M/I Homes (MHO): A Competent Operator Without a Moat

Deconstructing the business engine, capital allocation, and valuation of the 13th-largest U.S. homebuilder.

An analytical investment dossier and thesis pitch.

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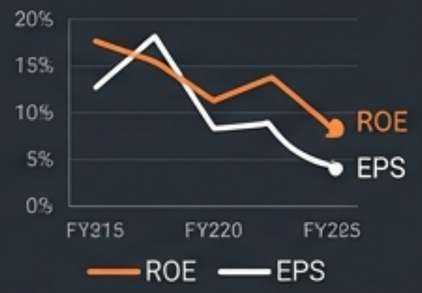
The Core Thesis

M/I Homes (MHO) has tripled revenue in a decade through conservative management, but **structurally lacks a durable competitive advantage**.

It is a **cyclical** operator whose returns are currently mean-reverting.



Financial Reality



FY2025 ROE compressed to **13.1%** (down from 21%).

EPS declined **25%**.

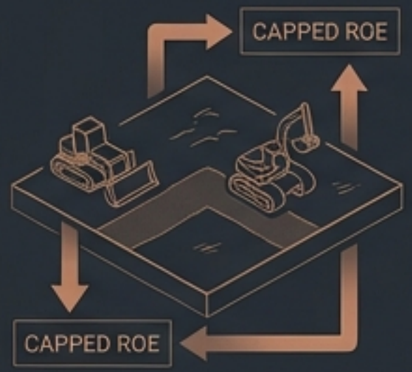
Current valuation stands at **9.4x trailing earnings** and **1.15x book value**.

Exceptional Capital Stewardship

A fortress balance sheet (**18% debt-to-capital, $1.6B liquidity**) paired with aggressive buybacks (~14% of shares retired since 2022).



The Fundamental Flaw



A highly capital-intensive, **land-heavy model** (**51% 51% owned lots, 80%+ self-developed**) that traps capital and caps ROE compared to asset-light peers.

MHO is a decent business trading at a fair price, not a great business at a cheap price.

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Structural Tailwinds

Massive Housing Deficit:
Shortfall of **3.8 million units** provides a long-term demand floor.

Industry Consolidation:

Top 10 builders captured a record **44.7% of closings** in 2024 (up from 28.2% in 2006).

Public builders now buy **66%** of finished lots.

Cyclical Headwinds

Rate Environment:
30-year fixed mortgages stabilized around **~6.4%**, forcing builders to rely on expensive incentive spending.

Affordability Crisis:

Over **100 million** U.S. households cannot afford a median-priced home.

The market is stuck in a prolonged mid-cycle trough—a ‘C-plus’ environment requiring heavy incentives to move inventory.

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The Smart Series Pivot

Entry-level/move-down product at ~$400,000 ASP. Represents 52% of FY2025 sales.

Directly targets resilient first-time buyers (48% of Q4 sales).

Spec-Heavy Production

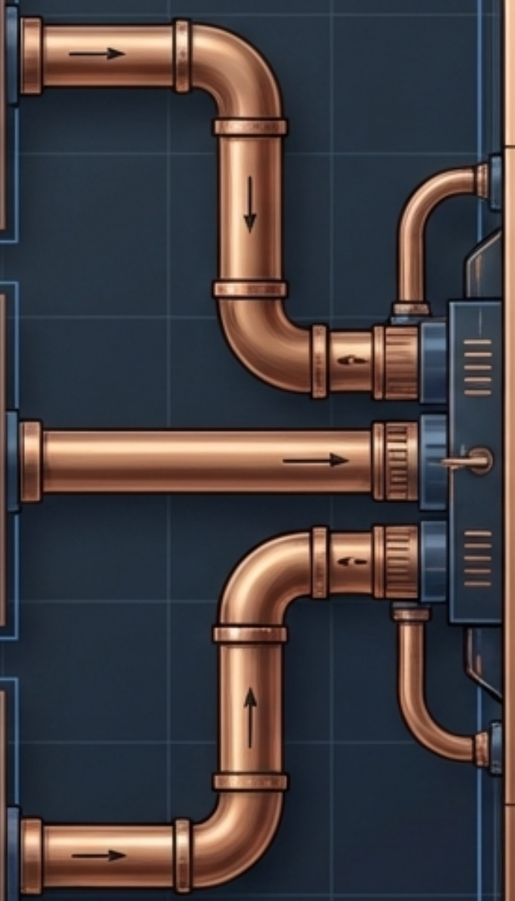
68% of FY2025 closings were spec homes (79% of Q4 sales). Compresses

cycle times by ~10 days and captures immediate move-in demand.

