Corrected Transcript

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Better Home & Finance Holding Co.

(BETR)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Kayla, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Better Home & Finance Holding Company Third 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]

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

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

Welcome to Better Home & Finance Holding Company's third 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.

In addition to this conference call, please direct your attention to our third quarter earnings release, which is available on our Investor Relations website. Also available on our website is an investor presentation.

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 replacements 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 and investor presentation, both of which are available on the Investor Relations section of Better's website, and when filed in our quarterly report on Form 10-Q filed with the SEC.

Amounts described as of and for the quarter ended September 30, 2024 represent a preliminary estimate as of the date of this earnings release and may be revised upon filing our quarterly report on Form 10-Q with the SEC. More information as of and for the quarter ended September 30, 2024 will be provided upon filing our quarterly report on Form 10-Q 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 third quarter 2024 earnings call. We appreciate everyone joining us today and for your continued support as we drive towards our mission to make homeownership better, faster, and easier for our customers by building a technology platform that revolutionizes the experience of becoming and being a homeowner. We continue to make good progress towards our vision in which every customer can seamlessly buy, sell, refinance, insure, and improve their home digitally online instantly.

I'd like to start by highlighting some of our key achievements during the quarter. We continued to lean into growth to drive increased volume, balanced with ongoing efficiency improvements, diversification of our distribution channels, and corporate cost management to target reaching profitability in the medium term. In short, even in a market that remains challenged with historically low housing affordability and persistently high mortgage rates, we continued to make progress against the roadmap we set out at the start of the year.

In the third quarter, funded loan volume increased to $1.035 billion, representing a 42% increase year-over-year and 8% increase quarter-over-quarter, beating the guidance of $1 billion in funded loan volume that we provided last quarter. Given a number of significant one-time financial items relating to the closing of the DeSPAC transaction that impacted Q3 2023 in addition to our year-over-year comparisons, we will also highlight the quarter-over-quarter changes from last quarter.

Q3 revenue was $29 million, compared to $32 million last quarter and $5 million in the third quarter of last year. As a reminder, last quarter revenue also included certain non-recurring benefits related to a positive mark-to-market impact on our lock pipeline that totaled approximately $5.5 million, which should be excluded when comparing quarters sequentially. Excluding this benefit, our revenue increased approximately 8% quarter-over-quarter. We continue executing on strategies to increase conversion through additional products and services, as well as improve sales efficiency to drive higher customer pull-through. We also continue to increase revenue per loan through pricing and marketing channel optimization, resulting in year-over-year gain on sale margin improvement from 1.58% in Q3 last year to 2.08% in Q3 this year.

As discussed on our last 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 continued progress this quarter. Year-over-year funded loan volume growth was driven by increases across all three of our product categories, purchased refi and home equity loans, with home equity products and refinance loans being the largest growth drivers this past quarter. Purchase loan volume increased 13%, home equity loan volume increased 493%, and refinance loan volume increased 177% year-over-year. Even with some of the temporary rate relief we saw in Q3, this quarter closed with 30-year fixed mortgage rates well above 7%, putting continued strain on our customers facing high cost of living and affordability issues.

Our home equity products enabled them to access the equity in their homes, even if refinancing their existing mortgage in the current rate environment is not economic. We continue to embrace the opportunity to grow our experienced loan officer footprint, add additional marketing and brand advertising channels to our D2C business, as well as launch new products and services such as the streamlined refinance product for FHA and VA borrowers that we rolled out last week to ensure we are well-positioned as consumer demand returns to capture an increased market share.

Our second priority is improving operational efficiency and further variabilizing loan production expenses and maximizing operating efficiency during the highly challenging macro environment. In the third quarter, total expenses increased approximately $9.5 million quarter-on-quarter, as we continued leaning into certain growth expenses such as marketing, loan origination expenses, and compensation for larger loan production teams to produce higher volumes, as well as the absence of certain non-recurring expense benefits taken last quarter. Specifically, our third quarter marketing and advertising expenses increased from $9 million in Q2 to $12 million in Q3. We continue to evaluate the return on each incremental dollar of marketing spend and expect this spend to slow as we go into a seasonally slower period in the market and become more efficient in our marketing strategies.

These growth expenses were partially offset by lower general and administrative expenses and lower corporate compensation expenses. While our loan production team compensation increased in the third quarter because of increased funds and loan officer hiring, we still believe we are significantly more efficient than the industry average as it relates to production cost. Based on our learnings through industry benchmarking exercises, we believe the average cost of sell and process a mortgage in the United States is nearly $9,000 per loan.

