

FORESTAR

# Investor Presentation

3Q | 2021

# FORWARD-LOOKING STATEMENTS

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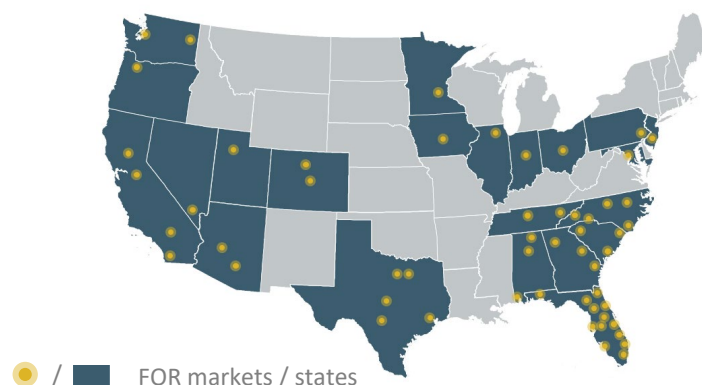
This presentation may include “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Although Forestar believes any such statements are based on reasonable assumptions, there is no assurance that actual outcomes will not be materially different. Factors that 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’s controlling level of ownership on us and the holders of our securities; 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 customers; the impact of COVID-19 on the economy and our business; the cyclical nature of the homebuilding and lot development industries and changes in economic, real estate and other conditions; competitive conditions in our industry; changes in our business strategy and our ability to achieve our strategic initiatives; continuing liabilities related to assets that have been sold; the impact of governmental policies, laws or regulations and actions or restrictions of regulatory agencies; the cost and availability of property suitable for residential lot development; general economic, market or business conditions where our real estate activities are concentrated; our dependence on relationships with national, regional and local homebuilders; 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 governmental districts and other agencies and timing of such payments; our ability to succeed in new markets; the conditions of the capital markets and our ability to raise capital to fund expected growth; our ability to manage and service our debt and comply with our debt covenants, restrictions and limitations; the volatility of the market price and trading volume of our common stock; our ability to hire and retain key personnel; and the strength of our information technology systems and the risk of cybersecurity breaches and our ability to satisfy privacy and data protection laws and regulations. Additional information about factors that could lead to material changes in performance is contained in Forestar’s annual report on Form 10-K and its 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. (“Forestar” or “FOR”) is a national, highly differentiated residential lot developer for the affordable single-family home market

- **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 an intense focus on returns
- **Favorably positioned to benefit from the finished residential lot supply shortage with a diverse portfolio of 96,600 owned and controlled lots**
- **Conservative leverage position and strong liquidity profile**
- **Strong track record of growth and profitability**
  - Four consecutive quarters of pre-tax profit margin improvement<sup>(2)</sup>
  - Five consecutive quarters of return on equity (ROE) improvement<sup>(3)</sup>
- **Majority-owned by D.R. Horton, Inc. (“D.R. Horton” or “DHI”), the nation’s largest builder by volume; DHI owns 64% of Forestar**
  - Highly strategic relationship with DHI supports and de-risks Forestar’s significant growth ramp

Operations in 55 markets across 22 states<sup>(1)</sup>



## Current Snapshot<sup>(1)</sup>

LTM Revenues	~\$1.25bn
LTM Pre-Tax Profit Margin <sup>(2)</sup>	11%
Liquidity <sup>(4)</sup>	~\$470mm
Owned and Controlled Lot Position	96,600
Owned Lots Under Contract or Subject to Right of First Offer to DHI	39,400

(1) As of or for the LTM period ended 6/30/21, unless otherwise noted

(2) Excludes the pre-tax loss on extinguishment of debt of \$18.1 million related to the 3Q FY 21 refinancing of our 8.00% senior notes due 2024

(3) ROE is calculated as net income attributable to Forestar for the trailing twelve months divided by average stockholders' equity, where average stockholders' equity is the sum of ending stockholders' equity balances of the trailing five quarters divided by five

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

# THE FORESTAR VALUE PROPOSITION

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## DIFFERENTIATED BUSINESS MODEL DESIGNED TO ADDRESS A MARKET NEED

- Return focused residential lot development business model
  - Higher turnover, lower risk lot manufacturing strategy focused on returns
  - Under-served lot development market with lack of well-capitalized and/or national participants
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## LONG-TERM GROWTH OPPORTUNITY

- Opportunity for increased scale within existing markets and entrance into new markets
  - Portfolio and platform expansion designed to increase returns and margins
  - Roadmap for market share gains through housing and economic cycles
- 

## 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 DHI

- Strategic alignment and access to DHI network of markets, experienced team and relationships
- Aligned cultures with manufacturing-like approach and conservative operating strategies
- Built-in demand for lots – D.R. Horton has a strong appetite for finished lots that continues even during potential downturns
- Supports existing operating platform and provides enhanced access to capital markets