M/I Financial (The Finisher)

Captive mortgage subsidiary with a 94% capture rate. Generates $56M

pre-tax income. Primary vehicle for deploying rate buydown incentives.



~9,000 Annual Deliveries

Across 17 markets, driving $4.42B in FY2025 revenue.

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The MHO Model (Asset-Heavy)

Lot Control Strategy:
51% owned / **49%** optioned.
Over **80%** self-developed.

Capital Intensity:
$1.17 Billion spent on land in FY25.
$1.88B tied up in lots/land/development.

Cycle Performance:
Highly cyclical ROE. Vulnerable to severe land impairment write-downs in downturns.

The Best-in-Class Model (Asset-Light / NVR)

Lot Control Strategy:
Nearly **100%** controlled via options.
Minimal owned inventory.

Capital Intensity:
Minimal capital tied up. Generates immense free cash flow.

Cycle Performance:
ROE consistently above **20%**. Modest positive returns even during the GFC.

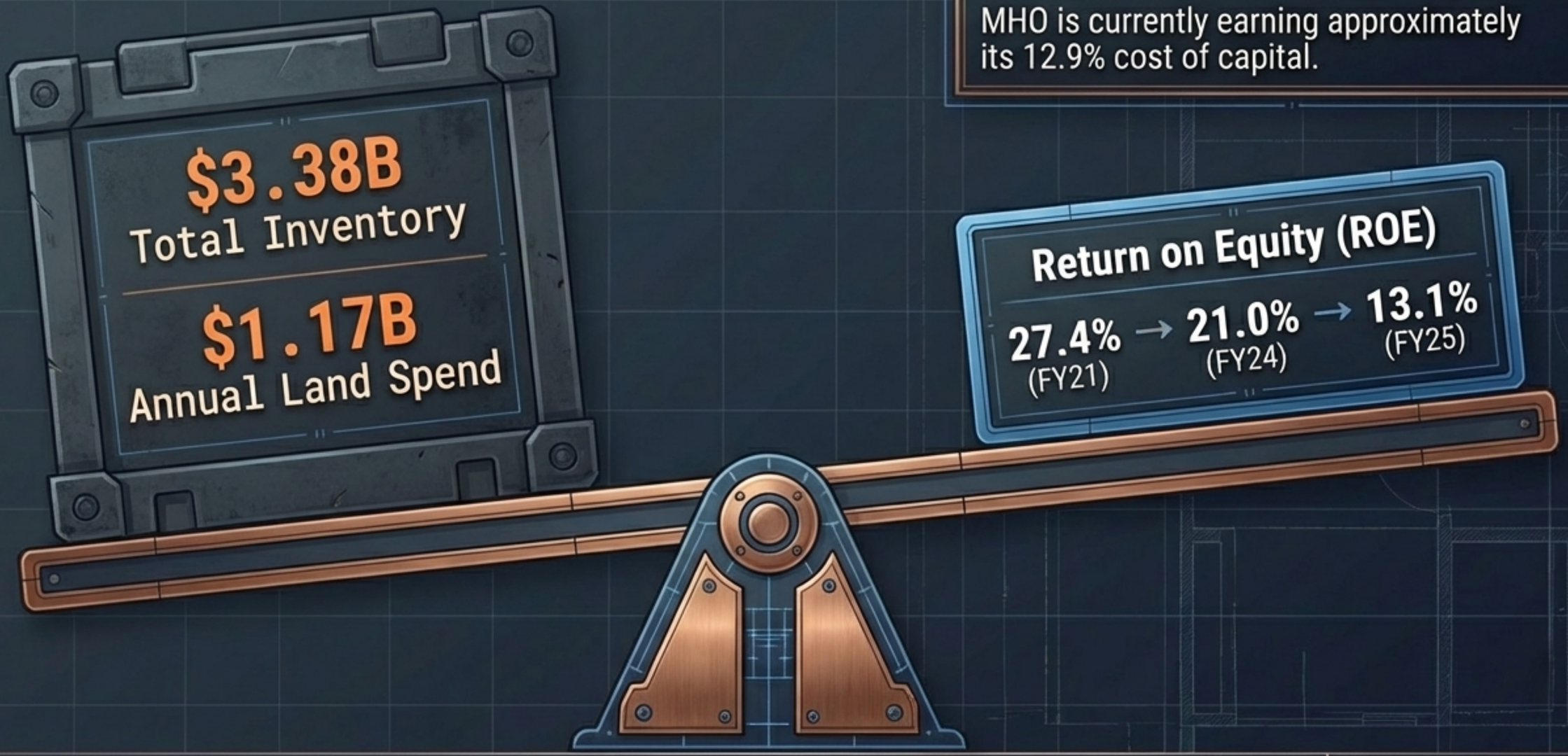
In homebuilding, the path to durable above-cost-of-capital returns runs through asset efficiency, not asset accumulation. MHO has taken the opposite path.

