

# INVESTOR PRESENTATION



Q4 2019

# FORWARD-LOOKING STATEMENTS

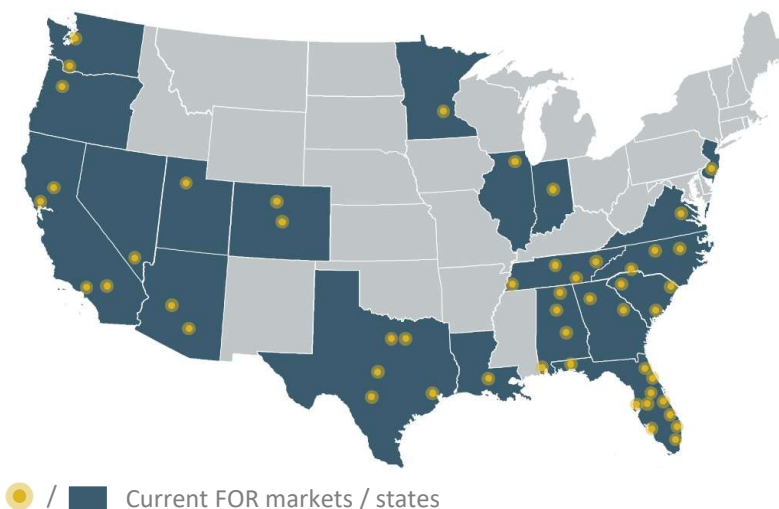
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This presentation may include “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Although Forestar believes any such statements are based on reasonable assumptions, there is no assurance that actual outcomes 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 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 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 subsequent quarterly reports on Form 10-Q, all of which are filed with the Securities and Exchange Commission (SEC).

# FORESTAR OVERVIEW

- **Forestar Group Inc. (“Forestar” or “FOR”) 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”), the nation’s largest builder**
  - 75% of common shares acquired by DHI in 2017 for ~\$560M; 66% owned today by DHI post-September FOR equity raise
  - One of only two investment grade rated public homebuilders in the U.S.
  - Highly strategic relationship supports and de-risks Forestar’s significant growth ramp
- **Rapidly expanding to fulfill market demand**
  - Diversified and growing national footprint
  - Existing lot and liquidity position sufficient to support near-term growth
  - Builder preference for ‘land light’ enhances opportunity

Operations in 51 markets across 20 states<sup>(1)</sup>



Current Snapshot <sup>(1)</sup>	
Owned and Controlled Lot Position	38,300
Owned Lots Under Contract or Subject to Right of First Offer to DHI	23,400
Revenues	\$428M
Liquidity <sup>(2)</sup>	~\$720M
Equity Market Cap <sup>(3)</sup>	~\$920M

(1) As of or for fiscal year ended 9/30/19

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

(3) As of 11/4/19



# THE FORESTAR VALUE PROPOSITION

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## 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
- De-risks expansion of operating platform and entrance into new markets
- Enhanced access to capital markets



# EXECUTING ON OUR PLANS

		GUIDANCE <sup>(1)</sup>	ACTUAL
Fiscal 2019	Lots delivered	4,000	✓ 4,132
	Revenues	\$300M to \$350M	✓ \$428M
	Pre-tax profit margin	Mid-single digit	✓ 11%
	Capital markets	Opportunistically access capital markets	✓ \$350M debut bond offering ✓ ~\$100M equity offering
	Investment in land acquisition and development	More than \$800M	✓ \$850M
Fiscal 2020-2021 Guidance <sup>(2)</sup>		✓ Fiscal 2020: Expect to deliver 10,000 lots and generate \$750M - \$850M of revenue with mid-to-high single digit pre-tax profit margin ✓ Fiscal 2021: Expect to deliver 12,000 lots and generate \$900M - \$1B of revenue with a pre-tax profit margin of ~10%	

(1) As outlined on the Company's December 2018 investor call

(2) As outlined on the Company's Q4 FY 2019 conference call on 11/7/19

# FORESTAR INVESTMENT HIGHLIGHTS

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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  
3<sup>rd</sup> Parties

Proven / Seasoned  
Management Team  
With Decades of  
Real Estate  
Experience

Strong Balance  
Sheet and Liquidity  
Position

# 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

- Business model designed to achieve scale and consistency, while minimizing risk
- At scale, FOR's high turnover, lower risk "lot manufacturing" strategy is expected to generate 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 3<sup>rd</sup> 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

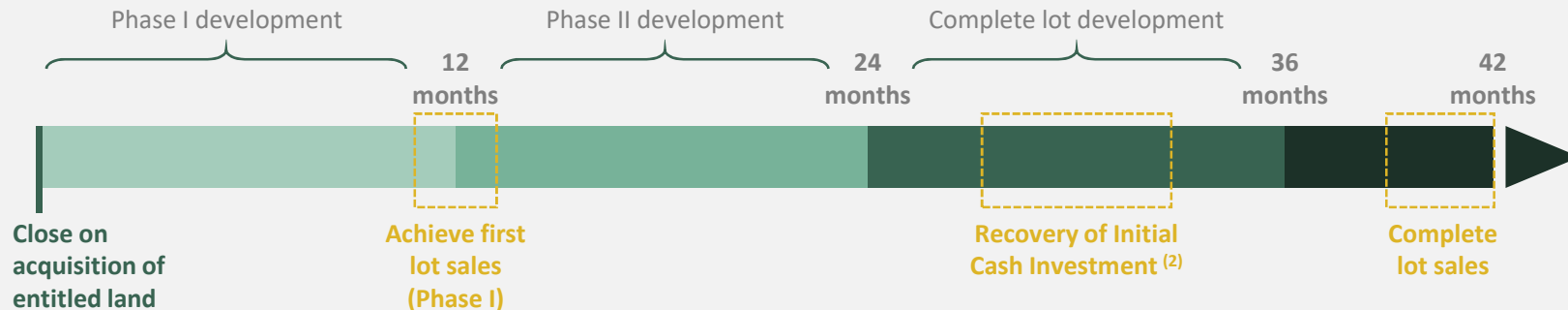


## Deliver finished lots to builders

- D.R. Horton as well as other national, regional and local 3<sup>rd</sup> party builders

