

LGI Homes, Inc.
Form 10-Q
August 08, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017

OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____ .
Commission file number 001-36126

LGI HOMES, INC.

(Exact name of registrant as specified in its charter)

Delaware 46-3088013
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1450 Lake Robbins Drive, Suite 430, The Woodlands, Texas 77380
(Address of principal executive offices) (Zip code)
(281) 362-8998
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No ..

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x
Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company) Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. x

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 4, 2017, there were 21,615,519 shares of the registrant's common stock, par value \$.01 per share, outstanding.

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ITEM 1. FINANCIAL STATEMENTSLGI HOMES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	\$27,300	\$49,518
Accounts receivable	34,137	17,055
Real estate inventory	835,985	717,681
Pre-acquisition costs and deposits	13,444	10,651
Property and equipment, net	1,877	1,960
Other assets	6,453	5,631
Deferred tax assets, net	466	—
Goodwill	12,018	12,018
Total assets	\$931,680	\$814,514
LIABILITIES AND EQUITY		
Accounts payable	\$19,007	\$12,277
Accrued expenses and other liabilities	63,366	46,389
Deferred tax liabilities, net	—	164
Notes payable	442,946	400,483
Total liabilities	525,319	459,313
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value \$0.01, 250,000,000 shares authorized, 22,615,519 shares issued and 21,615,519 shares outstanding as of June 30, 2017 and 22,311,310 shares issued and 21,311,310 shares outstanding as of December 31, 2016	226	223
Additional paid-in capital	215,524	208,346
Retained earnings	207,161	163,182
Treasury stock, at cost, 1,000,000 shares	(16,550)	(16,550)
Total equity	406,361	355,201
Total liabilities and equity	\$931,680	\$814,514

See accompanying notes to the consolidated financial statements.

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LGI HOMES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Home sales revenues	\$324,178	\$222,723	\$487,089	\$385,186
Cost of sales	237,830	163,628	357,242	284,722
Selling expenses	24,193	17,867	40,300	31,958
General and administrative	13,680	10,488	24,945	20,440
Operating income	48,475	30,740	64,602	48,066
Other income, net	(167)	(668)	(882)	(1,171)
Net income before income taxes	48,642	31,408	65,484	49,237
Income tax provision	16,443	10,749	21,505	16,878
Net income	\$32,199	\$20,659	\$43,979	\$32,359
Earnings per share:				
Basic	\$1.49	\$1.01	\$2.05	\$1.58
Diluted	\$1.39	\$0.96	\$1.91	\$1.54
Weighted average shares outstanding:				
Basic	21,602,261	20,544,809	21,481,842	20,416,566
Diluted	23,242,589	21,487,013	23,032,648	21,017,188

See accompanying notes to the consolidated financial statements.

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LGI HOMES, INC.
CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock		Additional	Retained	Treasury	Total
	Shares	Amount	Paid-In Capital	Earnings	Stock	Equity
BALANCE—December 31, 2016	22,311,310	\$ 223	\$ 208,346	\$ 163,182	\$(16,550)	\$ 355,201
Net income	—	—	—	43,979	—	43,979
Issuance of shares, net of offering costs	154,900	2	4,759	—	—	4,761
Issuance of restricted stock units in settlement of accrued bonuses	—	—	167	—	—	167
Compensation expense for equity awards	—	—	1,580	—	—	1,580
Stock issued under employee incentive plans	149,219	1	672	—	—	673
BALANCE— June 30, 2017	22,615,429	\$ 226	\$ 215,524	\$ 207,161	\$(16,550)	\$ 406,361

See accompanying notes to the consolidated financial statements.

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LGI HOMES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$43,979	\$32,359
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	406	649
Excess tax benefits from stock based compensation	—	(24)
Compensation expense for equity awards	1,580	1,525
Deferred income taxes	(631)	(333)
Changes in assets and liabilities:		
Accounts receivable	(17,082)	2,252
Real estate inventory	(116,654)	(76,622)
Pre-acquisition costs and deposits	(2,793)	(5,717)
Other assets	(822)	5,030
Accounts payable	6,730	(2,037)
Accrued expenses and other liabilities	17,625	8,453
Net cash used in operating activities	(67,662)	(34,465)
Cash flows from investing activities:		
Purchases of property and equipment	(323)	(358)
Net cash used in investing activities	(323)	(358)
Cash flows from financing activities:		
Proceeds from notes payable	60,000	67,000
Payments on notes payable	(15,000)	(37,000)
Loan issuance costs	(4,359)	(2,361)
Proceeds from sale of stock, net of offering expenses	5,503	19,804
Payment for offering costs	(69)	(105)
Payment for earnout obligation	(308)	(441)
Excess tax benefits from equity awards	—	24
Net cash provided by financing activities	45,767	46,921
Net increase (decrease) in cash and cash equivalents	(22,218)	12,098
Cash and cash equivalents, beginning of period	49,518	37,568
Cash and cash equivalents, end of period	\$27,300	\$49,666

See accompanying notes to the consolidated financial statements.