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Capital Velocity See-Saw

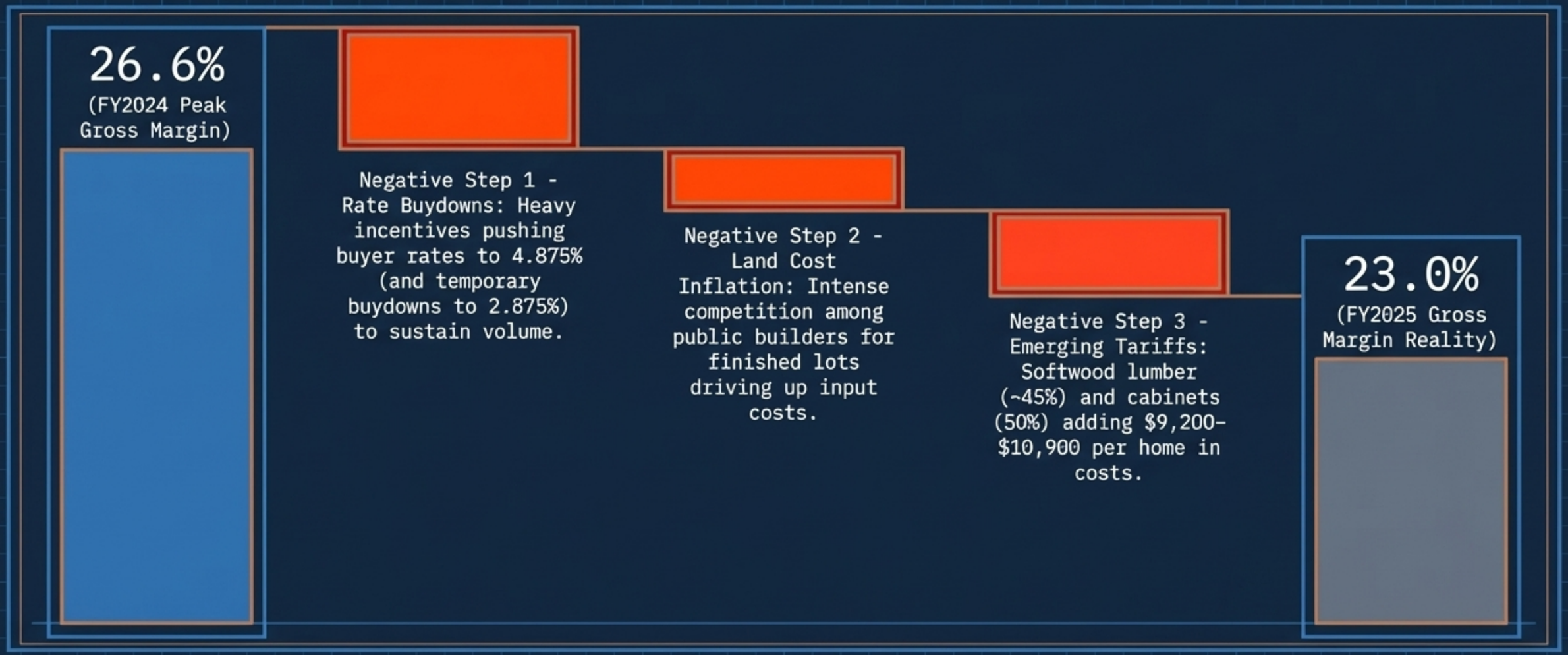
Retained earnings are plowed into low-return land inventory. Without proportional earnings growth, ROE mechanically dilutes.

