Hovnanian Enterprises, Inc.

Review of Financial Results | First Quarter Fiscal 2019

Hovnanian Enterprises, Inc.

Note: All statements in this presentation that are not historical facts should be considered as "Forward-Looking Statements" within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such forward-looking statements include but are not limited to statements related to the Company's goals and expectations with respect to its financial results for future financial periods. Although we believe that our plans, intentions and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as a result of a variety of factors. Such risks, uncertainties and other factors include, but are not limited to, (1) changes in general and local economic, industry and business conditions and impacts of a significant homebuilding downturn; (2) adverse weather and other environmental conditions and natural disasters; (3) high leverage and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness; (4) availability and terms of financing to the Company; (5) the Company's sources of liquidity; (6) changes in credit ratings; (7) the seasonality of the Company's business; (8) the availability and cost of suitable land and improved lots and sufficient liquidity to invest in such land and lots; (9) shortages in, and price fluctuations of, raw materials and labor; (10) reliance on, and the performance of, subcontractors; (11) regional and local economic factors, including dependency on certain sectors of the economy, and employment levels affecting home prices and sales activity in the markets where the Company builds homes; (12) fluctuations in interest rates and the availability of mortgage financing; (13) increases in cancellations of agreements of sale; (14) changes in tax laws affecting the after-tax costs of owning a home; (15) operations through unconsolidated joint ventures with third parties; (16) government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment; (17) legal claims brought against us and not resolved in our favor, such as product liability litigation, warranty claims and claims made by mortgage investors; (18) levels of competition; (19) successful identification and integration of acquisitions; (20) significant influence of the Company's controlling stockholders; (21) availability of net operating loss carryforwards; (22) utility shortages and outages or rate fluctuations; (23) geopolitical risks, terrorist acts and other acts of war; (24) loss of key management personnel or failure to attract qualified personnel; (25) information technology failures and data security breaches; (26) negative publicity; and (27) certain risks, uncertainties and other factors described in detail in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2018 and subsequent filings with the Securities and Exchange Commission. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

NON-GAAP FINANCIAL MEASURES:

Consolidated earnings before interest expense and income taxes (“EBIT”) and before depreciation and amortization (“EBITDA”) and before inventory impairment loss and land option write-offs (“Adjusted EBITDA”) are not U.S. generally accepted accounting principles (GAAP) financial measures. The most directly comparable GAAP financial measure is net (loss). The reconciliation for historical periods of EBIT, EBITDA and Adjusted EBITDA to net (loss) is presented in a table attached to this earnings release.

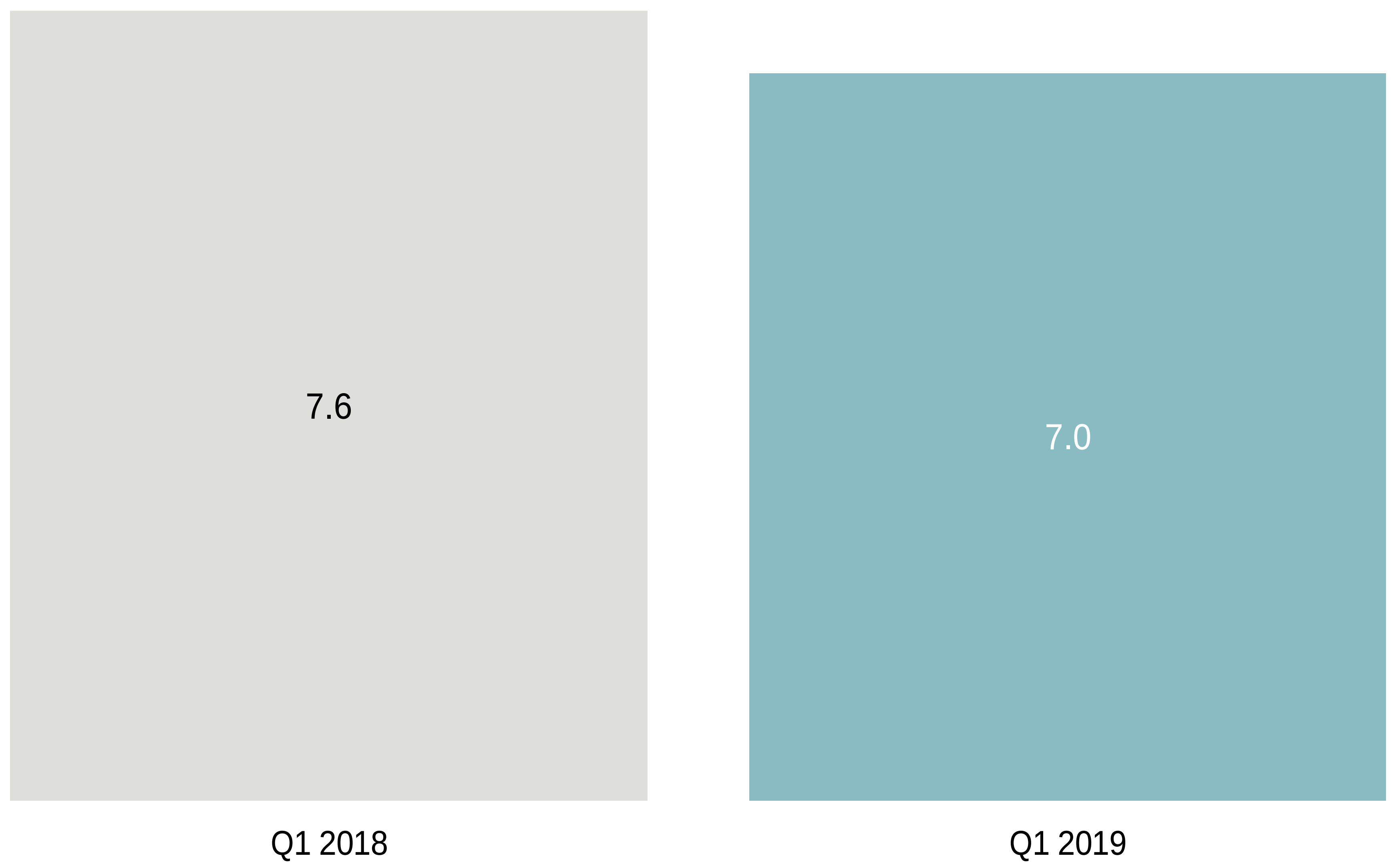
Homebuilding gross margin, before cost of sales interest expense and land charges, and homebuilding gross margin percentage, before cost of sales interest expense and land charges, are non-GAAP financial measures. The most directly comparable GAAP financial measures are homebuilding gross margin and homebuilding gross margin percentage, respectively. The reconciliation for historical periods of homebuilding gross margin, before cost of sales interest expense and land charges, and homebuilding gross margin percentage, before cost of sales interest expense and land charges, to homebuilding gross margin and homebuilding gross margin percentage, respectively, is presented in a table attached to this earnings release.

(Loss) before income taxes excluding land-related charges and joint venture write-downs is a non-GAAP financial measure. The most directly comparable GAAP financial measure is (loss) before income taxes. The reconciliation for historical periods of (loss) before income taxes excluding land-related charges and joint venture write-downs to (loss) before income taxes is presented in a table attached to this earnings release.

Adjusted Homebuilding EBIT to Inventory is defined as Adjusted Homebuilding EBIT for the last 12 months divided by the last five quarter average inventory, excluding inventory not owned and capitalized interest. Adjusted Homebuilding EBIT is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net (loss). The calculation of Adjusted Homebuilding EBIT to Inventory and the reconciliation for historical periods of Adjusted Homebuilding EBIT to net (loss) is presented in a table attached to this presentation.

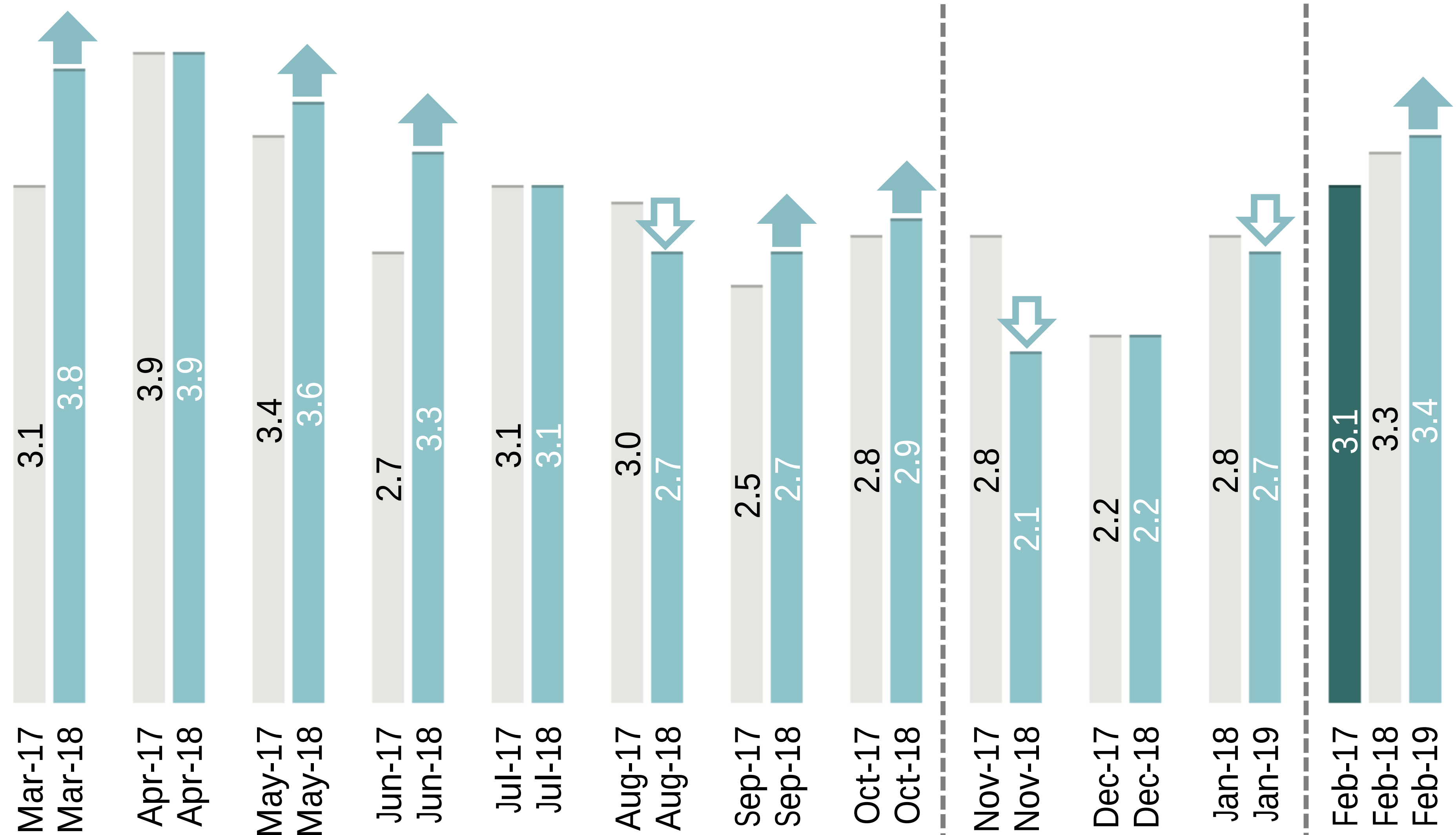
Total liquidity is comprised of $113.3 million of cash and cash equivalents, $12.7 million of restricted cash required to collateralize letters of credit and $89.0 million of availability under the senior secured revolving credit facility as of January 31, 2019.

Quarterly Contracts Per Community



Note: Includes joint ventures.

