

TPH Earnings Call Transcript

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Quarter: 2

Operator: Greetings, and welcome to Tri Pointe Homes Second Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, David Lee, General Counsel. Thank you, sir. You may begin.

David C. Lee: Good morning, and welcome to Tri Pointe Homes earnings conference call. Earlier this morning, the company released its financial results for the second quarter of 2025. Documents detailing these results, including a slide deck, are available at www.tripointehomes.com through the Investors link under the Events and Presentations tab. Before the call begins, I would like to remind everyone that certain statements made on this call, which are not historical facts, including statements concerning future financial and operating performance, are forward-looking statements that involve risks and uncertainties. A discussion of risks and uncertainties and other factors that could cause actual results to differ materially are detailed in the company's SEC filings. Except as required by law, the company undertakes no duty to update these forward-looking statements. Additionally, reconciliations of non-GAAP financial measures discussed on this call to the most comparable GAAP measures can be accessed through Tri Pointe's website and in its SEC filings. Hosting the call today are Doug Bauer, the company's Chief Executive Officer; Glenn Keeler, the company's Chief Financial Officer; Tom Mitchell, the company's President and Chief Operating Officer; and Linda Mamet, the company's Executive Vice President and Chief Marketing Officer. With that, I will now turn the call over to Doug.

Douglas F. Bauer: Good morning, and thank you for joining us as we report our results for the second quarter of 2025. Our teams delivered good quarterly results while executing in a challenging environment. We met both our top and bottom line guidance while continuing to build a scalable foundation for long-term growth. In the second quarter, we delivered 1,326 homes at an average sales price of \$664,000, generating \$880 million in home sales revenue. Homebuilding gross margin adjusted to exclude an inventory-related charge was 22.1%, supported by disciplined pricing, strong product positioning and continued cost control. Adjusted net income was \$69 million or \$0.77 per diluted share. While the long-term outlook for housing remains favorable due to strong demographics and the continuing undersupply of homes, the near term remains choppy. Continued policy uncertainty, geopolitical tensions have weighed on buyer confidence and several markets are experiencing rising housing inventory levels and a softer pricing environment. We generated 1,131 net new home orders in the quarter with a monthly absorption rate of 2.5 per average selling community. We continue to focus on balancing pace and price on a community-by-community basis and have moderated our start pace in an effort to normalize our level of spec inventory. By leveraging targeted incentives for design studio options and mortgage rate buydowns, we are addressing monthly payment sensitivity and buyer preferences for home personalization with the goal of optimizing margins. Our innovatively designed and well-located communities close to job centers and lifestyle amenities continue to attract a well-qualified buyer. Homebuyers and backlog financing through our mortgage company, Tri Pointe Connect, have an average annual household income of \$220,000, average FICO score of 753, 79% loan-to-value and average debt-to-income ratio of 40%, consistent with the last several quarters. We ended the quarter with \$1.4 billion in total liquidity, including \$623 million in cash. Our homebuilding debt-to-capital ratio was 21.7% and net debt to net capital stood at 8%. During the quarter, we further strengthened our financial position by extending and upsizing our revolving credit facility, expanding

liquidity through 2030. Backed by a strong balance sheet, our land investment strategy remains disciplined with a selective focus on opportunities that produce the strongest returns in our core markets. In the near term, we have an excellent land position that enables us to grow our ending community count in 2026 in the low double digits. During the quarter, we returned an additional \$100 million to shareholders through share repurchases. With our stock trading below book value, we accelerated repurchases, reducing our share count by 3.5% in the second quarter alone. For the year-to-date period ended June 30, we have repurchased 175 million, reducing our shares outstanding by 5.5 million or 5.3%. Since initiating the program in 2016, our share count has decreased by 46%. This reflects our confidence in the long-term value of the business and our commitment to enhancing per share returns for our shareholders. In the last 12 months, our book value per share has grown 12.4%. Our new market expansions in Utah, Florida and the Coastal Carolina remain on track and are expected to contribute to meaningful top and bottom line growth over time while broadening our geographic footprint. Development activity in these markets is progressing as planned, supported by strong local execution and scalable operating models. We expect a notable inflection in the performance from our new divisions beginning in 2027 as volumes increase and operating leverage improves, supporting our long-term growth strategy. While near-term conditions remain challenging, we are executing through a differentiated premium product offering, targeted incentives and continued focus on cost discipline and cycle time improvements. We remain confident in the long-term fundamentals underpinning housing demand, including favorable buyer demographics and the undersupply of housing over the last decade. The current market dynamics present not only challenges but also meaningful opportunities through disciplined capital allocation, including strategic land investments, prudent inventory management and opportunistic share repurchases, we are positioning Tri Pointe for continued strong returns and long-term shareholder value creation. With a healthy balance sheet, a seasoned team and a differentiated brand, we are well positioned to navigate evolving market conditions and deliver sustained growth and performance. With that, I'll turn the call over to Glenn. Glenn?

