

Beazer Homes USA, Inc.

Q2 2017 Earnings Presentation



Sacramento, CA – Cottages at Capital Village

Forward Looking Statements

This Quarterly Report on Form 10-Q (Form 10-Q) contains forward-looking statements. These forward-looking statements represent our expectations or beliefs concerning future results, and it is possible that the results described in this Form 10-Q will not be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as “estimate,” “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “goal,” “target” or other similar words or phrases. All forward-looking statements are based upon information available to us on the date of this Form 10-Q. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this Form 10-Q in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about factors that could lead to material changes in performance is contained in Part I, Item 1A— Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as well as Item 1A of this Form 10-Q. These factors are not intended to be an all-inclusive list of risks and uncertainties that may affect the operations, performance, development and results of our business, but instead are the risks that we currently perceive as potentially being material. Such factors may include: (i) economic changes nationally or in local markets, changes in consumer confidence, declines in employment levels, inflation or increases in the quantity and decreases in the price of new homes and resale homes on the market; (ii) the cyclical nature of the homebuilding industry and a potential deterioration in homebuilding industry conditions; (iii) factors affecting margins, such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce our production and overhead cost structure; (iv) the availability and cost of land and the risks associated with the future value of our inventory, such as additional asset impairment charges or writedowns; (v) estimates related to homes to be delivered in the future (backlog) are imprecise, as they are subject to various cancellation risks that cannot be fully controlled; (vi) shortages of or increased prices for labor, land or raw materials used in housing production, and the level of quality and craftsmanship provided by our subcontractors; (vii) a substantial increase in mortgage interest rates, increased disruption in the availability of mortgage financing, a change in tax laws regarding the deductibility of mortgage interest for tax purposes or an increased number of foreclosures; (viii) our cost of and ability to access capital, due to factors such as limitations in the capital markets or adverse credit market conditions, and otherwise meet our ongoing liquidity needs, including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels; (ix) our ability to reduce our outstanding indebtedness and to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;(x) increased competition or delays in reacting to changing consumer preferences in home design;(xi) continuing severe weather conditions or other related events that could result in delays in land development or home construction, increase our costs or decrease demand in the impacted areas; (xii) estimates related to the potential recoverability of our deferred tax assets, and a potential reduction in corporate tax rates that could reduce the usefulness of our existing deferred tax assets; (xiii) potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations or governmental policies, and possible penalties for failure to comply with such laws, regulations or governmental policies, including those related to the environment; (xiv) the results of litigation or government proceedings and fulfillment of any related obligations; (xv) the impact of construction defect and home warranty claims, including water intrusion issues in Florida; (xvi) the cost and availability of insurance and surety bonds, as well as the sufficiency of these instruments to cover potential losses incurred; (xvii) the performance of our unconsolidated entities and our unconsolidated entity partners; (xviii) the impact of information technology failures or data security breaches; (xix) terrorist acts, natural disasters, acts of war or other factors over which the Company has little or no control; or (xx) the impact on homebuilding in key markets of governmental regulations limiting the availability of water. Any forward-looking statement speaks only as of the date on which such statement is made and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time-to-time, and it is not possible for management to predict all such factors.

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Introduction

Allan Merrill -	**President & Chief Executive Officer**
Bob Salomon -	**EVP & Chief Financial Officer**
David Goldberg -	**Vice President, Treasurer**

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2nd Quarter Highlights

- HB Revenue of $422 million, up 12%
- Gross Margin* of 20.7%, up 50 bps
- Adjusted EBITDA** of $33 million, up 27%
- 3.4 sales per community per month, up 9%

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*Excludes impairments, abandonments, interest included in cost of sales and certain warranty items
**Details are included on the "Adjusted EBITDA Reconciliation" slide in the appendix

Balanced Growth = More Efficient Balance Sheet + Sales & Profit Growth

Improving Balance Sheet Efficiency

- Debt Refinancing
- LHFFD Activation
- Expanding Gatherings
- Increased Land Spend

Six Levers for EPS Growth

- Community count
- ASP
- Sales pace
- Gross margin
- SG&A leverage
- Lower interest expense %

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2nd Quarter Results

- New Home Orders
  - Absorption rate of 3.4 sales per community per month
  - 1,549 net new orders, up 1% YoY
- Homebuilding Revenue
  - $422 million in Homebuilding Revenue, up 12% YoY
- Closings
  - Backlog conversion ratio of 64%
  - 1,239 Closings
- Average Sales Price (ASP)
  - ASP of $340.5 thousand, up 4% YoY
  - 3/31 Backlog ASP of more than $347 thousand
- Gross Margin*
  - Gross Margin of 20.7%, up 50 basis points YoY
- SG&A
  - 13.3% of Total Revenue, down 60 basis points YoY
- Adjusted EBITDA**
  - $33.2 million of Adjusted EBITDA,** up 27%
- Net Income
  - Loss from Continuing Operations of $7.5 million. Excluding $15.6 million loss from debt extinguishment, Net Income would have been approximately $2.5 million

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*Excludes impairments, abandonments, interest included in cost of sales and certain warranty items

**Details are included on the "Adjusted EBITDA Reconciliation" slide in the appendix

“2B-10” Plan Ranges vs. LTM Results

		"2B-10" Plan Ranges	Q2 FY17 LTM Results
Revenue	Sales / Community/ Month	2.8 - 3.2	2.8
	Average Selling Price ("ASP")	$340k - $350k	$335.3k
	Average Community Count	170 - 175	159
	Total Revenue	$2.0 billion	$1.9 billion
Margin	HB Gross Margin %*	21% - 22%	20.7%
	SG&A (% of Total Revenue)**	11% - 12%	12.3%
	Adjusted EBITDA***	$200 million	$162 million

“2B-10” is a multi-year plan to reach $2 billion in Revenue and 10% EBITDA Margin

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*Excludes impairments, abandonments, interest included in cost of sales and certain warranty items
**SG&A excludes the $2.7 million write-off of a legacy investment in a development site
***Details are included on the “Adjusted EBITDA Reconciliation” slide in the appendix

3rd Quarter Expectations

- New Home Orders
  - Relatively flat, even with 5% YoY drop in ACC
- Closings
  - Backlog conversion just above 60%
- Average Sales Price (ASP)
  - Low $340k's
- Gross Margin
  - Relatively flat sequentially
- SG&A
  - SG&A as % of Total Revenue should be down slightly YoY
- Land Sale Revenue
  - Flat sequentially
- Land Spend
  - Cash land spend around $100 million, up substantially YoY

