

KB HOME
Form 10-K
January 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended November 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 001-09195

KB HOME

(Exact name of registrant as specified in its charter)

Delaware 95-3666267

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

10990 Wilshire Boulevard, Los Angeles, California 90024

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (310) 231-4000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value \$1.00 per share)	New York Stock Exchange
Rights to Purchase Series A Participating Cumulative Preferred Stock	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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 ☐ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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.

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant on May 31, 2017 was \$1,986,837,449, including 9,153,296 shares held by the registrant's grantor stock ownership trust and excluding 21,844,825 shares held in treasury.

There were 87,048,265 shares of the registrant's common stock, par value \$1.00 per share, outstanding on December 31, 2017. The registrant's grantor stock ownership trust held an additional 8,897,954 shares of the registrant's common stock on that date.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (incorporated into Part III).

KB HOME
FORM 10-K
FOR THE YEAR ENDED NOVEMBER 30, 2017
TABLE OF CONTENTS

	Page Number
<u>PART I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>10</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>16</u>
Item 2. <u>Properties</u>	<u>17</u>
Item 3. <u>Legal Proceedings</u>	<u>17</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>17</u>
<u>Executive Officers of the Registrant</u>	<u>17</u>
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>18</u>
Item 6. <u>Selected Financial Data</u>	<u>20</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>48</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>97</u>
Item 9A. <u>Controls and Procedures</u>	<u>97</u>
Item 9B. <u>Other Information</u>	<u>98</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>98</u>
Item 11. <u>Executive Compensation</u>	<u>99</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>99</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>99</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>99</u>
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>100</u>
Item 16. <u>Form 10-K Summary</u>	<u>104</u>
<u>Signatures</u>	<u>105</u>

PART I

Item 1. BUSINESS

General

KB Home is one of the largest and most recognized homebuilding companies in the U.S. and has been building homes for 60 years, with more than 600,000 homes delivered since our founding. We sell and build a variety of new homes designed primarily for first-time, first move-up and active adult homebuyers, including attached and detached single-family residential homes, townhomes and condominiums. We offer homes in development communities, at urban in-fill locations and as part of mixed-use projects. Our homebuilding operations represent most of our business, accounting for 99.7% of our total revenues in 2017. Our financial services operations, which accounted for the remaining .3% of our total revenues in 2017, offer various insurance products to our homebuyers in the markets where we build homes and provide title services in certain of those markets. Our financial services operations provide mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers indirectly through KBHS Home Loans, LLC (“KBHS”), an unconsolidated joint venture we formed with Stearns Lending, LLC (“Stearns”), which became operational in 2017.

Unless the context indicates otherwise, the terms “we,” “our” and “us” used in this report refer to KB Home, a Delaware corporation, and its predecessors and subsidiaries. Also, as used in this report, “home” is a single-family residence, whether it is a single-family home or other type of residential property; “community” is a single development in which new homes are constructed as part of an integrated plan; and “community count” is the number of communities we have open for sales with at least five homes/lots left to sell.

The following charts present homes delivered and homebuilding revenues for the years ended November 30, 2015, 2016 and 2017:

Markets

Reflecting the geographic reach of our homebuilding business, we have ongoing operations in the seven states and 35 major markets presented below. We also operate in various submarkets within these major markets. From time to time, we refer to these

markets and submarkets collectively as our “served markets.” For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast.

Segment	State(s)	Major Market(s)
West Coast	California	Contra Costa County, Fresno, Los Angeles, Madera, Oakland, Orange County, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Jose, Santa Rosa-Petaluma, Stockton, Vallejo, Ventura and Yuba City
Southwest	Arizona	Phoenix and Tucson
	Nevada	Las Vegas
Central	Colorado	Denver
	Texas	Austin, Dallas, Fort Worth, Houston and San Antonio
Southeast	Florida	Daytona Beach, Jacksonville, Lakeland, Orlando, Punta Gorda, Sarasota, Sebastian-Vero Beach and Tampa
	North Carolina	Raleigh

