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Green Brick Partners, Inc.

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Earnings Call

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Call Participants

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ANALYSTS

Carl Edwin Reichardt
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Presentation

Operator

Thank you for standing by. My name is John, and I will be your conference operator today. At this time, I would like to welcome you to the Green Brick Partners, Inc. First Quarter 2025 Earnings Call. I will now turn the call over to Jeff Cox. Interim Chief Financial Officer. Please go ahead.

Jeffery Cox
Interim CFO & Principal Accounting Officer

Good afternoon, and welcome to Green Brick Partners Earnings Call for the First Quarter ended March 31, 2025. Following today's remarks, we will hold a Q&A session. As a reminder, this call is being recorded and will be available for playback.

In addition, a presentation will accompany today's webcast and is also available on the company's website at investors.greenbrickpartners.com. On the call today is Jim Brickman, Co-Founder and Chief Executive Officer; Jed Dolson, President and Chief Operating Officer; and myself, Jeff Cox, Interim Chief Financial Officer. Some of the information discussed on this call is forward-looking, including the company's financial and operational expectations for 2025 and beyond.

In yesterday's press release and SEC filings, the company detailed material risks that may cause its future results to differ from its expectations. The company's statements are as of today, May 1, 2025, and the company has no obligation to update any forward-looking statement it may make. The comments also include non-GAAP financial metrics. The reconciliation of these metrics and the other information required by Regulation G can be found in the earnings release that the company issued yesterday and in the presentation, which is available on the company's website. With that, I'll turn the call over to Jim. Jim?

James R. Brickman
Co-Founder, CEO & Director

Thank you, Jeff. In addition to reporting some of our record first quarter results, I would like to congratulate Jeff Cox in his new role as Interim Chief Financial Officer. Jeff joined Green Brick back in 2023. And since that time, he has been busy learning our culture, business and improving the collaboration among our accounting, finance and IT departments. Jeff has already proven to be an invaluable asset, bringing over 2 decades of extensive finance and accounting expertise within the homebuilding industry, including his tenures at Richmond American Homes and Lennar which provides a strong foundation for his leadership during the transition.

Furthermore, I'm delighted to congratulate Bobby Samuel on his promotion to Executive Vice President of Land. Since joining Green Brick in 2018, Bobby has been instrumental in shaping our strategic land and lot positions and strategy that I will talk a bit more about later. As Land is the primary driver of our profitability and industry-leading margins, Bobby and his team are a critical component of our company's tremendous growth over the last several years. We are excited to see both Jeff and Bobby embrace their new roles and contribute their considerable talents to the future success of Green Brick.

Moving to our results. Despite consistent affordability challenges, we started 2025 with strong results, thanks to our strategic focus on infill and infill adjacent locations, coupled with our self-development strategy and total avoidance of the high cost of capital associated with land banking. In the first quarter, we closed 910 homes and group home closings revenues by 11.8% year-over-year to $495 million, a record for any first quarter.

Our homebuilding gross margin of 31.2% continued to lead the homebuilding industry. Net income attributable to Green Brick during the first quarter was $75 million and diluted EPS was $1.67 a share. Our book value grew 25% year-over-year to $37.09 per share. Net new home orders of 1,106 broke our previous record by 2.2%. Our exceptional team played a crucial role in our strong results in a challenging environment, and I would like to personally thank each of our associates for their hard work.

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We recognize that economic uncertainty is impacting the market from various fronts, persistently high interest rates, tariffs and trade wars, government workforce reductions, funding cut immigration restrictions and the sharp decline in stock prices have eroded consumer confidence. While the shifting macroeconomic landscape presents headwinds for the entire industry, we believe the core strengths that have driven Green Brick's success over the past decade will enable us to navigate any challenges with greater confidence and flexibility.

The essence of our business has been and will always be land, which is a starting point of every builder's profitability. We understand that land has risks, and we mitigate those risks by having decades of experience in our markets, using conservative underwriting, having an investment-grade low leverage balance sheet. Our approach to land has allowed us to produce homebuilding gross margins in excess of 30% even with these economic headwinds.

