Hovnanian Enterprises, Inc.

Review of Financial Results | Fourth 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 including due to changes in trade policies, the imposition of tariffs and duties on homebuilding materials and products, and related trade disputes with and retaliatory measures taken by other countries; (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) increases in cancellations of agreements of sale; (13) fluctuations in interest rates and the availability of mortgage financing; (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 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) income. The reconciliation for historical periods of EBIT, EBITDA and Adjusted EBITDA to net (loss) income 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.

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

Total liquidity is comprised of $131.0 million of cash and cash equivalents, $19.9 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 October 31, 2019.

Hovnanian Enterprises, Inc.

2019 Q4 Guidance Compared to Actual Results

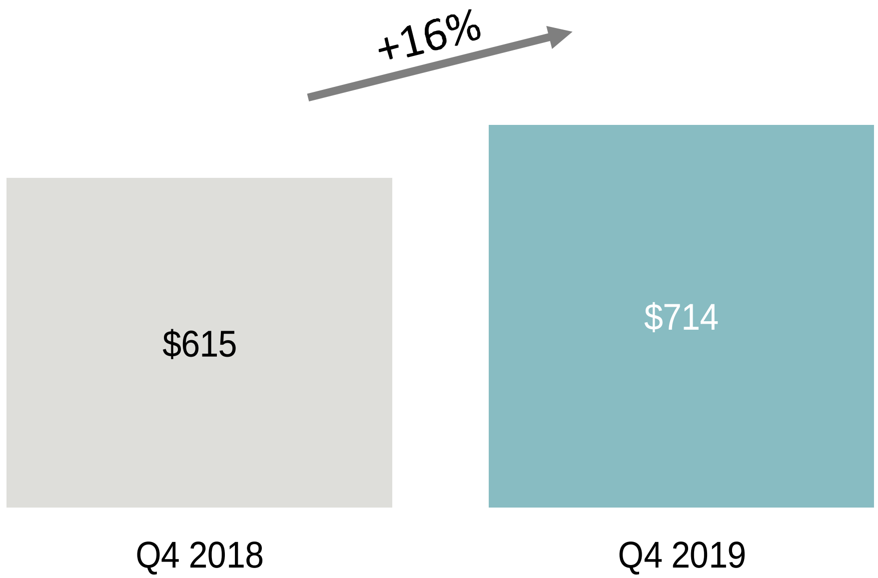
	Q4 2019 Guidance	Q4 2019 Actual
Adjusted Homebuilding Gross Margin(1)	Approx. 18.4%	18.9%
Adjusted Pre Tax Profit(2) ($ millions)	Greater than $40	$45
Community Count(3)	Greater than 160	162

(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) Excluding land related charges, gains or losses on extinguishment of debt and other non-recurring items such as legal settlements.
(3) Excludes our single community unconsolidated joint venture in the Kingdom of Saudi Arabia.

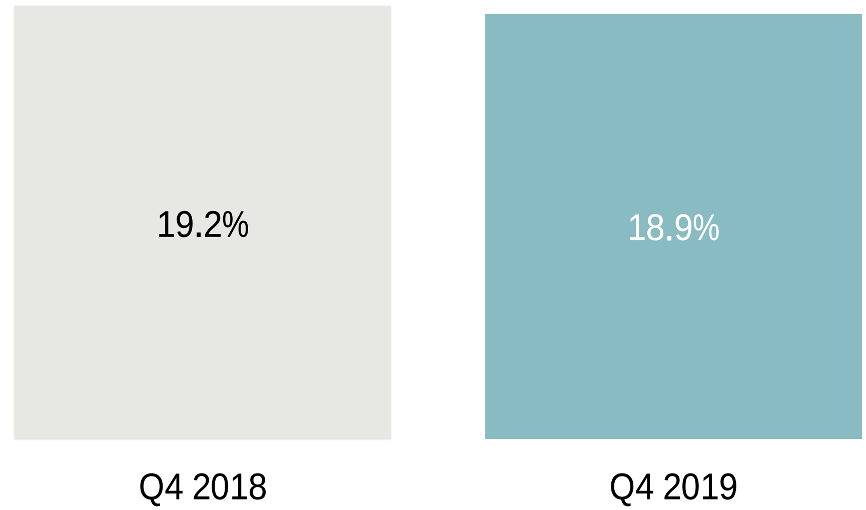
Fourth Quarter Operating Results

($ in millions)

Total Revenues

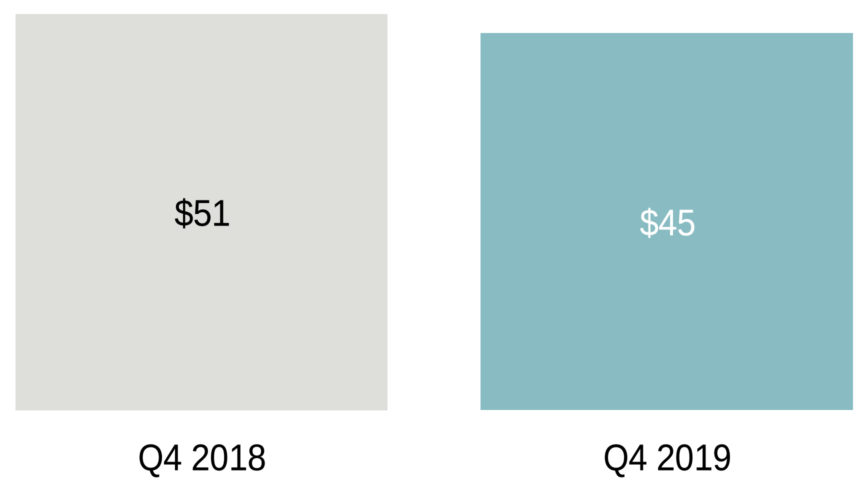


Adjusted Homebuilding Gross Margin[(1)]



Total SG&A Ratio[(2)]

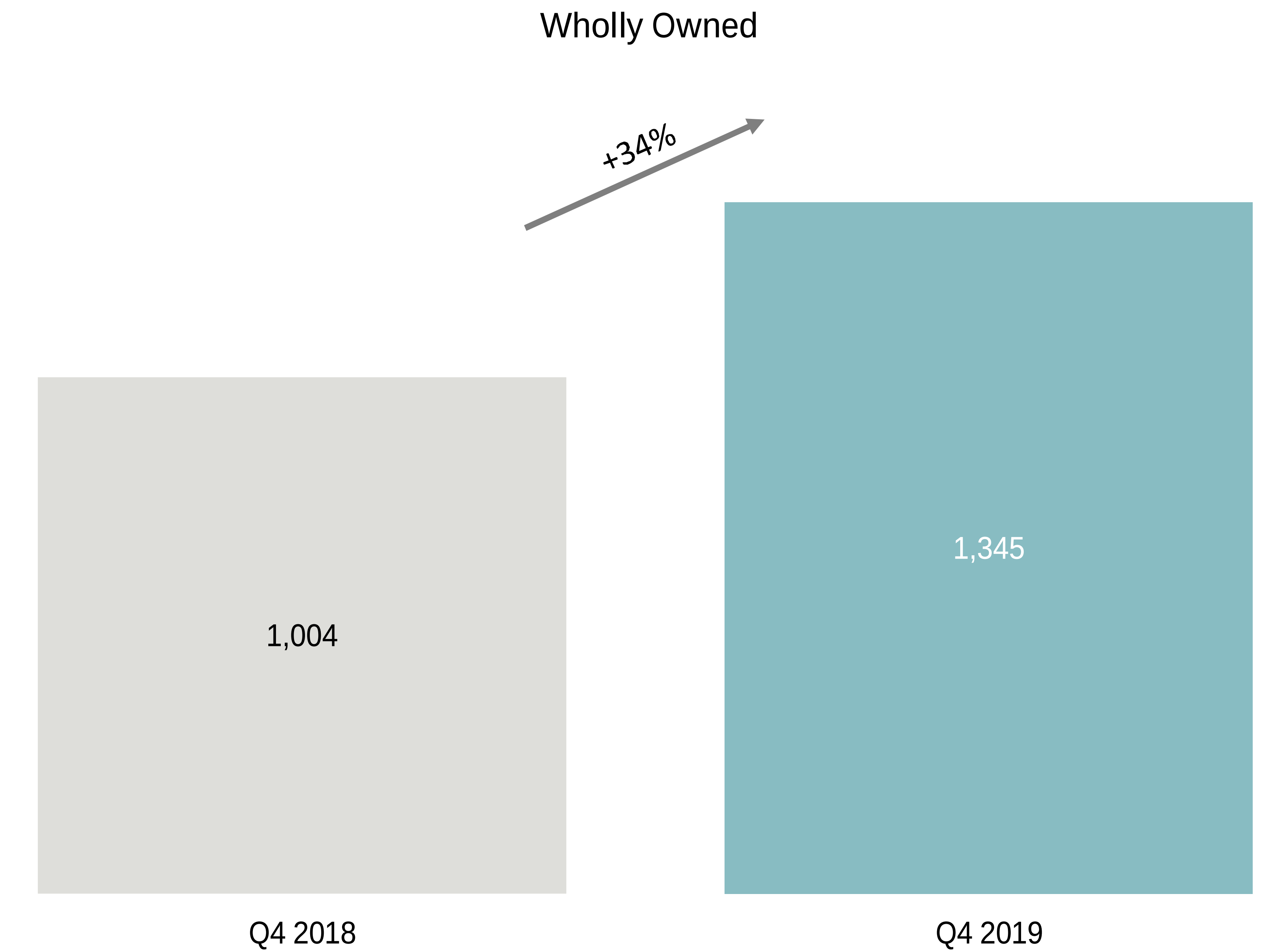
Adjusted Pretax Profit[(3)]