### Forestar Capital Deployment and Cash Generation

## 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



# INVESTMENT PORTFOLIO

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## 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%<sup>(1)</sup>
- 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 during 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 BANKING PROJECTS

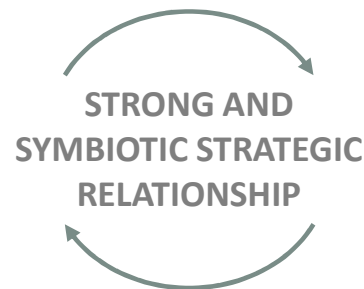
- Short-term investments of available capital prior to deployment into new development projects, primarily with DHI
- Level of lot banking managed relative to short term liquidity and expected future cash requirements of lot development investments
- Annual returns on inventory of 12% to 16%<sup>(1)</sup>
- Gross margin percentage range of 3% to 9% based on current average portfolio duration
- Expected to be roughly 1/3 of lot deliveries in 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 (90 markets in 29 states)
- Integral component of DHI's operational strategy
- Participate in value creation of FOR

**Alignment with DHI, the nation's largest builder since 2002, 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<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 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

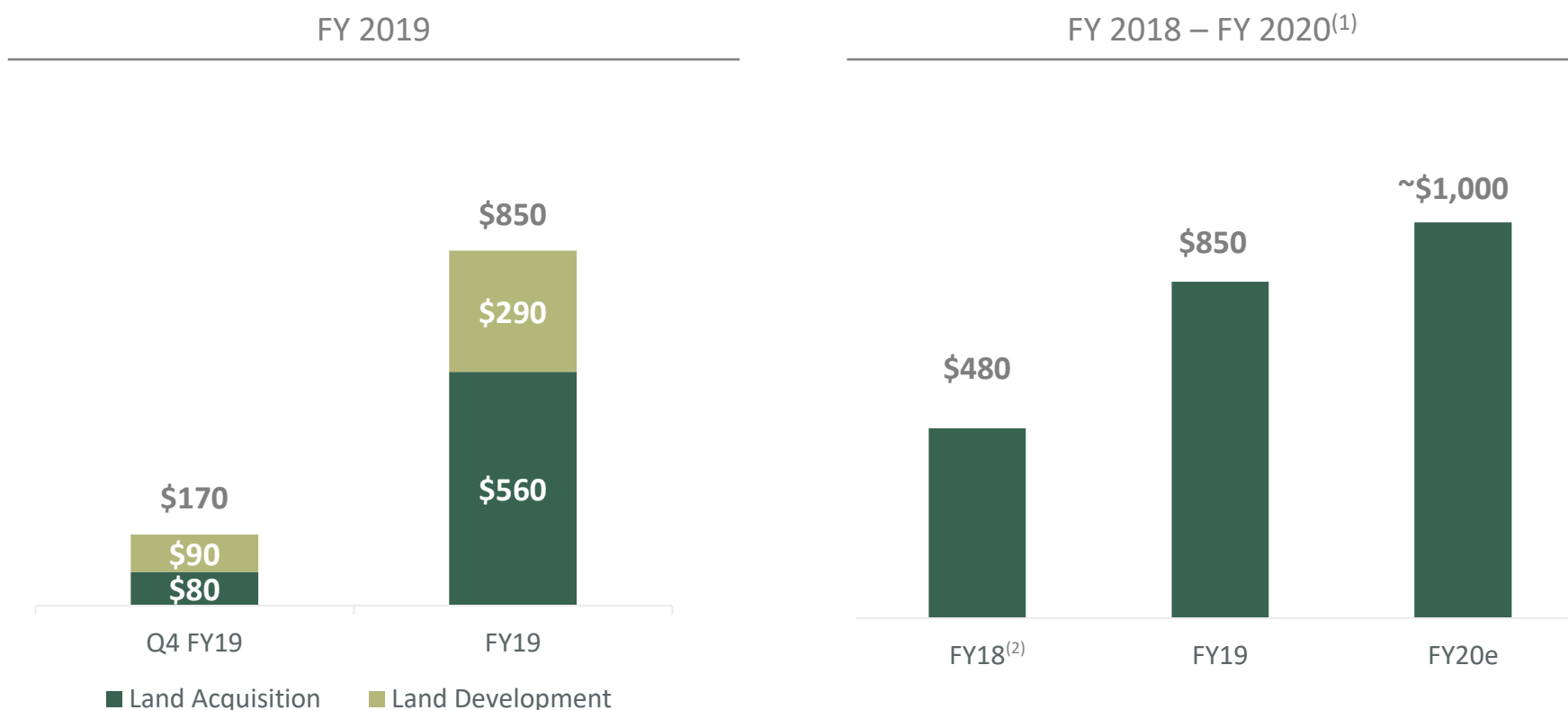


# SIGNIFICANT AND SUSTAINABLE GROWTH THROUGH NUMEROUS LEVERS

<b>Built-in growth from DHI relationship</b>	<ul style="list-style-type: none"> <li>▪ In FY 2019, FOR sold DHI 3,728 lots or ~7% of DHI's 56,975 closings</li> <li>▪ 12,800 of FOR's owned lots at 9/30/19 are under contract to sell to DHI, representing ~\$1 billion of future revenue</li> <li>▪ Over time, DHI may source more than 30% of its lots from FOR</li> </ul>
<b>Expand relationships with 3<sup>rd</sup> party homebuilders</b>	<ul style="list-style-type: none"> <li>▪ FOR sold finished lots to 12 different homebuilders in fiscal year 2019</li> <li>▪ As FOR builds out its infrastructure, capacity to work with other builders will increase</li> </ul>
<b>Increase scale in existing markets</b>	<ul style="list-style-type: none"> <li>▪ FOR currently operates in some of the largest homebuilding markets in the country</li> <li>▪ 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</li> </ul>
<b>Expand into new markets</b>	<ul style="list-style-type: none"> <li>▪ 39 markets in which DHI has a presence but FOR does not at 9/30/19</li> <li>▪ As FOR expands into new markets, it leverages DHI's infrastructure to generate a revenue stream before incurring incremental costs</li> </ul>
<b>Efficiently leverage overhead</b>	<ul style="list-style-type: none"> <li>▪ As FOR achieves scale, overhead expense will decrease as a percentage of revenue</li> <li>▪ Over time, FOR should operate with lower overhead expenses than a typical homebuilder given the wholesale nature of its business without the need for an extensive retail sales force and less reliance on labor / trades</li> </ul>
<b>Opportunistic consolidation</b>	<ul style="list-style-type: none"> <li>▪ Consolidation opportunities in the highly fragmented lot development industry (similar to the homebuilder industry in the 1990s)</li> </ul>

