Hovnanian Enterprises, Inc.

Review of Financial Results | Third 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) changes in trade policies, including the imposition of tariffs and duties on homebuilding materials and products, and related trade disputes with and retaliatory measures taken by other countries; (24) geopolitical risks, terrorist acts and other acts of war; (25) loss of key management personnel or failure to attract qualified personnel; (26) information technology failures and data security breaches; (27) negative publicity; and (28) 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 and loss on extinguishment of debt (“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.

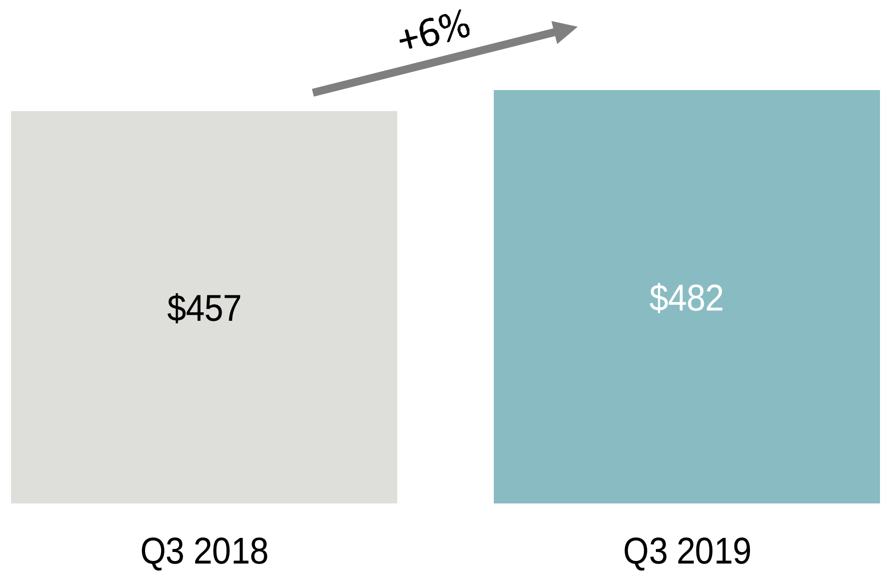
(Loss) before income taxes excluding land-related charges, joint venture write-downs and loss on extinguishment of debt is a non-GAAP financial measure. The most directly comparable GAAP financial measure is (loss) before income taxes. The reconciliation for historical periods of (loss) before income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

Total liquidity is comprised of $83.6 million of cash and cash equivalents, $16.5 million of restricted cash required to collateralize letters of credit and $125.0 million of availability under the senior secured revolving credit facility as of July 31, 2019.

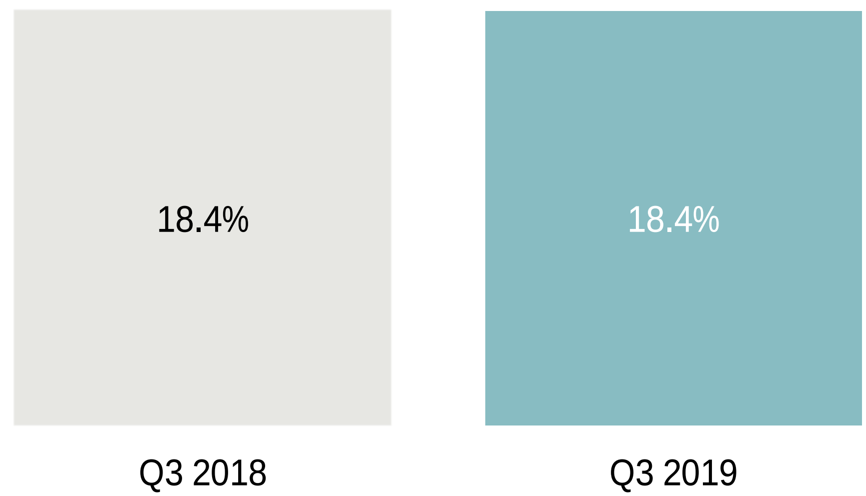
Third Quarter Operating Results

($ in millions)

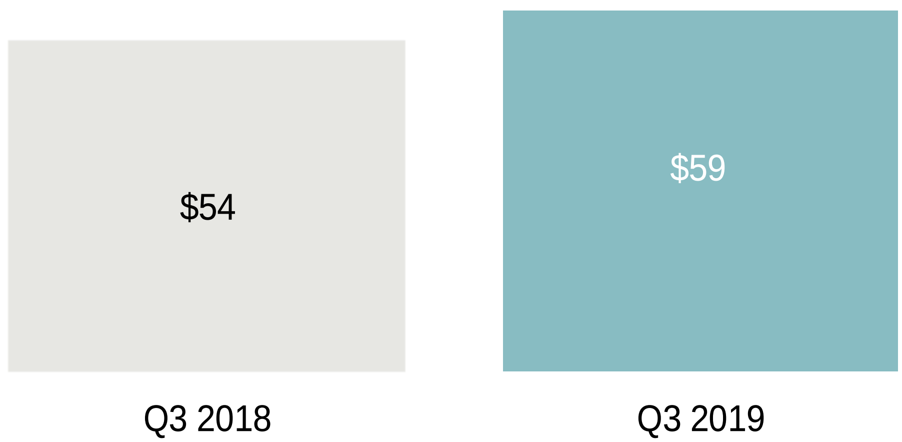
Total Revenues



Adjusted Homebuilding Gross Margin[1]

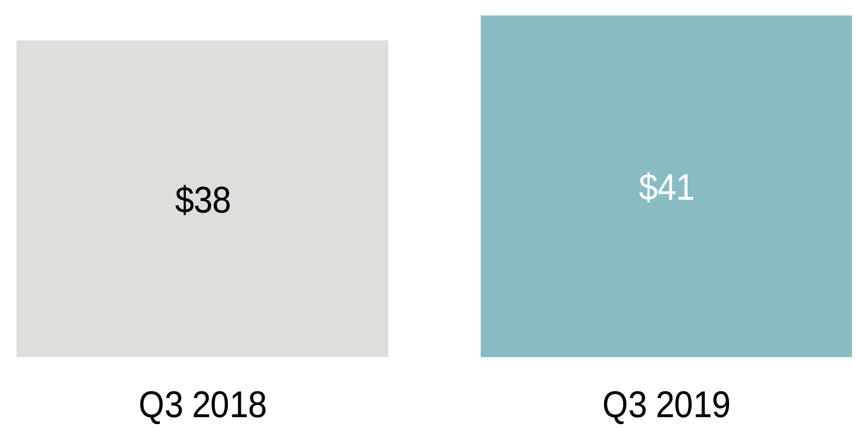


Total SG&A[2]



