Offerpad




# LETTER TO **SHAREHOLDERS**

Q3 | 2021

# Q3 HIGHLIGHTS

RECORD REVENUE
**$540M**

RECORD GROSS PROFIT
**$53M**

RECORD HOMES SOLD
**1,673**

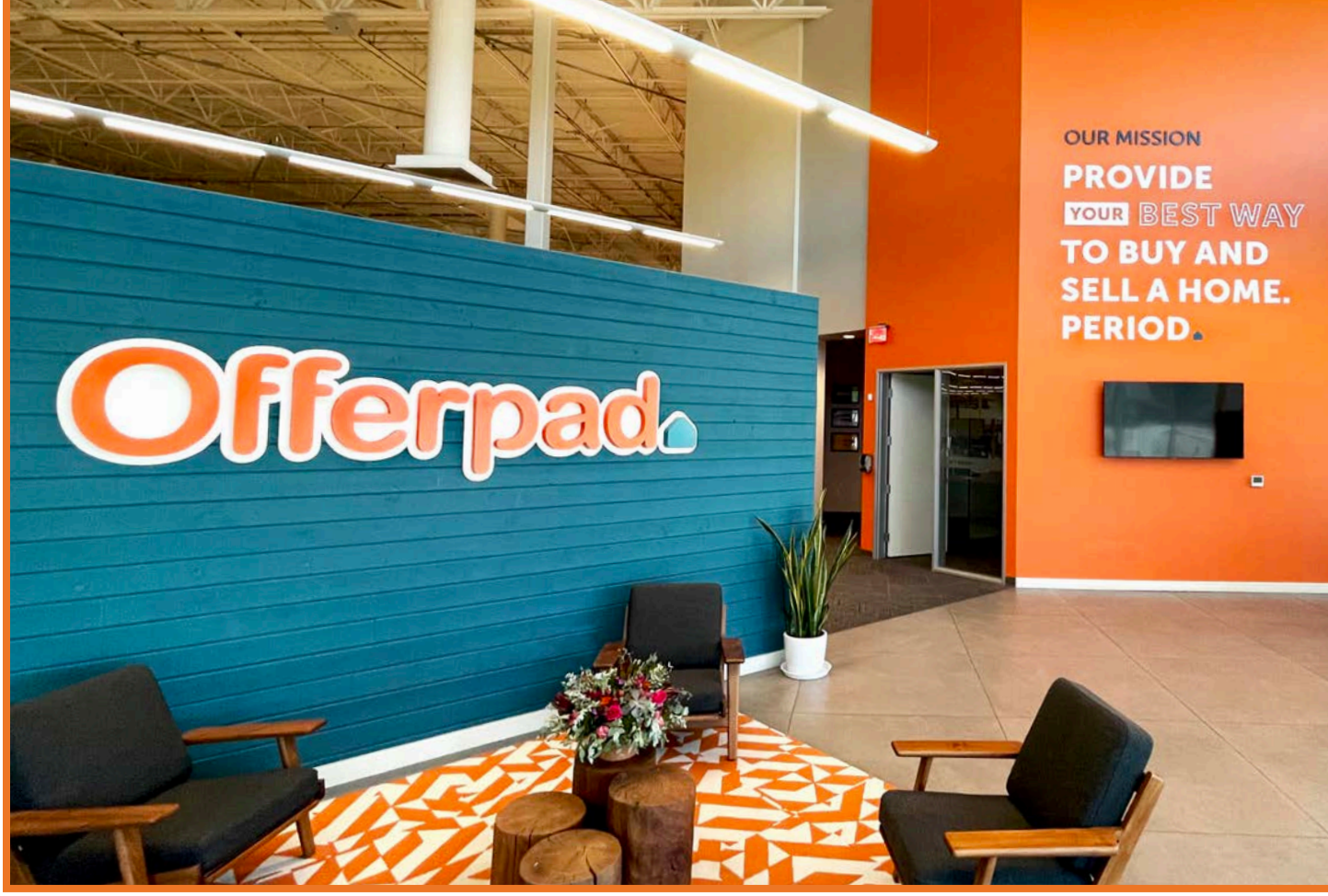
RECORD HOMES ACQUIRED
**2,753**




**Expanded our service offerings to include Offerpad Bundle Rewards**

**Launched 4 NEW markets**

**Raised our full-year 2021 outlook**





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# WELCOME TO OFFERPAD

## HOW WE ARE DIFFERENT:

### 1 Creating a Real Estate Solutions Center

We are offering services to meet homeowners needs beyond just buying and selling.

### 2 Offering Customizable Options

With multiple service offerings to chose from, homeowners can create customizable solutions to best meet their needs.

### 3 Building Sustainable Growth

Our focus is on growing rapidly in a responsible and disciplined manner that balances our goal of increased market share with achieving long-term sustainable profitability.

### 4 Utilizing Industry Expertise

Our in-house real estate experts provide deep, local real estate expertise to ensure we are accounting for the unique market conditions in each location to optimize our performance.

### 5 Adding Value through Renovations

Our renovations team is able to navigate less traditional and larger renovations projects, expanding our customer base and adding value to each home.