During the first quarter, approximately 80% of home closings revenue was once again generated from infill and infill adjacent submarkets. We believe our superior land and lot positions in stronger markets like DFW will continue to provide a significant advantage in navigating market turbulence. Finished lot costs, another headwind that the industry is facing as it grows more committed to the land light model, will have much less impact on Green Brick because we own 86% of our land and self-develop nearly all of our lots.

This strategic approach of avoiding retail land prices and the future compounding impact associated with land banking allows us to more effectively and efficiently control our lot costs, development and delivery time lines during uncertain periods. We are under no pressure to purchase lots if the market slows to meet the contractual takedown requirements associated with land banking. The upfront capital, entitlement expertise dedication and effort required to self-develop large, highly amenitized long-term master planned communities are significant, which is a deterrent for many large public homebuilders.

However, being able to undertake and successfully and cost effectively complete these complicated projects is a differentiator that we believe is one of our core strengths both in the short-term volatile conditions and in the longer term. We believe our large master plan communities will continue to deliver impressive financial performance and returns to our shareholders, while also providing outstanding value to homebuyers. We believe that investing significantly in desirable locations, premium amenities, and other high-quality enhancements will create an attractive living environment that appeals to prospective homeowners and provides value to existing homeowners over the longer term.

This strategy has cultivated a strong reputation for us within our local markets. We rarely bid for land deals, which often leads to overpaying for land. We particularly avoid the highly competitive bidding process for deals with shorter durations of 2 to 3 years sought by land bankers. Land sellers desire to work with us because they recognize we are not just another homebuilder our willingness to acquire raw land with various entitlement complexities is proven out with our strong long-term relationships with land sellers, ensuring value for our neighborhoods. We believe we are viewed as a reliable partner who possesses the balance sheet to close deals quickly who has the expertise to navigate municipal and local government processes efficiently and who build a superior product at compelling values.

We recognize the importance of maintaining affordability in our neighborhoods. However, we are committed to avoiding a race to the bottom. To succeed in the long run, our goal is to develop neighborhoods of lasting value. Periods of disruption and market transition can lead to new opportunities. We have the capital and flexibility to grow and be opportunistic when the right opportunities present themselves. At the end of the first quarter, our total debt-to-capital ratio stood at only 14.5% and net debt to total capital of 9.8%.

Our total deployable capital is currently over $430 million. We will continue to focus on strategically growing our land pipeline by acquiring only high-quality assets in desirable locations regardless of the economic cycle. In Q1 2025, the Board authorized $100 million in share buybacks, and we repurchased $38.3 million of our stock through April. We will continue to evaluate our capital allocation to maximize shareholder value.

Finally, while we acknowledge short-term macroeconomic headwinds, we are still optimistic about our markets and industry over the long term. We believe that household formation among millennials and Gen

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Z will continue to drive demand while the housing market remains undersupplied by an estimated 4 million to 7 million units. We remain focused on growing our business especially our Trophy brand, with our highly diversified brands, we are well positioned to capitalize on the demand from all segments of prospective homebuyers.

With that, I'll now turn it over to Jeff to provide more detail about our financial results. Jeff?

Jeffery Cox
Interim CFO & Principal Accounting Officer

Thank you, Jim. I am incredibly honored for the opportunity to serve as interim CFO of Green Brick, and I'm excited to bring my dedication and experience to help drive growth and success for our stakeholders. Moving on to the financial results. Home closings revenue for the first quarter increased 11.8% year-over-year to $495 million, a record for any first quarter in company history. The record revenues were predominantly driven by a 10.8% increase in home closings to 910 units. The increase in home closings was attributable to: one, a 10.6% year-over-year increase in average active selling communities; two, increased levels of finished and finishing spec home inventory entering the quarter; and lastly, continued healthy demand for our homes.

Closing ASP increased by 1% year-over-year to $544,000. Trophy, our primary growth engine, represented 54% of total deliveries and 40% of total home closings revenue in the first quarter of 2025. During the first quarter, homebuilding gross margin was down 220 basis points year-over-year to 31.2%. The decline was primarily due to higher incentives as a result of elevated mortgage rates and economic uncertainties, but it is still the highest homebuilding gross margin amongst our public homebuilding peers.