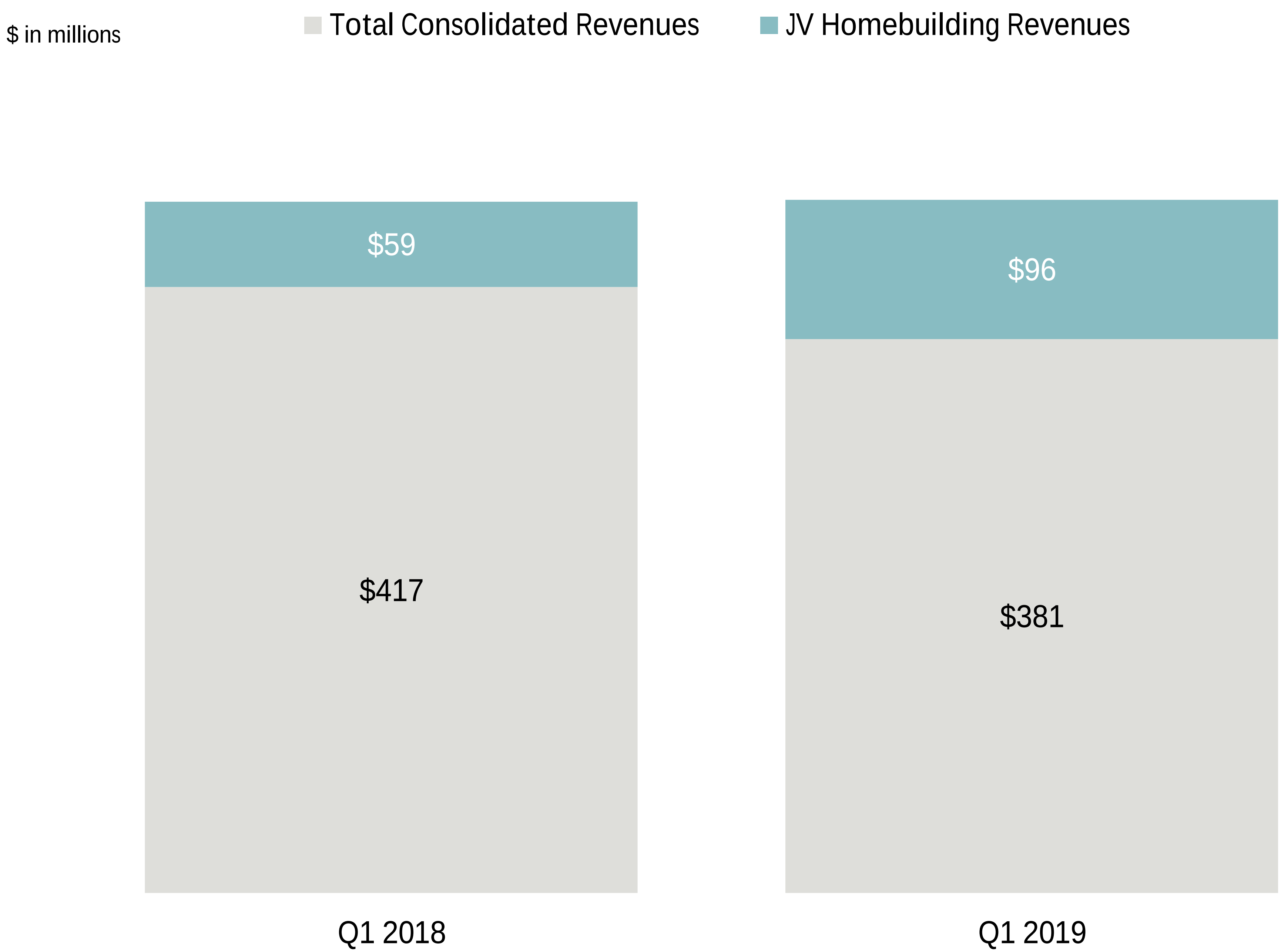
Number of Monthly Contracts Per Community, Includes Joint Ventures



Number of Sundays	4	4	5	5	4	4	4	4	5	5	4	4	4	5	5	4	4	4	5	5	4	4	4	4	4
	Mar-17	Mar-18	Apr-17	Apr-18	May-17	May-18	Jun-17	Jun-18	Jul-17	Jul-17	Aug-17	Aug-18	Sep-17	Sep-18	Oct-17	Oct-18	Nov-17	Nov-18	Dec-17	Dec-18	Jan-18	Jan-19	Feb-17	Feb-18	Feb-19
Monthly contracts	531	586	655	592	567	523	444	482	522	446	492	379	408	386	444	414	443	317	348	331	459	420	562	528	533

Note: Includes joint ventures.

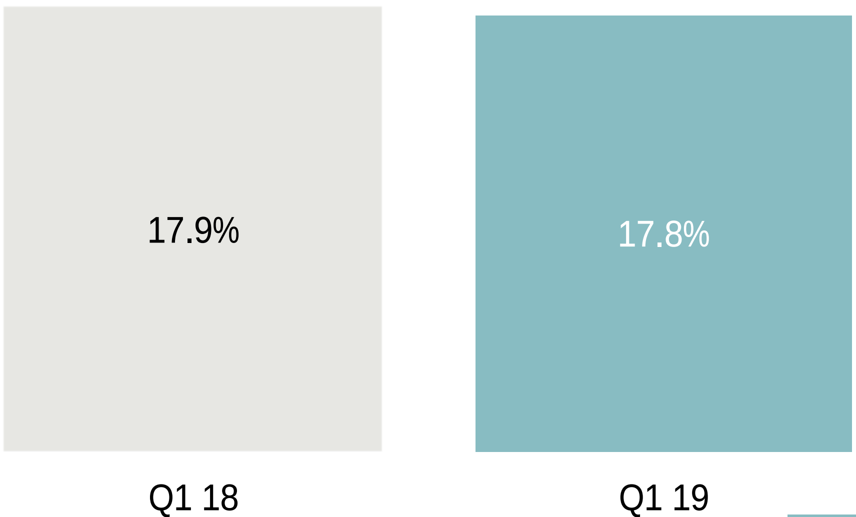
Revenues


$ in millions
Total Consolidated Revenues
JV Homebuilding Revenues
$59
$96
$417
$381
Q1 2018
Q1 2019

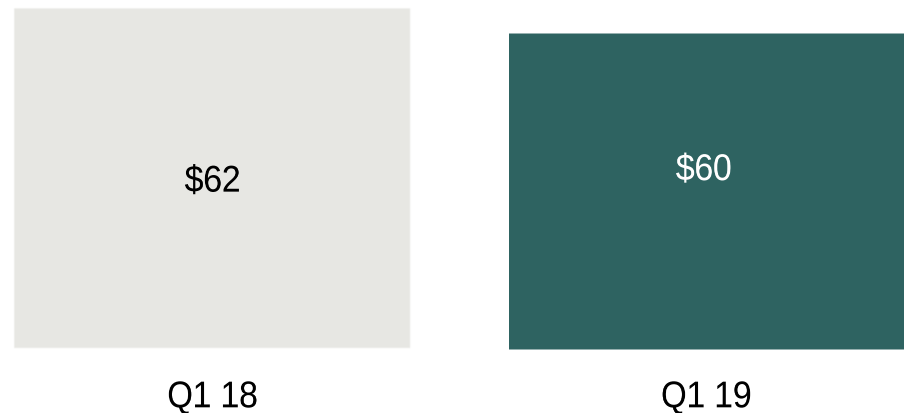
First Quarter Operating Results

($ in millions)

Adjusted Homebuilding Gross Margin[1]

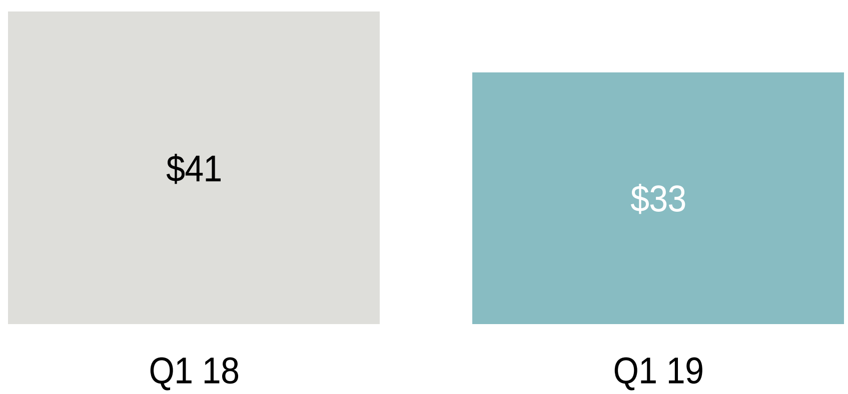


Total SG&A[2]



	Q1 18	Q1 19
Total SG&A as a % of Total Revenue	14.9%	15.9%

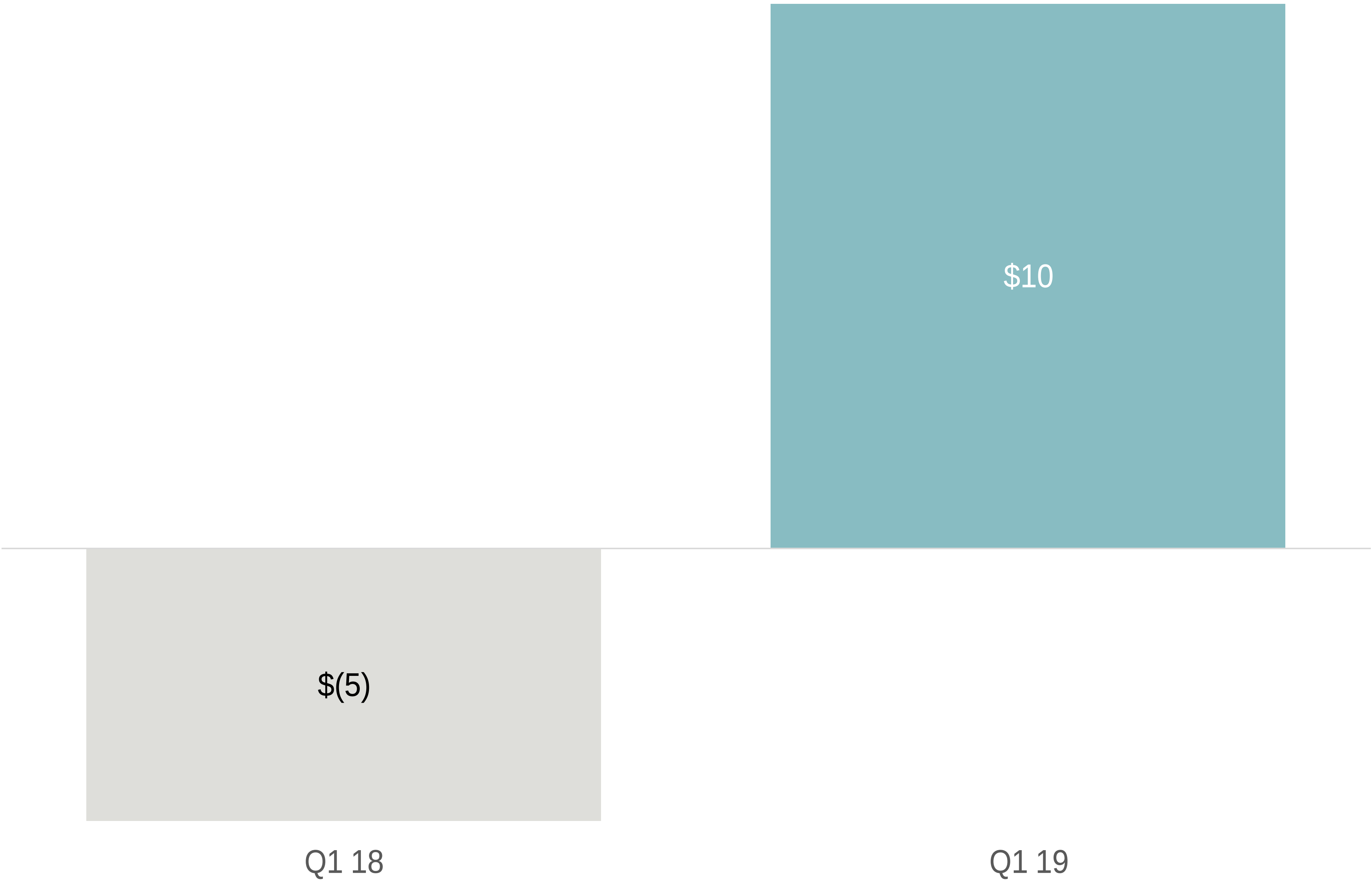
Total Interest Expense



(1) Adjusted homebuilding gross margin percentage is before cost of sales interest expense and land charges. See appendix for a reconciliation to the most directly comparable GAAP measure.
(2) Total SG&A includes homebuilding selling, general and administrative costs and corporate general and administrative costs.