Glenn J. Keeler: Thanks, Doug, and good morning. I'd like to highlight some of our results for the second quarter and then finish my remarks with our expectations and outlook for the third quarter and full year for 2025. The second quarter produced strong financial results for the company. We delivered 1,326 homes, which beat the high end of our guidance range. Home sales revenue was \$880 million for the quarter with an average sales price of \$664,000. Our average sales price was lower than our previous guidance due to the mix of deliveries that were sold and closed in the quarter. Gross margin adjusted to exclude an \$11 million inventory impairment charge was 22.1% for the quarter, in line with our guidance. SG&A; expense as a percentage of home sales revenue was 12.6% and at the lower end of our guidance, benefiting from savings in G&A; and better top line revenue leverage as a result of exceeding our delivery guidance. Finally, net income for the year was \$69 million or \$0.77 per diluted share, also adjusted for the same inventory-related charge. Net new home orders in the second quarter were 1,131 with an absorption pace of 2.5 homes per community per month. For some market color, our absorption pace in the West was 2.5 for the quarter with the Inland Empire, San Diego and Seattle markets showing stronger demand. Softer markets in the West for the quarter were Sacramento and Arizona. In the Central region, the overall absorption pace was 2.3 for the quarter. With increased supply of both new and resale homes, Austin, Dallas and Denver showed softer demand during the quarter, while Houston continued to experience steady demand. Finally, in the East, absorption pace was 3.1% for the quarter with our D.C. Metro and Raleigh divisions showing strong demand, while Charlotte was consistent with the company average. During the second quarter, we invested approximately \$250 million in land and land development. We ended the quarter with over 34,000 total lots, 51% of which are controlled via option. During the second quarter, we opened 11 new communities and closed out of 13, ending the quarter with 151 active selling communities, and we continue to anticipate ending '25 somewhere in the range of 150 to 160 active communities. Looking at the balance sheet and capital spend. We ended the quarter with approximately \$1.4 billion of liquidity, consisting of \$623 million of cash and \$786 million available under our unsecured revolving credit facility. As Doug mentioned, during the quarter, we extended our revolving credit facility out to 2030 and increased the revolver size by \$100 million to a total borrowing capacity of \$850 million. At the end of

the quarter, our homebuilding debt-to-capital ratio was 21.7% and our homebuilding net debt to net capital ratio was 8%. Now I'd like to summarize our outlook for the third quarter and full year of 2025. For the third quarter, we anticipate delivering between 1,000 and 1,100 homes at an average sales price between \$675,000 and \$685,000. We expect homebuilding gross margin percentage to be in the range of 20% to 21%. We expect our SG&A; expense ratio to be in the range of 13% to 14%, and we estimate our effective tax rate for the third quarter to be approximately 27%. For the full year, we are updating our guidance to a lower range of deliveries based on the slower market conditions we have experienced in the spring. We now anticipate delivering between 4,800 and 5,200 homes for the full year with an average sales price between \$665,000 and \$675,000. We continue to expect our full year homebuilding gross margin to be in the range of 20.5% to 22%, which excludes the inventory-related charge we recorded this quarter. Finally, we anticipate our SG&A; expense ratio to be in the range of 12% to 13%, and we estimate our effective tax rate for the full year to be approximately 27%. With that, I will now turn the call back over to Doug for closing remarks.