Segment Operating Information. The following table presents certain operating information for our homebuilding reporting segments for the years ended November 30, 2017, 2016 and 2015 (dollars in millions, except average selling price):

	Years Ended November 30,		
	2017	2016	2015
West Coast:			
Homes delivered	3,387	2,825	2,258
Percentage of total homes delivered	31 %	29 %	27 %
Average selling price	\$644,900	\$579,900	\$587,000
Total revenues (a)	\$2,186.4	\$1,638.1	\$1,402.3
Southwest:			
Homes delivered	1,837	1,559	1,311
Percentage of total homes delivered	17 %	16 %	16 %
Average selling price	\$290,200	\$287,000	\$284,600
Total revenues (a)	\$533.1	\$447.5	\$398.2
Central:			
Homes delivered	4,136	3,744	3,183
Percentage of total homes delivered	38 %	38 %	39 %
Average selling price	\$284,800	\$270,100	\$252,200
Total revenues (a)	\$1,188.8	\$1,018.5	\$809.7
Southeast:			
Homes delivered	1,549	1,701	1,444
Percentage of total homes delivered	14 %	17 %	18 %
Average selling price	\$284,100	\$281,400	\$281,900
Total revenues (a)	\$448.0	\$478.9	\$410.8
Total:			
Homes delivered	10,909	9,829	8,196
Average selling price	\$397,400	\$363,800	\$354,800
Total revenues (a)	\$4,356.3	\$3,582.9	\$3,021.0

(a) Total revenues include revenues from housing and land sales.

Additional financial and operational information related to our homebuilding reporting segments, including revenues, pretax income (loss), inventories and assets, is provided below in Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 – Segment Information in the Notes to Consolidated Financial Statements in this report.

Unconsolidated Joint Ventures. The above table does not include homes delivered or revenues from unconsolidated joint ventures in which we participate. These unconsolidated joint ventures acquire and develop land in various markets where our homebuilding operations are located and, in some cases, build and deliver homes on the land developed.

Strategy

Since 2016, we have implemented a Returns-Focused Growth Plan that is designed to drive higher revenues and improvement in our homebuilding operating income margin, return on invested capital, return on equity and leverage ratio, and to achieve certain financial targets for these and related metrics in 2019. The plan's main components are (1) executing our core business strategy, (2) improving our asset efficiency and (3) monetizing our significant deferred tax assets.

Executing Our Core Business Strategy. Our core business strategy, which we call KB2020, is to expand our scale within our current geographic footprint to establish a top-five market share position in each of our served markets (based on homes delivered) by building communities that offer a compelling combination of affordability, choice and personalization. This strategy is grounded in a systematic, fact-based and process-driven approach to homebuilding and encompasses the following key principles with respect to customers, land, products and operations:

Customers. For each of our served markets, we gain a detailed understanding of consumers' location and product preferences, as well as product price-to-value perceptions, through ongoing customer surveys and other market research. Our primary focus is on first-time and first move-up homebuyers. First-time homebuyers have comprised nearly 60% of our homes delivered over the past 10 years. In addition, our Built-to-Order™ homebuying process provides our homebuyers with a wide range of choices in the major aspects of their future home, together with a personalized customer experience through our in-house community teams. These teams are made up of sales representatives, design consultants and other personnel who partner closely with each homebuyer and maintain constant communication from the initial sale of their home to its delivery. We believe this highly consumer-centric approach helps enhance customer satisfaction by enabling our homebuyers to design a home with the features and amenities they want based on what they value.

Land. We seek to manage our working capital and reduce our operating risks by primarily acquiring entitled land parcels at reasonable prices within attractive submarkets as identified by our market research activities. We typically focus on metropolitan areas with favorable long-term economic and population growth prospects that we believe have the potential to sustain a minimum of 800 homes delivered per year, and target land parcels that provide a two- to three-year supply of lots per community and meet our investment return standards. Identified consumer preferences and home sales activity largely direct where our land acquisition teams search for available land. We leverage the relationships we have with land owners, developers and brokers in our served markets to acquire land, and use our experience in working with municipalities to efficiently obtain entitlements and any other required development approvals, typically before or concurrently with closing on a parcel.