Total SG&A per Community	$0.413	$0.382

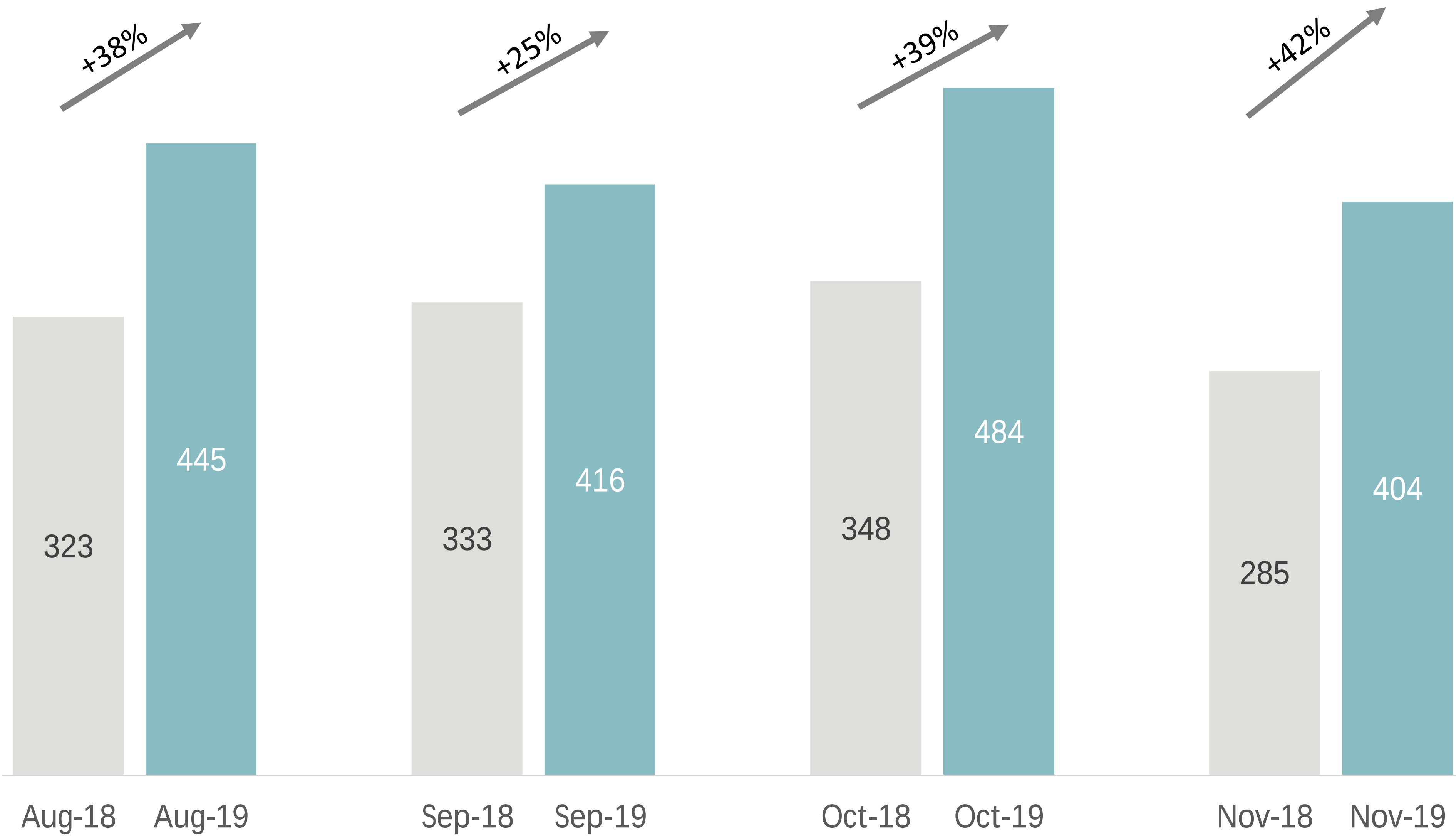
(1) Adjusted homebuilding gross margin percentage is before cost of sales interest expense and land charges. See appendix for a reconciliation to the most directly comparable GAAP measure.
(2) Total SG&A includes homebuilding selling, general and administrative costs and corporate general and administrative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

Contracts



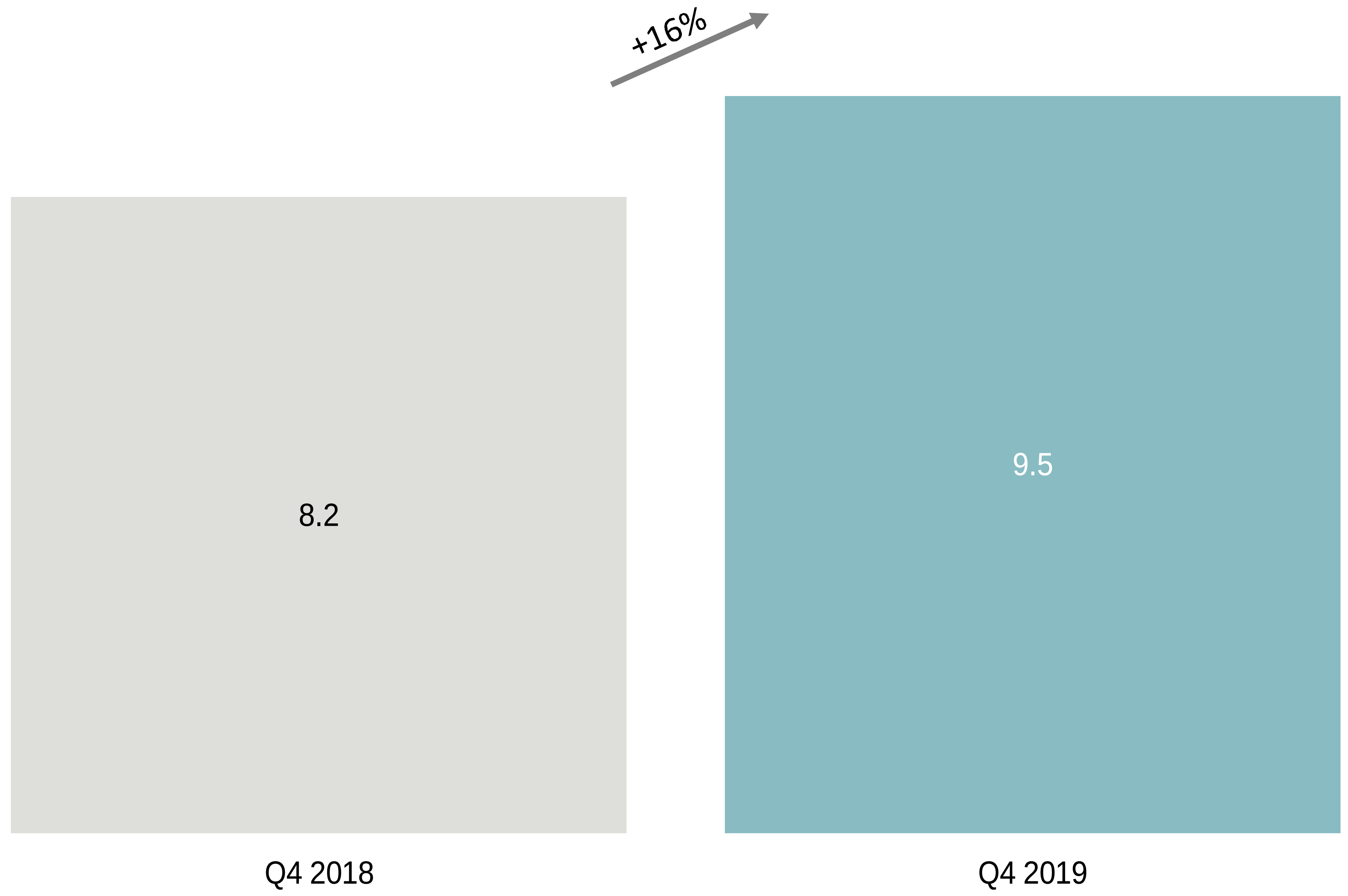
Note: Excludes unconsolidated joint ventures.

