



*Hovnanian*  
Enterprises, Inc.

# **Barclays Select Series: Building & Building Products Conference**

August 11, 2021



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## Non-GAAP Financial Measures

- (1) Adjusted homebuilding gross margin percentage before cost of sales interest expense and land charges is a non-GAAP financial measure. See appendix for a reconciliation to the most directly comparable GAAP measure.
- (2) Total SG&A includes homebuilding selling, general and administrative costs and corporate general and administrative costs. Ratio calculated as a percentage of total revenues. SG&A excluding the impact of incremental phantom stock expense is a non-GAAP financial measure, the reconciliation of which to SG&A is included herein.
- (3) Adjusted EBITDA is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). Adjusted EBITDA represents earnings before interest expense, income taxes, depreciation, amortization, inventory impairment loss and land option write-offs and loss (gain) on extinguishment of debt. See appendix for a reconciliation to the most directly comparable GAAP measure.
- (4) Adjusted income (loss) before income taxes excludes land-related charges, joint venture write-downs and loss (gain) on extinguishment of debt. See appendix for a reconciliation to the most directly comparable GAAP measure.
- (5) Adjusted homebuilding EBIT to Inventory defined as LTM Homebuilding EBIT before land-related charges divided by five quarter average inventory, excluding capitalized interest and inventory not owned.  
Source: Company SEC filings and press releases as of 06/03/21. See appendix for calculation.
- (6) Inventory turns (COGS) defined as inventory turns derived by dividing cost of sales, excluding capitalized interest, by the five quarter average homebuilding inventory, excluding inventory not owned and capitalized interest. See appendix for calculation.  
Source: Company SEC filings and press releases as of 06/03/21.



# Forward-Looking Statements

Note: All statements in this presentation that are not historical facts should be considered as “Forward-Looking Statements” within the meaning of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such forward-looking statements include but are not limited to statements related to the Company’s targets, goals and expectations with respect to its financial results for future financial periods such as its statements related to its key metric targets for total consolidated revenue, homebuilding gross margin percentage before cost of sales interest expense and land charges, total SG&A ratio, adjusted pre-tax earnings, adjusted EBITDA, average inventory and inventor turns. Although we believe that our targets, plans, intentions and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurance that such targets, plans, intentions or expectations will be achieved. By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as a result of a variety of factors. Such risks, uncertainties and other factors include, but are not limited to, (1) the outbreak and spread of COVID-19 and the measures that governments, agencies, law enforcement and/or health authorities implement to address it; (2) changes in general and local economic, industry and business conditions and impacts of a significant homebuilding downturn; (3) adverse weather and other environmental conditions and natural disasters; (4) the seasonality of the Company’s business; (5) the availability and cost of suitable land and improved lots and sufficient liquidity to invest in such land and lots; (6) shortages in, and price fluctuations of, raw materials and labor, including due to changes in trade policies and the imposition of tariffs and duties on homebuilding materials and products and related trade disputes with, and retaliatory measures taken by, other countries; (7) reliance on, and the performance of, subcontractors; (8) regional and local economic factors, including dependency on certain sectors of the economy, and employment levels affecting home prices and sales activity in the markets where the Company builds homes; (9) increases in cancellations of agreements of sale; (10) fluctuations in interest rates and the availability of mortgage financing; (11) changes in tax laws affecting the after-tax costs of owning a home; (12) legal claims brought against us and not resolved in our favor, such as product liability litigation, warranty claims and claims made by mortgage investors; (13) levels of competition; (14) utility shortages and outages or rate fluctuations; (15) information technology failures and data security breaches; (16) negative publicity; (17) high leverage and restrictions on the Company’s operations and activities imposed by the agreements governing the Company’s outstanding indebtedness; (18) availability and terms of financing to the Company; (19) the Company’s sources of liquidity; (20) changes in credit ratings; (21) government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment; (22) operations through unconsolidated joint ventures with third parties; (23) significant influence of the Company’s controlling stockholders; (24) availability of net operating loss carryforwards; (25) loss of key management personnel or failure to attract qualified personnel; and (26) certain risks, uncertainties and other factors described in detail in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2020 and the Company’s Quarterly Reports on Form 10-Q for the quarterly periods during fiscal 2021 and subsequent filings with the Securities and Exchange Commission. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

# What's new about the Hovnanian story?

	Then	Now
Footprint	Multiple underperforming markets	Focused on stronger markets with improving share
Profitability and margin improvement	Unprofitable	Profitable
Cash flow generation	Insufficient to adequately address debt maturities and grow business	Material excess operating cash flow after land reinvestment
Inventory strategy	Over-reliance on costly on- and off-balance sheet financing to acquire lots, reducing returns	Increased inventory efficiency driving high turnover and ROI
Maturity profile	Short dated; difficulty extending near term maturities	Significant runway, strategic priority to repay debt

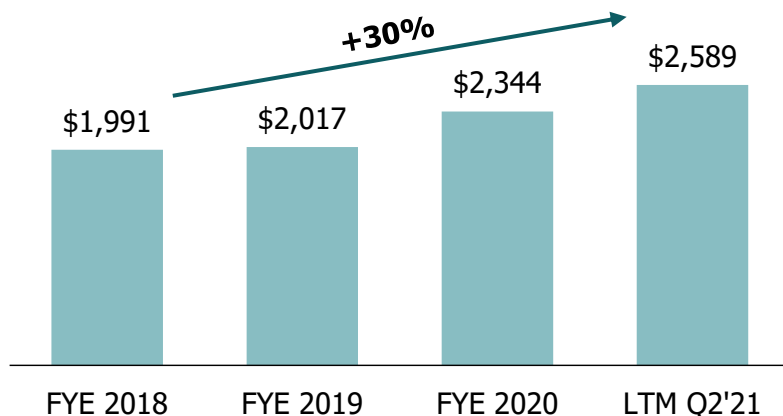
# Successfully implementing strategies for long-term profitability and value creation



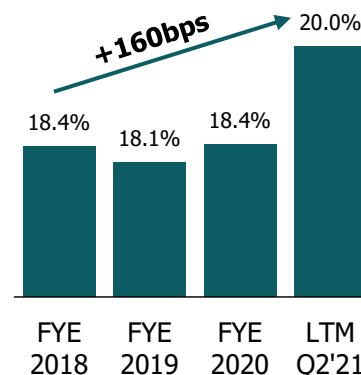
# The proof is in our results

(\$ in millions, unless specified otherwise)

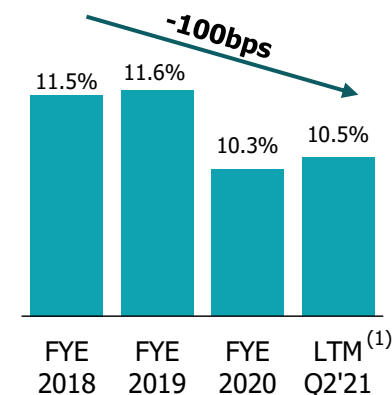
## Total revenues



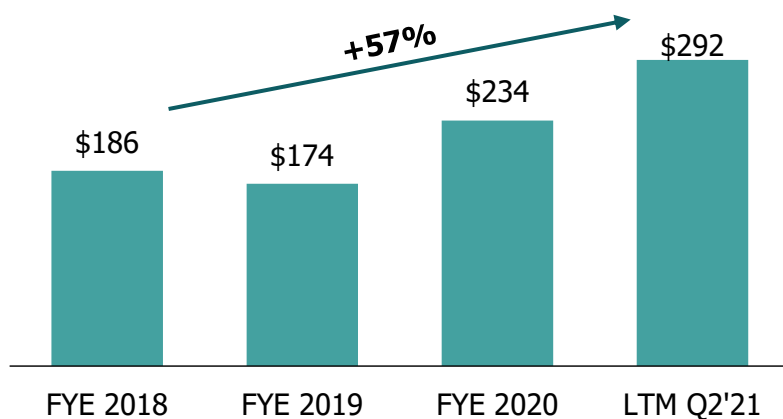
## Adj. homebuilding gross margin



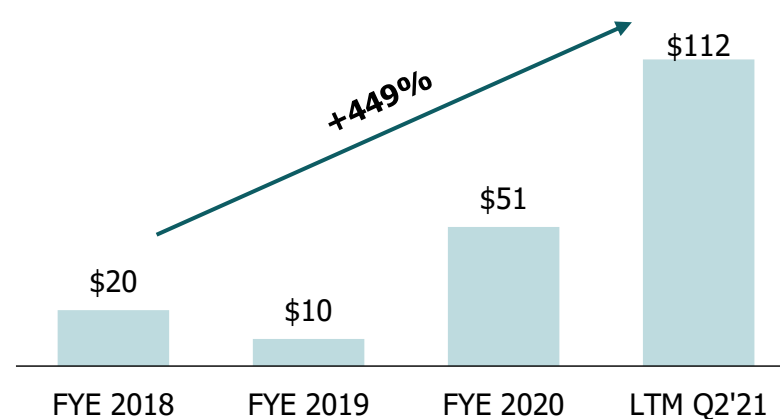
## Total SG&A (as % of total revenues)



## Adjusted EBITDA



## Adjusted income (loss) before income taxes



(1) Excluding the \$17.5 million of incremental phantom stock expense in the second quarter of fiscal 2021, SG&A would have been \$65.1 million, or 9.3% of total revenues for the second quarter of fiscal 2021 and \$128.8 million, or 10.1% of total revenues for the six months ended April 30, 2021 and \$254.3 million, or 9.8% of total revenues for LTM Q2'21.