Utilizing tinman's capabilities, we have been able to automate time and labor-intensive components of the mortgage process and reduce that cost by over 35% of the industry average. We believe our continued investments in technology will significantly drive down our costs further, resulting in improved operating efficiency and superior customer experience.

As a follow-up from our discussion last quarter around our investments into AI, we are thrilled to announce the launch of Betsy, the first voice-based AI loan assistant for the US mortgage industry. Betsy is our latest innovation built through Tinman, the company's proprietary loan origination platform, to enhance the operational efficiency of our loan teams and to improve customer experience by accurately and instantly answering detailed questions and efficiently assisting with outstanding tasks, with a goal of enabling faster service times, enhanced self-service capabilities, improved customer engagement, and greater sales efficiency.

Betsy allows loan officers to focus their time on discussing interest rate details with customers and other more complex license activity instead of gathering data or performing basic verification tasks. She leverages AI and large language models to accelerate a customer's entire mortgage journey from pre-approval start to close loan and is programmed to verbally communicate with customers to answer mortgage application inquiries and to collect and verify outstanding application data. Because Tinman's centralized and context-rich data environment is organized in a hierarchical tree-like structure, it can easily be understood by LLMs like Betsy. This contrasts with traditional mortgage industry software, where information is spread across multiple fragmented systems and datasets, such as the point-of-sale system, the CRM system, the loan origination system, the document management system, and the pricing engine.

We believe that Betsy will help catalyze our growth over the coming years, and we are only beginning to witness how AI will disrupt the traditional mortgage industry. And our technology is setting the standard in delivering maximum value, savings, and service to American homeowners. We are excited to show you today a demonstration of how Betsy can interact with a customer on a call, and we'll play this clip to help illustrate the power of this technology.

[Video Presentation] (00:10:02-00:12:55)

We are super excited about what Betsy can become in the future as we further integrate Betsy into Tinman and help consumers along even greater portions of their application through the entire mortgage process.

Finishing with our third priority of diversifying our distribution channels through growing our B2B business, 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-effective way or improve the fulfillment efficiency of their existing mortgage business.

In that vein, I'm excited to tell you all about NEO Home Loans, a leading distributed retail mortgage platform founded by Danny Horanyi, Ryan Grant, and Chris Leslie with a vision to deliver the best possible service to customers across the US and truly make an impact on their lives before, during, and after a mortgage transaction. Like us at Better, they have always held a vision of revolutionizing the mortgage industry and doing right by their customers. We are thrilled to have hired Danny and Ryan and a few others from the NEO team, with the goal of expanding Better's leading technology platform and digital lead funnel to empower NEO local loan officers.

For those less familiar with the nuances across channels in the mortgage industry, there was historically a bifurcation between the local branch-based lenders and the digital online lenders. Traditionally, the online lenders were viewed as technologically advanced, fast, easy, and low cost, whereas the local lenders are advice and guidance-based and provide high-touch education and analysis to their customers, but can be slower and reliant on legacy technology. We are excited to reset these stereotypes by rolling out NEO Home Loans powered by Better.

The NEO team just joined us. So, it's still early days, but we look forward to welcoming their 50-plus loan officer branches serving customers across 48 states to join forces with Better and together change the way customers navigate their homeownership journey. I see NEO powered by Better as the perfect combination of NEO's demonstrated track record in customer service excellence and strong reputation within the communities they serve and our AI-driven Tinman technology, which will hopefully remove friction from their fulfillment process and expand their capacity to help more customers.

Given the fact that we are just getting started, I want to say that it's simply too early to give volume or financial expectations for NEO powered by Better. But given the onboarding time required to move branches over to our platform, we wouldn't expect a material impact to our volume in the near term. We'll be sure to keep you updated as the onboarding proceeds and as the team stays laser-focused on executing the technology integrations. We believe this opportunity to expand Tinman into the distributor retail channel unlocks a key part of the market that has historically been challenging for online originators to serve, specifically on the purchase side, where customers are more reliant on the advice and guidance of their trusted local loan officer.

For context, the direct-to-consumer segment, where we have traditionally operated, grew tremendously during the COVID refi boom, but has since stabilized at around approximately 20% of total mortgage originations in the United States, whereas the distributed retail channel made up approximately 40% to 45% of the market from 2021 to 2023. By that math, this opportunity has a potential to nearly triple the addressable universe of customers we have the opportunity to serve.

Looking beyond 2024, the medium-term opportunity for Better remains very exciting. We remain focused on enhancing our go-to-market, with growth being our North Star, while continuing disciplined expense management and channel diversification. We will continue to invest in Tinman automation and AI to improve the customer experience and further drive down labor costs, making our platform more efficient and scalable.