Monthly Contracts



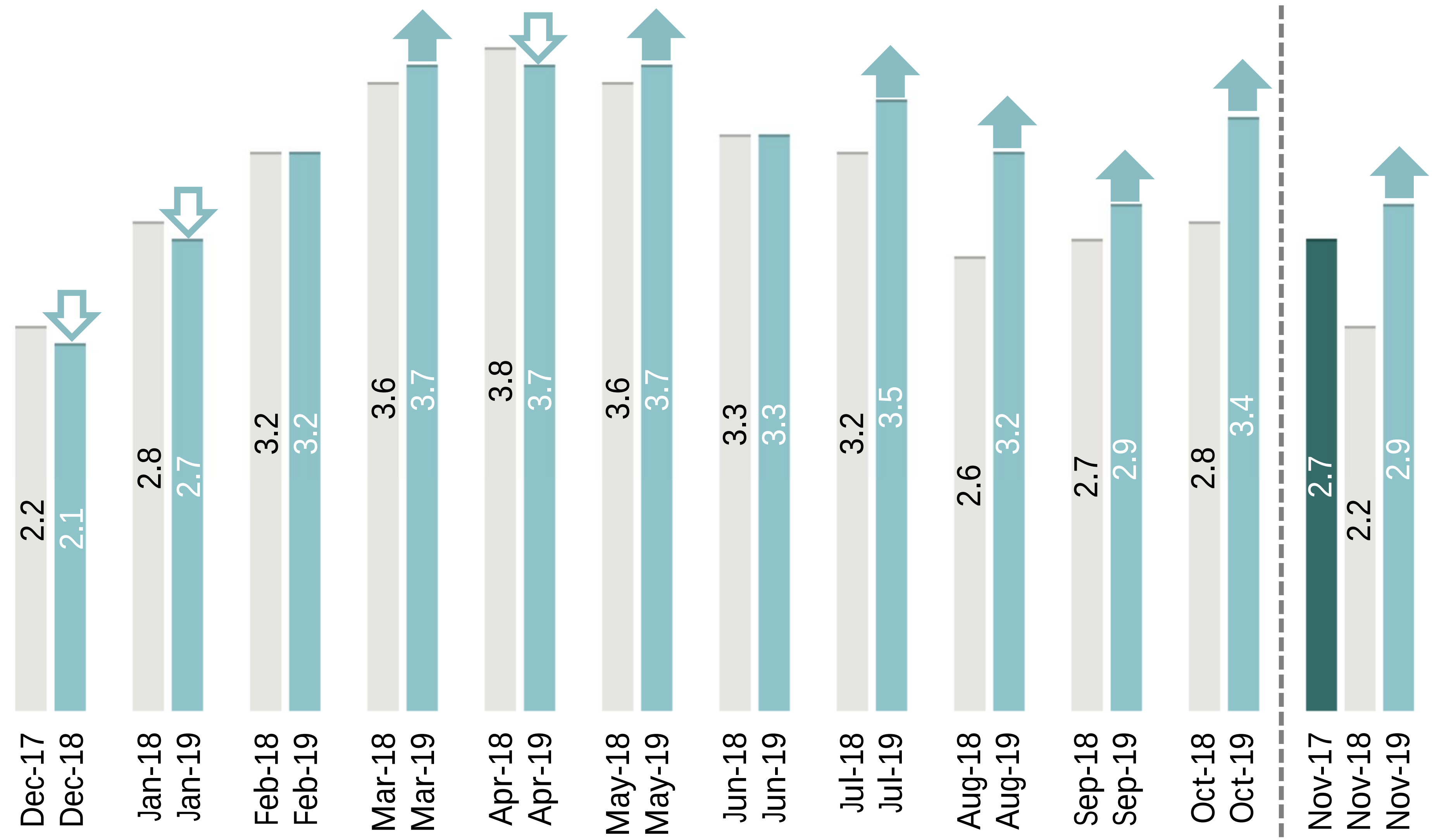
Note: Excludes unconsolidated joint ventures.

Quarterly Contracts Per Community



Note: Excludes our single community unconsolidated joint venture in the Kingdom of Saudi Arabia.

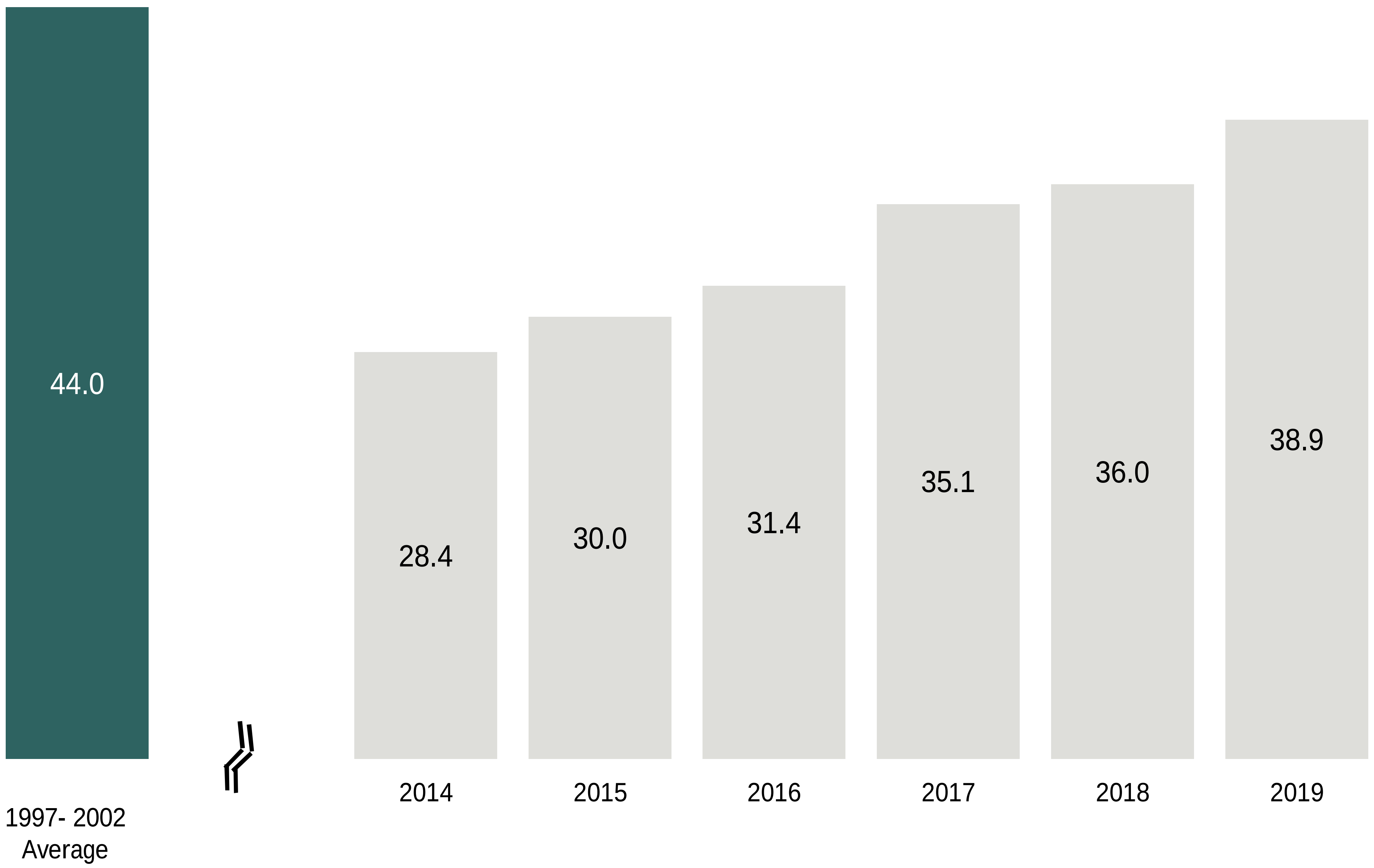
Number of Monthly Contracts Per Community, Excludes Unconsolidated Joint Ventures