# We are on track to meet or exceed our key performance targets established in 2018

## Key metrics — Actuals, Targets and Guidance

	<b>Actual LTM (As of 04/30/2018)</b>	<b>FYE 2020 (As of 10/31/2020)</b>	<b>Annual key metric targets (Established in June 2018)</b>	<b>Updated FY 2021 Guidance (As of 06/03/2021)<sup>(1)</sup></b>
Total consolidated revenue	\$2,233	\$2,344	\$2,650	\$2,650 – \$2,800
Adjusted homebuilding gross margin <sup>(2)</sup>	17.7%	18.4%	19.5%	20.5% – 21.5%
Total SG&A as % of total revenues <sup>(3)</sup>	11.6%	10.3%	10.0%	10.5% – 11.5%
Adjusted EBITDA <sup>(4)</sup>	\$174	\$234	\$275	\$310 – \$350
Adjusted income (loss) before income taxes <sup>(5)</sup>	(\$15)	\$51	\$100	\$150 – \$170

Increased adjusted EBITDA and adjusted income (loss) before income taxes guidance by \$10mm each

- (1) The Company cannot provide a reconciliation between its non-GAAP projections and the most directly comparable GAAP measures without unreasonable efforts because it is unable to predict with reasonable certainty the ultimate outcome of certain significant items required for the reconciliation. These items include, but are not limited to, land-related charges, inventory impairment loss and land option write-offs and loss (gain) on extinguishment of debt. These items are uncertain, depend on various factors and could have material impact on GAAP reported results.
- (2) Adjusted homebuilding gross margin percentage is before cost of sales interest expense and land charges. See appendix for a reconciliation to the most directly comparable GAAP measure.
- (3) Total SG&A includes homebuilding selling, general and administrative costs and corporate general and administrative costs. Ratio calculated as a percentage of total revenues. The SG&A guidance assumes that the stock remains at \$132.59 and includes incremental phantom stock expenses of \$17.5 million incurred in the second quarter of fiscal 2021.
- (4) Adjusted EBITDA is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). Adjusted EBITDA represents earnings before interest expense, income taxes, depreciation, amortization, inventory impairment loss and land option write-offs and loss (gain) on extinguishment of debt. See appendix for a reconciliation to the most directly comparable GAAP measure.
- (5) Adjusted income (loss) before income taxes excludes land-related charges, joint venture write-downs and loss (gain) on extinguishment of debt. See appendix for a reconciliation to the most directly comparable GAAP measure.





## **Recent operating and financial performance**

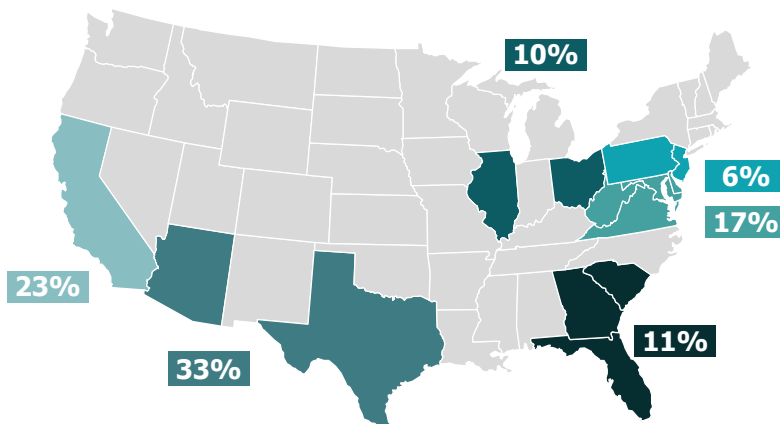


# Reintroduction to Hovnanian

- Among the top 15 homebuilders in the United States in both homebuilding revenues and home deliveries<sup>(2)</sup>
- Markets and builds homes across the product and buyer spectrum, with a first-time and move-up focus

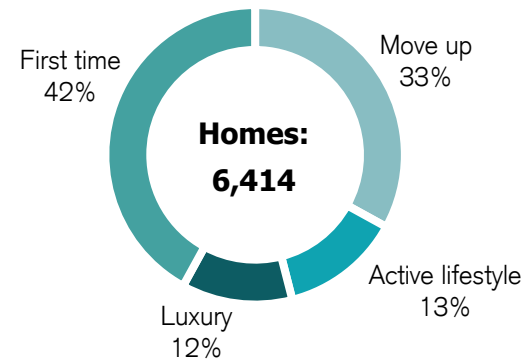
## Homebuilding revenues by region

(Last twelve months ended April 30, 2021)



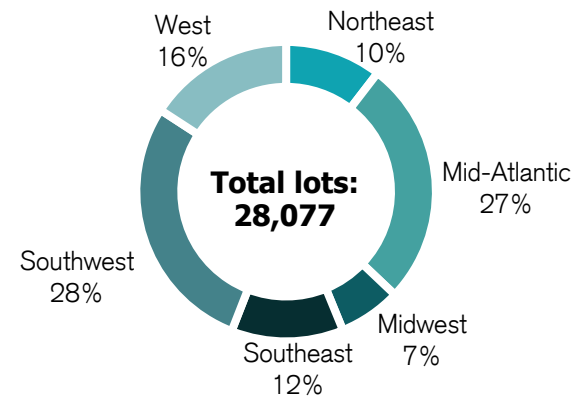
## Home deliveries by product<sup>(1)</sup>

(Twelve months ended October 31, 2020)



## Lots controlled by region

(As of April 30, 2021)

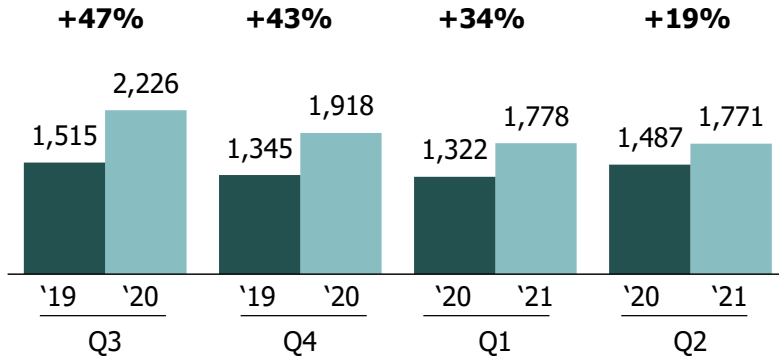


(1) Includes unconsolidated joint ventures deliveries.  
(2) Company SEC filings and press release of 12/09/2020.

# Best operating performance in over a decade

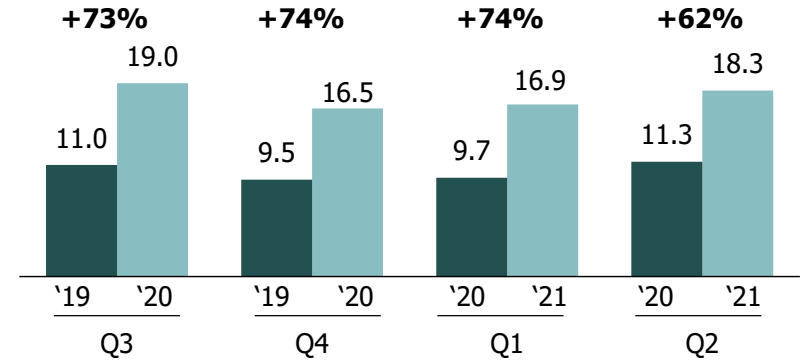
## Net new contracts

Growth over prior year's quarter

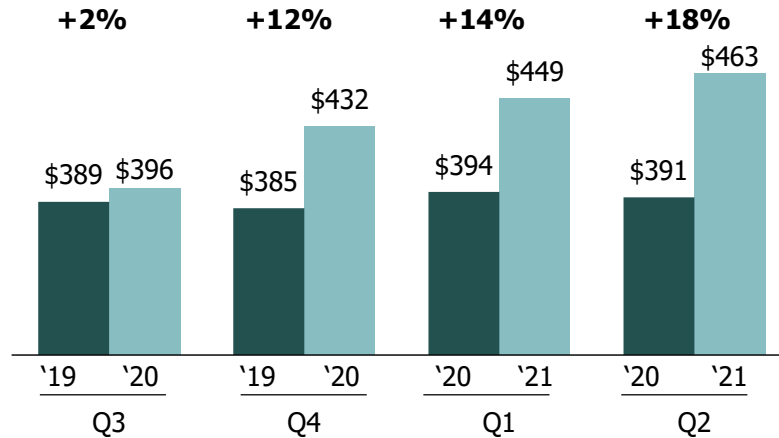


## Net contracts per active selling community<sup>(1)</sup>

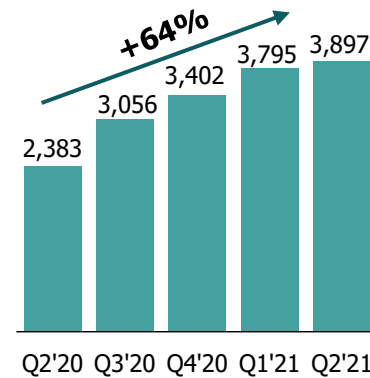
Growth over prior year's quarter



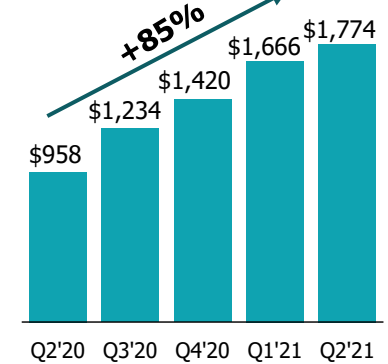
## ASP contracts (\$ in '000s)



## Backlog Homes



## Dollars (\$ in millions)



Note: Excludes unconsolidated joint ventures.  
(1) Active are open for sale communities with 10 or more home sites available.

# Streamlined geographic footprint with room for organic growth

## ■ 23 markets in 14 states

- **Northeast:** New Jersey and Pennsylvania
- **Mid-Atlantic:** Delaware, Maryland, Virginia, Washington D.C. and West Virginia
- **Midwest:** Illinois and Ohio
- **Southeast:** Florida, Georgia and South Carolina
- **Southwest:** Arizona and Texas
- **West:** California



Exited 5 non-core markets  
over the last 5 years

## Q2 2021 LTM<sup>(1)</sup>

	Northeast	Mid-Atlantic	Midwest	Southeast	Southwest	West
<b>Homebuilding revenues</b>	5.8%	17.4%	9.8%	10.7%	32.9%	23.4%
<b>Homes delivered</b>	4.4%	13.4%	12.6%	9.7%	39.8%	20.1%
<b>Average selling price of deliveries</b>	\$535K	\$522K	\$316K	\$448K	\$335K	\$471K
<b>Net new contracts (\$)</b>	6.0%	17.6%	9.6%	9.6%	32.9%	24.4%
<b>Backlog homes</b>	3.6%	15.0%	17.3%	10.1%	36.3%	17.7%



Geographic diversification mitigates  
market-specific economic impacts

## | Honed our market footprint to our 23 most profitable locations

(1) Regional breakdown as percentage of total company.



