

Meritage Homes Analyst Day

Tuesday, November 19, 2019

LIFE. BUILT. BETTER.



Management Representatives









Steven J. Hilton – Chairman & CEO

Phillippe Lord – EVP & Chief Operating Officer

Hilla Sferruzza – EVP & Chief Financial Officer

Brent Anderson – VP Investor Relations



Forward Looking Statements

The information included in this presentation and the accompanying comments from management contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include management's projections regarding product mix, community count, product mix, absorptions, backlog conversion rates, average sales prices, orders, home closings, home closing revenue, home closing gross margin, overhead expenses, leverage ratios, inventory turnover and future earnings for 2019, 2020 or beyond.

Such statements are based on the current beliefs and expectations of Company management, and current market conditions, which are subject to significant uncertainties and fluctuations. Actual results may differ from those set forth in the forward-looking statements. The Company makes no commitment, and disclaims any duty, to update or revise any forward-looking statements to reflect future events or changes in these expectations, except as required by law. Meritage's business is subject to a number of risks and uncertainties. As a result of those risks and uncertainties, the Company's stock and note prices may fluctuate dramatically. These risks and uncertainties include, but are not limited to, the following: changes in interest rates and the availability and pricing of residential mortgages; legislation related to tariffs; the availability and cost of finished lots and undeveloped land; shortages in the availability and cost of labor; the success of strategic initiatives; the ability of our potential buyers to sell their existing homes; inflation in the cost of materials used to develop communities and construct homes; the adverse effect of slow absorption rates; impairments of our real estate inventory; cancellation rates; competition; changes in tax laws that adversely impact us or our homebuyers; a change to the feasibility of projects under option or contract that could result in the write-down or write-off of earnest or option deposits; our potential exposure to and impacts from natural disasters or severe weather conditions; home warranty and construction defect claims; failures in health and safety performance; our success in prevailing on contested tax positions; our ability to obtain performance and surety bonds in connection with our development work; the loss of key personnel; failure to comply with laws and regulations; our limited geographic diversification; fluctuations in quarterly operating results; our level of indebtedness; our ability to obtain financing if our credit ratings are downgraded; our ability to successfully integrate acquired companies and achieve anticipated benefits from these acquisitions; our compliance with government regulations, the effect of legislative and other governmental actions, orders, policies or initiatives that impact housing, labor availability, construction, mortgage availability, our access to capital, the cost of capital or the economy in general, or other initiatives that seek to restrain growth of new housing construction or similar measures; legislation relating to energy and climate change; the replication of our energyefficient technologies by our competitors; our exposure to information technology failures and security breaches; negative publicity that affects our reputation and other factors identified in documents filed by the Company with the Securities and Exchange Commission, including those set forth in our Form 10-K for the year ended December 31, 2018 and our Form 10-Q for the quarter ended September 30, 2019 under the caption "Risk Factors," which can be found on our website at www.investors.meritagehomes.com.

