Builder

New Home Reports $2.5 Million Profit

Deliveries rise on change in mix between owned projects and JVs

July 29, 2016

The New Home Company Inc. (NYSE: NWHM), Aliso Viejo, Calif, on Friday reported net income of $2.5 million, or $0.12 per diluted share, for the second quarter of 2016 ended June 30, compared to net income of $0.4 million, or $0.03 per diluted share, in the prior year period. Analysts were expected a profit of 10 cents per share.

The year-over-year improvement in net income was primarily attributable to a 139% increase in total revenues, a 1,880 basis point reduction in selling, general and administrative ("SG&A") expenses as a percentage of home sales revenue, and a $0.7 million increase in joint venture income.

New Home Company's Coral Canyon - Crystal Cove / Plan 1B in Newport Coast, Calif.
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Total revenues for the 2016 second quarter were $108.9 million, compared to $45.6 million in the prior year period. Net income attributable to the company was $2.5 million, up from $0.4 million in the prior year period. The year-over-year improvement in net income was primarily attributable to a 139% increase in total revenues, a 1,880 basis point reduction in selling, general and administrative ("SG&A") expenses as a percentage of home sales revenue, and a $0.7 million increase in joint venture income.

Wholly Owned Projects

Home sales revenue for the 2016 second quarter was $78.8 million, compared to $19.2 million in the prior year period. The increase in home sales revenue was driven primarily by a 258% increase in deliveries that was due to a shift to more wholly owned communities and a 15% increase in average selling price to $1.8 million.

Home building gross margin percentage was 12.0%, compared to 13.6% in the prior year period. Adjusted home building gross margin percentage, which excludes interest in cost of home sales, was 13.3%, compared to 14.2% in the prior year period. The year-over-year decrease in gross margin percentage was due to a mix shift in deliveries. Based on the homes currently in backlog, we anticipate that our gross margin percentage will improve in the back-half of the year as compared to the 2016 second quarter.

SG&A expense ratio as a percentage of home sales revenue was 13.8% versus 32.6% in the prior year period. The improvement in this expense ratio was largely attributable to a 311% increase in home sales revenue, which was driven by the significant increase in new home deliveries resulting from the growth in our wholly owned operations.

New home orders were up 60% to 64 homes, compared to 40 homes in the prior year period. The company's monthly sales absorption pace was consistent with the prior year period at 1.9 sales per average selling community. The company increased its selling communities by 50%, ending the quarter with 12 communities, compared to eight as of the end of the prior year quarter. The dollar value of the company's wholly owned backlog at the end of the 2016 second quarter was up 104% year-over-year to $278.0 million and totaled 125 homes, compared to $136.6 million and 65 homes in the prior year period. The average selling price of homes in backlog was $2.2 million, up 6% over the prior year.

Fee building revenue for the 2016 second quarter increased 14% to $30.0 million due primarily to an increase in fee building construction activity. Fee building gross margin was $1.7 million, or 5.7%, compared to $1.2 million, or 4.6%, in the prior year period.

The company’s share of joint venture income for the 2016 second quarter was $3.9 million, compared to $3.3 million in the prior year period. The increase in joint venture income was driven by a 20% increase in JV total revenues, a 480 basis point improvement in home building gross margins, and a benefit related to the close-out of a Southern California joint venture.

Data on the JVs, which does not conform to GAAP standards but was reported for informational purposes, included:

Total revenue of the JVs was $70.1 million and net income was $10.2 million, compared to $58.2 million and $7.6 million in the prior year period, respectively. Home sales revenue of the JVs was $47.7 million, compared to $42.6 million in the prior year period. Home building gross margin percentage generated by the JVs during the quarter increased to 25.6%, compared to 20.8% in the prior year period.

At the end of the 2016 second quarter, the JVs had three selling communities, down from 10 at the end of the prior year period. As a result of the 70% decline in JV selling communities, new home orders from JVs for the 2016 second quarter decreased 71% to 30 homes as compared to 103 homes in the prior year period. In addition, the dollar value of homes in backlog from unconsolidated JVs at the end of the 2016 second quarter was down 70% to $72.0 million from 76 homes, compared to $238.3 million from 187 homes in the prior year period. We expect to open seven new home building JV communities by the end of 2016, five of which will be in the McKinley Village master plan in Central Sacramento.

Balance Sheet and Liquidity

As of June 30, 2016, the company had real estate inventories totaling $403.4 million, of which $306.2 million represented work-in-process and completed homes (including models), $60.8 million in land and land under development, and $36.4 million in land deposits and pre-acquisition costs. The company owned or controlled 1,485 lots through its wholly owned operations (excluding fee building and joint venture lots), of which 1,010 lots were controlled or under option. As of June 30, 2016, the company had $50.9 million in liquidity, which consisted of $29.8 million in cash and cash equivalents and $21.1 million in availability under its revolving credit facility. The company ended the 2016 second quarter with $242.9 million in total outstanding debt, with a debt-to-capital ratio of 52.1% and a net debt-to-capital ratio of 48.7%*.

New Home said it expects to end the year with home sales revenue of between $450 million and $500 million, fee building revenue of $130 million to $150 million, income from unconsolidated joint ventures of $10 million to $11 million, a wholly owned active year-end community count of 13 and a Joint venture active year-end community count of 9.

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