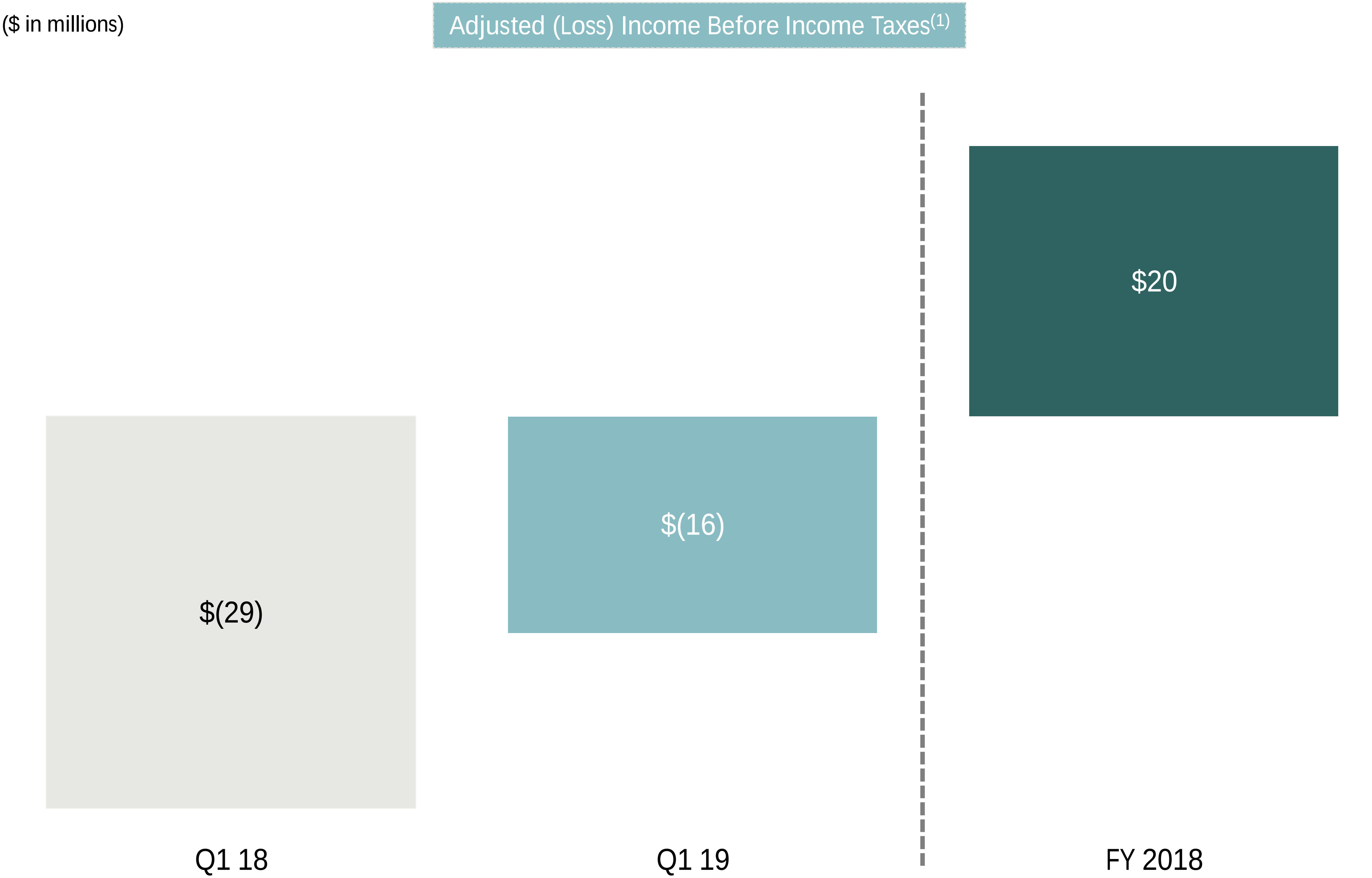
Income from Joint Ventures

($ in millions)



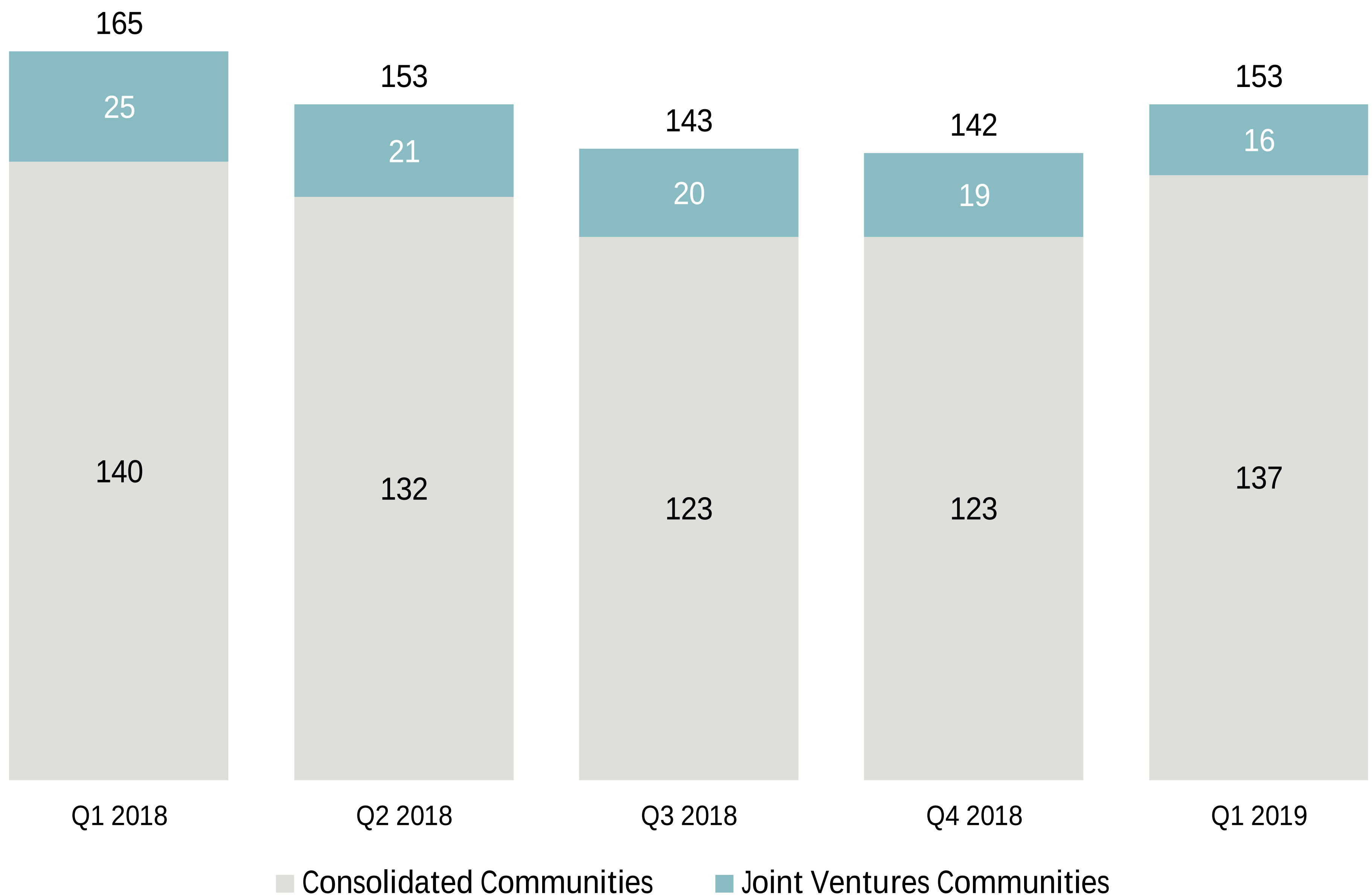
Improved Pre-Tax Results

($ in millions)



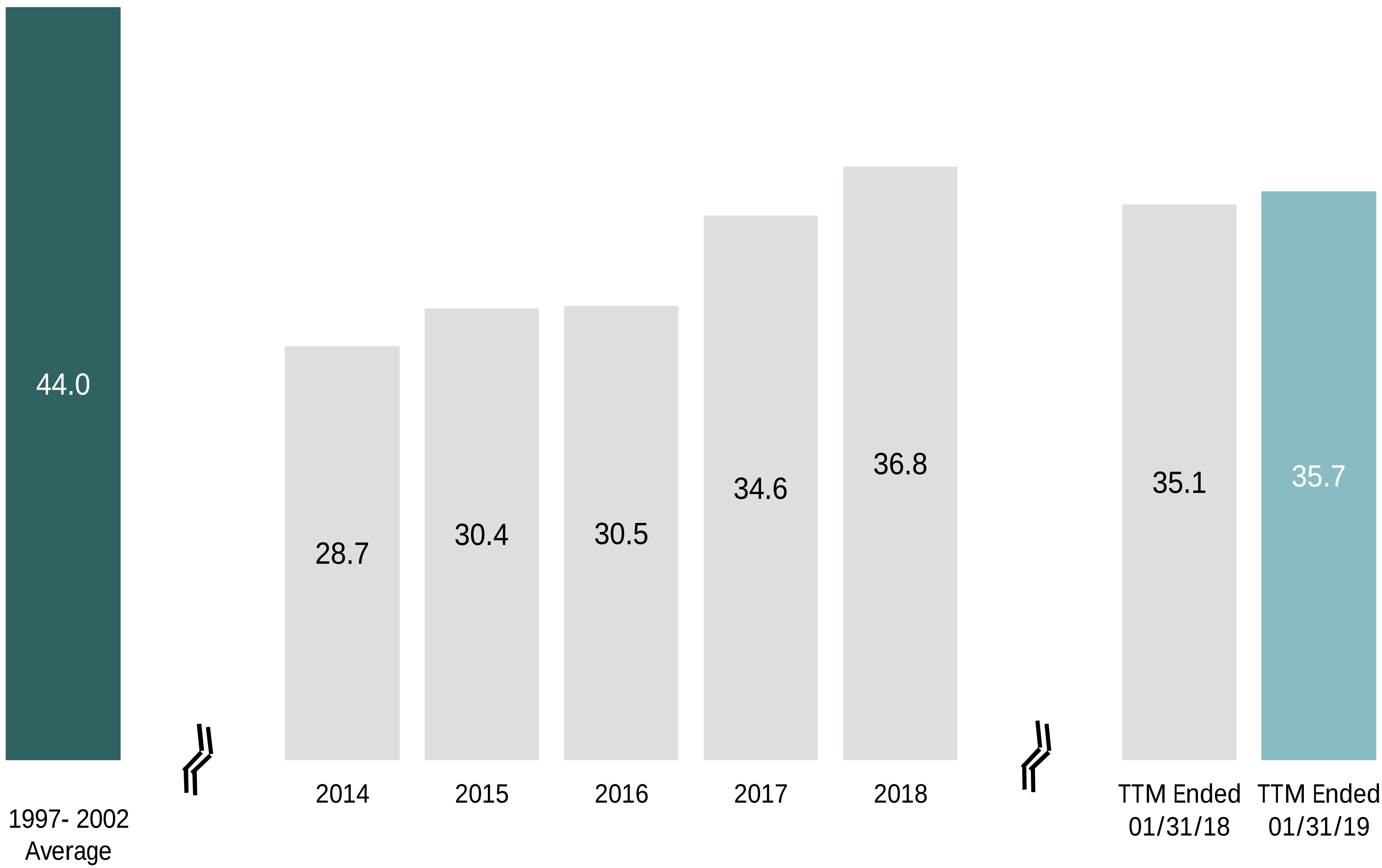
(1) Adjusted (Loss) Income Before Income Taxes excludes land-related charges, joint venture write-downs and loss on extinguishment of debt. See appendix for a reconciliation to the most directly comparable GAAP measure.