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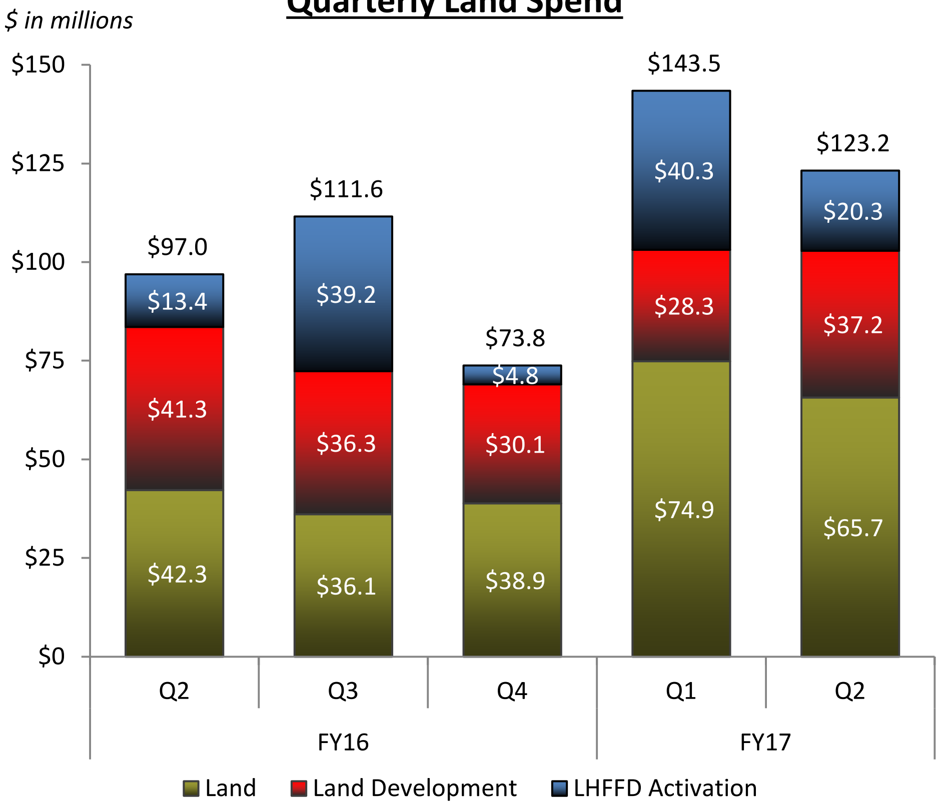
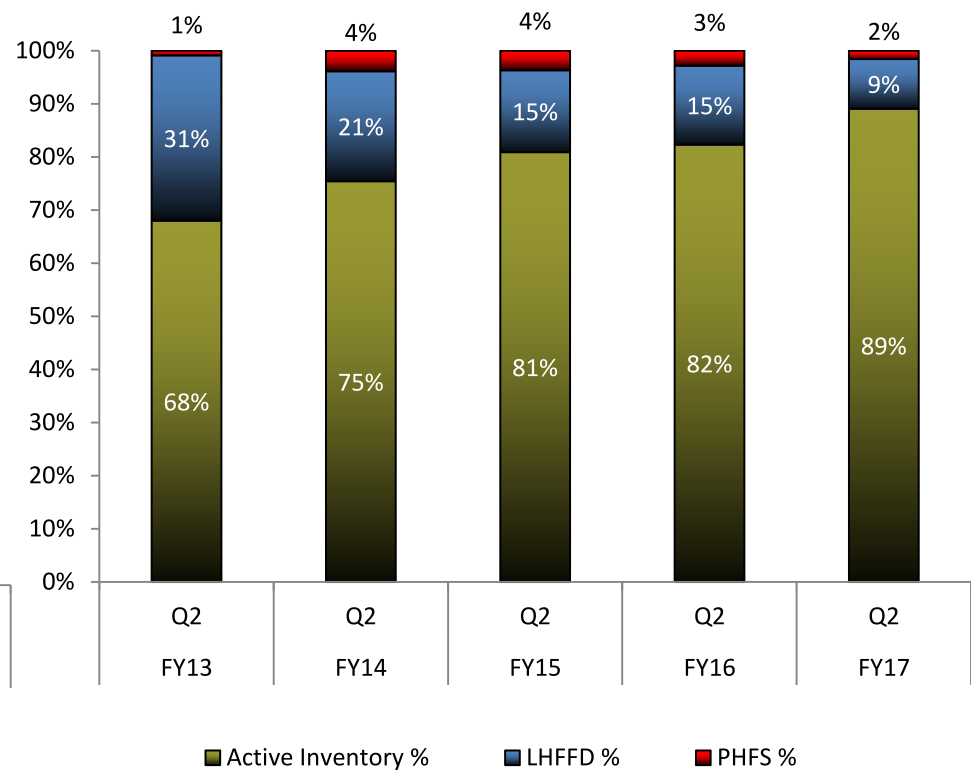
Achieving Growth with Increased Capital Efficiency

At March 31, 2017:
23,181 total controlled lots
20,390 active lots

Quarterly Land Spend



Total Inventory



Option Lots as % of Active Lots				
Q2 FY13	**Q2 FY14**	**Q2 FY15**	**Q2 FY16**	**Q2 FY17**
23%	**25%**	**27%**	**30%**	**31%**

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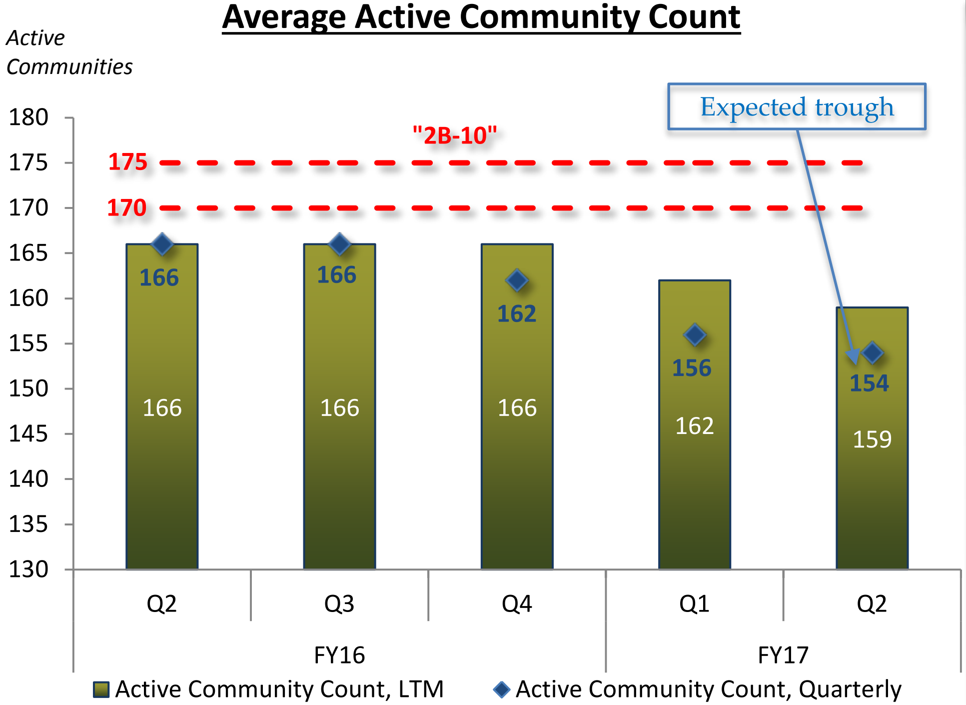
Community Count