# FORESTAR INVESTMENT HIGHLIGHTS

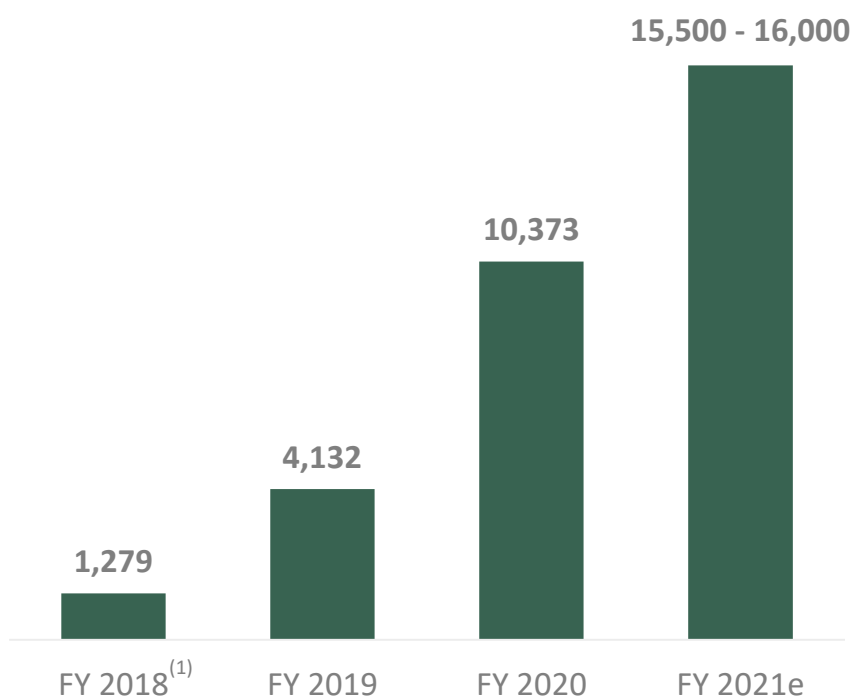
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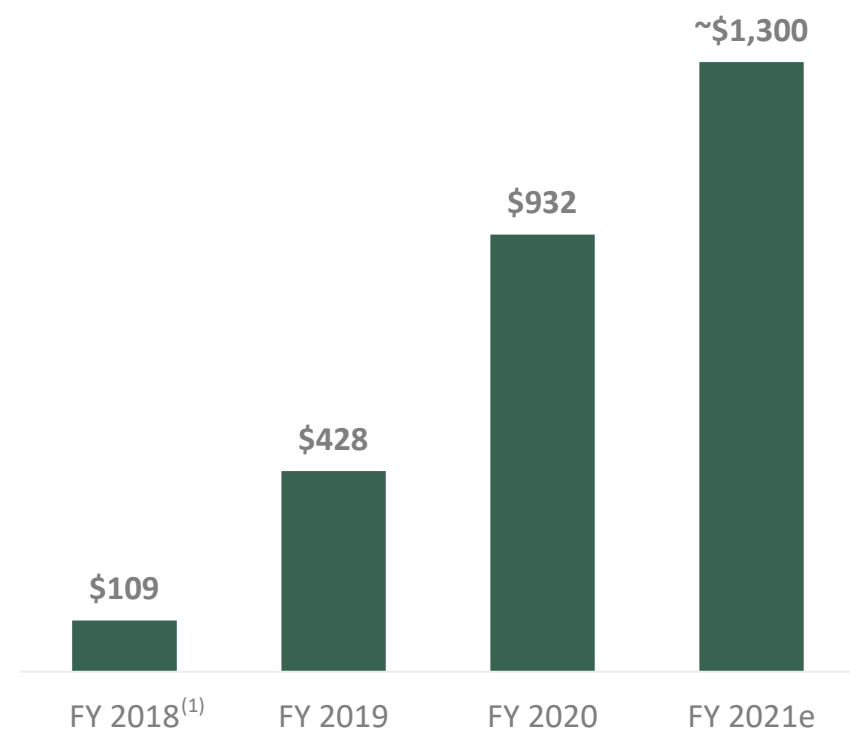
# COMPELLING GROWTH STORY

Based on FYTD results and current market conditions, Forestar expects to grow its lot deliveries 49% to 54% in fiscal 2021 and to generate approximately \$1.3 billion of revenue, with a pre-tax profit margin of 11.5% to 12.0%\*

Lot Deliveries



Revenue



\$ in millions

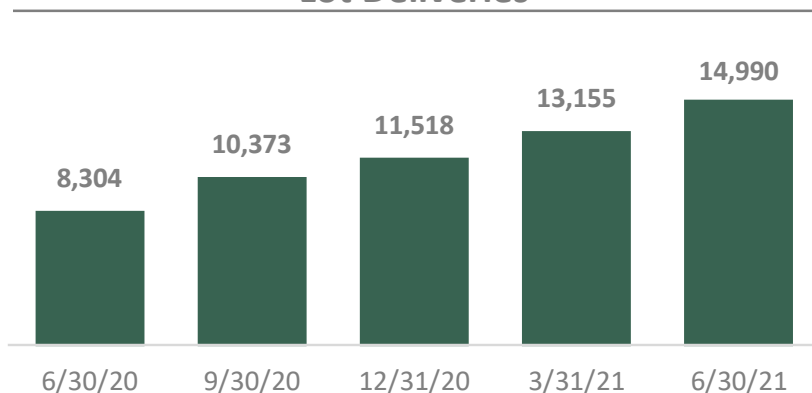
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(1) Effective 1/1/18, FOR changed its fiscal year-end from 12/31 to 9/30; as presented, FY 2018 reflects the trailing twelve months ended 9/30/18 and excludes lots sold to unconsolidated ventures

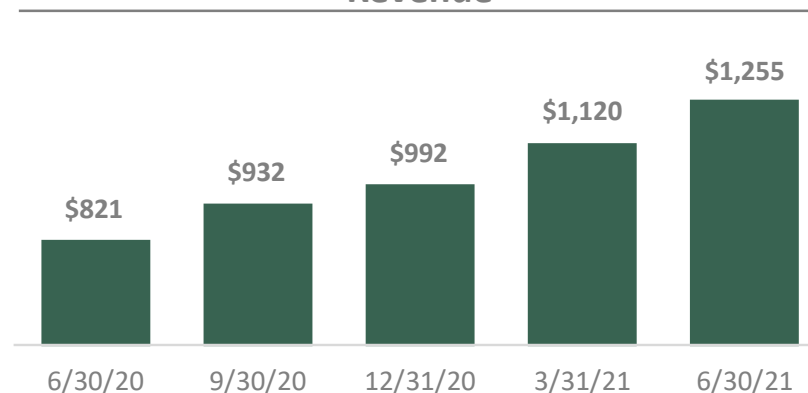
# TRACK RECORD OF PROFITABILITY AND GROWTH

Forestar is delivering consistent growth and margin expansion through the execution of the strategic plan and a disciplined, returns-focused approach to capital allocation