Quarterly Community Count



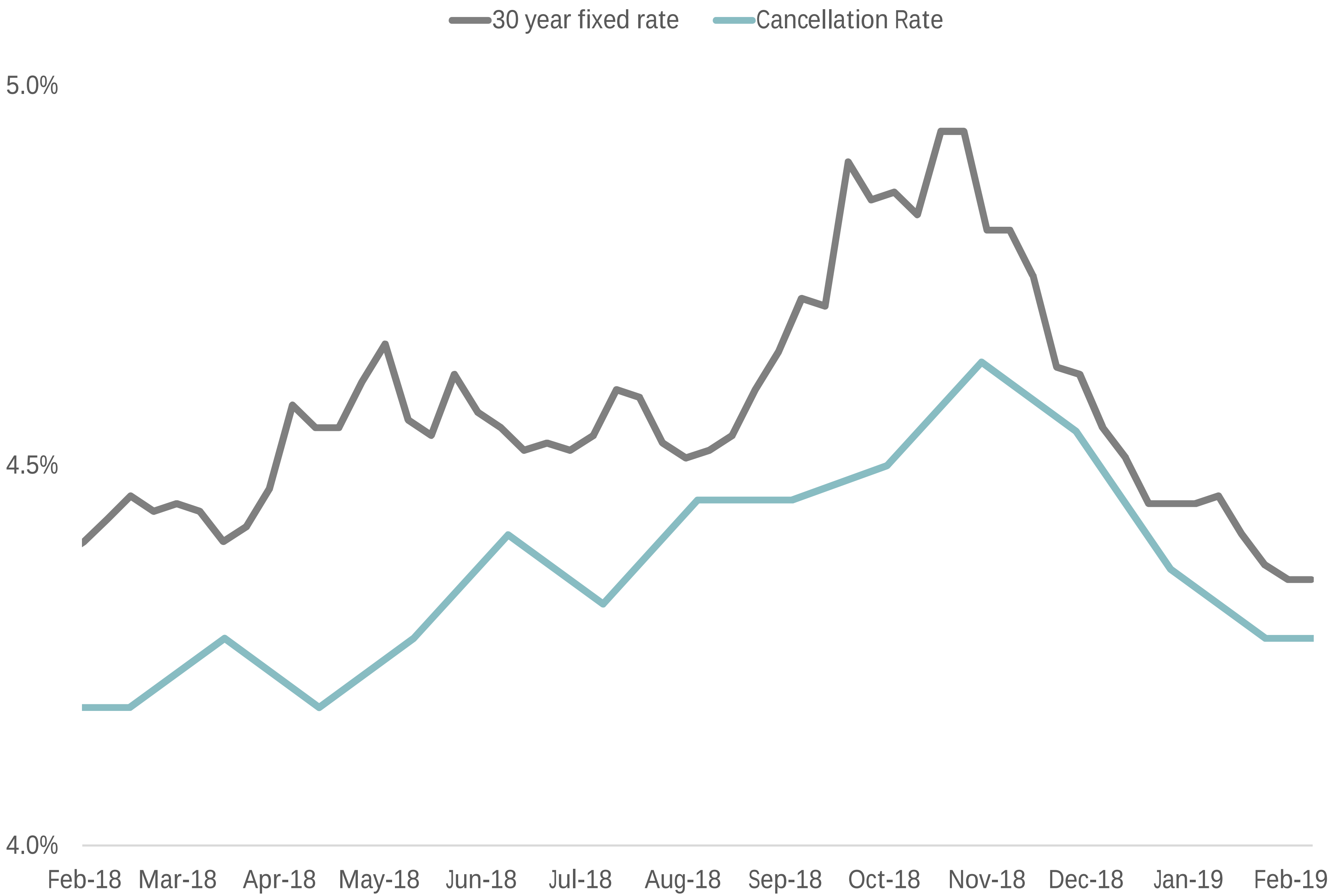
Note: Communities are open for sale communities with 10 or more home sites available.

Annual Contracts Per Community



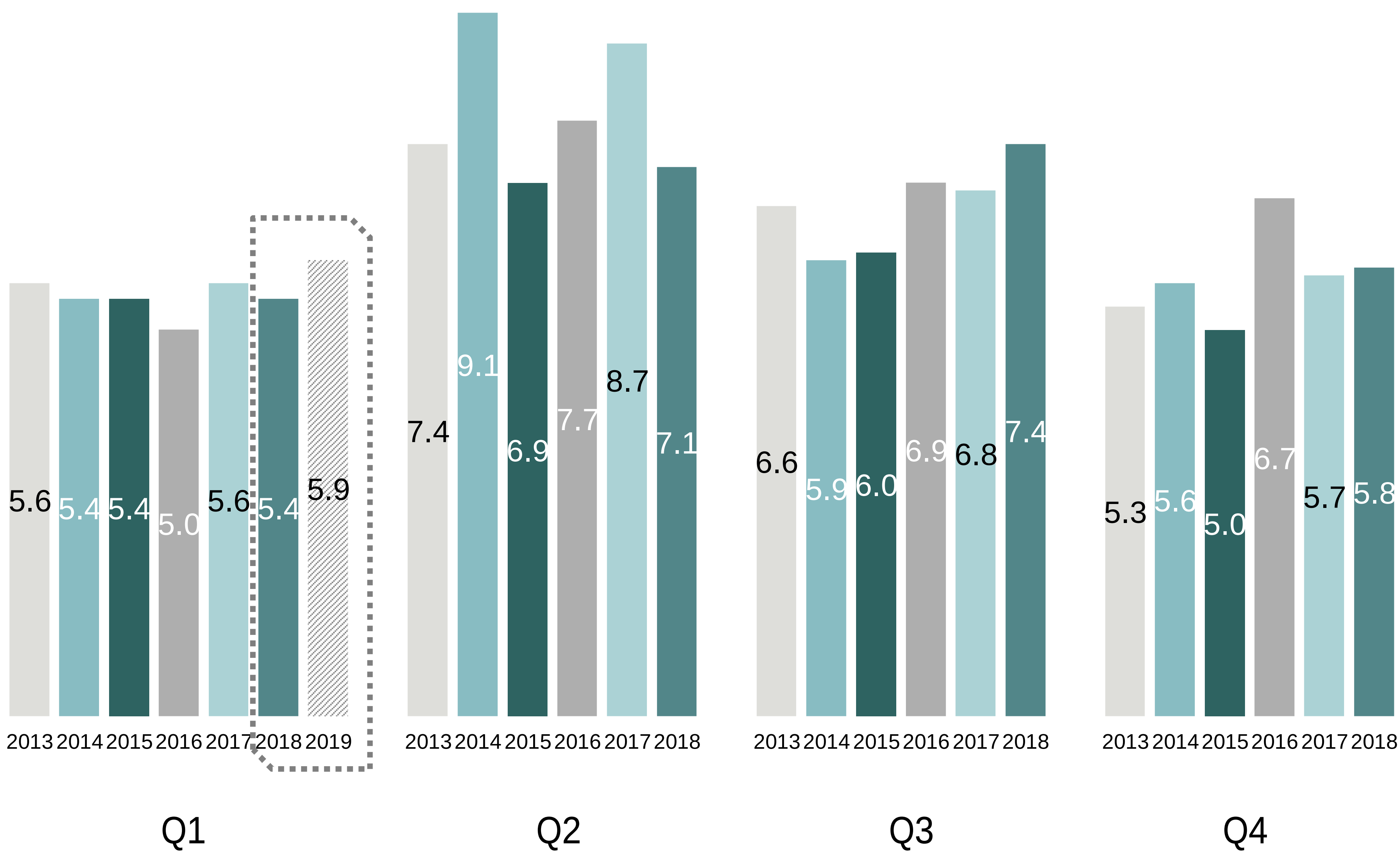
Note: Annual Contracts per Community calculated based on a five quarter average of communities, including joint ventures.

Interest and Cancellation Rates



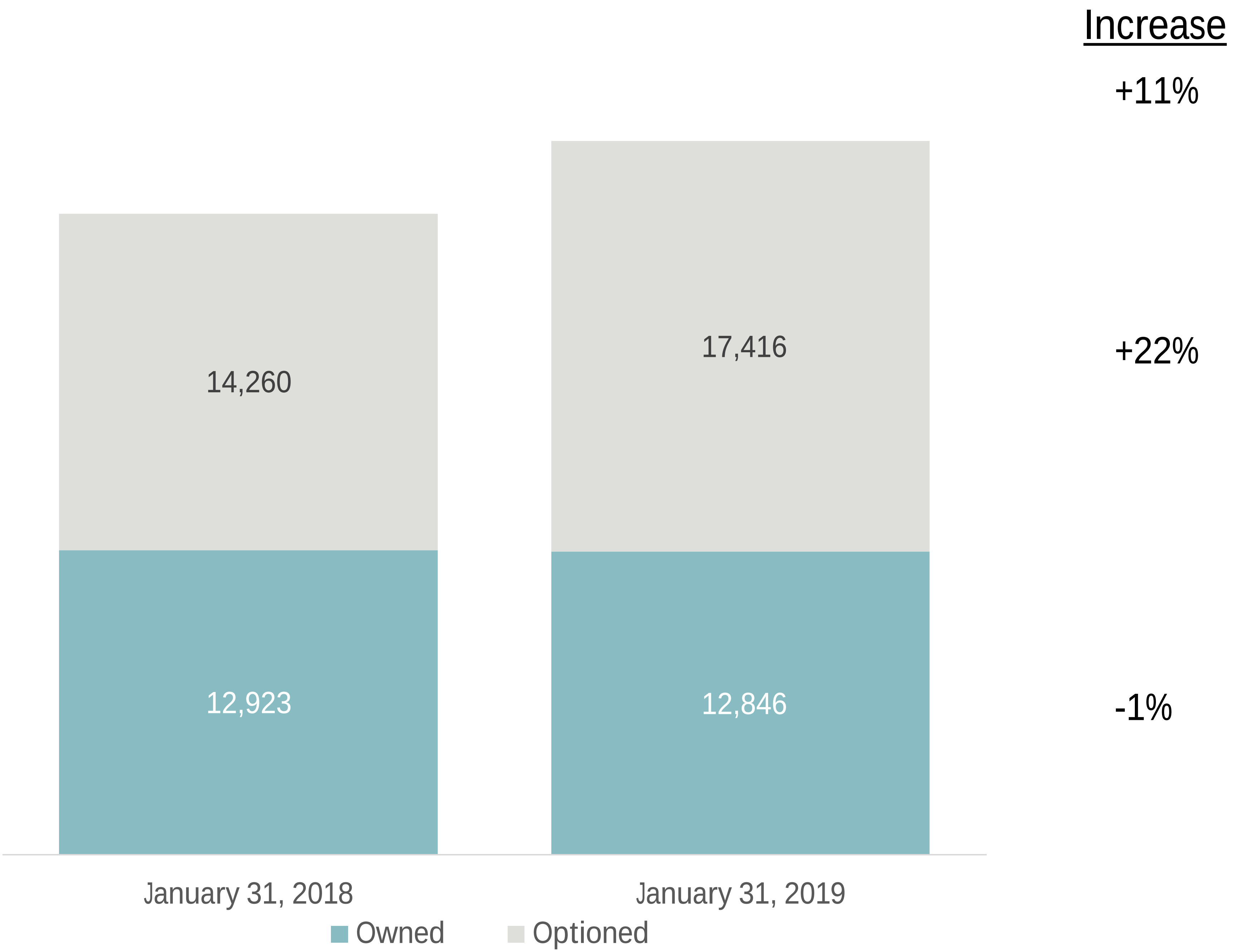
Source: Freddie Mac for 30 year fixed mortgage rates.
Note: Cancellation rate includes unconsolidated joint ventures.

