

TPH Earnings Call Transcript

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Quarter: 3

Operator: Greetings, and welcome to the Tri Pointe Homes' Third Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce David Lee, General Counsel at Tri Pointe Homes. You may proceed.

David Lee: Good morning, and welcome to Tri Pointe Homes earnings conference call. Earlier this morning, the company released its financial results for the third quarter of 2025. Documents detailing these results, including a slide deck, are available at www.tripointehomes.com through the Investors link and 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 Bauer: Good morning, and thank you for joining us today as we review Tri Pointe's results for the third quarter of 2025. I want to begin by recognizing our entire Tri Pointe team, their dedication and focus allowed us to deliver strong results in a period that continues to present challenges to the housing industry. In the third quarter, we exceeded the high end of our delivery guidance, closing 1,217 homes at an average sales price of \$672,000 generating \$817 million in home sales revenue. Our adjusted homebuilding gross margin, excluding \$8 million of inventory-related charges, was 21.6%, while adjusted net income was \$62 million or \$0.71 per diluted share. We remain focused on creating long-term shareholder value. During the quarter, we spent \$51 million repurchasing 1.5 million shares, bringing our year-to-date total spend to \$226 million, representing a total of 7 million shares. This activity has reduced our share count by 7% year-to-date and by 47% since we initiated the program in 2016, underscoring our disciplined approach to enhancing shareholder returns. Additionally, we also strengthened our liquidity by increasing our term loan by \$200 million with optionality to extend the maturity into 2029. We believe this incremental leverage is prudent, supporting capital efficiency, funding for our community count growth and continued flexibility to return capital to our shareholders. We ended the quarter with \$1.6 billion in total liquidity, including \$792 million in cash and a debt-to-capital ratio of 25.1% and a net debt to net capital ratio of 8.7%. Market conditions remained soft throughout the third quarter. Home buyer interest remains somewhat muted with lower confidence driven by slow job growth and broader economic uncertainty. However, we continue to see underlying demand homeownership among needs-based buyers. We anticipate that home shoppers are preparing to reengage when conditions stabilize, leading to more normalized absorptions. Our management team has successfully navigated multiple housing cycles, and we remain focused on near-term execution while staying aligned with our long-term growth strategy. In the short term, we are prioritizing inventory management, disciplined cost control and the sale of move-in ready homes while steadily increasing

the mix of to-be-built homes over time. For long-term success, we continue to invest in both our core and expansion markets with the goal of scaling our operations, consistently growing community count and increasing book value per share to drive sustained shareholder returns. We are encouraged by the progress of our new market expansions in Utah, Florida and Coastal Carolinas. Development activity is well underway and strong local leadership teams are in place. While initial contributions will be modest, we expect these divisions to generate meaningful growth beginning in 2027 and beyond as they gain scale. During the quarter, we are pleased to open our first two communities in Utah, a key milestone for that region. A cornerstone of our strategy is to invest in well-located core land positions close to employment centers, high-performing schools and key amenities. We currently own or control over 32,000 lots, position us well for community count growth in the years ahead. We expect to end 2025 with approximately 155 communities, and we anticipate growing our ending commuting count by 10% to 15% by the end of 2026. The majority of this growth will be driven by expansion in our Central and East regions. This disciplined growth strategy enhances our operating scale, increases geographic diversification, and positions Tri Pointe for sustainable, profitable growth as demand improves and our expansion divisions mature. At Tri Pointe, our product is primarily targeted to premium move up buyers with financial strength, seeking better locations, larger homes, curated finishes and elevated lifestyles. This segment has demonstrated resilience even amid shifting market conditions, supported by strong income profiles, down credit and larger down payments and our backlog reflects this strength. Homebuyers financing through Tri Pointe Connect, our affiliated mortgage company have an average household income of \$220,000 FICO score of 752, 78% loan-to-value ratio, an average debt-to-income level of 41%, consistent with recent quarters. These strong characteristics have reinforced the financial stability and quality of our customer base and the durability of our future deliveries. As consumer confidence improves, we expect pent-up demand to grow the pool of move-up buyers attracted to our premium communities and design-driven offerings that align with their lifestyle aspirations. Our premium brand community locations and innovative product design continue to differentiate Tri Pointe in the marketplace. We have the financial strength and operational discipline to invest through the cycle while returning capital to shareholders. Together, these strengths, along with an experienced management team, positions Tri Pointe to drive long-term performance and value creation. With that, I'll turn the call over to Glenn to provide additional detail on our financial results. Glenn?