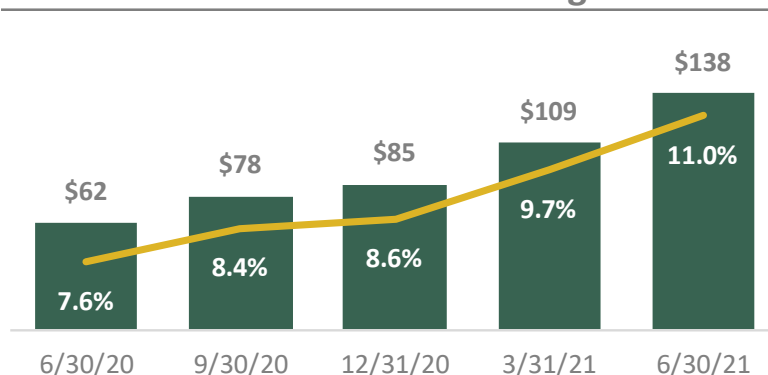
## Lot Deliveries



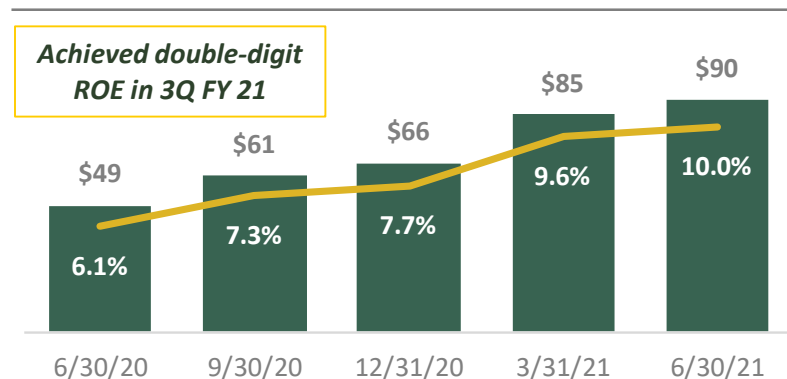
## Revenue



## Pre-Tax Income and Margin<sup>(1)</sup>



## Net Income and ROE<sup>(2)</sup>



\$ in millions

Note: Periods represent the last twelve months

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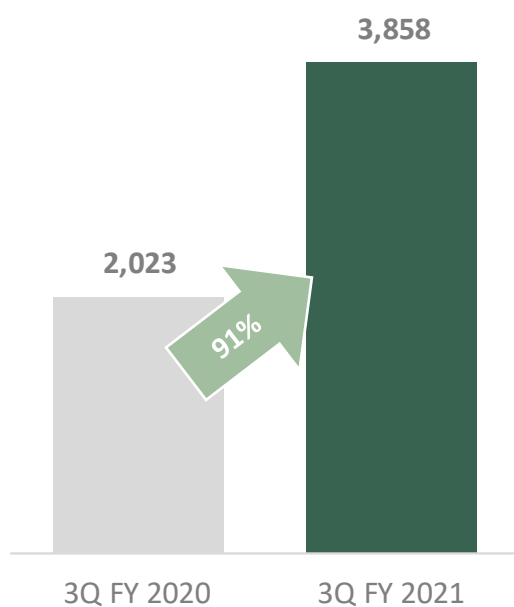
(2) Includes the pre-tax loss on extinguishment of debt of \$18.1 million related to the 3Q FY 21 refinancing of our 8.00% senior notes due in 2024. ROE is calculated as net income attributable to Forestar for the trailing twelve months divided by average stockholders' equity, where average stockholders' equity is the sum of ending stockholders' equity balances of the trailing five quarters divided by five

# 3Q FY 21 FINANCIAL HIGHLIGHTS

## Compelling growth story with increasing profitability

- 4<sup>th</sup> consecutive quarter of pre-tax profit margin improvement
- 5<sup>th</sup> consecutive quarter of return on equity (ROE) improvement<sup>(1)</sup>

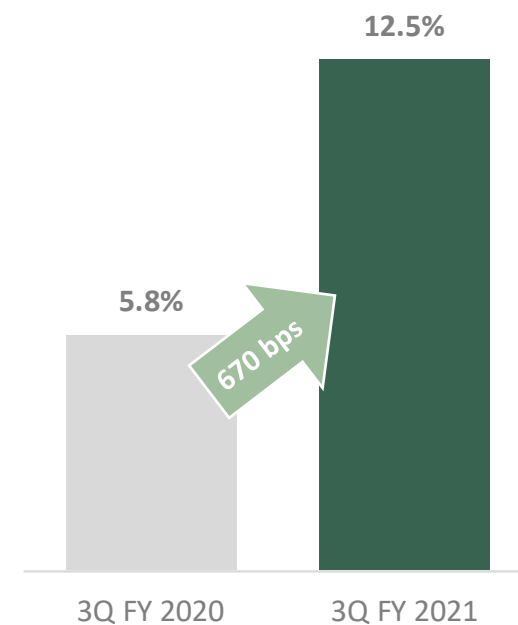
### Lot Deliveries



### Revenue



### Pre-Tax Profit Margin<sup>(2)</sup>



\$ in millions

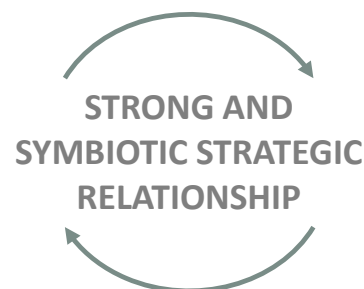
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# HIGHLY STRATEGIC ALIGNMENT WITH DHI

## BENEFITS TO FOR

- Supports Forestar's 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 (96 markets in 30 states)
- Integral component of DHI's operational strategy
- Participate in value creation of FOR

## Alignment with the nation's largest builder provides support and stability in changing economic conditions

- D.R. Horton has a strong appetite for finished lots that continues even during potential market downturns
  - During the worst years of the last significant housing downturn, D.R. Horton still closed ~17,000 to 20,000 homes annually, the majority of which were built on finished lots purchased from 3rd parties
- DHI is committed to owning no more than a 2 to 3-year supply of lots, while increasing its mix of controlled 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<sup>(1)</sup>
- DHI plans to maintain a significant ownership position in FOR over the long-term

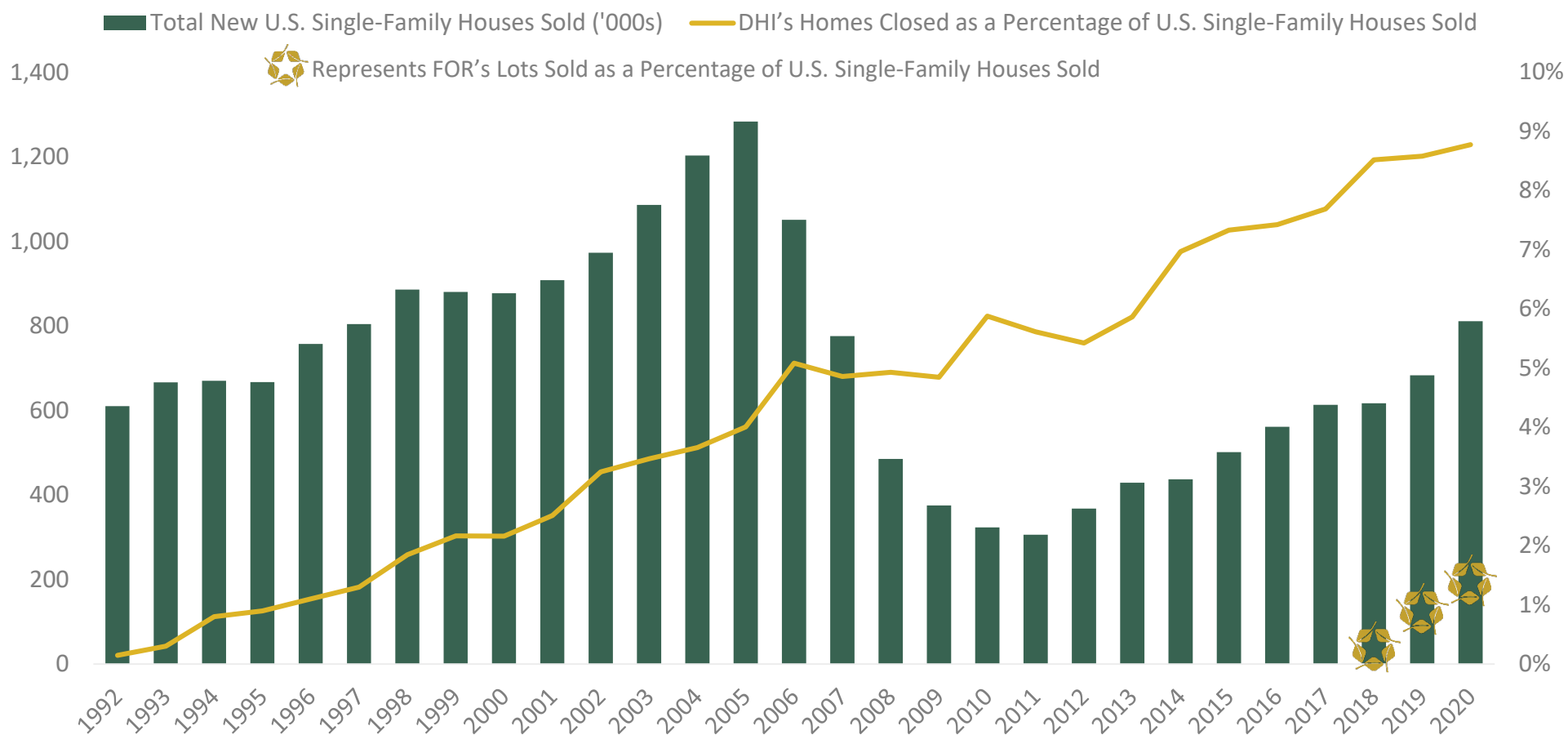
## Relationship with DHI further strengthens FOR's competitive advantages