Average Active Community Count



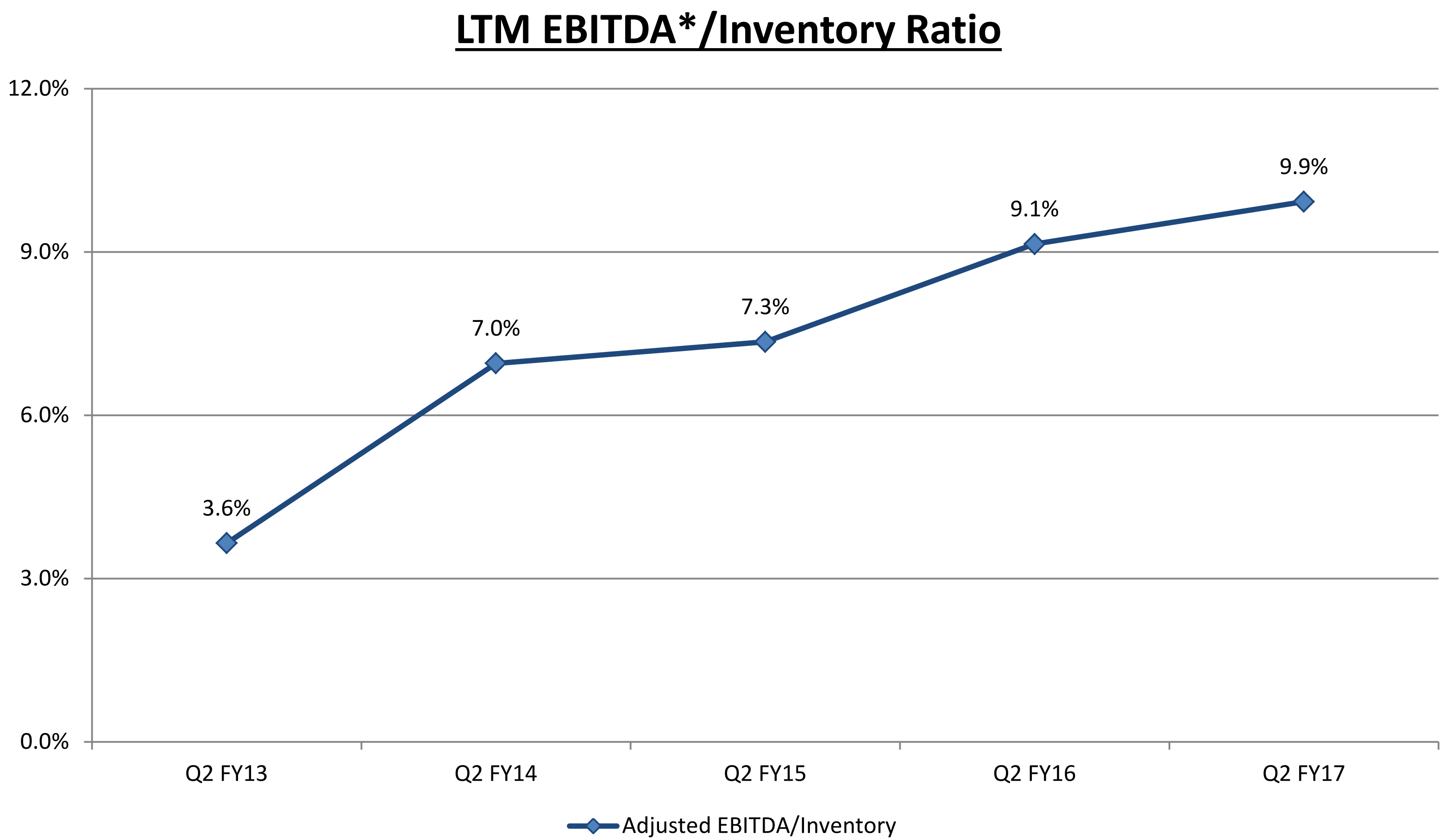
Community Count Activity

Active Communities at 3/31/2017	**158**
Communities Opening in Next 6 Months	**34**
Communities Approved But Not Yet Closed	**36**
Near-Term Closeouts (next 6 months)	**36**

The information above is as of 3/31/17

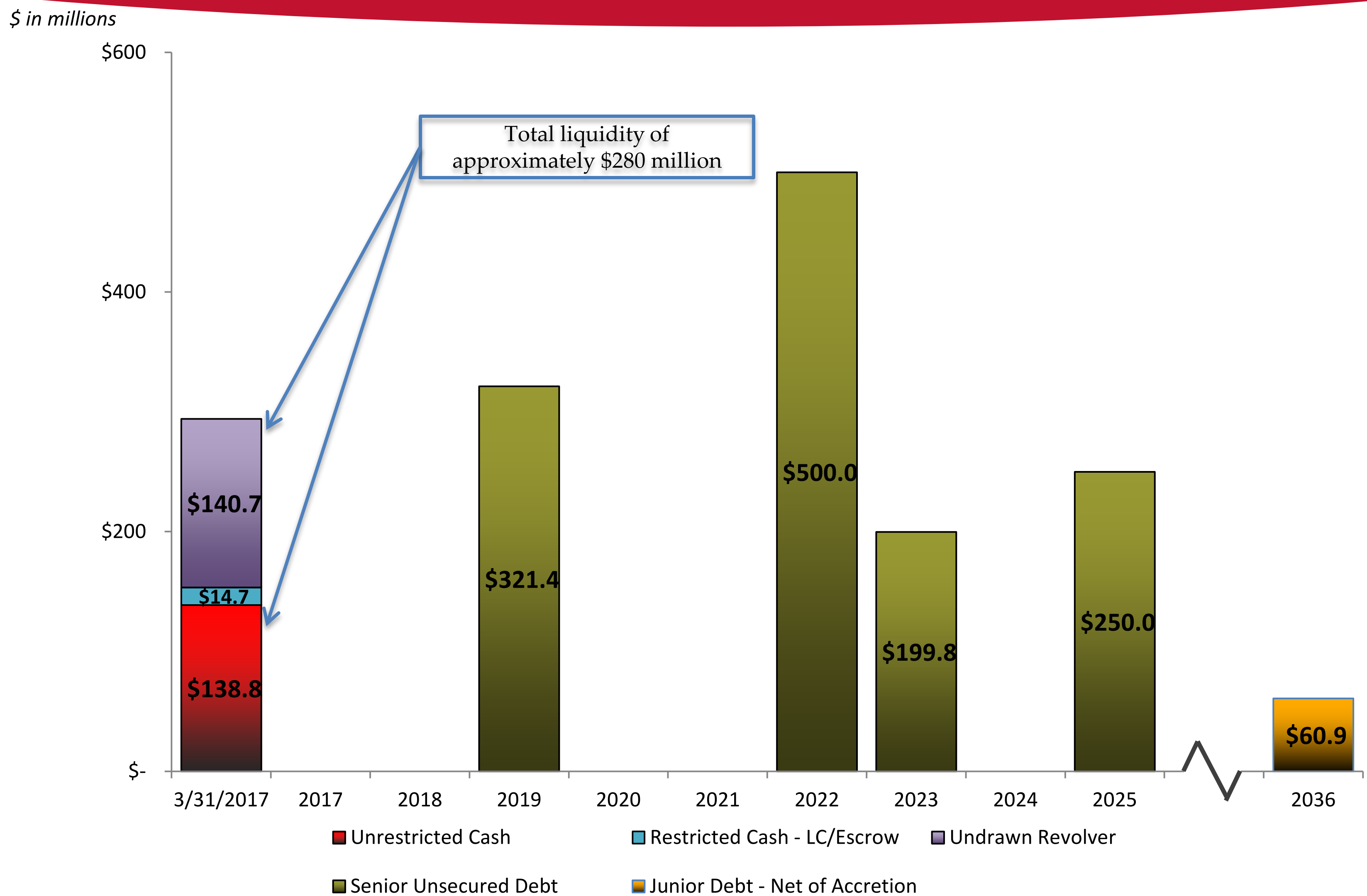
Note: An active community has achieved at least 2 initial sales and has at least 2 unsold units remaining

Improving Capital Efficiency



*Adjusted EBITDA excludes the impact of certain warranty items (net of expected insurance recoveries), a litigation settlement recorded in discontinued operations and the write off of a legacy investment in a development site

Maturity Schedule as of 3/31/2017



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Notes:

-There are an additional $14.9 million of Secured Notes on the balance sheet with various maturity dates

-Years are calendar years

Defining Growth

- Community count growth
- Higher ASP’s
- Increased sales pace
- Incremental gross margin
- Improved SG&A leverage
- Lower interest expense as % of top line

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Appendices

Q2 Results

$ in millions, except ASP

		Q2 FY16		Q2 FY17		Δ
Profitability						
Total Revenue	$	385.6	$	425.5		10.3%
Adjusted EBITDA*	$	26.1	$	33.2	$	7.1
Net Income/Loss	$	(1.2)	$	(7.5)	$	(6.3)
Unit Activity						
Orders		1,538		1,549		0.7%
Closings		1,150		1,239		7.7%
Average Sales Price ($000's)	$	328.0	$	340.5		3.8%
Cancellation Rate		17.6%		16.6%		(100 bps)
Active Community Count, Avg**		166		154		(7.6)%
Sales/Community/Month		3.1		3.4		0.3
Margins						
HB Gross Margin***		20.2%		20.7%		50 bps
SG&A (% of Total Revenue)		13.9%		13.3%		(60 bps)
Balance Sheet						
Unrestricted Cash	$	134.9	$	138.8	$	3.9
Land & Development Spending	$	83.6	$	102.9	$	19.3

Note: Variances are calculated using un-rounded numbers
*Details are included on the “Adjusted EBITDA Reconciliation” slide in the appendix
**Active Community Count was 163 at 3/31/2016 and 158 at 3/31/2017
***Excludes impairments, abandonments, interest included in cost of sales and certain warranty items