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. Even while the market remained challenging, we continued leaning into growth this quarter, driving both year-over-year and quarter-over-quarter funded loan volume in line with the guidance we provided last quarter of reaching $1 billion in volume in Q3. Also, as discussed last quarter, we continued awfully leaning into certain growth expenses, including compensation and marketing. In the third quarter, we also terminated our New York office lease, for which we expect to save approximately $10 million fully loaded between today and 2030, the end of the original lease.

Turning now to the financial results of the third quarter. We generated funded loan volume of $1.035 billion, revenue of approximately $29 million, and an adjusted EBITDA loss of approximately $39 million. Total GAAP net loss for the third quarter was approximately $54 million. Our third quarter funded loan volume was 75% generated through our D2C channel and 25% generated through our B2B partner channel. It was 71% purchase, 16% HELOC, including home equity lines of credit and closed-end second lien loans and the remainder by dollar volume was refinanced.

Now, to touch briefly on our balance sheet and capital positioning. We ended the third quarter of 2024 with $480 million of cash, restricted cash, short-term investments, and self-funded loans. We believe we continue to be well-capitalized for growth, with liquidity to continue executing against our vision and corporate objectives. We continue to maintain strong relationships with our financing counterparties with three warehouse facilities for a total capacity of $425 million as of September 30, 2024.

This past quarter, we also completed a reverse stock split of Better's common stock at a ratio of 1 post-split share for every 50 pre-split shares. As a result of the reverse stock split, Better has regained compliance with the minimum bid price requirements for continued listing on the Nasdaq global market. Post-reverse stock split as of September 30, we had approximately 15.1 million shares outstanding across Classes A, B, and C shares.

Turning now to our outlook for the remainder of 2024. Given the recent trend higher in mortgage interest rates and our entry into a seasonally slower period of the year, offset by the continued growth initiatives we have discussed on this call, we expect fourth quarter funded loan volume to be approximately in line with third quarter volume. We remain focused on driving operating leverage through continued investments in efficiency, corporate cost management, and diversifying our distribution channels, targeting profitability in the medium term.

I'll now turn it back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of [ph] William Chang (00:20:10) with Susquehanna. Your line is open.

Q

Hey, guys. Thanks very much for taking the question. Vishal, I wanted to ask about the launch of your recent AI loan assistant, Betsy, and I mean, it sounds like it certainly has potential. The demonstration is very impressive. But in your view, how is Betsy differentiated from other AI technology in the lending space? I was wondering if you could help elaborate on that point.

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

A

Totally. Thanks, that's a great question. I think Betsy is very advanced relative to some of the things that we've seen in the AI space that we've seen with mortgage companies. A lot of the AI that mortgage companies that are – our public peers have done is really related to a lot of the back office part of the process processing or underwriting where there's been OCR, which is effectively reading data off a page.

So, looking at income data off of pay stub and coming up with what's the closest approximation to what the income might be, and we've had that in our Tinman system for years. A lot of the other AI that people talk about is decisioning-based AI, where effectively the machine is taking the decision rather than a human taking the decision to move the loan file forward. Again, we've had that for years inside Tinman. We've built that one day mortgage, where the bulk of the process of getting the mortgage from a lock to a commitment letter is automated.

And then, the last bit that we've seen and other mortgage companies do is chatbots. So, doing chat-based customer support online. And if you've ever actually used those chatbots, you'll see there's a huge lag and the chatbots are not actually able to move the customer along other than basically being an interactive FAQ or frequently asked questions list. What we've done with Betsy is actively integrate Betsy into our platform, Tinman. And as you could tell from the call, Betsy was able to, one, understand what the items were missing from the consumer's loan file, was able to take that data in, and then appended into Tinman itself and move the process along and determine that the next step would be a rate quote, which would require a human-based loan officer and then effectively transfer that to a human-based loan officer.

So, you're talking about fundamentally replacing the work that a traditional loan assistant or SDA, sales development assistant, would have done it better here. Now, to give you a context, back in 2021 when we were doing $58 billion of volume, we had over 1,500 SDAs and loan assistants. And I would say that the total spend on them was over $100 million a year. And Betsy is basically able to functionally do the task of these loan assistants and allow us to scale up. Betsy is now taking in 100% of our inbound phone calls that our loan officers can focus on helping consumers when they're ready to actually lock a rate, have a discussion across products or things like that that are licensable activities.

So, we think that the technology we've used on Betsy, the way we've developed Tinman, which really is fundamentally a decisioning engine on a tree-based data structure inside what is called a JSON blob, which is something that is really easy for LLMs to understand and then take through at a speed that is really unmatched.