SPNA is a percentage of residential unit revenue for the first quarter decreased 30 basis points year-over-year to 11.1%. We will continue to focus on optimizing SG&A to maintain efficient overhead as market conditions shift. As a reminder, we sold our 49.9% interest in Challenger Homes in Q1 of last year. Challenger Homes contributed $9.5 million or approximately $0.21 per share in Q1 of 2024. As a result, net income attributable to Green Brick decreased year-over-year 9.9% to $75 million and diluted earnings per share for the first quarter was down 8.2% to $1.67 per share.

It is important for our investors to know that excluding the impact from Challenger Homes, diluted earnings per share in Q1 of 2025 would have increased 3.7% year-over-year. Net new home orders during the first quarter grew 3.3% year-over-year to 1,106, a new company record. The average sales price for new orders decreased 6.3% to $537,000 as trophy who primarily caters to first time and first-time move-up buyers represented a larger share of units increasing from 44% in the first quarter of 2024 to 50% in the first quarter of this year.

As a result, revenues from new home orders decreased 3.2% year-over-year to $594 million. Even with strong home closings during the first quarter, our ending backlog value increased 29% sequentially and to $594 million due to healthy new orders. Trophy,, primarily a spec home builder, continue to represent a low percentage of overall backlog revenue at approximately 14%. As a result, backlog ASP was $688,000 as opposed to our closed homes average sales price of $544,000, up 90 basis points year-over-year. We adjusted our starts down to 865 during the first quarter as we are carefully monitoring inventory levels and market conditions.

Total homes under construction increased 2.8% to 2,296. Spec homes under construction as a percentage of total homes under construction decreased sequentially from 76% at the end of 2024 to 64% at the end of the first quarter 2025 and due to strong demand for quick move-in homes in a high interest rate environment, coupled with fewer spec starts. We will continue to focus on balancing our starts to match our sales pace and with our self-development focus, we were able to adjust our development time lines to more efficiently manage our capital.

Our ending community count increased 5% year-over-year to 103, 35 of which were trophy communities. Our sales pace for the first quarter was 10.6 homes per average active selling community or 3.5 per month, and our cancellation rate remained low at 6.1% during the quarter, which was once again the lowest among public homebuilding peers. We recognize the heightened importance of liquidity in the

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current period of economic uncertainty and market volatility. At the end of the first quarter, our net debt to total capital ratio was 9.8% and our total debt to total capital ratio was only 14.5%, which was down 380 basis points year-over-year to the lowest year-end level since 2015.

This was also among the best of our public homebuilding peers. 100% of our debt at the end of Q1 2025 was at a fixed rate, averaging 3.4% per annum. Our investment-grade balance sheet and low financial leverage provide us with flexibility to navigate and adapt to evolving market conditions, ensuring we have capital available for strategic opportunities as they arise.

With that, I'll now turn it over to Jed. Jed?

Jed Dolson
President & COO

Thank you, Jeff. First, I would like to address the recent developments related to tariffs and immigration policies. Externally, we are actively engaging with our suppliers and vendors to assess the magnitude of potential disruptions to our supply chain. While the precise impact of tariffs remains fluid, we believe our relationships with major national suppliers position us well to navigate these headwinds.

Furthermore, as the third largest builder in Dallas-Fort Worth and one of the top 10 builders in Atlanta, our scale provides additional leverage with local vendors. On the labor side, we continue to see healthy labor supply and availability. Our build times for homes that completed construction in the first quarter averaged 5.2 months, consistent with the last quarter, but down year-over-year from 5.5 months.

Internally, we are rigorously reviewing all cost line items to identify opportunities for reduction and efficiency improvements. Importantly, our homebuilding gross margins remained above 30% during the first quarter, providing us with greater flexibility to absorb potential tariff increases compared to many of our peers. Despite a more challenging housing and overall economic environment, we experienced a healthy spring selling season with typical seasonality, which aligned with our first quarter expectations.