History of Expansion and Growth





Offering Something for Everyone is Complex





















Successful Move-up Builder

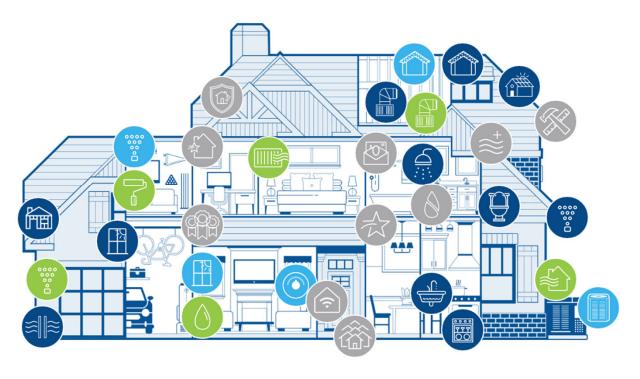




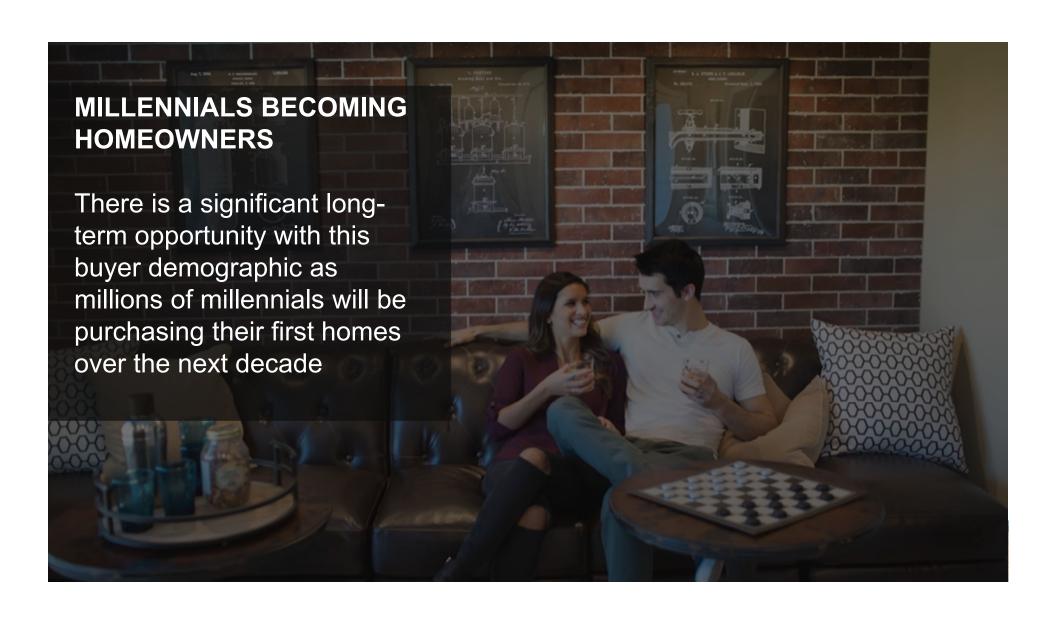


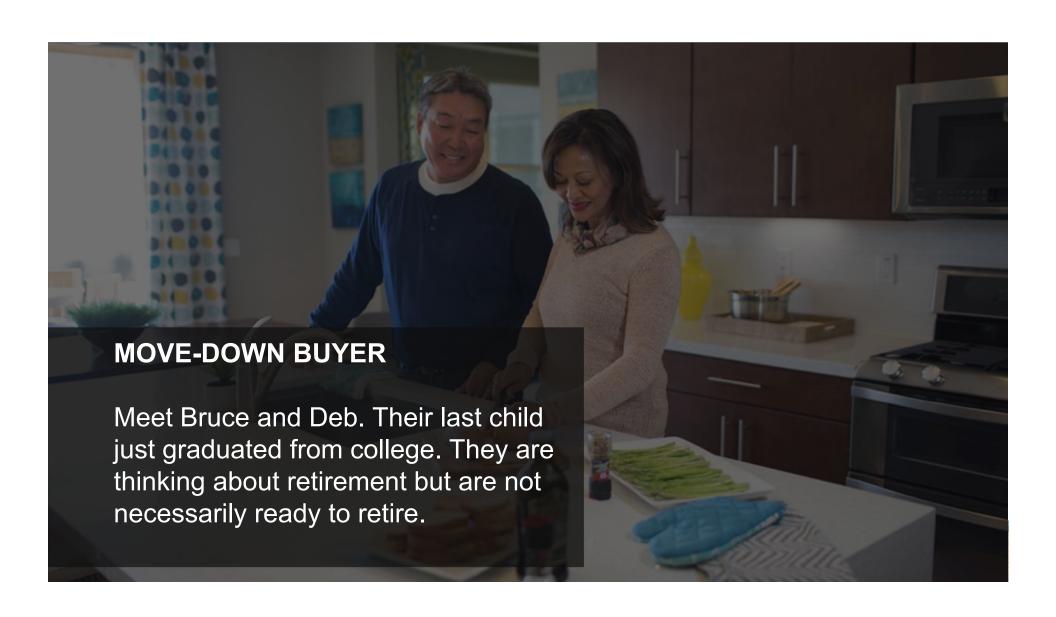


Energy Efficiency as a Differentiator



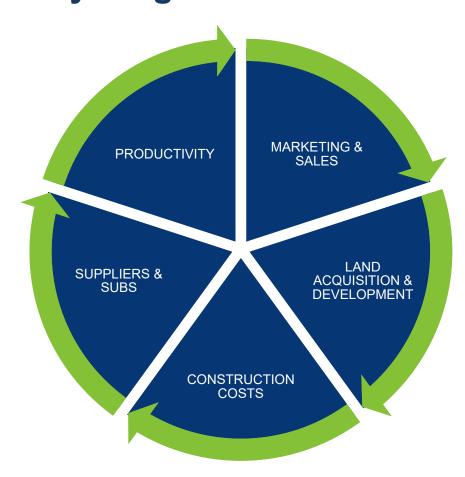
Temperature-regulating features, all-season windows, noise-reducing spray foam, high-performance air filtration, health-promoting barrier, fresh air management, water saving features, UV-blocking windows, and more.







Rethink Everything to Reduce Pain Points



LIFE.

Simplification Strategy: Easy = Right



Market Strategy

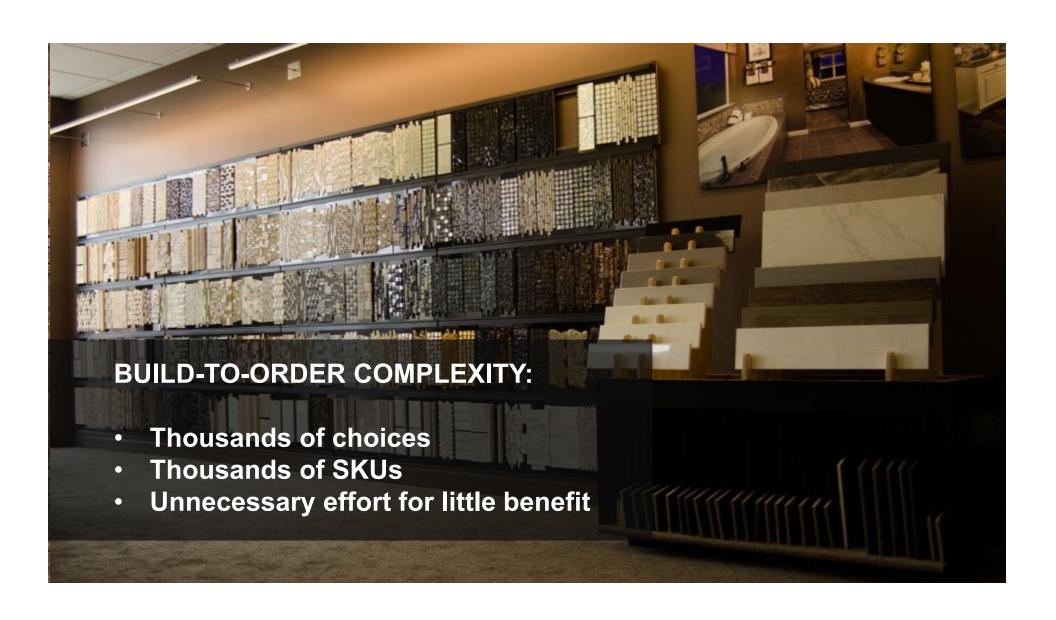
Customers

• Entry-Level
• First Move-Up/Move-Down

• LiVE.NOW.
• First Move-Up

• LiVE.NOW. all spec, limited options
• First Move-Up: design collections

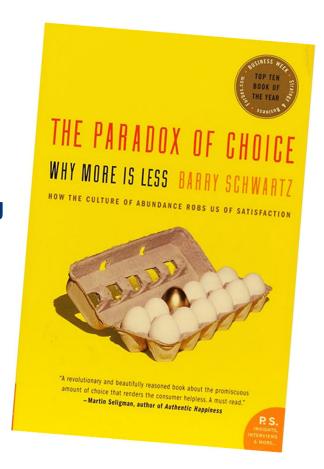
• Age-restricted, rental, high-rise, custom, modular, one-off, second-time move-up buyer





The Paradox of Choice

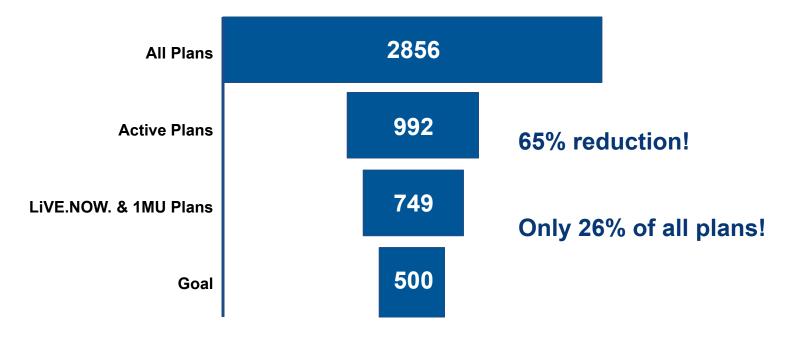
- "More is less"
- Fear of making the wrong decision can result in not choosing anything





Streamlining Product

Plans Reductions Status



"Build more of the best and let go of the rest"