### 6 Applying Flexibility

We use real time market data and sentiment to proactively anticipate and integrate changes in market conditions into our model. Our agility and flexibility mitigate impacts from external risk factors.



# DEAR SHAREHOLDERS,

When we founded Offerpad six years ago, our objective was simple and the same as it is today: to revolutionize real estate by making the traditional home buying and selling experience easier and more convenient. Home by home, we continue to learn from and meet our customers wherever they are in their real estate journey and provide them with customizable solutions and services when and where they need them. We do this by leveraging our deep industry and local market expertise, along with our proprietary technology platform, to digitally deliver on-demand solutions that give our customers greater convenience, certainty and control over their real estate needs.

Offerpad's strategic plan and business model are designed to fuel sustainable growth in any real estate cycle as we rapidly scale and introduce our Solutions Center approach across the country. Our focus is on delivering exceptional service and customer satisfaction as we continue to grow rapidly in a responsible and disciplined way. That means balancing our goal of increased market share with long-term profitability while transforming the residential real estate experience for customers.

As we increase penetration in our existing markets, expand into new ones and build upon the ancillary services we currently offer, we remain dedicated more than ever to our founding mission: **to provide your best way to buy and sell a home. Period.**

Thank you for joining us on this journey.



Brian Bair | Chairman and CEO



# INVESTMENT HIGHLIGHTS

## Large Addressable Market

Offerpad operates in the residential real estate market with a Total Addressable Market of approximately $2T.

## Focused Business Model

Offerpad is focused on responsible, long-term growth powered by our real estate expertise and an advanced, proprietary algorithm that helps to optimize each transaction.

## Competitive Differentiation

Offerpad's Solutions Center provides a diversified suite of real estate services, customizable to meet each individual customer's needs.

## Attractive Growth Profile

Offerpad's growth is fueled by geographic expansion, existing market penetration and the roll out of more ancillary services that create value for our customers.





# 9 OUT OF 10 WOULD RECOMMEND TO A FRIEND*

**+77**
NET PROMOTER SCORE*

★★★★★
**"Highly recommend"**
Robert in Charlotte

★★★★★
**"Professional & personal"**
Brian in Orlando

**94%**
CUSTOMER SATISFACTION*

★★★★★
**"Great solution"**
Michelle in Raleigh



*Jan 1, 2021 to Sept 30, 2021 Survey of approximately 2,500 customers who sold their home to Offerpad.

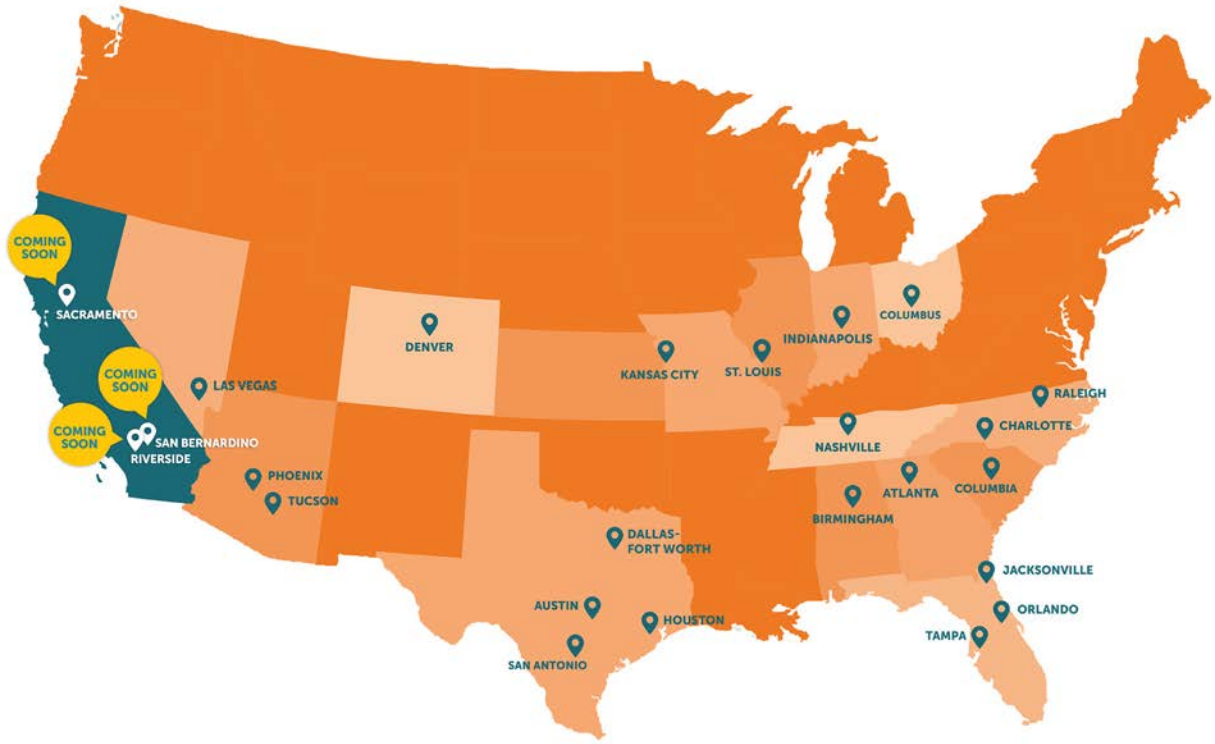
# BUSINESS HIGHLIGHTS

## Market Expansion

Offerpad's record revenue of $540 million in 3Q 2021 was fueled by solid execution of our business plan and strategy, as well as the comprehensive roll out of services in four new U.S. markets.

