BTIG

Mr. Cooper Group Inc.

Flash Note: COOP Reports Record Operating Results during 2Q19, $93M of Cash Flow and Leverage Down to 5.2X

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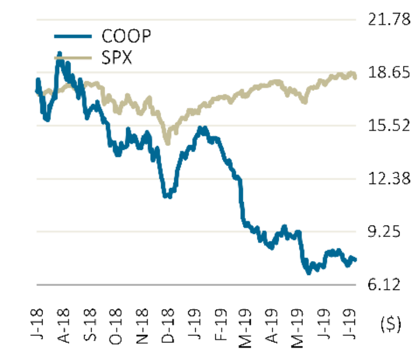
COOP	$7.61
12 month target	$21.00

Buy	
52 week range	$6.81 - $19.80
Market Cap (M)	$691

Price Performance



Source: IDC, BTIG Estimates and Company Documents
($ in millions, except per share amount)

WHAT YOU SHOULD KNOW: This morning before the market open, Mr. Cooper Group reported record pretax operating income of $118M, exceeding our estimate of $42M. The beat was driven by higher-than-expected originations volumes of $10B and segment pretax income of $118M exceeding our estimate of $8.4B and $55M. The strong performance drove Adj. EBITDA higher to $178M compared to our estimate of $108M which reduced the company's leverage ratio by 1.2X sequentially to 5.2X. Additionally, Servicing and Xome both exceeded expectations during the quarter. The only offset was a mark-to-market fair value adjustment on the company's MSR assets of $231M which reduced tangible book value to $15.95 per share from $16.91 in 1Q19. We continue to believe TBV is not the primary metric investors should focus on because it does not have meaning impact on COOP's ability to generate cash flow in the future supported by the company's $42M or 82.4% increase in discretionary cash flow to $93M during 2Q19.

- **Pretax operating income –** COOP reported consolidated pretax operating income of $118M above our $42M estimate. On a tax effected basis, we estimate the company realized Adj. EPS of $0.98, 180% above our $0.35 estimate.
- **Originations –** The segment outperformed our estimates by a significant margin with $5.8B of correspondent, $3.5B of direct to consumer and $0.7B of wholesale volumes. Pretax income was $118M exceeding our $55M estimate.
- **Adj. EBITDA and leverage –** During the period, COOP reported Adj. EBITDA of $178M, exceeding our $108M estimate. The increase reduced the company's leverage ratio by 1.2X sequentially to 5.2X, six quarters earlier than we had estimated in our model**.** Our 2Q19 leverage estimate was 6.2X and we had modelled COOP reducing leverage to 5.2X in 4Q20. We believe this should significantly reduce investor concerns about the company's leverage ratio since the company is within striking distance of their ~5.0X leverage target.
- **Servicing –** MSR unpaid principal balances increased by 2% sequentially to $644B and reported an operating margin of 6.7 bps. Segment pretax income was $107M exceeding our estimate of 81M.
- **Cash flow –** During 2Q19, COOP reported 2Q19 discretionary cash flow of $93M, a $42M or 82.4% sequential increase from 1Q19. As we have previously noted, we believe cash flow is a better metric than TBV due to the lack of correlation and accounting inconsistencies related to the fair value of MSRs. We believe the material increase in cash flow during a period of declining TBV supports our thesis that investors should focus on COOP's cash flow generation and potential.
- **Xome –** The segment completed the back office migration of AMS during July, 2019 and reported a strong increase in pretax income to $12M from $7M largely due to a $5M improvement in the Assurant Mortgage Solutions (AMS) impact and higher and from higher. Last quarter, AMS reported a pretax loss of $7M which improved to a loss of $2M in the quarter.

BTIG Covered Companies Mentioned in this Report

MR. COOPER GROUP INC. (COOP, Buy, $21.00 PT; Current Price: $7.61; Analyst: Giuliano.Bologna)

Appendix: Analyst Certification and Other Important Disclosures

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Company Valuation and Risk Disclosures

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

Valuation: Our $21 price target is based on 8.5X our FY20E Adj. earnings per share estimate of $2.44. Our $21 PT equates to an 12.7% cash flow yield and 1.07X our FY20E TBV.

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.

Other Disclosures

Additional Information Available Upon Request

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