Total SG&A per Community	$0.439	$0.424

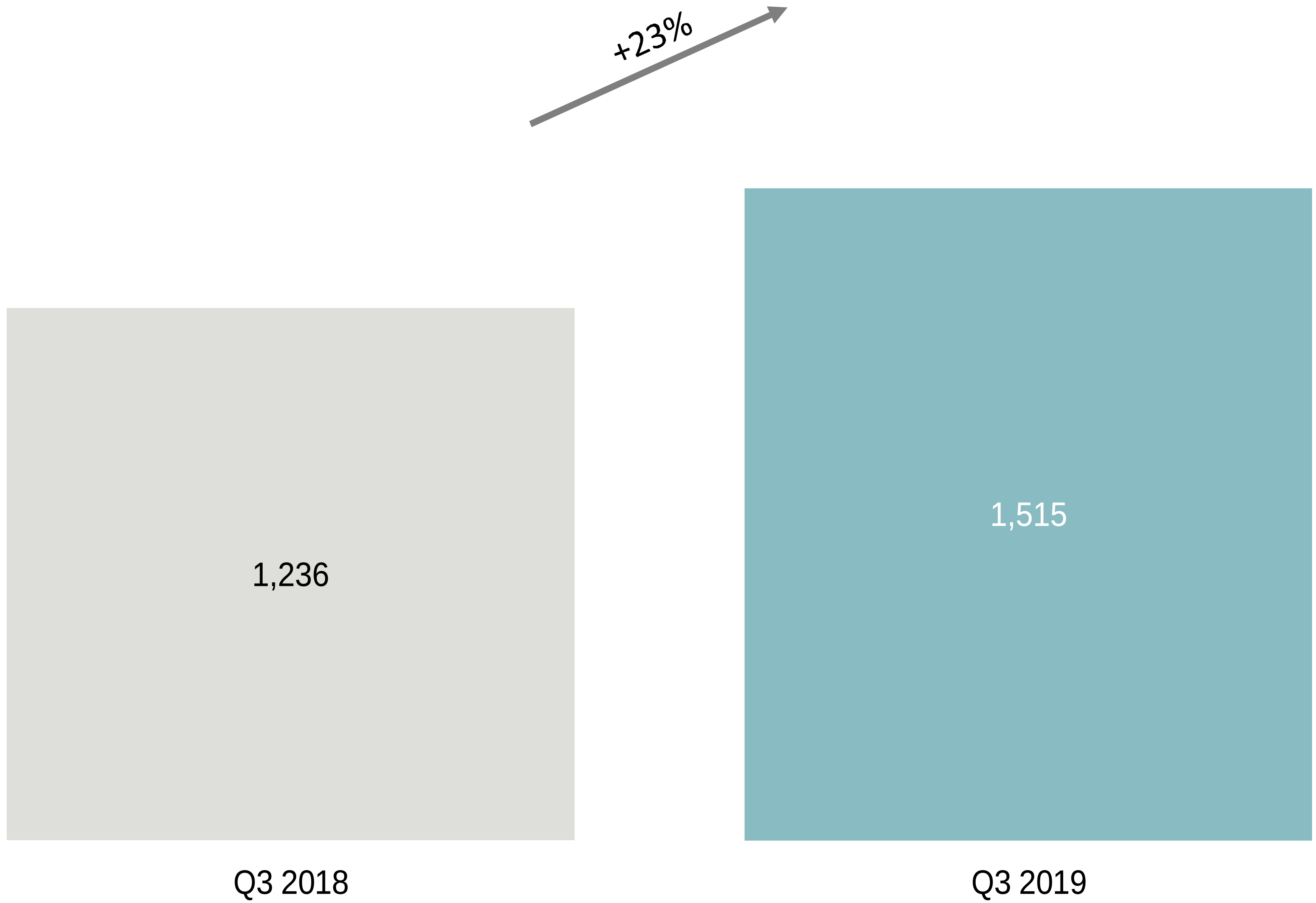
Total Interest Expense



(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.

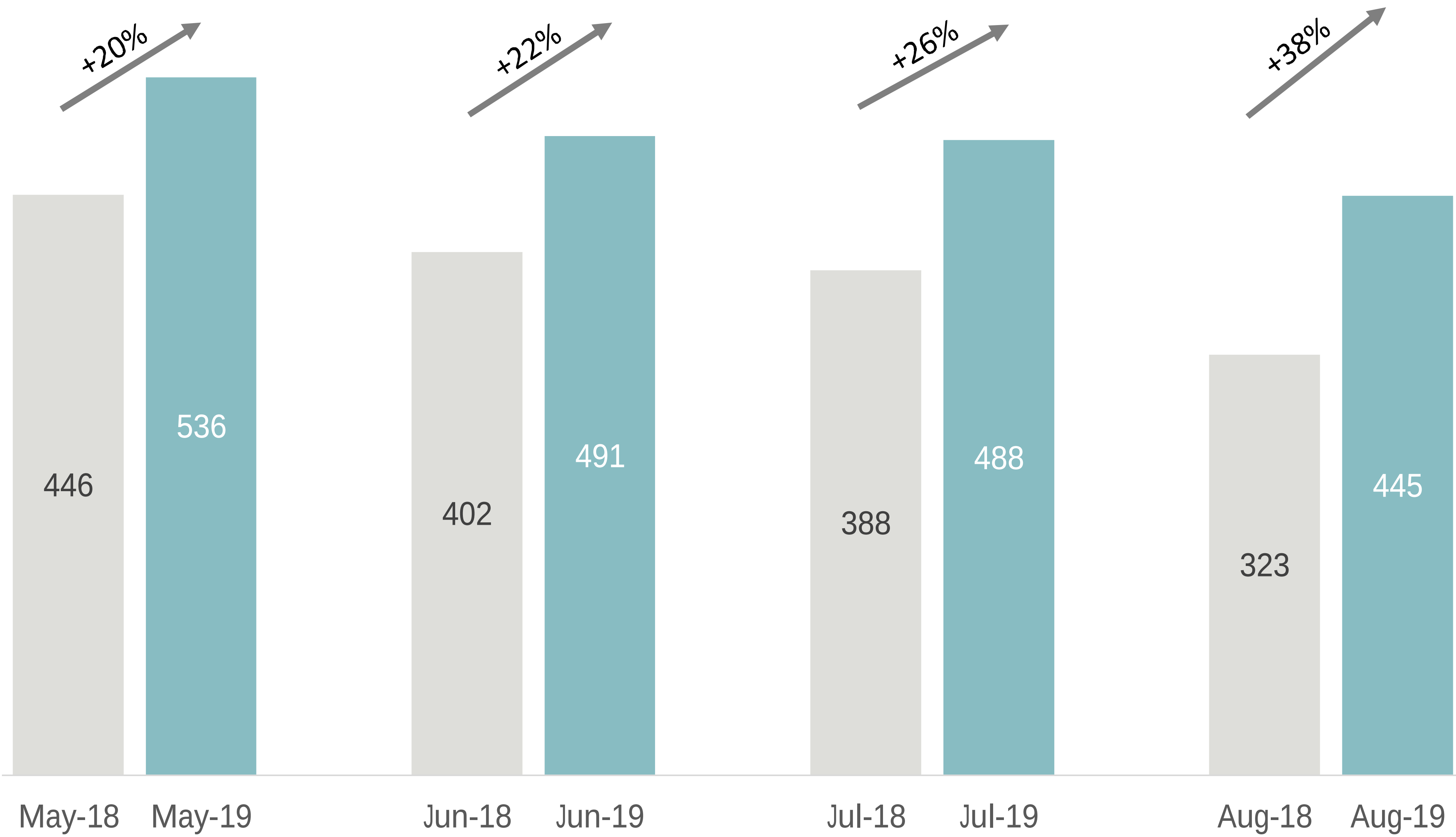
Contracts

Wholly Owned



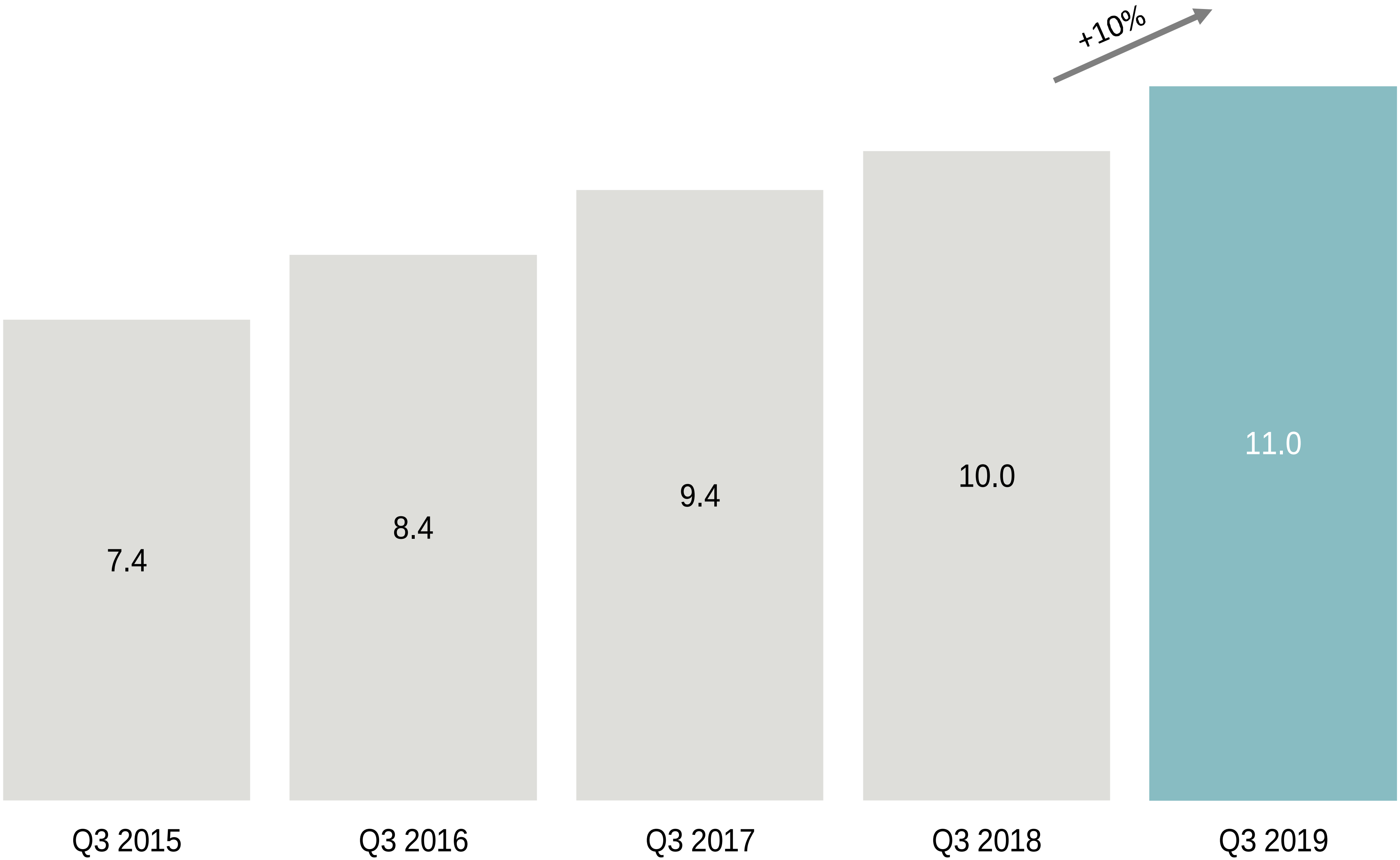
Note: Excludes unconsolidated joint ventures.