A LiVE.NOW. Community BY Meritage Homes

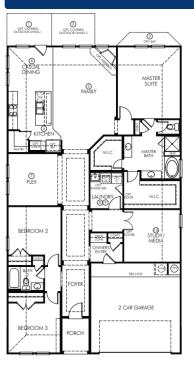
The most popular designs at the highest value for entry-level buyers



Plan Refinement – Value Engineering

2017 BEST SELLER

All Texas Region



Program:

3 Bedroom 2 Bath

2 Flex

Square

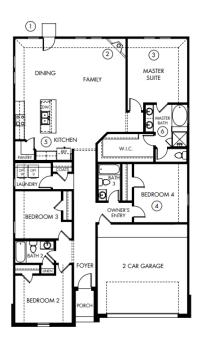
Footage: **2,295 SF**

ASP:

\$342,194

2019 YTD BEST SELLER

Strand Refined 40s - Texas Region



Program:

4 Bedroom 3 Bath

0 Flex

Square

Footage: 2,066 SF

ASP:

\$285,828



LiVE.NOW.® Strategy is Delivering Results



Absorptions per LiVE.NOW. community +12% YTD 2019/2018 (4.2/month)

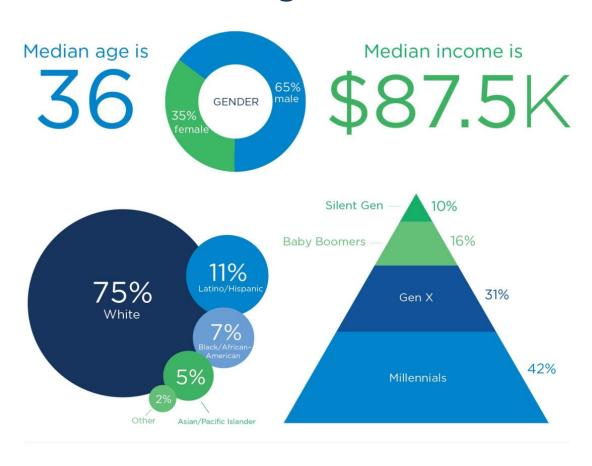


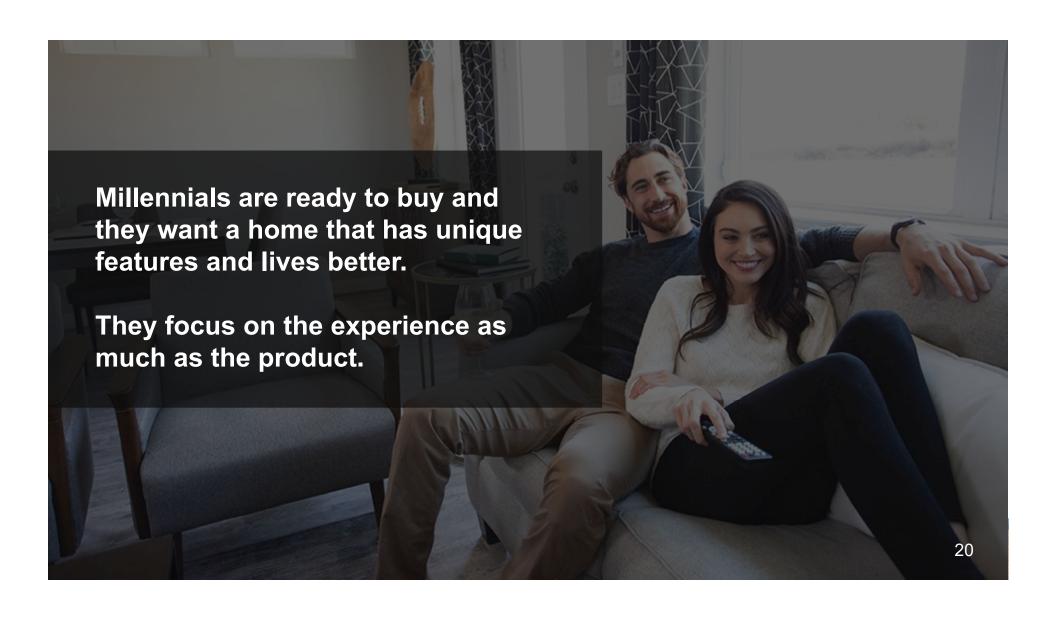
Direct margins on LN home closings up >200bps Y/Y 3Q19 and higher than move-up direct margins

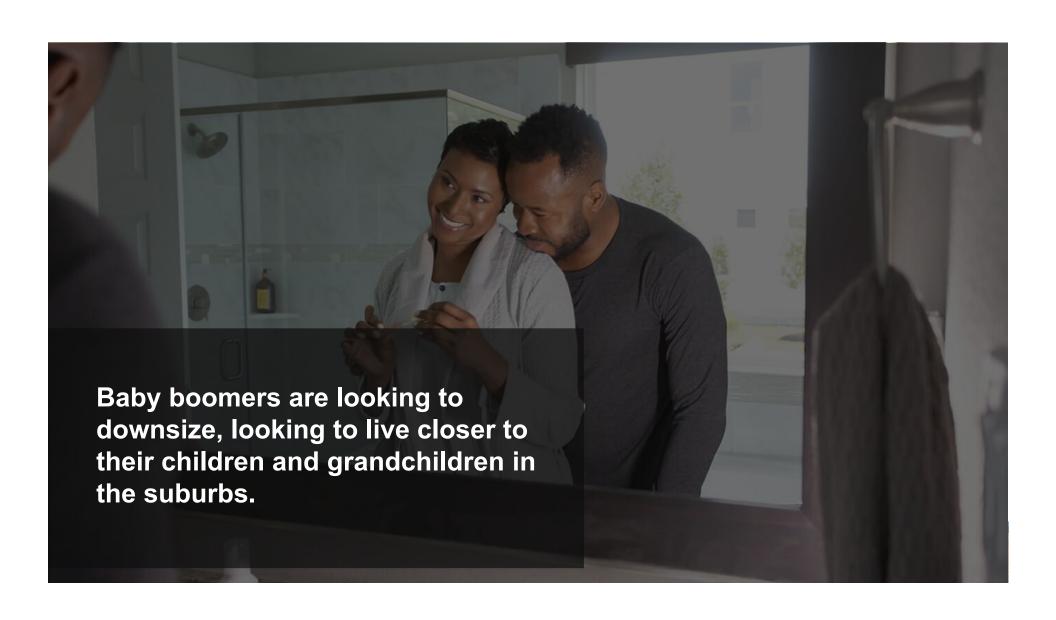


LN 43% of total communities at 9/30/19 vs 34% 9/30/18

Millennials are the Largest Generation







LiVE.NOW.® Offers "Surprisingly More" Value

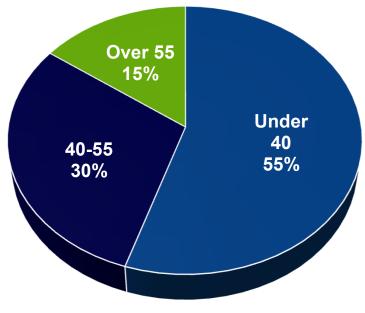
- M.Connected HomeTM
 Automation Suite
- **✓** 9-foot ceilings