We are pleased with our net new orders for the first quarter, which increased 3.3% year-over-year and 26% sequentially to 1,106, a company record. Orders in January accelerated by over 30% from December and further accelerated in February. Demand in March remained consistent compared to February. As Jim discussed earlier, while we are not immune to the impact from the elevated mortgage rates or economic uncertainties, and our concentration of infill and infill adjacent locations continues to provide a significant advantage during the spring selling season.

Overall incentives for new orders increased only 30 bps sequentially from 6.4% of average sales price in Q4 of '24 to 6.7% in the first quarter of 2025. We Moreover, incentive levels declined steadily each month during the quarter, ending at 6.3% in March. During the first quarter, Trophy's net new orders grew 15% year-over-year and contributed 50% of net new orders by volume. Trophy's cancellation rate for the quarter was 6.5% compared to the company average of 6.1%. Trophy, which primarily targets entry-level and first-time home buyers as homebuyers who experienced higher affordability pressures and this elevated interest rate environment. Trophy responded by offering rate buy-down programs and incentives toward closing costs to further assist our homebuyers in addressing these affordability challenges.

Our other brands in the Dallas-Fort Worth market continued to perform as expected. Incentive levels for South Gate, our luxury brand in Dallas-Fort Worth, continued to decrease sequentially and reflecting both limited supply of new homes at higher price points and a shortage of resale homes due to the persistent mortgage rate lock-in effect as existing homeowners did not want to place their home on the market and relinquished their existing mortgage rates below 4%. Our Atlanta market remained healthy with only a modest rise in incentives, while our Florida and Austin markets continued to present more affordability challenges. Nonetheless, we started seeing some green shoots evidenced by stable prices and increased volume sequentially.

We will continue to adjust incentives to achieve our desired absorptions while maintaining inventory on a community-by-community basis. Our buyers financial profiles remain consistent. Homebuyers who utilized our wholly owned mortgage company, Green Brick Mortgage had an average FICO score of 741 and a debt-to-income ratio of 40% for homes that closed in the first quarter. We have been methodically

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rolling out our new mortgage company, which just started taking applications in December of 2024 to communities in Dallas-Fort Worth.

Green Brick Mortgage has already had a strong start to the year, closing over 100 loans during the first quarter, along with its continued rollout in DFW plans are underway to expand its services to our other operating markets. We anticipate Green Brick Mortgage will begin contributing meaningful net income in the later half of the year as we scale up its operation. Turning to capital allocation. During the first quarter, we invested $52 million in land acquisition and finished lots and $62 million in land development. As previously guided, we still plan to invest approximately $300 million in land development during the year.

With a healthy land pipeline, sticky land prices and economic uncertainties, we will take an opportunistic approach on future land acquisitions. We will continue to weigh land opportunities against share buybacks to maximize shareholder value. We ended the quarter with over 40,500 lots owned and controlled. An increase of 32% year-over-year, approximately 85.7% of those lots are owned and we plan to self-develop about 98% of those lots. The geographic footprint of our lot pipeline remained consistent with approximately 92% in Texas, 5% in Georgia and 3% in Florida.

Growth comprised approximately 70% of lots owned and controlled, excluding 24,000 lots in long-term communities, our current pipeline provides approximately 5 years of lot supply, based on our start pace over the last 12 months. Lastly, we're excited about expanding our trophy brand in Houston, the largest homebuilding market in the United States. We expect to deliver the first phase of finished lots in June this year and Trophy is expected to open its first community this fall.

With that, I'll turn it over to Jim for closing remarks.

James R. Brickman
Co-Founder, CEO & Director
Thank you, Jed. While the current economic landscape presents some headwinds and uncertainties, we remain confident in the long-term fundamental strength of the housing market as well as our ability to outperform our peers. We will continue to closely monitor market conditions, adapt our strategies as needed and remain focused on delivering sustainable value to our shareholders over the longer term. This concludes our prepared remarks, and we will now open the line for questions.

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Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of Carl Reichardt from BTIG.

