

# Deutsche Bank Leveraged Finance Conference

October 1, 2014



Setting the standard for energy-efficient homes™

# Forward-Looking Statements

This presentation and the accompanying comments during our analyst call contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include management's expectations for community count and strong earnings growth in the second half of 2014, the expected growth rate for closings and revenue from the acquisition of Legendary Communities.

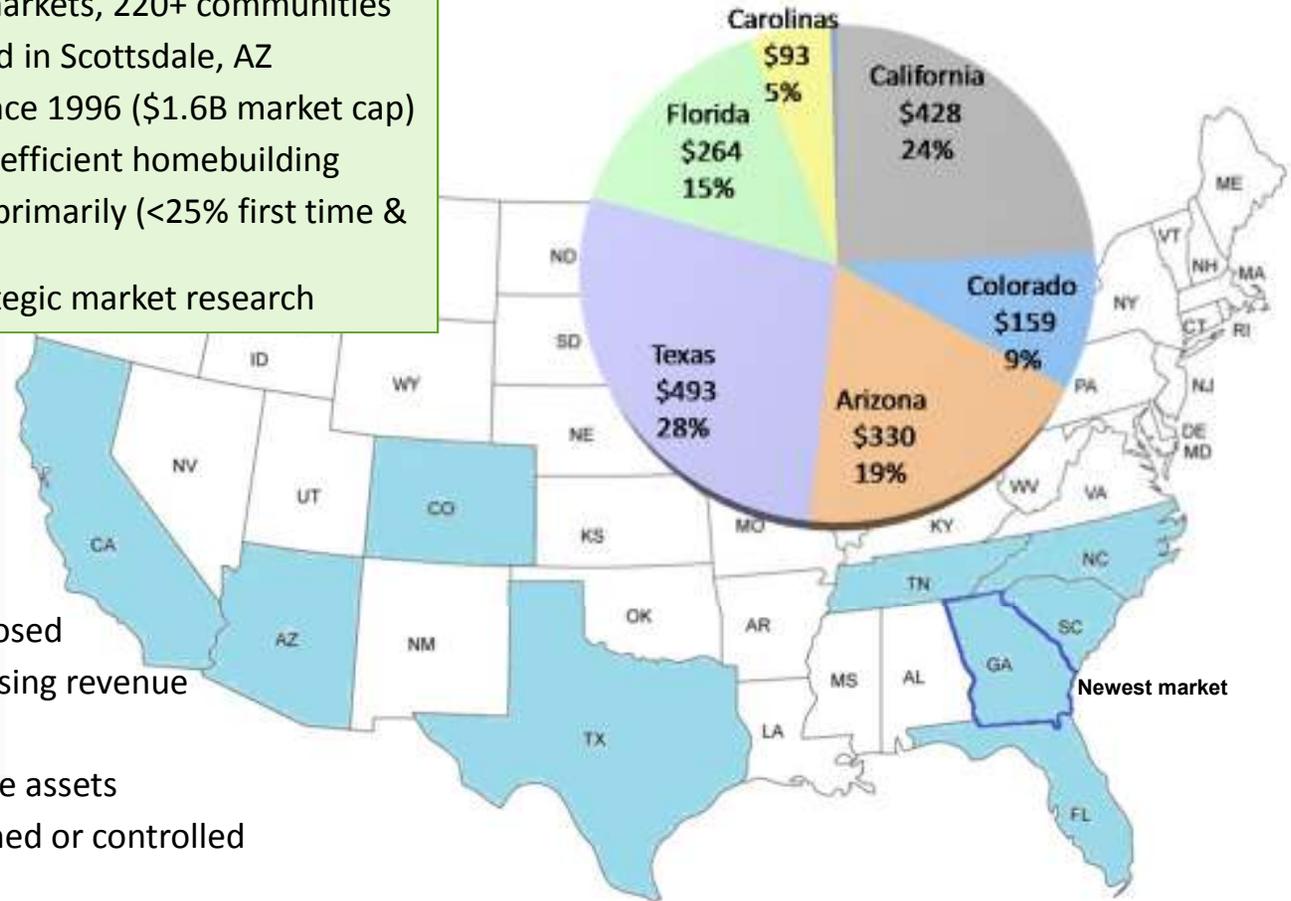
Such statements are based upon the current beliefs and expectations of Company management, and current market conditions, which are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. The Company makes no commitment, and disclaims any duty, to update or revise any forward-looking statements to reflect future events or changes in these expectations. 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. The risks and uncertainties include but are not limited to the following: the availability of finished lots and undeveloped land; interest rates and changes in the availability and pricing of residential mortgages; fluctuations in the availability and cost of labor; changes in tax laws that adversely impact our homebuyers; the ability of our potential buyers to sell their existing homes; cancellation rates and home prices in our markets; weakness in the homebuilding market resulting from an unexpected setback in the current economic recovery; inflation in the cost of materials used to construct homes; the adverse effect of slower order absorption rates; potential write-downs or write-offs of assets, including pre-acquisition costs and deposits; a change to the feasibility of projects under option or contract that could result in the write-off of option deposits; our potential exposure to natural disasters; competition; the adverse impacts of cancellations resulting from relatively small deposits relating to our sales contracts; construction defect and home warranty claims; our success at prevailing in litigation matters and on contested tax positions; our ability to obtain performance bonds in connection with our development work; the liquidity of our joint ventures and the ability of our joint venture partners to meet their obligations to us and the joint venture; the loss of key personnel; our failure to comply with laws and regulations; our lack of geographic diversification; fluctuations in quarterly operating results; our financial leverage and level of indebtedness and our ability to take certain actions because of restrictions contained in the indentures for our senior notes and our ability to raise additional capital when and if needed; our credit ratings; successful integration of future acquisitions; our compliance with government regulations and the effect of legislative or other initiatives that seek to restrain growth of new housing construction or similar measures; acts of war; the replication of our "Green" technologies by our competitors; our exposure to information technology failures and security breaches; 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, 2013 and most recent 10-Q under the caption "Risk Factors," which can be found on our website.

# Who is Meritage Homes?



- 9<sup>th</sup> largest U.S. homebuilder by 2013 closings
  - 9 states, 21 markets, 220+ communities
  - Headquartered in Scottsdale, AZ
  - NYSE: MTH since 1996 (\$1.6B market cap)
- Leader in energy-efficient homebuilding
- Move-up buyers primarily (<25% first time & active adult)
- Best-in-class strategic market research

2013 Home Closing Revenue by State (\$Millions)



## 2013 Stats:

- 5,259 homes closed
- \$1.8B home closing revenue
- \$339,000 ASP
- \$1.4B real estate assets
- 25,662 lots owned or controlled

**National builder with top-5 market share  
in some of the best long-term housing markets**



# Operations in 14 of the Top 20 Markets for Homebuilding Activity



| 2013 Rank | Metrolabel ( <i>Meritage markets in Yellow</i> )       | Single Family Permits 2013 | SF Permits Growth Y/Y |
|-----------|--|----------------------------|-----------------------|
| 1         | Houston, TX  | 34,507                     | 20.5%                 |
| 2         | <b>Atlanta, GA (Legendary Communities acquisition)</b> | 14,678                     | 60.1%                 |
| 3         | Dallas, TX   | 14,678                     | -0.1%                 |
| 4         | Phoenix, AZ  | 12,885                     | 8.0%                  |
| 5         | Washington D.C., DC-VA-MD-WV                           | 10,903                     | 20.1%                 |
| 6         | Orlando, FL  | 9,492                      | 29.6%                 |
| 7         | Austin, TX   | 9,241                      | 11.9%                 |
| 8         | Charlotte, NC-SC                                       | 8,049                      | 20.1%                 |
| 9         | Raleigh-Cary, NC                                       | 8,039                      | 25.1%                 |
| 10        | Tampa, FL  | 7,324                      | 24.5%                 |
| 11        | Minneapolis, MN-WI                                     | 7,140                      | 24.2%                 |
| 12        | Las Vegas, NV  | 7,067                      | 15.7%                 |
| 13        | Nashville, TN  | 7,045                      | 31.9%                 |
| 14        | Denver, CO   | 6,971                      | 24.3%                 |
| 15        | Seattle, WA  | 6,412                      | 6.2%                  |
| 16        | Oklahoma City, OK                                      | 6,363                      | 16.2%                 |
| 17        | Jacksonville, FL                                       | 6,276                      | 37.1%                 |
| 18        | Fort Worth, TX   | 6,125                      | 13.1%                 |
| 19        | San Antonio, TX  | 5,841                      | 14.5%                 |
| 20        | Riverside-San Bernardino, CA                           | 5,764                      | 28.4%                 |

**Added #2 homebuilding market – Atlanta – with recent acquisition**



# One of the Most Trusted Builders in America

## According to study by Lifestory Research, January 2014

43,000 surveys among new home shoppers in 27 of the top new construction markets in the United States in 2013



“Trust is the new currency that consumers are seeking from companies with whom they wish to engage in a purchase relationship. Each year millions of households explore and seek a new place to live. As consumers shop for a new home, they come into contact with new home builders and their associated brands. Having trust in a builder provides consumers with the confidence in making a purchase decision. So, the question is – which home builders are trusted the most by consumers?”