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Backlog Detail

	Q2 FY16	Q2 FY17
Quarter Ending Backlog (units)	2,300	2,236
Quarter Ending Backlog ($ in millions)	$ 772.7	$ 776.4
ASP in Backlog ($ in thousands)	$ 336.0	$ 347.2
Quarter Beg. Backlog	1,912	1,926
Scheduled to Close in Future Qtrs.	(953)	(898)
Backlog Scheduled to Close in the Qtr.	959	1,028
Backlog Activity:		
Cancellations	(86)	(83)
Pushed to Future Quarters	(105)	(65)
Close Date Brought Forward	97	72
Sold & Closed During the Qtr	285	287
Total Closings in the Quarter	1,150	1,239
Backlog Conversion Rate	**60.1%**	**64.3%**
Closings as % of BL Scheduled to Close in the Qtr.	**119.9%**	**120.5%**

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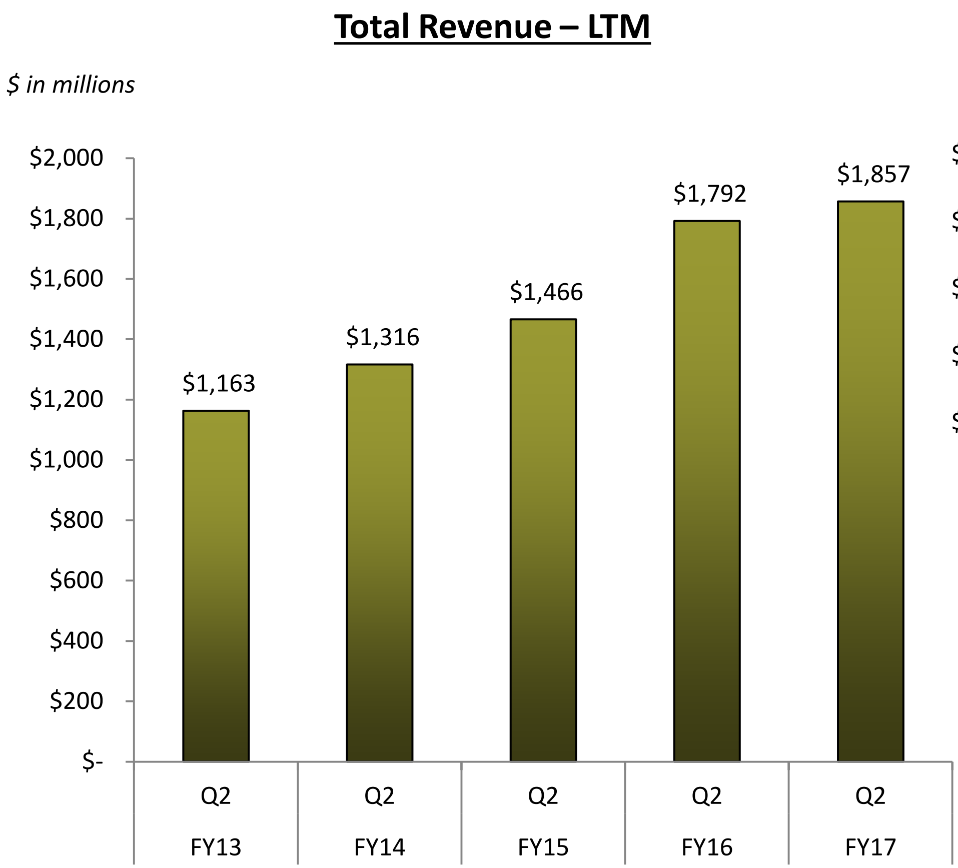
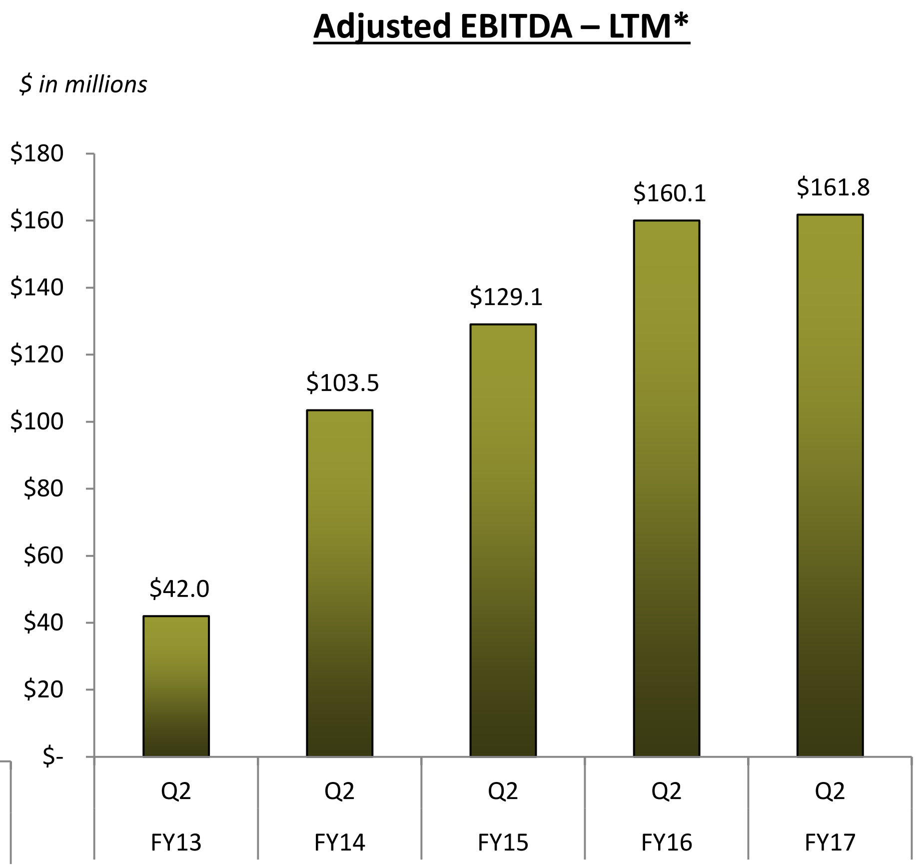
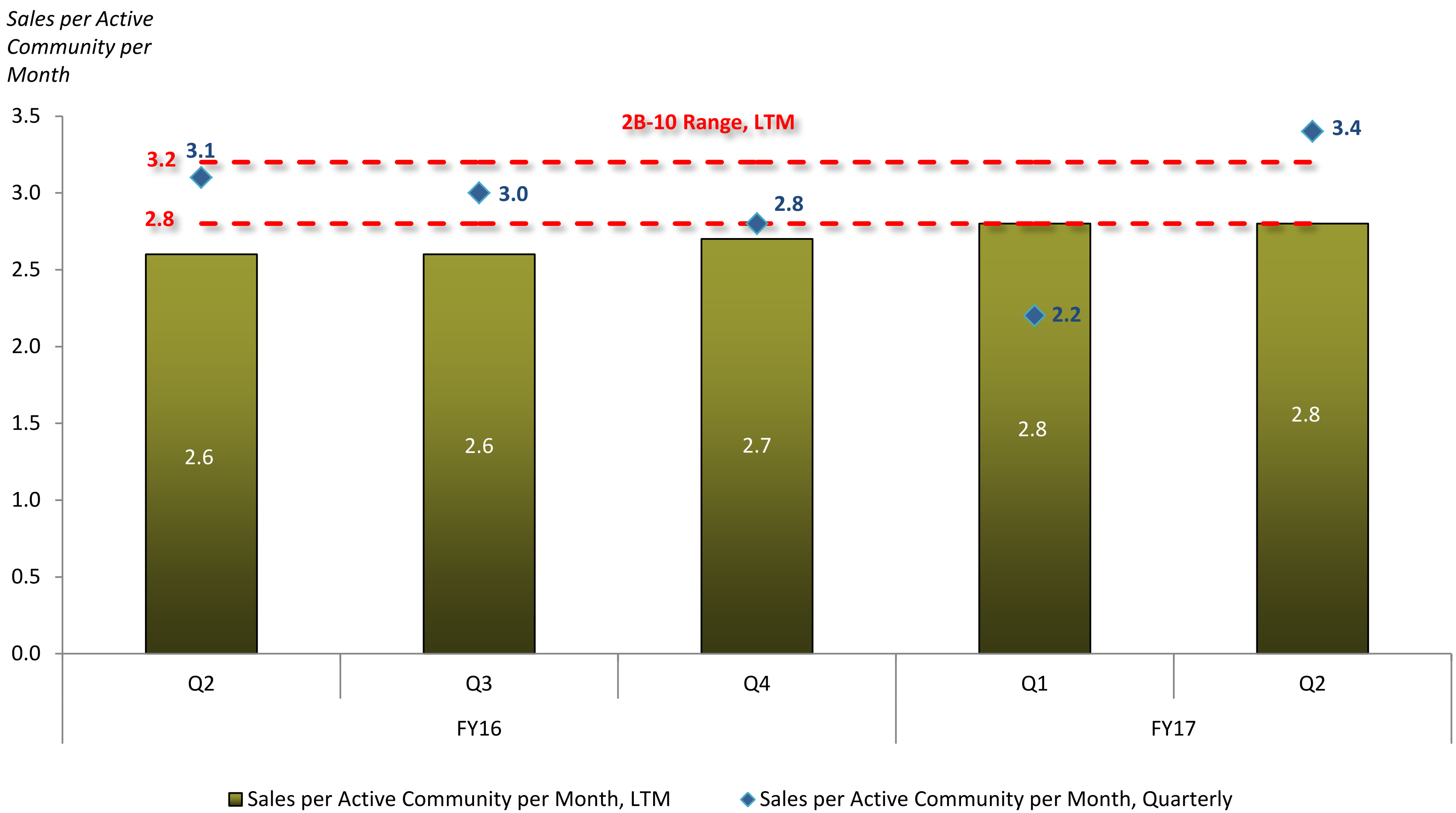
Increases in LTM Revenue and EBITDA