Monthly Contracts



Note: Excludes unconsolidated joint ventures.

Quarterly Contracts Per Community



Note: Excludes unconsolidated joint ventures.

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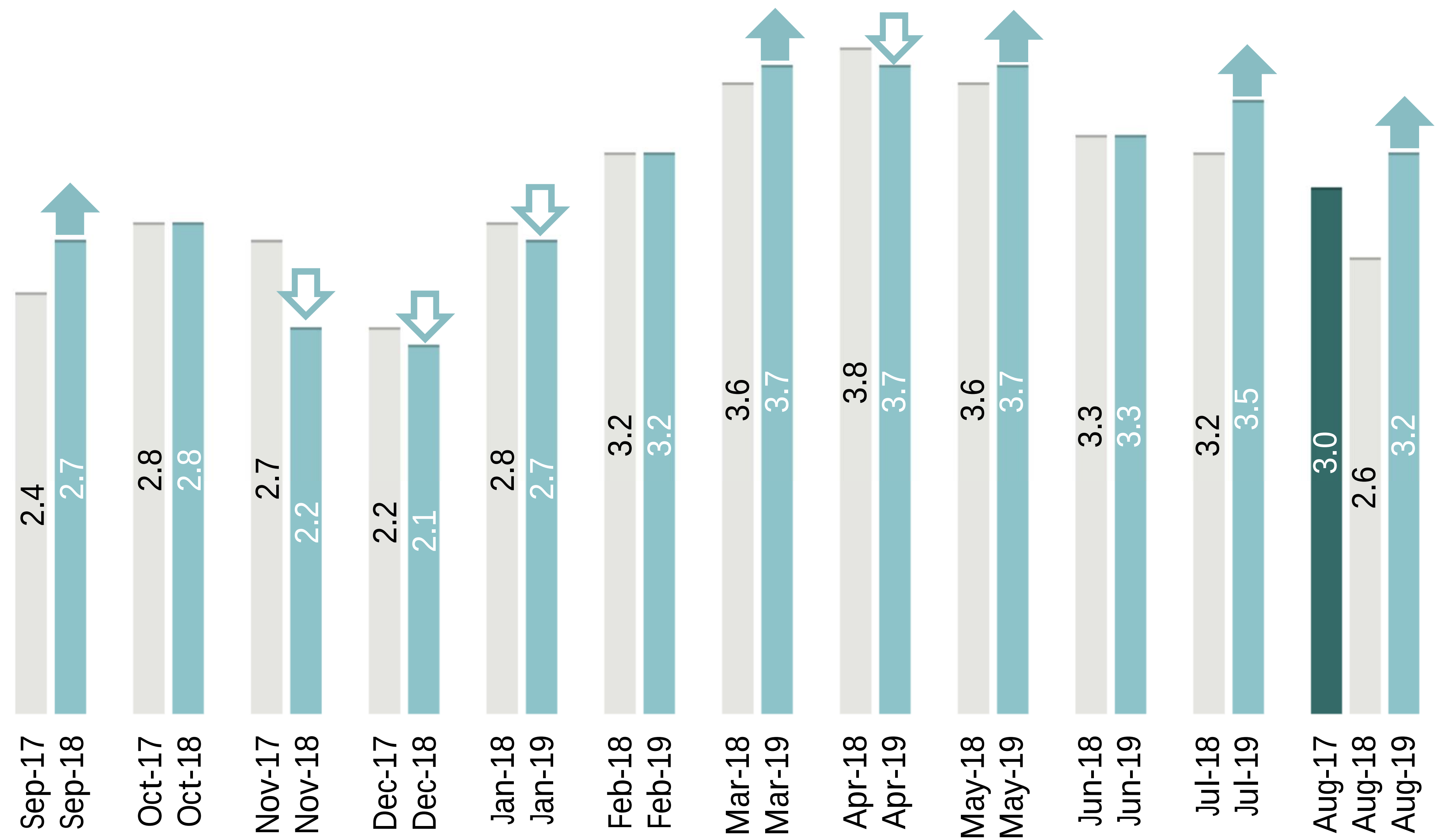
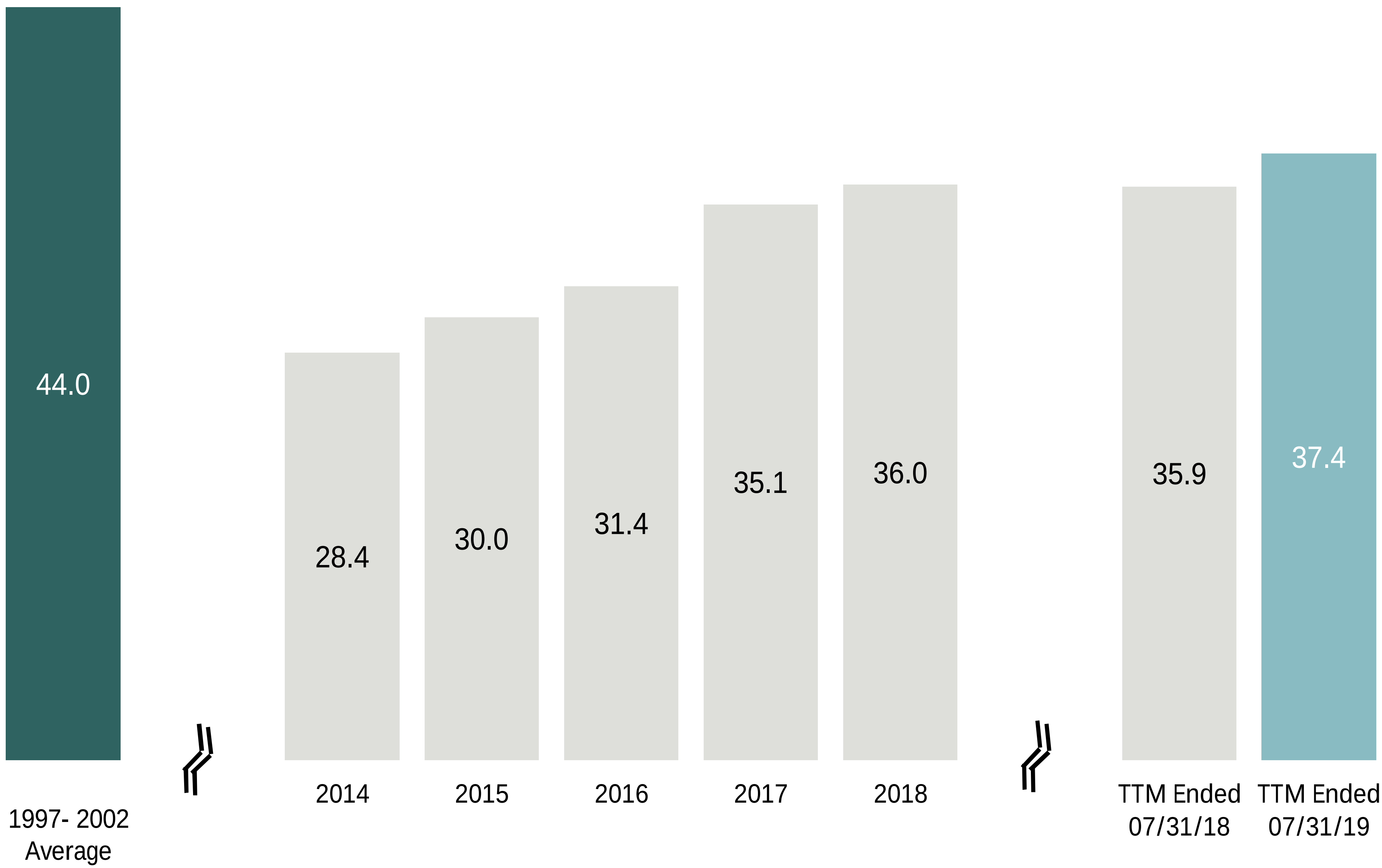
Number of Monthly Contracts Per Community, Excludes Unconsolidated Joint Ventures



Number of Sundays	4	5	5	4	4	4	5	5	4	4	4	4	4	5	5	4	4	4	4	5	5	4	4	4	4
	Sep-17	Sep-18	Oct-17	Oct-18	Nov-17	Nov-18	Dec-17	Dec-18	Jan-18	Jan-19	Feb-18	Feb-19	Mar-18	Mar-19	Apr-18	Apr-19	May-18	May-19	Jun-18	Jun-19	Jul-18	Jul-19	Aug-17	Aug-18	Aug-19
Monthly contracts	326	333	363	348	352	285	288	280	387	369	430	449	470	553	504	544	446	536	402	491	388	488	423	323	445