# Virtually all of the land and communities necessary to achieve growth through fiscal 2022 are already under contract

## Lot portfolio balanced across our segments

April 30, 2021 Owned				
Segment	Active lots	Mothballed lots	Optioned lots	Total lots
Northeast	504	—	2,430	2,934
Mid-Atlantic	1,477	247	5,750	7,474
Midwest	748	108	1,035	1,891
Southeast	1,106	—	2,299	3,405
Southwest	2,978	—	4,950	7,928
West	2,176	1,159	1,110	4,445
Consolidated total	8,989	1,514	17,574	28,077
Unconsolidated joint ventures	2,052	—	513	2,565
<b>Grand total</b>	<b>11,041</b>	<b>1,514</b>	<b>18,087</b>	<b>30,642</b>

## Growing lot supply despite torrid sales pace

	Q1 2021 <sup>(1)</sup>	Q2 2021 <sup>(2)</sup>
Newly controlled lots	2,140	2,920
Deliveries and lot sales	(1,407)	(1,625)
# of newly controlled lots in excess of deliveries	733	1,295

- Reactivated ~8,600 lots in 106 communities since January 31, 2009
- As of April 30, 2021, mothballed lots in 8 communities with a book value of \$4 million net of impairment balance of \$61 million

4.6 years of lot supply<sup>(3)</sup>

**Expect to grow FYE 2021 community count to ~130 communities, including communities from domestic unconsolidated joint ventures**

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

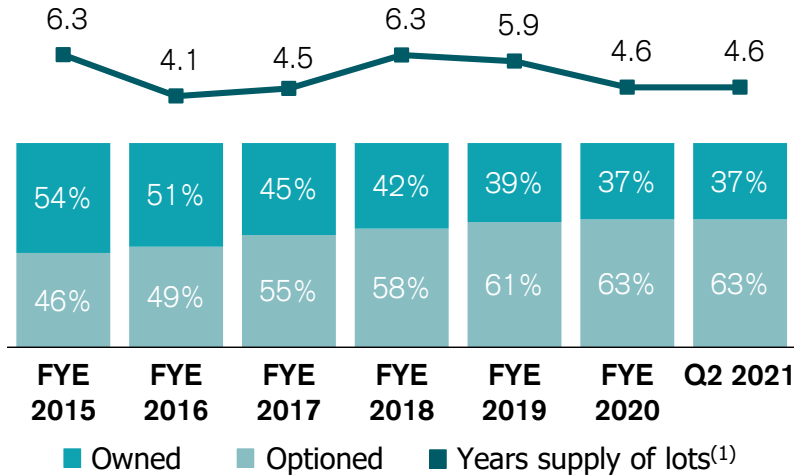
(1) Excludes unconsolidated joint ventures. Includes newly optioned lots net of 420 walk aways, as well as lots purchased that were not previously optioned.

(2) Excludes unconsolidated joint ventures. Includes newly optioned lots net of 149 walk aways, as well as lots purchased that were not previously optioned.

(3) Represents total lots controlled (owned + optioned) / LTM unit closings.

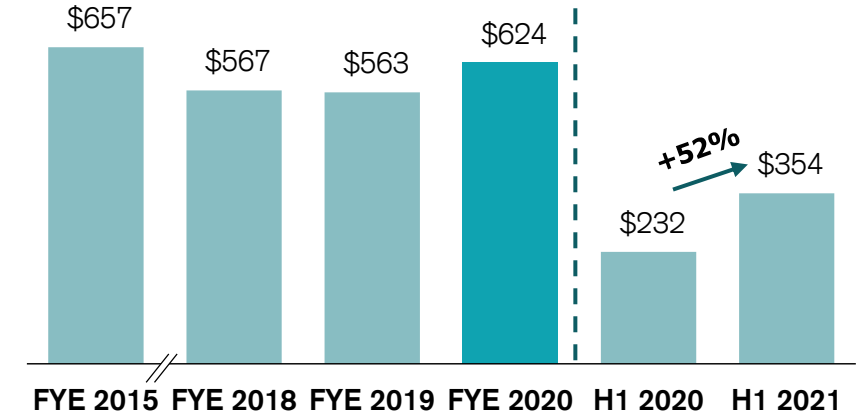
# Efficient lot strategy

## Multi-year lot supply



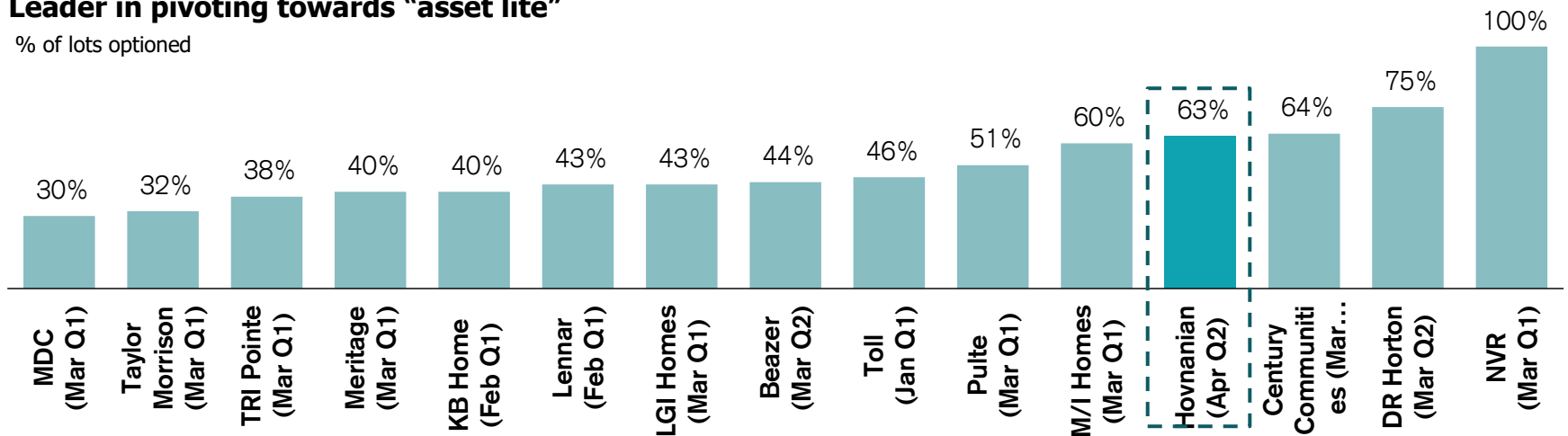
## Ample inventory reinvestment

Land and land development spend  
(\$ in millions)



## Leader in pivoting towards "asset lite"

% of lots optioned



Source: Company SEC filings and press releases as of 06/03/21.

Notes: Excludes unconsolidated joint ventures.

Option deposits and pre-development expenses refers to consolidated optioned lots.

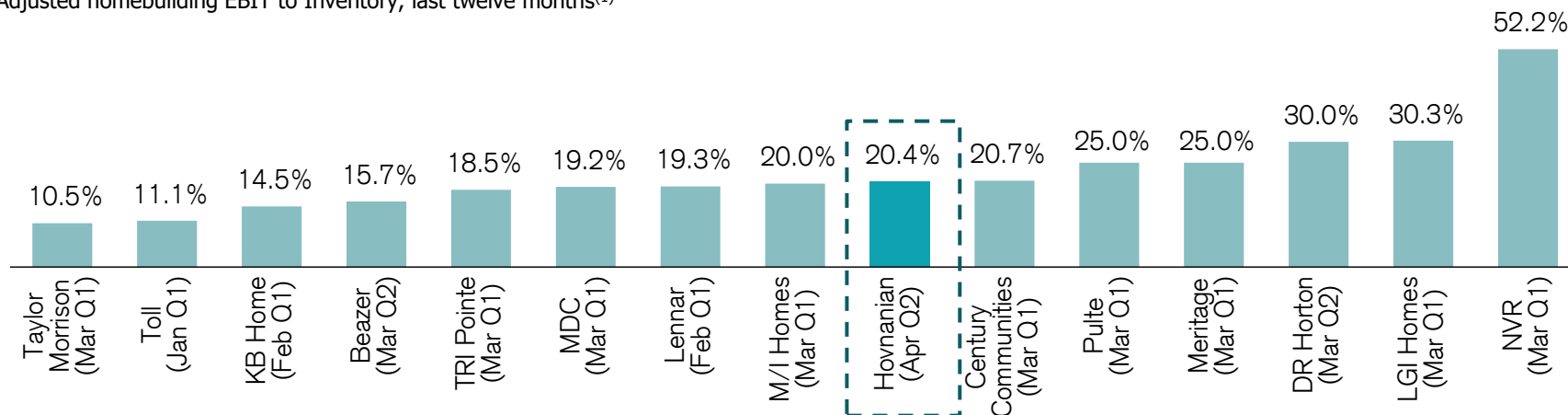
Excludes our single community unconsolidated joint venture in the Kingdom of Saudi Arabia.

(1) Represents total lots controlled (owned + optioned) / LTM unit closings.

# Strong returns driven by rapid inventory turns and lot options

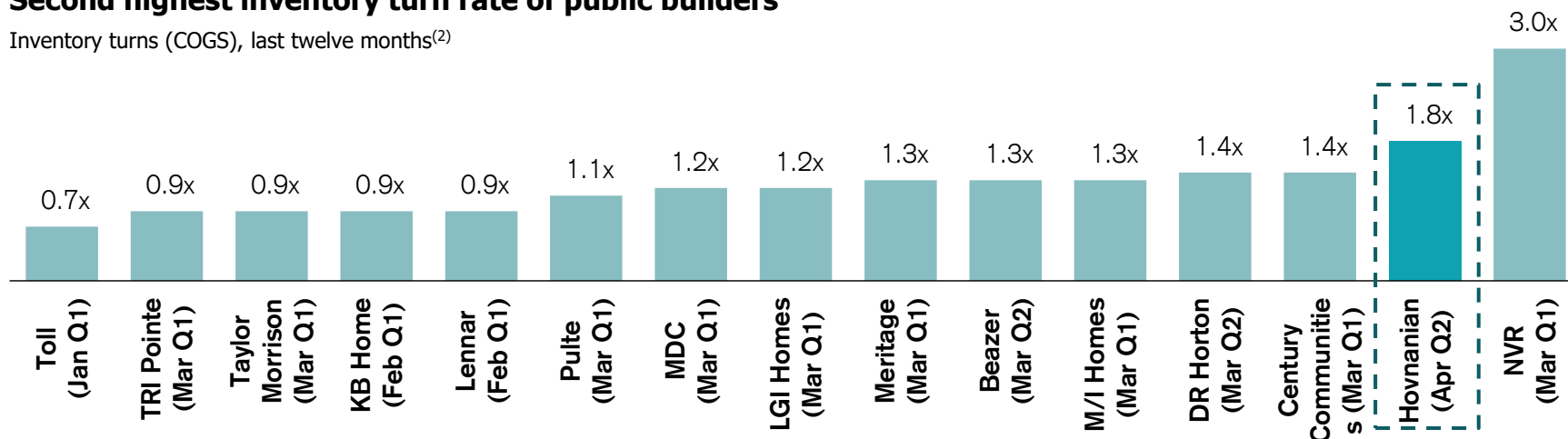
## ROI increased by ~450 bps since FY 2018

Adjusted homebuilding EBIT to Inventory, last twelve months<sup>(1)</sup>



## Second highest inventory turn rate of public builders

Inventory turns (COGS), last twelve months<sup>(2)</sup>



Source: Company SEC filings and press releases as of 06/03/21. See appendix for a reconciliation to the most directly comparable GAAP measure.