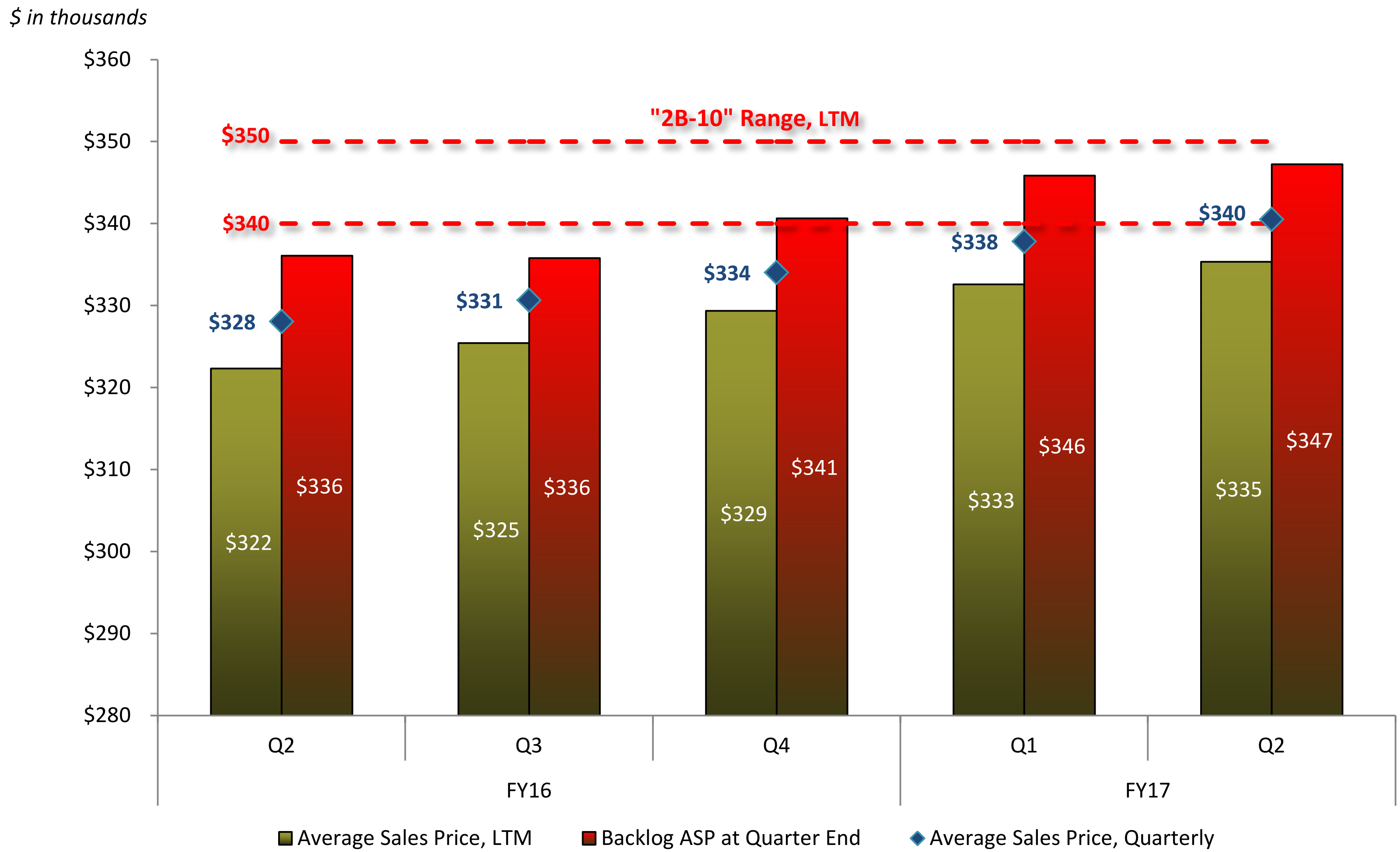
*Adjusted EBITDA excludes the impact of certain warranty items (net of expected insurance recoveries), a litigation settlement recorded in discontinued operations, and the write off of a legacy investment in a development site

Sales Pace within "2B-10" Target Range



Note: An active community has achieved at least 2 initial sales and has at least 2 unsold units remaining

