

Transcript of
D.R. Horton, Inc.
D.R. Horton Q1 2026 Earnings Call/Webcast
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Participants

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Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.
Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.
Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations,
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Analysts

Stephen Kim - Evercore ISI
John Lovallo - UBS
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Sam Reid - Wells Fargo
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Anthony Pettinari - Citigroup
Michael Rehaut - JPMorgan
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Susan Maklari - Goldman Sachs
Ken Zener - Seaport Research
Jade Rahmani - Keefe, Bruyette, & Woods
Alex Barron - Housing Research Center

Presentation

Operator

Good morning, and welcome to the First Quarter 2026 Earnings Conference Call for D.R. Horton, America's Builder. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the call over to Jessica Hansen, Senior Vice President of Communications for D.R. Horton. Jessica, please go ahead.

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Thank you. Sorry. It would help if I took myself off mute. Thank you, Paul, and good morning. Welcome to our call to discuss our financial results for the first quarter of fiscal 2026.

Before we get started, today's call includes forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Although D.R. Horton believes any such statements are based on reasonable assumptions, there is no assurance that actual outcomes will not be materially different. All forward-looking statements are based upon information available to D.R. Horton on the date of this conference call, and D.R. Horton does not undertake any obligation to publicly update or revise any forward-looking statements. Additional information about factors that could lead to material changes in performance is contained in D.R. Horton's annual report on Form 10-K, which is filed with the Securities and Exchange Commission.

This morning's earnings release and our supplemental data presentation can be found on our website at investor.drhorton.com, and we plan to file our 10-Q later this week. After this call, we will also post our updated investor presentation to our Investor Relations site on the Presentations section under News and Events for your reference.

Now I will turn the call over to Paul Romanowski, our President and CEO.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Thank you, Jessica, and good morning. I am pleased to also be joined on this call by Mike Murray, our Chief Operating Officer; and Bill Wheat, our Chief Financial Officer. The D.R. Horton team had a solid start to fiscal 2026 with consolidated pretax income of \$798 million on \$6.9 billion of revenues and a pretax profit margin of 11.6%.

New home demand remains impacted by affordability constraints and cautious consumer sentiment; however, our teams continue to respond to current market conditions with discipline. We exceeded the high end of our revenue and closings guidance, achieved a home sales gross margin within our expected range, and our net sales orders increased 3% compared to the prior year quarter, demonstrating our ability to balance pace, price and incentives to drive incremental sales and maximize returns.

We are focused on capital efficiency to generate strong operating cash flows and deliver compelling returns to our shareholders. Over the past 12 months, we have generated \$3.6 billion of cash from operations, and we have returned \$4.4 billion to shareholders through repurchases and dividends. For the trailing 12 months ended December 31st, our homebuilding pretax return on inventory was 18.6%, while our consolidated returns on equity and assets were 13.7% and 9.4%. Our return on assets ranks in the top 20% of all S&P 500 companies for the past three, five and 10-year periods, demonstrating that our disciplined returns-focused operating model produces sustainable results and positions us well for continued value creation.

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We increased our sales incentives during the first quarter, and we expect incentives to remain elevated in fiscal 2026 with a level dependent on demand, changes in mortgage interest rates and overall market conditions. We work every day to use our industry-leading platform, unmatched scale, efficient operations and experienced employees to bring homeownership opportunities at affordable price points to more Americans. 64% of our mortgage company's closings this quarter were to first-time homebuyers. We will continue to tailor our product offerings, sales incentives and number of homes in inventory based on demand in each of our markets to maximize returns. Mike?

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

Earnings for the first quarter of fiscal 2026 were \$2.03 per diluted share, compared to \$2.61 per share in the prior year quarter. Net income for the quarter was \$595 million on consolidated revenues of \$6.9 billion. Our first quarter home sales revenues were \$6.5 billion on 17,818 homes closed, compared to \$7.1 billion on 19,059 homes closed in the prior year quarter.

Our average closing price for the quarter was \$365,500, flat sequentially and down 3% year-over-year. Our average sales price on homes closed is lower than the average sales price of new homes in the United States by roughly \$135,000, or almost 30%. Additionally, the median sales price of our homes is \$70,000 lower than the median price of an existing home. Bill?

Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

For the first quarter, our net sales orders increased 3% from the prior year quarter to 18,300 homes, while order value remained unchanged at \$6.7 billion. Our cancellation rate for the quarter was 18%, consistent with the prior year quarter and down from 20% sequentially. Our average number of active selling communities was up 2% sequentially and up 12% year-over-year. The average price of net sales orders in the first quarter was \$364,000, which was flat sequentially and down 2% from the prior year quarter. Jessica?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Our gross profit margin on home sales revenues in the first quarter was 20.4%, up 40 basis points sequentially from the September quarter, entirely due to a recovery of prior period warranty costs received during the quarter. On a per square foot basis, home sales revenues were flat sequentially, while stick and brick costs were down roughly 1% and lot costs increased 2%. Excluding the 40 basis point benefit in our gross margin this quarter from the recovery of prior warranty costs, our home sales gross margin would have been 20%.