(1) Defined as LTM Homebuilding EBIT before land-related charges divided by five quarter average inventory, excluding capitalized interest and inventory not owned, and including liabilities from inventory not owned.

(2) Inventory turns derived by dividing cost of sales, excluding capitalized interest, by the five quarter average homebuilding inventory, excluding inventory not owned and capitalized interest.

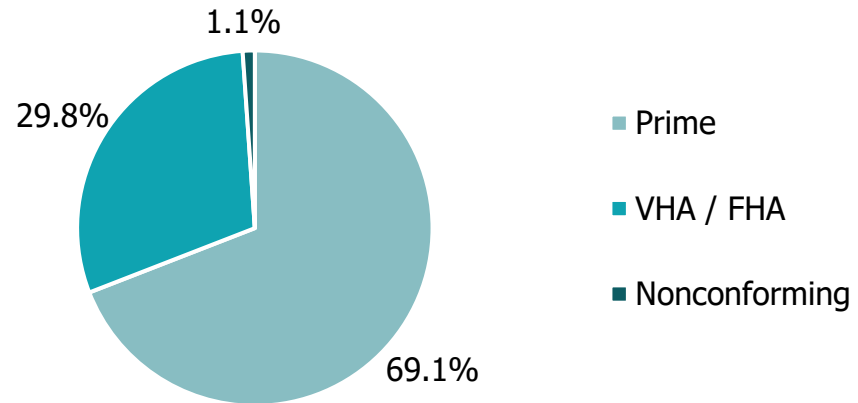


# Highly profitable financial services business

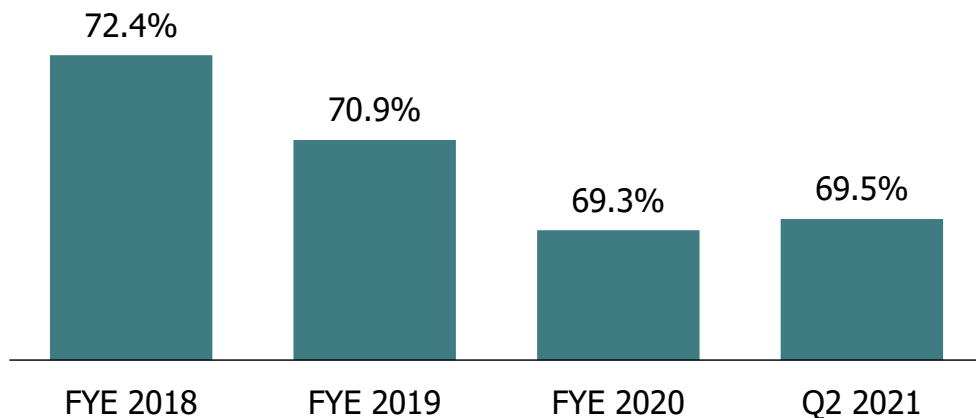
## Financial services overview

- Complements HOV's homebuilding operations
- Provides mortgage originations in every state in which Hovnanian operates and title services in most states
- \$72mm FY20 revenues
- \$32mm FY20 operating income
- 44% operating margin

## Origination portfolio in FY 2020



## Financial services capture rate

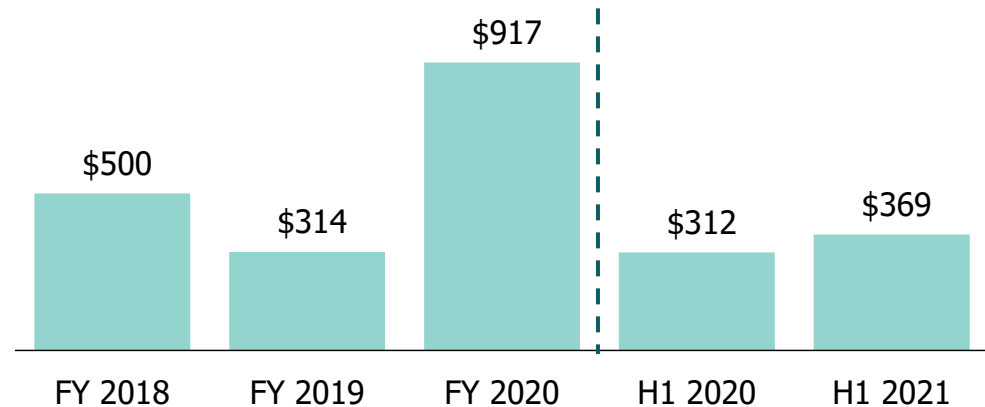


# Significant cash flow generation

- Generated \$1.7 billion of net operating cash flows before land and land development over the past three years
- ~\$300 million of net operating cash flow in 2020 after two years of outflows
- Strong y-o-y uplift in underlying operating cash flow before land and land development, facilitating additional \$120mm of land investment in H1 2021 versus H1 2020
- Significant operating cash generation before land and land development expected in H2 2021, consistent with historic seasonality
- Cash flow ramp provides optionality to retire debt

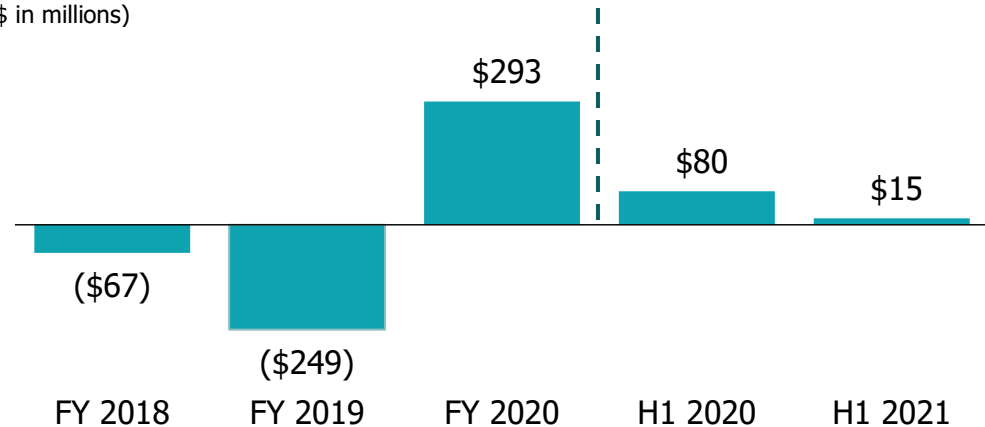
## Net operating cash flow before land and land development spend

(\$ in millions)



## Net operating cash flow — reported

(\$ in millions)



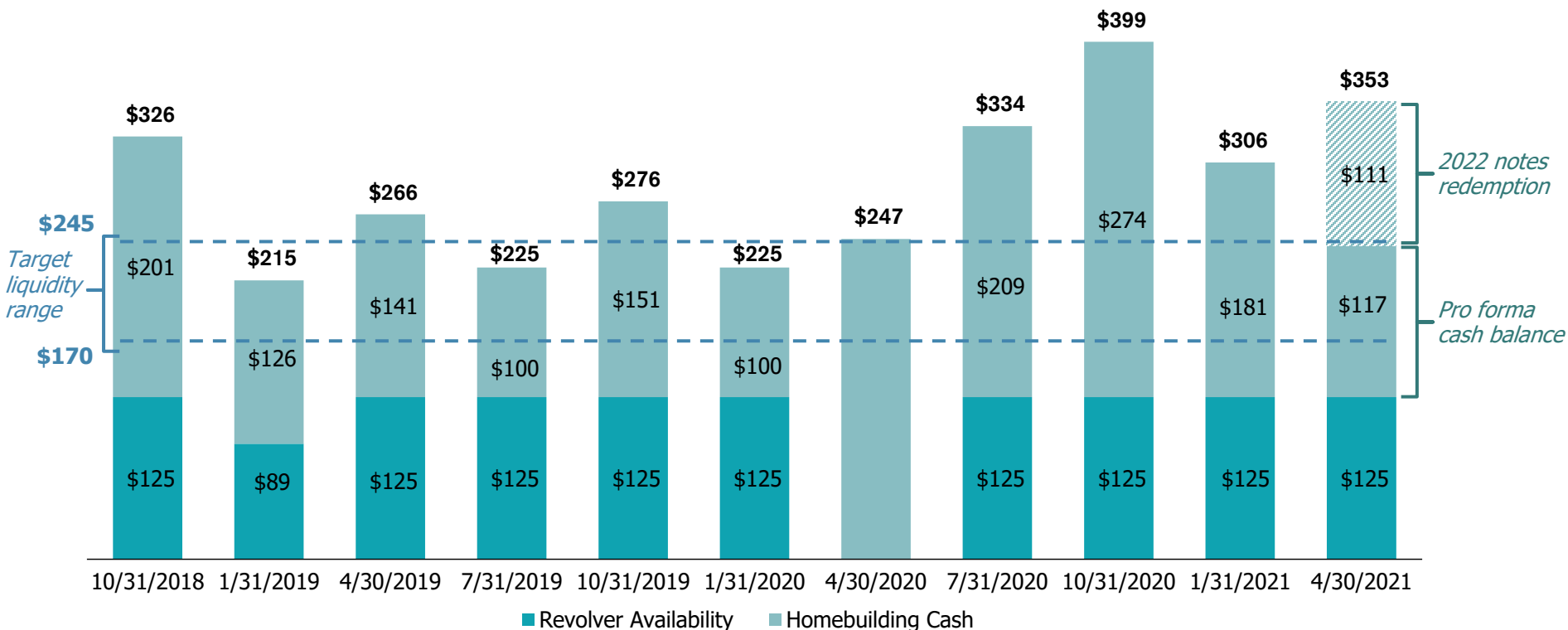


## **Liquidity and balance sheet management**



# Ample liquidity consistently exceeding our internal targets

(\$ in millions)



Note: Liquidity position includes homebuilding cash and cash equivalents (which includes unrestricted cash and restricted cash required to collateralize letters of credit) and revolving credit facility availability.