Number of Sundays	5	5	4	4	4	4	4	5	5	4	4	4	4	5	5	4	4	4	5	5	4	4	4	4	4
	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-18	Aug-19	Sep-18	Sep-19	Oct-18	Oct-19	Nov-17	Nov-18	Nov-19
Monthly contracts	288	280	387	369	430	449	470	553	504	544	446	536	402	491	388	488	323	445	333	416	348	484	352	285	404

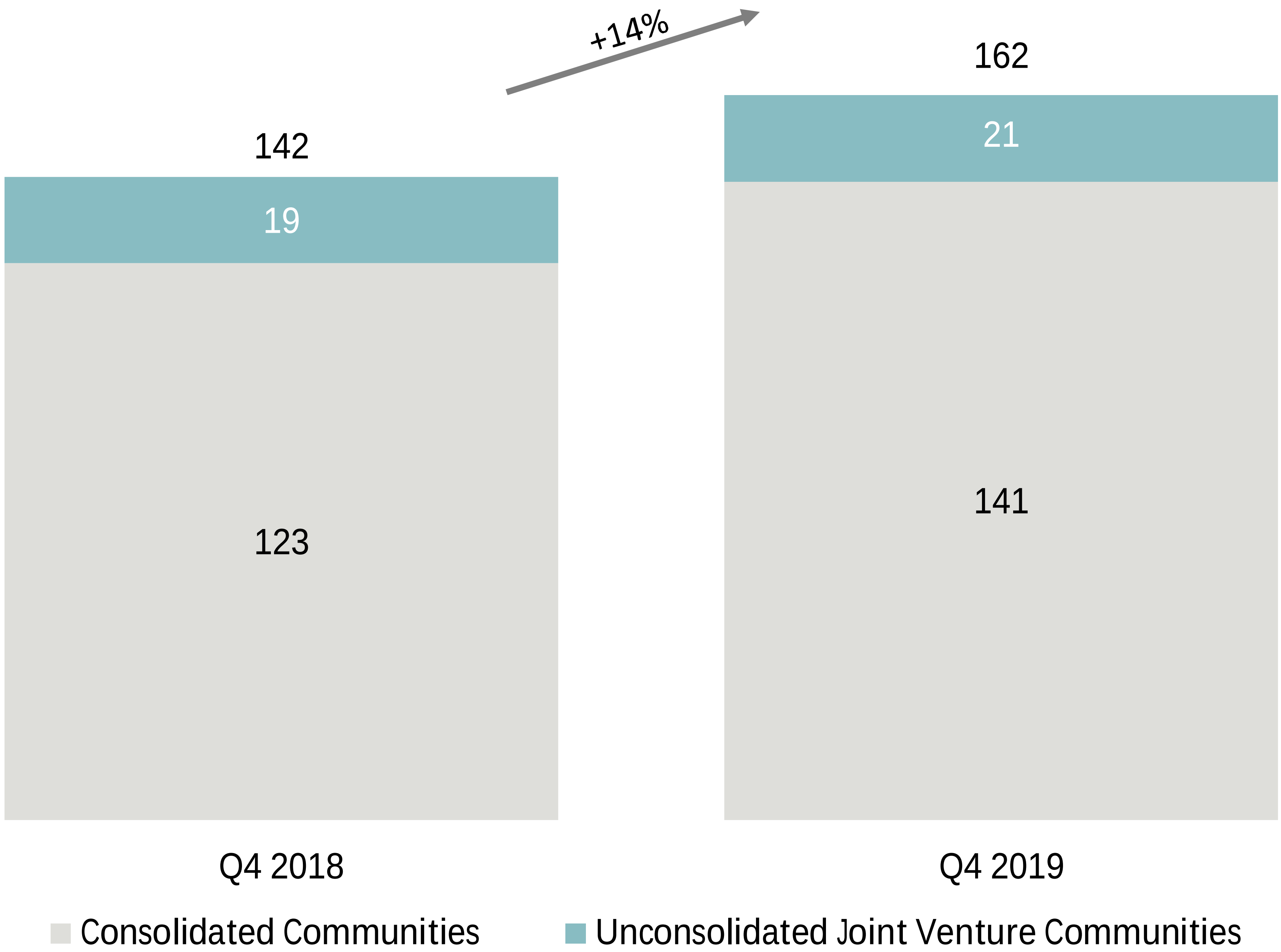
Note: Excludes unconsolidated joint ventures.

Annual Contracts Per Community



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

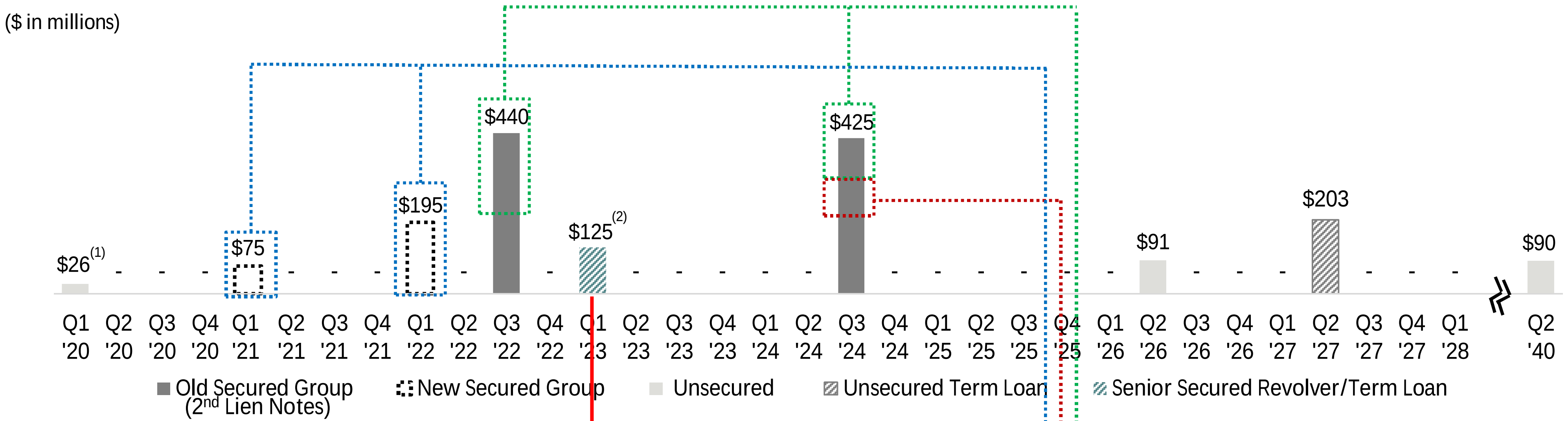
Quarterly Community Count



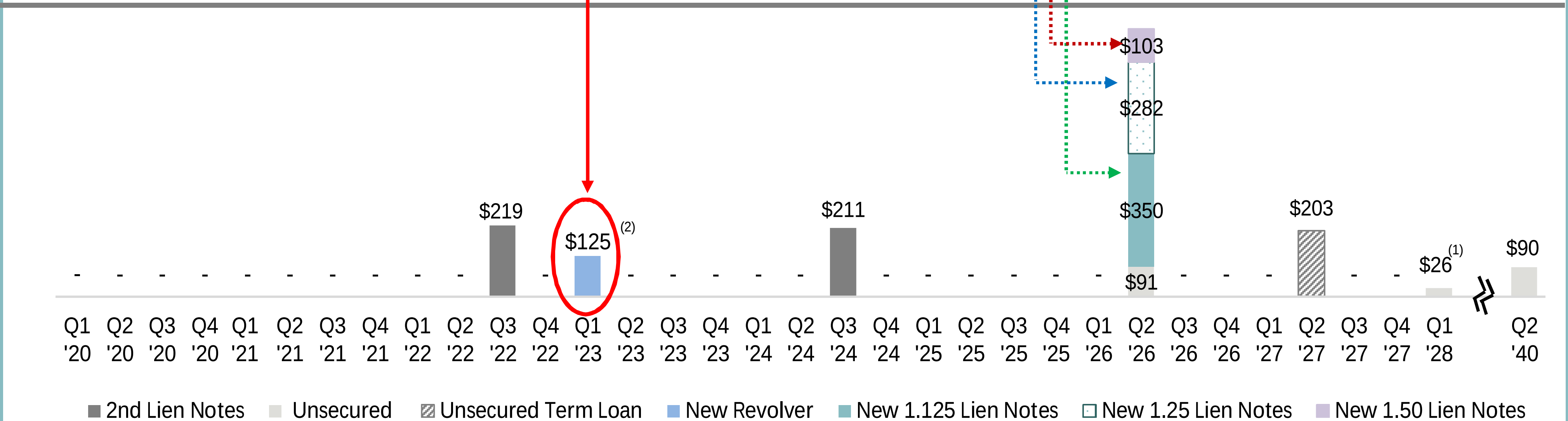
Note: Communities are open for sale communities with 10 or more home sites available.
Note: Excludes our single community unconsolidated joint venture in the Kingdom of Saudi Arabia.