**DHI's interests are aligned with FOR shareholders to ensure the profitable expansion of FOR's platform**

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

# DHI TRACK RECORD PROVIDES ROADMAP TO FOR

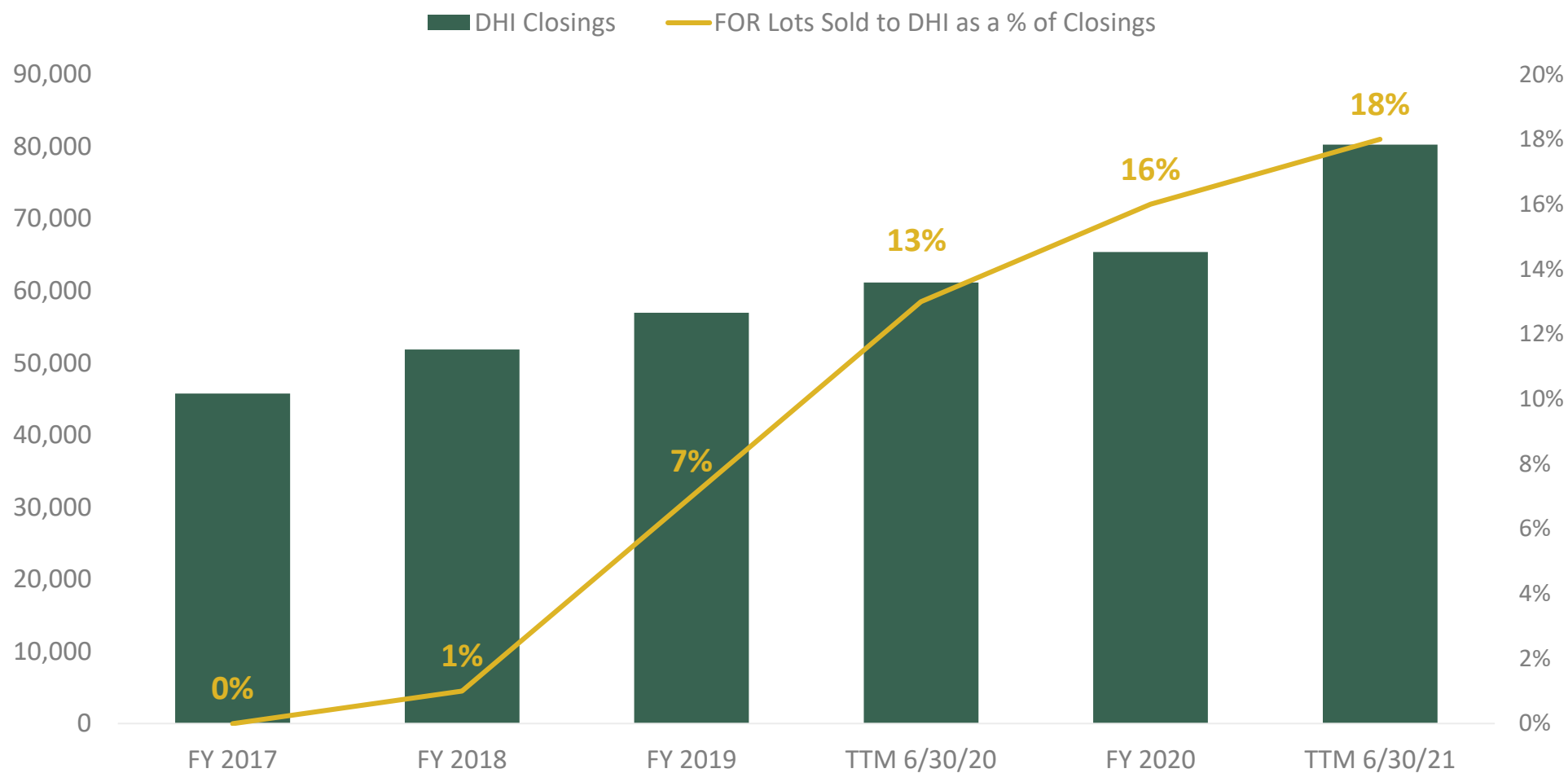
DHI's 28-year public track record provides a guide to FOR to achieve its own growth, consolidation and market share gains