Glenn Keeler: Thanks, Doug, and good morning. I'd like to highlight key results for the third quarter and then finish my remarks with our expectations and outlook for the fourth quarter and full year. The third quarter produced strong financial results for the company. We delivered 1,217 homes, exceeding the high end of our guidance. Home sales revenue was \$817 million for the quarter with an average sales price of \$672,000. Gross margin adjusted to exclude an \$8 million impairment charge was 21.6% for the quarter. SG&A; expense as a percentage of home sales revenue was 12.9%, which is 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 \$62 million or \$0.71 per diluted share, also adjusted for the same inventory related charge. Net home orders in the third quarter were 995 with an absorption pace of 2.2 homes per community per month. Regionally, our absorption pace in the West was 2.3, with the Southern California markets outperforming and the Bay Area experiencing softer market conditions. The Central region averaged 1.8 absorption pace for the quarter, with increased supply of both new and resale homes in Austin, Dallas and Denver impacted pace during the quarter, while Houston continued to outperform in the region. In the East, absorption pace was 2.8 led by strong results in our D.C. Metro and Raleigh division, while Charlotte was consistent with the company average. We invested approximately \$260 million in land and land development during the quarter and ended with over 32,000 total lots, 51% of which are controlled via option. Looking at the balance sheet. We ended the quarter with \$1.6 billion in liquidity, consisting of \$792 million of cash and \$791 million available under our unsecured revolving credit facility. As of the end of the quarter, our homebuilding debt-to-capital ratio was 25.1%, and our homebuilding net debt to net capital ratio was 8.7%. As Doug mentioned, we increased our term loan by \$200 million to a total outstanding amount of \$450 million and added extension rights that if exercised could extend the due date to 2029. The term loan is an effective source of additional liquidity to help fuel our future community count growth and other capital needs. Now I'd like to summarize our outlook for the fourth quarter and full year of 2025.

For the fourth quarter, we expect to deliver between 1,200 and 1,400 homes at an average sales price of between \$690,000 and \$700,000. We anticipate homebuilding gross margin percentage to be in the range of 19.5% to 20.5%. We expect our SG&A; expense ratio to be in the range of 10.5% to 11.5% and we estimate our effective tax rate for the fourth quarter to be approximately 27%. For the full year, we expect deliveries between 4,800 and 5,000 homes with an average sales price of approximately \$680,000. We anticipate our full year homebuilding gross margin to be approximately 21.8%, which excludes the inventory-related charges recorded year-to-date. Finally, we anticipate our SG&A; expense ratio to be approximately 12.5% 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 Bauer: Thanks, Glenn. In closing, I want to thank our team members, customers, trade partners, and shareholders for their ongoing trust and support. We're proud to have been recognized once again as one of Fortune 100 best companies to work for in 2025. A reflection of the culture and values that drive our performance. While the near-term environment remains uncertain, our long-term outlook is very positive, and we are confident that our strategy, our people and our financial and operating discipline, position Tri Pointe Homes to deliver sustainable growth and long-term shareholder value. With that, I'll turn the call over to the operator for any questions.

Operator: [Operator Instructions] Our first question is from Paul Przybylski with Wolfe Research.

Paul Przybylski: I guess, first off, could you provide some color on the monthly cadence of your orders and incentives through the quarter?

Glenn Keeler: Sure, Paul, this is Glenn. The monthly cadence was pretty consistent actually through the quarter. If you look at absorption, it was roughly the same each month, with September being a little bit better than August. And then on incentive, incentives were also consistent throughout the quarter. Incentive on deliveries were 8.2% for the quarter.

Paul Przybylski: And then I guess your absorptions are getting down close to the 2 level. Is there an absolute floor that you want to maintain on your sales pace, i.e. increase incentives to keep a level?

Douglas Bauer: Paul, it's Doug. It's a good question. I mean the industry is kind of working through a big -- it's like tudging through mud right now. And somewhere between 2 and 2.5 is kind of where everybody seems to be landing and if you're looking at -- we're really looking at a very strong community count growth in '26. So as we look towards that, and even under similar market conditions, we've got some pretty nice growth in orders going forward.

Operator: Our next question is from Stephen Kim with Evercore.

Stephen Kim: If I could just follow up on Paul's question here on the incentives, you said 8.2%, I think, of revenues or home sales. Were -- how much of those were financial incentives, if you sort of include closing costs and rate buydowns for purchase commitments and that sort of thing?

Glenn Keeler: Stephen, it's Glenn. You're correct. It was 8.2% of revenue in the quarter and about 1/3 of those were financing related, including closing costs.