# LAND AND DEVELOPMENT INVESTMENTS

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



\$ in millions

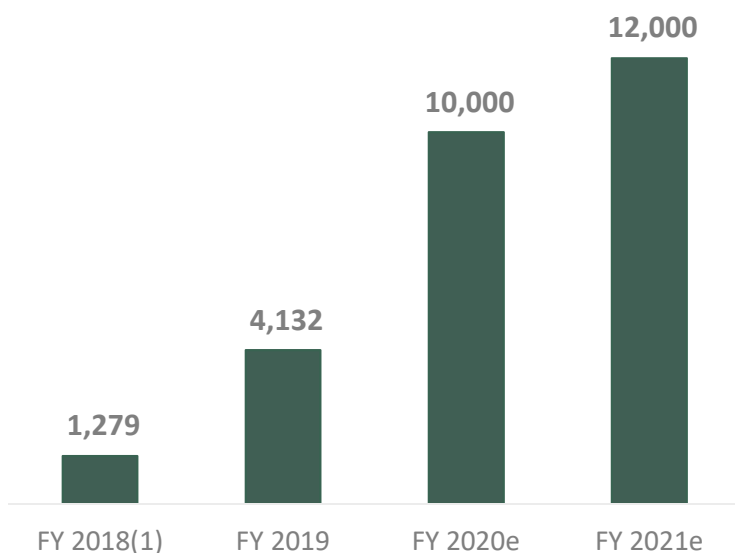
(1) FY20 expectations as outlined on the Company's Q4 FY19 earnings conference call

(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

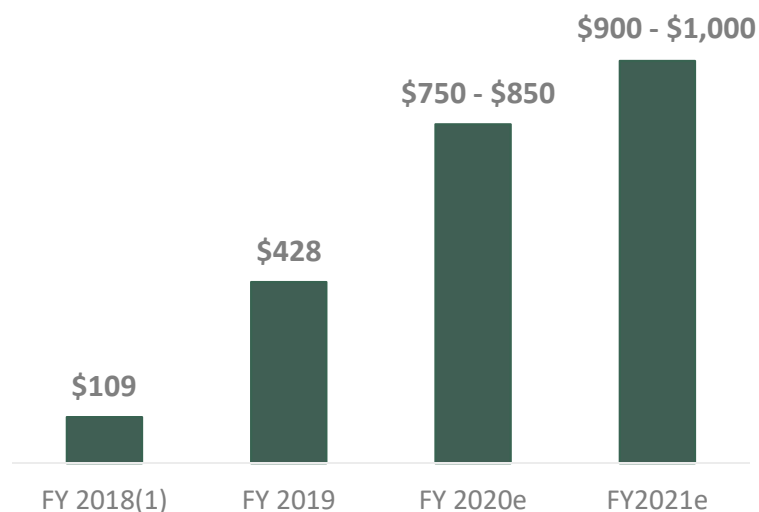
# SIGNIFICANT NEAR-TERM GROWTH

- Expect 8x two-year increase in deliveries to 10,000 lots by FY20 and to generate \$750M to \$850M of revenue
- Expect a mid- to high-single digit pre-tax profit margin percentage (PTI%) in FY20, with significant quarterly fluctuations, and ~10% PTI% for the full year of FY21