- **▼ Full-size kitchen cabinets**
- **Large center islands**
- **✓** Walk-in closets
- **☐** Large master suites
- **☑** Beautiful front elevations
- **✓** Variety of sizes & floorplans



LiVE.NOW.® Appeals to All Ages

- Over 50% of LiVE.NOW. are first-time buyers
- Other half are a mixture of first new home or move-down buyers
- Only half have children living with them



LiVE.NOW. Sales by age group 2017-2Q19

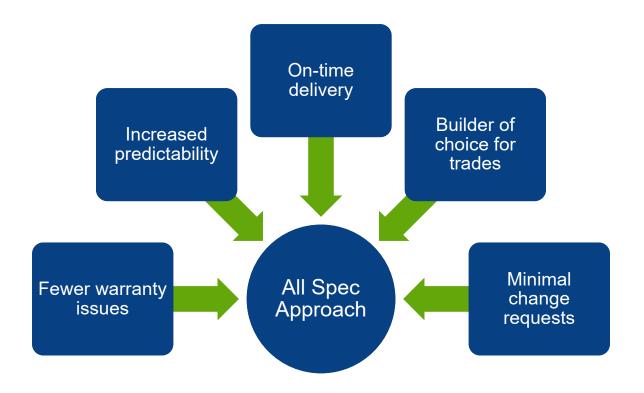
WATCH: Meet One of Our Sales Associates



WATCH: One of Our LiVE.NOW.® Communities



Benefits of LiVE.NOW.® Spec Strategy



WATCH: What Make Meritage Homes a Builder of Choice for Our Trades

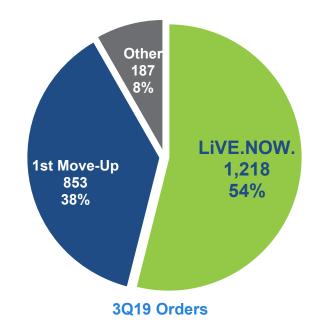




LiVE.NOW.® Adopted Quickly

Streamlining provides:

- **☑** Better Transparency
- **✓** Better Customer Experience
- **✓** Better Margins
- **✓** Better Response to Challenges





Streamlining Creates Value and Transparency

Ability to respond quickly to challenges



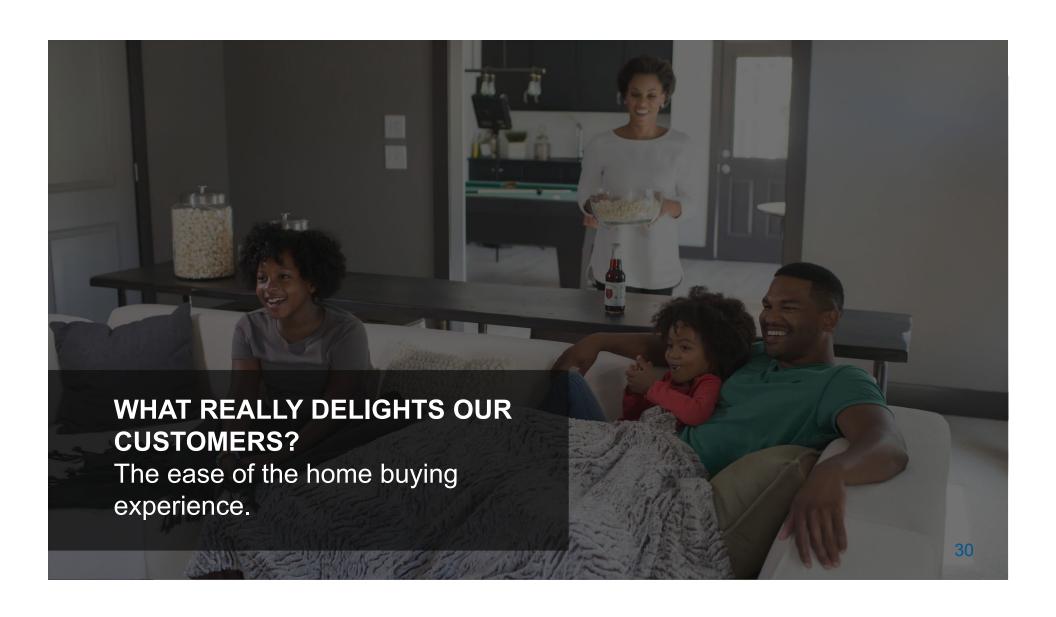
With Hardwood flooring, we reduced the tariffed product impact from 15% to 4% and avoided the market-driven increase.



We proactively crossed over or replaced most of the tariffed products with domestic alternatives.

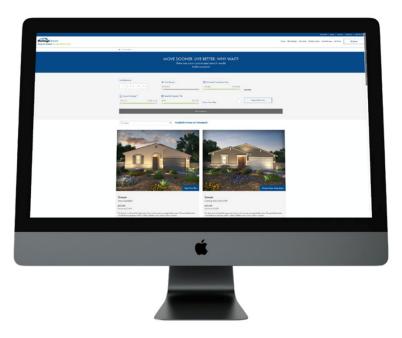


We reduced the increase on our Engineered Vinyl Product by 50% and we introduced new product lines as substitutes.





Sales Kiosk for LiVE.NOW.® Buyers



Live Demonstration



Technological Process Improvements





Our new sales kiosks employ advanced technology that emails a customized list directly to the customer (and automatically updates it) and captures all of their data/preferences in our CRM.



One-Stop Shopping Financial Services









WATCH: Don't Just Take Our Word For It



Leader in Energy Efficiency

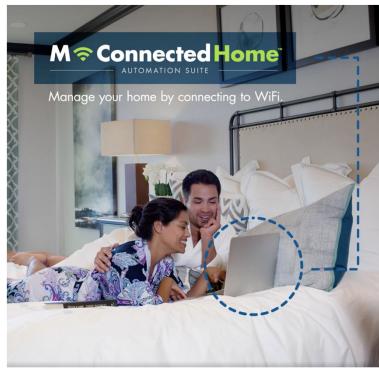




We led the industry in energyefficient homebuilding by carefully
studying the materials and
technologies that would provide the
most bang for the buck, and then
making those standard features in
all our homes.

