



# Third Quarter 2020 Analyst Conference Call

October 22, 2020

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# 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 statements regarding the health of the housing market and the potential adverse impact of the COVID-19 pandemic, and projected full year 2020 home closings, home closing revenue, gross margins and diluted earnings per share.

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.

Important factors that could cause actual results to differ materially from those in forward-looking statements, and that could negatively affect our business include, but are not limited to, the following: disruptions to our business by COVID-19, fear of a similar event, and measures implemented by federal, state and local governments or health authorities to address it; the availability and cost of finished lots and undeveloped land; shortages in the availability and cost of labor; the ability of our potential buyers to sell their existing homes; changes in interest rates and the availability and pricing of residential mortgages; our exposure to information technology failures and security breaches; legislation related to tariffs; 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 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 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 energy-efficient technologies by our competitors; 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, 2019 and our Form 10-Q for the quarter ended June 30, 2020 under the caption "Risk Factors," which can be found on our website at [www.investors.meritagehomes.com](http://www.investors.meritagehomes.com).

# Management Representatives



**Steven J. Hilton** – Chairman & CEO

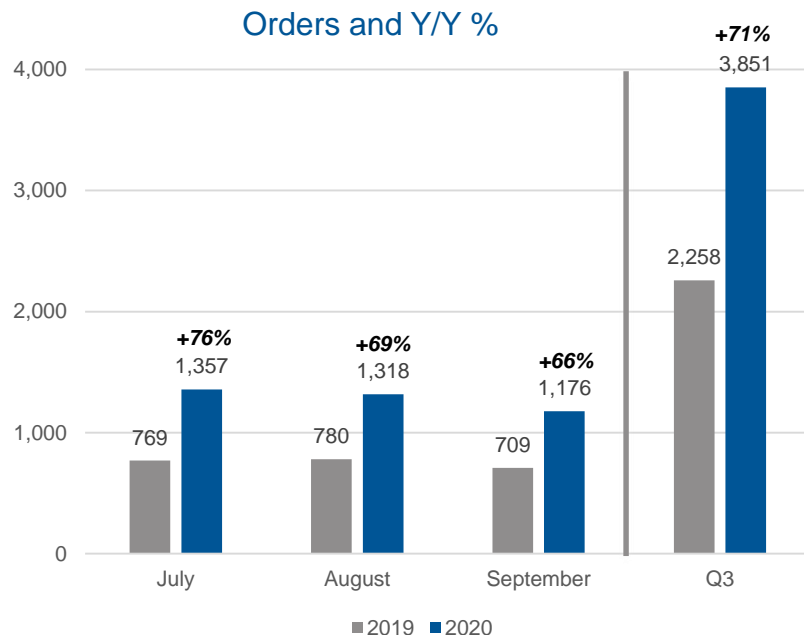
**Phillippe Lord** – EVP & Chief Operating Officer

**Hilla Sferruzza** – EVP & Chief Financial Officer

**Emily Tadano** – VP Investor Relations

# Delivered Highest Quarterly Orders

Record orders for the quarter and all months of 3Q20



Demand Drivers for New Homes

- **AFFORDABILITY** – historically-low mortgage interest rates
- Low **INVENTORIES** of existing and new homes
- Desire for **HEALTHIER** and **SAFER** single-family homes

# Positioned for Growth

## Pace and Price

- Closing revenue growth benefits from current higher absorptions and price appreciation