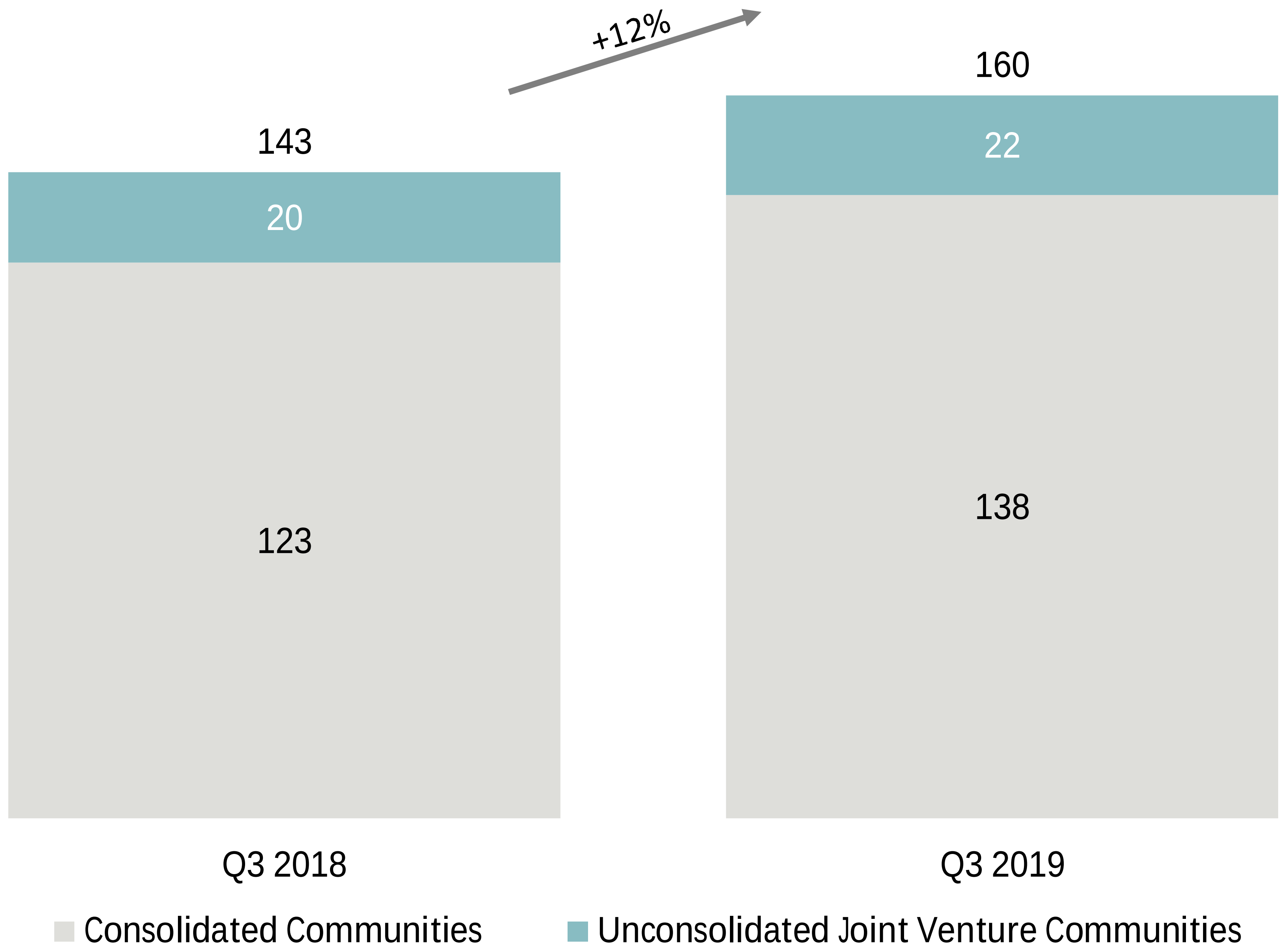
Note: Excludes unconsolidated joint ventures.

Annual Contracts Per Community



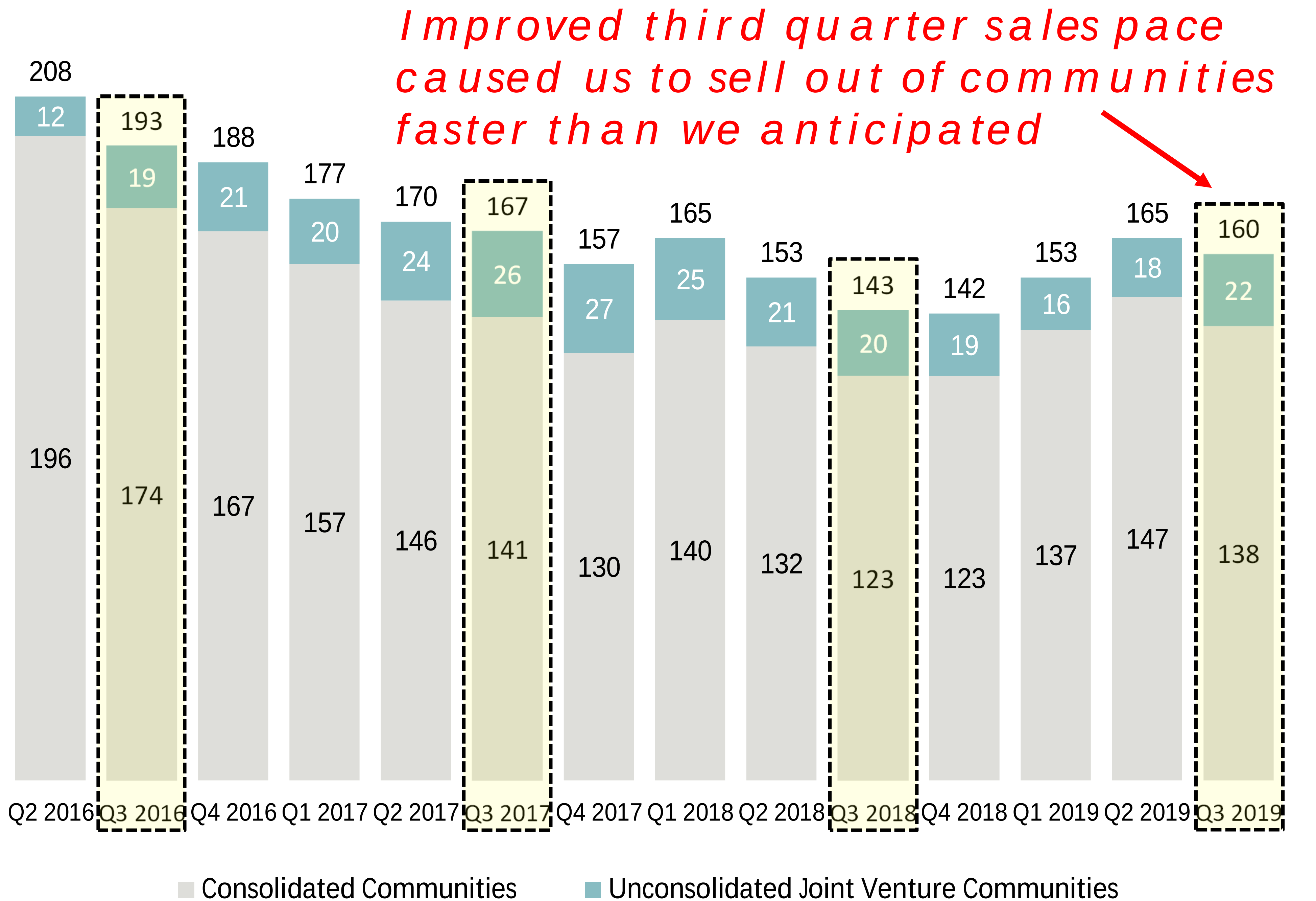
Note: Annual Contracts per Community calculated based on a five quarter average of communities, excluding joint ventures.