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

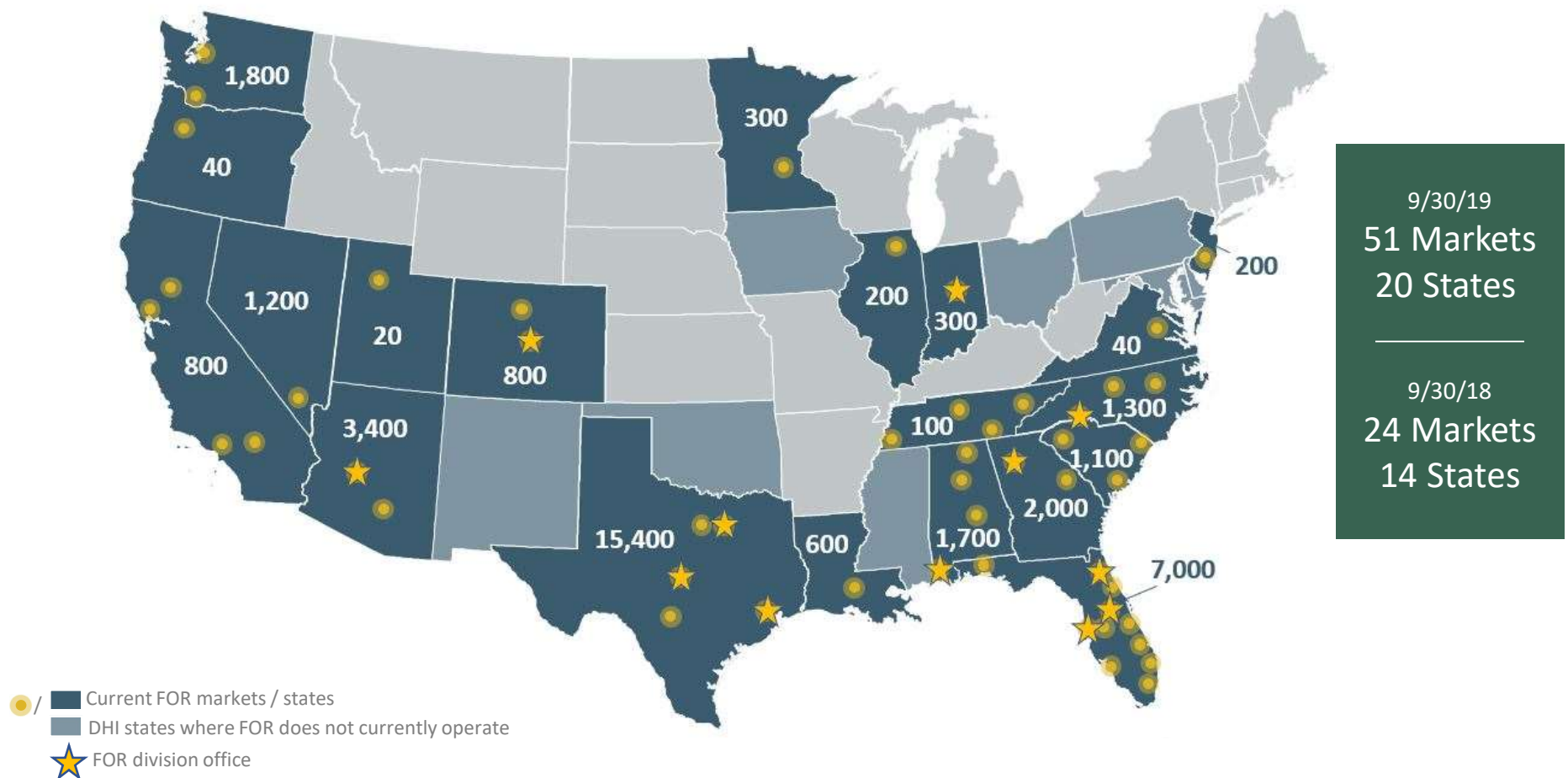


# DIVERSIFIED AND GROWING FOOTPRINT

Own and control 38,300 lots at 9/30/19

79% of owned lots are under contract to sell or subject to a right of first offer to DHI

Expect to own a 3 to 4 year lot inventory



Lot Position by State and Markets as of 9/30/19

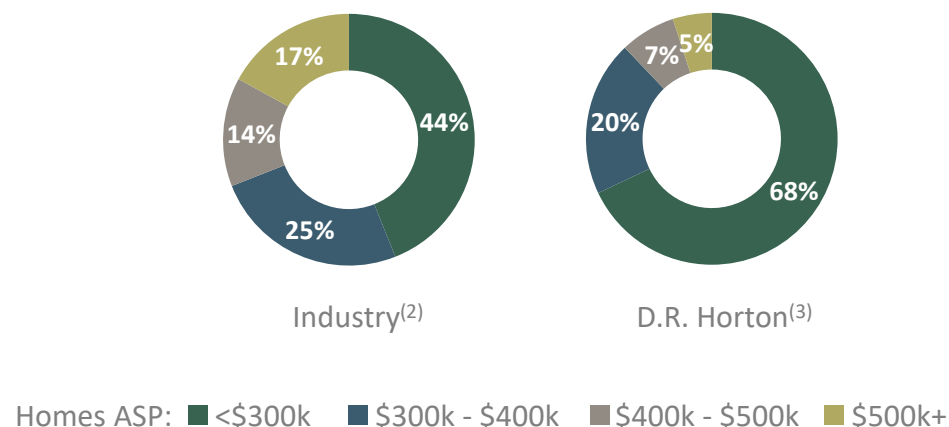
Lot counts are approximate

Of total lot position at 9/30/19, 29,700 are owned and 8,600 are controlled through purchase contracts

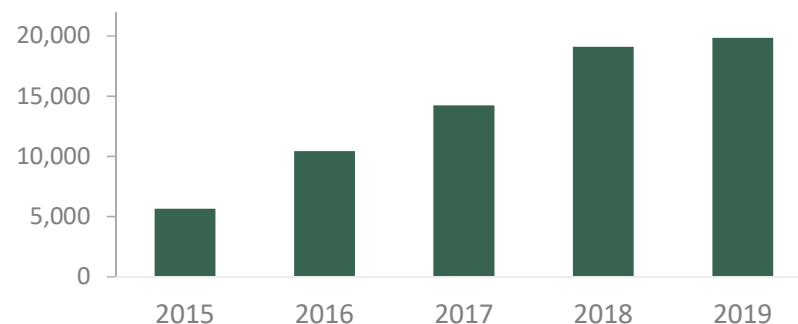
# PRIMARY FOCUS ON ATTRACTIVE ENTRY-LEVEL SEGMENT

- 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 FY 2019 was ~\$84,200<sup>(1)</sup>
- 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 35% of closings in fiscal 2019
  - 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<sup>(4)</sup>



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 August 2019

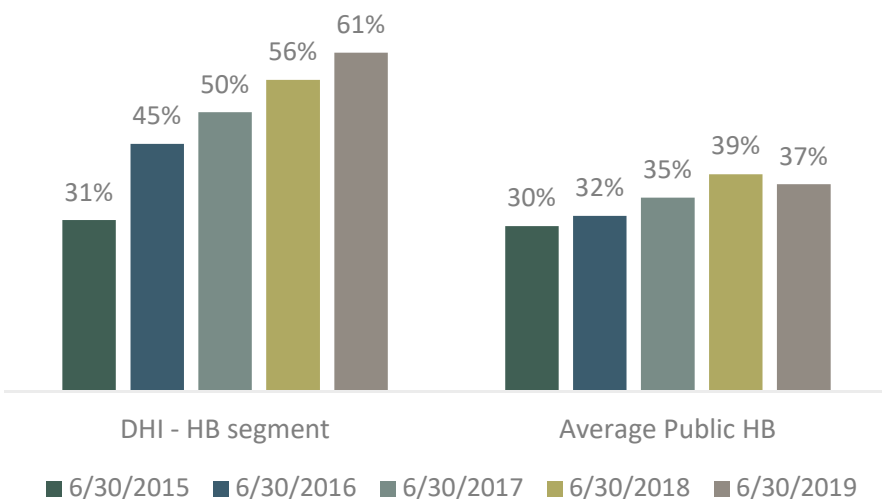
(3) Based on homes closed in Fiscal 2019