Douglas F. Bauer: Thanks, Glenn. As we close, I want to express my sincere appreciation to the entire Tri Pointe team for your continued dedication, focus and alignment with our mission and values. Your commitment is the cornerstone of our success and played a vital role in delivering another solid quarter. I'm also proud to note that Tri Pointe was once again named to the Fortune 100 Best Companies to Work For in 2025, a reflection of the culture of excellence and collaboration we built together. Looking ahead, we remain confident in the long-term fundamentals of the housing industry, underpinned by favorable demographics and a persistent supply-demand imbalance. With a clear strategy, a disciplined operating model and an exceptional team, we believe we are well positioned to navigate short-term headwinds and seize the opportunities that lie ahead. Thank you again to our team members, customers, trade partners and shareholders for your continued trust and support. With that, I'll turn the call over to the operator for any questions. Operator?

Operator: [Operator Instructions] Our first question comes from Trevor Allinson with Wolfe Research.

Trevor Scott Allinson: I want to first ask about the implied 4Q volume guide based on your full year numbers. I think if I'm doing the math correctly, it implies you're going to do 1,500 or 1,600 deliveries in the fourth quarter. It's in line with where your backlog sits currently. Can you talk about your confidence in hitting that number? And did you increase your starts in the quarter to make sure that you had inventory in place to hit that number?

Glenn J. Keeler: Trevor, it's Glenn. Good question. We're going into the third quarter with plenty of move-in ready and spec homes to be able to hit that number. And like you said, the implied guidance is kind of consistent with the absorption that we're having actually adjusted down a little bit for seasonality. So we definitely have the starts to hit that guide.

Trevor Scott Allinson: Okay. Got you. Makes sense. And then second one is just on incentives and your expectations for the rest of the year. I think previously, you talked about expecting roughly 7% incentives hold the remainder of the year. You've maintained your gross margin guidance here. Are you still thinking that roughly 7% incentives is where you're going to be? We just heard a couple of other builders talk about expectations for incentives move higher. I was hoping to get some color on your thoughts on that here moving forward.

Douglas F. Bauer: Yes, Trevor, it's Doug. Incentives on revenues were 7.1% in the second quarter. They'll trend up slightly as we factored those into the seasonality of the back half of the year, which is implied in our gross margin guide.

Operator: Our next question comes from Stephen Kim with Evercore ISI.

Stephen Kim: Appreciate the color. I was curious if you could give a little bit of detail on the impairment charge of \$13 million in the quarter, kind of where was that? And also, I know that you guys, in addition to communities that you actually do impair, there's also communities that you subject to the impairment analysis if they're perhaps somewhat close. I was wondering if you could give us some insight into what sort of that watch list, if you will, what that looks like?

Glenn J. Keeler: Sure, Stephen. This is Glenn. The \$11 million impairment in the quarter was a Bay Area project. That's been a challenging project for some time. So based on the current market conditions, it just when you do that test, it failed the test, and so we booked the impairment this quarter. So nothing surprising there. It's just kind of a one-off project that was challenged. On the impairment

process for us, so what we do is any project that has a margin starting to get around that 10% range kind of comes on to a watch list for us. And we watch those projects and then we run impairment analysis if there's indicators of impairment, which is required from the accounting standards. So that's how we do it. Once it gets to that 10% range, we start watching it from an accounting perspective. Now we're always watching every project and the margin and trying to do the best we can to improve margins in our projects. But from a pure impairment accounting perspective, that's our process.

Stephen Kim: Yes. I guess my question -- go ahead.

Thomas J. Mitchell: Sorry, I was just going to tag on to maybe hit question. The list is not significant. And so we do have projects that are on that list, and they have been on that list, but we seem to continue to implement strategies to have those projects have consistent absorptions and work through that without getting into that impairment zone.

Stephen Kim: Would it be fair to say, Tom, that we have not seen in the last few months, a significant increase in the number of communities that have made that watch list?

Thomas J. Mitchell: No. I think, obviously, as absorption has slowed throughout the industry, it does put pressure on margins because of increased incentives. But again, it's not to anywhere near an alarming rate.

