

INVESTOR PRESENTATION



FORESTAR

Q3 | 2019

FORWARD-LOOKING STATEMENTS

This presentation may include “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Although Forestar believes any such statements are based on reasonable assumptions, there is no assurance that actual outcomes will not be materially different. Factors that may cause the actual results to be materially different from the future results expressed by the forward-looking statements include, but are not limited to: the effect of D.R. Horton, Inc.’s (“D.R. Horton”) controlling level of ownership on us and our stockholders and holders of notes; our ability to realize the potential benefits of the strategic relationship with D.R. Horton; the effect of our strategic relationship with D.R. Horton on our ability to maintain relationships with our vendors and customers; demand for new housing, which can be affected by a number of factors including the availability of mortgage credit, job growth and fluctuations in interest rates; competitive actions by other companies; accuracy of estimates and other assumptions related to investment in and development of real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales; our ability to hire and retain key personnel; changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies; general economic, market or business conditions where our real estate activities are concentrated; our ability to achieve our strategic initiatives; our ability to obtain future entitlement and development approvals; our partners’ ability to fund their capital commitments and otherwise fulfill their operating and financial obligations; our ability to obtain or the availability of surety bonds to secure our performance related to construction and development activities and the pricing of bonds; obtaining reimbursements and other payments from special improvement districts and other agencies and timing of such payments; the levels of resale housing inventory in our development projects and the regions in which they are located; fluctuations in costs and expenses, including impacts from shortages in materials or labor; the opportunities (or lack thereof) that may be presented to us and that we may pursue; the strength of our information technology systems and the risk of cybersecurity breaches; the conditions of the capital markets and our ability to raise capital to fund expected growth; and our ability to comply with our debt covenants, restrictions and limitations. Additional information about factors that could lead to material changes in performance is contained in Forestar’s annual report on Form 10-KT and our most recent quarterly report on Form 10-Q, both of which are filed with the Securities and Exchange Commission (SEC).

FORESTAR OVERVIEW

- **Forestar Group Inc. is a highly differentiated, national residential lot developer**

- Develop and sell lots for single-family homes to D.R. Horton and other local, regional and national homebuilders
- Focused on phased development of short duration, fully-entitled lot development projects
- High turnover, lower risk lot manufacturing strategy with intense focus on returns

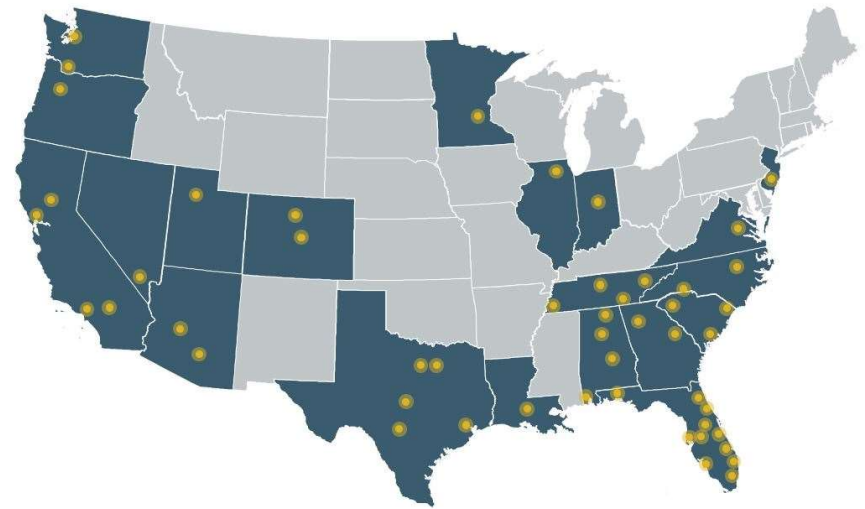
- **Majority-owned subsidiary of D.R. Horton, Inc. (“D.R. Horton” or “DHI”)**

- 75% of common shares acquired by DHI in 2017 for ~\$560M
- Largest homebuilder by volume in the U.S. for calendar years 2002 – 2018 and one of only two investment grade rated public homebuilders in the U.S.
- Highly strategic relationship supports and de-risks Forestar’s transformation to a lot manufacturing business model and significant expansion to scale

- **Rapidly expanding to fulfill market demand**

- Diversified and growing national footprint
- Existing lot position sufficient to support near-term growth
- Builder preference for ‘land light’ enhances opportunity

Operations in 50 markets across 20 states⁽¹⁾



● / ■ Current FOR markets / states

Current Snapshot ⁽¹⁾	
Residential Lots Owned or Controlled	37,400
Total Assets	~\$1.3B
Revenues	~\$224M
Liquidity ⁽²⁾	~\$580M
Equity Market Cap ⁽³⁾	~\$840M

(1) As of or for twelve months ended 6/30/19

(2) Liquidity defined as unrestricted cash and cash equivalents plus revolving credit facility availability as governed by the borrowing base

(3) As of 7/24/19

THE FORESTAR VALUE PROPOSITION

DIFFERENTIATED BUSINESS MODEL DESIGNED TO ADDRESS A SIGNIFICANT MARKET NEED

- Returns focused residential lot development business model
- High turnover, lower risk lot manufacturing strategy focused on returns
- Under-served lot development market with lack of well-capitalized and/or national participants

SIGNIFICANT GROWTH OPPORTUNITY

- Current lot supply provides roadmap for top-line growth for coming years
- Opportunity for increased scale within existing markets and entrance into new markets
- Portfolio and platform expansion designed to increase returns and margins

INTENSE FOCUS ON RISK MITIGATION

- Short duration, fully-entitled projects
- Phased development and largely discretionary cash spend
- Geographic diversification
- Maintain strong liquidity and conservative leverage with balance between debt and equity

HIGHLY STRATEGIC RELATIONSHIP WITH D.R. HORTON ENHANCES BUSINESS MODEL, GROWTH AND RISK PROFILE

- Strategic alignment with and access to DHI network of markets, experienced team and business relationships
- Instills culture of manufacturing-like approach and conservative operating strategy
- Significant built-in demand for current and future lot deliveries
- Facilitates risk-adjusted scaling into new markets
- Enhanced access to capital markets

FORESTAR INVESTMENT HIGHLIGHTS

Unique Returns-
Focused Lot
Manufacturing
Business Model

Strategic Relationship
With D.R. Horton
Supports Ability to Scale
and De-Risks Expansion

Significant Growth
Trajectory

Geographic
Diversification and
Growing Footprint

Primary Focus on
Attractive Entry-
Level Segment

Homebuilders'
Increasing Preference
for Lots Developed by
3rd Parties

Proven / Seasoned
Management Team
With Decades of
Real Estate
Experience

Strong Balance
Sheet and Liquidity
Position

UNIQUE LOT MANUFACTURER BUSINESS MODEL

FOR's unique lot manufacturing model is highly differentiated from that of a typical land developer

- Business model designed to achieve scale and consistency, while minimizing risk
- High turnover, lower risk “lot manufacturing” strategy generates returns similar to an efficient, production-oriented homebuilder

FORESTAR

- ✓ **Short duration**, fully-entitled lot development projects
- ✓ **Large scale** with national footprint and in-market depth
- ✓ **Returns-focused, lower risk** inventory model
- ✓ **Consistent operating** results at scale and **currently profitable**
- ✓ **Understandable, growth-oriented** business model
- ✓ **Strong liquidity and access** to debt and equity capital
- ✓ **Phased, discretionary land development** with known buyer

TYPICAL LAND DEVELOPER

- X Long-term, often complex or unentitled, real estate projects
- X Lack of geographic diversification and depth in markets
- X Lower return, unpredictable inventory model
- X Lack of consistent profitability
- X Limited visibility into future growth
- X Limited access to and high cost of capital
- X Speculative land with undefined buyer

BUSINESS OVERVIEW



Source land acquisition opportunities

- Forestar, D.R. Horton and other national, regional and local 3rd party homebuilders



Place land under contract and complete due diligence

- Environmental, market, entitlement, planning, engineering and permitting review