M.Connected[™] Home Automation Suite







Prefab Roof Trusses



We use prefab roof trusses in many markets and have a goal of using them in 100% of our homes.



Pre-Cut Lumber & Panelization



We still stick-build most homes on site, cutting everything with very little use of pre-fabricated products.

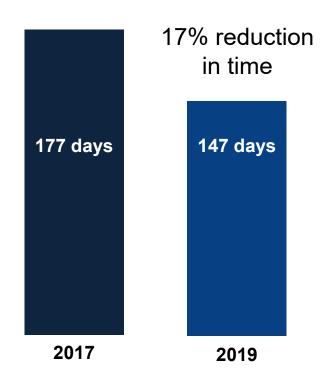


BMC, ProBuild and 84 Lumber all have fantastic programs to buy pre-cut lumber and reduce the time and waste.



Streamlining Results in Shorter Cycle Times

Since 2017 we have reduced our average cycle time by 27 days, from 177 days in 2017 to just 147 days in 2019.





Shorter Build Times and Increased Predictability = Happy Homeowners

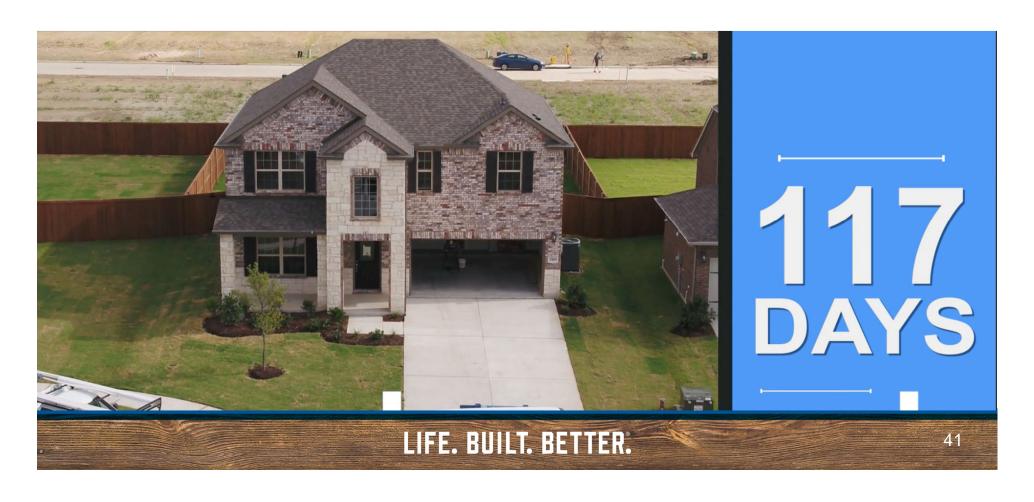
2018 Avid Score 92.3%



2019 Avid Score 93.5%

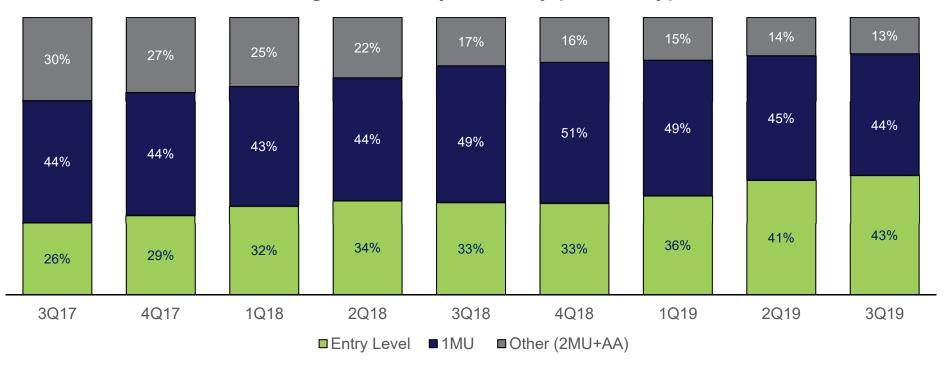
Our customer satisfaction scores are some of the highest in the industry

WATCH: Time Study in Aubrey, Texas



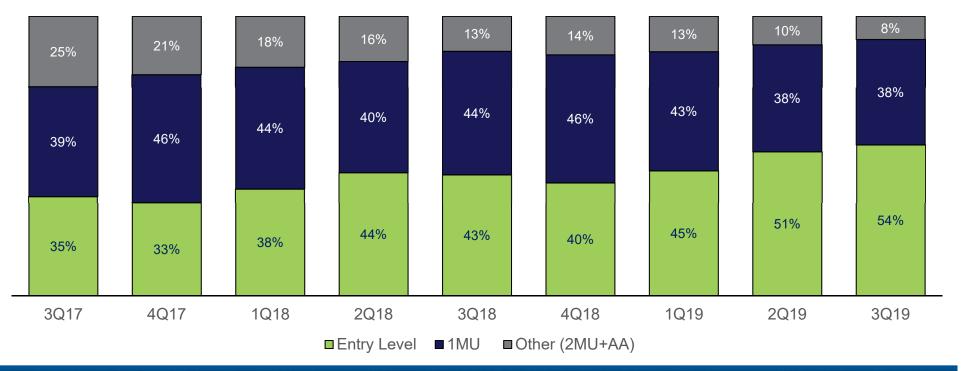
Product Mix of Communities

Ending community count by product type



Mix of Orders by Product Type

Quarterly orders by product type





Absorptions Tempered By Non-strategic Communities (2MU & Active Adult)