We use market-specific criteria to strategically select locations that will support Offerpad's long-term growth objectives, including:

- Geographical diversity
- Historical transactions (quantity and composition)
- Housing affordability
- Housing supply and demand
- Market durability
- Population and employment growth




### NUMBER OF MARKETS ACROSS THE U.S.






*As of November 10, 2021

# BUSINESS HIGHLIGHTS

## Renovations Increase Growth Opportunity

Our differentiated approach to renovations utilizes in-house talent, increasing our efficiency and improving the consistency of our quality. The sophisticated, technology driven logistics operation managed by our Renovations team allows us to take on less traditional and larger renovations projects, which in turn expands our potential customer base. In addition, our team embraces our flexible and adaptable culture to mitigate industry or other supply chain related challenges.

**EXPERIENCE**

APPROX. 18,000

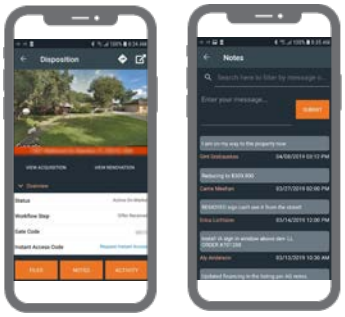
Renovations through September 30, 2021

**EFFICIENCY**

1.4 AVG. DAYS

per thousand dollars spent on renovations in 3Q 2021

**PROPRIETARY FIELD AUTOMATION**



Helix GO Field Automation

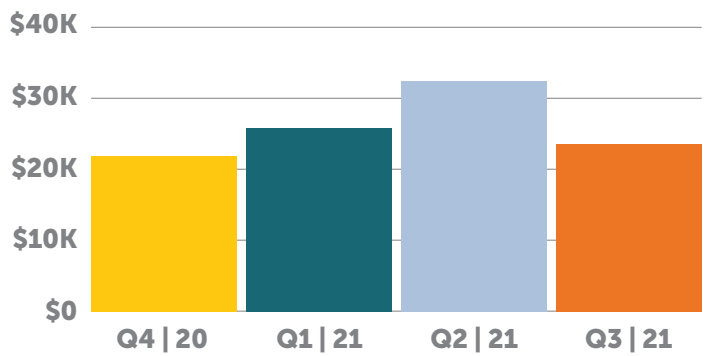
## Increased Ancillary Services

Not only are we expanding into new markets, we are also focused on increasing the diversity of our service offerings. By continuing to build out the suite of services in our real estate Solutions Center platform, we can increase the number of transactions per customer, increase our opportunity to build brand loyalty through customer engagement and increase our margins.

## Offerpad Bundle Rewards

Launched in the 3Q 2021, Bundle Rewards is a new way customers can benefit from even more Offerpad services. Customers in 10 of our 21 markets have already saved money from bundling products such as the sale and purchase of a home or utilizing Offerpad Home Loans.