(4) Based on fiscal year-end closings

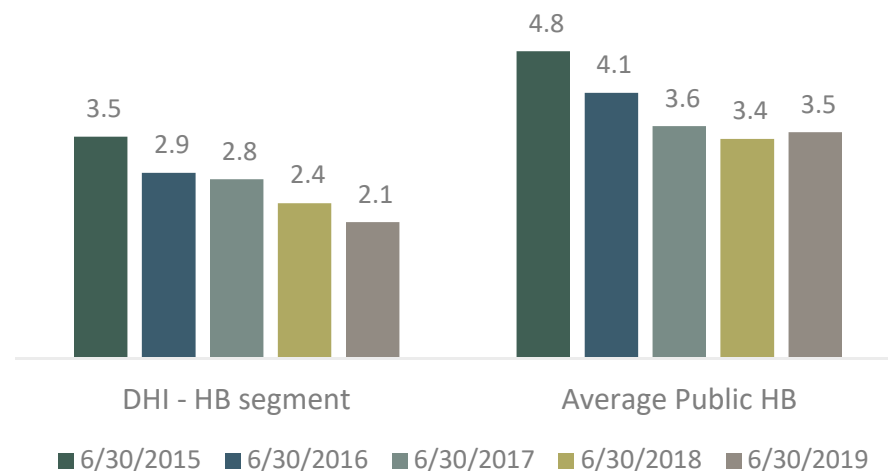
# BUILDERS' PREFERENCE FOR 'LAND LIGHTER' STRATEGY ENHANCES OPPORTUNITY

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 May 31

For TOL, data is as of the periods ended July 31



# SEASONED LEADERS WITH DECADES OF LAND DEVELOPMENT EXPERIENCE

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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 and joined FOR in Oct. 2017*

## DAN BARTOK

### CEO

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

## TOM BURLESON

### West Region President

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

## MARK WALKER

### East Region President

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

## NICOLAS APARICIO

### Florida Region President

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

## IAN CUDE

### South Central Region President

*With DHI since 2012 and recently joined FOR with 22 years of real estate experience*

# FINANCIAL POSITION AND POLICY

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In September 2019, Forestar further strengthened its financial position by issuing 6.04M shares of common stock for net proceeds of \$100.7M

## FINANCIAL POSITION AS OF 9/30/19

- \$383M unrestricted cash and cash equivalents
- \$380M 3-year unsecured revolving credit facility
- ~\$720M total liquidity<sup>(1)</sup>
- \$119M convertible notes due 2020
- \$350M 8.0% senior notes due 2024
- \$808M stockholders' equity
- 8.8% 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> 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

## Q4 AND FY 2019 HIGHLIGHTS

- Operating highlights

- Residential lots sold increased **351% to 1,908 lots** compared to 423 lots in the same quarter of fiscal 2018
- **38,300 lots at 9/30/19**, of which 29,700 were owned and 8,600 were controlled through purchase contracts
  - 23,400, or 79%, of owned lots were under contract to sell or subject to a right of first offer to D.R. Horton

- Financial highlights

### Three months ended 9/30/19

**\$236M**

Revenues

**634%**

YoY Revenue Growth

**\$9M**

SG&A Expense

**4%**

SG&A Margin

**\$16M**

Pre-Tax Income

**7%**

Pre-Tax Margin

**\$13M**

Net Income

**\$0.30**

Net Income per Share

### Twelve months ended 9/30/19

**\$428M**

Revenues

**292%**

YoY Revenue Growth

**\$29M**

SG&A Expense

**7%**

SG&A Margin

**\$46M**

Pre-Tax Income

**11%**

Pre-Tax Margin

**\$33M**

Net Income

**\$0.79**

Net Income per Share

# FORESTAR INVESTMENT HIGHLIGHTS

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Unique Returns-  
Focused Lot  
Manufacturing  
Business Model

Strategic Relationship  
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Supports Ability to Scale  
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Significant Growth  
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Geographic  
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Primary Focus on  
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Homebuilders'  
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Proven / Seasoned  
Management Team  
With Decades of  
Real Estate  
Experience

Strong Balance  
Sheet and Liquidity  
Position

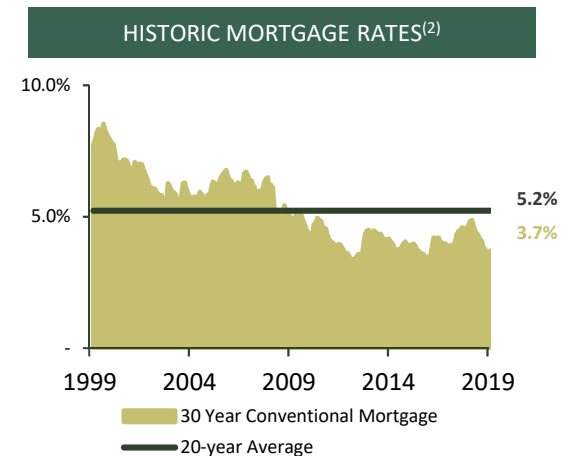
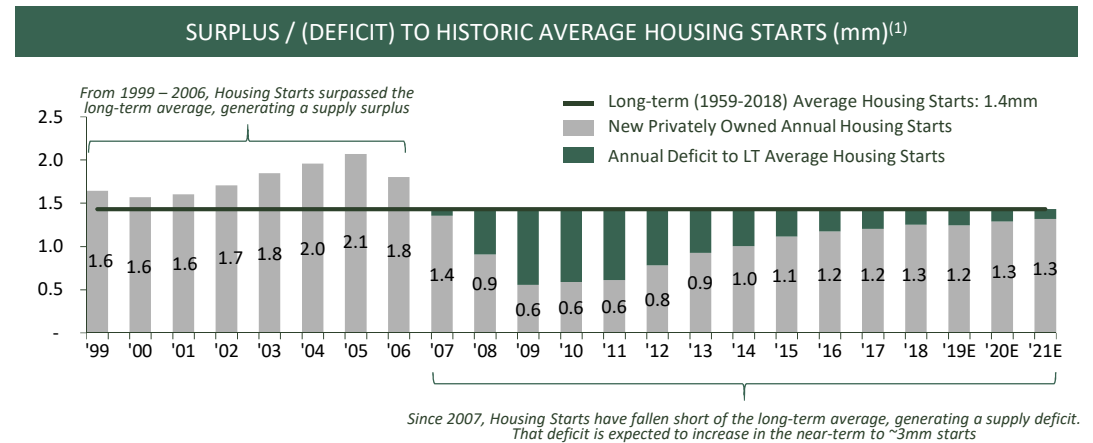
# APPENDIX

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# 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