MHO is currently earning approximately its 12.9% cost of capital.



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Margin Squeeze Visual Equation



Q4 adjusted gross margin of 22.6% is approaching the pre-2021 historical average, signaling peak profitability is decisively in the rearview mirror.

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Builder	Operating Margin (22-24 Avg)	FY2025 ROE	SG&A Ratio
NVR	~19%	33%	~5-6%
PulteGroup	~21%	~25%	(N/A)
D.R. Horton	~18%	~18%	~8-9%
M/I Homes	15.2%	13.1%	11.6%
Century Communities	~11%	(Lower)	(Higher)

MHO’s elevated SG&A reflects its size disadvantage. At $4.4B in revenue, it cannot achieve the overhead leverage of a $30B+ builder.

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Financial Fortress & Liquidity Moat

Cash Position: $689M in cash essentially offsets $696M in homebuilding debt (Creating a Net-Cash position).

Total Liquidity: ~$1.6 Billion in total liquidity, including a completely undrawn $900M credit facility valid through 2030.



Structural Leverage: Only 18% Debt-to-Capital ratio (down from 32% in 2008).

Bankruptcy is virtually impossible. MHO survived the 2008 GFC with a balance sheet 8x weaker than today's. The balance sheet provides ultimate survival insurance, even if it doesn't protect earnings.

