



# Second Quarter 2020 Analyst Conference Call

July 23, 2020

**LIFE. BUILT. BETTER.**

# 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 impacts of the COVID-19 pandemic, and projected third quarter and full year 2020 home closings and revenue, gross margins, SG&A expenses, tax rates 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. These risks and uncertainties 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 success of our strategic initiatives to focus on the first- and second-move-up buyer; 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 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 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 March 31, 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

**Brent Anderson** – VP Investor Relations

# Record Orders



# Demand Drivers for New Homes

- **AFFORDABILITY** – historically low interest rates
- Low **INVENTORIES** of existing homes
- **SAFETY, HEALTH** and **SECURITY** of single-family home
- More **SPACE** for work-at-home

**5 bed | 3 bath | 3 garage**  
**for less than \$1,950/mo**  
**vs**  
**Comparable rental \$2,700/mo**



Compare Save Contact Us

## The Sylvan

Starting at \$335,990

[All-In payment from around \\$1,904/mo](#)

3060 sq. feet

5 Bed, 3 Bath, 3 Garage, 2 Story

Energy Savings - Up to \$1,942 per year

HERS Score: 54

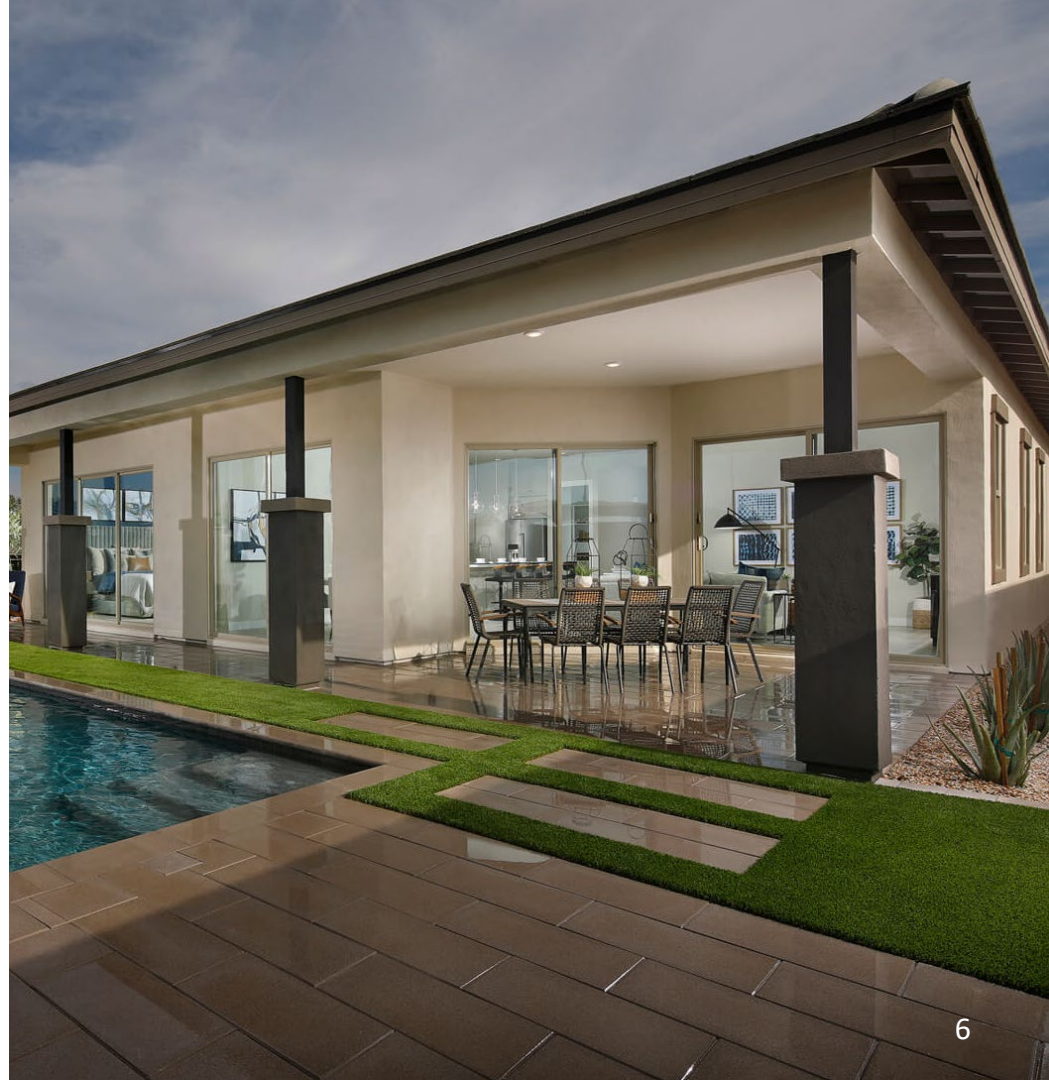


**Need help finding  
a feature?**

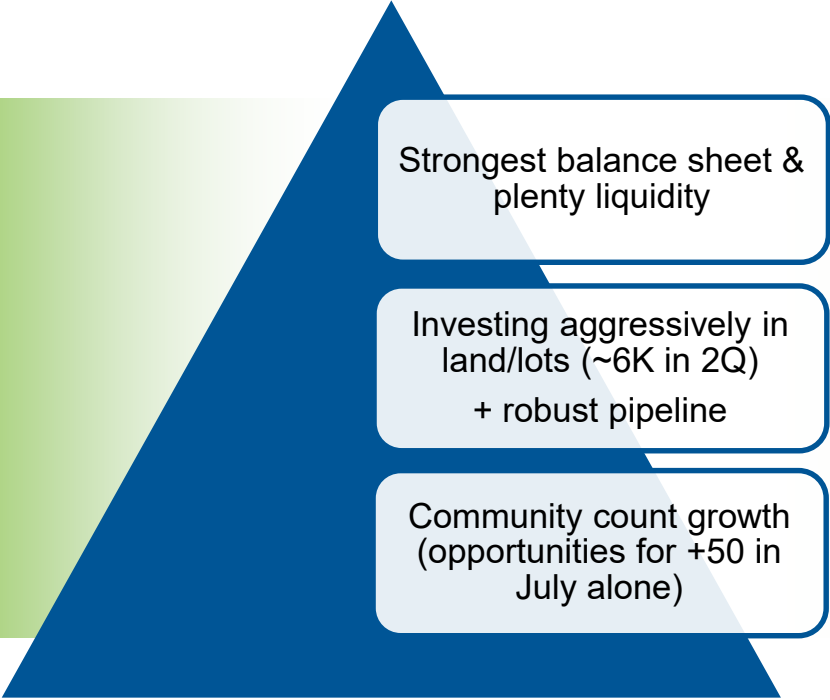


# Strategic Advantages

- **EXCLUSIVELY FOCUSED ON ENTRY-LEVEL & 1ST MOVE-UP**
- **UNIQUE MERITAGE VALUE PROPOSITION:**
  - Quality construction
  - M.Connected® Home automation
  - Leading Energy Efficiency
  - Simplified & streamlined
  - “*Surprisingly more*”
  - Full virtual capabilities



# Positioned for Growth



Strongest balance sheet &  
plenty liquidity

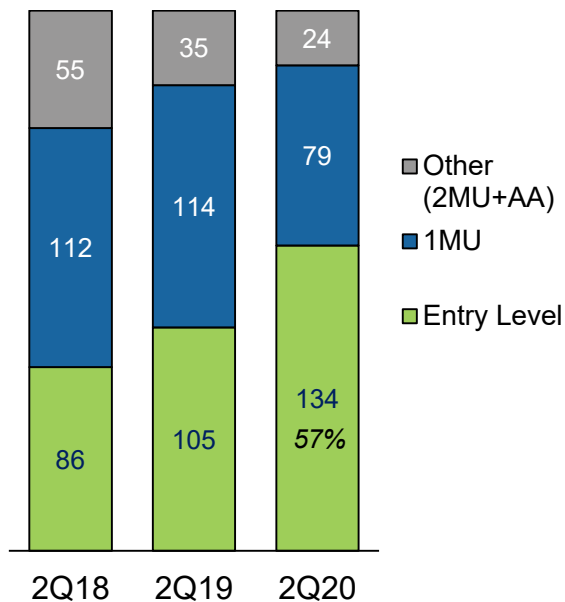
Investing aggressively in  
land/lots (~6K in 2Q)  
+ robust pipeline

Community count growth  
(opportunities for +50 in  
July alone)