# Focused on deleveraging and enhancing our debt structure

## Strategy

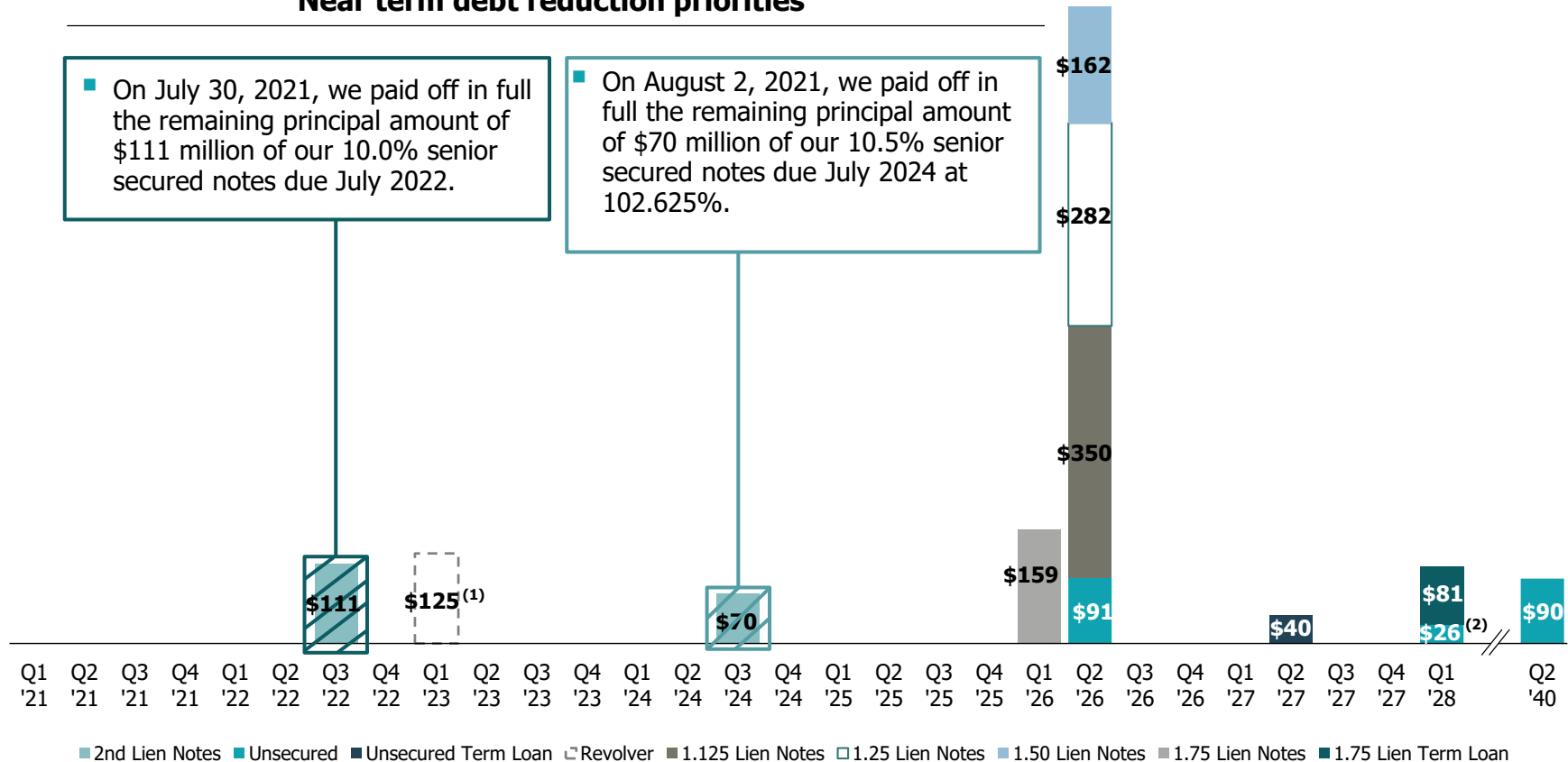
- ✓ Deleverage through debt repayment and growth in earnings
- ✓ 2022 and 2024 notes redemption notices issued subsequent to quarter end
- ✓ Multi-year, well-laddered debt maturity structure
- ✓ Proactively refinance high cost of debt at upcoming call dates
- ✓ Issue future note tranches in sizes to achieve HY index inclusion, secondary market liquidity and price transparency
- ✓ Reduce reliance on secured debt; unencumber balance sheet

## Bond and loan composition as of 4/30/21

Tranche	Coupon	Current principal balance	Call schedule	
			Call price	Next date
<u>Secured:</u>				
Senior notes due 2026 (1.125 lien)	7.75%	\$350	103.875	2/15/2022
Senior notes due 2026 (1.25 lien)	10.50%	282	105.250	2/15/2022
Senior notes due 2026 (1.5 lien)	11.25%	162	100.000	NA
Senior notes due 2025 (1.75 lien)	10.00%	159	105.000	11/15/2021
Term loan due 2028 (1.75 lien)	10.00%	81	105.000	11/15/2021
Senior secured notes due 2022	10.00%	111	100.000	7/15/2021
Senior secured notes due 2024	10.50%	70	102.625	7/15/2021
<u>Unsecured:</u>				
Unsecured notes due 2026	13.50%	\$91	100.000	2/1/2025
Unsecured term loan due 2027	5.00%	40	100.000	NA
Unsecured notes due 2040	5.00%	90	100.000	2/1/2021

# Extended maturity profile with near term debt repayment opportunity

## Near term debt reduction priorities



Multiple, privately negotiated transactions in FY 2019 and FY 2020 provided significant runway to 2026

Note: Shown on a fiscal year basis, at face value. \$ in millions. 2024 notes repayment assumption assumes no changes in current market conditions.

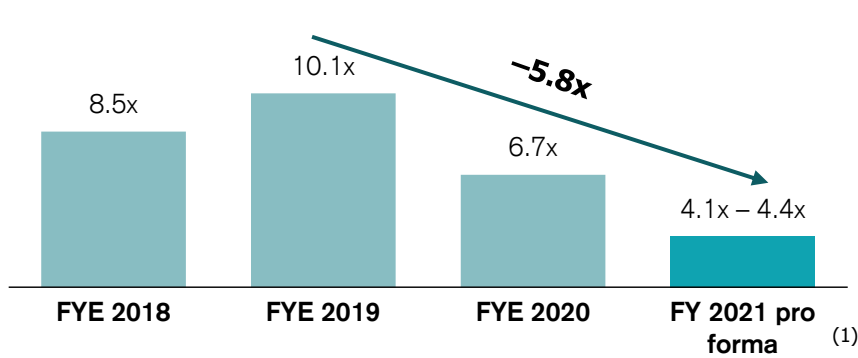
Excludes non-recourse mortgages.

(1) \$0 balance as of April 30, 2021.

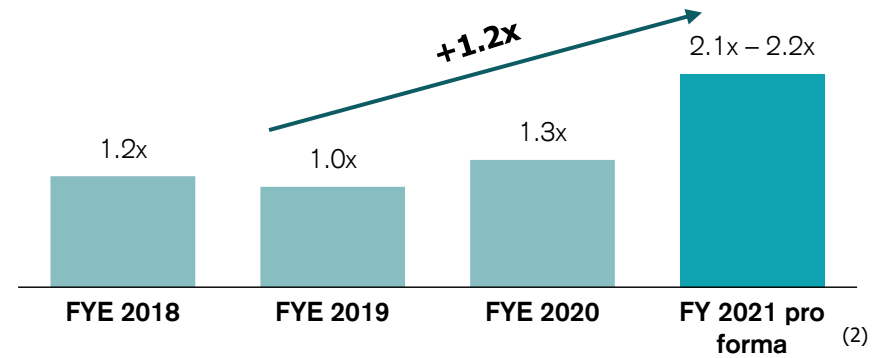
(2) \$26 million of 8.0% senior notes held by wholly owned subsidiary, no cash required to retire.

# Dramatically improved credit metrics

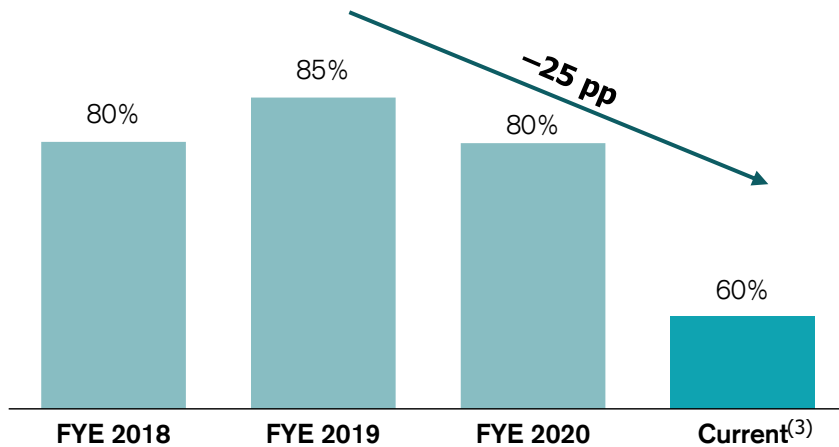
## Total debt (incl. mortgages) / Adj. EBITDA



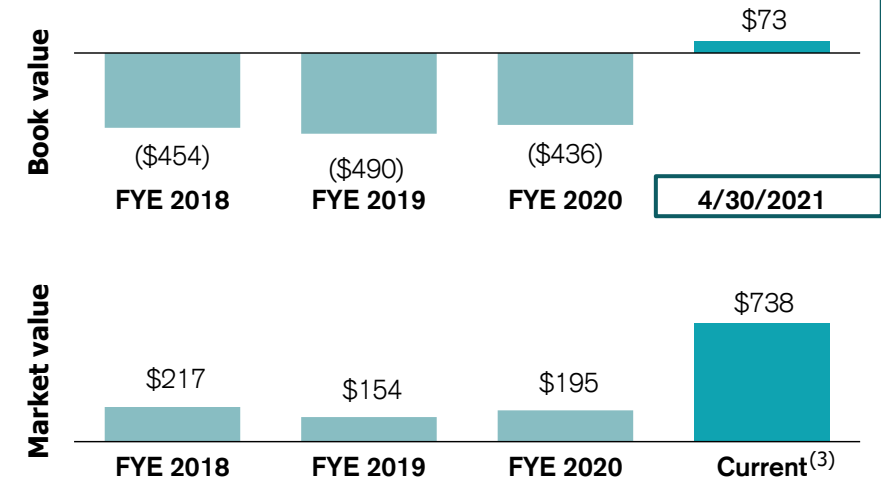
## Interest coverage



## Net debt (incl. mortgages) / Enterprise value



## Equity value (\$ in millions)



Source: Company 10-K and 8-K filings.

Note: Excludes cash interest, settlement and discharge expenses. 2024 notes repayment assumption assumes no changes in current market conditions.