Stephen Kim: Okay. That's helpful. And then I was wondering if you could talk a little bit about absorptions maybe as they trended through the quarter on a monthly basis. I think you had said 3 months ago that April had kind of gotten off to a little bit of a tougher start. Just curious how in the end, that all wound up to sort of average out your 2.5 for the quarter.

Douglas F. Bauer: Yes, Stephen, it's Doug. The quarter absorption started decent in April, peaked in May and then trended down in the back half of June, which kind of follows some seasonal patterns. The early part of July is also very seasonal with the holidays and so forth. It's a choppy market to be honest with you, I've seen a lot worse conditions, and these are all short-term conditions that shall change and shall move on when you look at the fundamentals of the business. But it's not earth shattering at all.

Stephen Kim: Yes, I appreciate that. One last one, if I could. Glenn, you gave a range for gross margin, which I think is pretty consistent with what you've done before. It's a pretty wide range. And you haven't narrowed it here as you've progressed through the year. I was kind of curious, it seems -- if my math is right, it could potentially imply a gross margin in 4Q as low as 17%. I know you're not guiding to that. But I was curious, why didn't you tighten the range as you've progressed through the year? And what kind of environment could actually drive a gross margin as low as 17% in the fourth quarter?

Glenn J. Keeler: Well, like Doug said, it still is a choppy environment. There's a lot of moving pieces still to go the rest of the year. There's not a lot of backlog going into the fourth quarter. And so there's still a lot of sales to make. And so that's why we kept that wider range.

Operator: Our next question comes from Alan Ratner with Zelman & Associates.

Alan S. Ratner: My question is more kind of strategic in terms of how you're thinking about pace and price now. If I look at your orders the last 4 quarters, they're down 25% year-over-year and the group is down low single digits for comparison. And I know initially, you kind of flagged the price over pace strategy and certainly, your margins reflected that. But if I look at your guidance for the next couple of quarters, margins coming down quite a bit and reverting closer to where the peer group average is. So I'm curious how you're thinking about that interplay today? And what do you attribute the relative order weakness versus peers to? Because it would seem like from a price point perspective, you guys are in the right part of the market. Geographically speaking, you're not big in Florida, which is a big pain point for a lot of builders. So I'm just curious how you're thinking about that right now.

Douglas F. Bauer: Yes, Alan, it's Doug. We're going to continue to favor price over pace. Demand is, in my mind, is fairly inelastic. And the consumer confidence is really the driving force. As you know, and you see it all the time as all of us see, all these headlines that the consumer continues to see, including just the kind of disruption that we've seen just with the administration with tariffs and everything just creates a lot of uncertainty. So we're going to continue to favor price over pace. When you run sensitivities, it's pretty clear that you run your business that way to increase and maintain margins and profitability and earnings per share.

Thomas J. Mitchell: Alan, I think also the difference in margin, as you've highlighted, really relates to some of those orders that were driven in 3 and 4Q last year that have closed early this year versus

orders that were generated this year that just had higher incentive levels. So it's not necessarily a huge trend towards an increase as we go through the back half.

Alan S. Ratner: Got it. Okay. I appreciate that, Tom. And then I guess you kind of brought up the consumer uncertainty. I'm curious how you guys think about contingent sales given your exposure to the move-up buyer. Have you seen more concern among those buyers regarding their ability to sell a resale home? And have you changed the way you're approaching that from either a marketing perspective or just a willingness to accept contingent sales?

Linda Helen Mamet: Alan, this is Linda. Good question. We do use contingencies as a strategic part of our sales program. We are very disciplined with our home to sell contingencies. Currently, approximately 5% of our backlog is a home to sell contingency. We do set limits at each community as appropriate on how many home to sell contingencies we would carry at any one time. And because we do a lot of due diligence on each of the contingencies before we write the contract, our success rate is very strong. So we continue to see that as an important part of our sales program, but we're not overly reliant on it. And we do certainly in the move-up space, see customers who would like to sell their current home before buying ours, but they don't always have to sell their existing home. So sometimes that will get worked through in the process where they may end up carrying both homes for some period of time and still close [indiscernible].