Backlog ASP Suggests Further Growth



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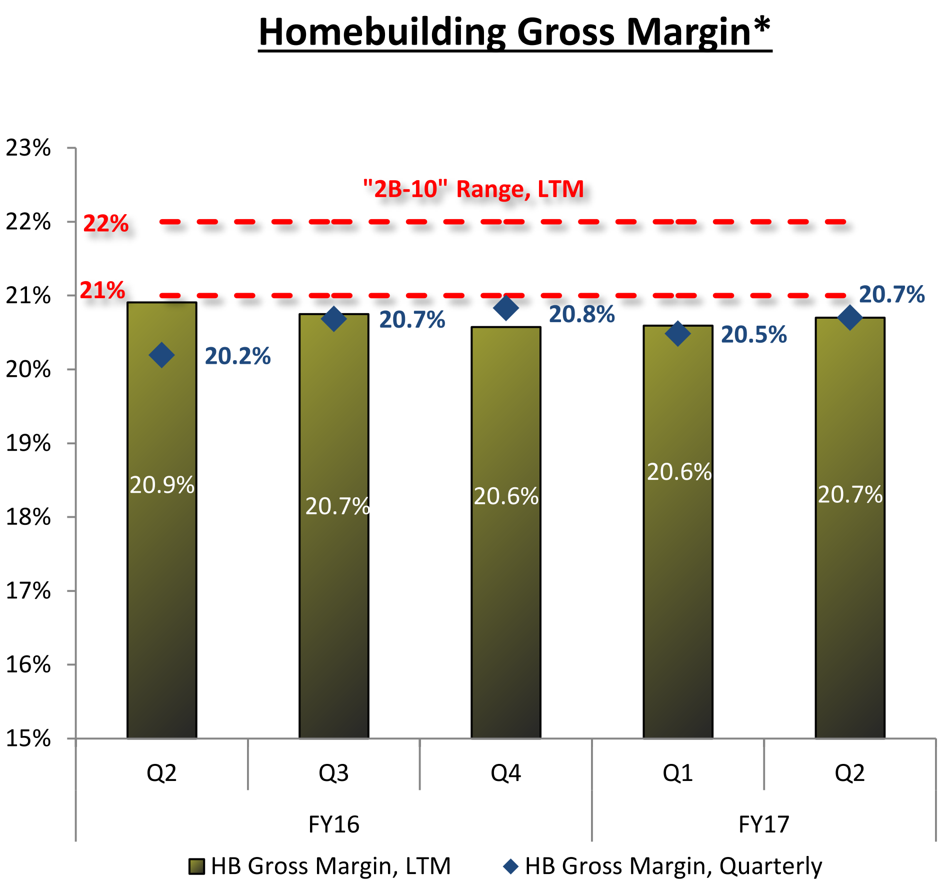
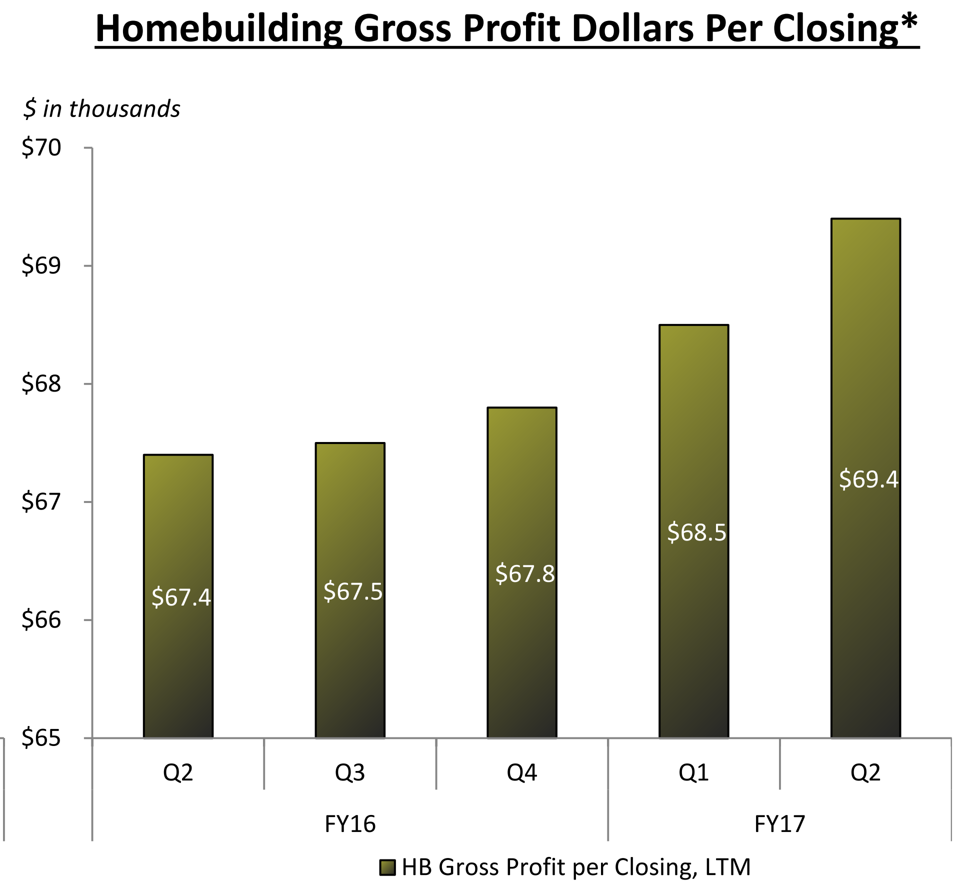
Gross Margin Approaching "2B-10" Range

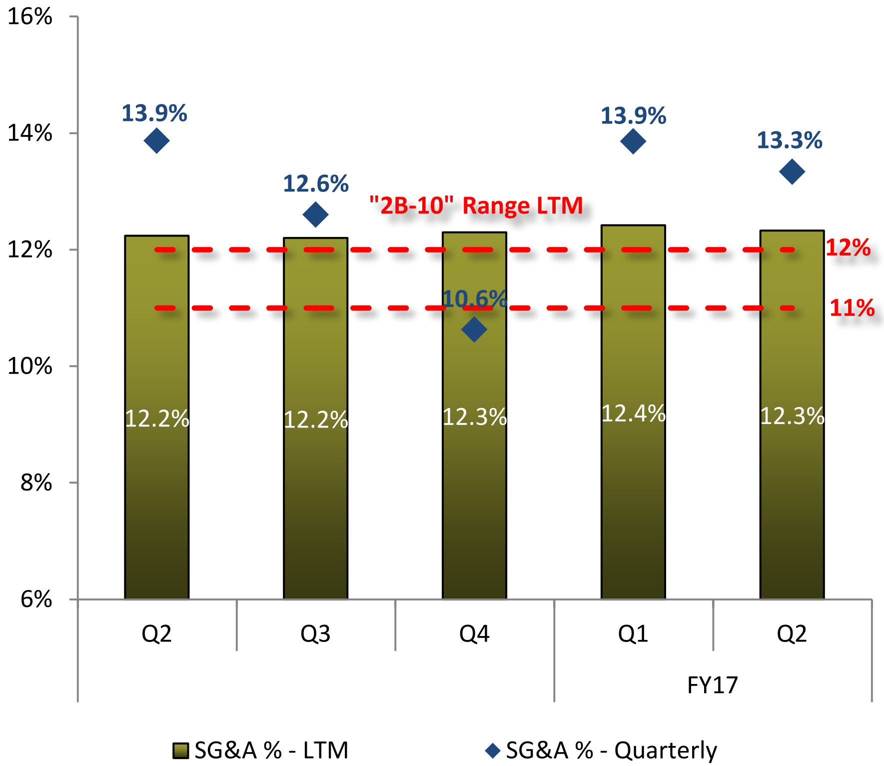




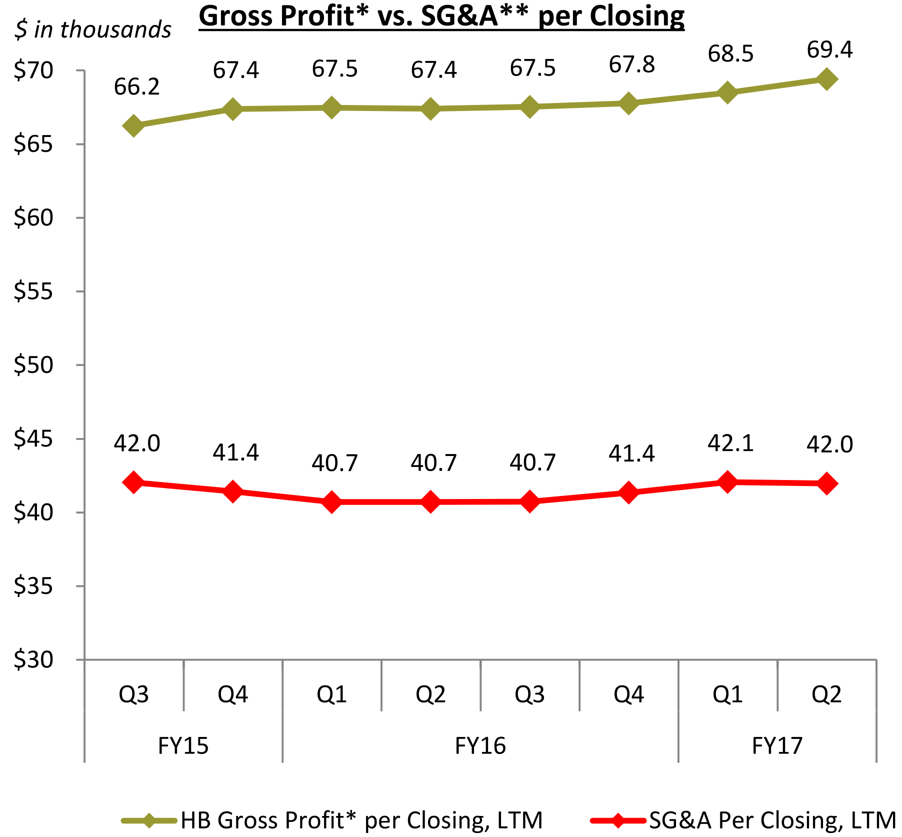
*Excludes impairments, abandonments and interest included in cost of sales as well as certain warranty items

