So, we're out pitching that to across a broad range of financial institutions.

Reginald L. Smith
Analyst, JPMorgan Securities LLC

Q

Sounds like a good opportunity. Thanks for taking the question.

Operator: Your next question comes from the line of Jamie Friedman with Susquehanna. Please go ahead.

James E. Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Hi. Good morning. I just had a kind of higher level question and some of this has been addressed with Reggie's question earlier. But I was wondering if you could share your perspective as to which product areas, in general, you're expecting will drive the volume growth in 2024 and beyond?

Kevin Ryan
President & Chief Financial Officer, Better Home & Finance Holding Co.

A

Yeah. I mean, I'll start and Vishal jump in. Certainly, HELOC. We think about we're guiding – as we said, we're guiding up a bunch again Q2 versus Q1 which is up a bunch Q1 versus Q4. I think HELOC cash out refi are big part of it, right. I mean the purchase market remains slower [ph] liquidity and (00:27:42) grow there as well. We're going across the board actively, 20% plus a quarter, but HELOC will be a big part of it.

Vishal Garg
Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

A

Yeah, I actually have very high hopes for the purchase product, particularly as we enter into home buying season and as we onboard the experienced loan officers to help address the conversion issues we've historically had on the purchase product. That plus our efforts to recruit realtors on to the Better Agent Match program and the Better Duo program [ph] unlikely (00:28:15) to start paying significant dividends in the coming quarters ahead, both in 2024 and looking into 2025, particularly for the purchase side.

Where I see purchase today from a growth and unit economics perspective is pretty similar to where I saw refi back in 2018-2019 when we were small but growing quite rapidly. Our position in the refi market and this was before even COVID hit and the rates dropped, rates were higher then, but we were able to make significant meaningful market share gains leveraging the technology. And so I see purchase today [ph] very (00:28:53) similar to where we were with refi in 2018-2019. And I think there's a lot a lot of, lot of room to grow on that.

James E. Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you for the perspective. I appreciate it. All the best.

Operator: As there are no questions, I'll now turn the conference back to Hana for closing remarks.

Vishal Garg
Chief Executive Officer, Director & Founder, Better Home & Finance Holding Co.

Thank you, everyone, for joining us for the earnings update. And we really look forward to seeing you again next quarter.

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