Close acquisition of entitled land

(~30% finished lot cost)

- Initial Forestar capital commitment



Lot development

(~70% finished lot cost)

- Phased development
- Grading, roads, utilities and landscape / amenities

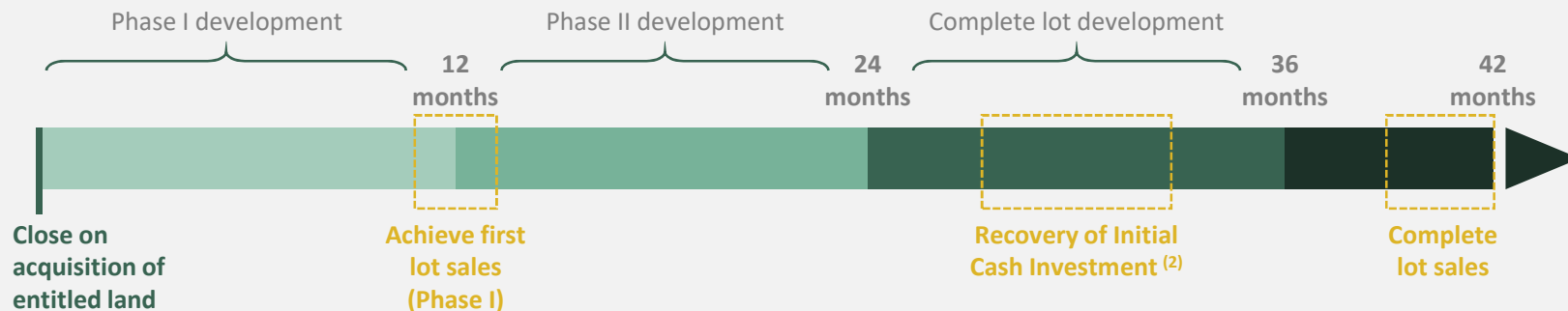


Deliver finished lots to builders

- D.R. Horton as well as other national, regional and local builders

Forestar Capital Deployment and Cash Generation

ILLUSTRATIVE FORESTAR PROJECT



Underwriting Criteria

- ✓ >15% Return on Inventory ⁽¹⁾
- ✓ <36 month return of initial investment

(1) Return on inventory is calculated as pre-tax income divided by average inventory over the life of a project

(2) Includes land purchase price and development costs for first phase of lots



INVESTMENT PORTFOLIO

LOT DEVELOPMENT PROJECTS

- Shorter duration, phased developments with lower market risk
- Includes projects sourced by either DHI or FOR to sell lots to both DHI and other builders
- Minimum annual returns on inventory of 15%⁽¹⁾
- Gross margin percentage varies with project duration and the extent of FOR's involvement in sourcing, pre-acquisition entitlement work, development and other value creation activities
- Gross margin percentage range of 14% to 22% (expect most projects to be at lower end of range in Q4 FY19 and FY20)
- As FOR's development portfolio and operating platform matures over the next several years, lot development returns and margins are expected to increase

SHORT-TERM LOT/LAND BANKING PROJECTS

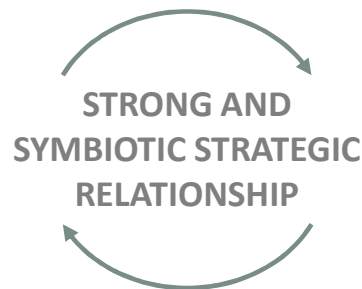
- Short-term investments of available capital prior to deployment into new development projects, primarily with DHI
- Level of lot/land banking managed relative to short term liquidity and expected future cash requirements of lot development investments
- Annual returns on inventory of 12% to 16%⁽¹⁾
- Gross margin percentage range of 3% to 9% based on current average portfolio duration
- Expected to be roughly 1/3 of lot deliveries in Q4 FY19 and FY20 and will likely decline as a percentage of the portfolio mix over time as FOR's development platform expands

(1) Return on inventory is calculated as pre-tax income divided by average inventory over the life of a project

BENEFITS OF HIGHLY STRATEGIC FOR AND DHI ALIGNMENT

BENEFITS TO FOR

- Enhanced, experienced leadership team
- Supports ability to scale to national platform
- Significant built-in demand for lots
- Improved access to capital markets
- Shared Services from DHI



BENEFITS TO DHI

- Long-term consistent supplier of finished lots across DHI's national footprint (87 markets in 29 states)
- Integral component of DHI's operational strategy
- Participate in value creation of FOR

Alignment with DHI supports FOR's transformation into a national, well-capitalized lot manufacturer

- DHI's annual purchases of finished lots through market cycles significantly exceed FOR's near-term growth plans
- DHI is committed to owning no more than a 2 to 3-year supply of lots and to increasing its mix of optioned lots in inventory
- Most land developers lack the scale and access to capital to be consistent suppliers of lots to DHI across its national footprint
- Master Supply, Stockholder and Shared Services Agreements formalize the business relationship and protect FOR's interests⁽¹⁾
- DHI plans to maintain a significant ownership position in FOR over the long-term

Relationship with DHI further strengthens FOR's competitive advantages and DHI's interests are fully-aligned with shareholders to ensure the profitable expansion of FOR's platform

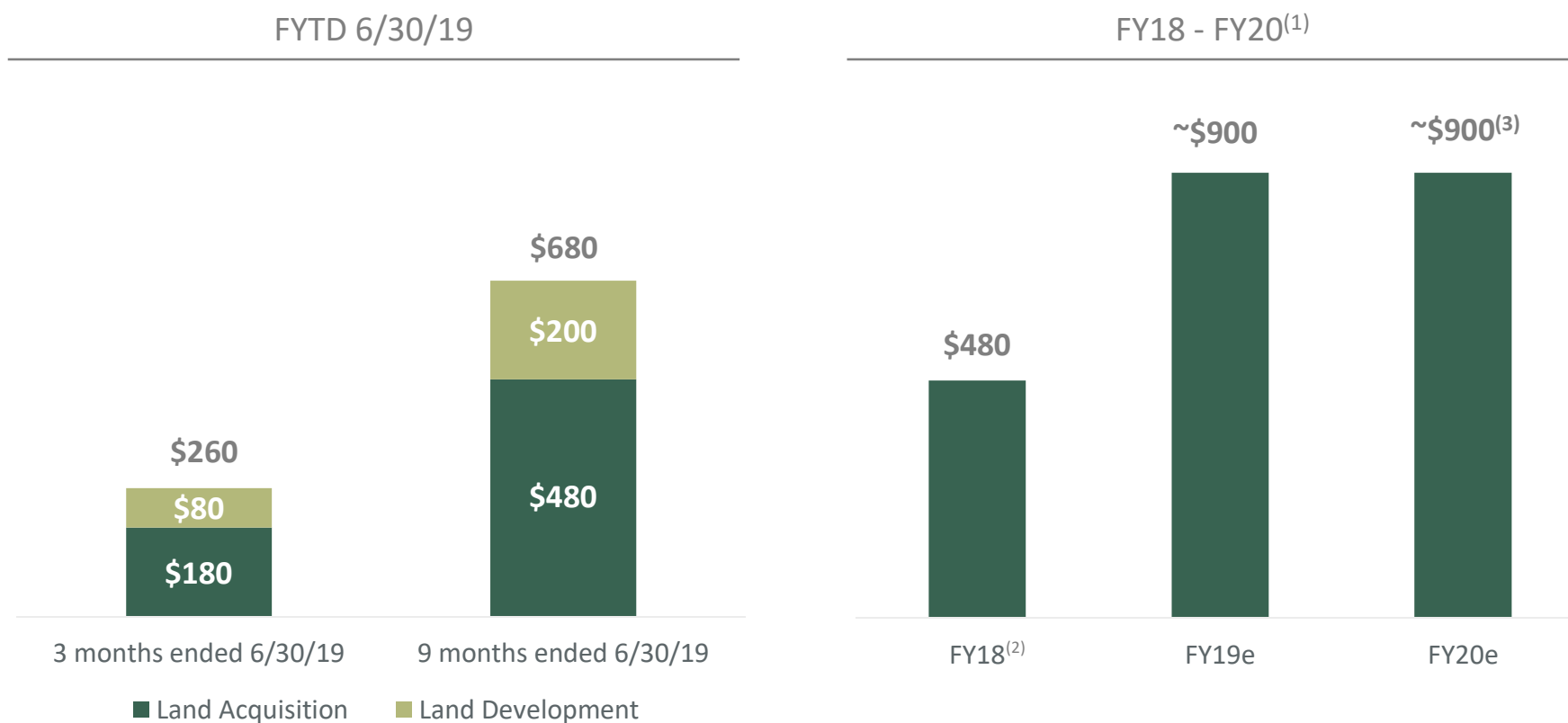
(1) MSA, Stockholder's Agreement and Shared Services Agreement summaries included in Appendix