SG&A Leverage as Revenue Grows

SG&A** Leverage
(% of Total Revenue)



LTM Homebuilding
Gross Profit* vs. SG&A** per Closing



*Excludes impairments, abandonments, interest included in cost of sales and certain warranty items
** Q1 FY17 SG&A excludes a $2.7 million write-off of a legacy investment in a development site

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2B 10

Capital Efficiency Strategies: Impact on Margin

Fiscal Year 2017				
Capital Strategy	**Rationale**	**Margin Impact**	**% of Revenue**	**Total Impact**
Former LHFFD Assets	Cash generation Incremental EBITDA	~ 800 bps	~ 5%	~ 40 bps
Land Banking Transactions	Incremental EBITDA Higher IRR on investments	~ 400 bps	~ 15%	~ 60 bps
				~ 100 bps

Fiscal Year 2017 impact similar to Fiscal Year 2016

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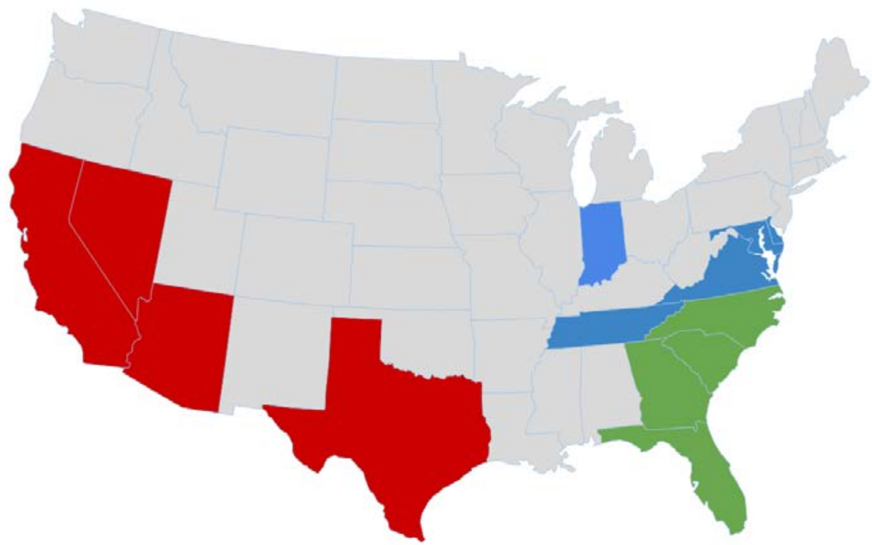
Geographic Mix Impacts Year-Over-Year Q2 ASP

	Q2 FY16 ASP	Q2 FY16 Closings	Q2 FY17 ASP	Q2 FY17 Closings	Change in ASP ($)	Change in ASP (%)	Change in Mix
West	$319K	48.2%	$330K	45.3%	$11K	3.4%	-2.9%
East	$368K	24.1%	$396K	23.1%	$28K	7.6%	-1.0%
SE	$309K	27.7%	$315K	31.6%	$6K	1.9%	3.9%



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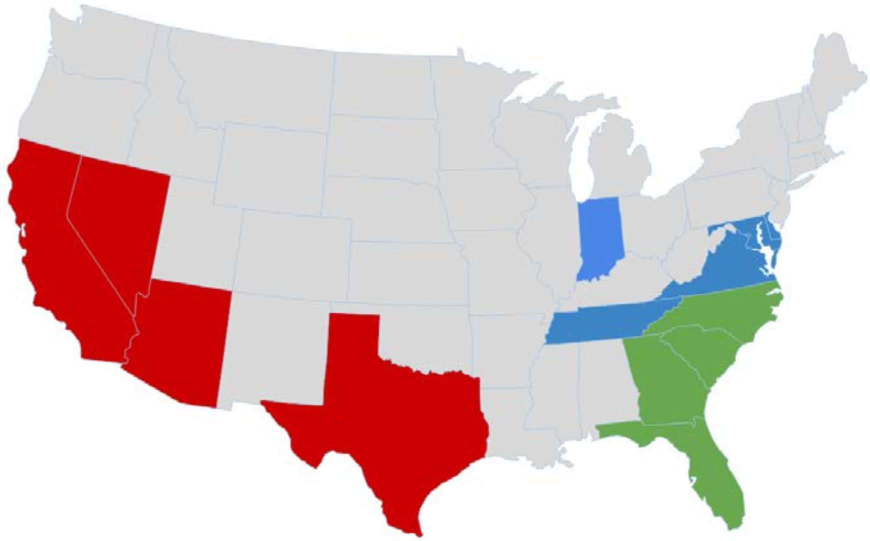
Note: Variances are calculated using un-rounded numbers

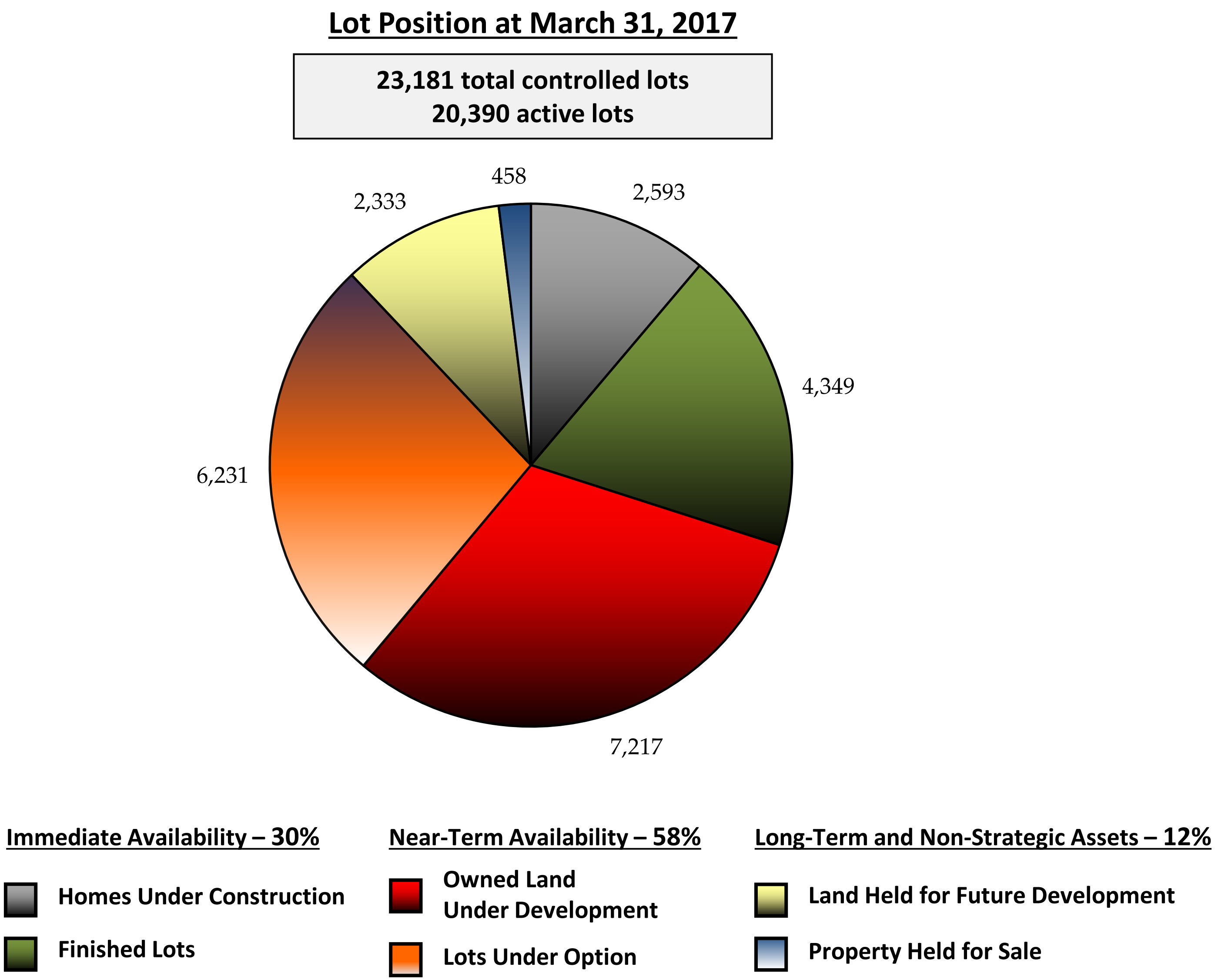
Geographic Mix Impacts Year-Over-Year Q2 Margin