Houston Quarterly Contracts per Community



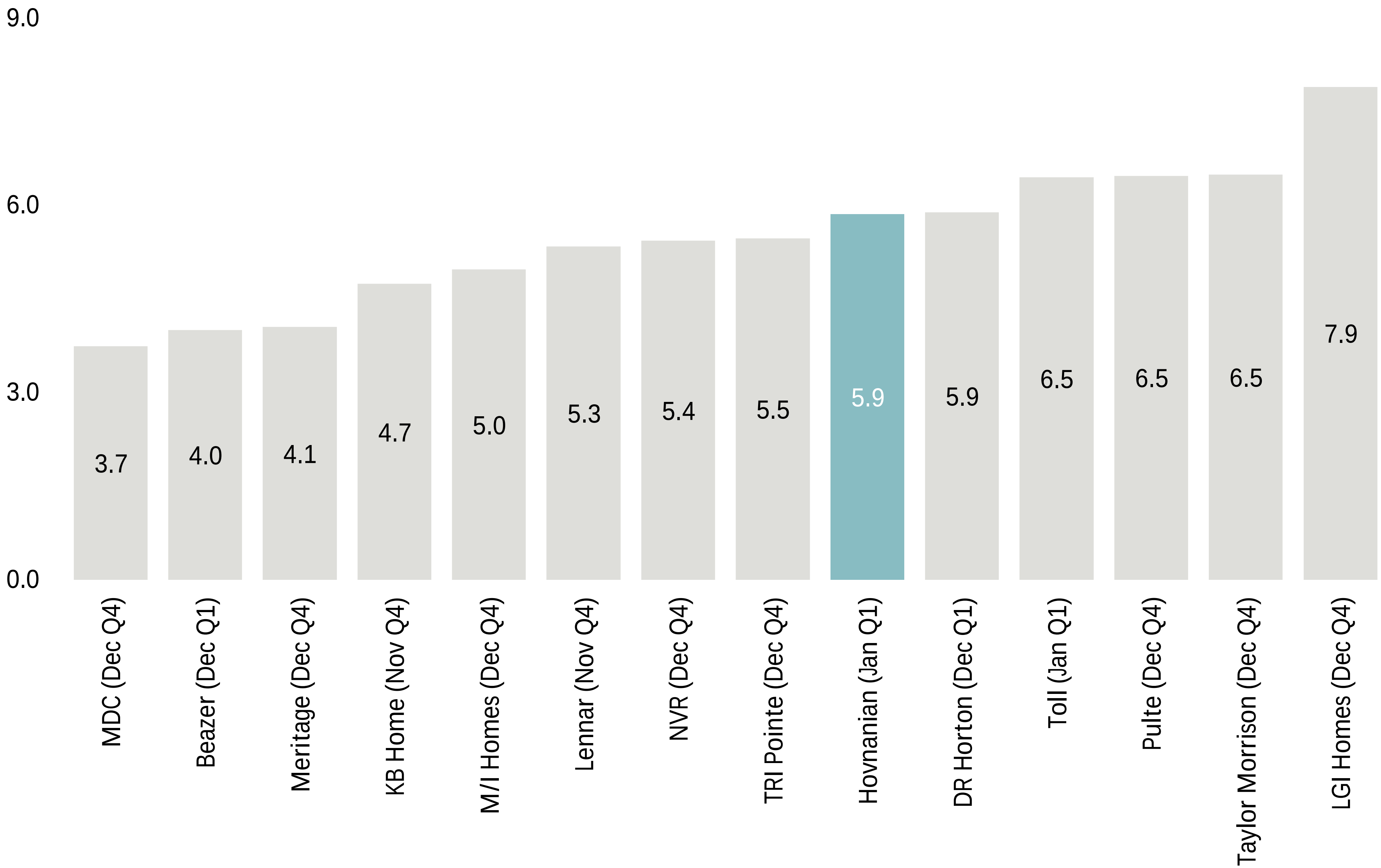
Hovnanian Enterprises, Inc.

Total Lots Controlled



Note: Excludes unconsolidated joint ventures.

Total Lots Controlled Years Supply*

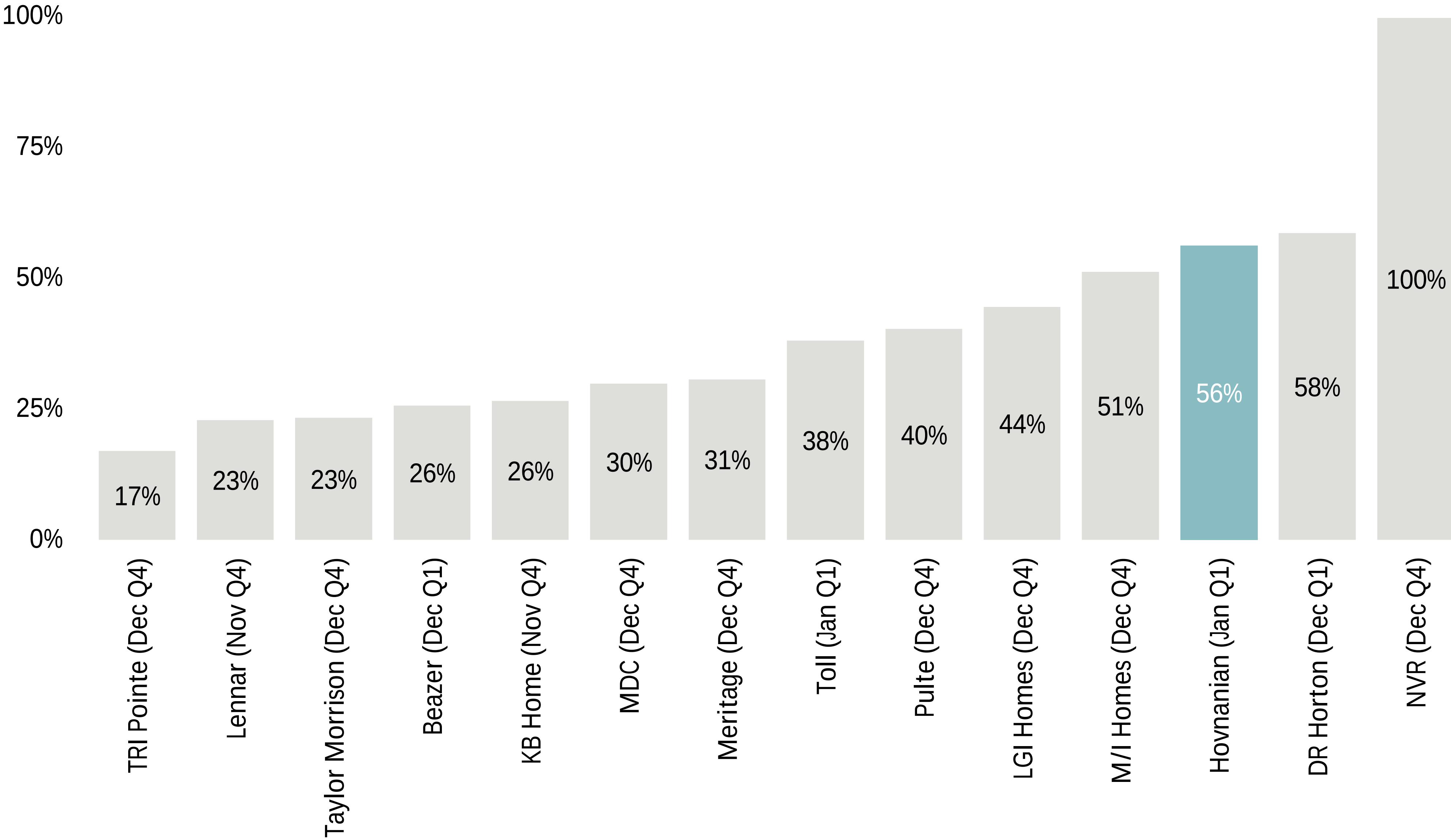


**Years supply based on LTM deliveries*

Source: Company SEC filings and press releases as of 03/07/19.

Note: Excludes unconsolidated joint ventures, except for Hovnanian.

% of Lots Optioned

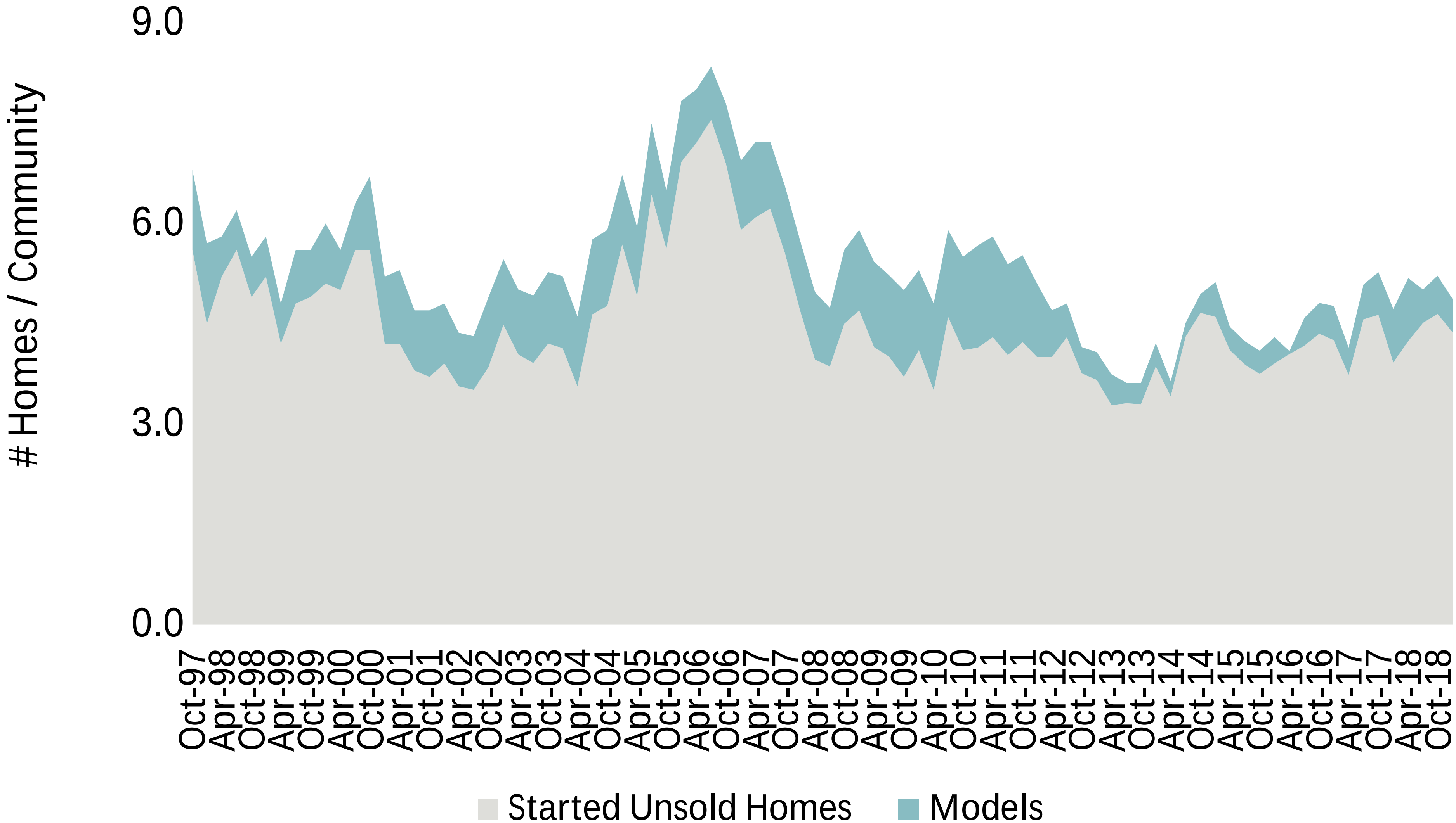


**Years supply based on LTM deliveries*
Source: Company SEC filings and press releases as of 03/07/19.
Note: Excludes unconsolidated joint ventures, except for Hovnanian.

Hovnanian Enterprises, Inc.