Maturity Ladder

July 31, 2019



October 31, 2019



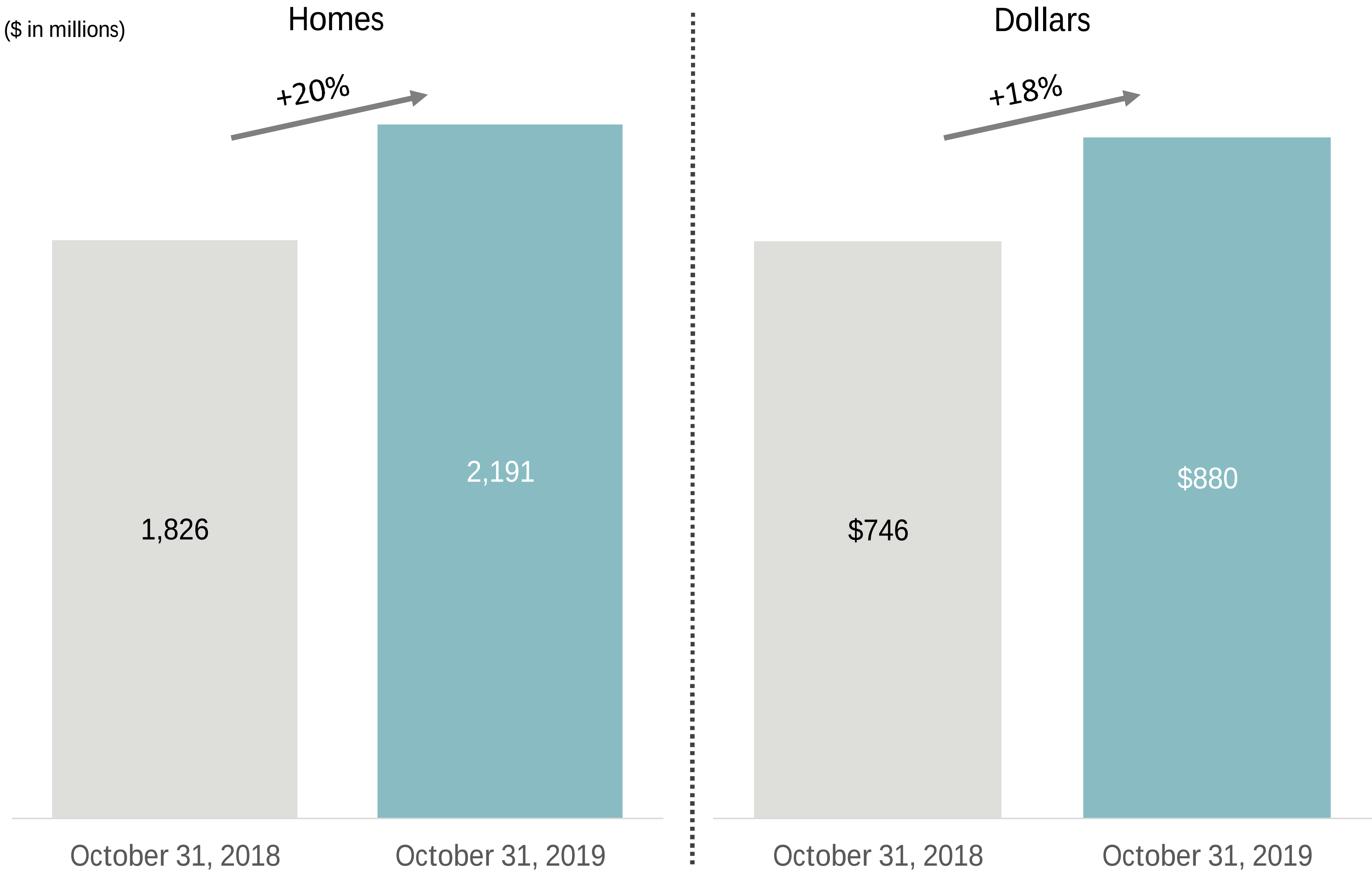
Note: Shown on a fiscal year basis, at face value.

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 and October 31, 2019.

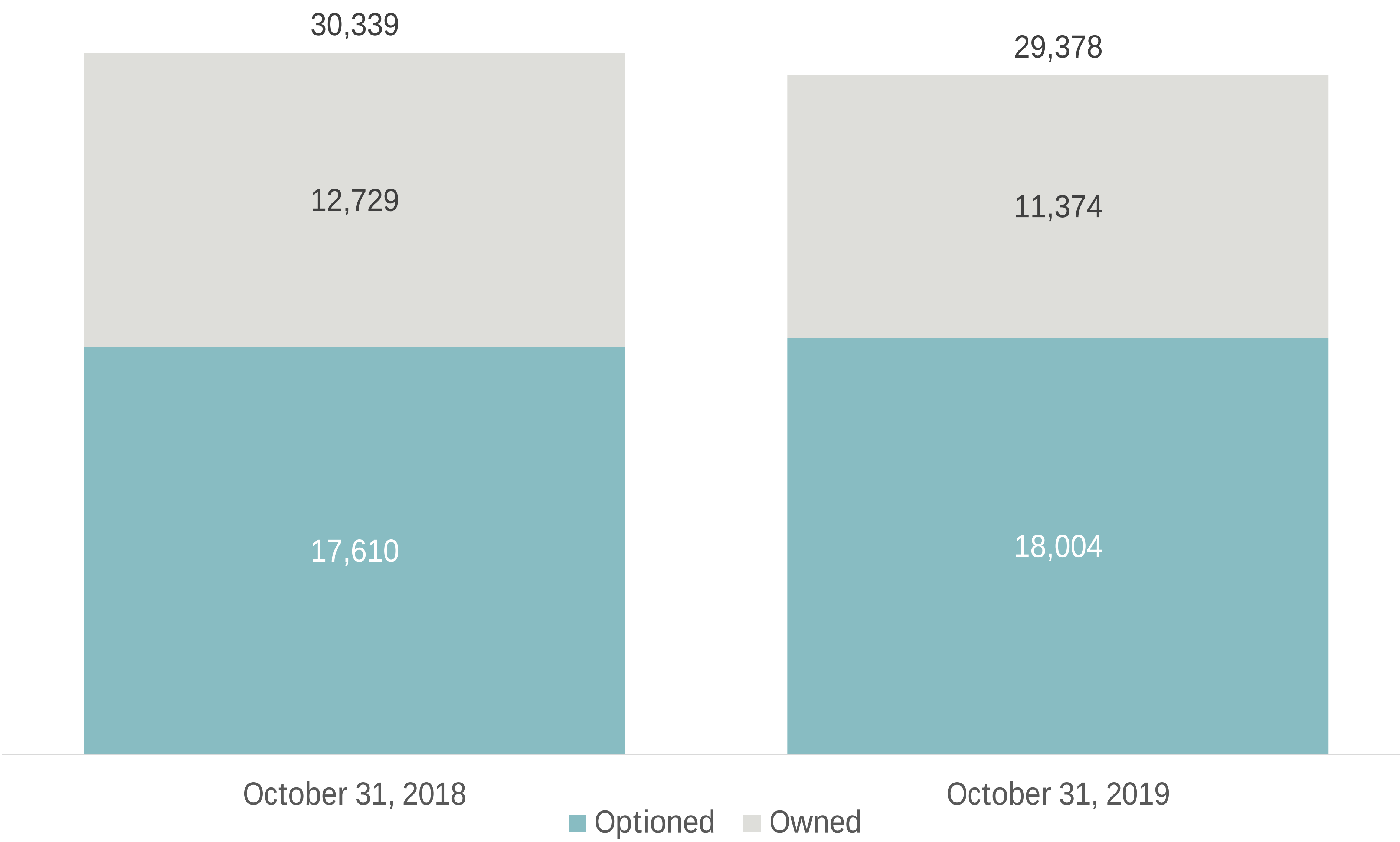
Consolidated Backlog



Note: Excludes unconsolidated joint ventures.