## Accelerated Land Investment

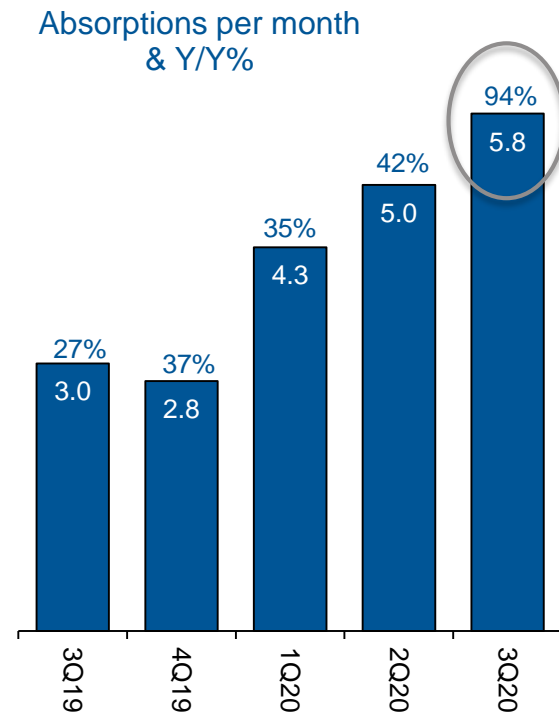
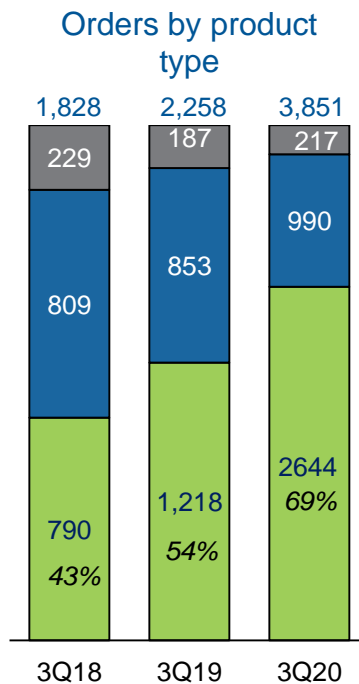
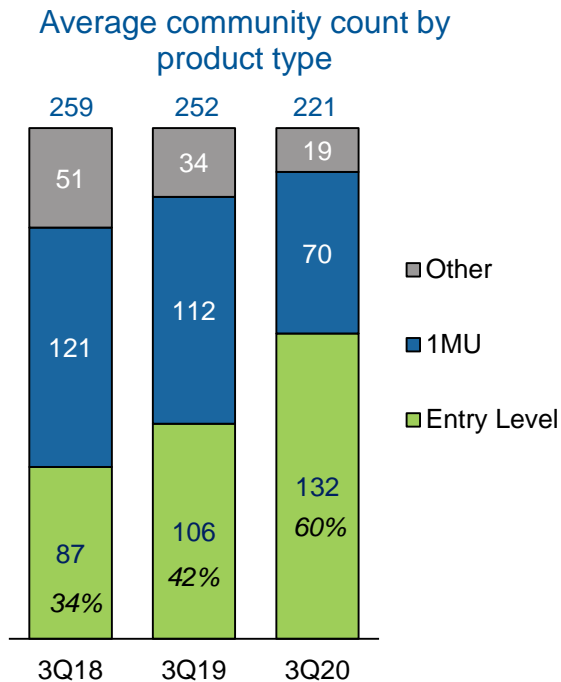
- Investing aggressively in land / lots (~4k new lots in 2Q, ~9k new lots in 3Q) + robust pipeline

## Balance Sheet Strength and Flexibility

- Ample liquidity and low net debt to capital to invest in growth

**ON PLAN FOR 300 COMMUNITIES BY EARLY TO MID 2022**

# Strong Performance in Both Entry-Level and First Move-Up





# Replenishing the Pipeline to Grow Community Count and Orders



## **Aggressively securing new lots**

Record near 9,000 in 3Q20



## **Strong pipeline of community openings in 2021**

>150 in 2021



## **Larger land positions with more lots per community on average**

130 lots per community on average for YTD 9/30/20



## **Longer lot supply by year**

4.4 years of lot supply at 9/30/20

# Broad Strength Everywhere, Exceptional Performance in Texas and California

| STATES & REGIONS<br>Y/Y (%) changes 3Q20 vs 3Q19 |      |      |       |       |       |      |       |      |       |       |       |
|--|------|------|-------|-------|-------|------|-------|------|-------|-------|-------|
|  | AZ   | CA   | CO    | West  | TX    | FL   | GA    | NC   | SC    | TN    | East  |
| Average Active Communities                       | 37   | 24   | 12    | 73    | 63    | 35   | 14    | 21   | 5     | 10    | 85    |
|  | (5)% | 9%   | (41)% | (10)% | (14)% | (3)% | (28)% | (9)% | (42)% | 0%    | (13)% |
| Entry-level % Average Communities                | 58%  | 75%  | 54%   | 63%   | 63%   | 57%  | 36%   | 61%  | 45%   | 60%   | 54%   |
| Absorption per month                             | 6.5  | 7.1  | 5.2   | 6.5   | 6.3   | 4.7  | 4.1   | 6.3  | 5.5   | 4.1   | 4.9   |
|  | 55%  | 137% | 107%  | 88%   | 114%  | 73%  | 73%   | 124% | 183%  | 23%   | 87%   |
| Orders   | 47%  | 158% | 21%   | 68%   | 82%   | 68%  | 25%   | 105% | 64%   | 23%   | 63%   |
| ASP on Orders                                    | 2%   | 0%   | (1)%  | 8%    | 0%    | (4)% | 6%    | (6)% | (2)%  | (10)% | (4)%  |
| Order Value                                      | 23%  | 66%  | (36)% | 21%   | 43%   | 3%   | 26%   | 19%  | 28%   | (11)% | 11%   |