SIGNIFICANT AND SUSTAINABLE GROWTH THROUGH NUMEROUS LEVERS

Built-in growth from DHI relationship	<ul style="list-style-type: none">▪ In the 12 months ended 6/30/19, FOR sold DHI 2,221 lots or approximately 4% of DHI's 55,625 annual closings▪ Over time, DHI may source more than 30% of its lots from FOR
Expand relationships with 3rd party homebuilders	<ul style="list-style-type: none">▪ FOR sold finished lots to over 15 different homebuilders in fiscal year 2018▪ As FOR builds out its infrastructure, capacity to work with other builders will increase
Increase scale in existing markets	<ul style="list-style-type: none">▪ FOR currently operates in some of the largest homebuilding markets in the country▪ As FOR gains scale and develops its own team in its existing markets, the Company will source more deals independently, which is expected to improve pre-tax profit margins and returns
Expand into new markets	<ul style="list-style-type: none">▪ 37 markets in which DHI has a presence but FOR does not▪ As FOR expands into new markets, it leverages DHI's infrastructure to generate a revenue stream before incurring incremental costs
Efficiently leverage overhead	<ul style="list-style-type: none">▪ As FOR achieves scale, overhead expense will decrease as a percentage of revenue▪ Over time, FOR should operate with lower overhead expenses than a typical homebuilder given wholesale business without need for extensive retail sales force and less reliance on labor / trades
Opportunistic consolidation	<ul style="list-style-type: none">▪ Consolidation opportunities in the highly fragmented lot development industry (similar to the homebuilder industry in the 1990s)

LAND AND DEVELOPMENT INVESTMENTS

Investing in land acquisition and development to support our significant expected growth in lot deliveries



\$ in millions

(1) FY19 and FY20 expectations as outlined on the Company's Q3 FY19 earnings conference call

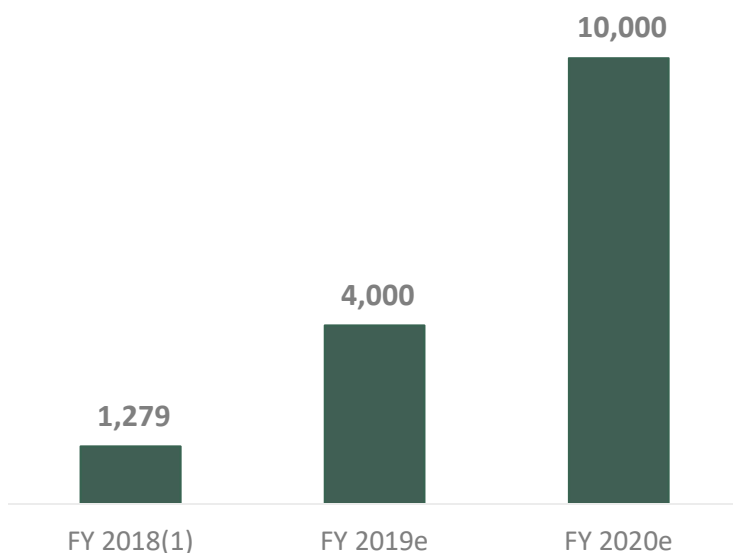
(2) Effective 1/1/18, FOR changed its fiscal year-end from 12/31 to 9/30; as presented, FY18 reflects the trailing twelve months ended 9/30/18

(3) Land acquisition and development investments in excess of \$900M will be dependent on timing and size of future capital raises

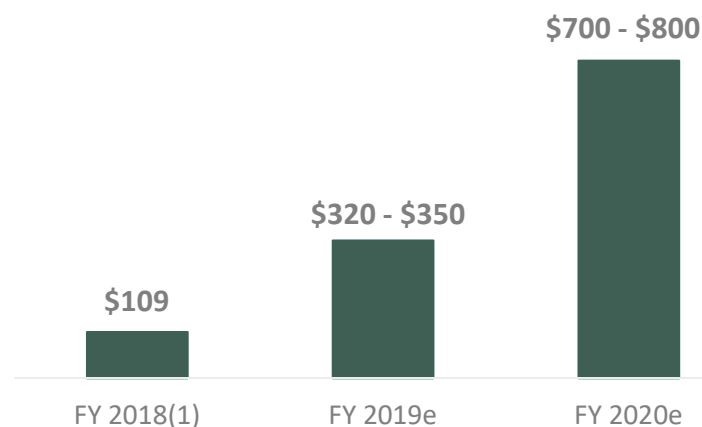
SIGNIFICANT NEAR-TERM GROWTH

- Expect 8x increase in deliveries to 10,000 lots by FY20, generating \$700M to \$800M of revenue
- Expect a pre-tax profit margin (PTI%) of ~10% for FY19 and a mid- to high-single digit percentage in FY20, with significant quarterly fluctuations
- Expect at least 20% revenue growth in FY21 with a PTI% of ~10%

