

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Three Months Ended March 31,

2020

2019

(Dollars in thousands, except per share amounts)

Revenues:

Home sales	\$ 95,659	\$ 99,186
Land sales	147	—
Fee building, including management fees	36,227	19,662
	132,033	118,848

Cost of Sales:

Home sales	84,722	86,569
Land sales	147	—
Fee building	35,497	19,268
	120,366	105,837

Gross Margin:

Home sales	10,937	12,617
Land sales	—	—
Fee building	730	394
	11,667	13,011

Selling and marketing expenses	(7,466)	(8,679)
General and administrative expenses	(6,023)	(7,391)
Equity in net income (loss) of unconsolidated joint ventures	(1,937)	184
Interest expense	(718)	—
Project abandonment costs	(14,036)	(5)

Gain (loss) on early extinguishment of debt	(123)	417
Other income (expense), net	223	(188)
Pretax loss	(18,413)	(2,651)
Benefit for income taxes	9,937	664
Net loss	(8,476)	(1,987)
Net loss attributable to non-controlling interest	—	—
Net loss attributable to The New Home Company Inc.	\$ (8,476)	\$ (1,987)

Loss per share attributable to The New Home Company Inc.:

Basic	\$ (0.42)	\$ (0.10)
Diluted	\$ (0.42)	\$ (0.10)

Weighted average shares outstanding:

Basic	19,951,825	19,986,394
Diluted	19,951,825	19,986,394

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended

March 31,

	2020	2019
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(Dollars in thousands)

Operating activities:

Net loss	\$ (8,476)		\$ (1,987)
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Adjustments to reconcile net loss to net cash provided by (used in) operating activities:

Deferred taxes	914		—
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Amortization of stock-based compensation	589		566
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Distributions of earnings from unconsolidated joint ventures	—		260
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Project abandonment costs	14,036		5
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Equity in net (income) loss of unconsolidated joint ventures	1,937		(184)
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Depreciation and amortization	1,845		2,656
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(Gain) loss on early extinguishment of debt	123		(417)
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Net changes in operating assets and liabilities:

Contracts and accounts receivable	345		1,806
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Due from affiliates	130		524
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Real estate inventories	27,130		9,676
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Other assets	(11,804)		(2,343)
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Accounts payable	(4,006)		(18,753)
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Accrued expenses and other liabilities	(5,462)		(4,041)
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Net cash provided by (used in) operating activities	17,301		(12,232)
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Investing activities:

Purchases of property and equipment	(125)		(5)
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CONSOLIDATED BALANCE SHEETS

	March 31, 2020	December 31, 2019
(Dollars in thousands, except per share amounts)		
(Unaudited)		
Assets		
Cash and cash equivalents	\$ 87,863	\$ 79,314
Restricted cash	424	117
Contracts and accounts receivable	15,637	15,982
Due from affiliates	108	238
Real estate inventories	398,973	433,938
Investment in and advances to unconsolidated joint ventures	29,237	30,217
Deferred tax asset, net	16,589	17,503
Other assets	31,105	25,880
Total assets	<u>\$ 579,936</u>	<u>\$ 603,189</u>
Liabilities and equity		
Accounts payable	\$ 21,038	\$ 25,044
Accrued expenses and other liabilities	36,083	40,554
Senior notes, net	300,479	304,832
Total liabilities	<u>357,600</u>	<u>370,430</u>
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares outstanding	—	—
Common stock, \$0.01 par value, 500,000,000 shares authorized, 18,957,165 and 20,096,969, shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	190	201
Additional paid-in capital	191,926	193,862
Retained earnings	30,108	38,584
Total stockholders' equity	<u>222,224</u>	<u>232,647</u>
Non-controlling interest in subsidiary	112	112
Total equity	<u>222,336</u>	<u>232,759</u>
Total liabilities and equity	<u>\$ 579,936</u>	<u>\$ 603,189</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended

March 31,

	2020	2019
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(Dollars in thousands)

Operating activities:

Net loss	\$ (8,476)	\$ (1,987)
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Adjustments to reconcile net loss to net cash provided by (used in) operating activities:

Deferred taxes	914	—
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Equity in net (income) loss of unconsolidated joint ventures	1,937	(184)
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Depreciation and amortization	1,845	2,656
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Net changes in operating assets and liabilities:

Contracts and accounts receivable	345	1,806
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Due from affiliates	130	524
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Other assets	(11,804)	(2,343)
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Accounts payable	(4,006)	(18,753)
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Accrued expenses and other liabilities	(5,462)	(4,041)
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Net cash provided by (used in) operating activities	17,301	(12,232)
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Investing activities:

Purchases of property and equipment	(125)	(5)
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Contributions and advances to unconsolidated joint ventures	(2,057)	(1,335)
Distributions of capital and repayment of advances from unconsolidated joint ventures	1,100	2,562
Net cash (used in) provided by investing activities	(1,082)	1,222
Financing activities:		
Borrowings from credit facility	—	30,000
Repayments of credit facility	—	(13,500)
Repurchases of senior notes	(4,827)	(4,512)
Repurchases of common stock	(2,233)	(1,042)
Tax withholding paid on behalf of employees for stock awards	(303)	(488)
Net cash (used in) provided by financing activities	(7,363)	10,458
Net increase (decrease) in cash, cash equivalents and restricted cash	8,856	(552)
Cash, cash equivalents and restricted cash – beginning of period	79,431	42,542
Cash, cash equivalents and restricted cash – end of period	\$ 88,287	\$ 41,990

KEY FINANCIAL AND OPERATING DATA

(Dollars in thousands)

(Unaudited)

New Home Deliveries:

Three Months Ended March 31,

	2020			2019			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
Southern California	68	\$ 63,017	\$ 927	61	\$ 64,593	\$ 1,059	11 %	(2)%	(12)%
Northern California	29	20,264	699	28	18,739	669	4 %	8 %	4 %
Arizona	10	12,378	1,238	10	15,854	1,585	— %	(22)%	(22)%
Total	107	\$ 95,659	\$ 894	99	\$ 99,186	\$ 1,002	8 %	(4)%	(11)%

Three Months Ended March 31,

	2020	2019	% Change
Net New Home Orders:			
Southern California	62	58	7 %
Northern California	68	45	51 %
Arizona	2	9	(78)%
	132	112	18 %

Selling Communities at End of Period:

Southern California	11	12	(8)%
Northern California	10	8	25 %
Arizona	1	2	(50)%
	22	22	— %

Average Selling Communities:

Southern California	11	12	(8)%
Northern California	10	7	43 %
Arizona	2	2	— %
	22	21	5 %

Monthly Sales Absorption Rate per Community(1):

Southern California	1.9	1.6	19 %
Northern California	2.3	2.0	15 %
Arizona	0.4	1.5	(73)%
Total	2.0	1.7	18 %

(1) Monthly sales absorption represents the number of net new home orders divided by the number of average selling communities for the period.

Backlog:**As of March 31,**

	2020			2019			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
Southern California	66	\$ 53,934	\$ 817	87	\$ 109,284	\$ 1,256	(24)%	(51)%	(35)%
Northern California	105	71,082	677	85	72,290	850	24 %	(2)%	(20)%
Arizona	3	5,141	1,714	32	30,991	968	(91)%	(83)%	77 %
Total	174	\$ 130,157	\$ 748	204	\$ 212,565	\$ 1,042	(15)%	(39)%	(28)%

Lots Owned and Controlled:**As of March 31,**

	2020	2019	% Change
Lots Owned			
Southern California	437	626	(30)%
Northern California	588	726	(19)%

Arizona	385	301	28 %
Total	1,410	1,653	(15)%
Lots Controlled(1)			
Southern California	426	174	145 %
Northern California	348	439	(21)%
Arizona	279	477	(42)%
Total	1,053	1,090	(3)%
Lots Owned and Controlled - Wholly Owned	2,463	2,743	(10)%
Fee Building Lots(2)	1,070	1,266	(15)%

(1) Includes lots that we control under purchase and sale agreements or option agreements subject to customary conditions and have not yet closed. There can be no assurance that such acquisitions will occur.

(2) Lots owned by third party property owners for which we perform general contracting or construction management services.

Other Financial Data:

Three Months Ended

March 31,

	2020	2019
Interest incurred	\$ 6,380	\$ 7,761
Adjusted EBITDA(1)	\$ 6,981	\$ 6,875
Adjusted EBITDA margin percentage(1)	5.3 %	5.8 %

LTM⁽²⁾ Ended March 31,

	2020	2019
Interest incurred	\$ 27,438	\$ 29,422
Adjusted EBITDA(1)	\$ 41,536	\$ 42,011

Adjusted EBITDA margin percentage(1)	6.1 %	6.3 %
Ratio of Adjusted EBITDA to total interest incurred(1)	1.5x	1.4x