Quarterly Community Count



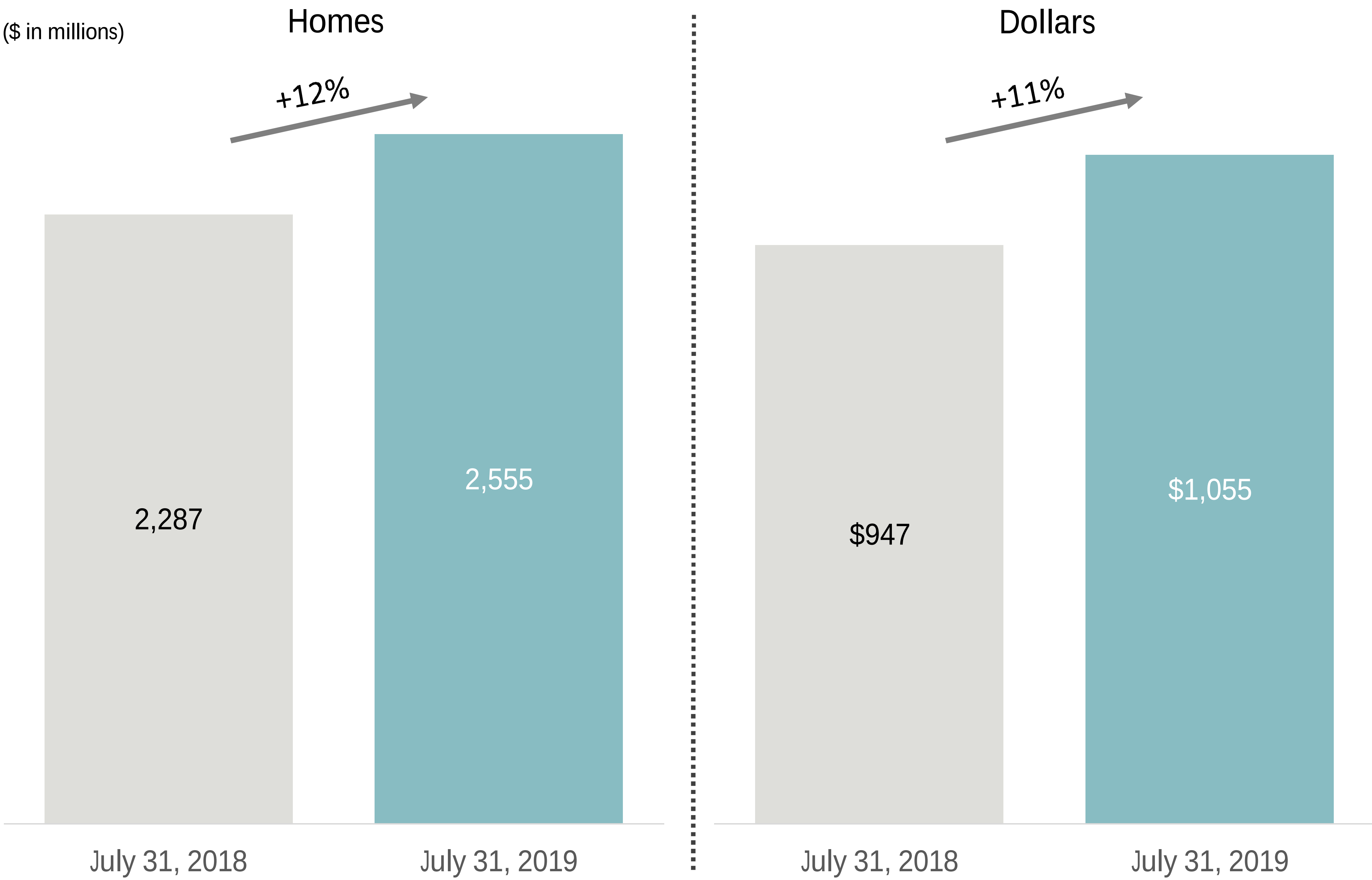
Note: Communities are open for sale communities with 10 or more home sites available.

Quarterly Community Count



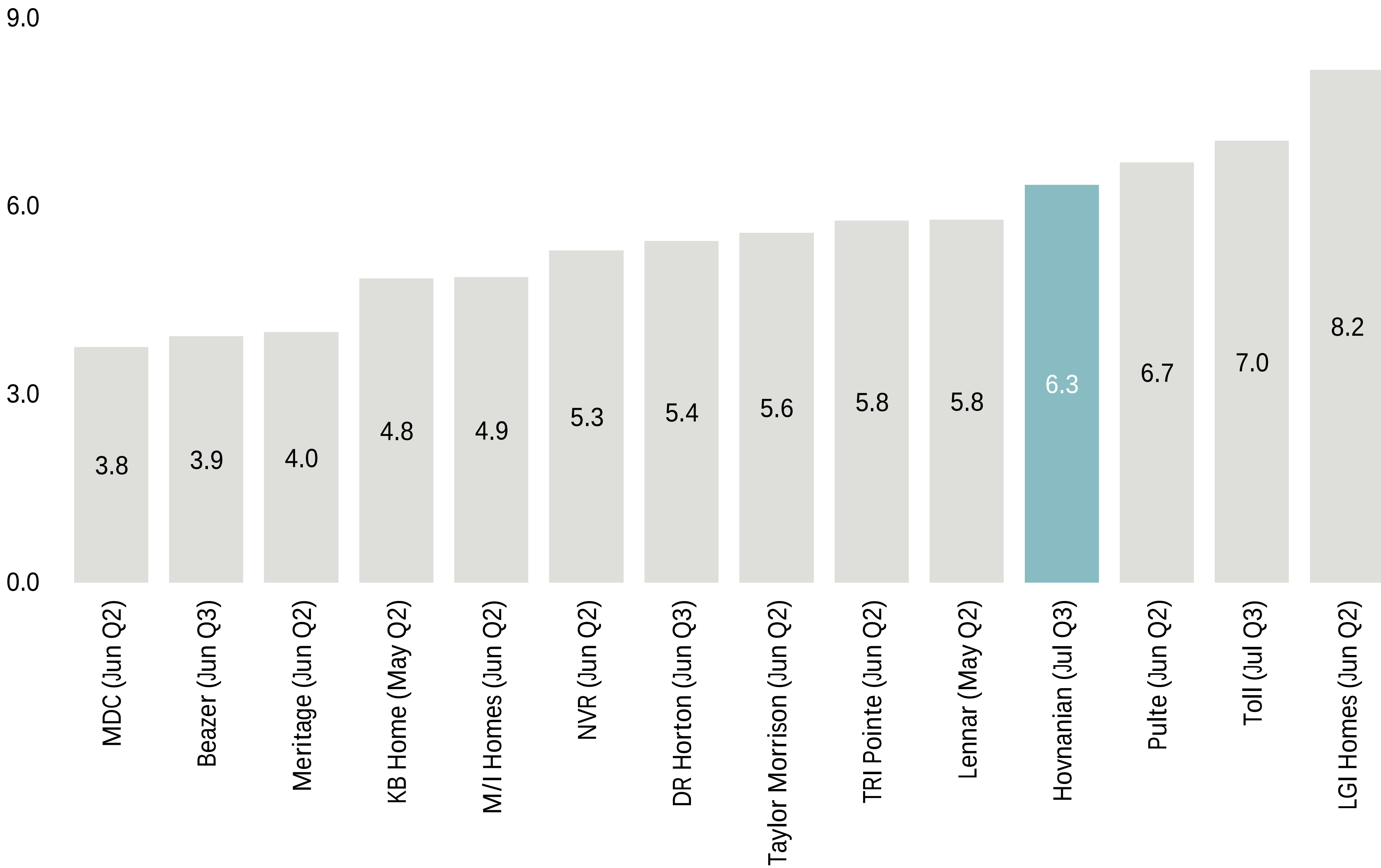
Note: Communities are open for sale communities with 10 or more home sites available.

Consolidated Backlog



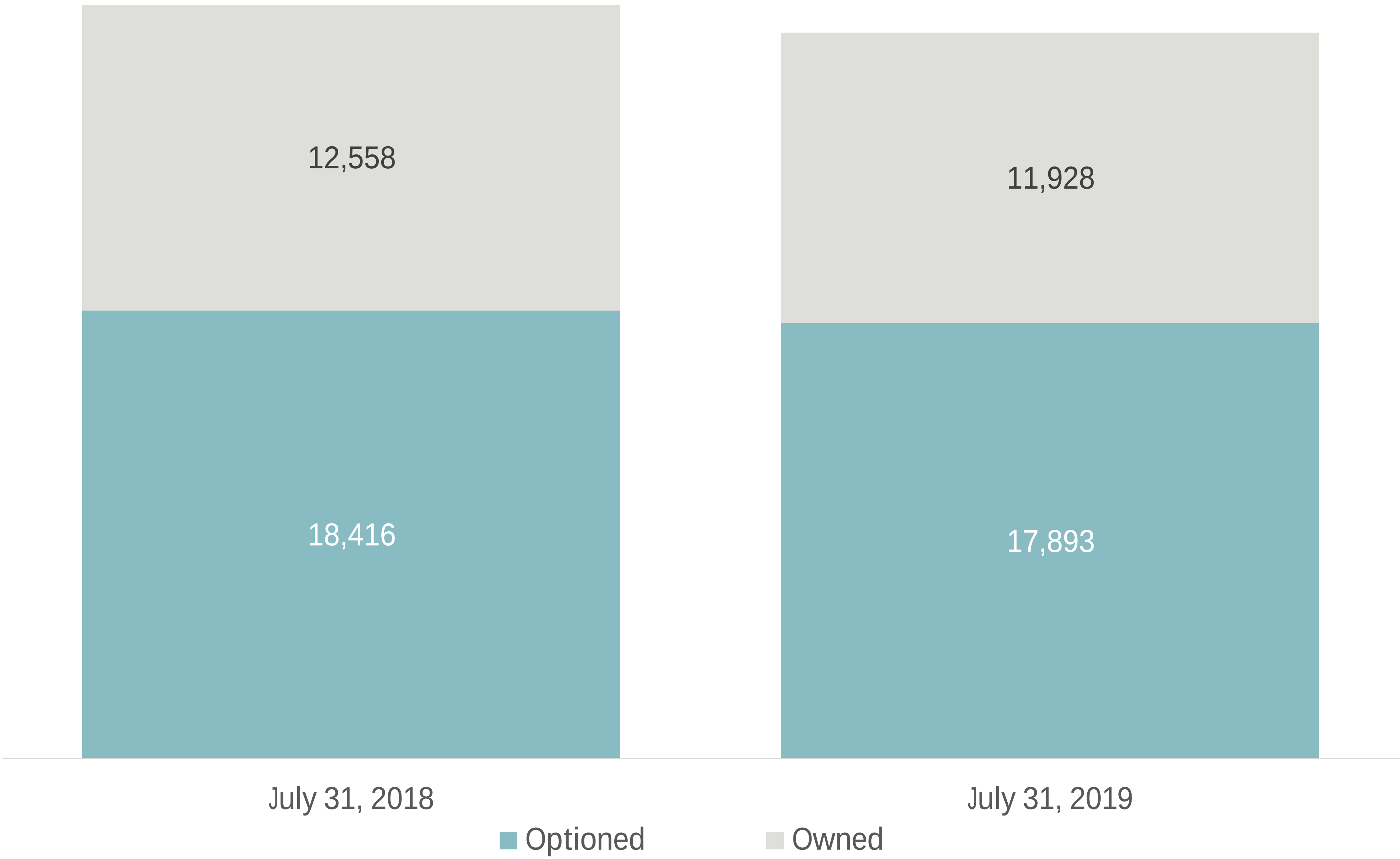
Note: Excludes unconsolidated joint ventures.