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LGI HOMES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization and Description of the Business

LGI Homes, Inc., a Delaware corporation (the “Company”, “us,” “we,” or “our”), is engaged in the development of communities and the design, construction, marketing and sale of new homes. At June 30, 2017, we had operations in Texas, Arizona, Florida, Georgia, New Mexico, Colorado, North Carolina, South Carolina, Washington, Tennessee, Minnesota and Oklahoma.

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The accompanying unaudited consolidated financial statements include all adjustments that are of a normal recurring nature and necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited financial statements as of June 30, 2017, and for the three and six months ended June 30, 2017 and 2016, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements.

Recently Adopted Accounting Standards

Effective January 1, 2017, we adopted the Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) No. 2016-09, “Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which includes multiple amendments intended to simplify aspects of share-based payment accounting and how they are presented in the financial statements. Under previous guidance, excess tax benefits and deficiencies from stock-based compensation arrangements were recorded in equity when the awards vested or were settled. ASU 2016-09 requires prospective recognition of excess tax benefits and deficiencies in the income statement, resulting in the recognition of excess tax benefits of \$0.1 million and \$0.8 million in income tax expense, rather than in additional paid-in capital, for the three and six months ended June 30, 2017, respectively. In addition, under ASU 2016-09, excess income tax benefits from stock-based compensation arrangements are classified as cash flow from operations, rather than as cash flow from financing activities. We have elected to apply the cash flow classification guidance of ASU 2016-09 prospectively, resulting in an increase to operating cash flow of \$0.8 million for the six months ended June 30, 2017.

In recording share-based compensation expense, ASU 2016-09 allows companies to make a policy election as to whether they will include an estimate of awards expected to be forfeited or whether they will account for forfeitures as they occur. We have elected to continue to account for forfeitures as they occur, as forfeitures have historically been immaterial.

ASU 2016-09 requires excess tax benefits and deficiencies to be prospectively excluded from assumed future proceeds in the calculation of diluted shares, resulting in an increase in diluted weighted average shares outstanding of 48,557 and 53,848 shares for the three and six months ended June 30, 2017, respectively.

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Recently Issued Accounting Pronouncements

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows by requiring it be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows, thereby reducing previous diversity in practice. This amendment will be effective for us in our fiscal year beginning January 1, 2018. We do not expect the adoption of ASU 2016-18 will have a material effect on our consolidated statement of cash flows or disclosures.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which addresses specific classification issues and is intended to reduce diversity in current practice regarding the manner in which certain cash receipts and cash payments are presented and classified in the cash flow statement. ASU 2016-15 will be effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We are currently evaluating the impact that the adoption of ASU 2016-15 will have on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” (“ASU 2016-02”), which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts.” ASU 2014-09’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

We initiated our assessment of ASU 2014-09 during the second half of 2016 and developed a comprehensive project plan that includes an implementation work team. The project plan includes analyzing the impact of the adoption of ASU 2014-09 on our various revenue streams, comparing our historical accounting policies and practices to the requirements of ASU 2014-09, and identifying potential differences resulting from the application of requirements of ASU 2014-09 to our contracts. The implementation work team reports progress of the project plan to senior management on a frequent basis and the Audit Committee of our Board of Directors on a quarterly basis. We are in the process of identifying and implementing appropriate changes to our business processes, systems and controls to support revenue recognition and disclosures required under ASU 2014-09.

ASU 2014-09 and related FASB updates are effective for us beginning January 1, 2018 and, at that time, we expect to adopt ASU 2014-09 under the modified retrospective approach.

We will continue our ongoing internal evaluation of new transactions and contracts as well as any related ASUs. As of June 30, 2017, we are evaluating the expected impacts of adopting ASU 2014-09 and anticipate that the adoption of ASU 2014-09 will not have a material impact on our consolidated financial statements and disclosures.

2. REAL ESTATE INVENTORY

Our real estate inventory consists of the following (in thousands):

June 30,	December
	31,

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	2017	2016
Land, land under development, and finished lots	\$466,526	\$477,461
Information centers	17,441	13,589
Homes in progress		