Products. We offer our customers a base product with a standardized set of functions and features that is generally priced to be affordable for the local area's median household income level. Our Built-to-Order approach provides customers the opportunity to select their lot location, floor plan, elevation and structural options, and to personalize their homes with numerous interior design options and upgrades in our design studios. Our design studios, generally centrally located within our served markets, are a key component of our Built-to-Order process, and the mix of design options and upgrades they offer are primarily based on the preferences identified by consumer survey and purchase frequency data. We utilize a centralized internal architectural group that designs homes to meet or exceed customers' price-to-value expectations while being as efficient as possible to construct. Our architectural group has developed a core series of flexible floor plans and elevations that we can offer across many of our served markets, which helps us understand the cost to build our products and enables us to compare and implement best practices across divisions or communities. We also incorporate energy-efficient features into our product designs to help lower the total cost of homeownership for our homebuyers and to reduce our homes' impact on the environment, as further discussed below. As used in this report and elsewhere, the term "product" encompasses a home's floor plan design and interior/exterior style, amenities, functions and features.

Operations. In addition to differentiating us from other high-production homebuilders, our Built-to-Order process helps to drive low-cost production. We generally commence construction of a home only after we have a signed purchase contract with a homebuyer and have obtained preliminary credit approval or other evidence of the homebuyer's financial ability to purchase the home, and seek to build a backlog of sold homes. By maintaining a healthy five-to-six-month backlog, along with centralized scheduling and standardized reporting processes, we have been able to establish a disciplined and scalable operational platform that helps us sustain an even-flow production of pre-sold homes, which reduces our inventory risk, enhances efficiencies in the construction process and our relationships with independent subcontractors, and provides us with greater visibility and predictability on future deliveries as we grow.

We consider our strategy to be integral to our success in the homebuilding industry. However, there may be market-driven circumstances where we believe it is necessary or appropriate to temporarily deviate from certain of its principles. These deviations may include starting construction on a small number of homes in a community before corresponding purchase contracts are signed with homebuyers to more quickly meet customer delivery expectations and generate revenues; or acquiring land parcels in peripheral neighborhoods of a core metropolitan area that otherwise fit our growth strategy and meet our investment return standards. In addition, other circumstances could arise in the future that may lead us to make specific short-term shifts from these principles.

Improving Asset Efficiency. We have had an ongoing focus on, and will continue our efforts in 2018 for, improving our asset efficiency, including, among other things, generating higher net orders per community and greater profitability per home delivered by balancing sales pace and selling prices, and managing our direct construction costs within our communities; structuring land acquisitions to minimize upfront costs, as further discussed below under “Community Development and Land Inventory Management”; reactivating communities that have been held for future development; selling non-core assets; and deploying excess cash flow from operations to help fuel additional revenue growth and/or reduce debt.

We have made considerable progress in reactivating communities over the past several years and plan to reactivate additional communities in 2018. As of November 30, 2017, our land held for future development represented 11% of our total inventories, level with November 30, 2016 and down from its peak of 43% at November 30, 2011. Our objective is to reduce our land held for future development, through reactivations and land sales, to less than 4% of our total inventory by the end of our 2019 fiscal year.

While reactivations and land sales can have a negative impact on our homebuilding operating income margin, they are generally accretive to earnings and returns, and generate cash that we can redeploy for investments in land that are expected to generate a higher return and grow our business. Such growth should enable us to leverage greater operating efficiencies that are expected to accompany a larger scale.

Monetizing Our Deferred Tax Assets. By increasing our scale and further improving our asset efficiency, the anticipated associated revenue and pretax income growth will enable us to accelerate the utilization of our deferred tax assets, which totaled \$634 million at November 30, 2017. We believe we can realize substantial