Lifestory Research 2014  
Most Trusted Builder in America Study™

| #  | Builder Name        | Index Score |
|----|---------------------|-------------|
| 1  | Ashton Woods        | 113.2       |
| 2  | Meritage Homes      | 112.8       |
| 3  | David Weekley Homes | 111.8       |
| 4  | Toll Brothers       | 109.4       |
| 5  | Taylor Morrison     | 109.1       |
| 6  | Standard Pacific    | 108.7       |
| 7  | Shea Homes          | 106.2       |
| 8  | Drees Homes         | 105.3       |
| 9  | Ryan Homes (NVR)    | 105.2       |
| 10 | Khovsavian          | 101.6       |
| 11 | Highland Homes      | 101.3       |
| 12 | M/I Homes           | 96.5        |
| 13 | Richmond American   | 96.2        |
| 14 | Lennar              | 93.9        |
| 15 | Ryland Homes        | 93.2        |
| 16 | Pulte Homes         | 92.8        |
| 17 | D.R. Horton         | 92.6        |
| 18 | Beazer Homes        | 86.5        |
| 19 | Centex Homes        | 82.3        |
| 20 | KB Home             | 78.6        |

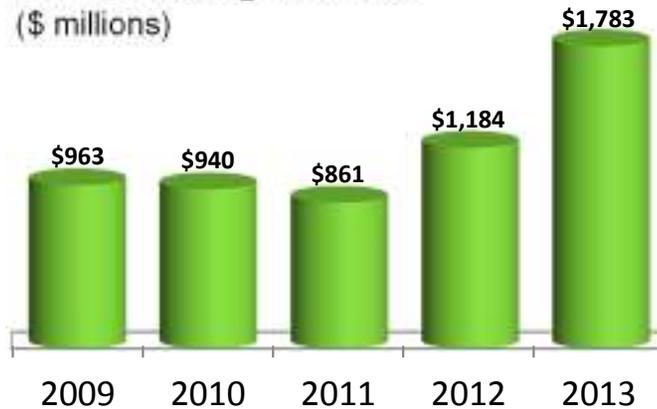
No advertising or other promotional use can be made of the information in this document without the express prior written consent of Lifestory Research.

Charts and graphs extracted from this document must be accompanied by a statement identifying Lifestory Research as the publisher and “Lifestory Research 2014 Most Trusted Builders in America Study™” as the source. Rankings are based on numerical scores, and not necessarily on statistical significance.

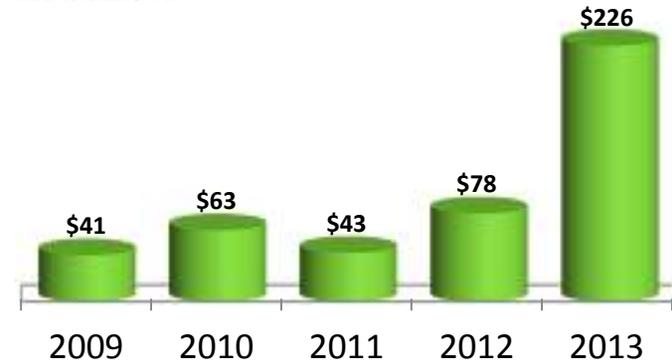


# Significant Growth Achieved Since 2011 After the Housing Market Bottomed

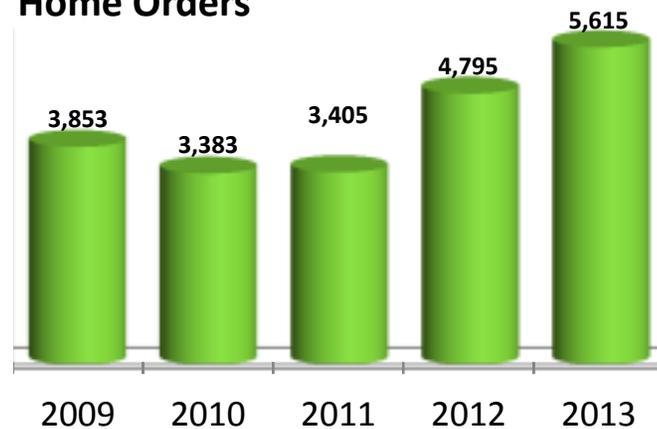
**Home Closing Revenue**  
(\$ millions)



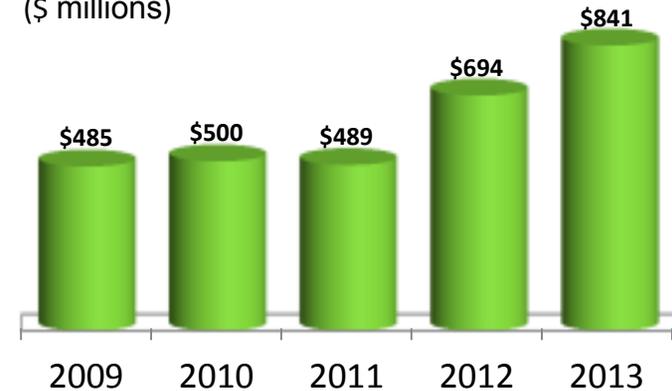
**Adjusted EBITDA<sup>(1)</sup>**  
(\$ millions)