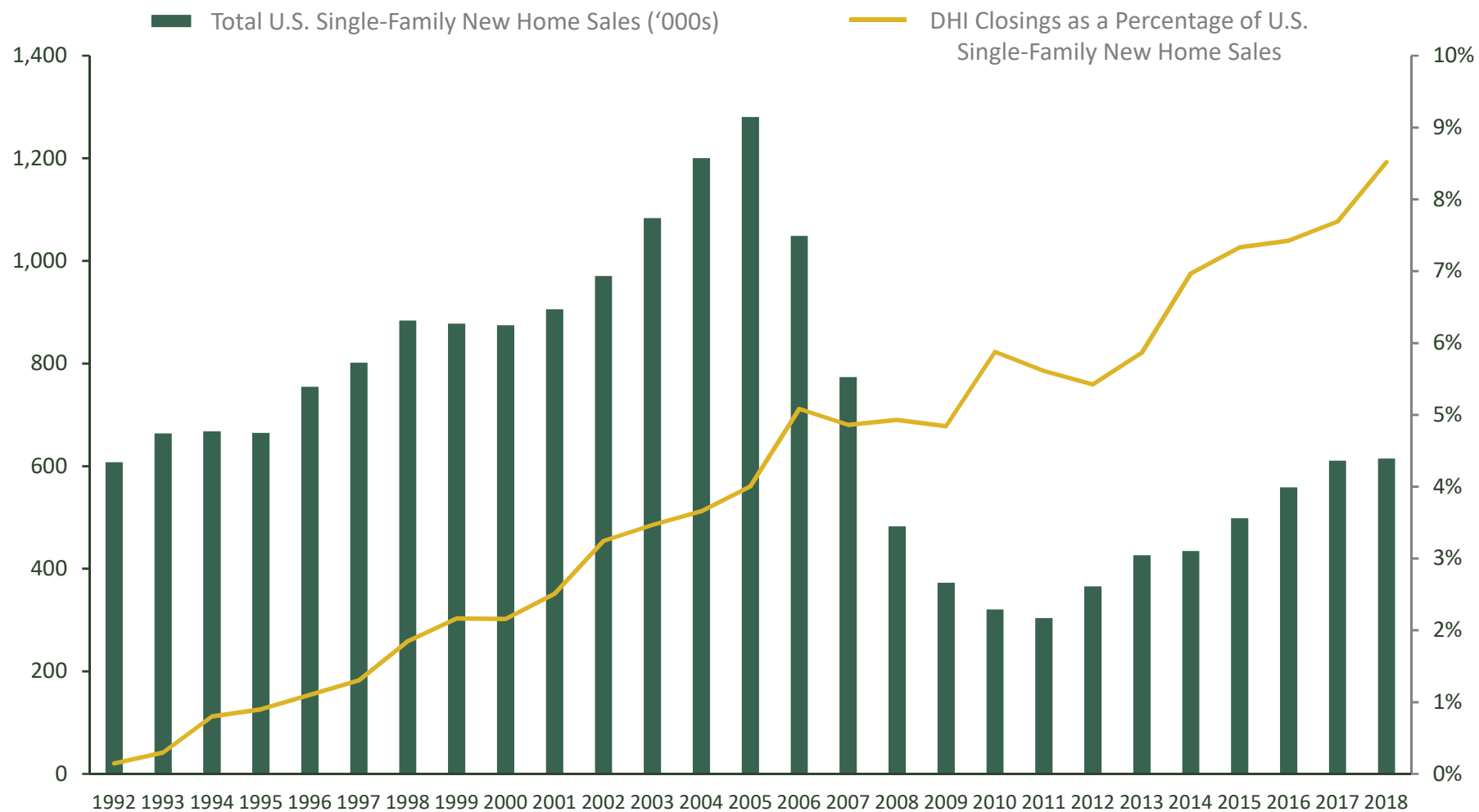
Source: Federal Reserve Bank of St. Louis, Freddie Mac, National Association of Realtors, NAHB, U.S. Census Bureau

Notes: Unemployment and mortgage rate data as of October 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		FISCAL YEAR ENDED	12 MONTHS ENDED
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
<b>Residential lots sold:</b>	1,908	423	4,132	1,279
Development projects	1,013	423	2,610	1,190
Lot banking projects	895	-	1,522	89
 Average sales price per lot <sup>(1)</sup>	\$ 90,400	\$ 82,800	\$ 84,200	\$ 77,800
 <b>Revenues<sup>(2)</sup></b>	<b>\$ 236.3</b>	<b>\$ 32.2</b>	<b>\$ 428.3</b>	<b>\$ 109.2</b>
Gross profit	23.2	8.9	65.6	37.1
Selling, general and administrative expense	9.1	7.4	28.9	43.5
Gain on sale of assets	(0.6)	(23.7)	(3.0)	(27.8)
Equity in earnings of unconsolidated ventures	-	(2.3)	(0.5)	(11.8)
Interest and other (income) expense	(1.3)	(2.1)	(5.5)	(1.2)
<b>Income from continuing operations before taxes</b>	<b>16.0</b>	<b>29.6</b>	<b>45.7</b>	<b>34.4</b>
Income tax expense (benefit)	3.4	(25.6)	9.4	(12.8)
<b>Net income from continuing operations</b>	<b>12.6</b>	<b>55.2</b>	<b>36.3</b>	<b>47.2</b>
Income from discontinued operations, net of taxes	-	-	-	7.2
<b>Net income (loss) attributable to noncontrolling interests</b>	<b>(0.1)</b>	<b>0.3</b>	<b>3.3</b>	<b>3.2</b>
<b>Net income attributable to Forestar Group Inc.</b>	<b>\$ 12.7</b>	<b>\$ 54.9</b>	<b>\$ 33.0</b>	<b>\$ 51.2</b>
 <b>Net income per diluted share</b>	<b>\$ 0.30</b>	<b>\$ 1.31</b>	<b>\$ 0.79</b>	<b>\$ 1.22</b>

\$ in millions except per share data

Unaudited

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

(2) Revenues include \$56.2 million and \$0.4 million in tract sales and other revenue for three months ended September 30, 2019 and 2018, respectively, and \$76.6 million and \$6.3 million in tract sales and other revenue for the fiscal year and twelve months ended September 30, 2019 and 2018, respectively.