Total Lots Controlled Years Supply*



*Years supply based on LTM deliveries.
Source: Company SEC filings and press releases as of 09/05/19.
Note: Excludes unconsolidated joint ventures.

Total Lots Controlled



Note: Excludes unconsolidated joint ventures.

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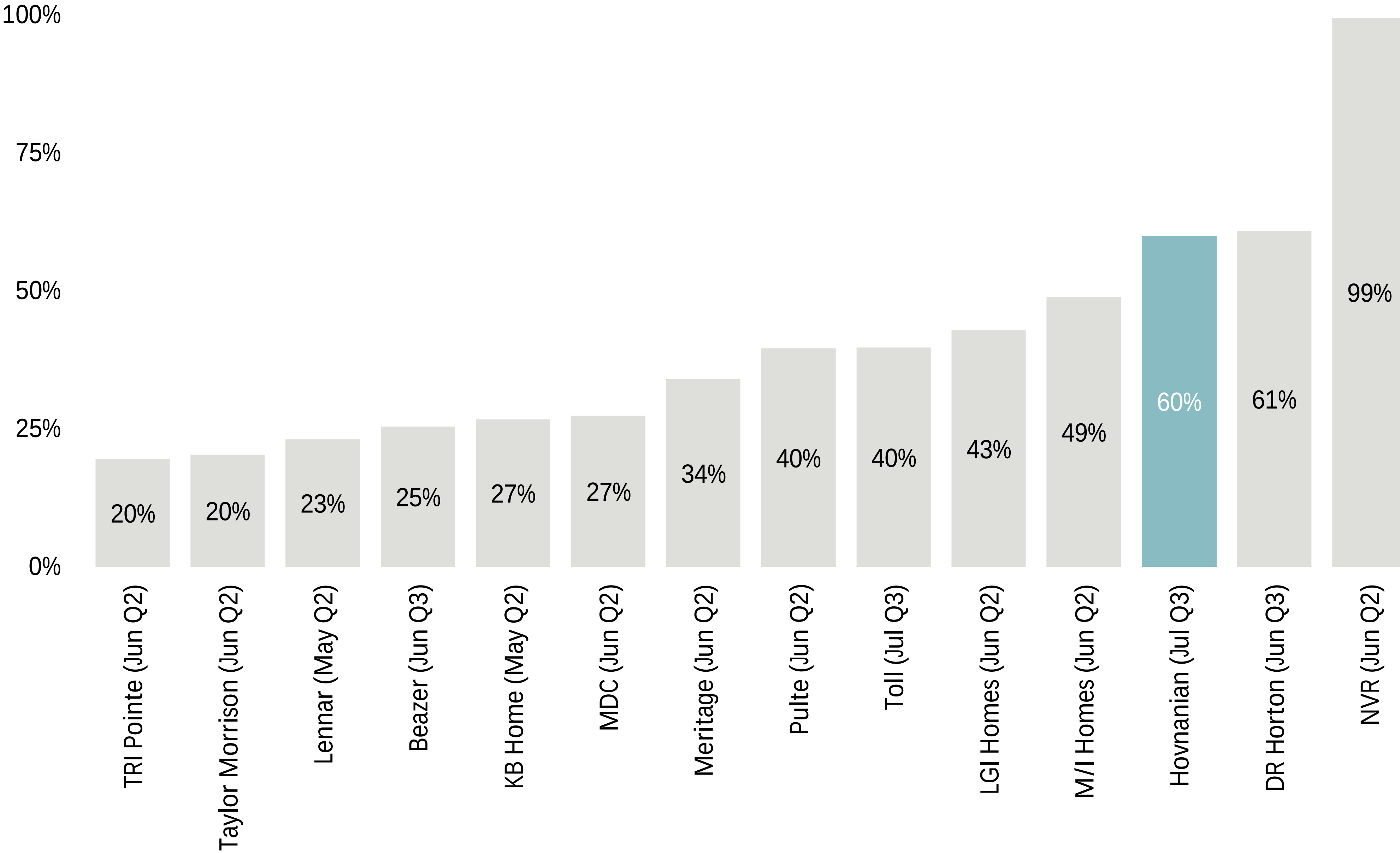
% of Lots Optioned



Source: Company SEC filings and press releases as of 09/05/19.
Note: Excludes unconsolidated joint ventures.

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Mothballed Lots

As of July 31, 2019

	# of Lots
Northeast (NJ, PA)	6
Mid-Atlantic (DE, MD, VA, WV)	280
Midwest (IL, MN, OH)	127
Southeast (FL, GA, NC, SC)	-
Southwest (AZ, TX)	-
West (CA)	2,177
Total	2,590

- *In 14 communities with a book value of $14 million net of impairment balance of $147 million*
- *Unmothballed approximately 7,500 lots in 100 communities since January 31, 2009*

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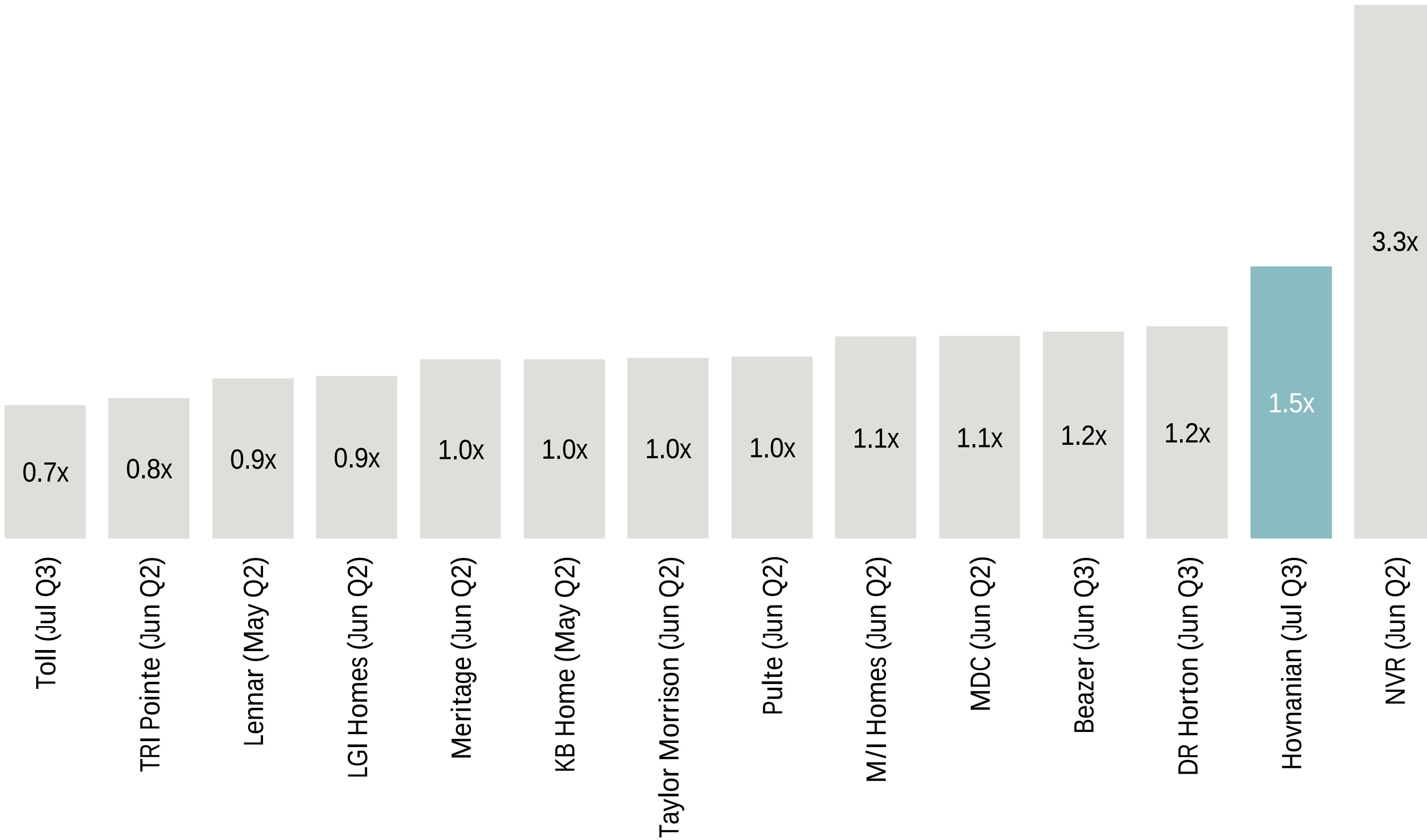
Inventory Turns (COGS), Last Twelve Months



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 09/05/19.