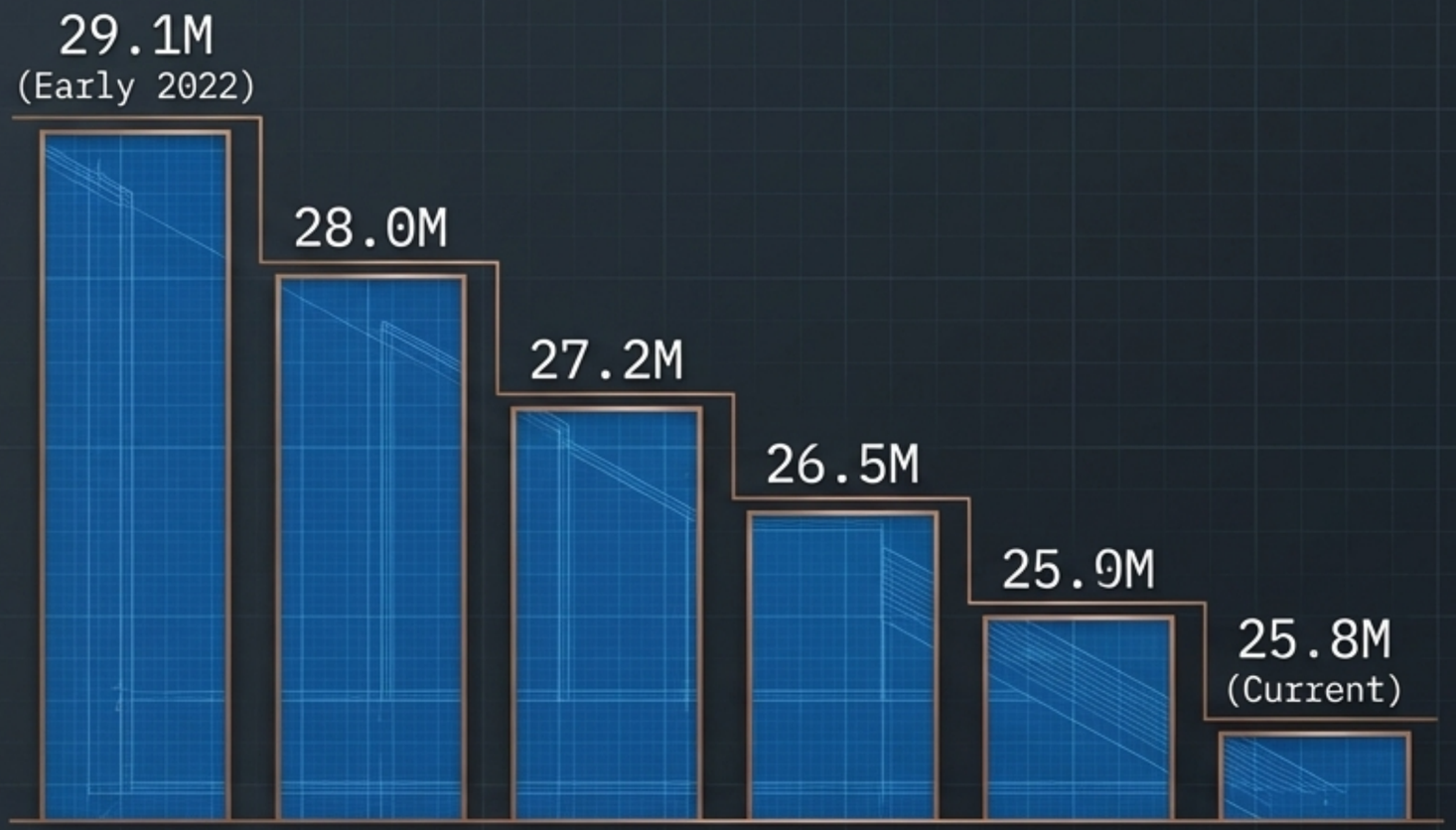
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Aggressive Share Repurchase Program & Capital Stewardship

14%: Total shares retired since 2022.

$202 Million:
Spent on share repurchases in FY2025 alone (average price roughly 1.0-1.2x book value).

$250 Million:
Fresh buyback authorization approved in Nov 2025.



MHO pays no dividend, efficiently directing all capital returns through value-accretive buybacks. This is textbook capital stewardship for a cyclical business.