Additionally, incentives increased as we moved throughout the quarter, so we expect our home sales gross margin to be lower in the second quarter compared to the first quarter. Our incentive levels and home sales gross margin for the remainder of the year will be dependent on the strength of demand, changes in mortgage interest rates and other market conditions. Bill?

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Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

Our first quarter homebuilding SG&A expenses decreased 1% from last year, and homebuilding SG&A expense as a percentage of revenues was 9.7%, up from 8.9% in the prior year quarter. The increase in our SG&A expense ratio was primarily due to our lower home closings volume as compared to the prior year quarter. We continue to manage our platform with discipline and are focused on gaining market share efficiently while driving operating leverage over time. Paul?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

We started 18,500 homes in the December quarter, up 27% sequentially from the fourth quarter, and we expect our starts in the second quarter to be higher than the first quarter. We ended the quarter with 30,400 homes in inventory, of which 20,000 were unsold. 7,300 of our unsold homes at quarter end were completed, down 2,000 homes from September. 900 of our unsold homes have been completed for greater than six months.

For homes we closed in the first quarter, our median cycle time measured from home start to home close decreased two weeks from a year ago. Our improved cycle times enable us to hold fewer homes in inventory and turn our housing inventory more efficiently. We will continue to manage our homes in inventory and starts pace based on market conditions. Mike?

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

Our homebuilding lot position at December 31st consists of approximately 590,500 lots, of which 25% were owned and 75% were controlled through purchase contracts. We are actively managing our investments in lots, land and development based on current market conditions. We remain focused on our relationships with land developers across the country to allow us to build more homes on lots developed by others, which enhances our capital efficiency, returns and operational flexibility.

Of the homes we closed this quarter, 67% were on a lot developed by either Forestar or a third party, up from 65% in the prior year quarter. Our first quarter homebuilding investments in lots, land and development totaled \$2 billion, of which \$1.3 billion was for finished lots, \$610 million was for land development and \$80 million was for land acquisition. Paul?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

In the first quarter, our rental operations generated \$110 million of revenues from the sale of 397 single-family rental homes. Our rental property inventory at December 31st was \$2.9 billion, which consisted of \$2.5 billion of multifamily rental properties and \$356 million of single-family rental properties. We remain focused on improving the capital efficiency and returns of our rental operations.

As for our financial services operations, pretax income for the first quarter was \$58 million on \$185 million of revenues, resulting in a pretax profit margin of 31.4%. Mike?

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Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

Forestar, our majority-owned residential lot development company, reported revenues for the first quarter of \$273 million on 1,944 lots sold with pretax income of \$21 million. Forestar's owned and controlled lot position at December 31st was 101,000 lots. 62% of Forestar's owned lots are under contract with or subject to a right of first offer to D.R. Horton. \$180 million of our finished lots purchased in the first quarter were from Forestar.

Forestar's strong, separately capitalized balance sheet, national operating platform and lot supply position them well to provide essential finished lots to the homebuilding industry and aggregate significant market share over the next several years. Bill?

Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

Our capital allocation strategy is disciplined and balanced to support an operating platform that produces attractive returns and substantial operating cash flows. We have a strong balance sheet with low leverage and healthy liquidity, which provides us with significant financial flexibility to adapt to changing market conditions and opportunities. During the first three months of the year, homebuilding cash provided by operations was \$498 million and consolidated cash provided by operations was \$854 million.

During the first quarter, we repurchased 4.4 million shares of common stock for \$670 million, and our outstanding share count is down 9% from a year ago. We also paid cash dividends of \$0.45 per share, totaling \$132 million, and our Board has declared a quarterly dividend at the same level to be paid in February. At quarter end, our stockholders' equity was \$24 billion, down 4% from a year ago, and book value per share was \$82.60, up 5% from a year ago.

By December 31st, we had \$6.6 billion of consolidated liquidity, consisting of \$2.5 billion of cash and \$4.1 billion of available capacity on our credit facilities. Debt at the end of the quarter totaled \$5.5 billion, and we have \$600 million of homebuilding senior notes maturing in the next 12 months. Our consolidated leverage at December 31st was 18.8%, and we plan to maintain our leverage around 20% over the long term. Jessica?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Looking forward to the second quarter, we currently expect to generate consolidated revenues in the range of \$7.3 billion to \$7.8 billion and homes closed by our homebuilding operations to be in the range of 19,700 to 20,200 homes. We expect our home sales gross margin for the second quarter to be in the range of 19% to 19.5% and our consolidated pretax profit margin to be in the range of 10.6% to 11.1%.