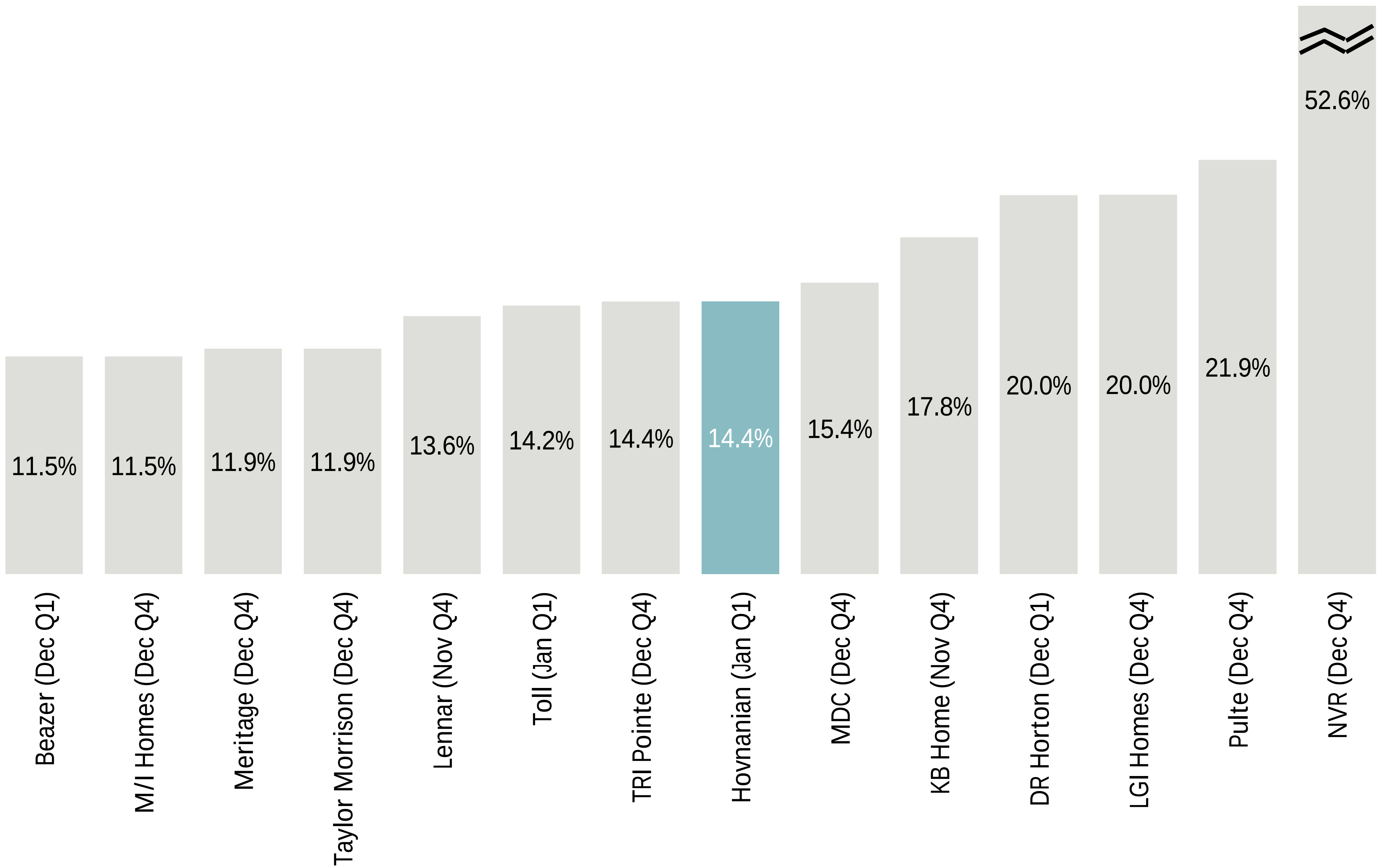
Unsold Homes per Community

- *598 started unsold homes at 1/31/19, excluding models*
- *4.6 average started unsold homes per community since 1997*
- *As of January 31, 2019, 4.4 started unsold homes per community*



Note: Excluding joint ventures.

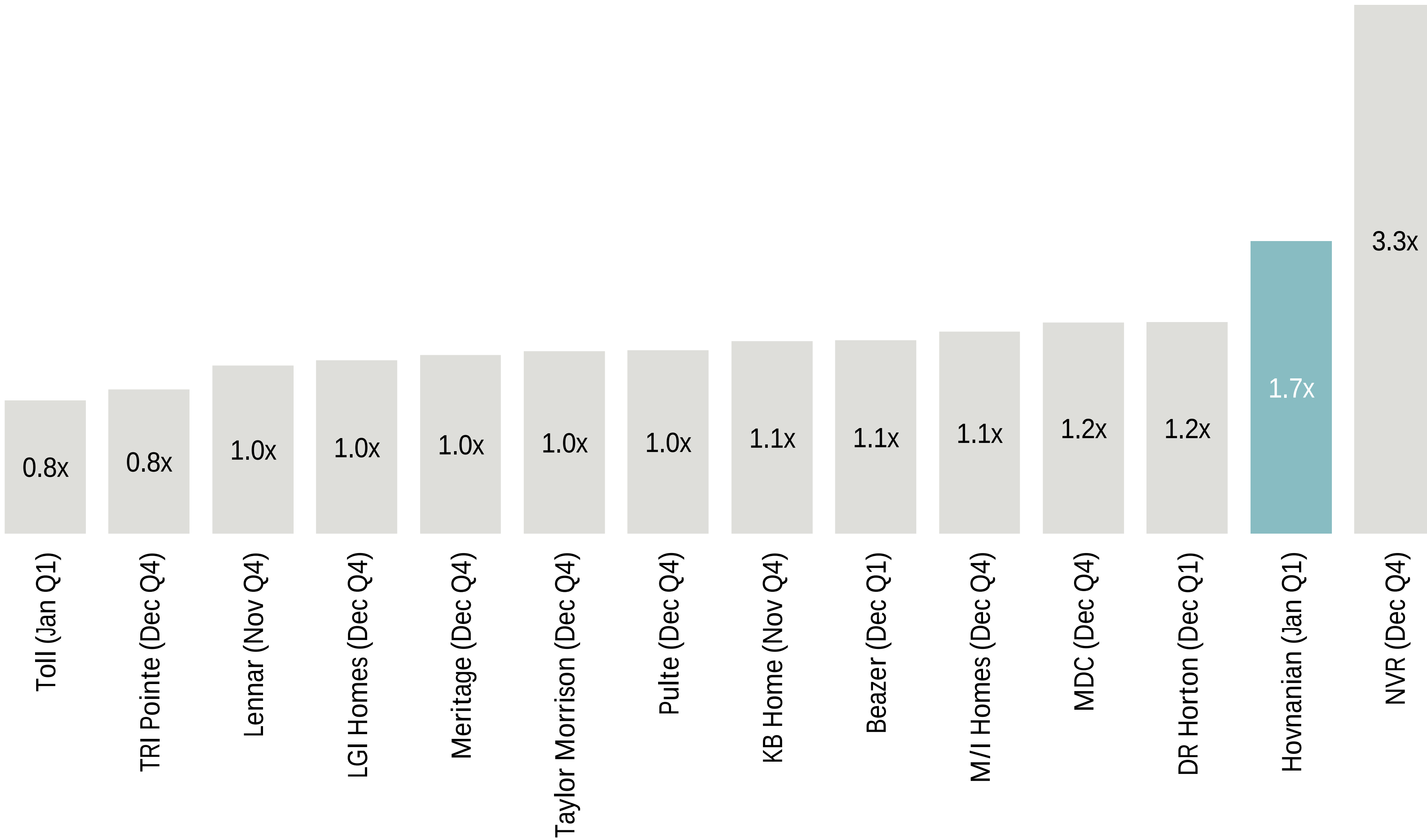
Adjusted Homebuilding EBIT to Inventory, Last Twelve Months



Note: Defined as LTM Homebuilding EBIT before land-related charges divided by five quarter average inventory, excluding capitalized interest and inventory not owned.
Source: Company SEC filings and press releases as of 03/07/19. See appendix for a reconciliation to the most directly comparable GAAP measure.

Hovnanian Enterprises, Inc.

Inventory Turns (COGS), Last Twelve Months



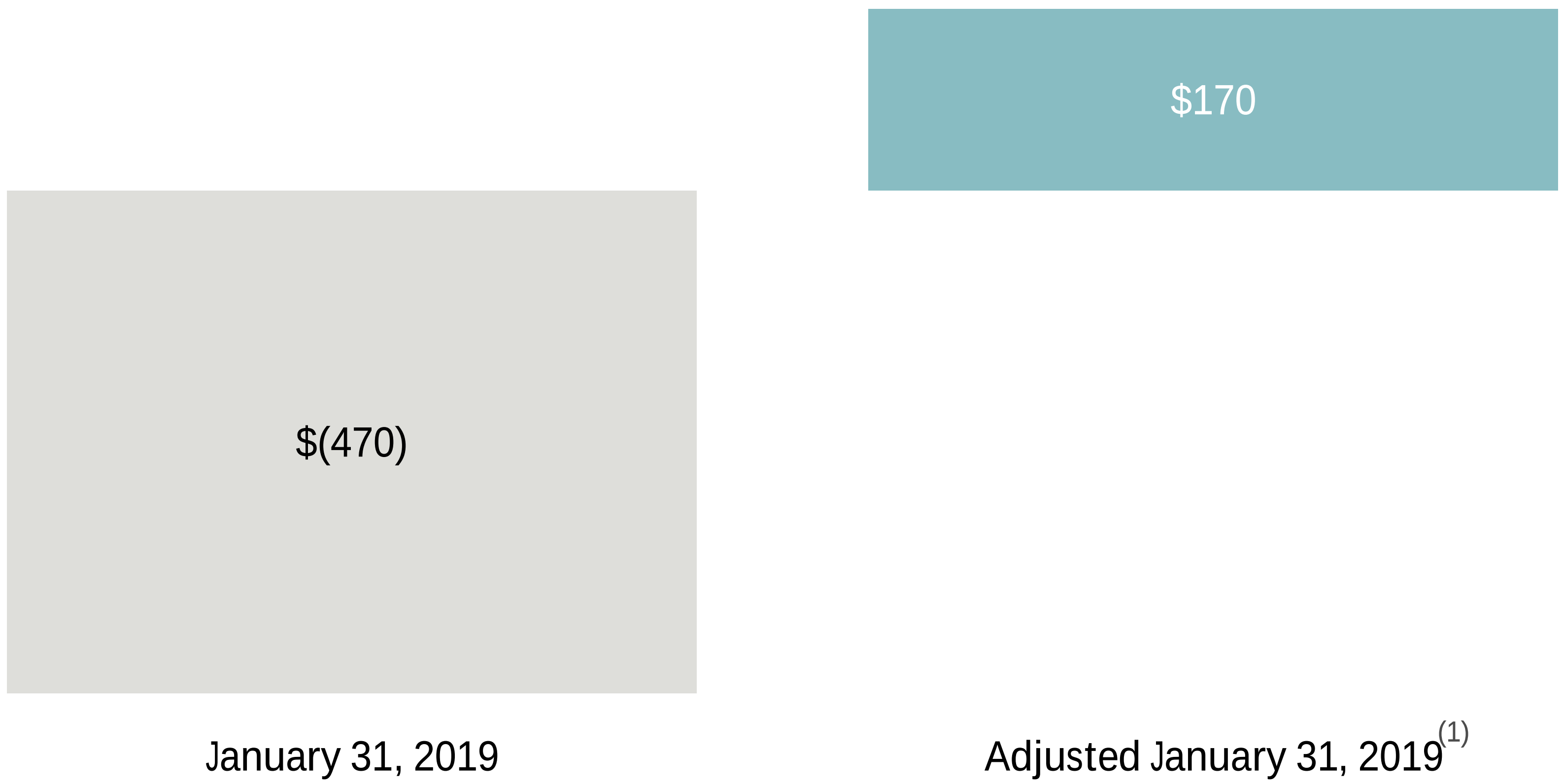
Note: Inventory turns derived by dividing cost of sales, excluding capitalized interest, by the five quarter average homebuilding inventory, excluding inventory not owned and capitalized interest. See appendix for a reconciliation to the most directly comparable GAAP measure.

Source: Company SEC filings and press releases as of 03/07/19.