Lot Deliveries



Revenue

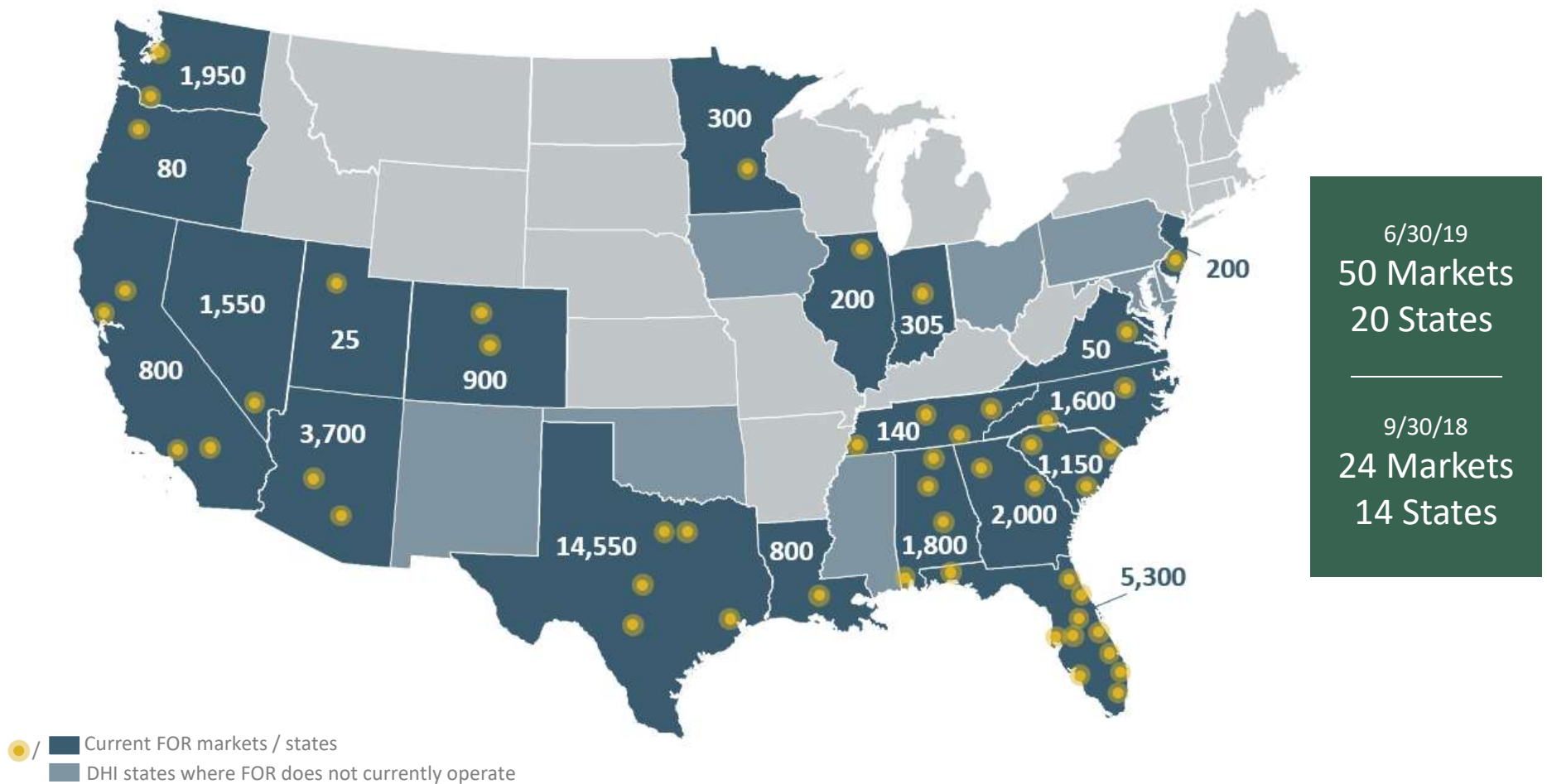


\$ in millions

(1) Effective 1/1/18, FOR changed its fiscal year-end from 12/31 to 9/30; as presented, FY 2018 reflects the trailing twelve months ended 9/30/18 and excludes lots sold to unconsolidated ventures

DIVERSIFIED AND GROWING FOOTPRINT

Own and control 37,400 lots at 6/30/19
Expect to own / control a 3 to 4 year lot inventory at scale

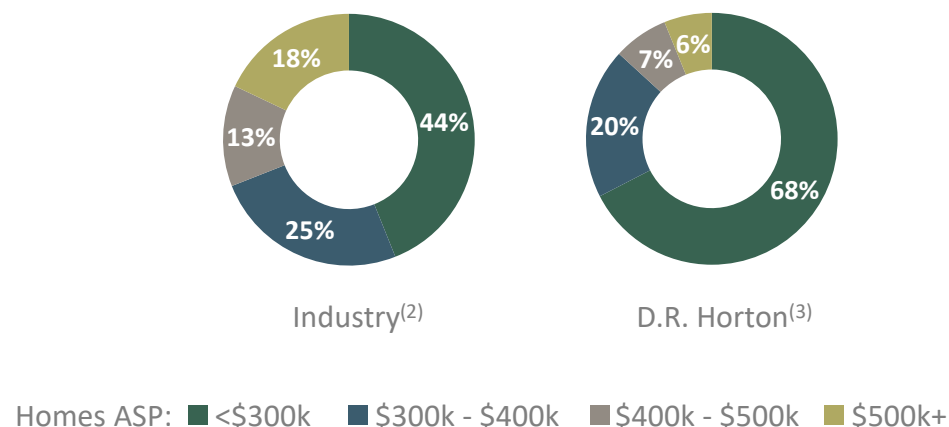


Lot Position by State and Markets as of 6/30/19
Lot counts are approximate
Of total lot position at 6/30/19, 28,800 are owned and 8,600 are controlled through purchase contracts

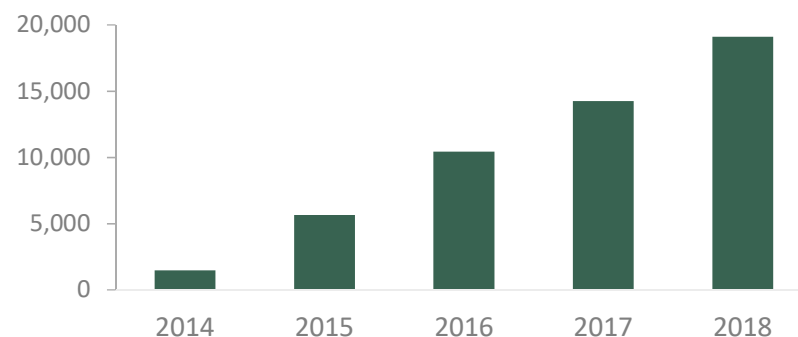
PRIMARY FOCUS ON ATTRACTIVE ENTRY-LEVEL SEGMENT

- Majority of recent Forestar investments have been focused on lots for homes at affordable / entry-level price points
- Average Forestar residential lot sale price for nine months ended 6/30/19 was ~\$78,800⁽¹⁾
- Compelling demand from entry-level buyers, but lack of inventory has been a constraint
- D.R. Horton offers homes at all price points, with entry-level / first-time buyers representing a majority of closings
 - Entry-level Express Homes brand has increased from 5% of DHI closings in fiscal 2014 to 37% of closings in fiscal 2018
- Public homebuilders have shifted towards entry-level, with the establishment of numerous entry-level brands over past five years

\$200k - \$300k homes average sales price (ASP) represents the largest cohort of homes sold by D.R. Horton and the broader housing market



D.R. Horton's Express Homes brand is a top 5 homebuilder by volume today⁽⁴⁾



Source: Company filings, Census, John Burns Real Estate Consulting

(1) Excludes any impact from change in contract liabilities

(2) Based on rolling twelve month average of homes sold as of April 2019

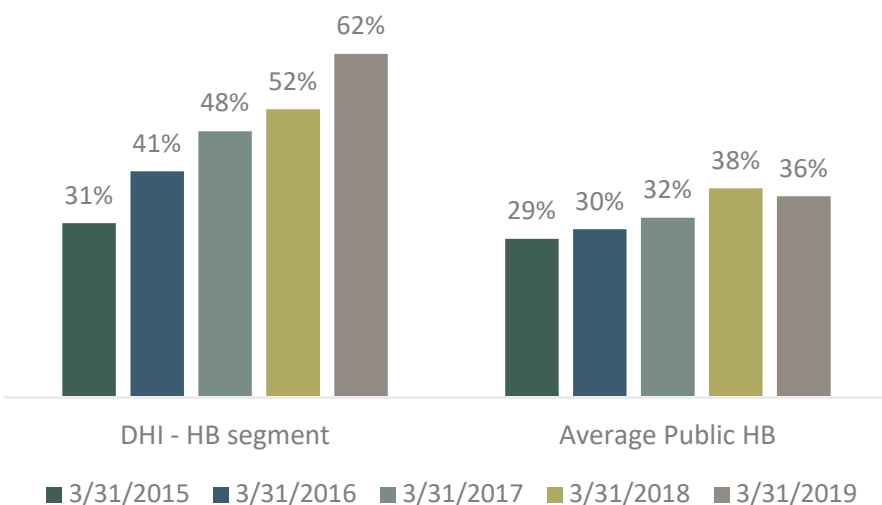
(3) Based on homes closed in twelve months ended 6/30/19