For the full-year of fiscal 2026, we still expect to generate consolidated revenues of approximately \$33.5 billion to \$35 billion and homes closed by our homebuilding operations to be in the range of 86,000 to 88,000 homes. We continue to forecast an income tax rate for fiscal

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2026 of approximately 24.5%, operating cash flow of at least \$3 billion, common stock repurchases of approximately \$2.5 billion and dividend payments of around \$500 million. Paul?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

In closing, our results and position reflect our experienced teams, industry-leading market share, broad geographic footprint and focus on delivering quality homes at affordable price points. All of these are key components of our operating platform that support our ability to aggregate market share, generate substantial operating cash flows and return capital to shareholders.

We recognize the current volatility and uncertainty in the economy, and we'll continue to adjust to market conditions in a disciplined manner to enhance the long-term value of our company. Thank you to the entire D.R. Horton family of employees, land developers, trade partners, vendors and real estate agents for your continued efforts and hard work. Let's continue working to improve our operations and provide homeownership opportunities to more individuals and families during 2026.

This concludes our prepared remarks. We will now host questions.

Operator

Thank you. At this time we will be conducting a question-and-answer session. [Operator Instructions] The first question today is coming from Stephen Kim from Evercore ISI. Stephen, your line is live.

Q: Yes. Thanks very much guys. Actually, quite impressive here given the headwinds. So congratulations to you guys. I wanted to ask you about your SG&A, if I could. I think that it was probably a little higher, my guess is, than you expected. And I was curious, you attributed the higher level primarily due to lower closings year-over-year, but your closings didn't miss your expectations or your guide. And actually, it beat. So I was kind of curious, did the SG&A sort of surprise you? And was there anything else other than the fact that you had some lower closings, just given the fact that it didn't really sort of square with how your closings came in? And particularly within that, is there anything in the way of incentives or something that is showing up in SG&A?

Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

Steve, nothing unusual in SG&A this quarter. Overall, relatively in line with our plan, and we hit our operating margin guidance for the quarter. If you look at the overall spend on SG&A, it was down slightly year-over-year in terms of absolute dollars. And as we look at our platform and we look at what we're planning to do this year, we're planning on growing our closings. Our guide is to grow our closings for the year. And so we're maintaining our platform in place, but our first quarter closings were down. And just we get less leverage on our SG&A when we have fewer closings during the quarter. But our expectation is for the year is we would not continue to see this kind of increase as a percentage of revenues over the course of the entire year.

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Q: So just to clarify, you're saying your guide for the year is for SG&A to be kind of flattish on a year-over-year basis as a percentage of revenues. Is that what you're saying?

Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

We don't guide any of our margins or expense ratios over the course of an entire year. We just guide one quarter out. We're guiding our operating margin for Q2 and our gross margin for Q2 and then, obviously, our volume for the entire year.

Q: Got you. Okay. And then, I guess, you've also talked about your capital allocation and specifically, you reiterated your guide for cash flow. And I was curious, I think in the past, you had talked about targeting a cash flow conversion of about 100%. Could you talk about how that progression is going and whether or not that's still a reasonable expectation in the foreseeable future?

Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

Yes, that's still a reasonable expectation. We're still guiding. We reiterated our guide to have consolidated cash flow greater than \$3 billion. I think we're tracking right in line with expectations.

Q: Great. Thanks a lot guys.

Operator

Thank you. The next question will be from John Lovallo from UBS. John, your line is live.

Q: Good morning guys. Thanks for taking my questions as well. Pretty strong community count growth in the first quarter of about 12% year-over-year on average. How are you guys thinking about kind of the cadence of community count growth as we move through the year?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

John, the community count is up. It was up 12% and 2%, I think, sequentially. And we still think we're going to see that community count continue to stay at a higher level, but we do expect it to drift down more towards mid-single to high-single digit range. We're pleased to have the community count out there today as we've seen absorption across the market, not seeing as much absorption per flag. So having the additional communities allows us to maintain our guide and still feel comfortable with where we're positioned today as we see the spring season unfold.

Q: Understood. And then if we walk from the fourth quarter gross margin of 20%, excluding the inventory reserve or the warranty reserve benefit, what are sort of the moving pieces there? I know, Jessica, you mentioned that incentives kind of stepped up as you moved through the quarter. But how are you thinking maybe about land, labor and materials on a sequential basis?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Sure. First, John, just as a reminder, in Q4, we also had an unusual item flowing through our warranty and litigation costs. We had 60 basis points of greater than typical litigation costs last quarter. This quarter, we had the opposite direction, a 40 basis point benefit from those warranty costs. So kind of on an apples-to-apples basis, our fourth quarter gross margin was 20.6%. Our Q1 gross margin is 20.0%. And then our guide for the quarter is 19% to 19.5% in Q2. So at the midpoint, we're estimating to be down roughly 75 basis points quarter-over-quarter. The guide really reflects what we've been seeing, which is our stick and brick costs relatively flat sequentially and slightly down year-over-year, which is what we really posted this quarter as well.

We expect our lot cost to continue to be up sequentially and on a year-over-year basis based on what we currently see in our lot pipeline. And then as I did say on the call, we had to use a higher level of incentives as we moved throughout the quarter. So the guide really, most importantly, incorporates the most recent market conditions we've seen and our backlog margin coming out of the quarter at the end of December.