Adjusted Hovnanian Stockholders' Equity

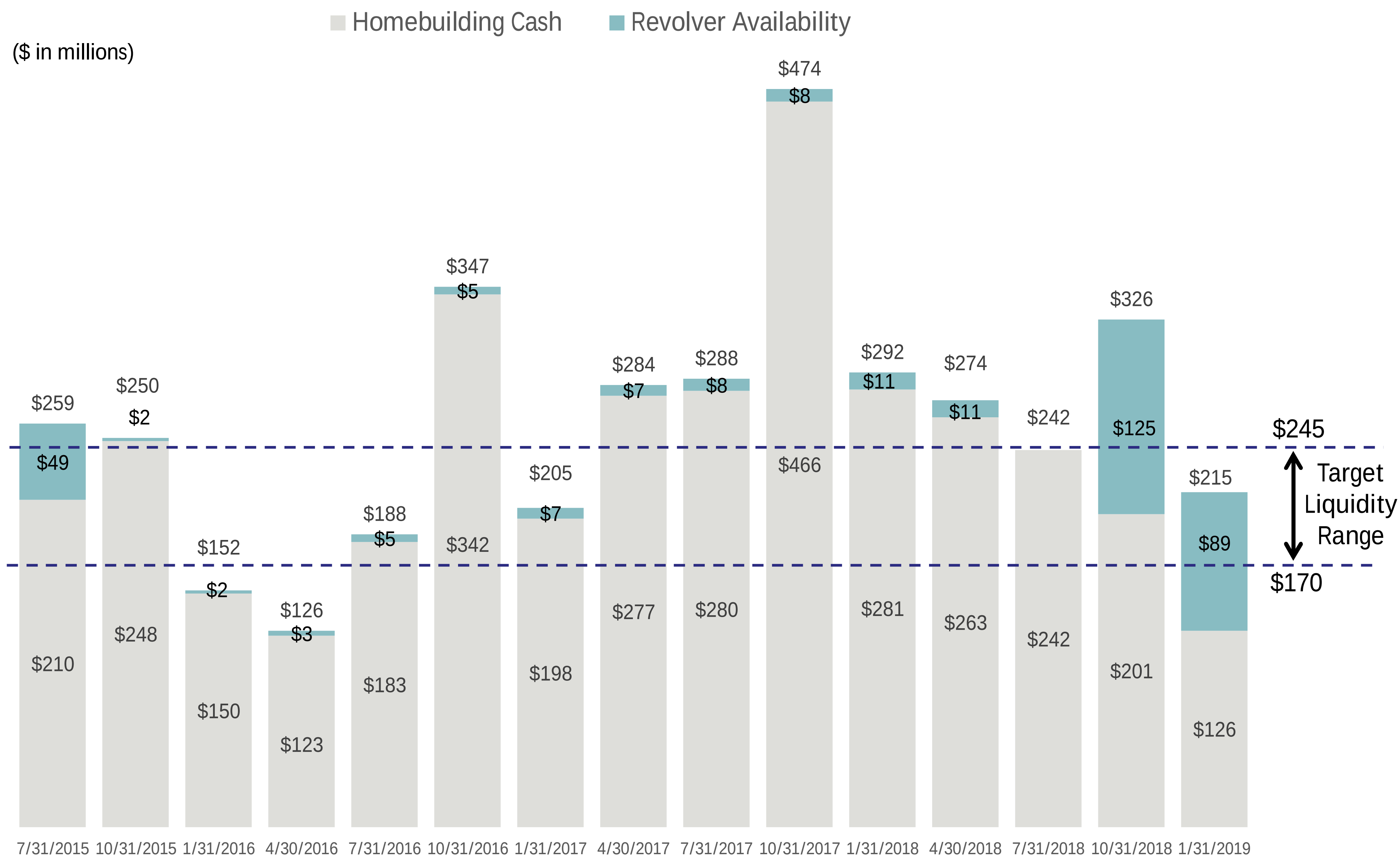
- *Deferred tax asset will shield approximately $2.0 billion of future pretax earnings from federal income taxes which will help accelerate repairing our balance sheet*

($ in millions)



(1) Total Hovnanian Stockholders' Deficit of $(470) million with $640 million valuation allowance added back to Stockholders' Equity. The $640 million valuation allowance consisted of a $431 million federal valuation allowance and a $209 million state valuation allowance.

Liquidity Position and Target

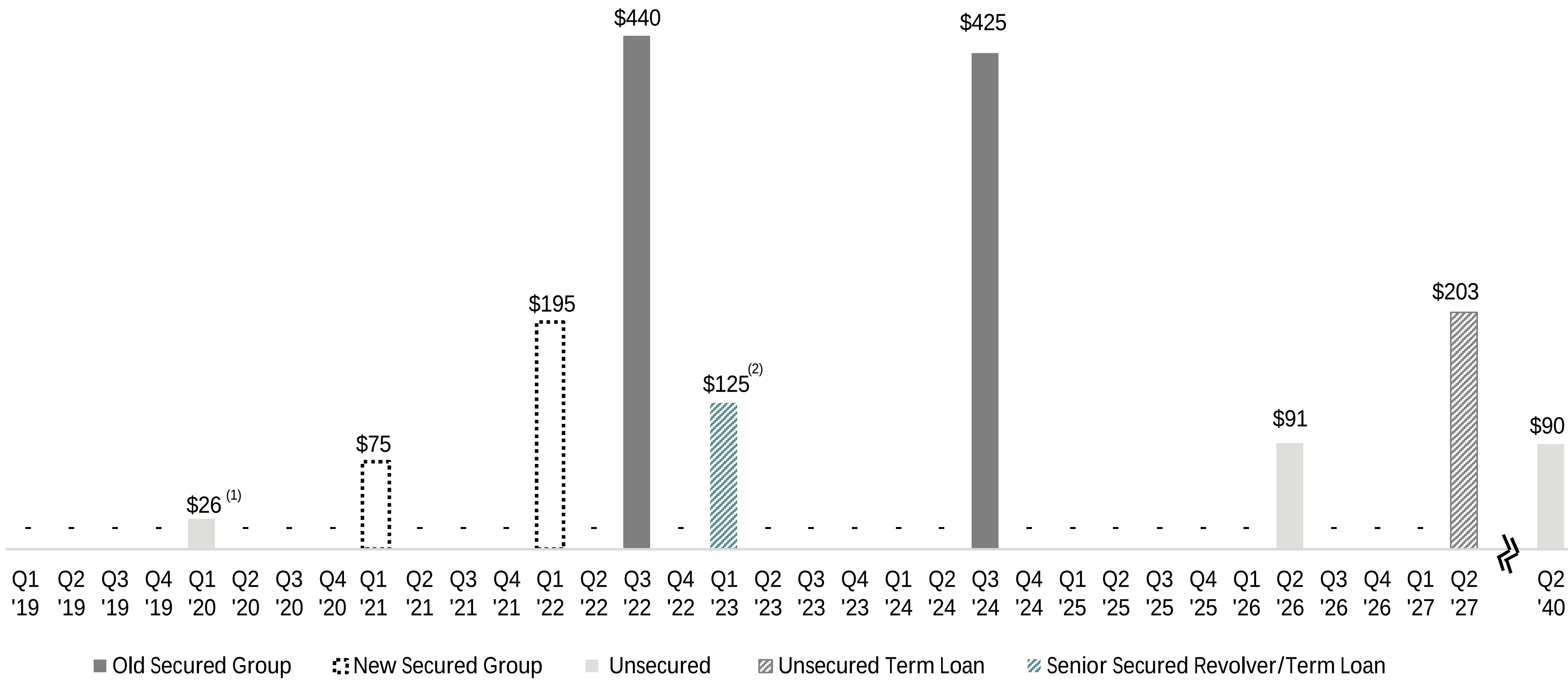


Note: Liquidity position includes homebuilding cash and cash equivalents (which includes unrestricted cash and restricted cash to collateralize a performance bond and letters of credit) and revolving credit facility availability.

Maturity Profile

January 31, 2019

($ in millions)



Note: Shown on a fiscal year basis, at face value.
Note: Excludes non-recourse mortgages.
(1) $26 million of 8.0% senior notes held by wholly owned subsidiary, no cash required to retire.
(2) $36 million balance as of January 31, 2019. Becomes a term loan in December 2019 with final maturity in December 2022.

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Appendix

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Coverage for Senior Secured Revolver, 10.0% Secured Notes Due 2022 and 10.5% Secured Notes Due 2024[3]

($ in Thousands)

	October 31, 2018	January 31, 2019
Cash and cash equivalents	$125,600	$52,100
Mortgaged inventory	$437,900	$424,000
Non-mortgaged inventory[1]	$58,100	$84,200
Total collateral	$621,600	$560,300
Plus inventory with non-recourse loans[2]	$110,900	$117,200
Total adjusted collateral	$732,500	$677,500
Total principal amount of secured debt	$840,000	$901,000
Adjusted collateral Ratio	0.87x	0.75x

GENERAL: VALUES PRESENTED ON THIS SLIDE ARE APPROXIMATE. PRESENTATION DOES NOT REFLECT OTHER UNSECURED OBLIGATIONS, SUCH AS TRADE PAYABLES AND INTERCOMPANY LOANS AT SUBSIDIARY GUARANTORS. WE MAKE NO ASSURANCE AS TO ANY RECOVERY VALUE, INCLUDING AS A RESULT OF CREDITOR PRIORITIES OR OTHERWISE.

(1) Represents the book value of inventory owned by subsidiary guarantors which will be subject to mortgages in accordance with the terms of the applicable debt and security documents but such mortgages have not yet been filed. Upon the filing and recording of mortgages, such inventory will be collateral. Until such time as the inventory is collateral, all secured and unsecured creditors would have claims against this inventory value.

(2) Represents the book value of inventory owned by subsidiary guarantors securing non-recourse loans less the outstanding payable amount of the non-recourse loans. Inventory securing non-recourse loans is excluded from collateral until the applicable non-recourse loan is paid in full. Net cash proceeds from deliveries of inventory securing non-recourse loans is collateral under the terms of the applicable security agreements and subject to perfection through control agreements.

(3) Senior secured revolver, with $125 million capacity, had a $36 million balance as of January 31, 2019, becomes a term loan in December 2019 with full maturity in December 2022. $25 million aggregate principal amount of additional 10.5% secured notes due 2024 ("Additional 10.5% Notes") were issued on January 15, 2019. Mortgages over inventory in respect of the Senior secured revolver and the additional 10.5% notes will be filed in accordance with the perfection timing requirements of the governing debt and security documents for such debt instruments.

Hovnanian Enterprises, Inc.

Coverage for 9.5% 1st Lien Notes Due 2020 and 2% and 5% 1st Lien Notes Due 2021

($ in Thousands)	October 31, 2018	January 31, 2019
Cash and cash equivalents	$75,000	$73,900
Mortgaged inventory	$139,200	$141,100
Non-mortgaged inventory(1)	$14,200	$8,400
Total collateral	$228,400	$223,400
Plus inventory with non-recourse loans(2)	$33,500	$44,600
Total adjusted collateral	$261,900	$268,000
Total principal amount of secured debt	$270,000	$270,000
Adjusted collateral ratio	0.97x	0.99x
Total adjusted collateral	$261,900	$268,000
Plus equity interests in joint ventures(3)	$114,800	$119,300
Total adjusted JV collateral	$376,700	$387,300
Total principal amount of secured debt	$270,000	$270,000
Adjusted JV collateral ratio	1.40x	1.43x

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(1) Represents the book value of inventory owned by subsidiary guarantors which will be subject to mortgages in accordance with the terms of the applicable debt and security documents but such mortgages have not yet been filed. Upon the filing and recording of mortgages, such inventory will be collateral. Until such time as the inventory is collateral, all secured and unsecured creditors would have claims against this inventory value.

(2) Represents the book value of inventory owned by subsidiary guarantors securing non-recourse loans less the outstanding payable amount of the non-recourse loans. Inventory securing non-recourse loans is excluded from collateral until the applicable non-recourse loan is paid in full. Net cash proceeds from deliveries of inventory securing non-recourse loans is collateral under the terms of the applicable security agreements and subject to perfection through control agreements.