	Q2 FY16 GM%	Q2 FY16 Closings	Q2 FY17 GM%	Q2 FY17 Closings	Change in GM%	Change in Mix
West	20.6%	48.2%	21.2%	45.3%	60bps	-2.9%
East	17.9%	24.1%	19.4%	23.1%	150bps	-1.0%
SE	18.0%	27.7%	20.1%	31.6%	210bps	3.9%

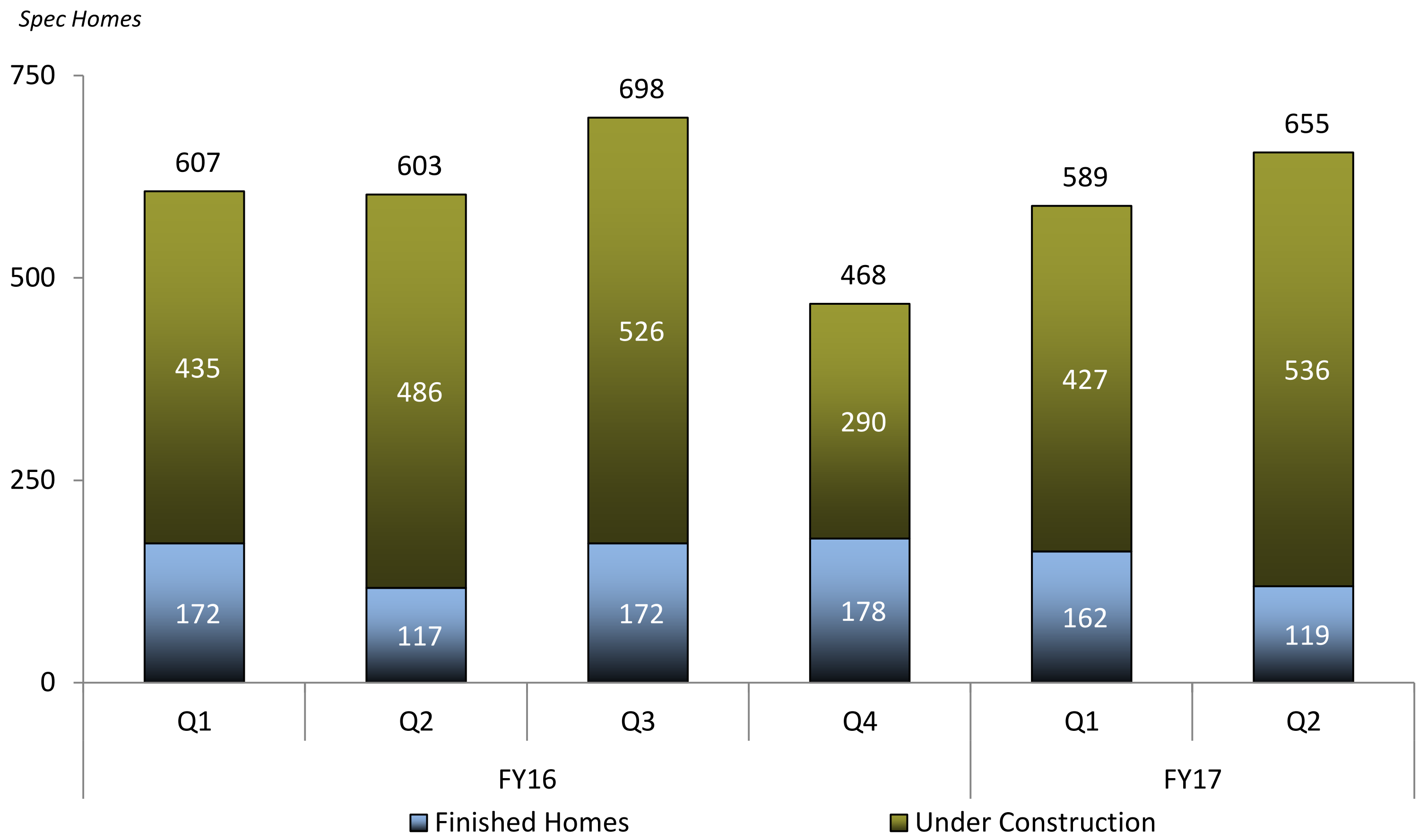


Note: Segment gross margin excludes required capitalization of indirects, impairments, interest included in cost of sales, and certain Florida warranty items

Land Position



Available Specs



Note: Spec count as of each quarter-end

Debt Structure

(In thousands)	Maturity Date	Call Date	Call Price	March 31, 2017	September 30, 2016
5.750% Senior Notes	June 2019	3/15/2019	MW	321,393	321,393
7.500% Senior Notes	September 2021			-	198,000
8.750% Senior Notes	March 2022	3/15/2019	104.375	500,000	500,000
7.250% Senior Notes	February 2023	2/1/2018	103.625	199,834	199,834
6.750% Senior Notes	March 2025	3/15/2020	105.063	250,000	-
Unamortized debt premiums (discounts)				3,799	2,362
Unamortized debt issuance costs				(16,478)	(14,063)
Total Senior Notes, net				**1,258,548**	**1,207,526**
Term Loan	March 2018			-	52,669
Junior Subordinated Notes	July 2036			60,903	59,870
Other Secured Notes payable	Various Dates			14,911	11,813
Total debt				**$ 1,334,362**	**$ 1,331,878**

Notes:

Term Loan net of unamortized discount of $880 and unamortized debt issuance costs of $1,451

Junior Subordinated Notes net of unamortized accretion of $39,870 and $40,903, respectively

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Adjusted EBITDA Reconciliation

	Three Months Ended March 31,			LTM Ended March 31,		
	2017	2016	17 vs 16	2017	2016	17 vs 16
Net income (loss)	$ (7,535)	$ (1,234)	$ (6,301)	$ (4,036)	$ 368,195	$ (372,231)
Expense (benefit) from income taxes	(4,493)	(3,865)	(628)	12,511	(328,692)	341,203
Interest amortized to home construction and land sales expenses, capitalized interest impaired and interest expense not qualified for capitalization	23,865	22,790	1,075	105,598	94,174	11,424
Depreciation and amortization and stock-based compensation amortization	5,495	5,087	408	22,272	21,270	1,002
Inventory impairments and abandonments	282	1,741	(1,459)	11,757	6,206	5,551
Loss on debt extinguishment	15,563	1,631	13,932	26,527	2,539	23,988
Adjusted EBITDA	**$ 33,177**	**$ 26,150**	**$ 7,027**	**$ 174,629**	**$ 163,692**	**$ 10,937**
Unexpected warranty costs related to Florida stucco issues (net of expected insurance recoveries)	-	-	-	-	(3,612)	3,612
Additional insurance recoveries from third-party insurer	-	-	-	(15,500)	-	(15,500)
Write-off of deposit on legacy land investment	-	-	-	2,700	-	2,700
Adjusted EBITDA excluding unexpected warranty costs (net of recoveries), additional insurance recoveries and write-off of deposit	**$ 33,177**	**$ 26,150**	**$ 7,027**	**$ 161,829**	**$ 160,080**	**$ 1,749**

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Deferred Tax Asset

($ in millions)	**March 31, 2016**	**March 31, 2017**
Deferred Tax Assets	$ 387.3	$ 383.6
Valuation Allowance	(57.7)	(66.3)
Net Deferred Tax Assets	$ 329.6	$ 317.3

As of March 31, 2017, our valuation allowance of $66.3 million related to our deferred tax assets remains consistent with the determinations we made during the period ended September 30, 2016. See Form 10-K for additional detail.

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