**Home Orders**



**Shareholders' Equity**  
(\$ millions)



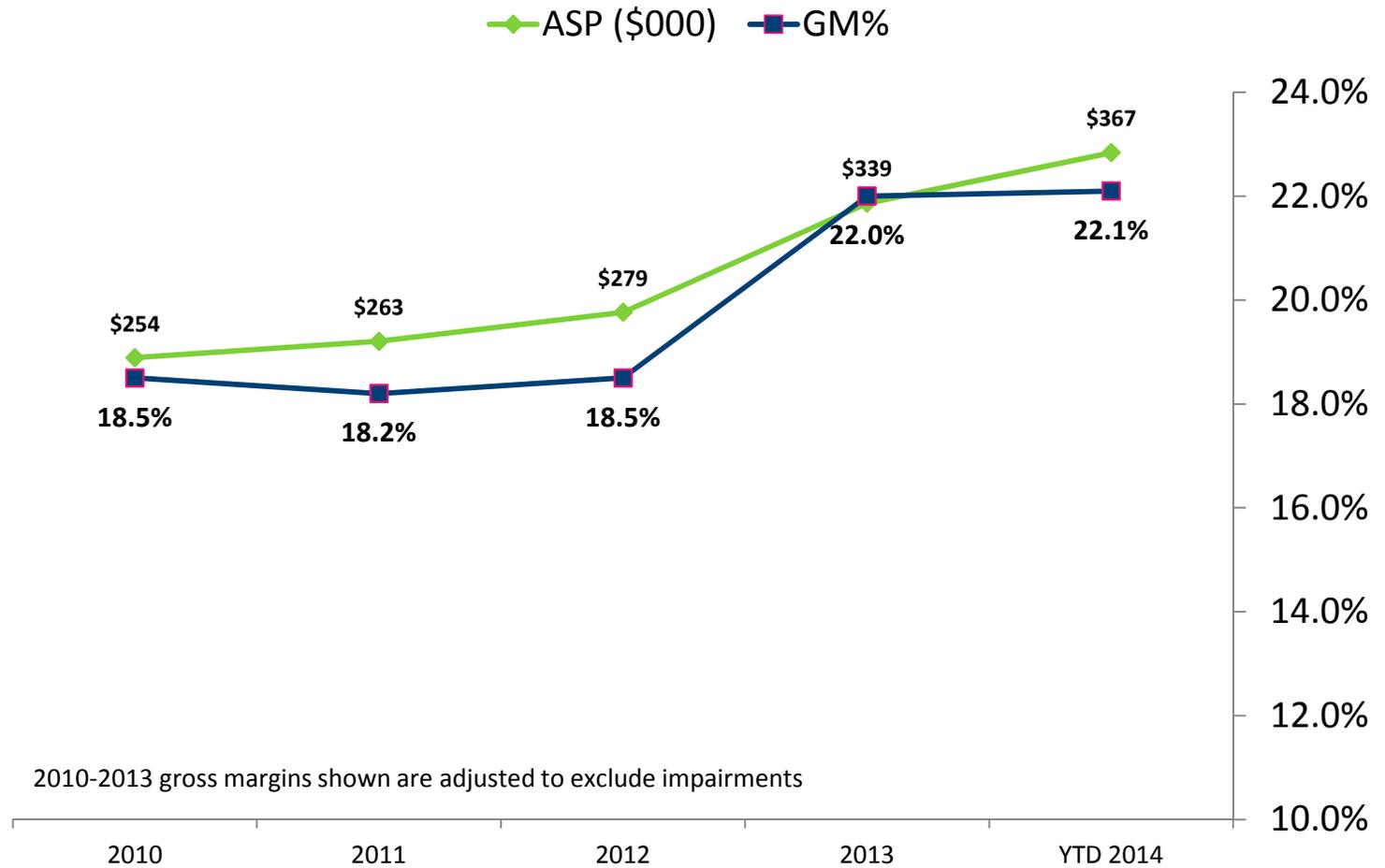
(1) Adjusted EBITDA excludes impairments and other non-cash items

# Strong Earnings Growth Continued Through the First Half of 2014

| <i>\$000's except EPS</i>   | 1H14      | 1H13      | Change   |
|---|-----------|-----------|----------|
| Home closings   | 2,477     | 2,373     | +4%      |
| ASP   | \$367     | \$323     | +14%     |
| Home closing revenue  | \$908,579 | \$766,750 | +18%     |
| Home closing gross margin   | 22.3%     | 20.6%     | +170 bps |
| Home closing gross profit   | \$202,560 | \$157,965 | +28%     |
| Commissions and other sales costs<br><i>-- as a percent of home closing revenue</i> | 7.4%      | 7.4%      | --       |
| General and administrative expenses<br><i>-- as a percent of closing revenue</i>    | 5.1%      | 5.4%      | -30 bps  |
| Pretax margin   | 10.3%     | 7.0%      | +330 bps |
| Net earnings  | \$60,456  | \$40,184  | +50%     |

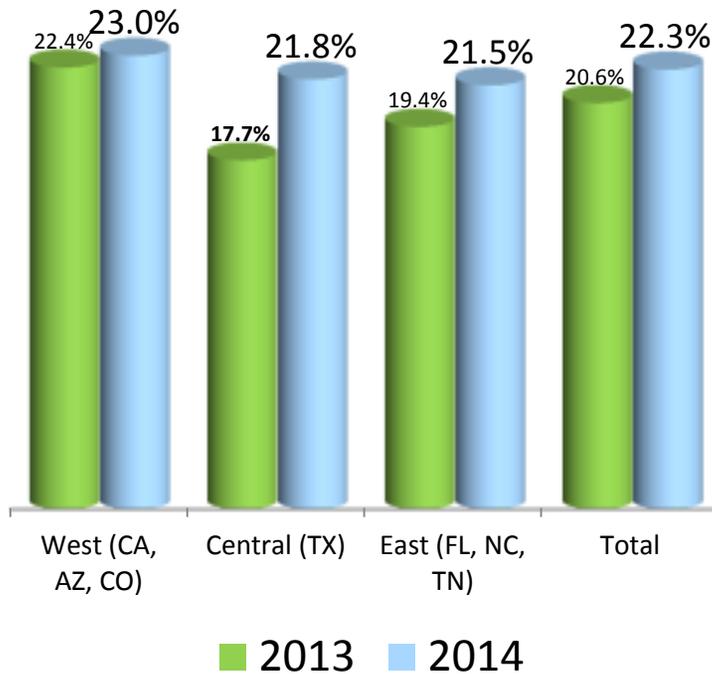
Earnings leverage demonstrated by 50% increase in net earnings on 18% home closing revenue growth

# Increased Sales Prices Drove Higher Margins

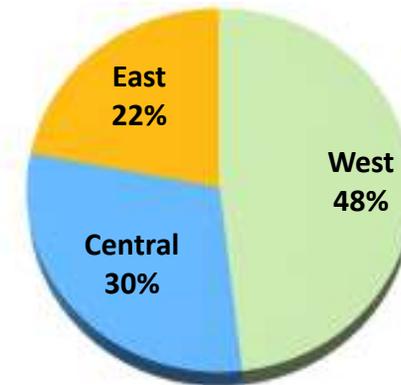


Home price increases have more than covered cost increases, resulting in margins exceeding historical average and underwriting targets

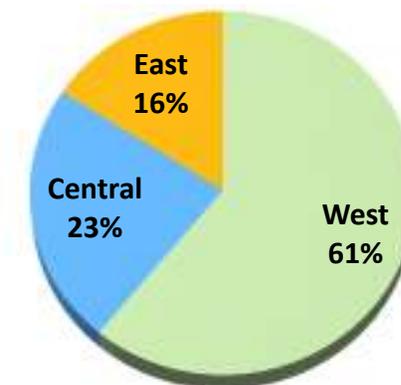
# Improved Homebuilding Margins Across All Regions YTD 2014



Gross Profit \$Mm (2014)



Gross Profit \$Mm (2013)



**Significant increases in margins from the Central and East regions have offset narrowing margins in the West for the first half of 2014 vs 2013**

# Maintaining a Strong Balance Sheet Upgraded by All Rating Agencies in 2014

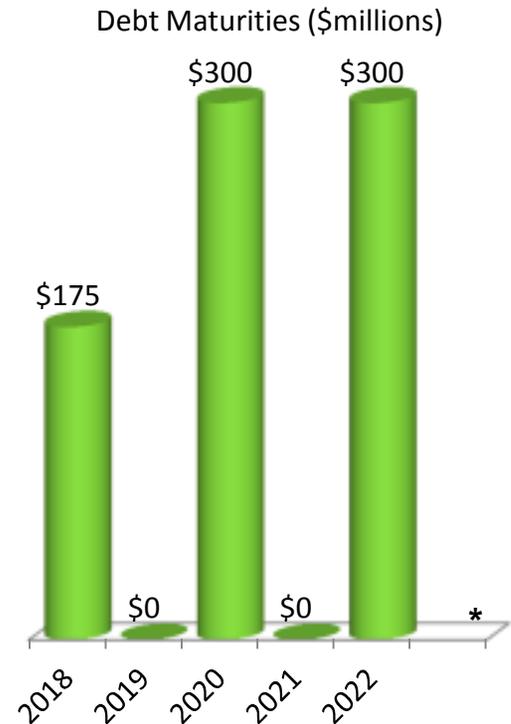


| <i>\$ in millions</i>   | June 30, 2014 | December 31, 2013 |
|---|---------------|-------------------|
| Total Cash & Securities   | \$ 290.6      | \$ 363.8          |
| Total Outstanding Debt  | \$ 904.8      | \$ 905.1          |
| Equity  | \$ 1,020.3    | \$ 841.4          |
| Net Debt to Capital   | 37.6%*        | 39.1%             |
| Real Estate   | \$ 1,638.0    | \$ 1,405.3        |
| * Pro forma net debt to capital ratio after Legendary acquisition |               |                   |
|   | 42.2%         |                   |

## Credit Ratings

|                  | Moody's | S&P    | Fitch Ratings |
|------------------|---------|--------|---------------|
| Long-term Rating | Ba3     | BB-    | BB-           |
| Outlook          | Stable  | Stable | Stable        |