Stephen Kim: Okay. And what do you -- how about forward purchase commitments specifically, do you use them very much?

Linda Mamet: Stephen, this is Linda. Yes, we do. We primarily use forward commitments for advertising purposes and they do have good value in driving additional interest in traffic. But ultimately, as Glenn said most of our customers really don't need to have a significantly lower interest rate to qualify for the home, so they prefer to use more of their incentive dollars and design studio personalization.

Stephen Kim: Yes. So like if you think of 1/3, let's say, the 35% or whatever that are financial incentives, how much of that 1/3 would you say is forward purchase commitments?

Linda Mamet: It's very small, under 1%.

Douglas Bauer: Yes, very small number.

Stephen Kim: Yes. That's great. And then your average order ASP, not your closings ASP but your order ASP has come down to, call it, a 654, I think, this quarter. Last quarter, it was like about 665. So is it reasonable to think that eventually your closings ASP is going to be at roughly that kind of level, 650, 660?

Glenn Keeler: It is, Stephen. I mean the mix within the quarter does play a part. But when you look at our growth next year of a lot of Central and East regions, and those do carry a little bit lower of an ASP versus the West. And so just -- it's really just mix for us more than anything else.

Operator: Our next question is from Jay McCanless with Wedbush Securities.

James McCanless: First one, the SG&A; guide for the fourth quarter, it looks like you guys are getting much better leverage than what the top line would suggest. Are there some onetimes in there? Can you talk about how you're able to potentially get this figured SG&A; to sales number?

Douglas Bauer: No. We're all specific onetime there, Jay. It is just a little bit more revenue in the quarter with a higher delivery number, and that's what's really driving it.

James McCanless: Okay. And then kind of -- that was actually going to be my next question. The gross margin guide is better than we were expecting. Is there some mix in there, more move up? Anything you can give us on that?

Glenn Keeler: A little bit of mix. I think some of the divisions that continue to outperform our strong margin divisions like when you look at like Houston, Inland Empire and Southern California things like that have driven the mix of margin to our benefit. So that plays a little part into it, Jay.

James McCanless: And then one more, if I could. Just kind of thinking about the newer markets you all discussed and just wondering what you all think ASP might look like next year, just given some of the smaller medium price markets that you're going to be expanding into?

Glenn Keeler: We'll give that guidance next time, Jay, as we kind of roll out the plan and see what that looks like. But I don't think you're going to be too different than where we're at this year.

Douglas Bauer: No, we're not getting significant contributions out of our new expansion divisions yet next year. So it should have a minimal impact.

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

Alan Ratner: Can you just update us on your spec position and strategy and how you're thinking about spec just in terms of the contribution to the business? And I guess just thinking forward to '26, you're going to enter the year with a backlog that's down quite a bit. So -- are you going to lean heavily on spec next year to kind of bridge that gap? Or is that kind of a TBD based on what happens in the spring?

Douglas Bauer: Its Doug, Alan. We've got about 3/4 of our orders are running at specs as into the end of the year. All the builders have a little bit more inventory than what they anticipated. So we'll burn through that inventory going into the first quarter or so of next year and then get to a more balanced approach. Again, demand is very inelastic and we're going to continue to focus on price over pace as we go into the new year. We're just assuming similar market conditions. What we're really focused on is that strong community count growth even at similar market conditions, as I mentioned earlier, we'll have a really good order growth going into '26 and then '27. So we're really looking to the future while we've been dealing with some of the obviously, the challenges the market has posed to the entire industry. So that's kind of how we're looking at our approach.

Linda Mamet: And just to add to that, Alan, we did reduce our total spec inventory by 17% quarter-over-quarter.

Alan Ratner: Got it. Linda, is that total specs under construction or completed homes specifically?

Linda Mamet: Both together.

Alan Ratner: Got it. That's the total number. Perfect. Doug, you mentioned community count growth next year several times. I'm just curious, when you think about the pricing strategy there. Obviously, you guys have been very steadfast in your approach. When you open up communities, how do you think about pricing on those? Is the intention to kind of maybe come out of the gate with more attractive pricing and build up a backlog as you -- and then raise prices through the life cycle of the project? Or are you kind of maintaining a similar strategy to your active communities like you have an idea of what the value is and you're going to come to market with that price and whatever the absorption is, that's what it's going to be for the time being.