Operator: Our next question comes from Jay McCannless with Wedbush Securities.

Jay McCannless: First question for me. I guess, what got you over the hump on closings for the quarter to beat the guidance? Was it one market in particular or just a couple of extra closings in every division?

Glenn J. Keeler: It was more broad-based, Jay. Like I said, I think the team did a good job of focusing on homes that were completed or soon to be completed and was able to concentrate their sales efforts on those homes to generate more volume in the quarter.

Jay McCannless: And then we've heard from some of your competitors, and I know you guys don't have a lot in the specific Bay Area, but some concern around demand in Northern California, tech job concerns, et cetera. Have you guys been hearing that from the field and maybe dive down a little bit also in Sacramento and fill in on what's going on -- what's happening there?

Thomas J. Mitchell: Jay, this is Tom. I'll take that one. Yes, Northern California has continued to soften throughout the second quarter, but we have not heard of job loss being a factor in that softness. As Doug mentioned, the underlying confidence and chaos that the consumer is feeling is really what we think is the obstacle to absorption pace. We are down in community count in Northern California as well. So I think that accounts for some of the year-over-year variance in orders. But as you look at it, we're well positioned in core markets, and we still think there's underlying demand in those markets for our product. And it's just a matter of that confidence factor coming back, and we think we'll be in good shape.

Douglas F. Bauer: Jay, I'd add, Southern California, as long as we're talking about California, actually, the IE San Diego is well above the company average. So every market across the country, we've got several 5 or 6 markets that are well -- absorbing well above company average. So it's a very choppy market. It's nothing to get all lathered up on. It's actually -- as I mentioned to -- I think it was Alan, I've seen a lot worse in my 35 years. So we're still seeing demand. And in Southern California, it's been actually pretty good out in the Inland Empire and San Diego.

Operator: Our next question comes from Mike Dahl with RBC Capital Markets.

Michael Glaser Dahl: I just wanted to follow up on some of the questions around kind of pace and how you're thinking about the back half. With the -- down to 2.5 a month, I think this historically has been or at least in recent years, kind of the lower bound at where you wanted to operate. So when you think about the back half of the year, obviously, normally, we'd get seasonal pressure, but are you reaching a level where you're thinking about trying to do more to hold that pace sequentially and keep that 2.5%? Or how should we think about that when you talk about that price versus pace balance, what that threshold is for you?

Douglas F. Bauer: Yes. I mean we factored in the fact that the back half of the year is definitely more seasonal. You'll have some divisions or projects moving below 2.5%. But again, we're going to continue to focus on price over pace. Overall, I still think 2.5-ish is probably a good number for the back half of

the year. It could trend down a little bit, it could trend up. As I mentioned earlier, it's very inelastic. So there's not -- just throwing more money at things doesn't really do anything. And so we -- our projects are well located, Main and Main. There's no reason to give away the store, so to speak. We were just actually up in the state of Washington. We have a project up there that's selling for over \$3 million. And it's like taking orders. So every market, every project is different.

Michael Glaser Dahl: Yes. That makes sense. And then just shifting gears back to the margin question around the wide range and the implied outcomes for 4Q. I know you have the range out there, but Glenn, I mean, the midpoint of that range is kind of 19-ish on 4Q. Is that really like based on what you're seeing today and the mix you can see and the specs that you can see? Is that kind of -- should we be thinking about the midpoint? Or do you really want kind of the whole range on the table at this point?

Glenn J. Keeler: No, I think the midpoint makes sense. That's kind of how we base our guidance is that midpoint, and that's what we see with the level of incentives that is currently flowing through if we had to pick -- still, like I said, there's a lot of orders still to make to get there, but we're driving that guidance towards the midpoint.

Operator: Our next question comes from Ken Zener with Seaport Research.

Kenneth Robinson Zener: I have a slew of questions here, so I appreciate your patience. First, can you address the rising variable SG&A; costs? And is that kind of the new baseline? And what's driving that -- higher as a percent of sales.