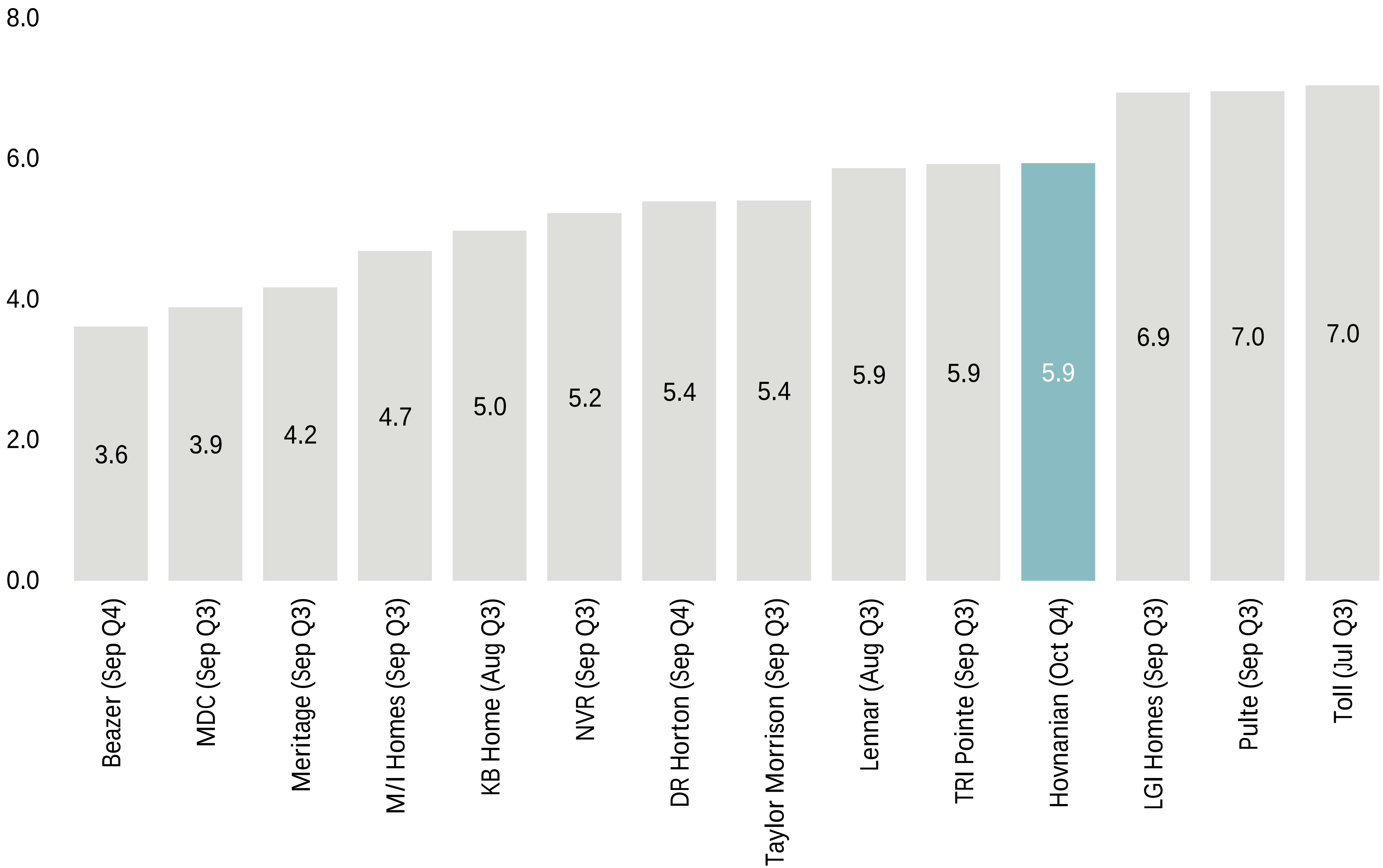
Total Lots Controlled

Control 100% of lots required to meet 2020 delivery forecast
Control more than 85% of lots required to meet 2021 delivery forecast



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 12/05/19.
Note: Excludes unconsolidated joint ventures.

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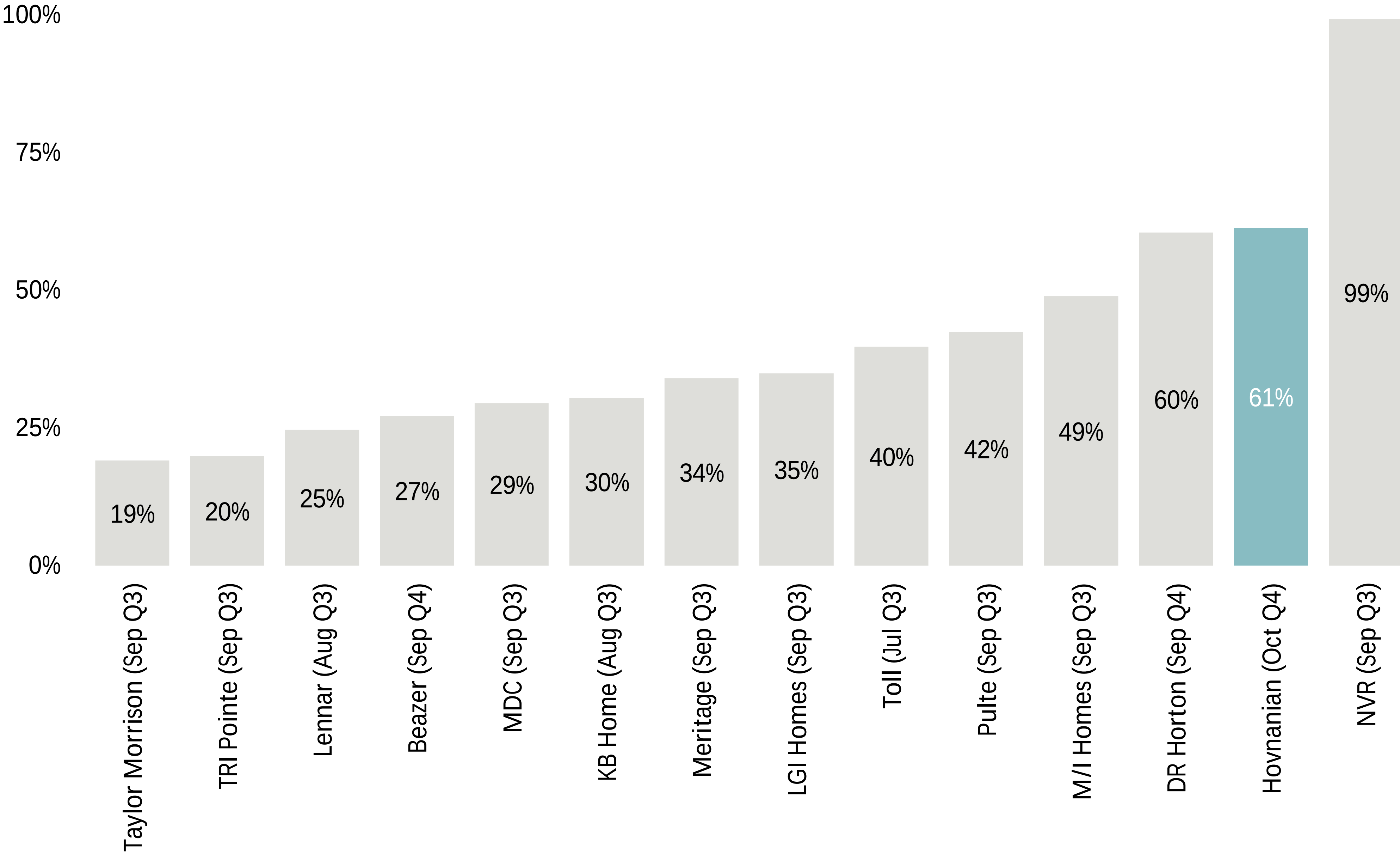
% of Lots Optioned



Source: Company SEC filings and press releases as of 12/05/19.
Note: Excludes unconsolidated joint ventures.