Q: Got it. Thank you guys.

Operator

Thank you. The next question will be from Matthew Bouley from Barclays. Matthew, your line is live.

Q: Good morning everyone. Thank you for taking the questions. I wanted to stick on the incentive topic. If I'm hearing you correctly, I mean, it sounds like that Q2 guide is reflecting of your increase in incentives over the past quarter in terms of what you're selling. So obviously, we've had this move lower in mortgage rates over the past several months, over the past couple of weeks, et cetera. I mean does the move lower in rates at a certain point either support that kind of cost of incentives for you guys? Or are you able to kind of do anything creatively around arms or temporary buydowns, et cetera, in this backdrop? Just kind of any visibility to where you might see that incentive sort of peeking out at some point? Thank you.

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

The cost of the incentives that came through in the first quarter were largely resulted from interest rate locks provided when rates were slightly higher, therefore, at a higher cost. We accelerated the use of those incentives throughout the quarter and the exiting incentive levels in December are heavily coloring our margin outlook for the second quarter. If rates continue to compress and stay compressed, we would expect to see a slight decrease in the cost of providing those incentives, but that's not yet factored into any of our guidance.

Q: Okay. Perfect. And secondly, maybe just sticking on this topic of lower rates. I know we can't always read too much into the first three weeks of the calendar year. But just any color on sort of

the cadence of demand, traffic and sales maybe through the quarter? And then since you have gotten this move lower in rates in recent weeks, is there just any kind of signals you can take from the past couple of weekends on how buyers are responding to that? Thank you.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Matt, I would say through the quarter, relatively consistent with what we would expect to see seasonally, entering into that quarter and being one of the lower quarters in terms of overall demand as we enter into the spring and the first two weeks, really too early to tell what we're going to see as far as trajectory into the spring. But when we see those kind of moves in rates and hovering right around 6%, it does spur some activity in our sales offices. And I think today, we feel good about our position in terms of our inventory, our community count and the level of sales we've seen through the first quarter and into the first couple of weeks here of the second quarter to reaffirm our guidance for the year.

Q: All right. Thanks, Paul. Good luck guys.

Operator

Thank you. The next question will be from Alan Ratner from Zelman. Alan, your line is live.

Q: Hey, guys. Good morning. Thanks for the color so far. Obviously, there's a lot of focus on the policy side, and I'm sure we'll hear some more from President Trump this week on that front. But I guess, first off, in terms of what has been announced so far or at least floated out there, with specific regard to your rental business, I'm curious how you're thinking about that in the context of the proposed ban on institutional buyers purchasing single family homes. I know you guys have been kind of reducing investment in rental in general, but how are you thinking about managing that business investment there, building out communities with the uncertainty hanging over that part of the business?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Alan, our focus on SFR rental has largely been and continues to be on purpose-built communities and believe that, that's a good place for us to continue to stay focused. We don't sell many homes to institutional buyers in our for-sale communities. So for us, really not much competition for those people that are coming in to buy a home, looking for a home and whether it's first-time move-up or any one of our segments. We think we'll continue to stay focused there.

And with our SFR business has shifted more from a full build, lease and then sell fully stabilized asset to more of a forward sale scenario. So I feel really good about the position of our single-family rental business, and we'll see how all of this plays out over time, but feel good about our position there.

Q: Okay. I appreciate that. Obviously, we'll see whether there's any type of exclusion or carve-out for those purpose-built communities. I think, obviously, there's a good argument for that to be the case. But shifting gears a little bit in terms of the land market. I'm curious if you could talk

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a little bit about what you're seeing on the land front in terms of have costs started to come down at all in the land market? Are you seeing more of a bid-ask spread widening and kind of a slowdown in overall activity, development cost inflation? Any color you can give there because, obviously, I think that's going to be a necessary component towards rebuilding the industry's gross margin is to see some relief on land costs and development inflation.

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

I don't think we've seen significant capitulation in the land, the raw land market itself. I think the sellers there are fairly patient. We have seen probably some progress on some of the development cost aspects as activity levels have slowed. And further, we've seen some improved terms, not a tremendous amount of price discounts or any distressed opportunities, but rational conversations with our land development partners about meeting the market together and working through communities at acceptable paces. So we've seen some adjustment in pacing, which has been very helpful. But we haven't seen any broad default of deals or the deals coming back to the market over and over again with distressed sellers.

Q: Got it. All right. Thanks guys. Appreciate it.

Operator

Thank you. The next question will be from Ryan Gilbert from BTIG. Ryan, your line is live.

Q: Hi, thanks and good morning everyone. I just wanted to go back on the, I guess, the year-to-date demand trends. Paul, it sounded like you said that when rates get to around 6%, you see a pickup in the sales offices. Has that been the case so far in January? Have you seen a pickup in homebuyer demand given the drop in rates?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

We've been pleased with what we've seen so far. Again, it's early, very early in the spring selling season, and we'll see how that plays out over time, but we feel good about our positioning. And any time you see the rates move across a threshold like that, it certainly creates more activity in our sales offices.