## CONTRIBUTION PROFIT AFTER INTEREST PER HOME SOLD




## KEY TAKEAWAYS

**Renovations**
expand our buy box and value creation opportunities

**Ancillary Services**
increase customer transactions and diversify our offerings

# OFFERPAD'S FINANCIAL RESULTS SUMMARY

## Compared with 3Q 2020

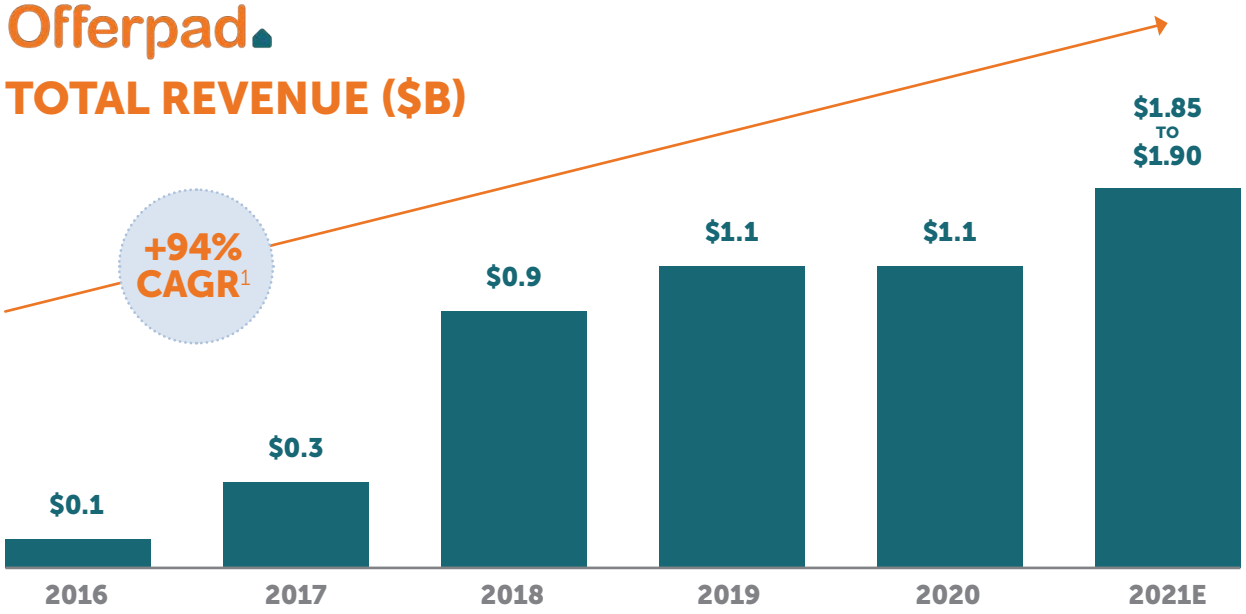
- Revenue in 3Q 2021 totaled $540.3M, an increase of 190%
- Offerpad sold 1,673 homes in 3Q 2021, an increase of 123%
- Offerpad acquired 2,753 homes in 3Q 2021, an increase of 258%
- Gross profit in 3Q 2021 was $53.1M, an increase of 169%
- Net loss for 3Q 2021 was $(15.3)M, a 420% decrease
  - Net loss includes a $13.2M non-cash charge to mark to market the Warrant Liability
- Adjusted EBITDA was $6.1M, compared to $(0.8)M
- Contribution profit after interest per home sold was $22,700, an increase of 48%





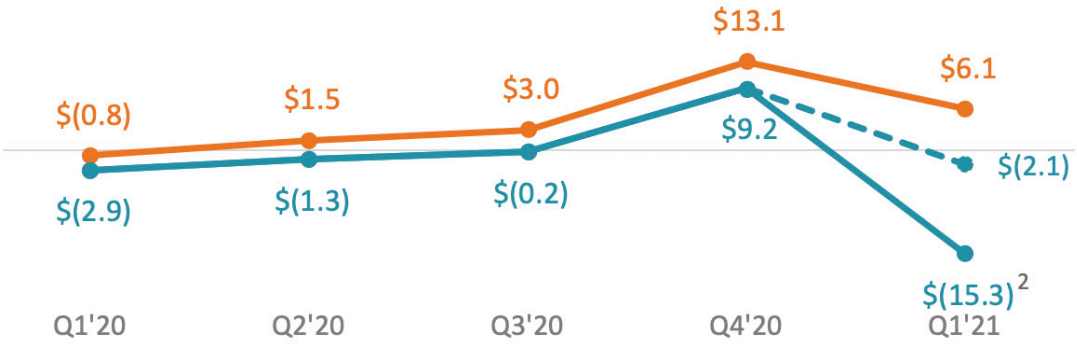
Offerpad

## TOTAL REVENUE ($B)




Offerpad

## NET INCOME (LOSS) & ADJ. EBITDA ($M)




See page 20 for a reconciliation to the most directly comparable GAAP measure and additional information.

NET INCOME (LOSS) | ADJ. NET INCOME (LOSS) | ADJ. EBITDA



(1) Based on guidance midpoint. (2) Includes $13.2M non-cash charge to mark to market warranty liability.

# OFFERPAD'S UPWARDLY REVISED 2021 FULL YEAR OUTLOOK




Low end of homes sold range **increased by 188 homes**

Midpoint of Revenue range **increased $100M**

Gross Profit range **increased $5M**

Midpoint of Adjusted EBITDA range **increased $15.5M[1]**

**HOMES SOLD**
5,800 - 6,000

**REVENUE**
$1.85 - $1.90B

**GROSS PROFIT**
$175 - $185M

**ADJUSTED EBITDA**
$0 - $10M






(1) See Non-GAAP financial measures on page 17 for an explanation of why a reconciliation of this guidance cannot be provided.

# APPENDIX

## Forward-Looking Statements

Certain statements in this shareholder letter may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to future events or Offerpad's future financial or operating performance. For example, statements regarding Offerpad's financial outlook for full year 2021 and anticipated growth in the industry in which Offerpad operates are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "might," "plan," "possible," "project," "strive," "budget," "forecast," "expect," "intend," "will," "estimate," "anticipate," "believe," "predict," "potential" or "continue," or the negatives of these terms or variations of them or similar terminology. Such forward-looking statements are subject to risks, uncertainties, and other important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that may impact such forward-looking statements include, but are not limited to, Offerpad's ability to respond to general economic conditions; the health of the U.S. residential real estate industry; Offerpad's ability to grow market share in its existing markets or any new markets it may enter; the impact of the COVID-19 pandemic; Offerpad's ability to manage its growth effectively; Offerpad's ability to accurately value and manage inventory, and to maintain an adequate and desirable supply of inventory; Offerpad's ability to successfully launch new product and service offerings, and to manage, develop and refine its technology platform; Offerpad's ability to maintain and enhance its products and brand, and to attract customers; Offerpad's ability to achieve and maintain profitability in the future; and the success of strategic relationships with third parties. These and other important factors discussed under the caption "Risk Factors" in our Quarterly Report on Form 10-Q for the three months ended September 30, 2021 to be filed with the Securities and Exchange Commission on or about November 10, 2021, and our other reports filed with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward-looking statements made in this shareholder letter. These forward-looking statements are based upon estimates and assumptions that, while considered reasonable by Offerpad and its management, are inherently uncertain. Nothing in this shareholder letter should be regarded as a representation by any person that the forward-looking statements set forth herein will be achieved or that any of the contemplated results of such forward-looking statements will be achieved. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Offerpad undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