We haven't seen anyone be able to bring the speed of response time, which, as you saw, was almost natural, about 800 milliseconds relative to the 3-second kind of response time that you see in chatbots or voicebots out in the industry. Nobody has been really able to engineer that in the way that we have, and that's why we felt comfortable launching it commercially and now have scaled it to 100% of inbound calls being actively taken by Betsy. And so, I think that we've done a lot of work on this, and we're just getting started. Today, Betsy is the worst that it will ever be. It gets better week-on-week, and we're very, very excited about what we're going to be able to do for our cost structure going forward.

Q

That's awesome. If I could with a quick follow-up. I mean, I know the company was founded with a digital-first approach. It's kind of in your DNA there. But I was wondering, how do you guys view the current TAM and how does that stack up versus where you think the addressable market can eventually get to? Thank you very much.

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

A

Yeah. I think that's another really great question. I think as we shared in the earnings call, right now the TAM for consumer direct mortgage companies in the purchase mortgage space is somewhere between 10% to 15%, right? So, while we don't have such a large market share as a company, we have a pretty sizable market share when it comes to the percentage of purchase loans that are done consumer direct.

What we're doing now with NEO Home Loans is dipping into a market that's four times bigger in the purchase market and really broadening the total TAM from just those folks who are looking to purchase online, which is like 10% to 15%, to people who are dealing with the traditional loan officer, realtor referral relationship, which is about 40% to 45%. And so, we think that taking Betsy and Tinman and powering the local lenders with our technology is going to enable us to tap a market size that's about 4x bigger than the one that we've been able to tap so far.

Operator: [Operator Instructions] And your next question comes from the line of Rayna Kumar with Oppenheimer. Your line is open.

Jake Kooyman
Analyst, Oppenheimer & Co., Inc.

Q

Hi, this is Jake Kooyman on for Rayna Kumar. Thank you for letting us ask questions. So, firstly, can you discuss your outlook for 2025 and any initial views on the operating environment you expect for next year?

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

A

Sure, sure. So, it's Kevin. I'll start and Vishal may want to supplement. Look, I mean, I think we kind of all watched the market together, right, where we sit around [ph] 4.40% (00:26:58) on the 10 year. We just posted rates this morning like we do every morning, we're just north of 7%. So, I think and the MBA and others have kind of softened their forecast for 2025 versus where they may have been a couple of months ago. So, I think we expect continued improvement in the market environment. I mean, our refinance volume was up off a small base albeit, but up massively in Q3. We've seen that others were as well just for the companies that are public and already reported.

And so, we assume we're going to get a slow grind lower in mortgage rates over the course of 2025. It's our base case, and we're planning accordingly. You've seen us take up marketing expense, you've seen us lean into growth. We pull back when it doesn't work. We lean in when it does. And so, I think our view on the operating environment is much of the same for next year, but modest improvements throughout the course of 2025. Unlikely on a linear basis, this is generally not the way capital markets work. But we expect on this call November of 2025, we'll be in a marginally better operating environment, and we're running the company accordingly.

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

A

Yeah. I mean, look, three years ago this time when the rate started first ticking up we were doing, 5% of our volume was purchase and 95% of our volume was refinance. We've had a tough couple of years, but we have pivoted the company super hard. And now, 71% of our volume is purchase mortgage, which I think is bigger than the bulk of our direct-to-consumer online peers.

And so, we've figured out how to do purchase mortgage online. We're cracking the code further and learning further from some of the partnerships we're going to be doing with the local retail operations out there. And I think that's just going to make us better. And so, if the market environment stays difficult, I think you'll just continue to see us improve our execution on purchase mortgage and continue to drive growth through superior customer acquisition cost, superior cost of manufacturing, and lower cost of production and greater efficiency and customer support through what we're doing with Betsy.

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

A

Yeah. I mean, it's an important point, right? NEO's specialty is purchase. We think we're getting stronger in purchase. There's a lot of pent-up demand for purchase, home purchase in this country, right? And we know all the reasons why it's been slow to get going around affordability, both rates and housing prices. But we feel like we're putting the best technology in the industry into the hands of these local experts and that should further drive our ability to penetrate purchase in a low refi volume environment.

Operator: And there are no further questions at this time. I would now like to turn the call back over to the CEO, Vishal Garg.

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

Thank you so much for joining us for our Q3 quarter earnings call. We really appreciate your support of our mission and our vision to make homeownership better for all Americans, and look forward to joining you in the coming months ahead for our Q4 call. Thank you.

Operator: This concludes today's conference call. You may now disconnect.