# BALANCE SHEET

	9/30/2019	9/30/2018
Cash and cash equivalents <sup>(1)</sup>	\$ 382.8	\$ 335.0
Real estate	1,028.9	498.0
Investment in unconsolidated ventures	7.3	11.7
Other assets	19.3	21.5
Deferred income taxes, net	17.4	26.9
<b>Total assets</b>	<b>\$ 1,455.7</b>	<b>\$ 893.1</b>
Debt	\$ 460.5	\$ 111.7
Earnest money deposits on sales contracts	89.9	49.4
Other liabilities	96.4	57.5
<b>Shareholders' equity</b>	<b>808.3</b>	<b>673.3</b>
Noncontrolling interests	0.6	1.2
<b>Total equity</b>	<b>808.9</b>	<b>674.5</b>
<b>Total liabilities and equity</b>	<b>\$ 1,455.7</b>	<b>\$ 893.1</b>
<b>Net debt to total capital<sup>(2)</sup></b>	<b>8.8%</b>	<b>-44.4%</b>
<b>Debt to total capital<sup>(2)</sup></b>	<b>36.3%</b>	<b>14.2%</b>

\$ in millions except per share data

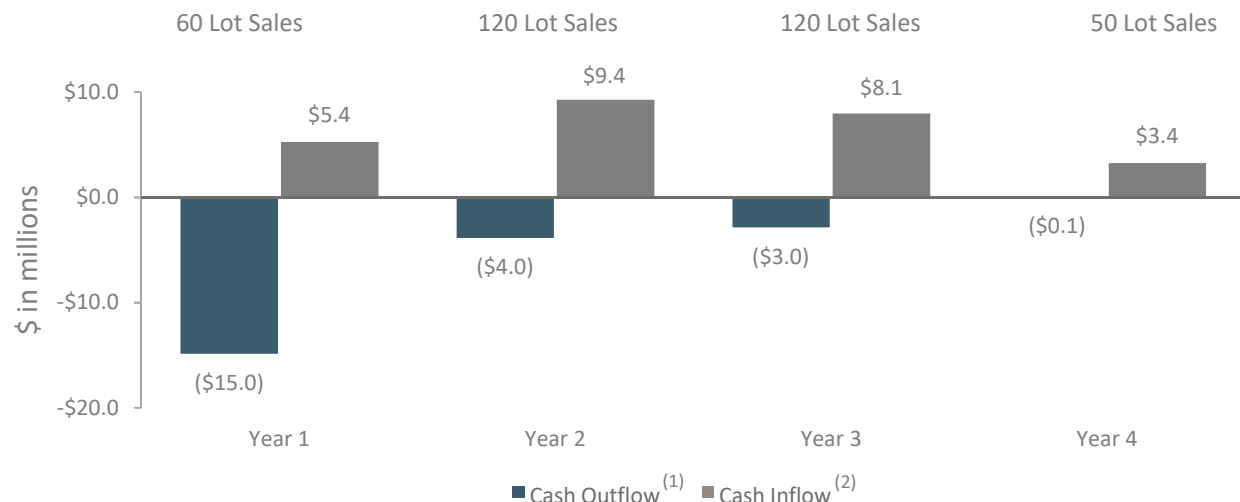
Unaudited

(1) Cash and cash equivalents presented above includes \$0 and \$16.2 million of restricted cash for the periods ended 9/30/19 and 9/30/18, respectively.

(2) 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

# 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

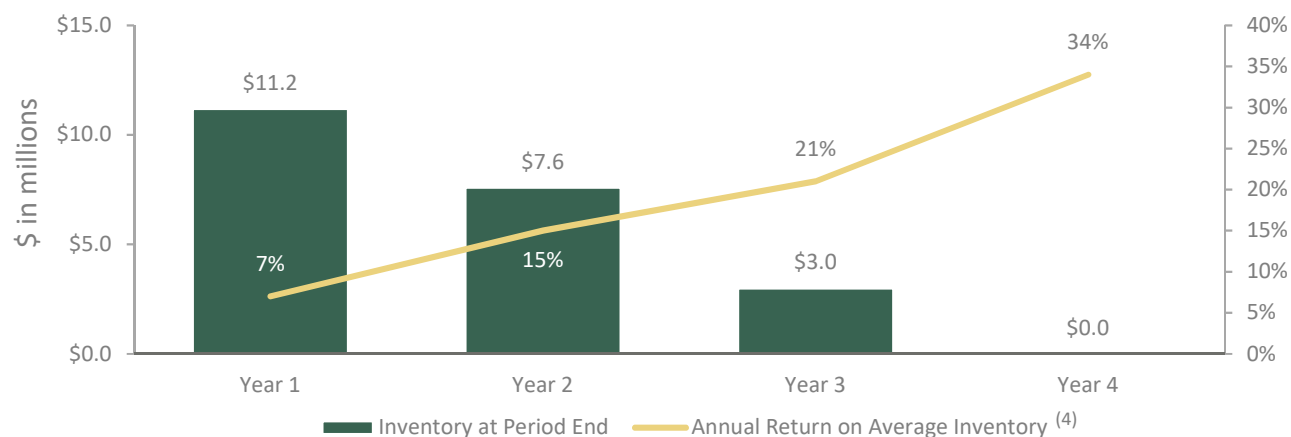
### Cash Flows & Inventory:

- 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)
  - 1<sup>st</sup> 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<sup>(3)</sup>: ~27 months