# OFFERPAD SOLUTIONS INC.
# CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

*(in thousands, except per share data, unaudited)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Revenue** | $ 540,287 | $ 186,365 | $ 1,202,906 | $ 841,027 |
| Cost of revenue | 487,165 | 166,600 | 1,065,383 | 778,503 |
| **Gross profit** | 53,122 | 19,765 | 137,523 | 62,524 |
| Operating expenses: | | | | |
| Sales, marketing and operating | 38,727 | 16,072 | 95,398 | 59,048 |
| General and administrative | 8,160 | 3,981 | 18,031 | 12,204 |
| Technology and development | 2,777 | 1,633 | 7,663 | 5,454 |
| Total operating expenses | 49,664 | 21,686 | 121,092 | 76,706 |
| **Income (loss) from operations** | 3,458 | (1,921) | 16,431 | (14,182) |
| Other income (expense): | | | | |
| Change in fair value of warrant liabilities | (13,185) | — | (13,185) | — |
| Interest expense | (5,495) | (1,312) | (9,670) | (8,404) |
| Other income, net | — | 289 | 248 | 787 |
| Total other expense | (18,680) | (1,023) | (22,607) | (7,617) |
| **Loss before income taxes** | (15,222) | (2,944) | (6,176) | (21,799) |
| Income tax expense | (81) | — | (170) | — |
| **Net loss** | $ (15,303) | $ (2,944) | $ (6,346) | $ (21,799) |
| Net loss per share, basic | $ (0.13) | $ (0.05) | $ (0.08) | $ (0.38) |
| Net loss per share, diluted | $ (0.13) | $ (0.05) | $ (0.08) | $ (0.38) |
| Weighted average common shares outstanding, basic | 115,985 | 57,865 | 78,191 | 57,865 |
| Weighted average common shares outstanding, diluted | 115,985 | 57,865 | 78,191 | 57,865 |

# OFFERPAD SOLUTIONS INC.
# CONDENSED CONSOLIDATED BALANCE SHEETS

*(in thousands, except par value per share, unaudited)*

| | | September 30, 2021 | December 31, 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 116,634 | $ 43,938 |
| Restricted cash | | 20,024 | 6,804 |
| Accounts receivable | | 10,038 | 2,309 |
| Inventory | | 902,062 | 171,359 |
| Prepaid expenses and other current assets | | 10,453 | 2,880 |
| Total current assets | | 1,059,211 | 227,290 |
| Property and equipment, net | | 9,556 | 8,231 |
| Other non-current assets | | 193 | 352 |
| **TOTAL ASSETS** | (1) | $ 1,068,960 | $ 235,873 |
| **LIABILITIES, TEMPORARY EQUITY, AND STOCKHOLDERS' EQUITY (DEFICIT)** | | | |
| Current liabilities: | | | |
| Accounts payable | | $ 6,126 | $ 2,149 |
| Accrued liabilities | | 28,354 | 11,181 |
| Secured credit facilities and notes payable | | 509,833 | 50,143 |
| Secured credit facilities and notes payable, net - related party | | 241,208 | 126,825 |
| Total current liabilities | | 785,521 | 190,298 |
| Secured credit facilities and notes payable, net of current portion | | — | 4,710 |
| Warrant liabilities | | 39,711 | — |
| **Total liabilities** | (2) | 825,232 | 195,008 |
| Commitments and contingencies | | | |
| Temporary equity: | | | |
| Series A convertible preferred stock, zero and 21,011 shares authorized, respectively; zero and 20,907 shares issued and outstanding, respectively; liquidation preference of $0 and $15,099, respectively | | — | 14,921 |
| Series A-1 convertible preferred stock, zero and 10,905 shares authorized, issued and outstanding, respectively; liquidation preference of $0 and $7,500, respectively | | — | 7,470 |
| Series A-2 convertible preferred stock, zero and 8,322 shares authorized, issued and outstanding, respectively; liquidation preference of $0 and $7,500, respectively | | — | 7,463 |
| Series B convertible preferred stock, zero and 58,390 shares authorized, issued and outstanding, respectively; liquidation preference of $0 and $50,000, respectively | | — | 49,845 |
| Series C convertible preferred stock, zero and 56,716 shares authorized, respectively; zero and 39,985 shares issued and outstanding, respectively; liquidation preference of $0 and $105,750, respectively | | — | 104,424 |
| **Total temporary equity** | | — | 184,123 |
| Stockholders' equity (deficit): | | | |
| Class A common stock, $0.0001 and $0.00001 par value, respectively; 2,000,000 and 256,694 shares authorized, respectively; 223,529 and 57,865 shares issued and outstanding, respectively | | 22 | — |
| Class B common stock, $0.0001 and zero par value, respectively; 20,000 and zero shares authorized, respectively; 14,816 and zero shares issued and outstanding, respectively | | 2 | — |
| Additional paid in capital | | 388,566 | 5,908 |
| Accumulated deficit | | (144,862) | (138,516) |
| Treasury stock | | — | (10,650) |
| **Total stockholders' equity (deficit)** | | 243,728 | (143,258) |
| **TOTAL LIABILITIES, TEMPORARY EQUITY, AND STOCKHOLDERS' EQUITY (DEFICIT)** | | $ 1,068,960 | $ 235,873 |