- (1) Assumes adjusted EBITDA equal to the midpoint of Company's FY 2021E guidance of \$330mm. Lower total debt / adj. EBITDA includes both the 10.0% secured senior notes due 7/15/2022 redemption and assumes 10.5% secured senior notes due 7/15/2024 are repaid with cash by the end of 2021, while the higher end of the range includes only the 10.0% secured senior notes due 7/15/2022 redemption with cash in July.
- (2) Equal to adjusted EBITDA / interest incurred. Assumes adjusted EBITDA equal to the midpoint of Company's FY 2021E guidance of \$330mm and assumes pro forma annualized interest incurred savings for the notes that are repaid. Higher interest coverage includes both the 10.0% secured senior notes due 7/15/2022 redemption and assumes 10.5% secured senior notes due 7/15/2024 are repaid with cash by the end of 2021, while the lower end of the range includes only the 10.0% secured senior notes due 7/15/2022 redemption with cash in July.
- (3) Based on equity market capitalization as of 6/03/2021.



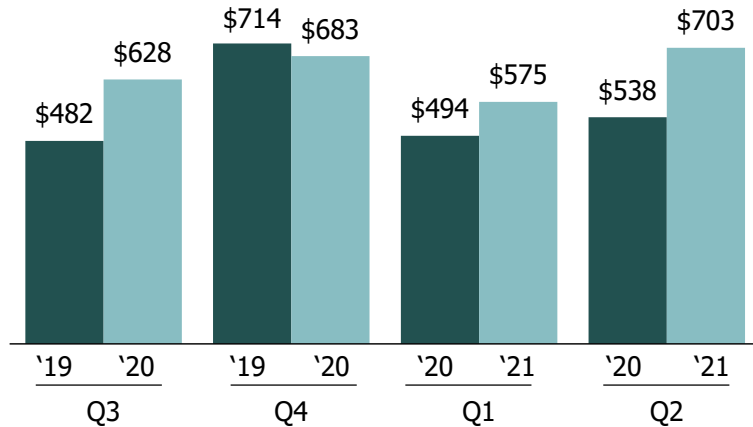


## Appendix

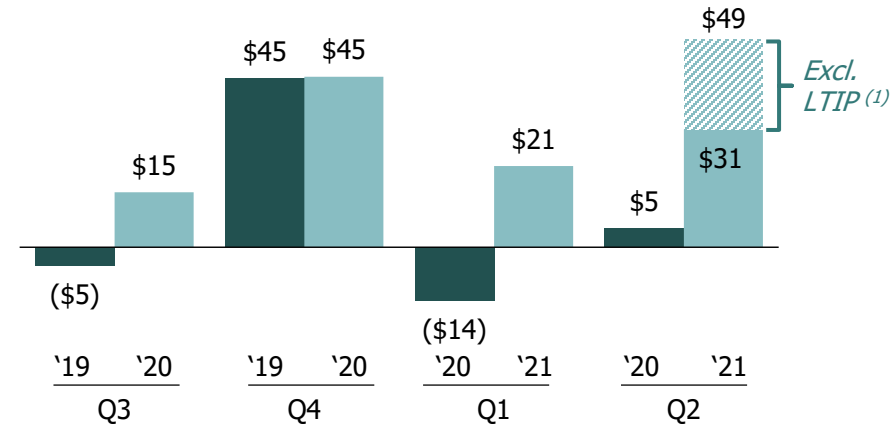
# Strong results

(\$ in millions, unless specified otherwise)

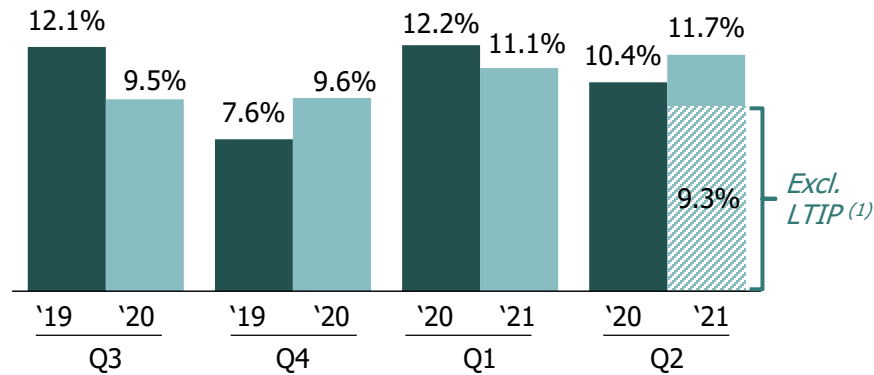
## Total revenues



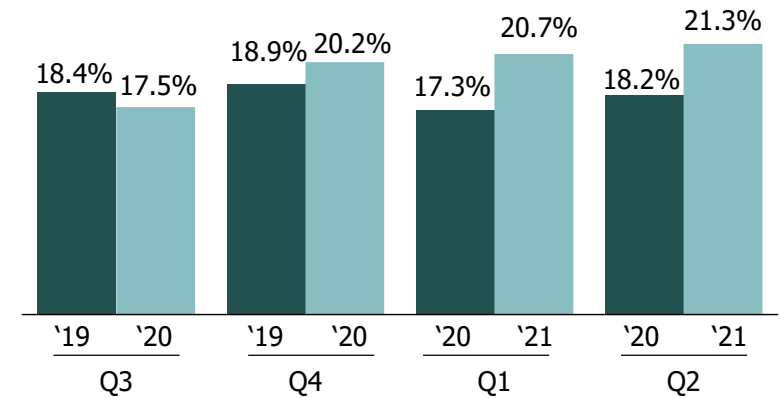
## Adjusted income (loss) before income taxes



## Total SG&A as a % of total revenues



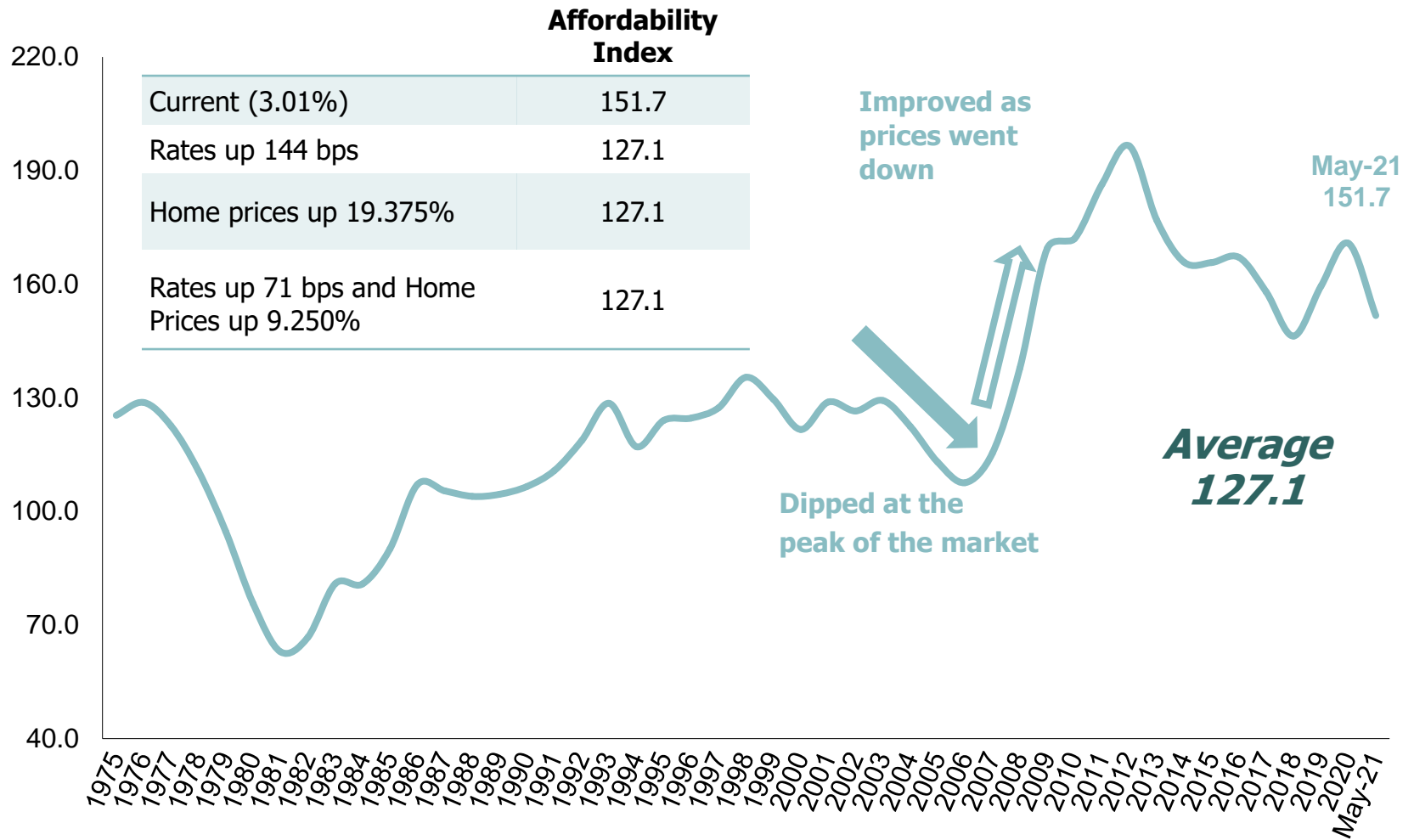
## Adjusted homebuilding gross margin



(1) Excluding the \$17.5 million of incremental phantom stock expense in the second quarter of fiscal 2021, SG&A would have been \$65.1 million, or 9.3% of total revenues for the second quarter of fiscal 2021, and adjusted income (loss) before income taxes would have been \$49 million for the second quarter of fiscal 2021.

# Affordability index

“The higher the affordability Index the better.”