Q: Okay. Got it. Thanks. And then on the supply side, it looked like maybe there was a step down in industry-wide housing starts. And I think we're seeing some move lower in resale inventory as well. Are there any markets where you're seeing any benefit from less inventory coming online or maybe supply or home construction dropping that could potentially help margins going forward?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

I don't think there's any specific markets I can speak to where we've seen any significant shift in supply. I do believe that it's been a pretty rational approach to the market in terms of starts for us and across the industry. We feel good about our inventory position. Our starts slightly exceeded

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our sales this quarter. We do expect our starts to be more in the second quarter than in our first. And what we watch closely is the number of completed homes that we have, and that is down a couple of thousand units sequentially this quarter over last. So I feel good about our positioning, the amount of supply we have in the markets and have the homes we need to meet demand in the spring selling season.

Q: Great. Thank you.

Operator

Thank you. The next question will be from Sam Reid from Wells Fargo. Sam, your line is live.

Q: Thanks so much. I wanted to just do a quick postmortem on the warranty cost piece of gross margin and that reversal you called out in the first quarter. First of all, were you expecting to get a reversal there? And then second, is there any warranty noise we should be contemplating in the second quarter guide? And then perhaps just want to talk to you kind of what should we be thinking about for warranty costs within gross margins on a go-forward basis?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Sure, Sam. The warranty recovery was something we've been working on for a period of time to recoup some costs that we've had to incur that you'll see when we file our 10-Q were predominantly in our San Antonio market in the South Central region. So we were pleased to get that settlement in and be able to net that against the warranty costs that we incurred during the quarter.

We also did see just a slightly lower level of warranty and litigation costs incurred this quarter than are typical. And you layer that into also the litigation cost last quarter, and you see a big swing in the warranty and litigation cost line item in our gross margin supplemental detail that we provide, that was actually a 20 basis point benefit. We would expect going forward that to be more normal. And if you go and look at prior quarters outside of the last two, it's call it, anywhere from 30 to 60 basis points that we net against our gross home sales gross margin for warranty and litigation costs. And we don't know of anything at this time that would make that be different in the go-forward quarters. The last two quarters have just been unusual in terms of what's happened.

Q: That helps, Jessica. And then switching gears here. One of your big competitors is stepping up the use of ARMs. Can you just remind us your mix of ARMs and where that sits relative to last quarter and last year? And then if there is any change in your ARM cadence, any implications for financial services margins that we should be cognizant of?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Our use of ARMs is in the low-single digit as a percent of homes financed through our mortgage company. And although we've seen some more attractive ARM products that for us, if they can

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be utilized for long-term approval, meaning that they're a longer-term ARM, then we've seen some, but it hasn't stepped up much. Still the incentive used most when we talk about rates is for our buyers and through our mortgage company is a 30-year fixed rate.

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Yes. So when Paul says low-single digit on ARMs, that's just an absolute ARM product that is their product. If you look at the rate buydowns we're utilizing, we did see a tick up in temporary buydowns that we layered in on top of the permanent. That was more like a low double-digit percentage this quarter, but that's been running anywhere from a mid-to-high single digit percentage.

Q: All incredibly helpful. Thanks so much.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Thank you.

Operator

Thank you. The next question will be from Eric Bosshard from Cleveland Research. Eric, your line is live.

Q: Thanks. Good morning. The comments you've made about affordability, I'm just curious, obviously, there's some hope for some external solution to affordability. But absent that, the steps that you're looking at to address affordability, what you're doing with incentives is having some effect. But are there any structural things you're evaluating or taking in regards to house size or house construct or location or even markets that you're considering related to this ongoing affordability issue?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Eric, we focus every day on meeting the homeowners where they need to be, especially on a monthly payment. And for us, and in today's market, the reality of home pricing and cost of materials and cost of land is that we have seen continued introduction of smaller homes, whether that's a plan or two inside of an existing community or a whole community focused at more affordable price points.

For us, the biggest limiter to some of that and creating more of that tends to be lot size and minimum lot size requirements at the municipal level where we can achieve that and get to a little higher density with more efficiency and provide a house that meets the monthly payment needs, especially of our first-time homebuyers, we see success there. And so we have focused on that across markets. And I wouldn't say there's any particular area where we're seeing that more, maybe other than those municipalities that are a little more flexible and allow us to go meet the market where it wants to be met.

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Q: Okay. And then secondly, if I could, the first-time customer is about two-thirds of the business. I'm curious, is the other third of the business behaving similarly to that two-thirds to the first time? Or is there some difference in performance, price sensitivity, traffic volume, anything that's notably different?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

I wouldn't say anything notably different. There's a lot of macro discussion going on, which I think impacts buyer sentiment in the market, and we've seen some consistency across that. Certainly, as you move up the price curve and there's less sensitivity to rates that, that move-up homebuyer can move with a little more consistency when they want to and as they want to. So -- but I would say, overall, I haven't seen a specific trend which shows a big separation of what's happening in our first-time homebuyer market compared to our move-up.