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

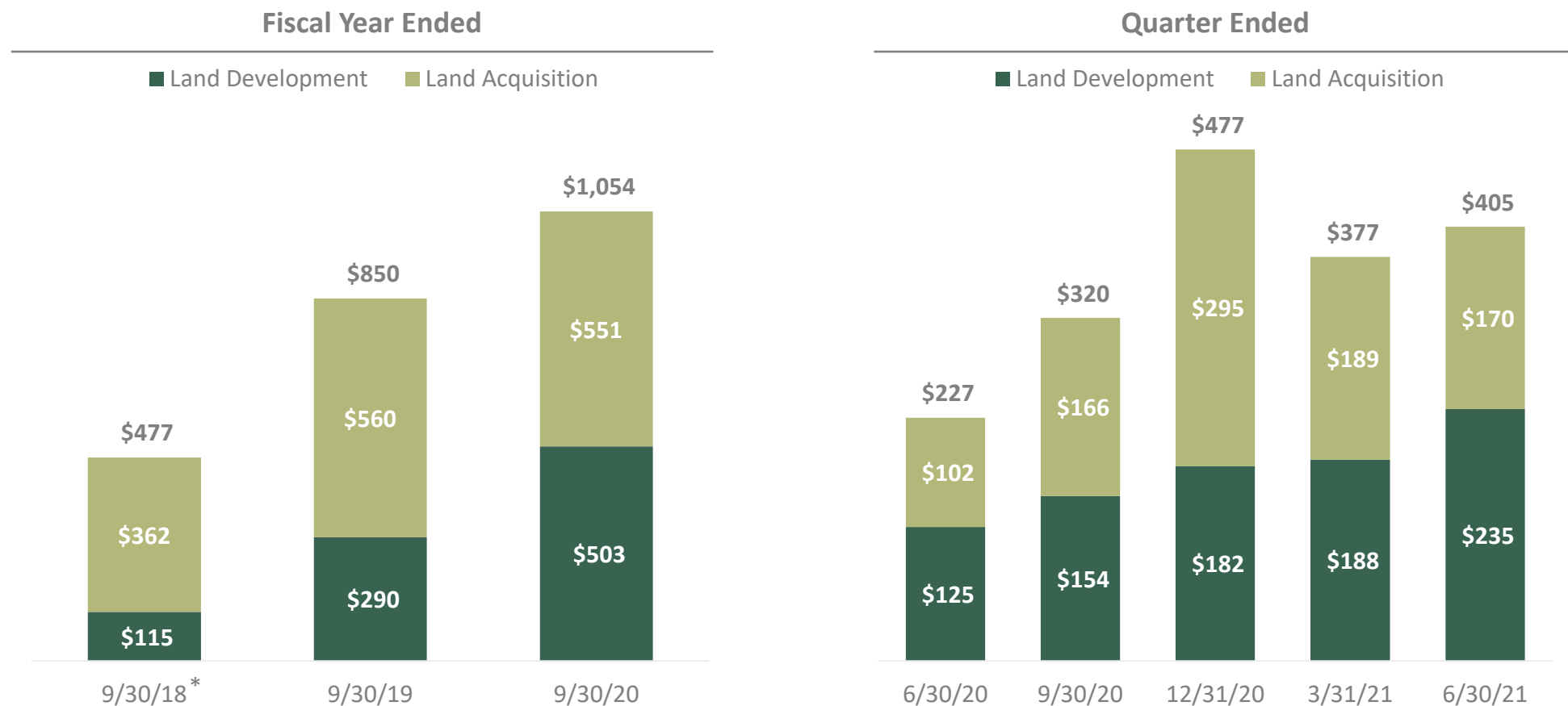
# FOR'S GROWING SHARE OF DHI'S LOT NEEDS

FOR is quickly becoming an essential lot supplier to DHI



# LAND AND DEVELOPMENT INVESTMENTS

Forestar expects to invest more than \$1.6 billion in land acquisition and development in fiscal 2021