(3) Represents equity in joint ventures owned by guarantor subsidiaries, either directly or indirectly through ownership of joint venture holding companies; this equity is not pledged to secure, and is not collateral for, the Notes.

Assets Available to Creditors

($ in Thousands)	October 31, 2018	January 31, 2019
Total assets	$1,662,000	$1,623,700
less inventory not owned	$(87,900)	$(112,600)
less financial services assets	$(164,900)	$(94,400)
less non-recourse mortgages	$(95,600)	$(121,500)
Assets available to creditors	$1,313,600	$1,295,200
Principal amount: 9.5% 1st lien notes due 2020 and 2% and 5% 1st lien notes due 2021	$270,000	$270,000
Principal amount: senior secured revolver, 10.0% secured notes due 2022 and 10.5% secured notes due 2024	$840,000	$901,000
Principal amount: 13.5% senior unsecured notes due 2026, 5.0% senior unsecured notes due 2040 and senior unsecured term loan credit facility due 2027	$383,000	$383,000

GENERAL: VALUES PRESENTED ON THIS SLIDE ARE APPROXIMATE. PRESENTATION DOES NOT REFLECT OTHER UNSECURED OBLIGATIONS, SUCH AS TRADE PAYABLES AND INTERCOMPANY LOANS AT SUBSIDIARY GUARANTORS. WE MAKE NO ASSURANCE AS TO ANY RECOVERY VALUE, INCLUDING AS A RESULT OF CREDITOR PRIORITIES OR OTHERWISE.

Hovnanian Enterprises, Inc.

Land Positions by Geographic Segment

January 31, 2019

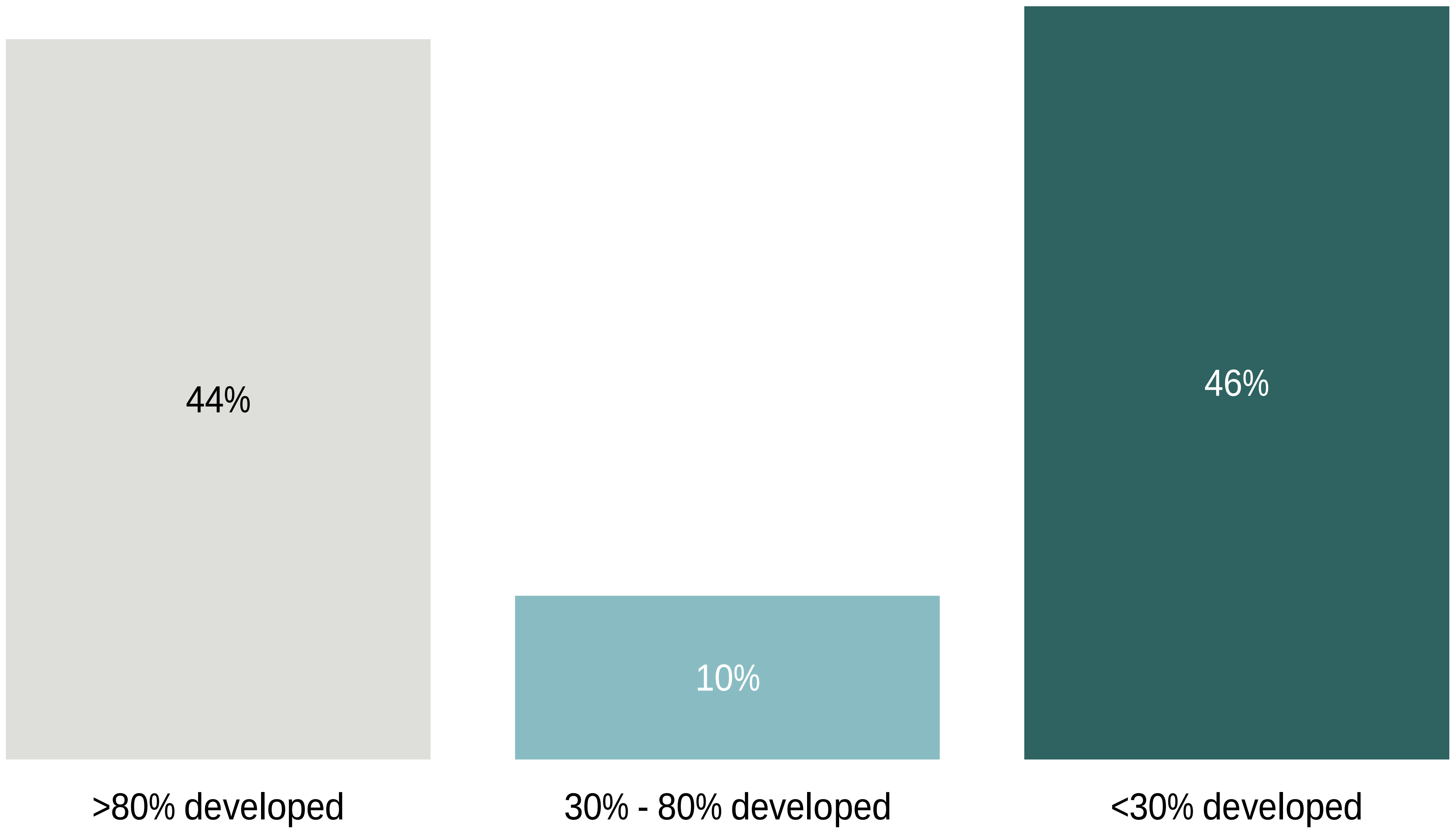
Segment	Owned: Excluding Mothballed Lots	Owned: Mothballed Lots	Optioned Lots	Total Lots
Northeast	608	6	3,392	4,006
Mid-Atlantic	2,022	280	3,199	5,501
Midwest	1,337	127	2,892	4,356
Southeast	1,714	-	2,342	4,056
Southwest	2,622	-	4,165	6,787
West	1,953	2,177	1,426	5,556
Consolidated Total	10,256	2,590	17,416	30,262
Joint Ventures	2,092	-	1,676	3,768
Grand Total	12,348	2,590	19,092	34,030

- *Option deposits as of January 31, 2019 were $73 million*
- *$20 million invested in pre-development expenses as of January 31, 2019*

Note: Option deposits and pre-development expenses refers to consolidated optioned lots.

Owned Lots % Development Costs Spent

As of January 31, 2019



Note: Excluding joint ventures.

Reconciliation of (Loss) Before Income Taxes Excluding Land-Related Charges and Joint Venture Write-Downs to (Loss) Before Income Taxes

Hovnanian Enterprises, Inc.
January 31, 2019
Reconciliation of (loss) before income taxes excluding land-related charges and joint venture write-downs to (loss) before income taxes
(In thousands)

	Three Months Ended January 31,	
	2019	2018
	(Unaudited)	
(Loss) before income taxes	$(17,106)	$(30,471)
Inventory impairment loss and land option write-offs	704	414
Unconsolidated joint venture investment write-downs	-	660
(Loss) before income taxes excluding land-related charges and joint venture write-downs (1)	$(16,402)	$(29,397)

(1) (Loss) before income taxes excluding land-related charges and joint venture write-downs a is a non-GAAP financial measure. The most directly comparable GAAP financial measure is (loss) before income taxes.

Hovnanian Enterprises, Inc.

Reconciliation of Gross Margin

Hovnanian Enterprises, Inc.
January 31, 2019
Gross margin
(In thousands)

	Homebuilding Gross Margin Three Months Ended January 31,	
	2019	2018
	(Unaudited)	
Sale of homes	$362,135	$401,577
Cost of sales, excluding interest expense and land charges (1)	297,570	329,527
Homebuilding gross margin, before cost of sales interest expense and land charges (2)	64,565	72,050
Cost of sales interest expense, excluding land sales interest expense	10,242	12,292
Homebuilding gross margin, after cost of sales interest expense, before land charges (2)	54,323	59,758
Land charges	704	414
Homebuilding gross margin	$53,619	$59,344
Gross margin percentage	14.8%	14.8%
Gross margin percentage, before cost of sales interest expense and land charges (2)	17.8%	17.9%
Gross margin percentage, after cost of sales interest expense, before land charges (2)	15.0%	14.9%

	Land Sales Gross Margin Three Months Ended January 31,	
	2019	2018
	(Unaudited)	
Land and lot sales	$7,508	$-
Cost of sales, excluding interest and land charges (1)	7,357	-
Land and lot sales gross margin, excluding interest and land charges	151	-
Land and lot sales interest	-	-
Land and lot sales gross margin, including interest and excluding land charges	$151	$-

(1) Does not include cost associated with walking away from land options or inventory impairment losses which are recorded as Inventory impairment loss and land option write-offs in the Condensed Consolidated Statements of Operations.

(2) Homebuilding gross margin, before cost of sales interest expense and land charges, and homebuilding gross margin percentage, before cost of sales interest expense and land charges, are non-GAAP financial measures. The most directly comparable GAAP financial measures are homebuilding gross margin and homebuilding gross margin percentage, respectively.

Hovnanian Enterprises, Inc.
January 31, 2019
Reconciliation of adjusted homebuilding EBIT to inventory
(dollars in thousands)
(Unaudited)

		For the Three Months Ended			
	LTM(a)	1/31/2019	10/31/2018	7/31/2018	4/30/2018
Homebuilding:					
Net income (loss)	$17,877	$(17,452)	$46,178	$(1,026)	$ (9,823)
Income tax benefit (provision)	3,634	346	1,939	1,104	245
Interest expense	155,074	32,515	38,824	38,283	45,452
EBIT (b)	176,585	15,409	86,941	38,361	35,874
Financial services revenue	(52,075)	(9,608)	(16,404)	(13,009)	(13,054)
Financial services expense	35,261	8,474	9,003	8,986	8,798
Homebuilding EBIT (b)	159,771	14,275	79,540	34,338	31,618
Inventory impairment loss and land option write-offs	3,791	704	318	96	2,673
Other operations	1,436	242	297	495	402
Loss on extinguishment of debt	7,536	-	1,830	4,266	1,440
(Income) loss from unconsolidated joint ventures	(38,771)	(9,562)	(17,134)	(10,732)	(1,343)
Adjusted homebuilding EBIT (b)	$133,763	$5,659	$64,851	$28,463	$34,790

				As of		
		01/31/2019	10/31/2018	7/31/2018	4/30/2018	1/31/2018
Total inventories		$1,178,373	$1,078,165	$1,109,043	$1,040,045	$1,053,514
Consolidated inventory not owned		112,618	87,921	96,989	78,907	93,875
Capitalized interest		74,455	68,117	67,510	65,355	70,793
	Five Quarter Average					
Inventories less consolidated inventory not owned and capitalized interest	$928,520	$991,300	$922,127	$944,544	$895,783	$888,846
Adjusted homebuilding EBIT to inventory	14.4060%					

(a) Represents the aggregation of each of the prior four fiscal quarters.
(b) EBIT, homebuilding EBIT and adjusted homebuilding EBIT are non-GAAP financial measures. The most directly comparable GAAP financial measure is net income (loss).

Reconciliation of Inventory Turnover

Hovnanian Enterprises, Inc.
January 31, 2019
Calculation of Inventory Turnover[1]

		For the quarter ended				TTM ended
(Dollars in thousands)		4/30/2018	7/31/2018	10/31/2018	1/31/2019	1/31/2019
Cost of sales, excluding interest		$393,012	$361,303	$482,713	$304,927	$1,541,955

	As of					
	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	
Total inventories	$1,053,514	$1,040,045	$1,109,043	$1,078,165	$1,178,373	Five
Consolidated inventory not owned	93,875	78,907	96,989	87,921	112,618	Quarter
Capitalized interest	70,793	65,355	67,510	68,117	74,455	Average
Inventories less consolidated inventory not owned and capitalized interest	$888,846	$895,783	$944,544	$922,127	$991,300	$928,520
Inventory turnover						1.7x

Calculation of inventory turnover[1]

(1) Derived by dividing cost of sales, excluding cost of sales interest, by the five quarter average inventory, excluding inventory not owned and capitalized interest. The Company's calculation of Inventory Turnover may be different than the calculation used by other companies and, therefore, comparability may be affected.

Hovnanian Enterprises®, Inc.