Glenn J. Keeler: Yes. It's really just a function of lower volume, right? So it's just less leverage on our fixed costs. It's not like we're spending...

Kenneth Robinson Zener: I'm referring to the variable piece.

Glenn J. Keeler: Well, there's still some fixed costs even in the S component, right? Because you're spending advertising dollars on new communities and there are salaries in the S component. So it's not all variable in the S.

Kenneth Robinson Zener: Got it. Okay. And then I guess -- and the same question goes for the fixed piece. It's down, obviously, year-over-year, but how should we think about that corporate versus the number of communities you have?

Glenn J. Keeler: We're obviously watching spending, right? I mean, obviously, the market is a little bit more challenged than it was last year. So spending is something that we're challenging and being really smart about. And so that's why you're seeing G&A; down a little bit year-over-year, but it's something we're going to continue to monitor and make sure we're as efficient as possible.

Kenneth Robinson Zener: And then as it relates to, right, there's starts, closings, inventory. Do you guys expect inventory levels to basically be down year-over-year, similar to where we are in 2Q?

Glenn J. Keeler: Yes. Yes. I think you're seeing a little bit slower in the land [indiscernible] than we were last year. And so that plays a part in it. And we're also working down our spec levels. And so we're hoping to end the year with less specs than we do now. And so that will be a factor as well.

Kenneth Robinson Zener: And then, Doug, this is one more for you or for Tom, I guess. But it's a big picture question. It's the main question I get from investors. So like your book value is up 12%. You guys are still executing well. You've derisked as a company in general, the industry is that way as well. But Doug, you mentioned the word inelastic demand. So one could attribute that to consumer uncertainty, but there's also the fact that home price to income, it's very unaffordable given a lot of historical metrics. So if -- how is the industry going to kind of solve that? If the companies are good, but the demand is just structurally lower because of affordability, therefore, the cyclical of the industry has diminished. How do you think that's going to kind of -- what are the puts and takes there for you? Because we could just say it's inelastic, right, it's so unaffordable to people. How do you kind of see this playing out?

Douglas F. Bauer: Well, I think the inelastic demand right now is due to buyer confidence, Ken. And when you look at our buyer profile, having average household income of \$220,000, they can afford all the house price that we provide in many cases. So -- but on a kind of a national basis, as I read the earnings calls and reports that are coming out, there's the entry-level side of the business, and they're having to give more and more incentives to move that product. So net-net, pricing is coming down. And I think even John Burns indicated that in some of his analysis. So long term, though, we think the fundamentals of the market are going to work quite well in the favor of the new homebuilders. And our

current expansion strategies are well timed instead of making some sort of M&A; announcement, we are expanding organically. So we're still -- and Tom and I are very bullish about the future. These short-term conditions, and you can analyze it and look at all the headlines and get all wrapped up in the short term. We look long term, we have a great land inventory, great community count that will grow low double digits next year. So we're well positioned for a housing industry that will continue to thrive as we look at it over the next 3 to 5 years.

Kenneth Robinson Zener: And if I could get one more in, I realize it's...

Douglas F. Bauer: Yes, that's -- one more question, Ken, and then we got to wrap it up.

Kenneth Robinson Zener: That's right. I'll catch you, I'll do it later.

Operator: Our next question comes from Alex Barrón with Housing Research Center.

Alex Barrón: Just wanted to ask what's your current build time on average? And is there any opportunity to keep improving it? And was there any improvement versus a quarter ago or a year ago?

Thomas J. Mitchell: Alex, this is Tom. Good question. It's certainly a focus area for us as we're looking at all areas to reduce costs and improve on cycle times. But our current average build time is 115 working days. So just about 5.5 months, almost 6 months on that. We're meeting our schedules. We're maybe a little bit ahead of schedule. So we're in process of doing some new initiatives around reducing cycle times. It's time to do that. We're implementing some new templates and schedules, and we'll be looking to improve on those numbers.

Operator: There are no further questions at this time. I would now like to turn the floor back over to Doug Bauer for closing comments.

Douglas F. Bauer: Well, thank you, everybody, for joining us on today's call, and we look forward to chatting with you all in October. Have a great summer. Thank you.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.