(1) Our consolidated assets as of September 30, 2021 and December 31, 2020 include the following assets of certain variable interest entities ("VIEs") that can only be used to settle the liabilities of those VIEs: Restricted cash, $20,024 and $6,804; Accounts receivable, $8,345 and $1,638; Inventory, $900,283 and $171,212; Prepaid expenses and other current assets, $2,879 and $1,036; Property and equipment, net, $4,377 and $2,772; Total assets of $935,908 and $183,462, respectively.

(2) Our consolidated liabilities as of September 30, 2021 and December 31, 2020 include the following liabilities for which the VIE creditors do not have recourse to Offerpad: Accounts payable, $4,561 and $716; Accrued liabilities, $2,442 and $575; Current portion of secured credit facilities and notes payable, net, $751,041 and $173,539; Noncurrent portion of secured credit facilities and notes payable, net, $0 and $653; Total liabilities, $758,044 and $175,483, respectively.

## OFFERPAD SOLUTIONS INC.
## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
*(in thousands, unaudited)*

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| **Cash flows from operating activities:** | | |
| Net loss | $ (6,346) | $ (21,799) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation | 433 | 308 |
| Gain on sale of equipment | (246) | — |
| Amortization of debt financing costs | 454 | 304 |
| Impairment of inventory | 1,342 | 2,971 |
| Stock-based compensation | 2,316 | 875 |
| Change in fair value of warrant liabilities | 13,185 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (7,717) | (1,472) |
| Inventory | (721,979) | 214,080 |
| Prepaid expenses and other assets | (7,174) | (555) |
| Accounts payable | 3,857 | 439 |
| Accrued liabilities | 17,063 | 685 |
| **Net cash (used in) provided by operating activities** | (704,812) | 195,836 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (13,609) | (67) |
| Proceeds from sales of property and equipment | 2,032 | — |
| **Net cash used in investing activities** | (11,577) | (67) |
| **Cash flows from financing activities:** | | |
| Proceeds from Business Combination | 284,011 | — |
| Issuance cost of common stock | (51,249) | — |
| Borrowings from credit facilities and notes payable | 1,702,702 | 556,627 |
| Repayments of credit facilities and notes payable | (1,130,563) | (772,021) |
| Payment of debt financing costs | (3,229) | (598) |
| Proceeds from issuance of Class C preferred stock, net | — | 29,823 |
| Proceeds from exercise of stock options | 633 | — |
| **Net cash provided by (used in) financing activities** | 802,305 | (186,169) |
| **Net change in cash, cash equivalents and restricted cash** | 85,916 | 9,600 |
| **Cash, cash equivalents and restricted cash, beginning of period** | 50,742 | 29,883 |
| **Cash, cash equivalents and restricted cash, end of period** | $ 136,658 | $ 39,483 |
| **Reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheet:** | | |
| Cash and cash equivalents | $ 116,634 | $ 35,948 |
| Restricted cash | 20,024 | 3,535 |
| **Total cash, cash equivalents and restricted cash** | $ 136,658 | $ 39,483 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash payments for interest | $ 9,630 | $ 11,890 |
| **Supplemental disclosure of non-cash investing and financing activities:** | | |
| Transfer of property and equipment, net to inventory | $ 10,065 | $ — |
| Acquisition of warrant liabilities | $ 26,525 | $ — |
| Conversion of preferred stock to common stock | $ 184,123 | $ — |
| Conversion of treasury stock | $ 10,650 | $ — |

## Non-GAAP financial measures

In addition to Offerpad's results of operations above, Offerpad's management utilizes certain financial measures that are not required by, or presented in accordance with, U.S. generally accepted accounting principles ("GAAP"). These measures have limitations as analytical tools when assessing Offerpad's operating performance and should not be considered in isolation or as a substitute for GAAP measures, including gross profit and net income.

Offerpad may calculate or present its non-GAAP financial measures differently than other companies who report measures with similar titles and, as a result, the non-GAAP financial measures Offerpad reports may not be comparable with those of companies in its industry or in other industries. Offerpad has not provided a quantitative reconciliation of forecasted Adjusted EBITDA to forecasted net income (loss) within this shareholder letter because Offerpad is unable to calculate certain reconciling items without making unreasonable efforts. These items, which include, but are not limited to, stock-based compensation with respect to future grants and forfeitures, could materially affect the computation of forward-looking net income (loss), are inherently uncertain and depend on various factors, some of which are outside of Offerpad's control.