Carl Edwin Reichardt
BTIG, LLC, Research Division

Nice to talk to you. Could you talk about what you've seen so far in April, Jim, obviously, given the tariffs at the very beginning of the month. I'm curious if there's been a significant change. And then, Jed, what are you running sales incentives on Trophy Signature did during the first quarter versus the other product lines?

James R. Brickman
Co-Founder, CEO & Director

Well, this is Jim. We haven't seen a lot of impact from tariffs yet. Obviously, that's a wildcard in the industry. We've done various forecasts and estimates that I think could be a percent more or less in the future. But obviously, we all wake up every day to a new set of rules, and we don't know what those rules are. So that's a wildcard. Jed, do you have anything you want to add to that?

Jed Dolson
President & COO

No. Carl, in regard to your question on incentives, Trophy incentives are very in line with our overall company incentives.

James R. Brickman
Co-Founder, CEO & Director

And then Carl, I can add a little color to that. We're seeing basically in all of our businesses that every -- if you draw a circle in what's the AAA. A going to a B market, to a C market, kind of every step that you move away from that circle incentives go up significantly. And so in a Trophy neighborhood that is a more perimeter neighborhood, those incentives may be a little bit greater than a trophy neighborhood that's closer in. And for some of our builders that are like TPG in Atlanta that is all AAA location infill, their incentives have been lower.

Carl Edwin Reichardt
BTIG, LLC, Research Division

Okay. Great. And then I'm interested if given your presence in Dallas, if you're starting to see any cracks, I guess, or improvement in the land market itself in terms of maybe drop deals by other builders, or potentially some sellers of land who are far from getting their dirt-to-market, maybe starting to think about dropping price. Has there been any liquidity there this year based on the thing that's changing?

James R. Brickman
Co-Founder, CEO & Director

Yes, there has. And it's kind of -- that's following just what I said. Some deals that builders have walked lot option contracts and very perimeter deals. They dropped them for a reason. And in a C location, really, those lots are very difficult to move in this kind of market right now because the incentives are so great in those markets. And the public builders, a lot of them don't need the lots to start.

And a public builder can't make money in -- with all of its efficiencies in a C location, those lots are really hard to move if somebody walks in the we offer them all the time. We just have no interest in buying them.

Jed Dolson
President & COO

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Yes, Carl, I would just add, speaking generally on the Texas market, we get a lot of build for red broken deals come across our desk every day. We just did contract for one that's finished lots that would not have worked if we had to self-develop. It works since the lots were finished. So -- and it was a bulk buy. So at some point, either bill for rent is going to start working again financially or the sellers are going to have to drop their price because it doesn't work right now.

Carl Edwin Reichardt
BTIG, LLC, Research Division

All right. Great. And then I'm also just curious if I can sneak one more in about buybacks and you sort of hit what we expected you to do buyback wise this quarter, but you bought back more in April. Jim, how do you think about that as a use of capital? Obviously, you're going to be -- you're keeping your investment in land that percentage growth, that spend is the same from what you said last quarter.

But slowing starts, but selling -- continuing to sell houses, maybe cash flow improves this year. So can you maybe walk me through a little bit about how you decide the incremental of additional cash capital you generate from the business when it goes and why it goes into the stock as opposed to somewhere else.

James R. Brickman
Co-Founder, CEO & Director

Sure. That's a good question. And let me just say off the bet. The stock repurchases for us can be a little bit lumpier than for some peers. And the reason that takes place is. We have a very large deal we've been working on for a very long time. It's very complicated. Frankly, it's not the kind of thing that our peers would look at, which is why we like to look at it. It was too complicated to really go into on this phone call, but it's a $40 million land acquisition.

So the timing of that may impact stock purchases whenever this land deal closes, and I think it will, but it may not. So that would detract from our ability to buy stock if it closed next quarter, but we may be back in the market pretty strongly in the third quarter. So it's not like some builders that are kind of leveling out their stock purchases. Ours will probably be a little more lumpy just because we are going after the larger master planned communities that peers aren't going after, which we think is an advantage, and it requires chunks of capital being deployed.

Operator
[Operator Instructions]. And it seems that we have no further questions for today. This concludes the question-and-answer session in today's conference call. Thank you for your participation. You may now disconnect.

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