(4) Based on fiscal year-end closings

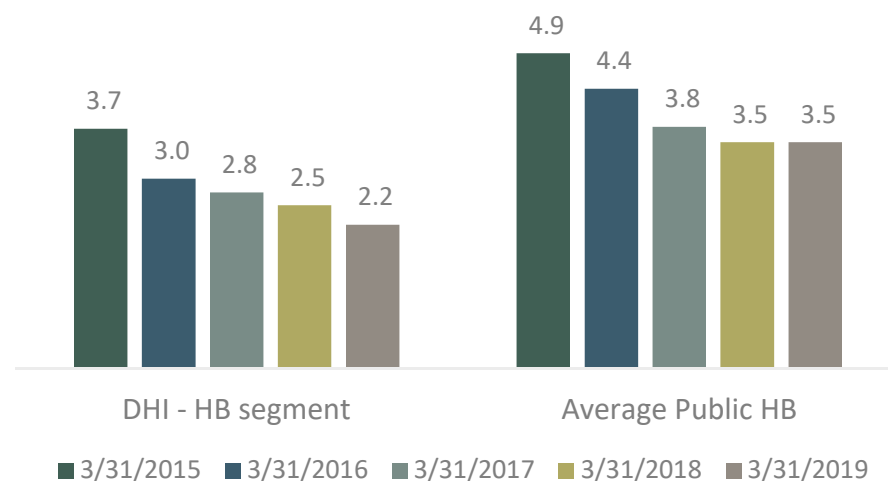
BUILDERS' PREFERENCE FOR 'LAND LIGHTER' STRATEGY ENHANCES OPPORTUNITY

As homebuilders increase their optioned land and shorten their owned land positions to improve returns, FOR is uniquely positioned to capitalize on residential lot development opportunities

Optioned Land/Lot Position as a % of Total Owned & Controlled



Number of Years of Owned Land Based on TTM Closings



Source: FactSet and respective Company SEC filings

Notes: Average Public Homebuilder (HB) data represents the land and lot positions of LEN, PHM, TOL, NVR, MTH, MDC, TMHC, TPH, LGIH and KBH

For LEN and KBH, data is as of the periods ended February 28

For TOL, data is as of the periods ended April 30

SEASONED LEADERS WITH DECADES OF LAND DEVELOPMENT EXPERIENCE

Management team has ability to scale FOR and replicate DHI's success



DON TOMNITZ
Executive Chairman

Formerly President & CEO of DHI for over a decade; joined FOR in Oct. 2017



DAN BARTOK
CEO

Joined FOR in Dec. 2017; formerly EVP of Owned Real Estate for Wells Fargo, with close to 40 years experience in homebuilding & land development industry



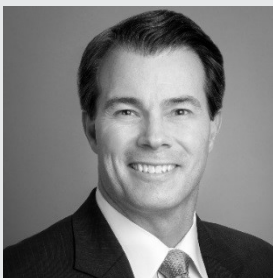
CHUCK JEHL
CFO

With FOR since 2005; in current role since 2015



TOM BURLESON
West Region President

With FOR since 2003 & has over 25 years of real estate experience



MARK WALKER
East Region President

With DHI since 2012; recently joined FOR with 18 years of real estate experience



NICOLAS APARICIO
Florida Region President

With DHI since 2011; recently joined FOR with 20 years of real estate experience

KEY FORESTAR ACHIEVEMENTS

Date	Achievement	Significance
October 2017	<ul style="list-style-type: none"> DHI acquisition of 75% of outstanding FOR shares for ~\$560M 	<ul style="list-style-type: none"> ✓ Created highly strategic relationship with DHI ✓ Supplemented executive and operational leadership
February 2018	<ul style="list-style-type: none"> \$232M strategic asset sale of legacy communities 	<ul style="list-style-type: none"> ✓ Transformed portfolio and provided capital for investment in new short duration, fully-entitled lot development projects
August 2018	<ul style="list-style-type: none"> Obtained \$380M unsecured revolving credit facility 	<ul style="list-style-type: none"> ✓ Provided meaningful liquidity and demonstrated support from and depth of banking relationships
September / November 2018	<ul style="list-style-type: none"> Filed public equity shelf registration statement Obtained credit ratings 	<ul style="list-style-type: none"> ✓ Positioned the Company to opportunistically access equity and debt capital markets
April 2019	<ul style="list-style-type: none"> Issued \$350M of senior unsecured notes 	<ul style="list-style-type: none"> ✓ Provided significant capital for growth beyond 2020 ✓ Demonstrated strong access to debt capital markets with \$50M offering upside and high-quality investor base

From acquisition date through June 30, 2019:

37

New Markets
Entered

31K

Residential
Lots Acquired

\$1.2B

Capital
Deployed

5

Equity Research
Analysts



FORESTAR

FINANCIAL POSITION AND POLICY

In April 2019, Forestar further strengthened its financial position by issuing \$350M of 8.0% senior unsecured notes due 2024

FINANCIAL POSITION AS OF 6/30/19

- \$223M unrestricted cash and cash equivalents
- \$380M 3-year unsecured revolving credit facility
- ~\$580M total liquidity⁽¹⁾
- \$119M convertible notes due 2020
- \$350M 8.0% senior notes due 2024
- \$695M shareholders' equity
- 25.3% net debt to total capital⁽²⁾

DISCIPLINED FINANCIAL POLICY

- Strict lot development investment underwriting:
 - **≥ 15%** return on inventory (ROI)⁽³⁾
 - **≤ 36-month** cash recovery of phase 1 investment
- Net debt to capital⁽²⁾ of **≤ 40%**
- Maintain strong liquidity
- Balanced financing plan including both debt and equity

(1) Liquidity defined as unrestricted cash balance plus revolving credit facility availability as governed by the borrowing base

(2) Net debt to capital is calculated as debt net of unrestricted cash divided by debt net of unrestricted cash plus shareholders' equity

(3) ROI is calculated as pre-tax income divided by average inventory over the life of a project

Q3 AND FYTD 6/30/19 HIGHLIGHTS

- Operating highlights

- Residential lots sold increased 290% to **1,158 lots** compared to 297 lots in the same quarter of fiscal 2018
- **37,400 lots at 6/30/19**, of which 28,800 were owned and 8,600 were controlled through purchase contracts
 - Of the total lot position, 24,100 lots were under contract to sell or subject to a right of first offer to D.R. Horton

- Financial highlights

Three months ended 6/30/19

\$88M

Revenues

274%

YoY Revenue Growth

\$8M

SG&A Expense

9%

SG&A Margin

\$8M

Pre-Tax Income

10%

Pre-Tax Margin

\$7M

Net Income

\$0.16

Net Income per Share

Nine months ended 6/30/19

\$192M

Revenues

149%

YoY Revenue Growth

\$20M

SG&A Expense

10%

SG&A Margin

\$30M

Pre-Tax Income

15%

Pre-Tax Margin

\$20M

Net Income

\$0.48

Net Income per Share

FORESTAR INVESTMENT HIGHLIGHTS

Unique Returns-
Focused Lot
Manufacturing
Business Model

Strategic Relationship
With D.R. Horton
Supports Ability to Scale
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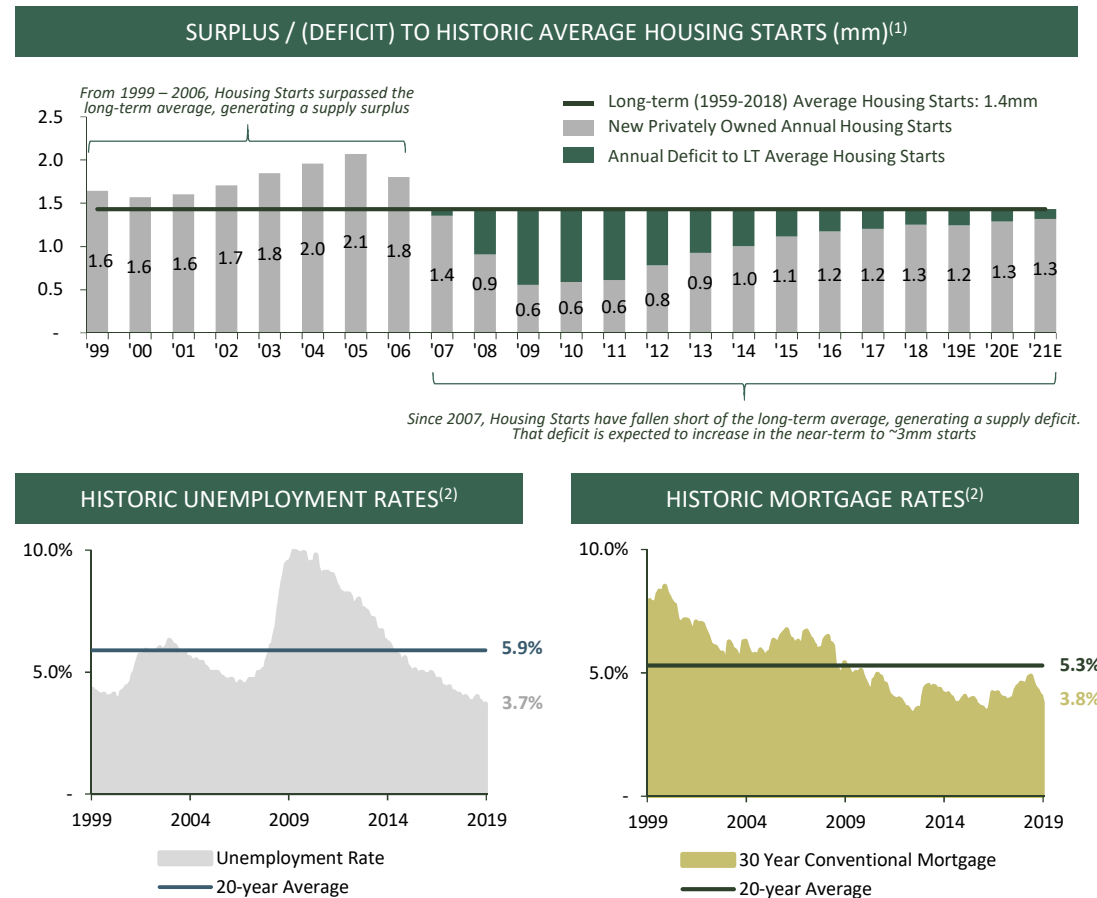
Strong Balance
Sheet and Liquidity
Position