# 56% Earnings Growth in 3Q20

| (\$ Millions except EPS & ASP)                           | 3Q20    | 3Q19   | %Chg      | YTD2020 | YTD2019 | %Chg      |
|--|---------|--------|-----------|---------|---------|-----------|
| Home closings  | 3,004   | 2,419  | +24%      | 8,090   | 6,437   | +26%      |
| ASP (closings)   | \$377K  | \$388K | (3)%      | \$378K  | \$389K  | (3)%      |
| Home closing revenue                                     | \$1,133 | \$939  | +21%      | \$3,055 | \$2,501 | +22%      |
| Home closing gross profit                                | \$244   | \$186  | +31%      | \$643   | \$462   | +39%      |
| Home closing gross margin                                | 21.5%   | 19.8%  | +170 bps  | 21.0%   | 18.5%   | +250 bps  |
| SG&A expenses  | \$114   | \$101  | +13%      | \$316   | \$282   | +12%      |
| % of home closing revenue                                | 10.1%   | 10.8%  | (70) bps  | 10.3%   | 11.2%   | (90) bps  |
| Earnings before taxes                                    | \$136   | \$92   | +47%      | \$338   | \$192   | +76%      |
| Tax rate   | 19.5%   | 24.4%  | (490) bps | 19.9%   | 24.1%   | (420) bps |
| Net earnings   | \$109   | \$70   | +56%      | \$271   | \$146   | +86%      |
| Diluted EPS  | \$2.84  | \$1.79 | +59%      | \$7.04  | \$3.76  | +87%      |
| % of total specs completed at September 30 <sup>th</sup> |         |        |           | 14%     | 23%     | (900) bps |

## 3Q20 HIGHLIGHTS:

- Record quarterly closing revenue
- Our best quarterly closing gross margin since 2014 despite record high lumber prices
- 71% of closings from specs
- 68% backlog conversion

# Strong Balance Sheet Provides Flexibility

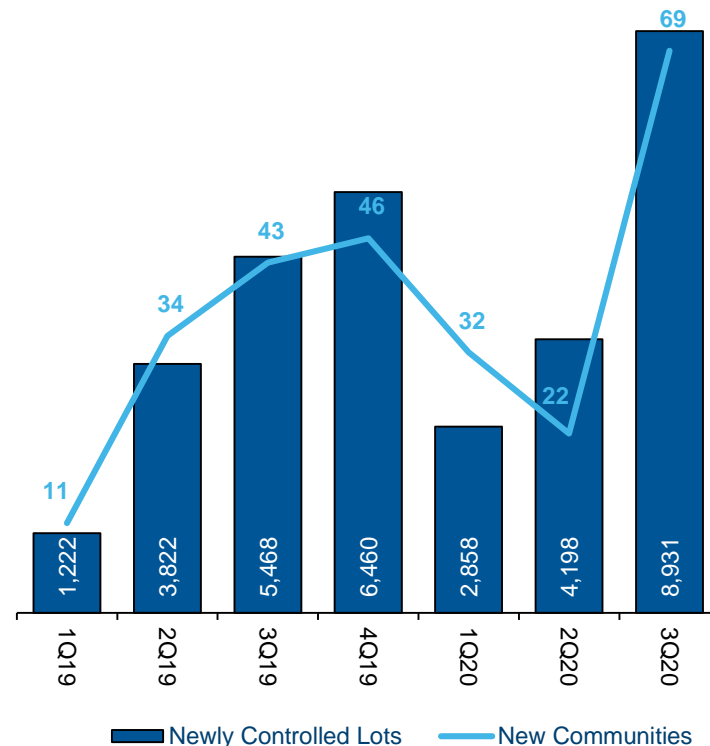
| Net Debt-to-Capital Reconciliation (\$ Millions) |              |              |
|--|--------------|--------------|
| (non-GAAP reconciliation)                        | Sep 30, 2020 | Dec 31, 2019 |
| Notes payable and other borrowings               | \$1,020      | \$1,019      |
| Less: cash and cash equivalents                  | (\$610)      | (\$319)      |
| Net debt   | \$410        | \$700        |
| Stockholders' equity                             | \$2,200      | \$1,974      |
| Total net capital                                | \$2,610      | \$2,674      |
| Net debt-to-capital                              | 15.7%        | 26.2%        |
| Total capital                                    | \$3,220      | \$2,993      |
| Debt-to-capital                                  | 31.7%        | 34.0%        |
| Book value/share                                 | \$58.49      | \$51.68      |

## 3Q20 HIGHLIGHTS:

- Ample liquidity at September 30, 2020 give
  - \$610M of cash
  - Nothing drawn on the \$780M credit facility
  - Lowest net debt to capital in Company history
- Grew spec inventory back to an average of 11.2 specs per community at September 30, 2020 from 9.3 at June 30, 2020

# Accelerated Land & Development Investment

| Real Assets                 | 3Q20   | 3Q19   |
|-----------------------------|--------|--------|
| Land & development spending | \$299M | \$275M |
| As of period ended Sep-30:  |        |        |
| Total lots controlled       | 47,875 | 37,300 |
| Years supply of lots        | 4.4    | 4.2    |
| - Owned                     | 58%    | 66%    |
| - Optioned                  | 42%    | 34%    |



# Guidance

## FULL YEAR 2020

- 11,200-11,500 home closings
- \$4.2-4.4 billion home closing revenue
- Home closing gross margin ~21.0-21.5%
- Effective tax rate ~20-21%
- Diluted EPS \$10.25 - \$10.50

# Summary

- Strong demand for new homes
- Well-positioned with entry-level & 1<sup>st</sup> move-up
- Executing at a high level
- Strategy to grow
- Earnings power from volume, margins and leverage





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