Forecast quarterly average absorptions by product type



Reducing Average Sale Prices



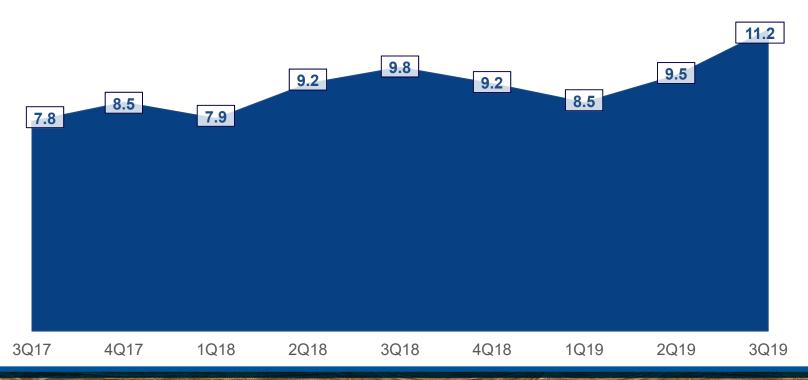




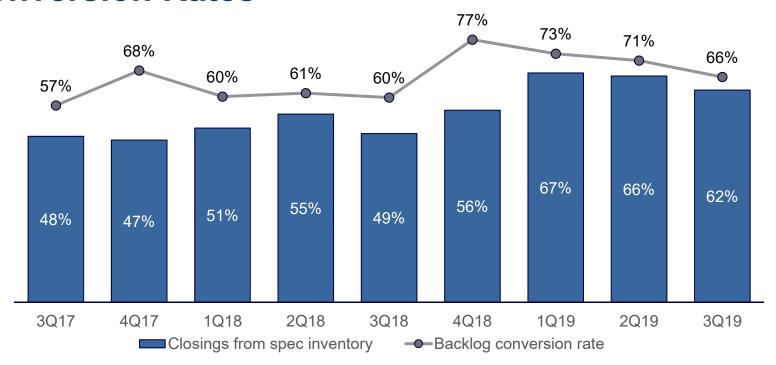


Increasing Spec Inventory = Opportunity

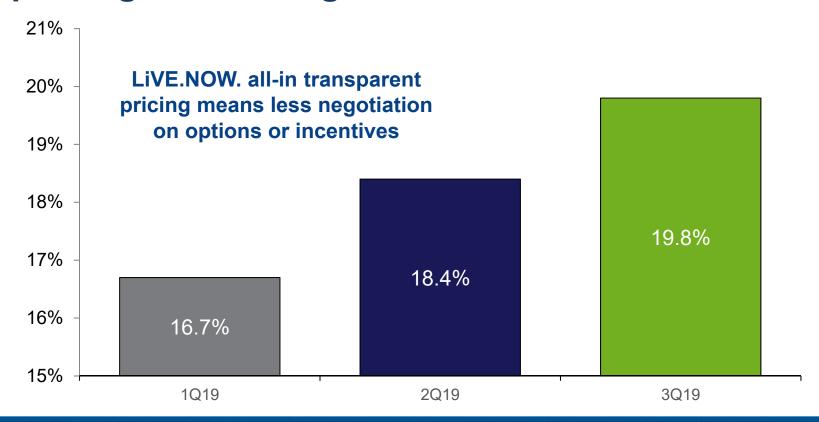
Average Specs per Community



Spec Building Increased Closings from Spec and Conversion Rates



Improving Gross Margins with LiVE.NOW.®





Setting the standard for energy-efficient homes

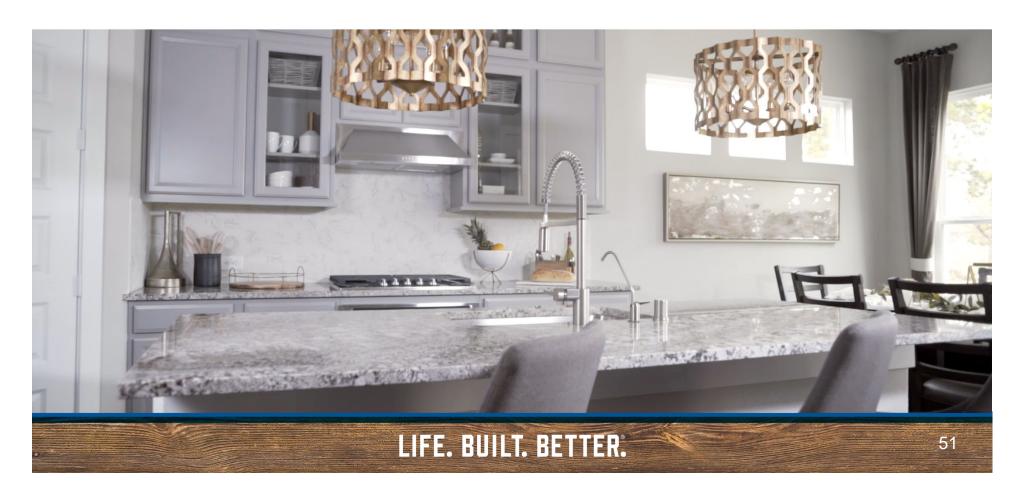
Let's Break

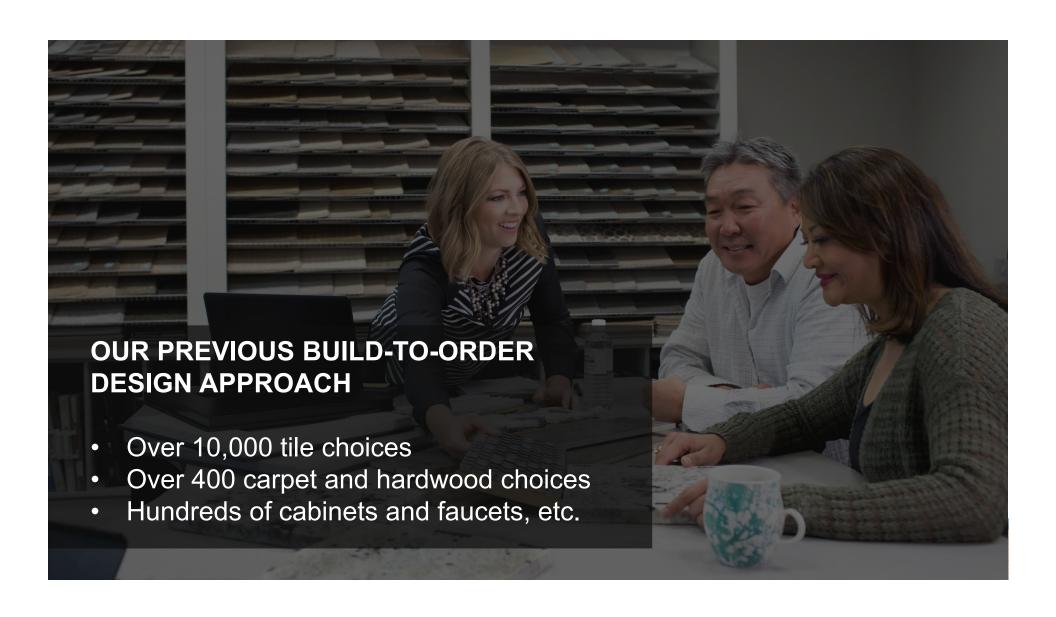


First Move-Up Strategy



WATCH: Design Collections Overview





A Look Back at Our Appliance Offering

26% of our 120 appliances were only installed <u>once</u> in 2017



2 SKUs accounted for 55% of our dishwasher installations





Previous Design Process was Overwhelming















Where Our Buyers are Getting Their Design Information and Inspiration











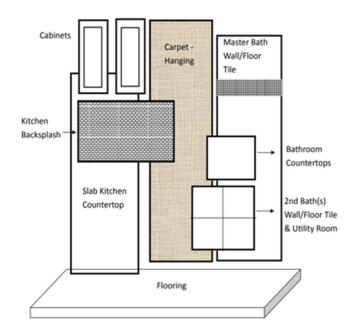




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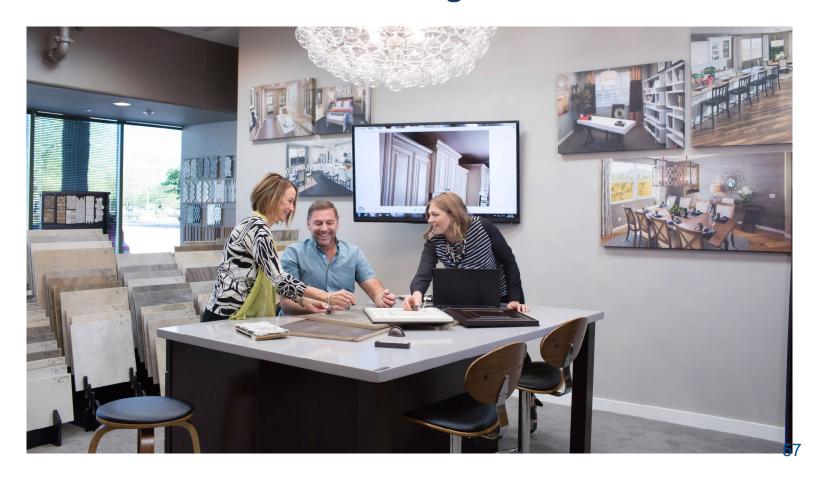
We Made the Move to Design Collections



These are color-oriented packages of flooring, countertops, paint and backsplashes to minimize confusion, anxiety and sticker shock.



Eliminated "a la carte" Design



WATCH: Rollout of Studio M Design Collections



Discovery Night Experience

- Stress-free time to learn about our standard features, included collections, and enhancements.
- Transparent, upfront pricing so customers and prospects can be at ease with their budgets.