Q: Thank you.

Operator

Thank you. The next question will be from Anthony Pettinari from Citigroup. Anthony, your line is live.

Q: Good morning. As you think about '26, do you expect to continue to outgrow the market? Or maybe could you be more in line with the market? Or are there regions where you're willing to let go a little share to maintain margin? And then just in terms of your spec count down year-over-year, is that just reflecting expectation for just kind of maybe a tougher spring season versus last year?

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

I think in terms of looking at our growth expectations relative to the market, we are expecting to grow this year. We have certainly positioned for growth with the increase in markets served over the past few years as well as significant increase in community counts being up 12% year-over-year. But we take that community-by-community and market-by-market, looking to maximize the returns there. And where we can aggregate market share profitably, we'll continue to do so, as we've done through the company's history. And the second part of your question?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Specs decline.

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

It was on the specs decline. The spec decline is something that we've been focused on with compressing our building times and our cycle times that we're able to be more efficient with the

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capital deployed in a given neighborhood and more responsive to more immediate buyer demands when they walk in. So the spec count reduction has been deliberate and purposeful, and it's not a limiter necessarily on our growth, as it has been in the past, because we can build homes faster than we ever have been able to.

Q: Okay. That's very helpful. And then just following up on kind of the policy. We talked about, I think, a few proposals, but I'm just curious what policies you think could be most helpful or impactful in terms of improving housing activity and getting more folks in homes in kind of a sustainable way.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Anthony, we're pleased that the administration acknowledges housing affordability as an issue and that there's a lot of focus on that from a lot of folks and think that it needs to be a focus. There's lots of different things that could be done on both the supply and the demand side. But ultimately, consumers feeling good about where they are today, seeing the resale market open up, seeing availability at the local level, willingness for us to go drive more affordable housing into the market. All of those things, I think, would be helpful, and we'll see how all of this plays out over time.

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

And we're already doing more to address affordability, I'd say, than any other builder out there. And we'll see what ultimately comes out of the policy, but we believe we're the best positioned builder to take advantage of if there is any sort of demand pickup out there, particularly for the first-time homebuyer.

Q: Okay. That's helpful. I'll turn it over.

Operator

Thank you. The next question will be from Michael Rehaut from JPMorgan. Michael, your line is live.

Q: Hi, good morning. Thanks for taking my questions. First, I wanted to focus on, there was recent tweets, I guess, or comments made by the FHFA director directly speaking to share repurchases by large homebuilders in contrast to putting out more volume into the market. So I wanted your thoughts on that. Obviously, today, you reiterated your outlook for \$2.5 billion of share repurchases for the year. I'm curious if you've had any direct conversations with the FHFA regarding this because, obviously, you guys are mandated by all public companies, you have an obligation to your shareholders, first and foremost. And so I'm just curious if there's been any discussions with the FHFA and your thoughts on those recent comments.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Michael, we've maintained our balanced approach. And you look at our starts pace this quarter sequentially, up 27%, as Jessica intimated, providing affordable housing to more Americans today. I think 64% of the homes financed through our mortgage company were first-time homebuyers and closings this quarter.

We feel very good about our position to continue to meet that demand and provide the housing that we need out there. No direct conversations for us around buybacks and feel like a balanced approach, and that's why we reiterated what we plan to do on our guidance for the year. I feel like we're in a great position to continue to provide the housing that we need to with the cash flow that we're generating to both invest in our operations and our business and to provide returns and return money to our shareholders.

Q: Okay. All right. Appreciate that. I guess, secondly, you kind of highlighted earlier in the call that your incentives went up during the first quarter, and that appears to be the primary driver of the sequential decline in gross margins in the second quarter, among other factors, I guess. I wanted to get a sense, as a percent of sales, where incentives ended the first quarter versus the beginning of the first quarter? And if that shift occurred towards the end of the quarter or was it kind of ratable throughout?

Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

Yes. Mike, the increase in incentives was really ratable throughout the quarter, sequentially increased throughout the quarter. And so we exited the quarter at a higher level of incentives and a lower gross margin on our closings in December than for the overall quarter. And so that's really the level that we carry into Q2. And so that's a big part of the driver of our guide for our Q2 margin.

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

And pleased that incentives are still having the desired impact, right? Our sales were up 3% year-over-year as a result of those efforts.

Q: Right. And can you just remind us as to what percent of sales incentives were by the end of the quarter versus the beginning of the quarter?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

We've been running a high single-digit percentage. Today, we might have ticked up to low double-digits.

Q: Great. Thanks a lot.

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Operator

Thank you. The next question will be from Trevor Allinson from Wolfe Research. Trevor, your line is live.