## Adjusted gross profit, contribution profit, and contribution profit after interest (and related margins)

Offerpad believes that adjusted gross profit, contribution profit, and contribution profit after interest are useful financial measures for investors as they are used by management in evaluating unit level economics and operating performance across its markets. Each of these measures is intended to present the economics related to homes sold during a given period. Offerpad does so by including revenue generated from homes sold (and ancillary services) in the period and only the expenses that are directly attributable to such home sales, even if such expenses were recognized in prior periods, and excluding expenses related to homes that remain in inventory as of the end of the period presented. Contribution profit provides investors a measure to assess Offerpad's ability to generate returns on homes sold during a reporting period after considering home acquisition costs, renovation and repair costs, and adjusting for holding costs and selling costs. Contribution profit after interest further impacts gross profit by including interest costs (including senior and mezzanine secured credit facilities) attributable to homes sold during a reporting period. Offerpad believes these measures facilitate meaningful period over period comparisons and illustrate our ability to generate returns on assets sold after considering the costs directly related to the assets sold in a presented period. Adjusted gross profit, contribution profit and contribution profit after interest (and related margins) are supplemental measures of Offerpad's operating performance and have limitations as analytical tools. For example, these measures include costs that were recorded in prior periods under GAAP and exclude, in connection with homes held in inventory at the end of the period, costs required to be recorded under GAAP in the same period. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of Offerpad's results as reported under GAAP. Offerpad includes a reconciliation of these measures to the most directly comparable GAAP financial measure, which is gross profit.

## Adjusted gross profit / margin

Offerpad calculates adjusted gross profit as gross profit under GAAP adjusted for (1) net inventory impairment plus (2) interest expense associated with homes sold in the presented period and recorded in cost of revenue. Net inventory impairment is calculated by adding back the inventory impairment charges recorded during the period on homes that remain in inventory at period end and subtracting the inventory impairment charges recorded in prior periods on homes sold in the current period. Offerpad defines adjusted gross margin as adjusted gross profit as a percentage of revenue. Offerpad views this metric as an important measure of business performance, as it captures gross margin performance isolated to homes sold in a given period and provides comparability across reporting periods. Adjusted gross profit helps management assess performance across the key phases of processing a home (acquisitions, renovations, and resale) for a specific resale cohort.

## Contribution profit / margin

Offerpad calculates contribution profit as adjusted gross profit, minus (1) direct selling costs incurred on homes sold during the presented period, minus (2) holding costs incurred in the current period on homes sold during the period recorded in sales, marketing, and operating, minus (3) holding costs incurred in prior periods on homes sold in the current period recorded in sales, marketing, and operating, plus (4) other income which historically is primarily comprised of net income to us from the investment related to Offerpad's Home Loans operations. The composition of Offerpad's holding costs is described in the footnotes to the reconciliation table below. Offerpad defines contribution margin as contribution profit as a percentage of revenue.

Offerpad views this metric as an important measure of business performance as it captures the unit level performance isolated to homes sold in a given period and provides comparability across reporting periods. Contribution profit helps management assess inflows and outflow directly associated with a specific resale cohort.

## Contribution profit / margin after interest

Offerpad defines contribution profit after interest as contribution profit, minus (1) interest expense associated with homes sold in the presented period and recorded in cost of revenue, minus (2) interest expense associated with homes sold in the presented period, recorded in costs of sales, and previously excluded from adjusted gross profit, and minus (3) interest expense under Offerpad's senior and mezzanine secured credit facilities incurred on homes sold during the period. This includes interest expense recorded in prior periods in which the sale occurred.

Offerpad's senior and mezzanine secured credit facilities are secured by its homes in inventory and drawdowns are made on a per-home basis at the time of purchase and are required to be repaid at the time the homes are sold. Offerpad defines contribution margin after interest as contribution profit after interest as a percentage of revenue.

Offerpad views this metric as an important measure of business performance. Contribution profit after interest helps management assess contribution margin performance, per above, when fully burdened with costs of financing.