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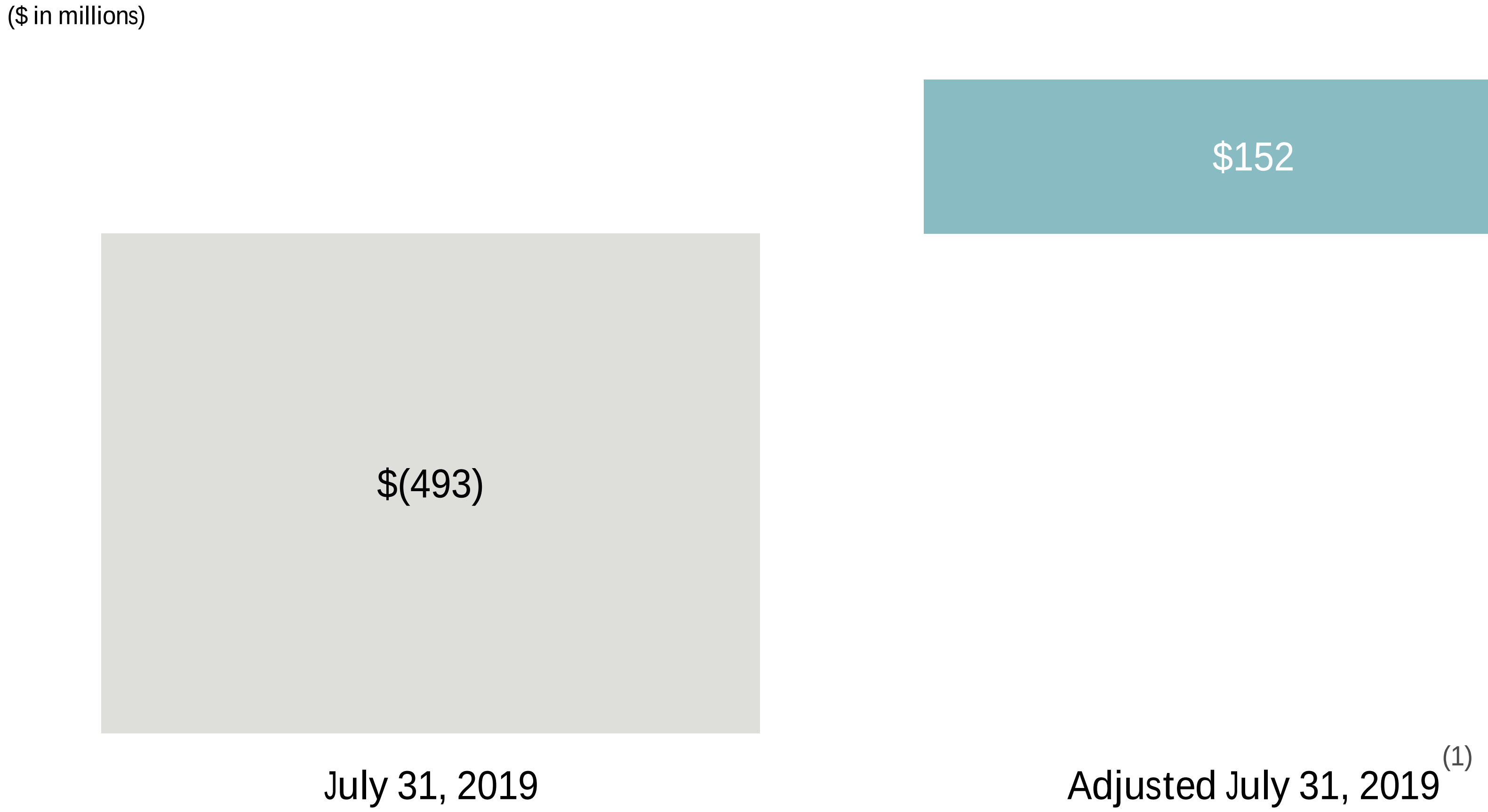
Adjusted Hovnanian Stockholders' Equity

- *Deferred tax asset will shield approximately $2.1 billion of future pretax earnings from federal income taxes which will help accelerate repairing our balance sheet*



(1) Total Hovnanian Stockholders' Deficit of $(493) million with $645 million valuation allowance added back to Stockholders' Equity. The $645 million valuation allowance consisted of a $434 million federal valuation allowance and a $211 million state valuation allowance.

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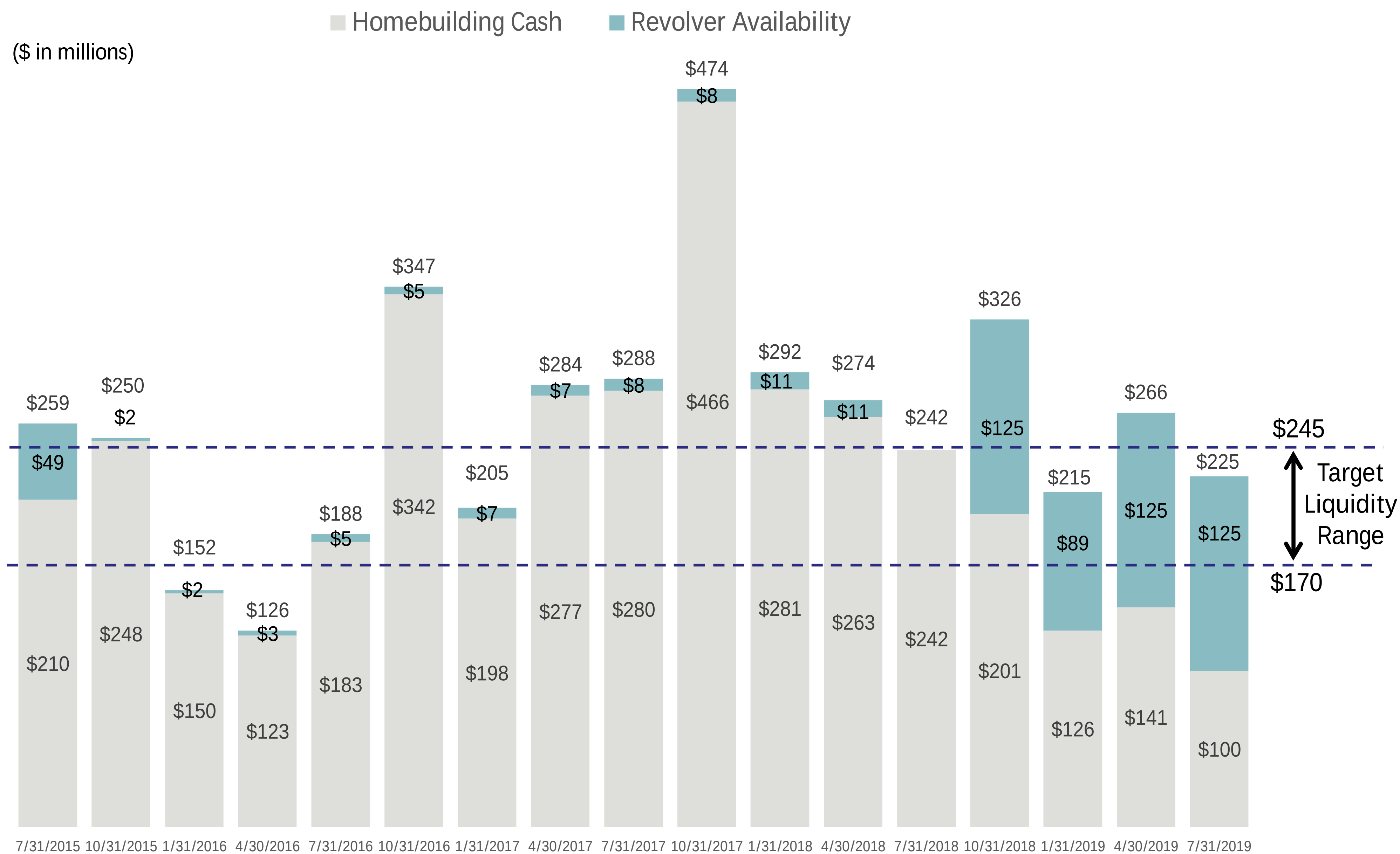
Liquidity Position and Target

($ in millions)



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.