Q: Hi, good morning. Thank you for taking my question. A follow-up question on your view on current new home inventory levels in your markets. I appreciate it varies market-by-market. But if we were to focus on some of the more important geographies in Florida, Texas and some of the other more important markets, is there still excess inventory relative to demand? Or has the slowdown in starts we've seen across the industry here in the fourth quarter brought that more into equilibrium?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

I would say we still see pockets of elevated inventory, and that is market to market. I don't think we're here today to call out anything with specificity as to where we're significantly overweighted in inventory. But certainly, market by market and submarkets inside of larger MSAs, and there are subdivisions and communities out there where demand hasn't caught up with the amount of supply that's in the market, but we see that continue to right size across our footprint.

Q: Okay. Paul, that's very helpful. And then second, obviously, there's been a lot of activity on the policy side here. There's an expectation for a lot of activity. Rates have come down here. If those are successful in driving better demand this spring, how do you guys think about your preference to do more volume versus the 86,000 to 88,000 closings target you have currently versus recapturing some margin as incentives still remain really elevated?

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

Trevor, we're going to take a look at that community by community. And as always, we're going to look to focus on driving the best return out of that given community based upon competitive dynamics at that submarket level, replacement lot supply and what our demand trends are there. And where there is opportunity for margin expansion, we'll take it. Where it makes more sense to drive more pace, we'll do that as well. Looking for a balanced approach, no different than what we've been doing. It's just responding to the current market conditions in place in front of us sales office by sales office.

Q: Thank you.

Operator

Thank you. The next question will be from Rafe Jadrosich from Bank of America. Rafe, your line is live.

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Q: Hi, good morning. Thanks for taking my questions. As we head into spring selling, can you compare the market today versus say a year ago in terms of the demand and inventory that's out there?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

I don't know that there's a direct parallel to be drawn. We are encouraged by the fact that we've still got people out there looking to buy a home. There's certainly not a lack of interest. I think it's breaking through the consumer confidence and seeing people feel good about their decision to move forward. We are encouraged by the traffic we see out there today. I do believe that if you look at today over last year at this time, there's a little more balance of inventory. Certainly, we see that across our communities, and I think you see that across the industry.

So set up, we believe we are in a good position as we move into the spring selling season. Comfortable with where we're positioned with our communities, our community count, our inventory and most importantly, our people in the field, taking care of the buyers as they come into our models.

Q: And then on the stick and brick side, I think you said that in the fiscal first quarter, stick and brick costs were down 1% quarter-over-quarter. And I think you're guiding for it to be flattish quarter-over-quarter in the second quarter. Is it flattening out now? Or is there still opportunity to take more cost out? Where are you in the process of sort of clawing back some margin from either the trades or building product or distributors?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

We believe there's still opportunity there. And our reduction in starts was intentional to give us the opportunity to meet with our trades or vendors or suppliers and look at the reality of the market in front of us. So although our guide is to flat and not seeing significant reduction in stick and brick, part of that, too, is it's a percent or it's based on a square foot basis, which is a little harder sometimes to measure based on mix and product and sizing. But we certainly feel like there's opportunity to continue to see some reductions in the cost of homes that we're putting in the ground.

Q: Great. Thank you.

Operator

Thank you. The next question will be from Susan Maklari from Goldman Sachs. Susan, your line is live.

Q: Thank you. Good morning everyone. My first question is thinking about the conditions that you've talked to and your ability to continue to hold on to that improvement that you've seen in cycle times and the efforts that you're realizing with your suppliers, if we do see somewhat of a lift in demand as we go through this year, do you think you can continue to maintain that flexibility that you've realized?

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Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

We've had long relationships with these trade partners. The last time we had a really significant production disruption was partially labor, largely it was due to material shortages. That is something we do not expect at all this time at all. Materials are in great shape. Product is available. And the relationships we've had with labor trades in several markets going back 30 and 40 years, consistently paying the bills on time, consistent starts cadence and a consistency of product deployed has been really helpful in maintaining our partnership with those trade bases.

Q: Okay. And then maybe turning to the growth side of things. Can you talk about what you're seeing in terms of some of the smaller privates, how they're feeling today and your ability to perhaps leverage further M&A as an element of growth that you're looking to achieve?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

We continue to look at opportunities that are in the market. And I think that our focus has been more on the tuck-in opportunities to either expand our capacity in a particular market and/or an entry into a market. But we continue to evaluate those as they come towards us. And I think if you see anything in the future, it will be similar to what you've seen over the last several years with the smaller builders that give us a solid platform and are a good fit to us in end markets.

Q: Okay. Thank you. Good luck for the quarter.

Operator

Thank you. The next question will be from Ken Zener from Seaport Research. Ken, your line is live.

Q: Thank you. Good morning everybody.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Good morning, Ken.