**No maturities until March 2018;  
nothing drawn on \$200M credit facility**



\* \$126.5 convertible 1.875% due 2032 with optional puts in 2017, 2022 & 2027

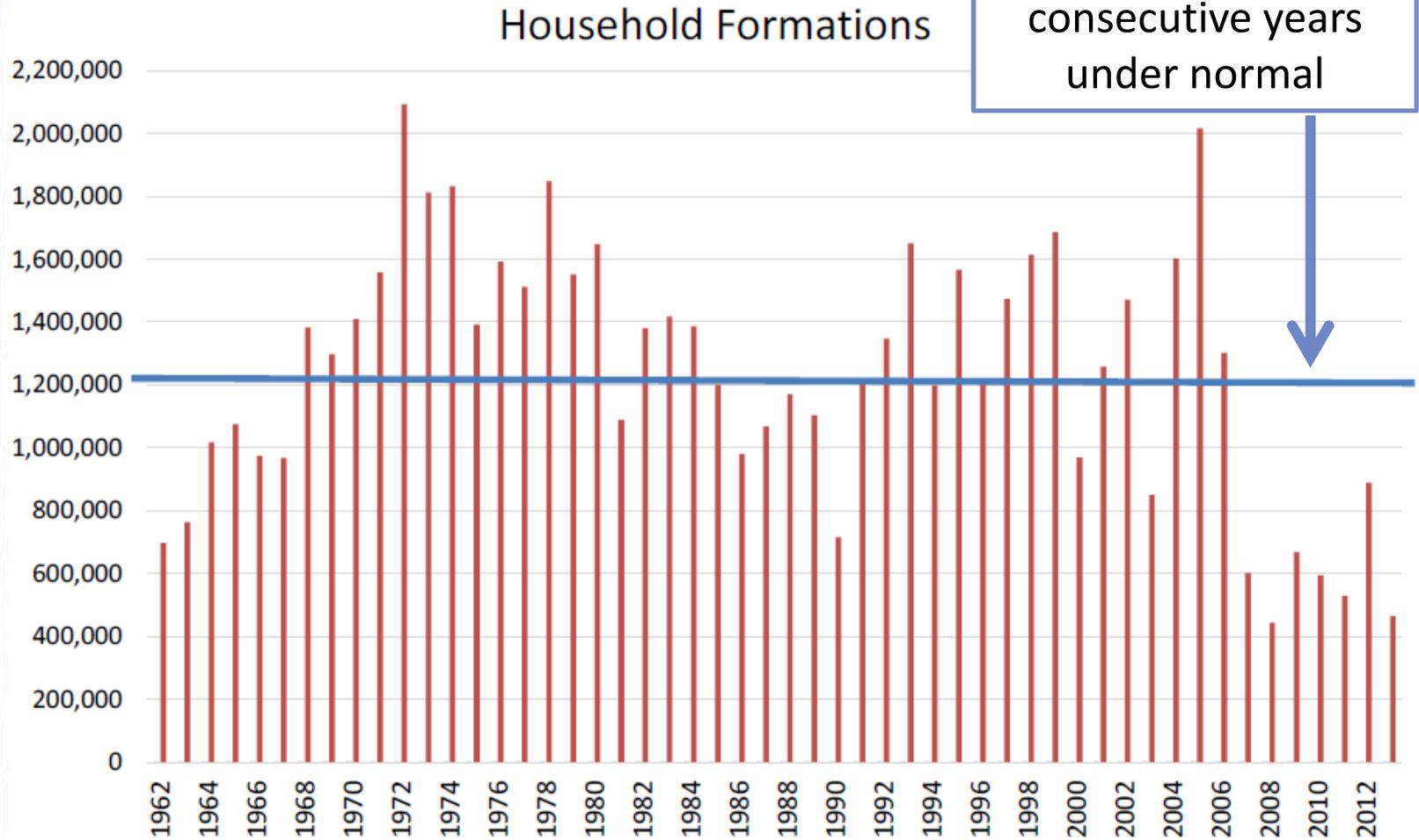




# Housing Market Update



# Household Formations = New Home Demand Still Well Below Normal Levels



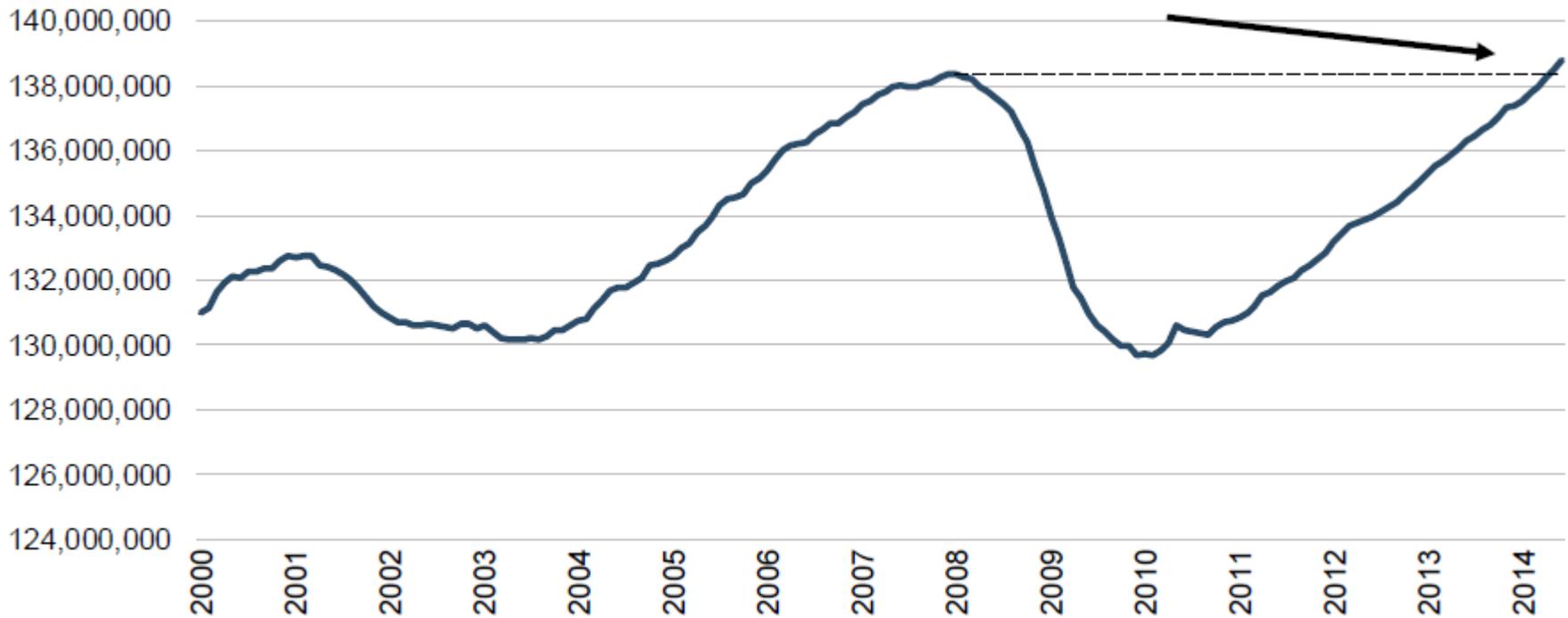
Source: Census Bureau



# Despite Total Employment Expanding Beyond Previous Peak



Total US Payroll Employment (SA)