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The MHO Paradox

Flawed Operating Engine

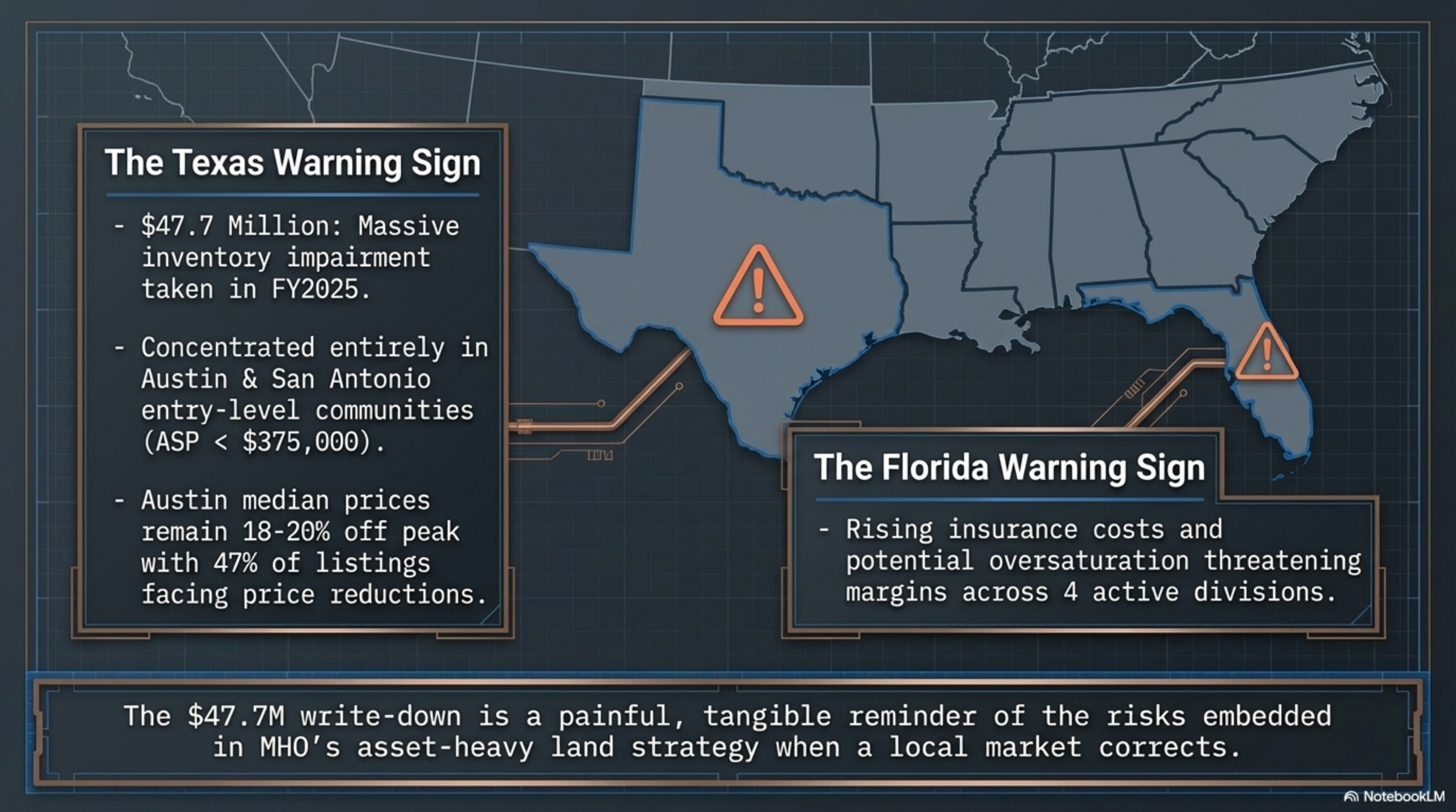
- Capital Intensive
- $1.17B annual land spend
- Vulnerable to cycle turns
- Meaningful impairment risks
- SG&A size disadvantages

Exceptional Capital Stewardship

- Capital Efficient
- 14% share count reduction
- Fortress balance sheet
- Textbook counter-cyclical deleveraging

Management is expertly allocating capital within a structurally suboptimal business model. This paradox protects the downside but structurally caps the valuation multiple.

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The Texas Warning Sign
- $47.7 Million: Massive inventory impairment taken in FY2025.
- Concentrated entirely in Austin & San Antonio entry-level communities (ASP < $375,000).
- Austin median prices remain 18-20% off peak with 47% of listings facing price reductions.
The Florida Warning Sign
- Rising insurance costs and potential oversaturation threatening margins across 4 active divisions.
The $47.7M write-down is a painful, tangible reminder of the risks embedded in MHO's asset-heavy land strategy when a local market corrects.

Succession & Governance (The C-Suite)