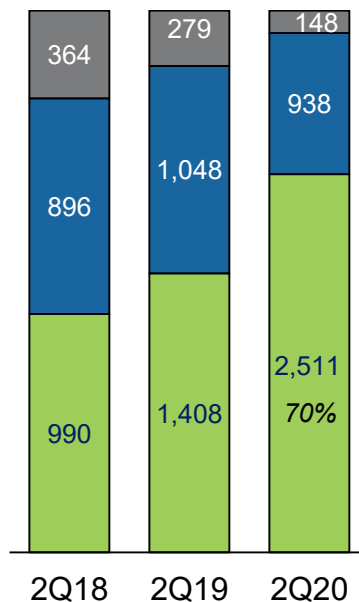
*ON PLAN FOR*  
**300+ COMMUNITIES**  
*BY EARLY 2022*

# Entry-Level Outperforming

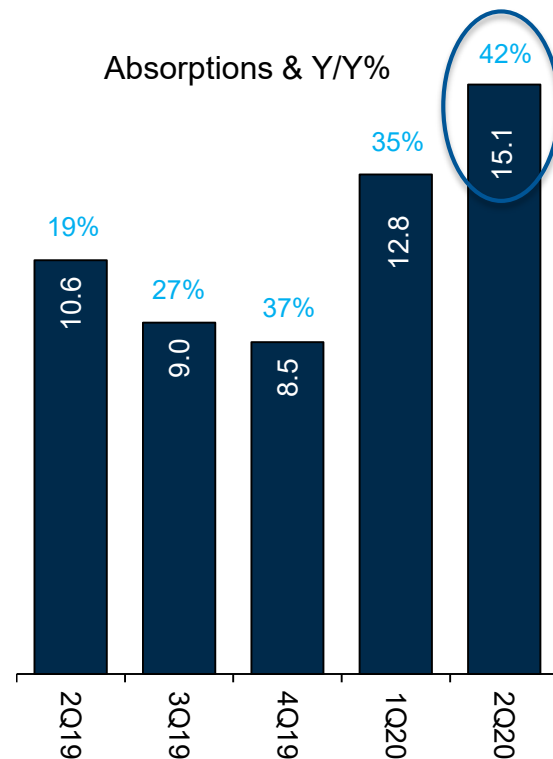
Ending community count by product type



Orders by product type



Absorptions & Y/Y%





# Broad Strength Led by West and Central Regions

STATES & REGIONS Y/Y (%) changes 2Q20 vs 2Q19											
	AZ	CA	CO	West	TX	FL	GA	NC	SC	TN	East
Average Active Communities	36	29	13	77	73	35	16	21	6	12	89
	(4)%	39%	(41)%	(3)%	(7)%	3%	(20)%	(15)%	(40)%	5%	(10)%
-Entry-level % (QE)	58%	68%	54%	61%	59%	53%	41%	57%	40%	55%	51%
Orders/ Average Community	20.8	13.6	11.8	16.6	16.6	11.1	11.9	15.9	15.8	9.0	12.4
	32%	35%	18%	31%	58%	14%	59%	59%	129%	(10)%	36%
Orders	27%	87%	(30)%	27%	47%	18%	28%	36%	38%	(6)%	23%
ASP	(3)%	(12)%	(8)%	(4)%	(3)%	(12)%	(1)%	(13)%	(7)%	(5)%	(10)%
Order Value	23%	66%	(36)%	21%	43%	3%	26%	19%	28%	(11)%	11%

# 78% Earnings Growth in 2Q20

(\$Millions except EPS)	2Q20	2Q19	%Chg	YTD2020	YTD2019	%Chg
Home closings	2,770	2,253	+23%	5,086	4,018	27%
ASP (closings)	\$372K	\$383K	(3)%	\$378K	\$389K	(3)%
Home closing revenue	\$1,032	\$863	+20%	\$1,922	\$1,562	23%
Home closing gross profit	\$221	\$159	+39%	\$399	\$276	45%
Home closing gross margin	21.4%	18.4%	+300 bps	20.8%	17.6%	320 bps
Financial services profit	\$4	\$6	(37)%	\$7	\$11	(38)%
SG&A expenses	\$107	\$95	+12%	\$202	\$181	11%
-- % of home closing revenue	10.3%	11.0%	(70) bps	10.5%	11.6%	(110) Bps
Earnings before taxes	\$116	\$68	+71%	\$203	\$100	103%
Tax rate <sup>(1)</sup>	22%	25%	300 bps	20%	24%	(200) Bps
Net earnings	\$91	\$51	+78%	\$162	\$76	112%
Diluted EPS	\$2.38	\$1.31	+82%	\$4.20	\$1.97	113%