Source: BLS, updated through Jun. 2014

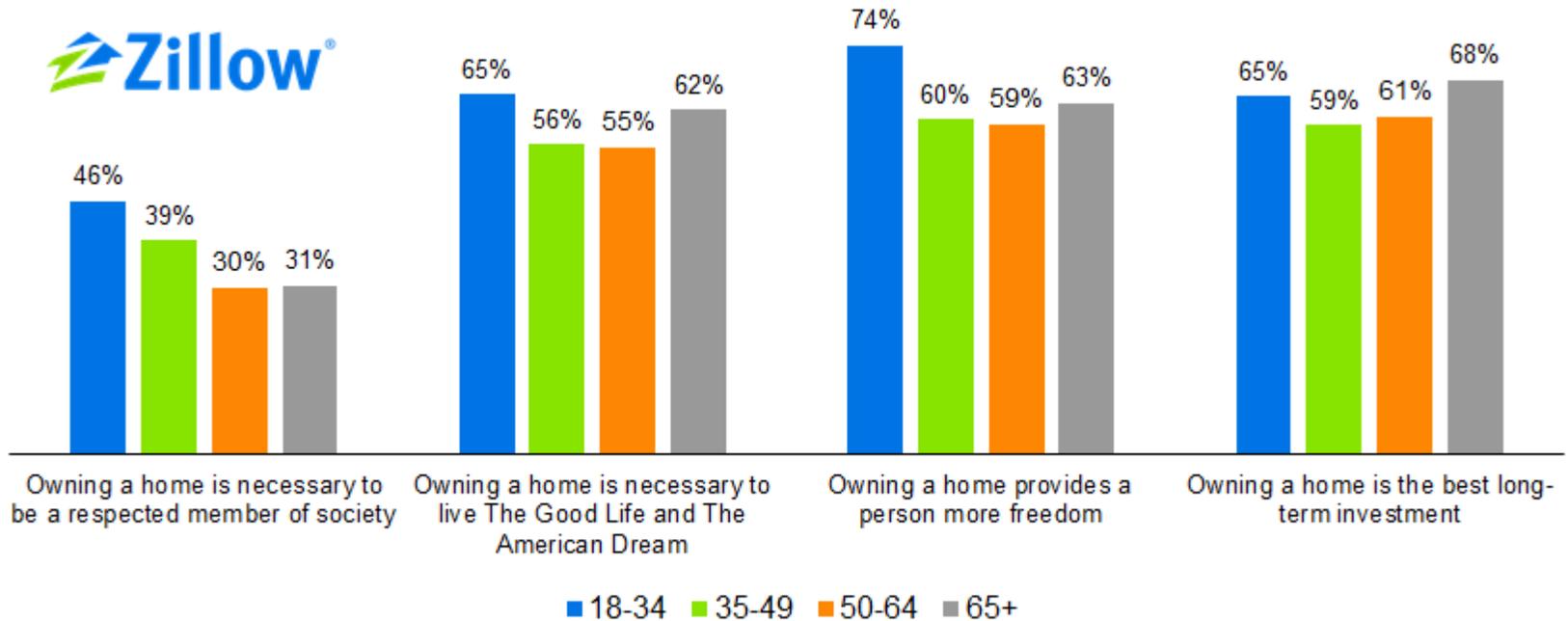
Published: Jul. 2014

# Conditions Persist for Continued Growth

- Demand Exceeds Supply
  - 2.6 mil jobs created in last year
  - ÷ 1.005 mil total permits
  - = 2.6 jobs/housing unit (1.2 is normal)
- Affordability
  - Burns Affordability Index: 2.2 (scale 0 to 10)
- Supply Is Low
  - Resale = 5.6 months (7.2 is average)



# Zillow's Housing Confidence Index: Will Youthful Exuberance Today Mean More Sales Tomorrow?



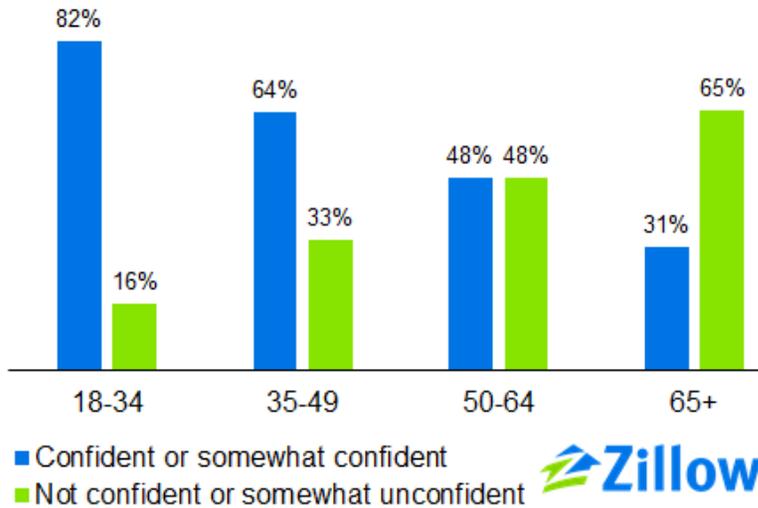
Despite concerns that fewer millennials (18-34) want to own their own home, recent surveys indicate they still view homeownership positively



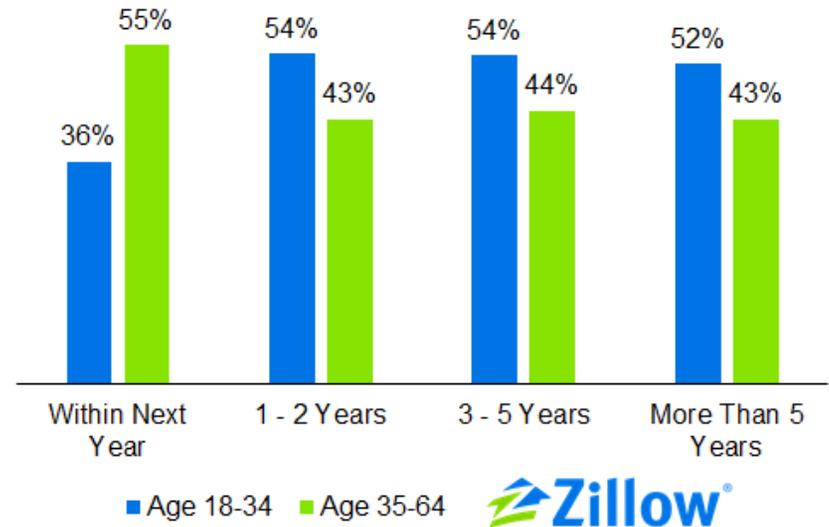


# Zillow's Housing Confidence Index: Will Youthful Exuberance Today Mean More Sales Tomorrow?

How confident are you that you will be able to afford to own a home someday?



Renters expecting to buy a home by age group



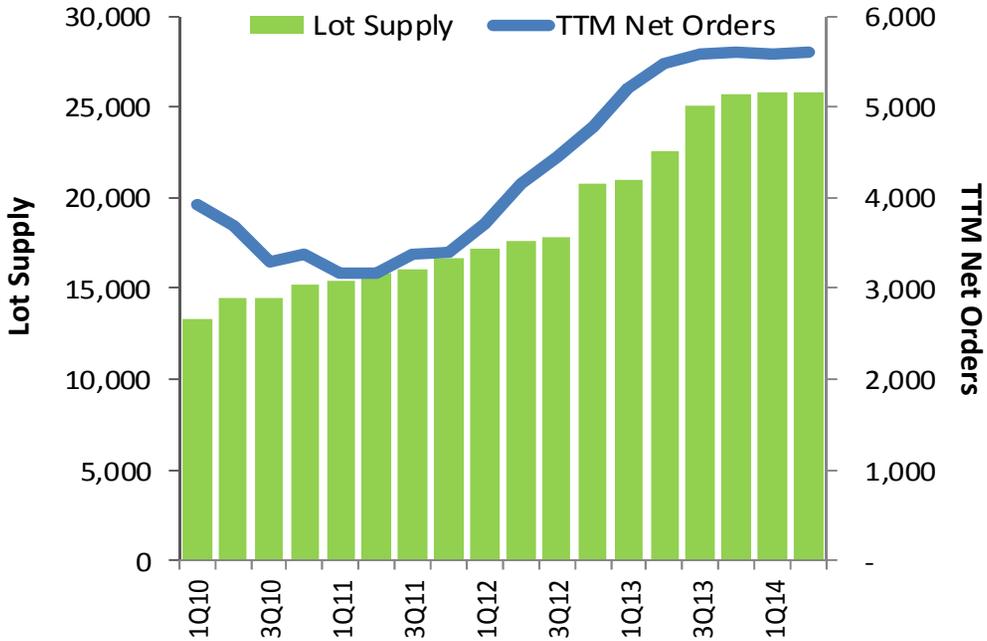
Millennials are also confident they'll become homeowners relatively soon – indicating pent-up demand for new homes