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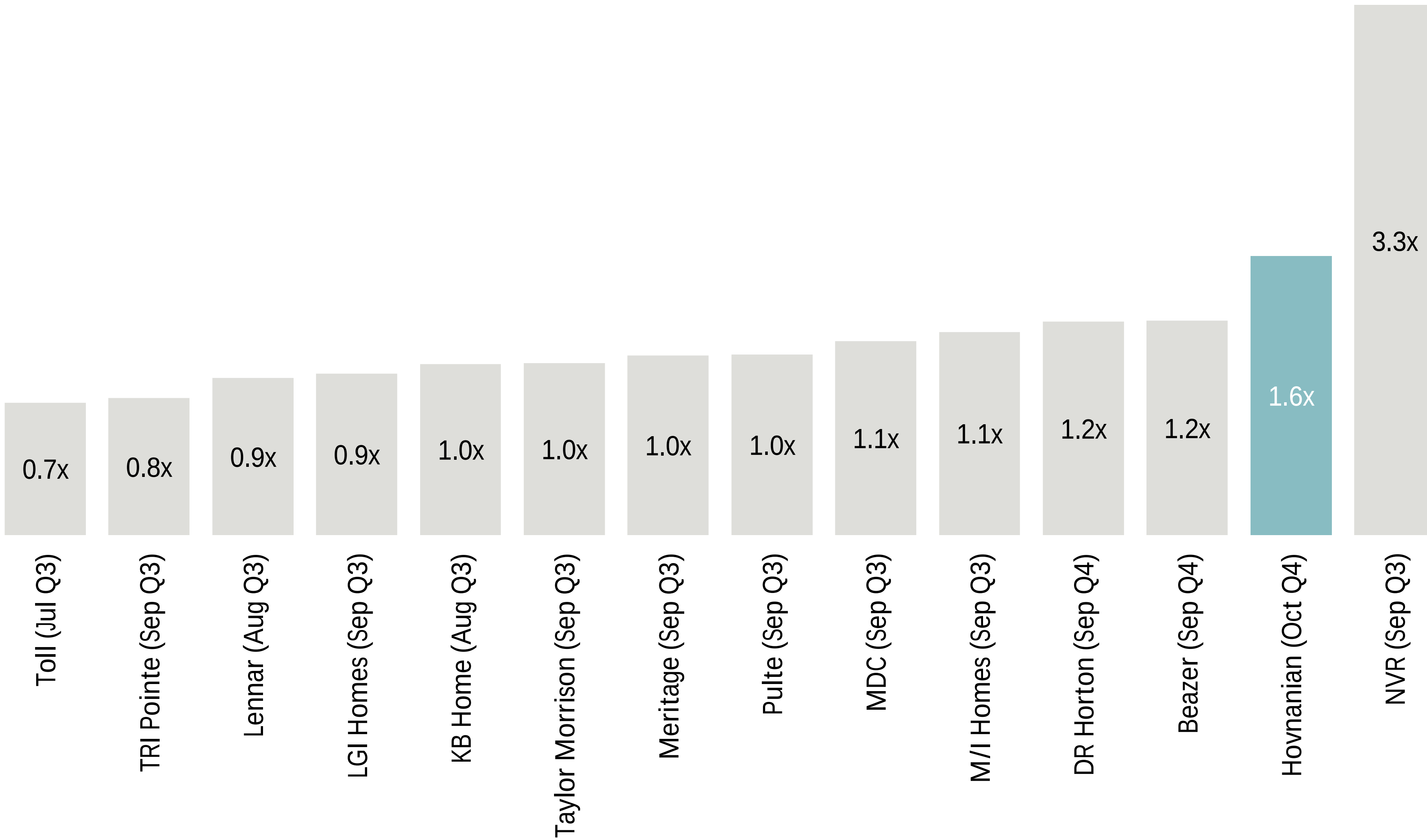
Inventory Turns (COGS), Last Twelve Months



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 12/05/19.

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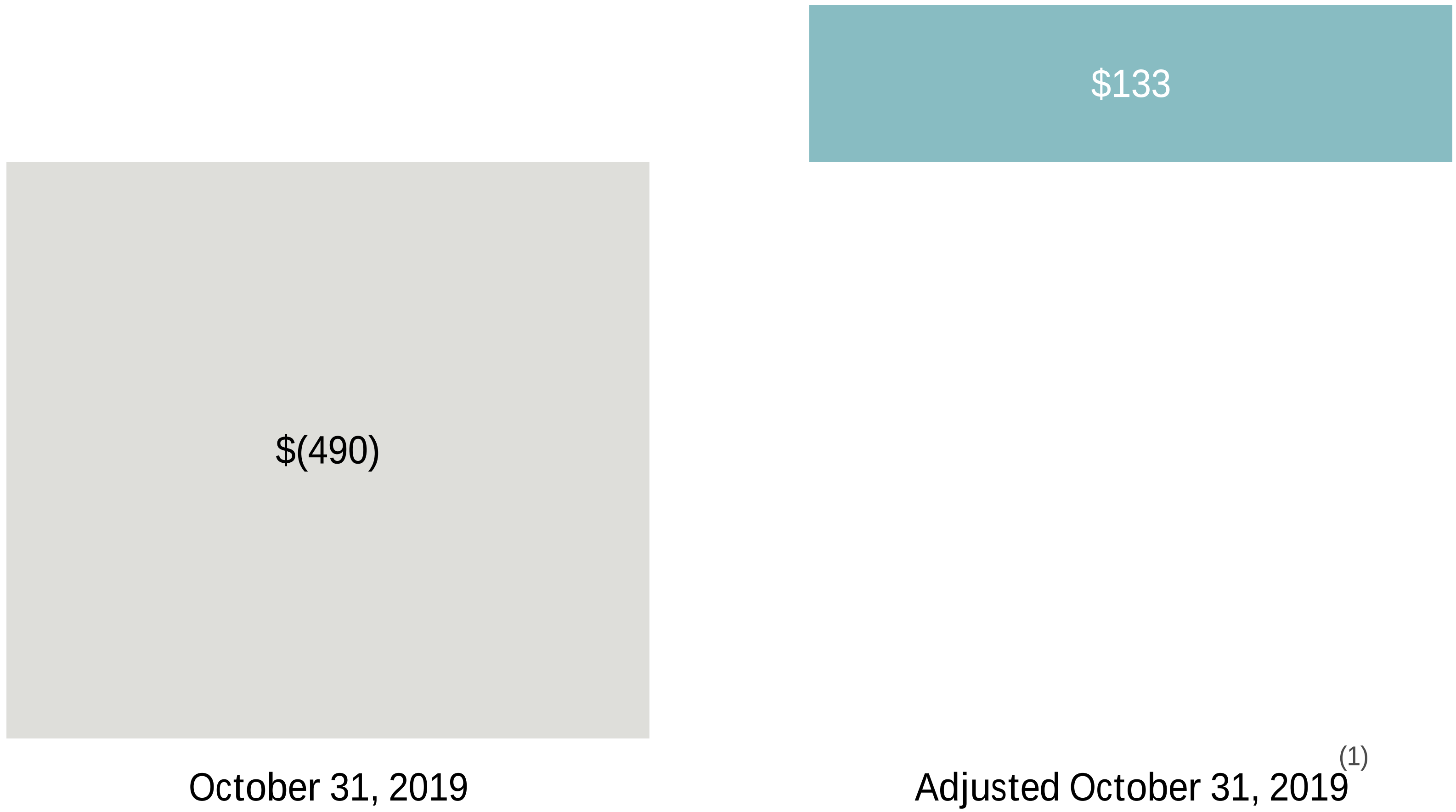
Adjusted Hovnanian Stockholders' Equity