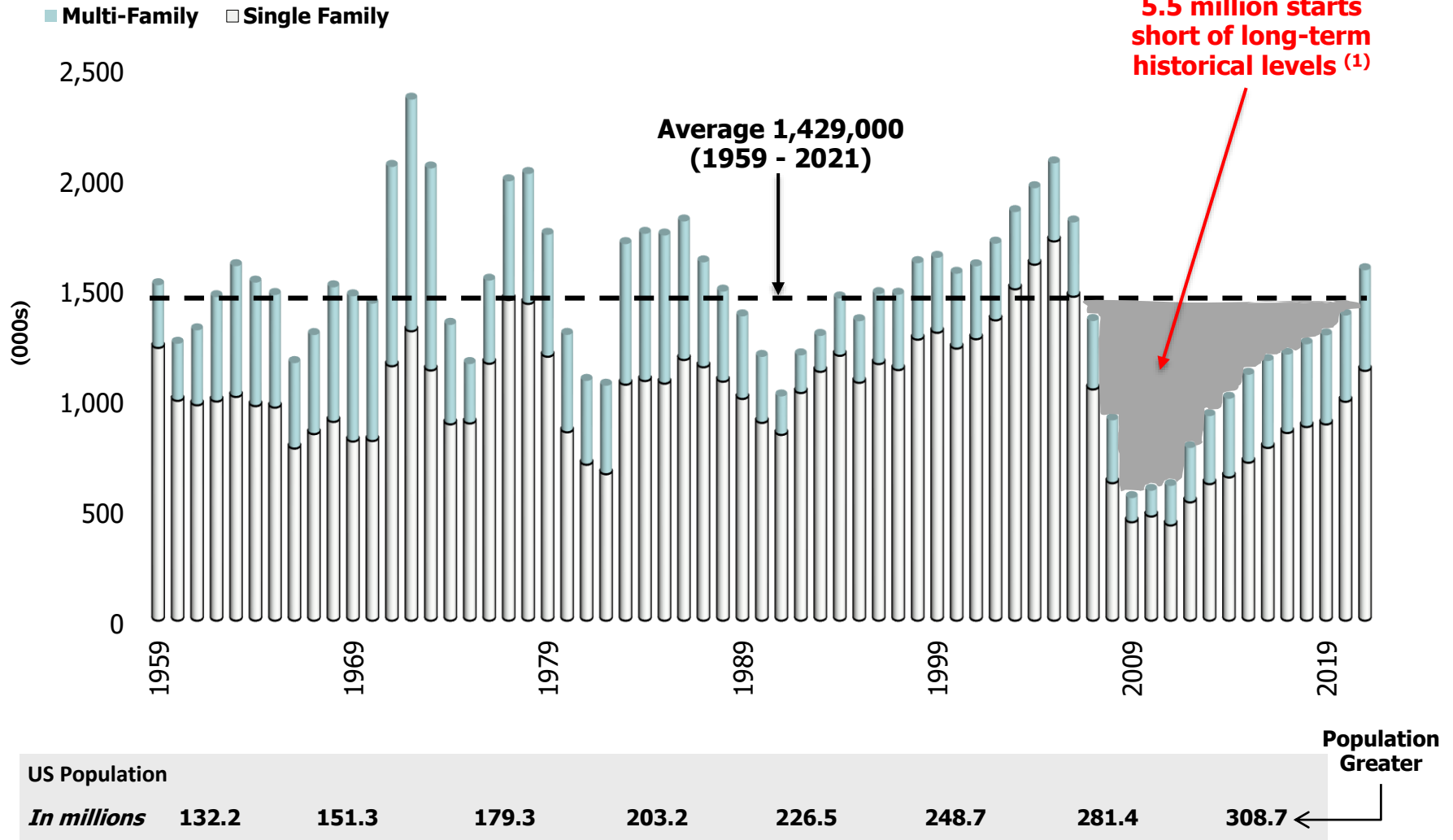


Source: NAR, Freddie Mac and U.S. Census Bureau.

Note: Based on a 25% qualifying ratio for monthly housing expense to gross monthly income with a 20% down payment.

# Recent shortfall in U.S. housing production

(For Sale and Rental)



Source: U.S. Census Bureau.

(1) Wall Street Journal article from June 16, 2021 referencing a new National Association of Realtors report.

# Reconciliation of Income (Loss) Before Income Taxes Excl. Land-Related Charges and Loss (Gain) on Extinguishment of Debt to Income (Loss) Before Income Taxes

## Hovnanian Enterprises, Inc.

(\$ in thousands)

(Unaudited)	Three Months Ended April 30,		Three Months Ended January 31,		Three Months Ended October 31,		Three Months Ended July 31,		Years Ended October 31,		
	2021	2020	2021	2020	2020	2019	2020	2019	2020	2019	2018
Income (loss) before income taxes	\$31,032	\$4,179	\$19,585	\$(7,436)	\$42,444	(\$586)	\$16,216	(\$7,064)	\$55,403	(\$39,668)	\$8,146
Inventory impairment loss and land option write-offs	81	1,010	1,877	2,828	2,611	2,687	2,364	1,435	8,813	6,288	3,501
Unconsolidated joint venture investment, intangible and land-related charges	–	–	–	–	–	–	–	854	–	854	1,261
Loss (gain) on extinguishment of debt	–	174	–	(9,456)	–	42,436	(4,055)	–	(13,337)	42,436	7,536
<b>Income (loss) before income taxes excluding land-related charges and gain on extinguishment of debt <sup>(1)</sup></b>	<b>\$31,113</b>	<b>\$5,363</b>	<b>\$21,462</b>	<b>\$(14,064)</b>	<b>\$45,055</b>	<b>\$44,537</b>	<b>\$14,525</b>	<b>(\$4,775)</b>	<b>\$50,879</b>	<b>\$9,910</b>	<b>\$20,444</b>

(1) Income (loss) before income taxes excluding land-related charges and gain on extinguishment of debt is a non-GAAP financial measure. The most directly comparable GAAP financial measure is income (loss) before income taxes.



# Reconciliation of Adjusted Pre-Tax Earnings

## Reconciliation of Income (Loss) Before Income Taxes Excluding Land-Related Charges, Joint Venture Write-Downs and (Gain) Loss on Extinguishment of Debt to Income (Loss) Before Income Taxes

(\$ in thousands)

<b>(Unaudited)</b>	<b>LTM April 30, 2021</b>	<b>LTM April 30, 2018</b>	<b>Annual Key Metric Target</b>
Income (Loss) Before Income Taxes	\$109,277	\$(77,917)	\$90,000
Inventory Impairment Loss and Land Option Write-Offs	6,933	15,763	10,000
Unconsolidated Joint Venture Investment Write-Downs	–	3,423	–
(Gain) loss on Extinguishment of Debt	(4,055)	43,698	–
<b>Income (Loss) Before Income Taxes Excluding Land-Related Charges, Joint Venture Write-Downs and Gain (Loss) on Extinguishment of Debt</b>	<b>\$112,155</b>	<b>\$(15,033)</b>	<b>\$100,000</b>

# Reconciliation of Adjusted Homebuilding Gross Margin

## Hovnanian Enterprises, Inc.

(\$ in thousands)

(\$ in thousands)

	Homebuilding Gross Margin										
	Three Months Ended April 30,		Three Months Ended January 31,		Three Months Ended October 31,		Three Months Ended July 31,		Years Ended October 31,		
(Unaudited)	2021	2020	2021	2020	2020	2019	2020	2019	2020	2019	2018
Sale of homes	\$679,515	\$523,347	\$551,365	\$479,233	\$643,516	\$692,146	\$605,933	\$467,849	\$2,252,029	\$1,949,682	\$1,906,228
Cost of sales, excluding interest expense and land charges <sup>(1)</sup>	535,017	427,944	437,372	396,318	513,416	561,284	499,654	381,906	1,837,332	1,596,237	1,555,894
Homebuilding gross margin, before cost of sales interest expense and land charges <sup>(2)</sup>	144,498	95,403	113,993	82,915	130,100	130,862	106,279	85,943	414,697	353,445	350,334
Cost of sales interest expense, excluding land sales interest expense	21,704	18,537	16,717	18,136	15,707	27,556	21,794	18,824	74,174	70,520	56,588
Homebuilding gross margin, after cost of sales interest expense, before land charges <sup>(2)</sup>	122,794	76,866	97,276	64,779	114,393	103,306	84,485	67,119	340,523	282,925	293,746
Land charges	81	1,010	1,877	2,828	2,611	2,687	2,364	1,435	8,813	6,288	3,501
<b>Homebuilding gross margin</b>	<b>\$122,713</b>	<b>\$75,856</b>	<b>\$95,399</b>	<b>\$61,951</b>	<b>\$111,782</b>	<b>\$100,619</b>	<b>\$82,121</b>	<b>\$65,684</b>	<b>\$331,710</b>	<b>\$276,637</b>	<b>\$290,245</b>
Homebuilding gross margin percentage	18.1%	14.5%	17.3%	12.9%	17.4%	14.5%	13.6%	14.0%	14.7%	14.2%	15.2%
Homebuilding gross margin percentage, before cost of sales interest expense and land charges <sup>(2)</sup>	21.3%	18.2%	20.7%	17.3%	20.2%	18.9%	17.5%	18.4%	18.4%	18.1%	18.4%
Homebuilding gross margin percentage, after cost of sales interest expense, before land charges <sup>(2)</sup>	18.1%	14.7%	17.6%	13.5%	17.8%	14.9%	13.9%	14.3%	15.1%	14.5%	15.4%

(1) Does not include cost associated with walking away from land options or inventory impairment losses which are recorded as Inventory impairment loss and land option write-offs in the Consolidated Statements of Operations.

(2) Homebuilding gross margin, before cost of sales interest expense and land charges, and homebuilding gross margin percentage, before cost of sales interest expense and land charges, are non-GAAP financial measures. The most directly comparable GAAP financial measures are homebuilding gross margin and homebuilding gross margin percentage, respectively.

# Reconciliation of Adjusted Homebuilding Gross Margin

(\$ in thousands)

<b>(Unaudited)</b>	<b>LTM April 30, 2021</b>	<b>LTM April 30, 2018</b>	<b>Annual Key Metric Target</b>
Sale of homes	\$2,480,329	\$2,110,759	\$2,570,000
Cost of Sales, excluding interest expense <sup>(1)</sup>	1,985,459	1,738,048	2,070,000
Homebuilding gross margin, before cost of sales interest expense and land charges <sup>(2)</sup>	494,870	372,711	500,000
Cost of sales interest expense, excluding land sales interest expense	75,922	67,616	100,000
Homebuilding gross margin, after cost of sales interest expense, before land charges <sup>(2)</sup>	418,948	305,095	400,000
Land charges	6,933	15,763	10,000
<b>Homebuilding gross margin, after cost of sales interest expense and land charges</b>	<b>\$412,015</b>	<b>\$289,332</b>	<b>\$390,000</b>
Homebuilding gross margin percentage, before cost of sales interest expense and land charges	20.0%	17.7%	19.5%
Homebuilding gross margin percentage, after cost of sales interest expense, before land charges	16.9%	14.5%	15.6%
Homebuilding gross margin, after cost of sales interest expense and land charges	16.6%	13.7%	15.2%

(1) Does not include cost associated with walking away from land options or inventory impairment losses which are recorded as Inventory impairment loss and land option write-offs in the Consolidated Statements of Operations.