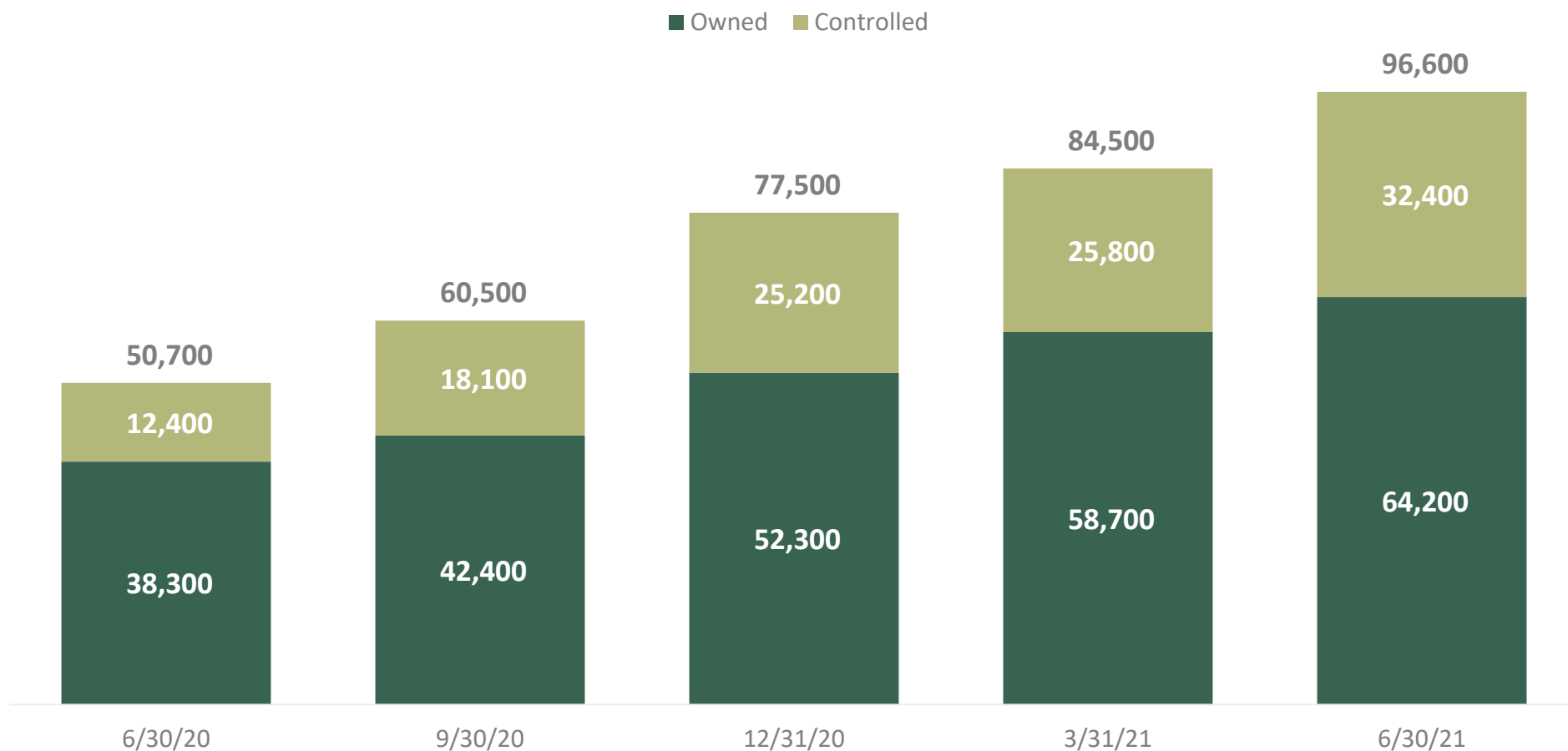


\$ in millions

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# GROWING LOT POSITION

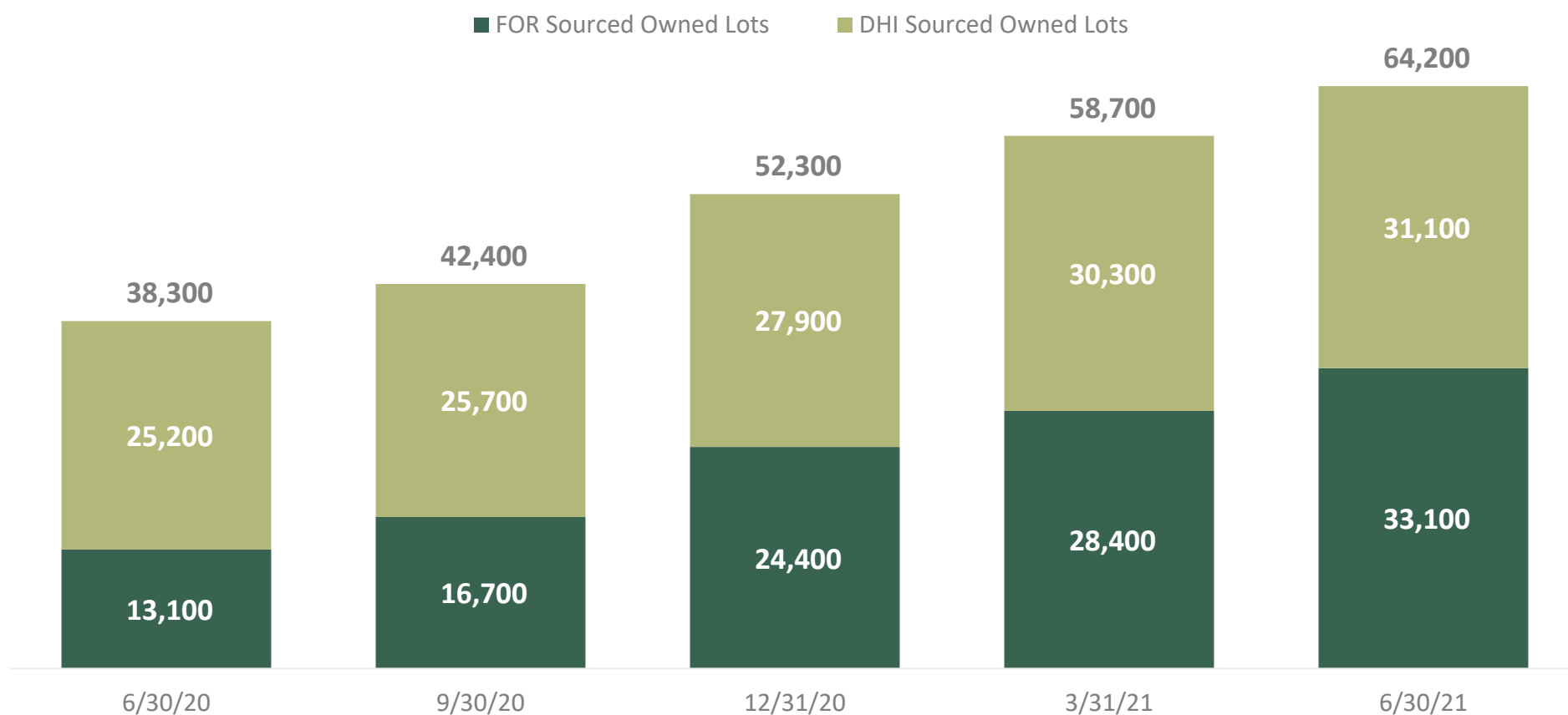
Consistent with Forestar's focus on capital efficiency, the portion of its land and lot supply that is controlled via purchase contracts is increasing, supporting higher returns in the future



Includes lots that DHI has under contract or the right of first offer to purchase of 39,400, 37,100, 34,900, 30,400, and 29,600 at 6/30/21, 3/31/21, 12/31/20, 9/30/20, and 6/30/20, respectively

# EXPANDING LOT SOURCING CAPABILITIES

- Forestar sourced lots have increased to 51% of total owned lots, up from 34% a year ago, which is expected to drive increases in gross and pre-tax profit margins
- Forestar is targeting a 3- to 4-year owned lot inventory