	March 31,		December 31,	
	2020		2019	
Ratio of debt-to-capital	57.5 %		56.7 %	
Ratio of net debt-to-capital(1)	48.8 %		49.2 %	
Ratio of debt to LTM(2) Adjusted EBITDA(1)(3)	7.2x		7.4x	
Ratio of net debt to LTM(2) Adjusted EBITDA(1)(3)	5.1x		5.4x	
Ratio of cash and inventory to debt	1.6x		1.7x	

(1) Adjusted EBITDA, Adjusted EBITDA margin percentage, ratio of Adjusted EBITDA to total interest incurred, ratio of net debt-to-capital, ratio of debt to LTM Adjusted EBITDA and ratio of net debt to LTM Adjusted EBITDA are non-GAAP measures. Please see "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of each of these measures to the appropriate GAAP measure.

(2) "LTM" indicates amounts for the trailing 12 months.

(3) Due to an inadvertent oversight in prior year periods, interest amortized to certain inventory impairment charges and to equity in net income (loss) of unconsolidated joint ventures was duplicated in the Adjusted EBITDA calculation. Ratios for the prior period have been corrected.

KEY FINANCIAL AND OPERATING DATA - UNCONSOLIDATED JOINT VENTURES

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,		
	2020	2019	% Change
Financial Data - Unconsolidated Joint Ventures:			
Home sales revenue	\$ 19,548	\$ 38,127	(49) %
Land sales revenue(1)	12,099	4,160	191 %
Total revenues	\$ 31,647	\$ 42,287	(25) %

Net income	\$ 1,362	\$ 513	165 %
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Operating Data - Unconsolidated Joint Ventures:

New home orders	12	36	(67)%
New homes delivered	20	37	(46)%
Average selling price of homes delivered	\$ 977	\$ 1,030	(5)%

Selling communities at end of period	3	6	(50)%
Backlog homes (dollar value)	\$ 35,075	\$ 70,949	(51)%
Backlog (homes)	41	75	(45)%
Average sales price of backlog	\$ 855	\$ 946	(10)%

Homebuilding lots owned and controlled	54	174	(69)%
Land development lots owned and controlled	1,772	1,995	(11)%
Total lots owned and controlled	1,826	2,169	(16)%

(1) Land sales revenue for the 2020 first quarter includes \$7.0 million of revenues related to the sales of a mixed use building sold by a homebuilding joint venture.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(Unaudited)

In this earnings release, we utilize certain non-GAAP financial measures as defined by the Securities and Exchange Commission. We present these measures because we believe they, and similar measures, are useful to management and investors in evaluating the Company's operating performance and financing structure. We also believe these measures facilitate the comparison of our operating performance and financing structure with other companies in our industry. Because these measures are not calculated in accordance with Generally Accepted Accounting Principles ("GAAP"), they may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or as a substitute for, or superior to, financial measures prepared in accordance with GAAP.

The following table reconciles net loss attributable to the Company to the non-GAAP measure of adjusted net loss attributable to the Company (net loss before abandoned project costs, joint venture impairment, severance charges and noncash deferred tax asset adjustments) and loss per share and loss per diluted share attributable to the Company to the non-GAAP measures of adjusted loss per share and adjusted diluted loss per share attributable to the Company (loss per share before abandoned project costs, joint venture impairment, severance charges and noncash deferred tax asset adjustments). We believe removing the impact of these items is relevant to provide investors with an understanding of the impact these noncash items had on earnings.

Three Months Ended March 31,

2020 **2019**

(Dollars in thousands, except per share amounts)

Net loss attributable to The New Home Company Inc.	\$	(8,476)	\$	(1,987)
Abandoned project costs, joint venture impairment and severance charges, net of tax		9,505		1,157
Noncash deferred tax asset remeasurement		(2,114)		—
Adjusted net loss attributable to The New Home Company Inc.	\$	(1,085)	\$	(830)
Loss per share attributable to The New Home Company Inc.:				
Basic	\$	(0.42)	\$	(0.10)
Diluted	\$	(0.42)	\$	(0.10)
Adjusted loss per share attributable to The New Home Company Inc.:				
Basic	\$	(0.05)	\$	(0.04)
Diluted	\$	(0.05)	\$	(0.04)
Weighted average shares outstanding:				
Basic		19,951,825		19,986,394
Diluted		19,951,825		19,986,394
Abandoned projects costs related to Arizona luxury condominium community	\$	14,000	\$	—
Joint venture impairment related to joint venture exit		2,287		—
Severance charges		—		1,788
Less: Related tax benefit		(6,782)		(631)

Abandoned project costs, joint venture impairment and severance charges, net of tax	\$	9,505	\$	1,157
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RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (continued)
(Unaudited)

The following table reconciles the Company's SG&A rate as a percentage of home sales revenue calculated in accordance with GAAP to the non-GAAP measure, SG&A rate excluding severance charges. During the 2019 first quarter, the company incurred severance charges related to right-sizing its operations by reducing headcount. We believe removing the impact of these charges from our SG&A rate is relevant to provide investors with a better comparison to rates that do not include these charges.