The following table presents a reconciliation of Offerpad's adjusted gross profit, contribution profit and contribution profit after interest to its gross profit, which is the most directly comparable GAAP measure, for the periods indicated:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| **(in thousands, except percentages and homes sold, unaudited)** | **September 30, 2021** | **June 30, 2021** | **March 31, 2021** | **December 31, 2020** | **September 30, 2020** |
| **Gross profit** | **$ 53,122** | **$ 50,864** | **$ 33,537** | **$ 25,254** | **$ 19,766** |
| *Gross margin* | *9.8%* | *13.4%* | *11.8%* | *11.3%* | *10.6%* |
| *Homes sold* | *1,673* | *1,259* | *1,018* | *849* | *749* |
| **Gross profit per home sold** | ***31.8*** | ***40.4*** | ***32.9*** | ***29.7*** | ***26.4*** |
| *Adjustments:* | | | | | |
| Inventory impairment - current period | 676 | 177 | 104 | 144 | 28 |
| Inventory impairment - prior period | (152) | (95) | (138) | (46) | (398) |
| Interest expense capitalized | 1,410 | 767 | 606 | 396 | 426 |
| **Adjusted gross profit** | **55,056** | **51,713** | **34,109** | **25,748** | **19,822** |
| *Adjusted gross margin* | *10.2%* | *13.7%* | *12.0%* | *11.5%* | *10.6%* |
| *Adjustments:* | | | | | |
| Direct selling costs | (11,350) | (8,787) | (8,036) | (5,981) | (5,599) |
| Holding costs on sales - current period | (910) | (533) | (461) | (434) | (489) |
| Holding costs on sales - prior period | (295) | (188) | (193) | (158) | (424) |
| Other income | - | 7 | 241 | 47 | 289 |
| **Contribution profit** | **42,501** | **42,212** | **25,661** | **19,221** | **13,599** |
| *Contribution margin* | *7.9%* | *11.1%* | *9.0%* | *8.6%* | *7.3%* |
| *Homes sold* | *1,673* | *1,259* | *1,018* | *849* | *749* |
| **Contribution profit per home sold** | **25.4** | **33.5** | **25.2** | **22.6** | **18.2** |
| *Adjustments:* | | | | | |
| Interest expense capitalized | (1,410) | (767) | (606) | (396) | (426) |
| Interest expense on homes sold - current period | (2,381) | (1,345) | (1,117) | (916) | (742) |
| Interest expense on homes sold - prior period | (697) | (386) | (446) | (336) | (899) |
| **Contribution profit after interest** | **38,014** | **39,714** | **23,491** | **17,574** | **11,533** |
| *Contribution margin after interest* | *7.0%* | *10.5%* | *8.3%* | *7.9%* | *6.2%* |
| *Homes sold* | *1,673* | *1,259* | *1,018* | *849* | *749* |
| **Contribution profit after interest per home sold** | **22.7** | **31.5** | **23.1** | **20.7** | **15.4** |

Note: Current period represents adjustments for costs incurred on homes sold in the period presented and prior periods represents adjustments for costs incurred in prior periods on homes sold in the period presented.

## Adjusted Net (Loss) Income and Adjusted EBITDA

We also present Adjusted Net (Loss) Income and Adjusted EBITDA, which are non-GAAP financial measures, which our management team uses to assess our underlying financial performance. We believe these measures provide insight into period over period performance, adjusted for non-recurring or non-cash items.

We calculate Adjusted Net (Loss) Income as GAAP net income (loss) adjusted for the change in fair value of warrant liabilities. We define Adjusted Net (Loss) Income Margin as Adjusted Net (Loss) Income as a percentage of revenue.

We calculate Adjusted EBITDA as Adjusted Net (Loss) Income adjusted for interest expense, amortization of capitalized interest, taxes, depreciation and amortization and stock-based compensation expense. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of revenue.

Adjusted Net (Loss) Income and Adjusted EBITDA are supplemental to our operating performance measures calculated in accordance with GAAP and have important limitations. For example, Adjusted Net (Loss) Income and Adjusted EBITDA exclude the impact of certain costs required to be recorded under GAAP and could differ substantially from similarly titled measures presented by other companies in our industry or companies in other industries. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

The following table presents a reconciliation of our Adjusted Net (Loss) Income and Adjusted EBITDA to our GAAP net income (loss), which is the most directly comparable GAAP measure, for the periods indicated:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| (in thousands, except percentages, unaudited) | September 30, 2021 | June 30, 2021 | March 31, 2021 | December 31, 2020 | September 30, 2020 |
| **Net income (loss) (GAAP)** | **$ (15,303)** | **$ 9,190** | **$ (233)** | **$ (1,321)** | **$ (2,942)** |
| Change in fair value of warrant liability | 13,185 | - | - | - | - |
| **Adjusted net income (loss)** | **$ (2,118)** | **$ 9,190** | **$ (233)** | **$ (1,321)** | **$ (2,942)** |
| *Adjusted net income margin* | *(0.4%)* | *2.4%* | *(0.1%)* | *(0.6%)* | *(1.6%)* |
| *Adjustments:* | | | | | |
| Interest expense | 5,495 | 2,257 | 1,918 | 1,626 | 1,312 |
| Amortization of capitalized interest (1) | 1,410 | 767 | 606 | 396 | 426 |
| Income tax expense | 81 | 89 | 0 | 163 | - |
| Depreciation and amortization | 156 | 146 | 130 | 125 | 104 |
| Amortization of share based compensation | 1,053 | 649 | 613 | 488 | 337 |
| **Adjusted EBITDA** | **6,077** | **13,098** | **3,034** | **1,478** | **(763)** |
| *Adjusted EBITDA margin* | *1.1%* | *3.5%* | *1.1%* | *0.7%* | *(0.4%)* |

(1) Amortization of capitalized interest represents all interest related costs, including senior and mezzanine interest related costs, incurred on homes sold in the period presented that were capitalized and expensed in cost of sales at the time of sale.