Douglas Bauer: Yes. No, Tri Pointe, as you know, Alan, is more of a premium brand proposition. So we look at our value proposition as it enters the market. Sure, you'd love to start with some momentum, but there's not a any sort of material pricing thought process there because we're building along Main and Main, great locations, close to employment and great amenities. So the value proposition is what we're looking at. And frankly, as you said, I'm really -- my lens is to the future. We've been dealing with choppy market conditions, in my mind, for about 18 months. So -- and if it's more of the same next year,

so be it, but we're going to have a strong community count and we'll price the product appropriately to the marketplace to have the right value proposition that we propose.

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

Unknown Analyst: Is Chris on for Mike. Can you just talk through your initial thoughts around the administrations, affordable housing push? What conversations have you had to date? And how are you thinking about the opportunities and risks to your operating and capital allocation strategy?

Douglas Bauer: Yes. No, obviously, several builders have already made comments on that, and we're kind of the tail wagging the dog here, so to speak. But we share the administration's goal of providing more housing in the U.S. As Duly noted, I mean, the industry has been underbuilt and been doing this for 35 years. It kind of started out to the great financial crisis that makes me very old. But we welcome working with the relevant stakeholders at the federal, state and local levels. It's a very complicated interrelated discussion. Most of it happens at the local and state level but we look forward to working with the administration wherever Tri Pointe can help. We will build -- I mean we've got 32,000 lots that we own and control. We're opening very strong community count growth of up to 15% next year. So we'll be doing our share of bringing in more communities that will be attainable for our buyer profile.

Unknown Analyst: Makes sense. Yes, the community count growth was definitely encouraging. And just shifting to the 4Q gross margin guide. Could you just help bracket some of the big moving pieces moving pieces around the sequential step down in gross margin? How much of that is incremental incentives, mix, stick and brick, just help frame that for us.

Glenn Keeler: Yes. This is Glenn. Good question. And it's not really stick and bricks or anything like that. I think it's a little bit of mix but also just we've increased incentives as we've gotten through the year. We have spec homes to sell and close within the quarter, and those generally carry a little bit higher of an incentive. So all that kind of goes into that margin guide.

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

Kenneth Zener: I am hoping you can walk us through kind of the logic, not giving guidance or anything, but just kind of understand the cadence. So looking at starts and orders, it looks like you guys did about 500 starts this quarter in the third quarter versus orders that were higher than that. So as we exit the year, how are you thinking about starts versus orders because your inventory is down -- units are down about 30% year-over-year. So I'm just trying to understand, since you're talking about opening communities, And Doug, I think you just said upwards of 15%? Or is that what you had said as well community growth next year potentially?

Douglas Bauer: We indicated that community count growth will be 10% to 15%...

Kenneth Zener: So I'm just trying to see how we actually get these right, the units in the ground, which could portend future closings. So that's why I'm focusing on the starts versus the order and how you're thinking about that.

Thomas Mitchell: Yes, Ken, this is Tom. It's a great place to focus on as we've been focused on it as well. As Doug mentioned earlier in the Q&A, we're focused on getting our business back to a more balanced approach of spec to be build. And you're right on with our starts for Q3 was about 577 and that's down significantly from where we were in Q1 and Q2. But again, it's relative to that balanced approach. I think you'll see Q4 starts more comparable with what Q3 was just because of the amount of in-process under construction homes that we have available, and that's our #1 goal to move through that inventory. And then after that, we'll move to a more normalized strategy, which takes into account absorption on a community-by-community basis.

Kenneth Zener: What I heard you say 4Q starts is going to be similar to 3Q. Is that right? I mean that means you're ending inventory. I'm just trying to imagine the growth you're having in community count with the actual contraction in your inventory units. I guess I'm trying to -- is that -- I think if there's some greater inflection that I don't understand.

Thomas Mitchell: No, I don't think you're missing anything there. I mean as you look at it on a community-by-community basis, obviously, when we're moving into new communities, we're making the necessary starts relative to our anticipated demand. But where we have existing communities, obviously, we have excess inventory that we're going to be working through before we move to a more normalized balance start strategy.

Kenneth Zener: Appreciate it. And then on the community count growth, most of that G&A, the fixed

G&A; already kind of loaded in there. Is there any big lift we should expect there?

Glenn Keeler: Not too much of a lift on the G&A; side, maybe some incremental -- that's more field than sales that will exceed to open those communities, but...

Operator: There are no further questions at this time. I'd like to turn the floor back over to Doug Bauer for closing remarks.

Douglas Bauer: Well, thank you, everybody, for joining us today. We're looking forward to sharing our growth plan and strategy for 2026 and beyond with you at our next quarter's call. And as we go into 2026, we're very excited and bullish about the future for housing. So thank you, and talk to you next quarter.

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