

## Equity Research

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### Giuliano Bologna

(212) 588-6583  
gbologna@btig.com

### Mark Palmer

(212) 588-6582  
mpalmer@btig.com

## Financials

### Mr. Cooper Group Inc.

#### 1Q19 Flash – \$51M of Discretionary Cash Flow, Operating Performance Exceeds Expectations, Higher than Expected MSR MTM

Mr. Cooper Group (COOP) before the market open this morning reported 1Q19 earnings. The company's servicing and originations segments operating performance both exceeded expectations while Xome came in slightly below our estimate. On the other side, the mark to market loss on the company's MSR assets was larger than expected.

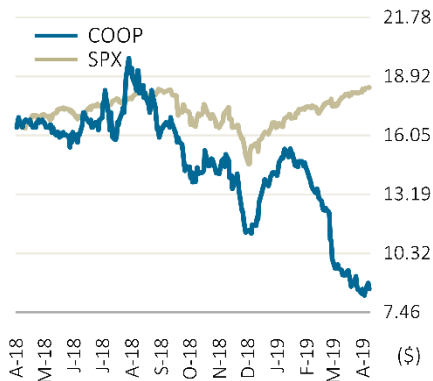
- ▶ **Cash flow** – COOP added new cash flow disclosure in the company's slide presentation. During 1Q19, COOP generated \$51M of discretionary cash flow during 1Q19. This number includes the capital deployed to fund capitalized originations MSRs and bulk replenishment. This provides the market with a way to calculate COOP's steady state cash flow generation and exceeded our estimate.
- ▶ As we highlighted in our previous note, we believe investors should focus on the cash flow and cash flow potential of the platform over quarter to quarter non-cash fair value adjustments.
- ▶ **Servicing** – Pre-MTM, Servicing reported \$98M of adj. pretax income exceeding our \$91M estimate. Profitability margin was 7.5 bps and 6.8 bps including project Titan expenses exceed our 6.3 bps estimate including Titan.
- ▶ **Originations** – Originations reported adj. pretax income of \$45m exceeding our \$24M estimate. Production margin was 68 bps in the quarter compared to our 43 bps estimate. 1Q19 includes a partial period of PacU results.
- ▶ **Xome** – Xome reported breakeven adj. pretax income slightly below our \$2M estimate. Assurant generated a \$7M loss offsetting \$7M of income excluding Assurant. Management noted the Assurant turnaround plan is progressing as planned.
- ▶ **MSR mark-to-market** – The \$293M MTM reduction exceeded our \$177M estimate. The adjustment reduced the fair value of COOP's MSR portfolio to 115 bps. The reduction reduced tangible book value per share to \$16.91.
- ▶ We continue to believe investors should focus on cash flow generation potential.

<b>COOP</b>	<b>\$8.60</b>
12 month target	\$21.00

### BUY

52 week range	\$8.29 - \$19.80
Market Cap (m)	\$781

#### Price Performance



Source: IDC

## BTIG Covered Companies Mentioned in this Report

MR. COOPER GROUP INC. (COOP, Buy, \$21.00 PT; Current Price: \$8.60; Analyst: Giuliano.Bologna)

## Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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### Company Valuation and Risk Disclosures

#### Mr. Cooper Group Inc. (COOP, Buy, \$21.00 PT)

**Valuation:** Our \$21 price target for COOP is based on 7.5X our FY20E adjusted earnings per share estimate of \$2.84.

**Risks:** Risks to our rating include: regulatory risks, the company's ability to access the capital markets for servicing and originations activities, the ability to refinance corporate debt, the ability to fund future growth, interest rate risk and economic risks.

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Additional Information Available Upon Request

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