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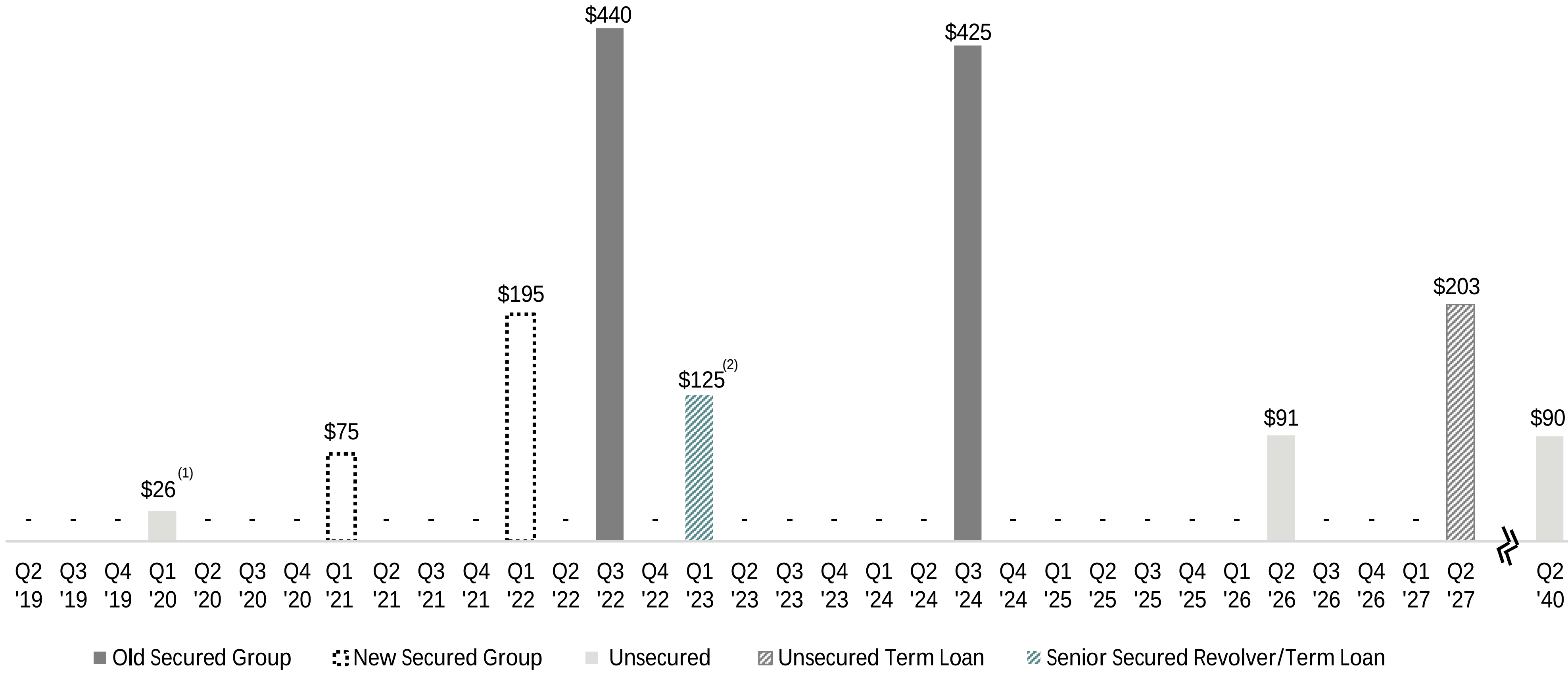
Maturity Profile

July 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] $0 balance as of July 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)

	April 30, 2019	July 31, 2019
Cash and cash equivalents	$85,700	$63,100
Mortgaged inventory	$396,100	$386,700
Non-mortgaged inventory[1]	$57,100	$61,400
Total collateral	$538,900	$511,200
Plus inventory with non-recourse loans[2]	$102,900	$107,100
Total adjusted collateral	$641,800	$618,300
Total principal amount of secured debt	$865,000	$865,000
Adjusted collateral Ratio	0.74x	0.71x

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, 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)	April 30, 2019	July 31, 2019
Cash and cash equivalents	$44,500	$30,700
Mortgaged inventory	$133,200	$161,000
Non-mortgaged inventory(1)	$3,100	$7,000
Total collateral	$180,800	$198,700
Plus inventory with non-recourse loans(2)	$47,900	$50,200
Total adjusted collateral	$228,700	$248,900
Total principal amount of secured debt	$270,000	$270,000
Adjusted collateral ratio	0.85x	0.92x
Total adjusted collateral	$228,700	$248,900
Plus equity interests in joint ventures(3)	$181,000	$182,300
Total adjusted JV collateral	$409,700	$431,200
Total principal amount of secured debt	$270,000	$270,000
Adjusted JV collateral ratio	1.52x	1.60x

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) Represents equity in consolidated and unconsolidated 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.

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Assets Available to Creditors

($ in Thousands)	April 30, 2019	July 31, 2019
Total assets	$1,755,300	$1,795,300
less inventory not owned	$(154,400)	$(179,600)
less financial services assets	$(119,900)	$(109,200)
less non-recourse mortgages	$(190,700)	$(207,200)
Assets available to creditors	$1,290,300	$1,299,300
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	$865,000	$865,000
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.

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Land Positions by Geographic Segment

	July 31, 2019 Owned			
Segment	Excluding Mothballed Lots	Mothballed Lots	Optioned Lots	Total Lots
Northeast	590	6	3,388	3,984
Mid-Atlantic	1,948	280	2,899	5,127
Midwest	1,123	127	2,455	3,705
Southeast	1,769	0	3,064	4,833
Southwest	2,434	0	4,357	6,791
West	1,474	2,177	1,730	5,381
Consolidated Total	9,338	2,590	17,893	29,821
Unconsolidated Joint Ventures	1,712	-	2,746	4,458
Grand Total	11,050	2,590	20,639	34,279

- *Option deposits as of July 31, 2019 were $72 million*
- *$26 million invested in pre-development expenses as of July 31, 2019*

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

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

Hovnanian Enterprises, Inc.
July 31, 2019
Reconciliation of (loss) before income taxes excluding land-related charges, joint venture write-downs and loss on extinguishment of debt to (loss) income before income taxes

(In thousands)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
(Loss) income before income taxes	$(7,064)	$78	$(39,082)	$(39,971)
Inventory impairment loss and land option write-offs	1,435	96	3,601	3,183
Unconsolidated joint venture investment write-downs	854	-	854	660
Loss on extinguishment of debt	-	4,266	-	5,706
(Loss) income before income taxes excluding land-related charges, joint venture write-downs and loss on extinguishment of debt (1)	$(4,775)	$4,440	$(34,627)	$(30,422)

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

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Reconciliation of Gross Margin

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

	Homebuilding Gross Margin Three Months Ended July 31,		Homebuilding Gross Margin Nine Months Ended July 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Sale of homes	$467,849	$442,859	$1,257,536	$1,312,553
Cost of sales, excluding interest expense and land charges (1)	381,906	361,303	1,034,953	1,076,132
Homebuilding gross margin, before cost of sales interest expense and land charges (2)	85,943	81,556	222,583	236,421
Cost of sales interest expense, excluding land sales interest expense	18,824	13,424	42,964	41,025
Homebuilding gross margin, after cost of sales interest expense, before land charges (2)	67,119	68,132	179,619	195,396
Land charges	1,435	96	3,601	3,183
Homebuilding gross margin	$65,684	$68,036	$176,018	$192,213
Gross margin percentage	14.0%	15.4%	14.0%	14.6%
Gross margin percentage, before cost of sales interest expense and land charges (2)	18.4%	18.4%	17.7%	18.0%
Gross margin percentage, after cost of sales interest expense, before land charges (2)	14.3%	15.4%	14.3%	14.9%

	Land Sales Gross Margin Three Months Ended July 31,		Land Sales Gross Margin Nine Months Ended July 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Land and lot sales	$542	$-	$8,050	$20,505
Land and lot cost of sales, excluding interest and land charges (1)	33	-	7,390	7,710
Land and lot sales gross margin, excluding interest and land charges	509	-	660	12,795
Land and lot sales interest	205	-	205	4,055
Land and lot sales gross margin, including interest and excluding land charges	$304	$-	$455	$8,740

(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.

Reconciliation of Inventory Turnover

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

(Dollars in thousands)		For the quarter ended 10/31/2018	1/31/2019	4/30/2019	7/31/2019	TTM ended 7/31/2019
Cost of sales, excluding interest		$482,713	$304,927	$355,477	$381,939	$1,525,056

	As of 7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	
Total inventories	$1,109,043	$1,078,165	$1,178,373	$1,268,058	$1,354,918	Five
Consolidated inventory not owned	96,989	87,921	112,618	154,435	179,642	Quarter
Capitalized interest	67,510	68,117	74,455	79,277	77,997	Average
Inventories less consolidated inventory not owned and capitalized interest	$944,544	$922,127	$991,300	$1,034,346	$1,097,279	$997,919
Inventory turnover						1.5x

(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.

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