# Future Growth Opportunities

# Continuing to Invest in Land & Development



Lot supply keeping pace with actual order trends and current growth assumptions

| Yrs Lot Supply (ttm closings) |          |          |          |         |
|-------------------------------|----------|----------|----------|---------|
| 12/31/10                      | 12/31/11 | 12/31/12 | 12/31/13 | 6/30/14 |
| 4.1                           | 5.1      | 4.9      | 4.9      | 4.8     |

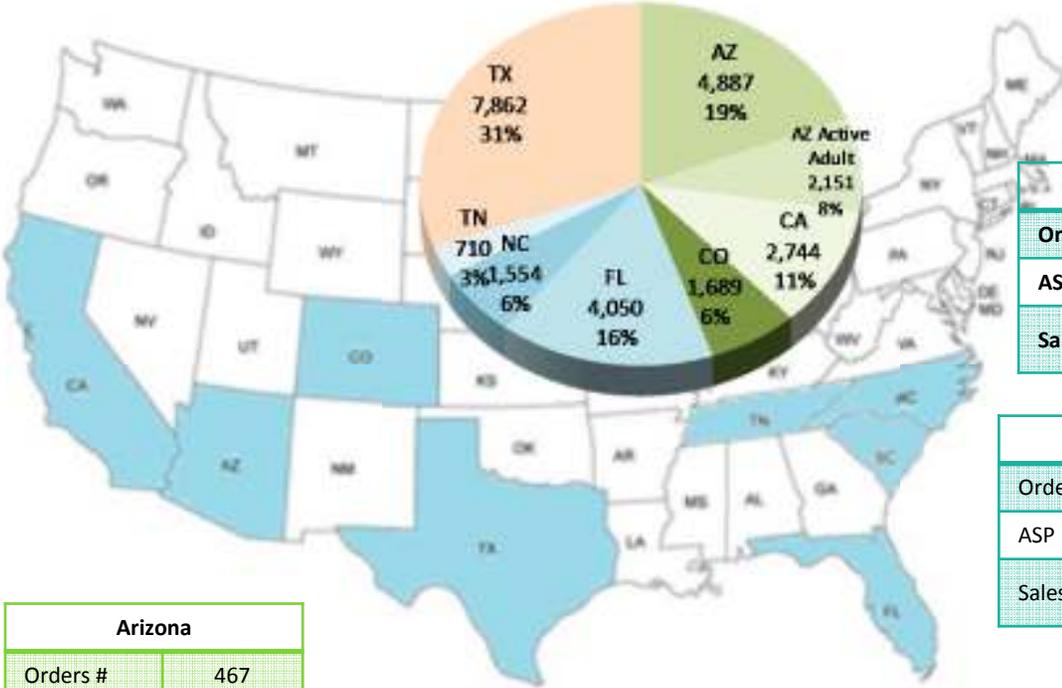
Invested \$310M YTD in land & development, maintaining approximately 5-yr supply of lots



# Well Positioned With Lots in Key Markets

## Order Statistics YTD 2014

25,821 Total Lots Controlled



| California |        |
|------------|--------|
| Orders #   | 442    |
| ASP        | \$515K |
| Sales pace | 23.9   |

| Colorado   |        |
|------------|--------|
| Orders #   | 264    |
| ASP        | \$452K |
| Sales pace | 19.6   |

| Arizona    |        |
|------------|--------|
| Orders #   | 467    |
| ASP        | \$328K |
| Sales pace | 11.4   |

| Texas      |        |
|------------|--------|
| Orders #   | 1,352  |
| ASP        | \$320K |
| Sales pace | 19.5   |

| Florida    |        |
|------------|--------|
| Orders #   | 353    |
| ASP        | \$375K |
| Sales pace | 18.6   |

| Carolinas  |        |
|------------|--------|
| Orders #   | 183    |
| ASP        | \$421K |
| Sales pace | 12.2   |

| Tennessee  |        |
|------------|--------|
| Orders #   | 111    |
| ASP        | \$282K |
| Sales pace | 22.2   |



# Significant Growth Opportunities

- Strong franchise in growing Texas markets
- Increasing active community count
- Organic growth supplemented with strategic acquisitions
- Legendary acquisition completed August 1, 2014

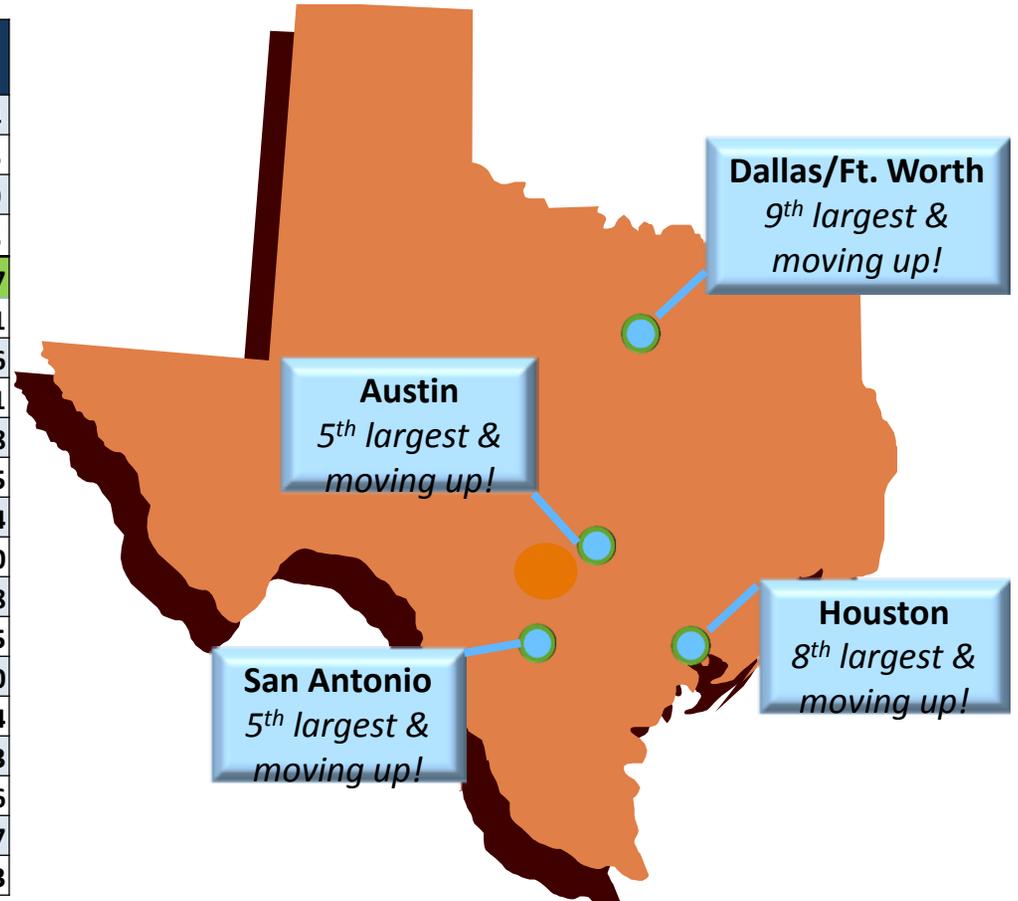




# Strong Franchise in Texas

| Rank | Builder                       | 4 market total |
|------|-------------------------------|----------------|
| 1    | DR Horton/Emerald             | 3,474          |
| 2    | Lennar/Village                | 1,895          |
| 3    | Pulte/Centex                  | 1,429          |
| 4    | KB Home                       | 1,205          |
| 5    | <b>Meritage/Monterey</b>      | <b>917</b>     |
| 6    | K Hovnanian/Brighton Homes    | 901            |
| 7    | Perry                         | 826            |
| 8    | Highland                      | 801            |
| 9    | David Weekley                 | 788            |
| 10   | LGI Homes                     | 745            |
| 11   | Taylor Morrison/Darling Homes | 704            |
| 12   | Ryland                        | 690            |
| 13   | Gehan                         | 598            |
| 14   | First Texas Homes             | 575            |
| 15   | Beazer                        | 520            |
| 16   | CastleRock                    | 484            |
| 17   | Ashton Woods                  | 473            |
| 18   | Standard Pacific              | 336            |
| 19   | Westin Homes                  | 327            |
| 20   | Lake Ridge Builders           | 313            |