## Project Inventory and Returns



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

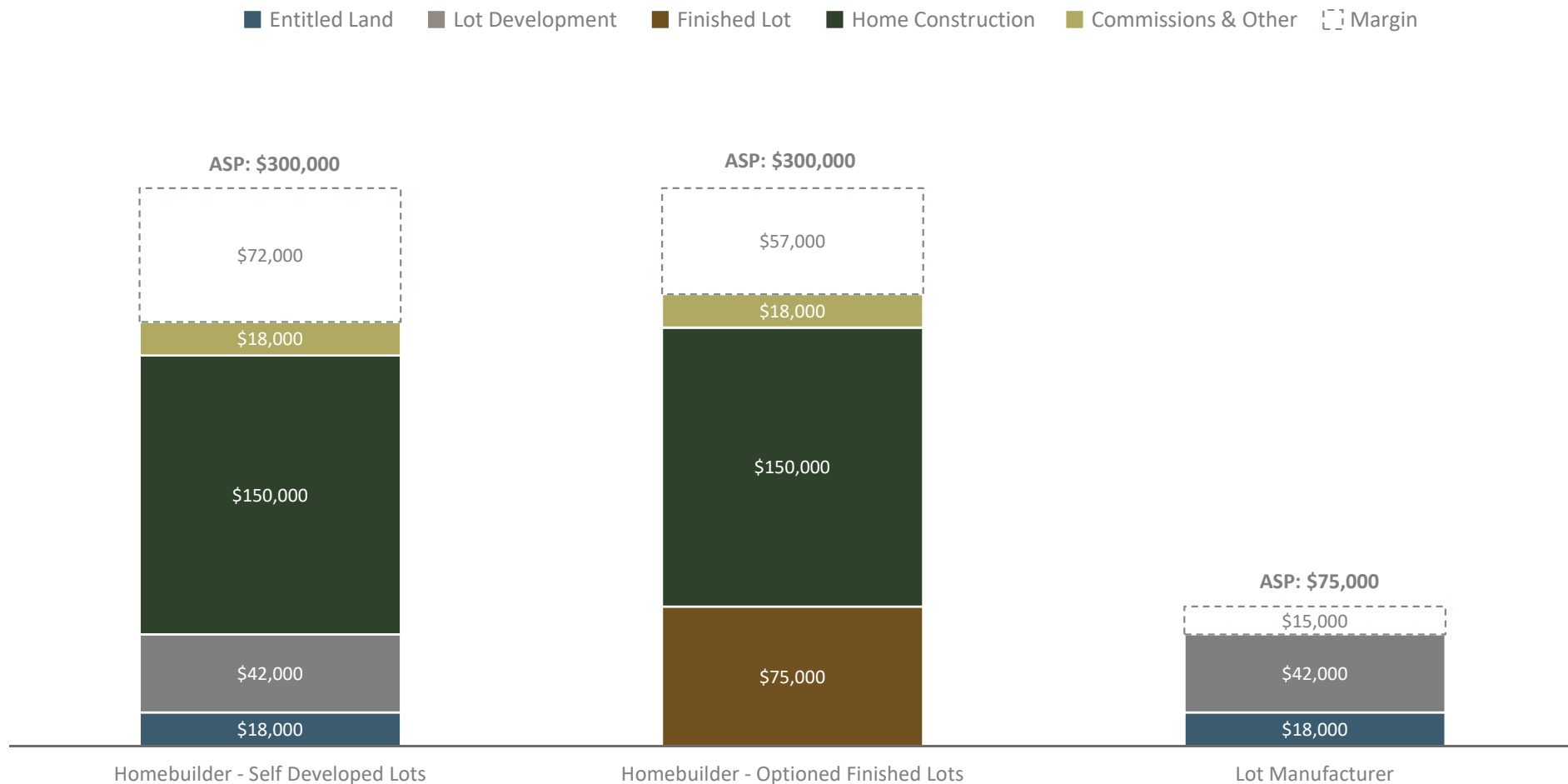
(1) Cash outflows include land acquisition and development spend and direct project overhead

(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

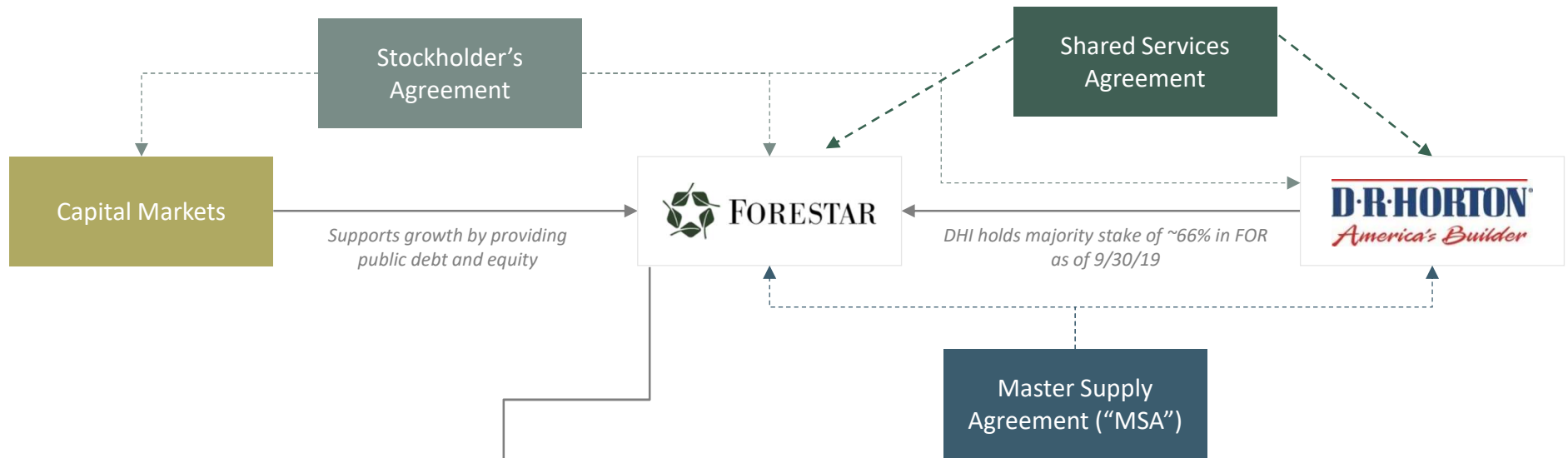
(4) Represents annual return except for year 4, which represents partial year return through the end of the project



# 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 <sup>(1)</sup>	
Project sourced by	DHI Right of First Offer (ROFO) Structure
	<ul style="list-style-type: none"> <li>• ROFO on 100% of lots</li> </ul>
	<ul style="list-style-type: none"> <li>• ROFO on 50% of lots in 1st phase</li> <li>• ROFO on 50% of lots in any subsequent phase, in which DHI purchased 25%+ of lots in previous phase</li> </ul>
3 <sup>rd</sup> Party Homebuilder	<ul style="list-style-type: none"> <li>• No DHI ROFO on lots</li> </ul>

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

## MASTER SUPPLY AGREEMENT (MSA)

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- 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

# STOCKHOLDER'S AGREEMENT

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- 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

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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:
  - 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