- Provides clarity and prepares our customers for their Studio M appointment.









STEP 3

Gournet, functional, or somewhere in between, get your dream kitchen with curated packages that offer both organization and designer details. Outlit everything and the kitchen sink with highquality brands like Whirlpool, KitchenAid, Moen and more.



STEP 4 BATH

Focus on creating the ultimate tronquil master bath retreat or deck out every bothroom in your home with coordinating fixtures, lighting, bath accessories and more.

LET'S MAKE THIS PERSONAL.

Add your personal touch to your home with our designer-curated Enhancement Packages. Each step offers high-quality, lifestyle-enhancing additions that are perfectly coordinated so you can choose with confidence.



STEP 6 INTERIOR FINISHES

Next-level distinction comes from every little detail.

Further showcase your style with coordinated package details such as doors, hardware and trim.



STEP 5

Keep it to the storage essentials or indulge in a fully appointed loundry room. Whatever you choose, it all cleans up nicely.



STEP 7 COMFORT

Get even more enjoyment out of your home by adding warmth with enhanced lighting, a cool breeze with ceiling fans, and enrich your space to pursue life's passions.



STEP 8 ENTERTAIN

Emerain in style with media, sound and ourdoor living enhancements. You'll have exactly what you need to host small family gatherings, large parties and everything in between.