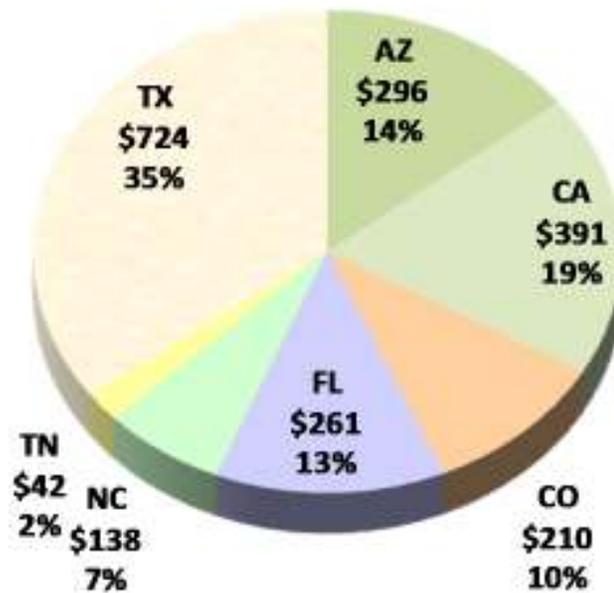
Source: Metrostudy total closings 1Q-2Q2014



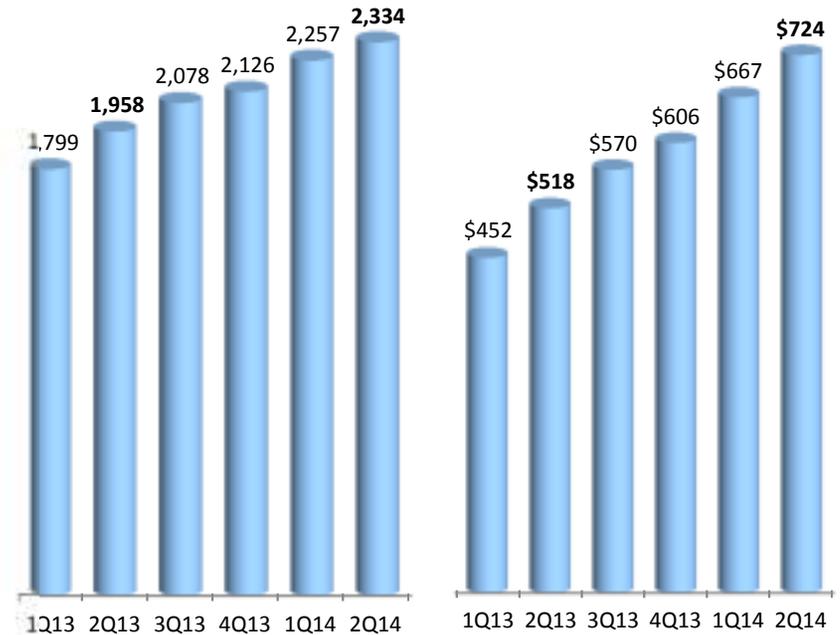
# Texas Growing and Increasing Share of Orders



ttm Order Value (\$millions)

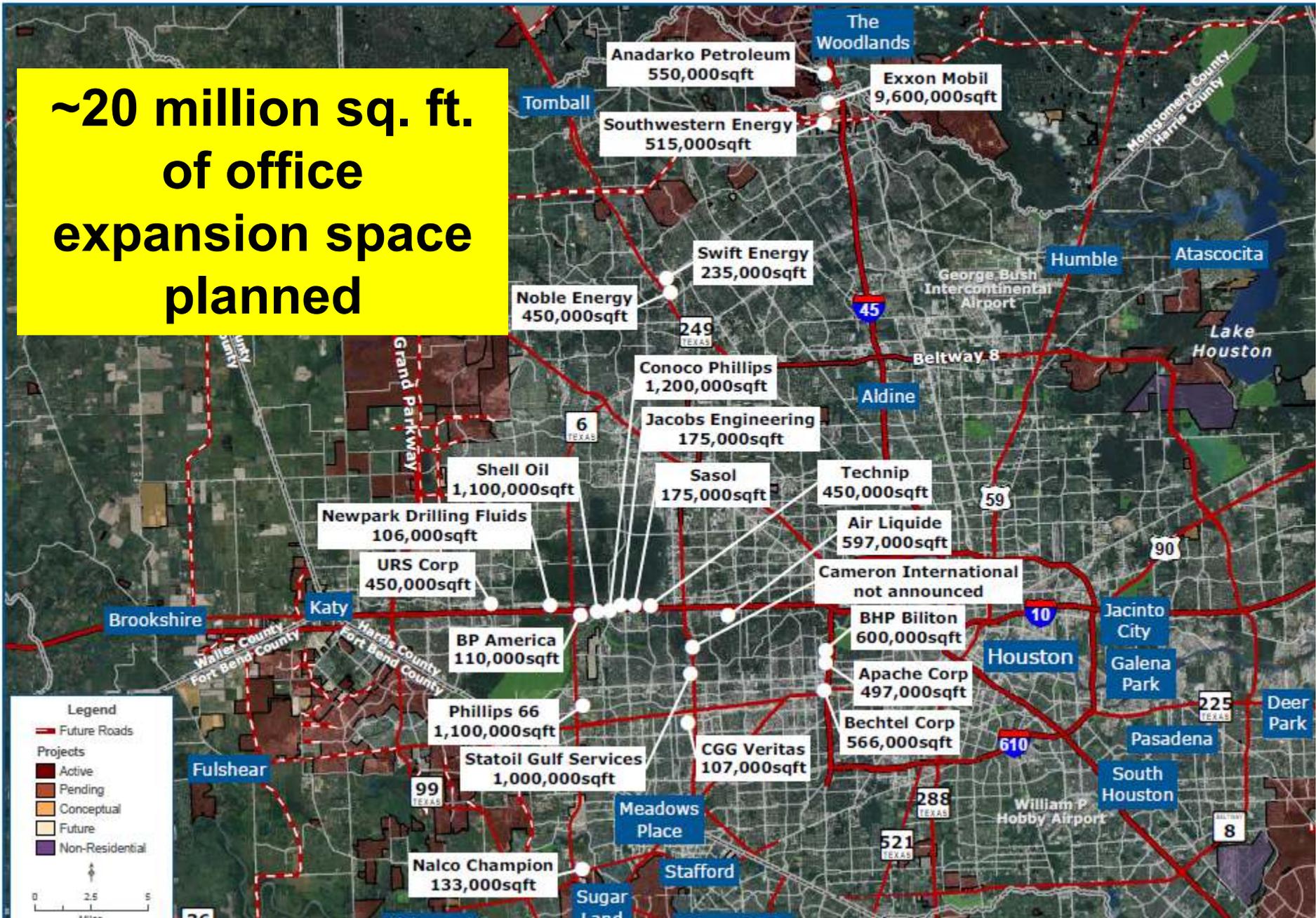


Texas ttm Orders (units and \$millions)