APPENDIX

SOLID LONG-TERM INDUSTRY FUNDAMENTALS

Long-term housing industry fundamentals remain solid

- Limited supply of homes at affordable price points
- Unemployment rate near or at record lows for almost all groups of Americans
- Hourly wages growing
- Interest rates remain near historic lows
- Favorable demographics
- High consumer confidence



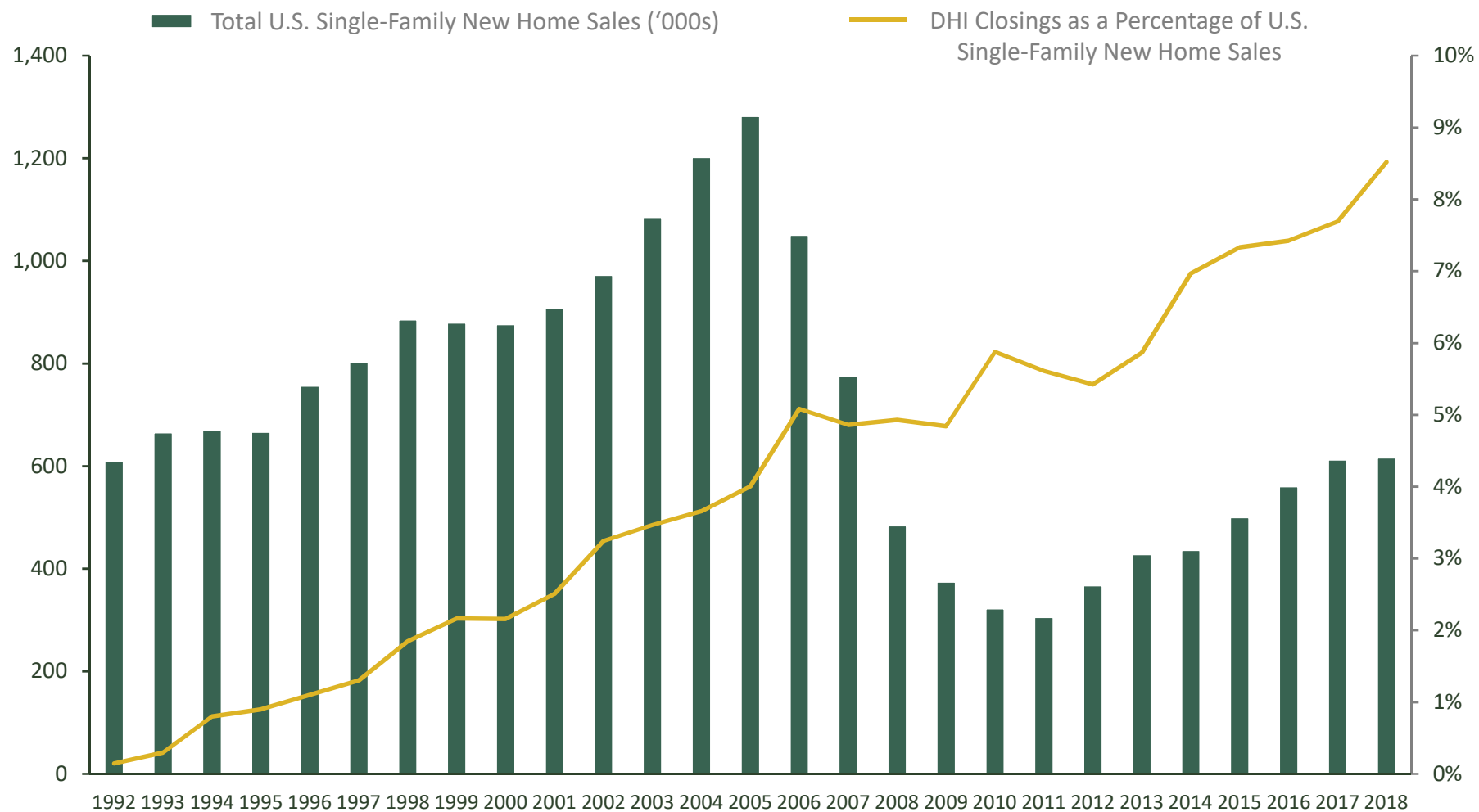
Source: Federal Reserve Bank of St. Louis, Freddie Mac, National Association of Realtors, NAHB, U.S. Census Bureau

Notes: Unemployment and mortgage rate data as of June 2019

(1) 2019e - 2021e starts are based on annual estimates from the NAHB

(2) Represent monthly rates

DHI GROWTH, CONSOLIDATION AND MARKET SHARE GAINS PROVIDE ROADMAP FOR FORESTAR



Source: Company filings, Census
Note: Periods represent full calendar year

INCOME STATEMENT

	3 MONTHS ENDED		9 MONTHS ENDED	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Residential lots sold:	1,158	297	2,224	856
Development projects	723	294	1,597	767
Lot banking projects	435	3	627	89
 Average sales price per lot ⁽¹⁾	\$ 77,400	\$ 77,900	\$ 78,800	\$ 75,300
 Revenues	\$ 88.2	\$ 23.6	\$ 192.0	\$ 77.0
Gross profit	12.9	13.6	42.4	28.1
Selling, general and administrative expense	7.9	6.5	19.8	36.1
Gain on sale of assets	(1.5)	(1.3)	(2.4)	(4.1)
Equity in earnings of unconsolidated ventures	-	(1.0)	(0.5)	(9.6)
Interest and other (income) expense	(1.9)	(1.0)	(4.1)	1.0
Pre-tax income	8.4	10.4	29.6	4.7
Income tax expense	1.5	0.1	6.0	12.6
Net income (loss) from continuing operations	6.9	10.3	23.6	(7.9)
Income from discontinued operations, net of taxes	-	-	-	7.2
Net income attributable to noncontrolling interests	-	0.9	3.3	2.9
Net income (loss) attributable to Forestar Group, Inc.	\$ 6.9	\$ 9.4	\$ 20.3	\$ (3.6)
 Diluted earnings (loss) per share	\$ 0.16	\$ 0.22	\$ 0.48	\$ (0.09)