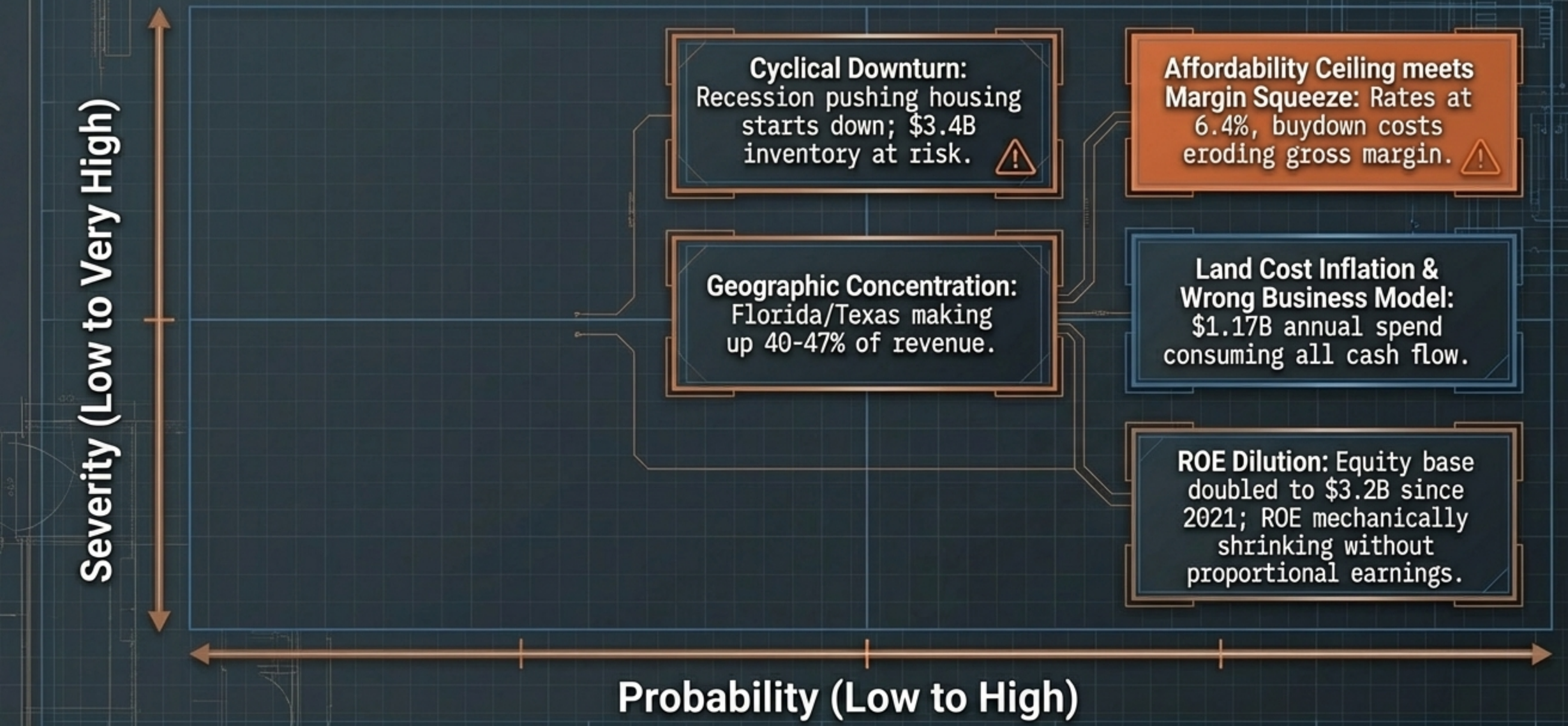
- CEO Bob Schottenstein and CFO Phil Creek are both 72 years old.
- No publicly disclosed succession plan.
- Founder-family dynamic creates potential transition friction in a highly centralized company.

Labor & Immigration (The Job Site)

- ICE enforcement raids in Texas and Florida are severely disrupting sites.
- 50-61% of the construction trades workforce in key MHO markets are foreign-born.
- MHO’s Smart Series is highly labor-intensive and price-sensitive, making it impossible to pass wage inflation to entry-level buyers.

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Risk Matrix: Strategic & Financial Vulnerabilities



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9.4x Trailing P/E

1.15x Book Value

~11% Earnings Yield

Scenario Analysis

Mid-Cycle Reality

$16–$19 EPS. Current price implies an 8x mid-cycle multiple (far value range).

Stress Scenario

$4.50–$7.50 EPS. ROE falls to 4-7%. Book value faces impairment pressure, limiting the downside protection of the 1.15x P/B.

MHO is a well-managed company entering a mid-cycle trough without a competitive moat. The valuation is undemanding, but accurately reflects the company's capital-heavy constraints. It is neither a value trap nor a screaming bargain—it is fairly priced.

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