(2) Homebuilding gross margin, before cost of sales interest expense and land charges, and homebuilding gross margin percentage, before cost of sales interest expense and land charges, are non-GAAP financial measures. The most directly comparable GAAP financial measures are homebuilding gross margin and homebuilding gross margin percentage, respectively.

# Reconciliation of Land Sales Gross Margin

## Hovnanian Enterprises, Inc.

(\$ in thousands)

	Land Sales Gross Margin										
	Three Months Ended April 30,		Three Months Ended January 31,		Three Months Ended October 31,		Three Months Ended July 31,		Years Ended October 31,		
(Unaudited)	2021	2020	2021	2020	2020	2019	2020	2019	2020	2019	2018
Land and lot sales	\$1,549	\$50	\$3,362	\$25	\$16,805	\$1,161	\$25	\$542	\$16,905	\$9,211	\$24,277
Land and lot sales, excluding interest and land charges <sup>(1)</sup>	1,517	83	2,266	37	10,993	1,150	41	33	11,154	8,540	10,661
Land and lot sales gross margin, excluding interest and charges	32	(33)	1,096	(12)	5,812	11	(16)	509	5,751	671	13,616
Land and lot sales interest	21	52	448	—	84	—	20	205	156	205	4,097
Land and lot sales gross margin, including interest and excluding land charges	\$11	(\$85)	\$648	(\$12)	\$5,728	\$11	(\$36)	\$304	\$5,595	\$466	\$9,519

(1) Does not include cost associated with walking away from land options or inventory impairment losses which are recorded as Inventory impairment loss and land option write-offs in the Consolidated Statements of Operations.

# Reconciliation of Adjusted EBITDA to Net Income (Loss)

## Hovnanian Enterprises, Inc.

April 30, 2021

(\$ in thousands)

(Unaudited)	Three Months Ended April 30,		Years Ended October 31,		
	2021	2020	2020	2019	2018
Net income (loss)	\$488,676	\$4,079	\$50,928	(\$42,117)	\$4,520
Income tax (benefit) provision	(457,644)	100	4,475	2,449	3,626
Interest expense	43,758	45,458	178,131	160,781	163,982
EBIT <sup>(1)</sup>	74,790	49,637	233,534	121,113	172,128
Depreciation and amortization	1,484	1,263	5,304	4,172	3,156
EBITDA <sup>(2)</sup>	76,274	50,900	238,838	125,285	175,284
Inventory impairment loss and land option write-offs	81	1,010	8,813	6,288	3,501
Loss (gain) on extinguishment of debt	—	174	(13,337)	42,436	7,536
<b>Adjusted EBITDA <sup>(3)</sup></b>	<b>\$76,355</b>	<b>\$52,084</b>	<b>\$234,314</b>	<b>\$174,009</b>	<b>\$186,321</b>
Interest incurred	\$41,870	\$45,323	\$176,457	\$165,906	\$161,048
Adjusted EBITDA to interest incurred	1.82	1.15	1.33	1.05	1.16

(1) EBIT is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). EBIT represents earnings before interest expense and income taxes.

(2) EBITDA is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

(3) Adjusted EBITDA is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). Adjusted EBITDA represents earnings before interest expense, income taxes, depreciation, amortization, inventory impairment loss and land option write-offs and loss (gain) on extinguishment of debt.



# Reconciliation of Adjusted EBITDA to Net Income (Loss)

(\$ in thousands)

<b>(Unaudited)</b>	<b>LTM April 30, 2021</b>	<b>LTM April 30, 2018</b>	<b>Annual Key Metric Target</b>
Net Income (Loss)	\$563,632	\$(366,000)	\$67,500
Income Tax Provision (Benefit)	(454,355)	288,083	22,500
Interest Expense	174,432	189,132	171,000
EBIT <sup>(1)</sup>	283,709	111,215	261,000
Depreciation and amortization	5,584	3,675	4,000
EBITDA <sup>(2)</sup>	289,293	114,890	265,000
Inventory Impairment Loss and Land Option Write-offs	6,933	15,763	10,000
Loss (gain) on Extinguishment of Debt	(4,055)	43,698	—
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>\$292,171</b>	<b>\$174,351</b>	<b>\$275,000</b>

(1) EBIT is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). EBIT represents earnings before interest expense and income taxes.

(2) EBITDA is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

(3) Adjusted EBITDA is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income (loss). Adjusted EBITDA represents earnings before interest expense, income taxes, depreciation, amortization, inventory impairment loss and land option write-offs and loss (gain) on extinguishment of debt.

# Reconciliation of Inventory Turnover<sup>(1)</sup>

## Hovnanian Enterprises, Inc.

April 30, 2021

(\$ in thousands)

	For the quarter ended				LTM ended 4/30/2021
	7/31/2020	10/31/2020	1/31/2021	4/30/2021	
Cost of sales, excluding interest	\$499,695	\$524,409	\$439,638	\$536,534	\$2,000,276
	As of				Five quarter average
	4/30/2020	7/31/2020	10/31/2020	1/31/2021	4/30/2021
Total inventories	\$1,288,497	\$1,213,503	\$1,195,775	\$1,281,149	\$1,256,873
Less consolidated inventory not owned	198,229	194,760	182,224	165,980	125,414
Plus liabilities from inventory not owned, net of debt issuance costs	144,536	144,922	131,204	119,432	90,430
Less capitalized interest	67,744	63,998	65,010	65,327	59,772
<b>Inventories less consolidated inventory not owned and capitalized interest plus liabilities from inventory not owned</b>	<b>\$1,167,060</b>	<b>\$1,099,667</b>	<b>\$1,079,745</b>	<b>\$1,169,274</b>	<b>\$1,162,117</b>
Inventory turnover					1.8X

(1) Derived by dividing cost of sales, excluding cost of sales interest, by the five quarter average inventory, excluding inventory not owned and capitalized interest. The Company's calculation of Inventory Turnover may be different than the calculation used by other companies and, therefore, comparability may be affected.

# Reconciliation Of Adjusted Homebuilding EBIT To Inventory

## Hovnanian Enterprises, Inc.

April 30, 2021

(\$ in thousands)

(Unaudited)	For the Three Months Ended					
	LTM <sup>(1)</sup>	4/30/2021	1/31/2021	10/31/2020	7/31/2020	4/30/2020
<b>Homebuilding</b>						
Net loss (income)	\$563,632	\$488,676	\$18,959	\$40,634	\$15,363	\$4,079
Income tax benefit (provision)	(454,355)	(457,644)	626	1,810	853	100
Interest expense	174,432	43,758	41,140	40,648	48,886	45,458
EBIT <sup>(2)</sup>	283,709	74,790	60,725	83,092	65,102	49,637
Financial services revenue	(85,012)	(21,728)	(19,497)	(22,492)	(21,295)	(14,361)
Financial services expense	42,591	11,361	10,354	10,383	10,493	9,630
Homebuilding EBIT <sup>(2)</sup>	241,288	64,423	51,582	70,983	54,300	44,906
Inventory impairment loss and land option write-offs	6,933	81	1,877	2,611	2,364	1,010
Other operations	1,417	451	278	422	266	214
Loss (gain) on extinguishment of debt	(4,055)	—	—	—	(4,055)	174
Loss (income) from unconsolidated joint ventures	(13,361)	(2,641)	(1,916)	(3,146)	(5,658)	(6,221)
<b>Adjusted homebuilding EBIT<sup>(2)</sup></b>	<b>\$232,222</b>	<b>\$62,314</b>	<b>\$51,821</b>	<b>\$70,870</b>	<b>\$47,217</b>	<b>\$40,083</b>
	As of		As of			
		4/30/2021	1/31/2021	10/31/2020	7/31/2020	4/30/2020
Total inventories		\$1,256,873	\$1,281,149	\$1,195,775	\$1,213,503	\$1,288,497
Less consolidated inventory not owned		125,414	165,980	182,224	194,760	198,229
Less capitalized interest		59,772	65,327	65,010	63,998	67,744
Plus liabilities from inventory not owned, net of debt issuance costs		90,430	119,432	131,204	144,922	144,536
	<b>Five Quarter Average</b>					
Inventories less consolidated inventory not owned and capitalized interest		\$1,135,573	\$1,162,117	\$1,169,274	\$1,079,745	\$1,099,667
						\$1,167,060
Adjusted homebuilding EBIT to inventory		20.4%				

(1) Represents the aggregation of each of the prior four fiscal quarters.

(2) EBIT, homebuilding EBIT and adjusted homebuilding EBIT are non-GAAP financial measures. The most directly comparable GAAP financial measure is net (income) loss.

# Reconciliation of Inventory Turnover<sup>(1)</sup>

(\$ in thousands)

	For the Quarter Ended				Annual Key Metric Target
	2	3	4	5	
Cost of Sales, Excluding Interest	\$500,000	\$500,000	\$560,000	\$510,000	\$2,070,000
	As of				Five Quarter Average
	1	2	3	4	5
Total Inventories	\$1,445,000	\$1,515,000	\$1,575,000	\$1,505,000	\$1,525,000
Consolidated Inventory Not Owned	\$215,000	\$210,000	\$200,000	\$185,000	\$180,000
Capitalized Interest	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000
<b>Inventories less Consolidated Inventory Not Owned and Capitalized Interest</b>	<b>\$1,165,000</b>	<b>\$1,240,000</b>	<b>\$1,310,000</b>	<b>\$1,255,000</b>	<b>\$1,280,000</b>
Inventory Turnover					<b>\$1,250,000</b> 1.7x
	For the Quarter Ended				LTM Ended
	7/31/2017	10/31/2017	1/31/2018	4/30/2018	4/30/2018
Cost of Sales, Excluding Interest	\$478,886	\$562,451	\$329,527	\$393,012	\$1,763,876
	As of				Five Quarter Average
	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018
Total Inventories	\$1,209,212	\$1,188,849	\$1,009,827	\$1,053,514	\$1,040,045
Consolidated Inventory Not Owned	154,620	138,529	124,784	93,875	78,907
Capitalized Interest	90,960	87,119	71,051	70,793	65,355
<b>Inventories less Consolidated Inventory Not Owned and Capitalized Interest</b>	<b>\$963,632</b>	<b>\$963,201</b>	<b>\$813,992</b>	<b>\$888,846</b>	<b>\$895,783</b>
Inventory Turnover					<b>\$905,091</b> 1.9x

(1) Derived by dividing cost of sales, excluding cost of sales interest, by the five quarter average inventory, excluding inventory not owned and capitalized interest. The Company's calculation of Inventory Turnover may be different than the calculation used by other companies and, therefore, comparability may be affected.



*Hovnanian*  
*Enterprises, Inc.*