\$ in millions except per share data

Unaudited

(1) Excludes any impact from change in contract liabilities or deferred revenue

BALANCE SHEET

	6/30/2019	9/30/2018	6/30/2018
Cash and cash equivalents ⁽¹⁾	\$ 223.2	\$ 335.0	\$ 407.8
Real estate	1,049.5	498.0	360.9
Investment in unconsolidated ventures	7.3	11.7	18.0
Other assets	24.2	21.5	22.9
Deferred income taxes, net	21.0	26.9	1.3
Total assets	\$ 1,325.2	\$ 893.1	\$ 810.9
Debt	\$ 458.9	\$ 111.7	\$ 110.5
Earnest money deposits on sales contracts	84.8	49.4	41.6
Other liabilities	86.2	57.5	38.6
Shareholders' equity	694.7	673.3	618.4
Noncontrolling interests	0.6	1.2	1.8
Total equity	695.3	674.5	620.2
Total liabilities and equity	\$ 1,325.2	\$ 893.1	\$ 810.9
Net debt to total capital⁽²⁾	25.3%	-44.4%	-71.3%
Debt to total capital⁽²⁾	39.8%	14.2%	15.2%

\$ in millions except per share data

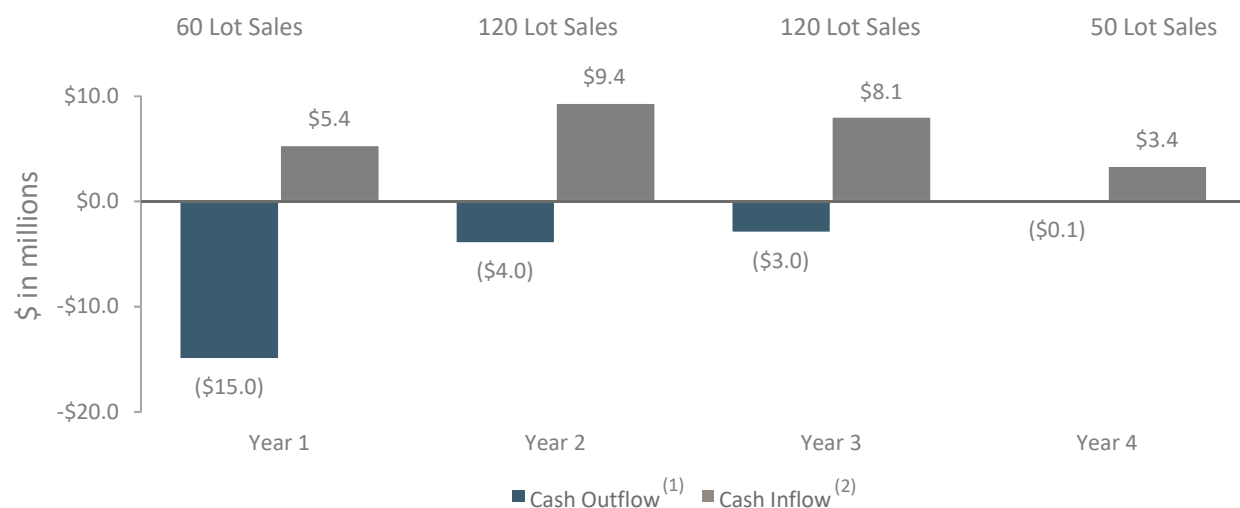
Unaudited

(1) Cash and cash equivalents presented above includes \$0.2 million, \$16.2 million and \$40.0 million of restricted cash for the periods ended 6/30/19, 9/30/18 and 6/30/18, respectively.

(2) Debt to capital is calculated as debt divided by shareholders' equity plus debt; net debt to capital is calculated as debt net of unrestricted cash divided by debt net of unrestricted cash plus shareholders' equity

ILLUSTRATIVE FORESTAR PROJECT CASH FLOWS & RETURN

Project Cash Flows



Project Metrics

Size & Duration:

- Project Size: 350 lots
- Project Life: 42 months
- Development Phasing: 2 phases
- Lot Sale Takedown Schedule: 6 lot sale dates per phase

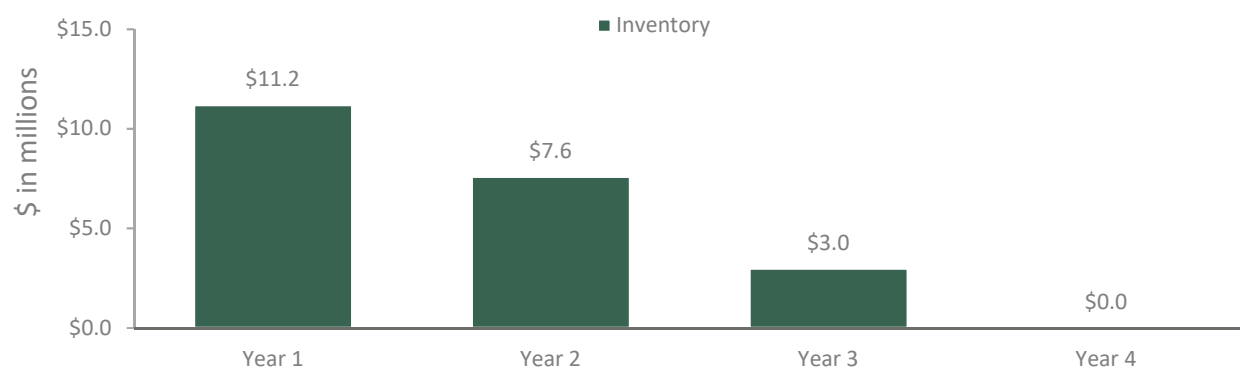
Cash Flows & Inventory:

- Lot Sale Revenues: \$26.3M (\$75,000 per lot)
- Land Acquisition Cost: \$6.3M (\$18,000 per lot)
- Development Spend: \$14.7M (\$42,000 per lot)
 - 1st Phase Development: \$8.5M
- Net Cash Flow: \$4.2M
- Average Monthly Inventory: \$7.9M

Project Metrics:

- Gross Margin: 20.0%
- Return on Average Inventory: 15.0%
- Initial Cash Recovery⁽³⁾: ~27 months

Project Inventory at Year-End



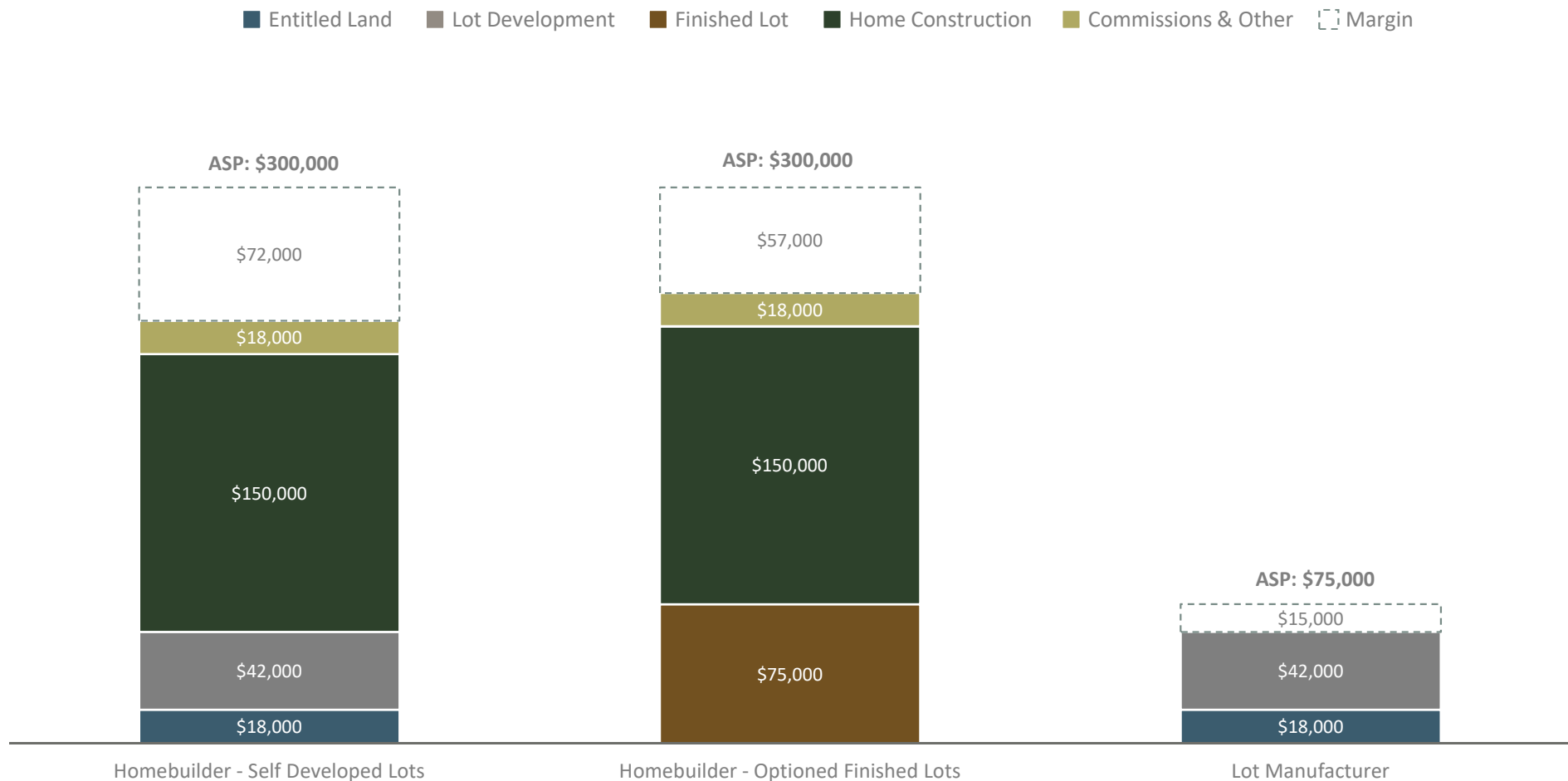
Note: For illustrative purposes only; projects can have a wide range of cash flows and returns