	Three Months Ended		As a Percentage of	
	March 31,		Home Sales Revenue	
	2020	2019	2020	2019
	(Dollars in thousands)			
Selling and marketing expenses	\$ 7,466	\$ 8,679	7.8 %	8.8 %
General and administrative expenses ("G&A")	6,023	7,391	6.3 %	7.4 %
Total selling, marketing and G&A ("SG&A")	\$ 13,489	\$ 16,070	14.1 %	16.2 %
G&A	\$ 6,023	\$ 7,391	6.3 %	7.4 %
Less: Severance charges ⁽¹⁾	—	(1,788)	— %	(1.8)%
G&A, excluding severance charges	\$ 6,023	\$ 5,603	6.3 %	5.6 %
Selling and marketing expenses	\$ 7,466	\$ 8,679	7.8 %	8.8 %
G&A, excluding severance charges	6,023	5,603	6.3 %	5.6 %
SG&A, excluding severance charges	\$ 13,489	\$ 14,282	14.1 %	14.4 %

(1) Includes \$1.1 million related to departure of executive officer.

The following table reconciles homebuilding gross margin percentage as reported and prepared in accordance with GAAP to the non-GAAP measure, adjusted homebuilding gross margin (or homebuilding gross margin excluding interest in cost of home sales). We believe this information is meaningful, as it isolates the impact leverage has on homebuilding gross margin and provides investors better comparisons with our competitors, who adjust gross margins in a similar fashion.

	Three Months Ended March 31,			
	2020	%	2019	%
	(Dollars in thousands)			
Home sales revenue	\$ 95,659	100.0 %	\$ 99,186	100.0 %
Cost of home sales	84,722	88.6 %	86,569	87.3 %
Homebuilding gross margin	10,937	11.4 %	12,617	12.7 %
Add: Interest in cost of home sales	6,146	6.5 %	4,852	4.9 %
Adjusted homebuilding gross margin	\$ 17,083	17.9 %	\$ 17,469	17.6 %

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (continued)
(Unaudited)

The following table reconciles the Company's ratio of debt-to-capital to the non-GAAP ratio of net debt-to-capital. We believe that the ratio of net debt-to-capital is a relevant financial measure for management and investors to understand the leverage employed in our operations and as an indicator of the Company's ability to obtain financing.

	March 31,	December 31,
	2020	2019
	(Dollars in thousands)	
Total debt, net of unamortized discount, premium and debt issuance costs	\$ 300,479	\$ 304,832
Equity, exclusive of non-controlling interest	222,224	232,647
Total capital	\$ 522,703	\$ 537,479
Ratio of debt-to-capital(1)	57.5 %	56.7 %
Total debt, net of unamortized discount, premium and debt issuance costs	\$ 300,479	\$ 304,832
Less: Cash, cash equivalents and restricted cash	88,287	79,431
Net debt	212,192	225,401
Equity, exclusive of non-controlling interest	222,224	232,647
Total capital	\$ 434,416	\$ 458,048
Ratio of net debt-to-capital(2)	48.8 %	49.2 %

(1) The ratio of debt-to-capital is computed as the quotient obtained by dividing total debt, net of unamortized discount, premium and debt issuance costs by total capital (the sum of total debt, net of unamortized discount, premium and debt issuance costs plus equity, exclusive of non-controlling interest).