## 2Q20 NOTES:

- 74% of closings from specs
- 78% backlog conversion
- 20-40 bps of GM% from temporary cost concessions
- \$3.3M (30 bps) walk-away charges 2Q20 vs \$0.5M 2Q19
- <sup>(1)</sup> 2Q20 tax rate of 22% reflects energy tax credits for qualifying energy-efficient homes

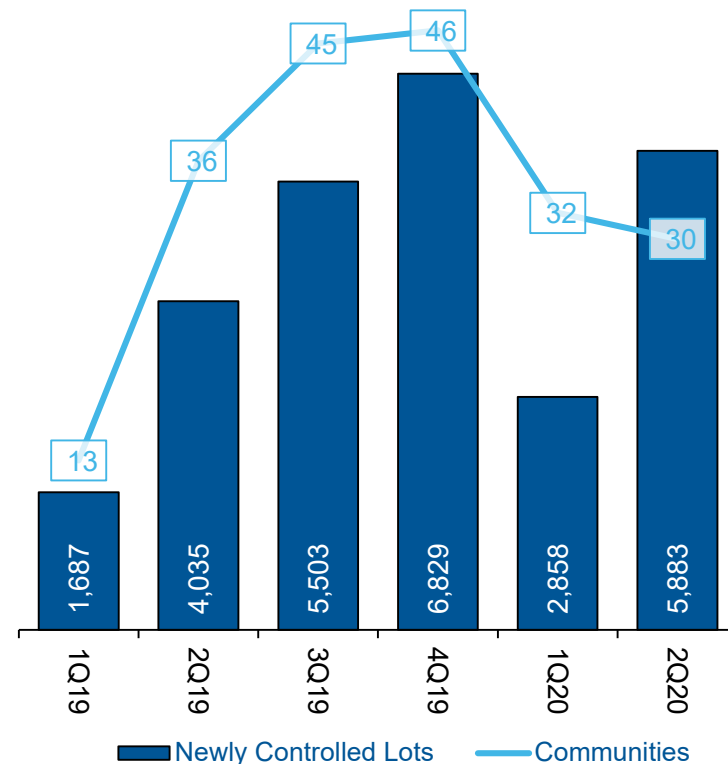
# Strongest Balance Sheet in Meritage History

Net Debt-to-Capital Reconciliation (\$Millions)		
(non-GAAP reconciliation)	June 30, 2020	Dec 31, 2019
Notes payable and other borrowings <sup>(1)</sup>	\$1,017	\$1,019
Less: cash and cash equivalents <sup>(1)</sup>	(485)	(319)
Net debt	\$ 533	\$ 700
Stockholders' equity	2,085	1,974
Total net capital	\$ 2,618	\$ 2,674
Net debt-to-capital	20.4%	26.2%
Total capital	\$3,102	\$2,993
Debt-to-capital	32.8%	34.0%
Book value/share	\$55.44	\$51.68

- Strong balance sheet provides flexibility for growth as well as security
- Lowest net debt/cap in Company history
- <sup>(1)</sup> Paid off entire \$500M of \$780M Revolving Credit Facility May 26, originally borrowed in March 2020 to provide financial flexibility and liquidity during uncertainty due to Covid-19 economic impacts.

# Accelerated Land & Development investment

Real Assets	2Q20	2Q19
Land & development spending	\$214M	\$175M
As of period ended Jun-30:		
Total lots controlled	42,851	34,654
Years supply of lots	4.2	4.0
- Owned	60%	66%
- Optioned	40%	34%



# Guidance

## FULL YEAR 2020

- 10,850-11,350 home closings
- \$4.0-4.3 billion home closing revenue
- Home closing gross margin ~21%
- Effective tax rate ~22%
- Diluted EPS \$8.75-9.25

## 3Q 2020

- 2,700-2,950 home closings
- \$1.0-1.1 billion home closing revenue
- Home closing gross margin ~21%
- Diluted EPS \$ 2.15-2.35



# 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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