60

WATCH: Design Appointment



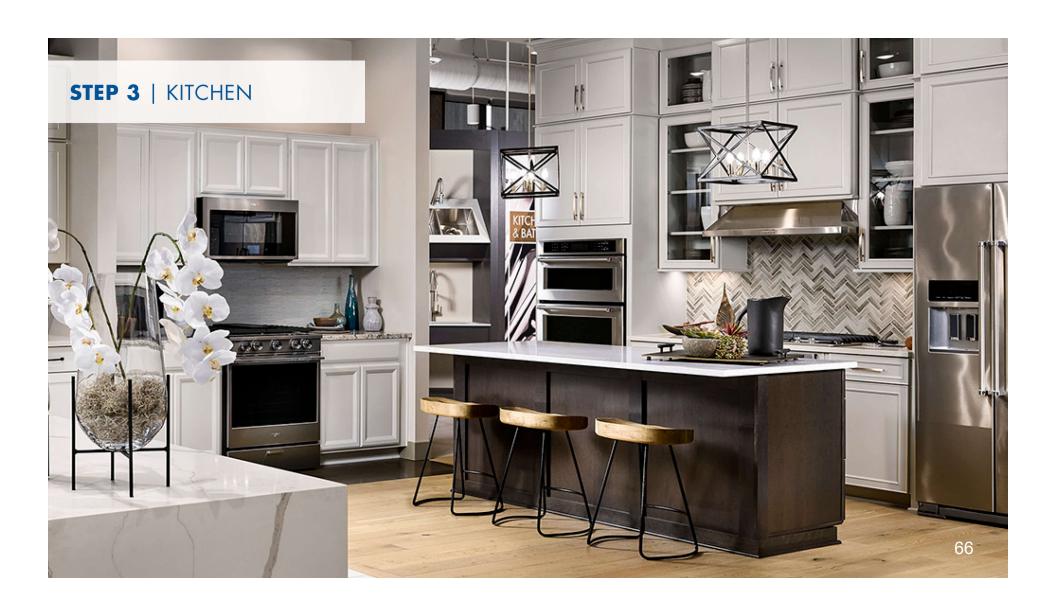


Studio M Tour

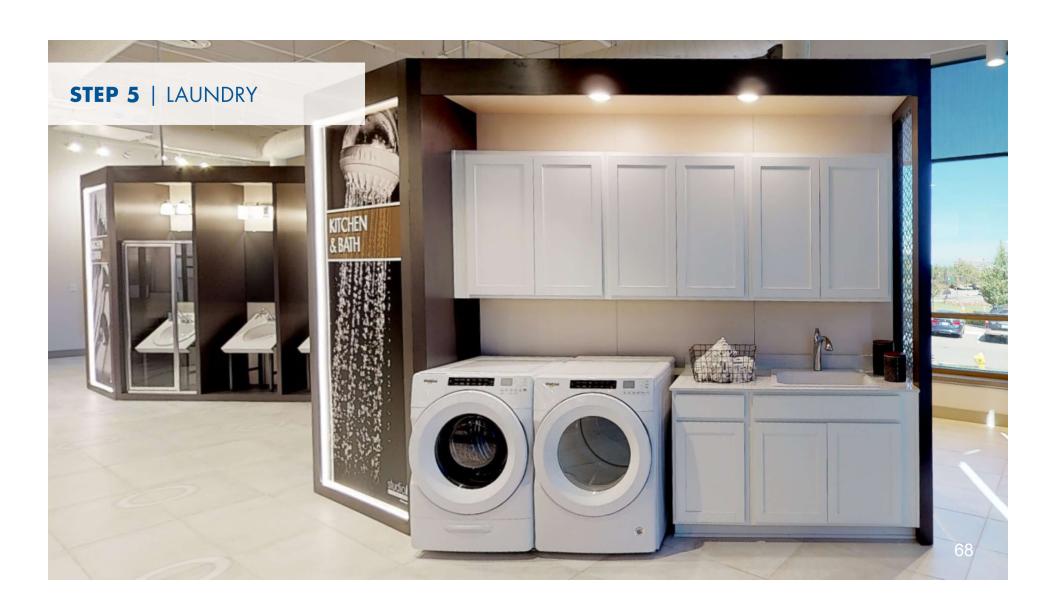






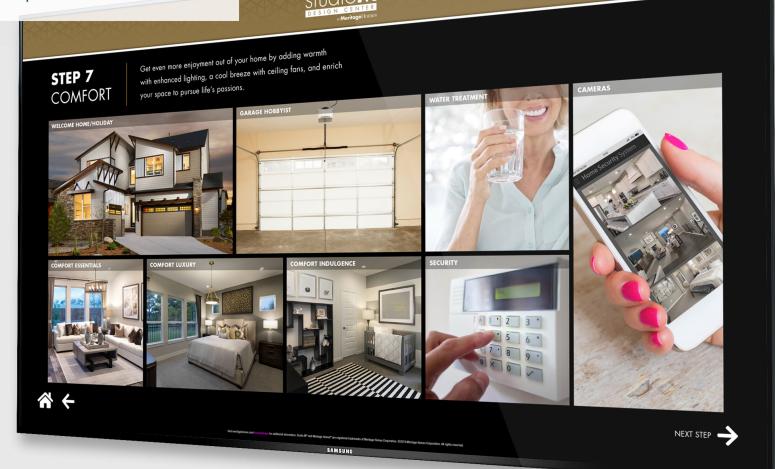








STEP 7 | COMFORT



STEP 8 | ENTERTAINMENT



WATCH: Customer Testimonials



Studio M Survey Results

- 95% would recommend us to friends and family
- 86% felt the process was simple and streamlined
- 91% felt pricing was transparent
- 91% said their sales agent was knowledgeable
- 90% were satisfied with the number of floor plans available
- 97% completed their Studio M selections within three hours

Studio M Take Rates















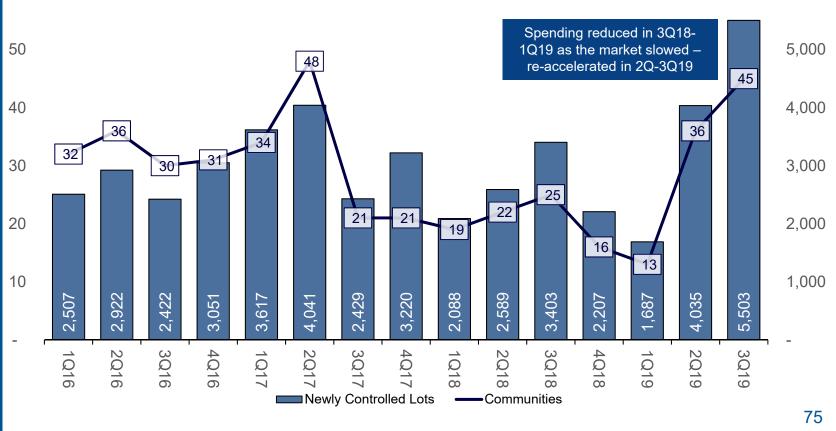


Accelerated Investment in Land Since 2Q19

6,000

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LIFE.

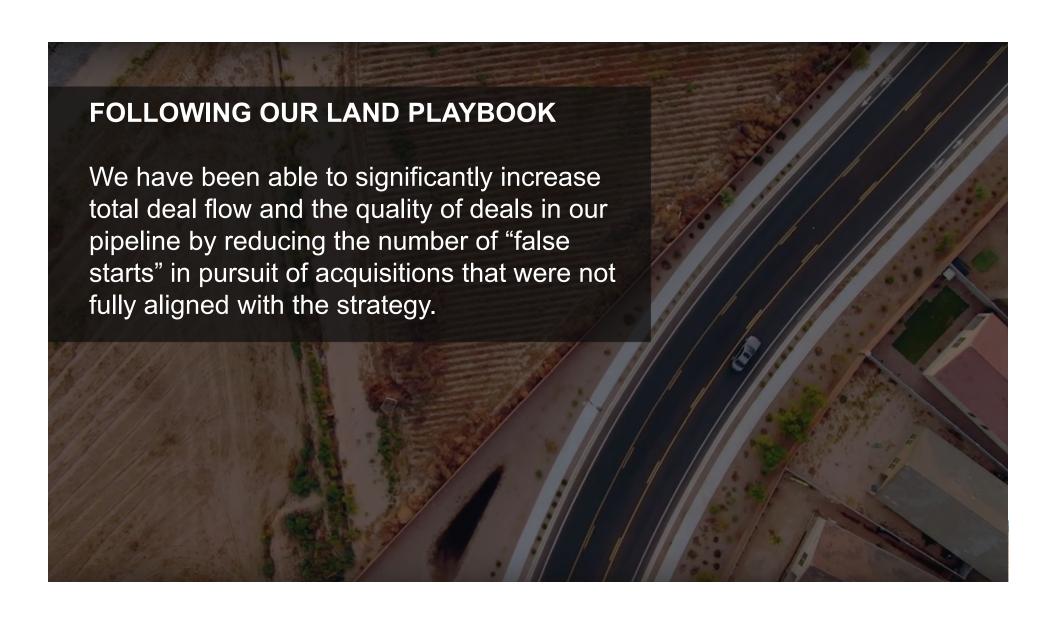


Land Strategy

- Putting larger land positions under contract – often several hundred lots
- 75-85% of the new lots we have put under contract quarterly over the last couple of years are in communities targeted for entry-level homes









Ramp-up in Growth as Communities Acquired in 2019 Open in 2021

Temporary decline in growth trajectory as we refill our land pipeline and develop new communities

- Some acceleration in absorptions with elimination of 2MU/luxury, accompanied by lower ASPs with these homes no longer in the mix
- Expecting continued EPS growth due to improved margins and efficiencies, with volume growth following community count

Summary

- Executing well proof in 2019 results
- ✓ Unique value proposition with LiVE.NOW. & Studio M
- Market conditions are good

- Simplifying and streamlining operations
- ☑ Better margins and leverage through increased volume help drive earnings growth
- Generating free cash flow



Thank you