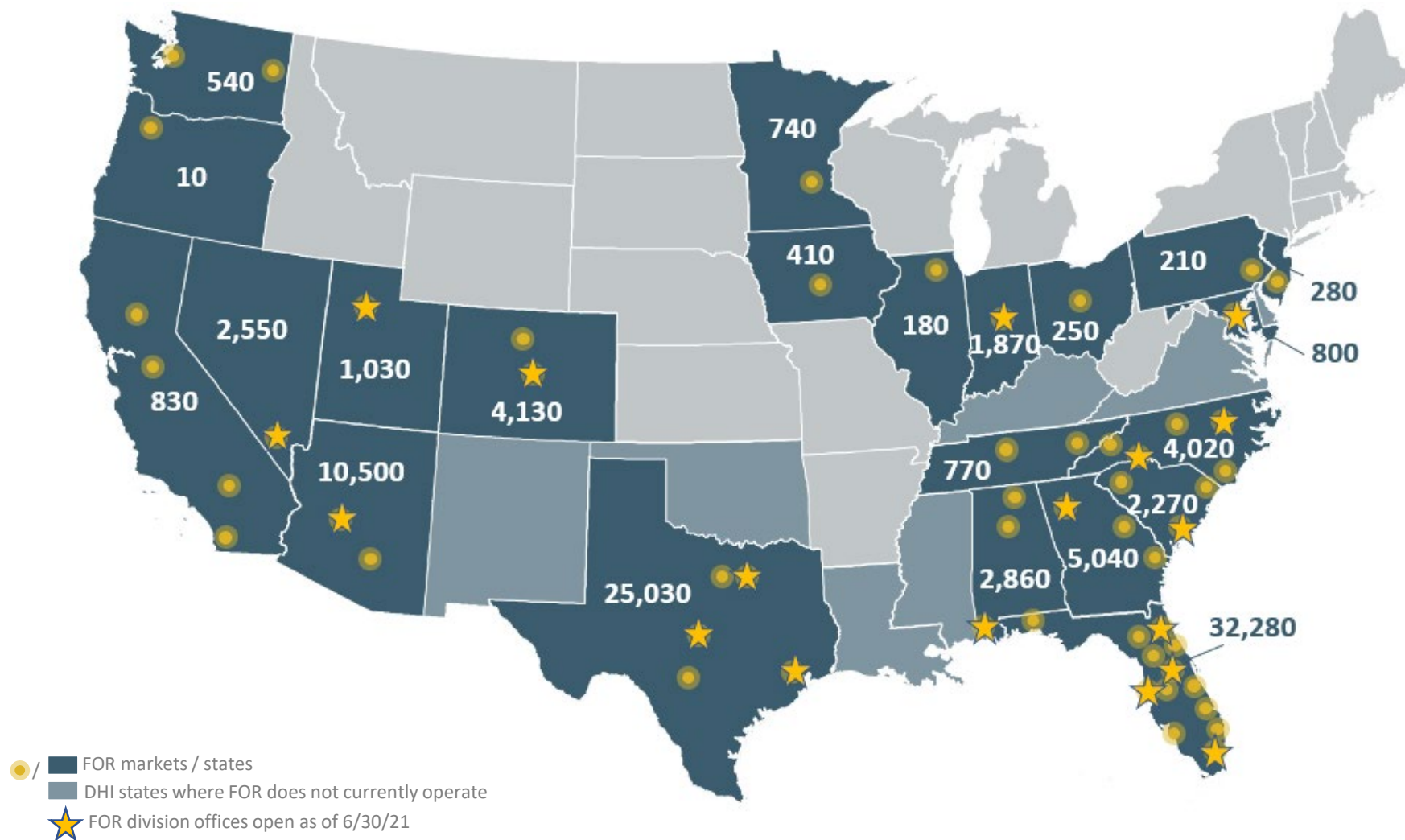


Forestar sourced owned lot count at both 6/30/21 and 3/31/21 includes 200 lots and at 12/31/20 includes 100 lots that were sourced by third-party builders

## DIVERSIFIED FOOTPRINT

## 55 MARKETS | 22 STATES

## Portfolio of 96,600 lots as of June 30, 2021



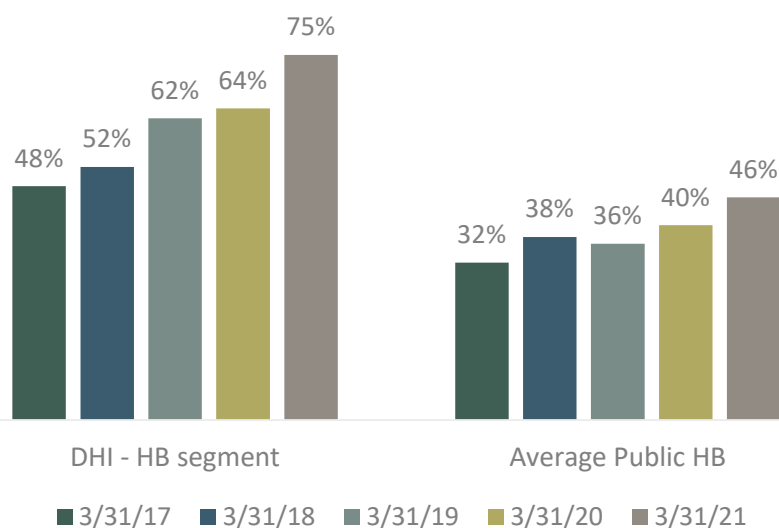
## Lot Position by State and Markets as of 6/30/21

Of total lot position at 6/30/21, 64,200 are owned and 32,400 are controlled through purchase contracts

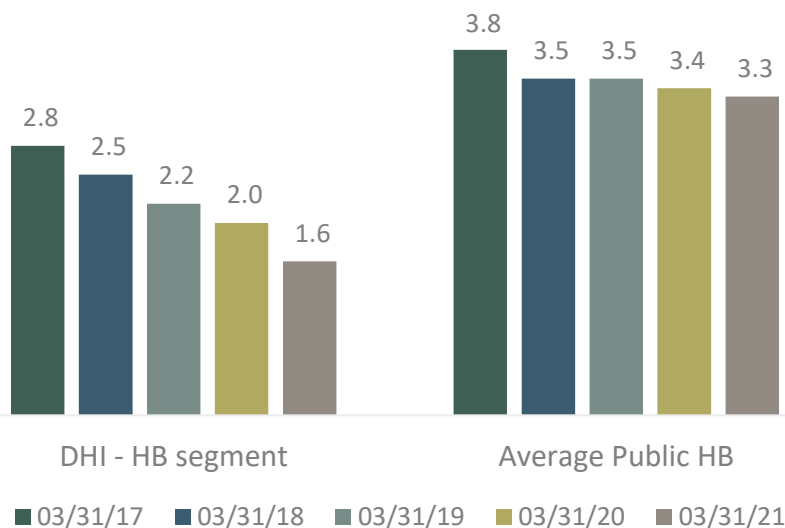
# UNIQUELY POSITIONED TO PROVIDE FINISHED LOTS

Builders' preference for 'land lighter' models enhances opportunity, and in times of economic uncertainty, homebuilders shift their land strategies to slow raw land purchases and focus on purchasing finished lots

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 2/28

For TOL, data is as of the periods ended 4/30

# SEASONED LEADERS WITH DECADES OF EXPERIENCE

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Management team includes land development veterans experienced in consolidating market share and navigating through industry and economic cycles

## **DON TOMNITZ**

**Executive Chairman**

*Formerly President & CEO of DHI for over a decade and joined FOR in October 2017*

## **DAN BARTOK**

**CEO**

*Joined FOR in December 2017; formerly EVP of Owned Real Estate for Wells Fargo with 40 years experience in the homebuilding & land development industry*

## **JIM ALLEN**

**CFO**

*Joined FOR in March 2020 with over 35 years of operating and financial experience in multiple industries including manufacturing*

## **MARK WALKER**

**East and North Region President**

*With DHI since 2012 and joined FOR in February 2019 with 18 years of real estate experience*

## **NICOLAS APARICIO**

**Florida Region President**

*With DHI since 2011 and joined FOR in December 2018 with 20 years of real estate experience*

# FINANCIAL POSITION AND POLICY

- Forestar is well-positioned with low net leverage of 37.8% and strong liquidity position of ~\$470 million
- In April 2021, Forestar issued \$400 million of 3.85% senior notes due 2026 replacing \$350 million of 8.00% senior notes due 2024, which will result in substantial interest savings
- In April 2021, Forestar amended its revolving credit facility, increasing the facility size to \$410 million and extending the maturity date from October 2022 to April 2025

## Financial Position as of 6/30/21

- \$116mm unrestricted cash and cash equivalents
- \$410mm unsecured revolving credit facility
- ~\$470mm total liquidity<sup>(1)</sup>
- \$400mm 3.85% senior notes due 2026
- \$300mm 5.00% senior notes due 2028
- \$970mm stockholders' equity
- 37.8% net debt to total capital<sup>(2)</sup>