Q: Paul, with the orders up 3%, there's a community count effect there, but a lot of details asked today. My basic question is this. Demand is there, you need to offer some incentives, but demand is there amid very low job growth. For example, Dallas, you're familiar with, job growth of around 30,000 year-over-year. It's well less than half the long-term rate, yet you're still seeing demand. Can you talk to like where that demand is coming from amid such low job growth that we're seeing? It's not just Dallas. It's in many different markets, yet you guys are still seeing activity. Do we really need job growth to normalize to get your margins in a more stable upward slope?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Well, I think job growth is always going to be key to overall household formation and the demand side of our business. There's no question there. I do believe that we continue to see some pent-up demand. And as people grow and especially for our buyers for the first-time homebuyer that have delayed that home purchase decision and making the decision today to come out of an apartment and/or out of their parents' home makes it a little less reliant on seeing just pure job growth to create household formation in some of the MSAs that we operate in. So I do think it's a balance. I think long-term, we absolutely need to see job growth and continued job growth if we want to see growth in overall housing demand.

Q: Right. And can you kind of comment that, I mean it's AI and many different things today, the 10-year is up 5 or 6 basis points again. But do you feel like we're really pulling forward just from that "pent-up" demand that didn't occur? Because it's quite odd that we're seeing demand so strong when job growth has been so weak. And it begs the question of, right, what if it stays weak? Do you pull? Have you tapped essentially your demand that was there, not tied to job growth? I'm just trying to figure it out because do you know what do your people say when you don't have really good job growth, yet housing demand is there?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Well, I think it's why we continue to prefer our focus on the entry-level and first-time buyer because they're a need-based buyer. Everyone needs a place to live. And so if we can strike that right affordability balance, they might need a little bit of help in terms of gift funds from parents or relative. We continue to see just shy of 20% of our buyers utilizing our mortgage company are utilizing gift funds to make that purchase. But the lower the price point we can put houses on the ground at, the more buyers that are out there because once again, a first-time buyer needs a place to live. If we can be competitive with rents, they're still interested in that home purchase.

Q: Thank you.

Operator

Thank you. The next question will be from Jade Rahmani from KBW. Jade, your line is live.

Q: Thank you very much. If rates do move lower, do you think homebuilders will choose to pass along that saving to buyers rather than take margins in the hopes that that would stimulate demand further?

Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.

I think we continue to see a balance to meet the consumer where they are relative to the rate environment. And it would be a, can you spur additional demand and drive more pace, more units? If that's going to be the most incrementally positive lever we can pull on returns, then we

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would go that direction. If it's a community where there's more scarcity of supply, it might result in an improvement in margins.

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Even with our increased incentives in the December quarter, we kept our lowest 30-year fixed rate offering at 3.99%. And so we would have the ability, to Mike's point, we could always choose to go lower if rates move lower and it could cost us the same or if demand is just picking up and we don't need to move lower on that rate offering, we won't. But we did, in the December quarter stay with 3.99% as the lowest 30-year fixed rate buydown we were offering.

Q: And with 64% first-time homebuyer in your mortgage company, could you give any color as to whether you think an allowance of 401(k) savings to be used for deposit down payment would move the needle at all? Could that be material? Or do you think it's unlikely to be so?

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

I think anything that opens up the ability of people to either get to a monthly payment and/or get to a down payment, which are the two things, especially for a first-time homebuyer that we need to solve for, right? It's getting to a monthly payment that they're comfortable with, can and should afford as well as the down payment that they need to purchase a home. So we absolutely think it will be helpful. To what level, we'll see what gets put forward in terms of policy and how that plays out. But anything that we see to help get people moving, not just in the new home market but in the resale market as well, we believe is accretive to our performance.

Q: Thanks.

Operator

Thank you. And the next question will be from Alex Barron from Housing Research Center. Alex, your line is live.

Q: Hi, good morning. I just wanted to confirm the volume guide you guys are giving, is that just for the wholly-owned communities? Or does that also include the homes you guys are doing in rental communities?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Sure, Alex. Our home closings guide for the year is for buy our homebuilding operations. So it does not include single-family rental, but our revenue guide for the full-year is consolidated revenues. So it would anticipate our rental revenue included in that.

Q: Got it. And I wanted to ask on the margin guidance. Was that mainly driven by offering higher incentives in the way of rate buydowns or more like in the way of price cuts?

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Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

Mostly incentives based on buydowns and based on the level of buydowns and incentive costs we were seeing as we exited Q1 really driving the Q2 levels.

Q: Okay. And if I could ask one last one. Are you guys starting to feel any impact from tariffs and materials costs?

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

No. We still haven't taken any significant or noticeable increase in a material due to a tariff.

Q: Okay. Thank you and best of luck.

Jessica Hansen - Senior Vice President Communications & People Head of Investor Relations, D.R. Horton, Inc.

Thanks, Alex.

Operator

Thank you. This does conclude today's Q&A session. I will now hand the call back to Paul Romanowski for closing remarks.

Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.

Thank you, Paul. We appreciate everyone's time on the call today and look forward to speaking with you again to share our second quarter results on Tuesday, April 21st. Congratulations to the entire D.R. Horton family on achieving a solid first quarter. We are honored to represent you on this call and greatly appreciate all that you do.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.