(1) Cash outflows include land acquisition and development spend and direct project overhead

(2) Cash inflows include lot sales and impact of earnest money

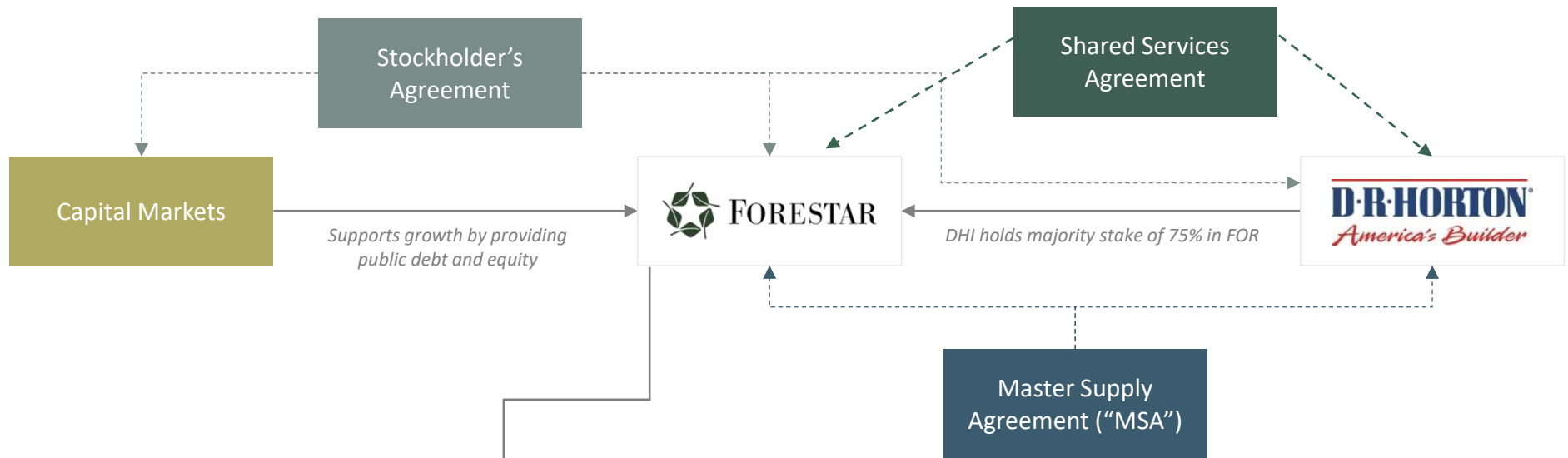
(3) Defined as the number of months required to recover Forestar's initial cash investment, including (i) land acquisition costs and (ii) development spend required to deliver the first phase of the project



ILLUSTRATIVE HOMEBUILDER VS. LOT MANUFACTURER PROJECT ECONOMICS



Note: For illustrative purposes only; projects can have a wide range of economics

FOR & DHI RELATIONSHIP OVERVIEW



LAND SOURCING AND LOT SALES STRUCTURE PER THE MSA ⁽¹⁾	
Project sourced by	DHI Right of First Offer (ROFO) Structure
	<ul style="list-style-type: none"> ROFO on 100% of lots
	<ul style="list-style-type: none"> ROFO on 50% of lots in 1st phase ROFO on 50% of lots in any subsequent phase, in which DHI purchased 25%+ of lots in previous phase
3 rd Party Homebuilder	<ul style="list-style-type: none"> No DHI ROFO on lots

(1) Lots are sold to DHI and other builders at market pricing

MASTER SUPPLY AGREEMENT (MSA)

- Establishes business relationship between DHI and FOR as both companies identify residential real estate opportunities
- Provides DHI the right of first offer (ROFO) to purchase up to 100% of the lots from DHI sourced projects at market prices
- Provides DHI the ROFO to purchase up to 50% of the lots in the first phase of a Forestar sourced project and 50% of the lots in any subsequent phase in which DHI purchases at least 25% of the lots in the previous phase
- DHI has no ROFO rights on third-party builder sourced development opportunities provided to FOR
- Continues until the earlier of (i) the date which DHI owns less than 15% of voting shares of FOR or (ii) June 29, 2037; however, FOR may terminate the MSA at any time when DHI owns less than 25% of the voting stock of Forestar
- As of June 30, 2019, FOR has made significant progress growing its business under the MSA since the merger:
 - FOR acquired ~130 new projects representing 31,400 lots since the acquisition date
 - FOR owned and controlled 37,400 lots, with 24,100 under contract to sell or subject to right of first offer to DHI

STOCKHOLDER'S AGREEMENT

- DHI has the right to nominate FOR's board members commensurate with DHI's equity ownership
 - DHI nominated four of FOR's five board members
 - FOR Board of Directors must include at least three independent directors (currently has four)
- Established an investment committee to approve new lot development and banking projects
- As long as DHI owns at least 35% of FOR's outstanding voting shares, FOR must obtain DHI consent in order to:
 - Issue equity
 - Incur, assume, refinance or guarantee debt that would increase FOR's gross leverage to greater than 40%
 - Select, terminate, remove or change compensation arrangements for the Executive Chairman, CEO, CFO and other key senior management
 - Make an acquisition or investment greater than \$20 million
- As long as DHI owns at least 20% of FOR's outstanding equity:
 - DHI has the right to designate individuals to FOR's Board based on DHI's ownership percentage
 - DHI has the right to designate the Executive Chairman of FOR

SHARED SERVICES AGREEMENT

- Shared Services Agreement between FOR and DHI defines the terms under which DHI may provide administrative, compliance, operational and procurement services to FOR
- Scope and cost of services provided to FOR are mutually agreed upon by FOR and DHI management teams and are adjusted periodically as necessary
- Services provided currently include:
 - Accounting, Finance and Treasury
 - Tax
 - Human Resources, Payroll and Benefits
 - Legal – Securities, Corporate Governance, Litigation and Risk Management
 - Internal Audit
 - Information Technology
 - Investor and Public Relations
- FOR also contracts with DHI for lot development services in projects owned by FOR in geographic markets where FOR has not yet established development teams and capabilities
 - FOR pays DHI a fixed fee for each lot developed, which is mutually agreed upon for each project