## Disciplined Financial Policy

- Strict lot development investment underwriting:
  - **≥ 15%** return on inventory (ROI)<sup>(3)</sup>
  - **≤ 36-month** cash recovery of phase 1 investment
- Net debt to capital<sup>(2)</sup> target 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 stockholders' equity

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

# APPENDIX

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# BUSINESS OVERVIEW

## Forestar Capital Deployment and Cash Generation



### Source land acquisition opportunities

- Forestar, D.R. Horton and other 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)

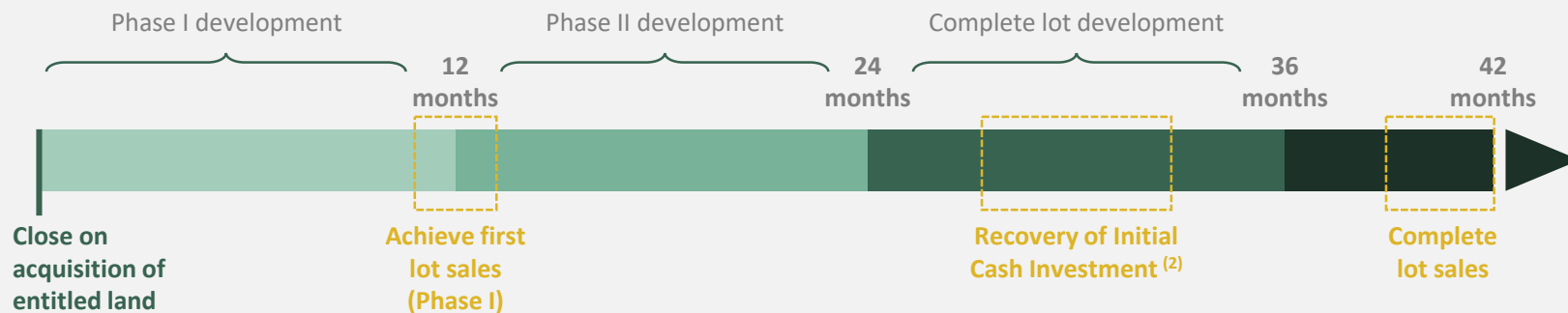
- Phased development
- ~50% of development cost is grading and utilities
- ~50% of development cost is roads, landscape, amenities, engineering, fees and all other



### Deliver finished lots to builders

- D.R. Horton and other homebuilders

## ILLUSTRATIVE FORESTAR PROJECT



### Underwriting Criteria

- ✓ >15% Return on Inventory <sup>(1)</sup>
- ✓ <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



# UNIQUE LOT MANUFACTURER BUSINESS MODEL

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



- ✓ **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 with increasing profitability
- ✓ **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

# INCOME STATEMENT

	3 MONTHS ENDED		9 MONTHS ENDED	
	6/30/2021	6/30/2020	6/30/2021	6/30/2020
<b>Residential lots sold:</b>	3,858	2,023	11,013	6,396
Development projects	3,330	1,556	9,606	4,234
Lot banking projects	528	467	1,407	2,162
 Average sales price per lot <sup>(1)</sup>	\$ 80,700	\$ 79,900	\$ 81,600	\$ 83,800
 <b>Revenues<sup>(2)</sup></b>	<b>\$ 312.9</b>	<b>\$ 177.9</b>	<b>\$ 907.1</b>	<b>\$ 584.3</b>
Gross profit	55.8	20.8	153.3	74.0
Selling, general and administrative expense	16.9	11.2	48.7	32.8
Gain on sale of assets	-	-	-	(0.1)
Equity in loss (earnings) of unconsolidated ventures	-	0.1	(0.2)	(0.6)
Interest and other income	(0.3)	(0.8)	(1.2)	(4.2)
Loss on extinguishment of debt	18.1	-	18.1	-
<b>Income before income taxes</b>	<b>21.1</b>	<b>10.3</b>	<b>87.9</b>	<b>46.1</b>
Income tax expense	5.2	0.2	21.5	8.9
<b>Net income</b>	<b>15.9</b>	<b>10.1</b>	<b>66.4</b>	<b>37.2</b>
Net income attributable to noncontrolling interests	0.1	-	0.2	0.7
<b>Net income attributable to Forestar Group Inc.</b>	<b>\$ 15.8</b>	<b>\$ 10.1</b>	<b>\$ 66.2</b>	<b>\$ 36.5</b>
 <b>Net income per diluted share</b>	<b>\$ 0.32</b>	<b>\$ 0.21</b>	<b>\$ 1.36</b>	<b>\$ 0.76</b>

\$ in millions except per share data

Unaudited

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

(2) Revenues include \$5.5 million and \$13.5 million in tract sales and other revenue for three months ended June 30, 2021 and 2020, respectively, and \$12.6 million and \$46.4 million in tract sales and other revenue for the nine months ended June 30, 2021 and 2020, respectively

# BALANCE SHEET

	6/30/2021	9/30/2020	6/30/2020
Cash and cash equivalents	\$ 116.0	\$ 394.3	\$ 355.6
Real estate	1,861.4	1,309.7	1,287.1
Investment in unconsolidated ventures	0.7	3.6	5.5
Other assets	36.9	32.3	37.2
<b>Total assets</b>	<b>\$ 2,015.0</b>	<b>\$ 1,739.9</b>	<b>\$ 1,685.4</b>
Debt	\$ 704.1	\$ 641.1	\$ 640.6
Earnest money on sales contracts	146.9	98.3	98.9
Other liabilities	183.8	123.0	99.0
Deferred tax liability, net	9.8	5.7	-
<b>Stockholders' equity</b>	<b>969.5</b>	<b>870.9</b>	<b>846.3</b>
Noncontrolling interests	0.9	0.9	0.6
<b>Total equity</b>	<b>970.4</b>	<b>871.8</b>	<b>846.9</b>
<b>Total liabilities and equity</b>	<b>\$ 2,015.0</b>	<b>\$ 1,739.9</b>	<b>\$ 1,685.4</b>
<b>Net debt to total capital<sup>(1)</sup></b>	<b>37.8%</b>	<b>22.1%</b>	<b>25.2%</b>
<b>Debt to total capital<sup>(1)</sup></b>	<b>42.1%</b>	<b>42.4%</b>	<b>43.1%</b>

\$ in millions except per share data

Unaudited

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



**FORESTAR**

# MASTER SUPPLY AGREEMENT (MSA)

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- Defines 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

# STOCKHOLDER'S AGREEMENT

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- FOR Board of Directors must include at least three independent directors (currently has four)
- 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
- Requires an investment committee of FOR officers 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

# SHARED SERVICES AGREEMENT

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- 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:
  - Finance and Treasury
  - Risk and Litigation Management
  - Information Technology
  - Internal Audit
  - Investor and Media Relations
  - Human Resources, Payroll and Employee Benefits
- 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