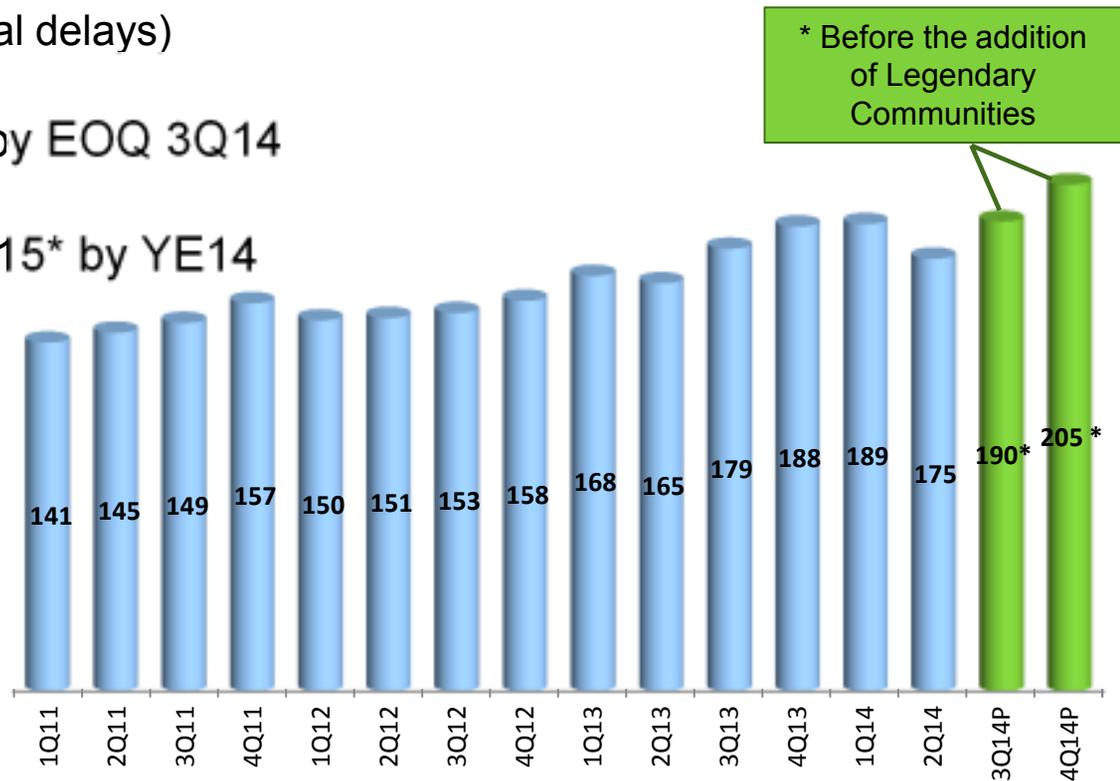
Texas ttm order value grew to 35% of 2Q14 company total from 29% of total in 2Q13

**~20 million sq. ft. of office expansion space planned**



# Growing Active Community Count

- Grew Y/Y community count for last 11 quarters
- Ended 2Q14 with 175 active communities (less than expected due mainly to municipal delays)
- Targeting 190\* by EOQ 3Q14
- Targeting 205-215\* by YE14

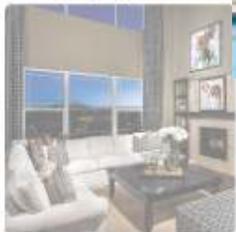




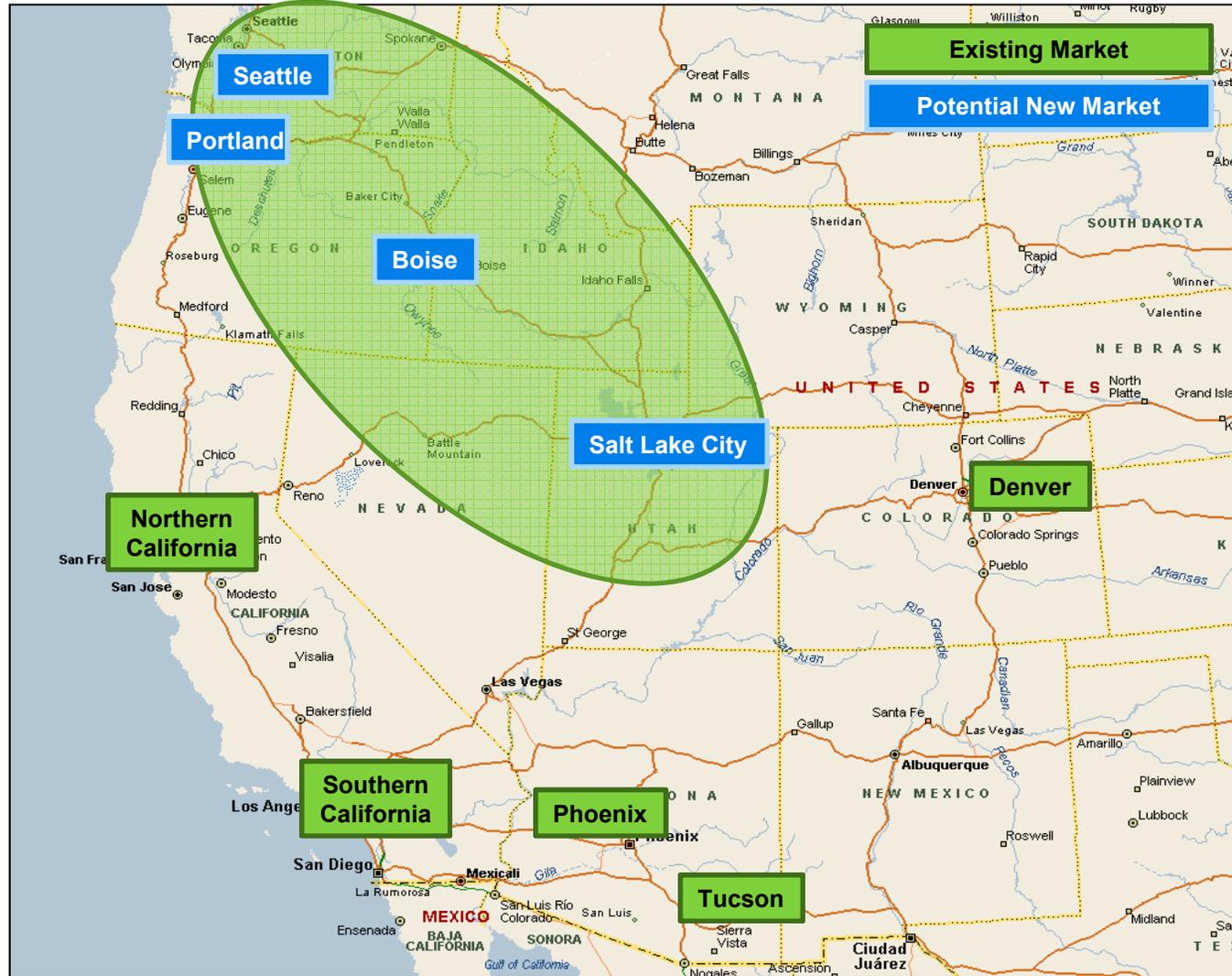
# Recently Acquired Legendary Communities



- Expansion in Atlanta, Greenville, Charlotte markets
  - Dominant position in Greenville; focusing on growing Atlanta market
  - Charlotte assets add significance to existing Meritage division
- ~200 orders in backlog
- Total pipeline ~4,000 controlled lots
  - Atlanta ~35%
  - Charlotte ~15%
  - Greenville ~50%



# Opportunities for Expansion into Northwestern Markets



# Meritage Homes Strategic Position



## Market Position

- Operating in 14 of top 20 homebuilding markets in U.S.
- Expanded into 6 new growing markets since 2011
- Communities predominantly in the best submarkets

## Sound Land Pipeline & Measured Acquisition Strategy

- Control sufficient lots for substantially all of 2015 projected home closings
- High % of lot inventory and land acquisition positions in attractive locations
- Acquired Phillips Builders in Aug-2013 & Legendary Communities in Aug-2014

## Differentiated Product

- Setting the standard for energy-efficient homebuilding
- Best-in-class Strategic Market Research
- New home plans and features more attractive to buyers

## Sales & Marketing

- Best-in-class sales management systems
- Increasing sales efficiency through website, social networking, national call center

## Earnings Growth

- Growing lot supply and community count
- Among the highest orders/community of public builders
- Increasing margins + overhead leverage

## Strong Balance Sheet

- Strong liquidity
- Low net debt/capital
- No near-term debt maturities

**Many opportunities to grow, with a history of outperforming the industry as a whole**



Questions?

# Non-GAAP Reconciliations



Pro Forma (post-  
Legendary  
Communities  
acquisition for  
\$130M)

|   | June 30, 2014 | June 30, 2014 | December 31, 2013 |
|---|---------------|---------------|-------------------|
| Notes payable and other borrowings                                  | \$904,771     | 904,771       | 905,055           |
| Less: cash and cash equivalents,<br>plus investments and securities | (290,574)     | (160,574)     | (363,823)         |
| Net debt  | 614,197       | 744,197       | 541,232           |
| Stockholders' equity  | 1,020,319     | 1,020,319     | 841,392           |
| Total capital   | \$1,634,516   | 1,764,516     | 1,382,624         |
| Net debt-to-capital   | 37.6%         | 42.2%         | 39.1%             |