(2) The ratio of net debt-to-capital is computed as the quotient obtained by dividing net debt (which is total debt, net of unamortized discount, premium and debt issuance costs less cash, cash equivalents and restricted cash to the extent necessary to reduce the debt balance to zero) by total capital, exclusive of non-controlling interest. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio of net debt-to-capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. We believe that by deducting our cash from our debt, we provide a measure of our indebtedness that takes into account our cash liquidity. We believe this provides useful information as the ratio of debt-to-capital does not take into account our liquidity and we believe that the ratio net of cash provides supplemental information by which our financial position may be considered. Investors may also find this to be helpful when comparing our leverage to the leverage of our competitors that present similar information.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (continued)
(Unaudited)

Adjusted EBITDA, Adjusted EBITDA margin percentage, the ratio of Adjusted EBITDA to total interest incurred, the ratio of debt to Adjusted EBITDA, and the ratio of net debt to Adjusted EBITDA are non-GAAP measures. Adjusted EBITDA means net income (loss) plus cash distributions of income from unconsolidated joint ventures) before (a) income taxes, (b) interest expense, (c) amortization of previously capitalized interest included in cost of sales (excluding amounts included in impairment charges), (d) severance charges (e) noncash impairment charges and abandoned project costs, (f) gain on early extinguishment of debt (g) depreciation and amortization, (h) amortization of stock-based compensation and (i) income (loss) from unconsolidated joint ventures. Adjusted EBITDA margin percentage is calculated by dividing Adjusted EBITDA by total revenue for a given period. The ratio of Adjusted EBITDA to total interest incurred is calculated by dividing Adjusted EBITDA by total interest incurred for a given period. The ratio of debt to Adjusted EBITDA is calculated by dividing debt at the period end by Adjusted EBITDA for a given period. The ratio of net debt to Adjusted EBITDA is calculated by dividing debt at the period end less cash, cash equivalents and restricted cash by Adjusted EBITDA for a given period. Other companies may calculate Adjusted EBITDA differently. Management believes that Adjusted EBITDA assists investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies' respective capitalization, interest costs, tax position, level of impairments and other non-recurring items. Due to the significance of the GAAP components excluded, Adjusted EBITDA should not be considered in isolation or as an alternative to net income (loss), cash flows from operations or any other performance measure prescribed by GAAP. A reconciliation of net loss to Adjusted EBITDA, and the calculations of Adjusted EBITDA margin percentage, the ratio of Adjusted EBITDA to total interest incurred, the ratio of debt to Adjusted EBITDA, and the ratio of net debt to Adjusted EBITDA are provided in the following table.

	Three Months Ended		LTM(1) Ended		
	March 31,		March 31,		December 31,
	2020	2019	2020	2019	2019
	(Dollars in thousands)				
Net loss	\$ (8,476)	\$ (1,987)	\$ (14,490)	\$ (15,566)	\$ (8,001)
Add:					
Interest amortized to cost of sales (excluding amounts included in impairment charges) and interest expensed(2)	6,864	4,852	29,246	20,766	27,234
Benefit for income taxes	(9,937)	(664)	(13,088)	(5,879)	(3,815)
Depreciation and amortization	1,845	2,656	8,146	8,265	8,957
Amortization of stock-based compensation	589	566	2,283	2,814	2,260
Cash distributions of income from unconsolidated joint ventures	—	260	114	260	374
Severance charges	—	1,788	—	1,788	1,788
Noncash inventory impairments and abandonments	14,036	5	24,325	10,176	10,294
Less:					
(Gain) loss on early extinguishment of debt	123	(417)	(624)	(417)	(1,164)
Equity in net (income) loss of unconsolidated joint ventures	1,937	(184)	5,624	19,804	3,503
Adjusted EBITDA	\$ 6,981	\$ 6,875	\$ 41,536	\$ 42,011	\$ 41,430
Total Revenue	\$ 132,033	\$ 118,848	\$ 682,534	\$ 663,183	\$ 669,349
Adjusted EBITDA margin percentage	5.3 %	5.8 %	6.1 %	6.3 %	6.2 %
Interest incurred	\$ 6,380	\$ 7,761	\$ 27,438	\$ 29,422	\$ 28,819
Ratio of Adjusted EBITDA to total interest incurred	1.1x	0.9x	1.5x	1.4x	1.4x
Total debt at period end			\$ 300,479	\$ 399,591	\$ 304,832
Ratio of debt to Adjusted EBITDA			7.2x	9.5x	7.4x
Total net debt at period end			\$ 212,192	\$ 357,601	\$ 225,401
Ratio of net debt to Adjusted EBITDA			5.1x	8.5x	5.4x
Total cash and inventory			\$ 486,836	\$ 604,986	\$ 513,252
Ratio of cash and inventory to debt			1.6x	1.5x	1.7x

(1) "LTM" indicates amounts for the trailing 12 months.

(2) Due to an inadvertent oversight in prior year periods, interest amortized to certain inventory impairment charges and to equity in net income (loss) of unconsolidated joint ventures was duplicated in the adjusted EBITDA calculation. The prior period has been restated to correct this duplication.