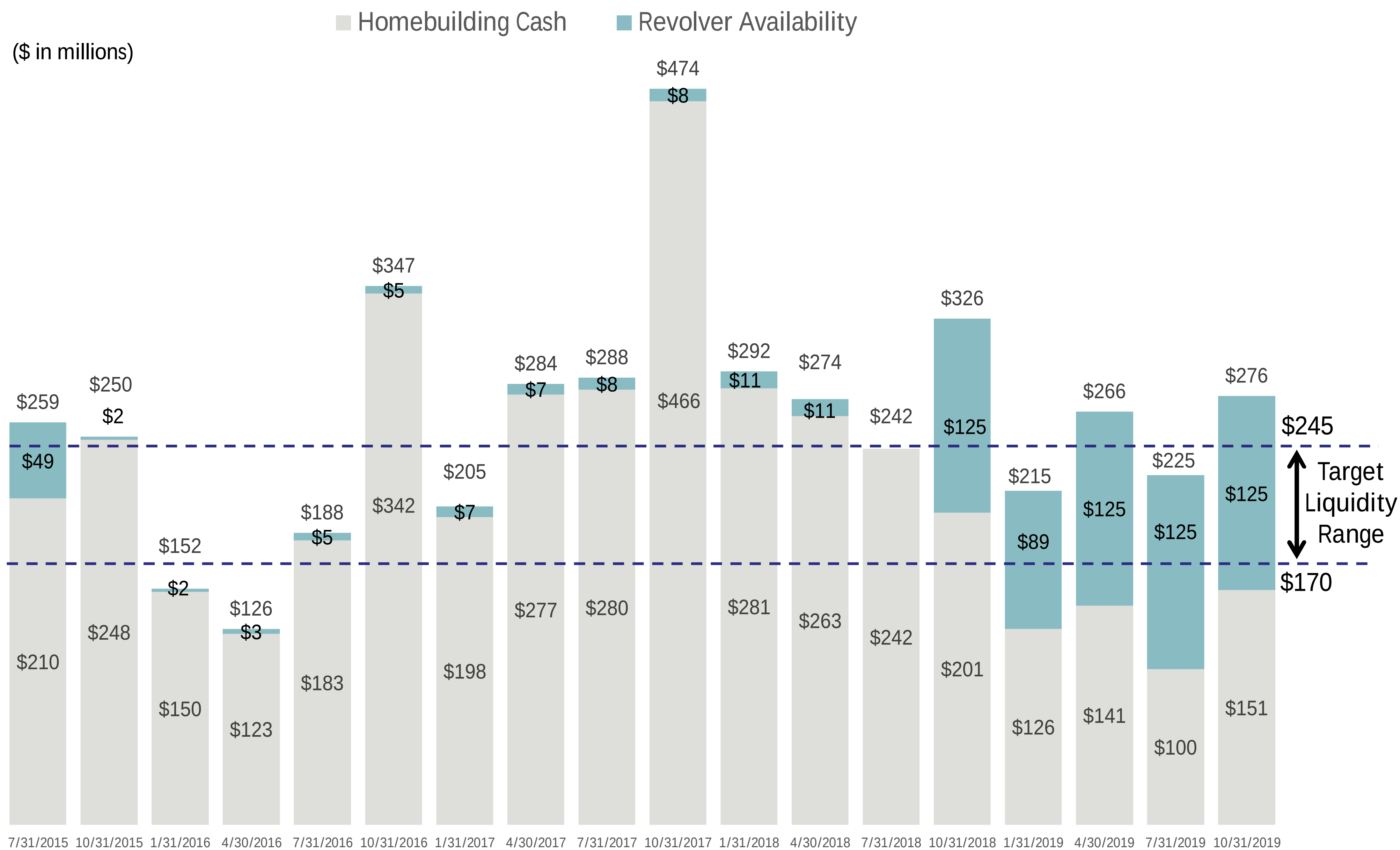
- *Deferred tax asset will shield approximately $2.0 billion of future pretax earnings from federal income taxes which will help accelerate repairing our balance sheet*

($ in millions)



(1) Total Hovnanian Stockholders' Deficit of $(490) million with $623 million valuation allowance added back to Stockholders' Equity. The $623 million valuation allowance consisted of a $420 million federal valuation allowance and a $203 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.

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Appendix

Coverage for Secured Debt[1]

($ in Thousands)

	October 31, 2019
Cash and cash equivalents	$136,900
Mortgaged inventory	$504,700
Non-mortgaged inventory[2]	$52,500
Equity interests in joint ventures[3]	$188,900
Total collateral	$883,000
Plus inventory with non-recourse loans[4]	$156,100
Total adjusted collateral	$1,039,100
Total principal amount of secured debt[5]	$1,165,800
Adjusted collateral ratio	0.89x

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, INTERCREDITOR PROVISIONS OR OTHERWISE.

(1) *On October 31, 2019, we entered into the senior secured revolving credit facility and issued the 1.125 Lien Notes due 2026, 1.25 Lien Notes due 2026 and 1.50 Lien Notes due 2026. Control agreements with respect to cash and cash equivalents collateral and mortgages over inventory in respect of such debt will be entered into and filed in accordance with the perfection timing requirements of the governing debt and security documents for such instruments.*

(2) *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.*

(3) *The pledge of equity interest represents the book value of equity in joint venture holding companies that hold interests in consolidated and unconsolidated joint ventures.*

(4) *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.*

(5) *Does not include $125 million senior secured first lien revolver of which $0 was outstanding as of October 31, 2019.*

Hovnanian Enterprises, Inc.

Land Positions by Geographic Segment

	October 31, 2019			
	Owned			
Segment	Excluding Mothballed Lots	Mothballed Lots	Optioned Lots	Total Lots
Northeast	490	6	2,801	3,297
Mid-Atlantic	2,086	280	2,930	5,296
Midwest	991	127	2,526	3,644
Southeast	1,712	-	2,981	4,693
Southwest	2,110	-	5,078	7,188
West	1,462	2,110	1,688	5,260
Consolidated Total	8,851	2,523	18,004	29,378
Unconsolidated Joint Ventures	1,480	-	515	1,995
Grand Total	10,331	2,523	18,519	31,373

- *Option deposits as of October 31, 2019 were $70 million*
- *$19 million invested in pre-development expenses as of October 31, 2019*

Note: Option deposits and pre-development expenses refers to consolidated optioned lots.
Note: Excludes our single community unconsolidated joint venture in the Kingdom of Saudi Arabia.

Reconciliation of Income 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.

October 31, 2019

Reconciliation of income 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 October 31,		Year Ended October 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
(Loss) income before income taxes	$(586)	$48,117	$(39,668)	$8,146
Inventory impairment loss and land option write-offs	2,687	318	6,288	3,501
Unconsolidated joint venture investment write-downs	-	601	854	1,261
Loss on extinguishment of debt	42,436	1,830	42,436	7,536
Income before income taxes excluding land-related charges, joint venture write-downs and loss on extinguishment of debt (1)	$44,537	$50,866	$9,910	$20,444

(1) 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.
October 31, 2019
Gross margin
(In thousands)

	Homebuilding Gross Margin Three Months Ended October 31,		Homebuilding Gross Margin Year Ended October 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Sale of homes	$692,146	$593,675	$1,949,682	$1,906,228
Cost of sales, excluding interest expense and land charges (1)	561,284	479,762	1,596,237	1,555,894
Homebuilding gross margin, before cost of sales interest expense and land charges (2)	130,862	113,913	353,445	350,334
Cost of sales interest expense, excluding land sales interest expense	27,556	15,563	70,520	56,588
Homebuilding gross margin, after cost of sales interest expense, before land charges (2)	103,306	98,350	282,925	293,746
Land charges	2,687	318	6,288	3,501
Homebuilding gross margin	$100,619	$98,032	$276,637	$290,245
Gross margin percentage	14.5%	16.5%	14.2%	15.2%
Gross margin percentage, before cost of sales interest expense and land charges (2)	18.9%	19.2%	18.1%	18.4%
Gross margin percentage, after cost of sales interest expense, before land charges (2)	14.9%	16.6%	14.5%	15.4%

	Land Sales Gross Margin Three Months Ended October 31,		Land Sales Gross Margin Year Ended October 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Land and lot sales	$1,161	$3,772	$9,211	$24,277
Land and lot sales cost of sales, excluding interest and land charges (1)	1,150	2,951	8,540	10,661
Land and lot sales gross margin, excluding interest and land charges	11	821	671	13,616
Land and lot sales interest	-	42	205	4,097
Land and lot sales gross margin, including interest and excluding land charges	$11	$779	$466	$9,519

(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 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.
October 31, 2019
Calculation of Inventory Turnover[1]

(Dollars in thousands)		For the quarter ended 1/31/2019	4/30/2019	7/31/2019	10/31/2019	TTM ended 10/31/2019
Cost of sales, excluding interest		$304,927	$355,477	$381,939	$562,434	$1,604,777
	As of 10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	
Total inventories	$1,078,165	$1,178,373	$1,268,058	$1,354,918	$1,292,485	Five Quarter Average
Consolidated inventory not owned	87,921	112,618	154,435	179,642	190,273	
Capitalized interest	68,117	74,455	79,277	77,997	71,264	
Inventories less consolidated inventory not owned and capitalized interest	$922,127	$991,300	$1,034,346	$1,097,279	$1,030,948	$1,015,200
Inventory turnover						1.6x

(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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