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# D·R·HORTON®

*America's Builder*

Proposal to Forestar Group Inc.

June 5, 2017



Sandalwood, Bay Area, California



Tamarron, Houston, Texas



Foothills Estates, Las Vegas, Nevada



Catherine Crest  
Seattle, Washington



Daves Creek Reserve  
Atlanta, Georgia



Waterleigh, Orlando, Florida

# Forward-Looking Statements



This presentation may include “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Although D.R. Horton 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: our ability to enter into mutually satisfactory definitive transaction agreements with Forestar, obtain any requisite approval from Forestar stockholders, and satisfy any conditions to closing of such proposed transaction; other risks related to the completion of the proposed transaction and actions related thereto; the cyclical nature of the homebuilding industry and changes in economic, real estate and other conditions; constriction of the credit markets, which could limit our ability to access capital and increase our costs of capital; reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates; the risks associated with our land and lot inventory; home warranty and construction defect claims; the effects of a health and safety incident; the effects of negative publicity; supply shortages and other risks of acquiring land, building materials and skilled labor; the impact of an inflationary, deflationary or higher interest rate environment; reductions in the availability of performance bonds; increases in the costs of owning a home; the effects of governmental regulations and environmental matters on our homebuilding operations; the effects of governmental regulations on our financial services operations; our significant debt and our ability to comply with related debt covenants, restrictions and limitations; competitive conditions within the homebuilding and financial services industries; our ability to effect our growth strategies, acquisitions or investments successfully; the effects of the loss of key personnel; and information technology failures and data security breaches. Additional information about issues that could lead to material changes in performance is contained in D.R. Horton’s annual report on Form 10-K and our most recent quarterly report on Form 10-Q, both of which are filed with the Securities and Exchange Commission.

# Proposed Transaction Overview

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# Proposed Transaction Overview



- D.R. Horton (“DHI”) is proposing to purchase 75% of the outstanding shares of Forestar (“FOR”) for \$16.25 per share
  - The approximately 10.7 million shares that DHI does not acquire will remain publicly traded
- FOR would become a large-scale, national land developer through a mutually beneficial relationship with DHI
  - Together, FOR and DHI would identify land development opportunities to expand FOR’s platform across DHI’s broad national footprint
    - DHI would acquire a large portion of FOR’s developed lots at market prices
  - As the nation’s leading homebuilder with operations in all of FOR’s major markets, DHI is well-positioned to help FOR maximize returns in its existing communities
- FOR would remain a public company with ability to fund near term growth through existing cash and redeploying capital generated from efficiently selling FOR’s current assets. FOR would opportunistically access capital markets to support its growth as the scale of the business increases
- FOR would be led by new Executive Chairman Don Tomnitz, who was DHI’s CEO for over 15 years, and would be supported by a best in class management team and board of directors
- FOR stockholders would have the right to elect either cash or to retain their shares. Cash and stock elections would be prorated so that after the transaction, DHI would own 75% of outstanding FOR shares and existing stockholders would own 25%

## Strategic Rationale of Combination



- Land development and homebuilding are highly related, but fundamentally different businesses
- As the nation's largest homebuilder on pace to close approximately 45,000 homes in fiscal 2017, DHI has an immense appetite for finished lots
- DHI is committed to owning no more than a 2 to 3 year supply of lots and supplementing the rest of its land pipeline through lot option purchase agreements with land developers
- Most land developers lack the scale and access to capital to be consistent suppliers of a significant portion of lots to DHI across its national footprint
- In partnership with DHI, FOR would become a national, well-capitalized land development company, selling lots directly to DHI and other builders
- FOR would benefit from DHI's network of markets, long-tenured employees and land seller and business relationships to rapidly accelerate growth
- FOR remaining a public company is essential to ensuring access to growth capital as the business scales

## Operational Overview

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- Operational terms of the relationship between DHI and FOR would be outlined and agreed to in the Master Supply Agreement
- FOR would be led by an experienced management team incented to maximize value for FOR's stockholders
  - FOR would be led by Executive Chairman Donald Tomnitz, who was DHI's Chief Executive Officer for over 15 years
  - The future FOR would benefit from a focused strategy and the continuity of its experienced professionals
- New land deals would be sourced in two ways:
  - FOR's existing land acquisition and development professionals
  - DHI's experienced local teams that span 78 markets
- All new land deals would be approved by the new FOR investment committee
- Lots would be developed by FOR and then sold to DHI and other builders at market prices

# Strategic Rationale & Underwriting



## D.R. Horton

### Strategic Rationale:

- DHI is a best-in-class homebuilder that will benefit from a strong strategic relationship with a separate land development company
- Advances DHI's focus on maximizing return on assets and inventory turns
- DHI's deep in-market relationships, operating platform and economies of scale allow for both FOR (land) and DHI (homebuilder) to achieve target returns
- DHI has sufficient cash and available capital for the transaction while maintaining its leverage ratio (homebuilding debt to total capital) below 30%

### Existing Project Underwriting:

- Sourcing parameters determined by DHI management
- Geographic Focus: Diversified
- Acquisition Price: Market for finished lots
- Payback Period: 1 to 2 years
- Pre-tax Return on Inventory: 20%

## FORESTAR

### Strategic Rationale:

- DHI's platform offers FOR additional geographic and price point diversity
- Access to DHI's proven land acquisition and development teams with experience in their markets across cycles
- Proprietary sharing of builder data for evaluation of proposed land projects
- Capitalizes on land development opportunities as builders shorten land positions
- Limits disposition risk as a result of DHI's plan to buy the majority of finished lots

### Project Underwriting:

- Sourcing parameters determined by FOR management with access to DHI resources
- Geographic Focus: Diversified
- Acquisition Price: Negotiated raw land prices
- Payback Period: 2 to 5 years
- IRR: high teens+

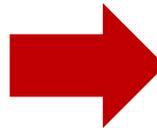
# The Future Forestar



FOR would significantly benefit from its strategic relationship with DHI

## STAND-ALONE FORESTAR CHALLENGES

- Difficulty identifying critical mass of attractive projects to deploy excess cash and drive growth with current platform
- Lack of geographic diversification and depth in current markets
- Inability to effectively leverage SG&A with current scale
- Lack of a clear path to future growth and profitability
- Limited access to and high cost of capital



## FUTURE FORESTAR STRENGTHS

- Ability to deliver a significantly increased number of communities and lots across a geographically diversified platform
- Access to experienced in-market land sourcing and development teams
- Improved overhead leverage at corporate and divisional levels
- A transparent, simplified, profitable business plan
- Improved access to and lower cost of capital
- Unlocks potential of FOR's team through a new focused growth strategy

# Future Forestar Value Creation



A strategic relationship with DHI would drive significant growth and value creation for FOR by capitalizing on the market opportunity available due to a lack of multi-market, well-capitalized, large scale land developers



### Assumptions / Projections:

- The above growth plan is based on future DHI-sourced projects and does not include lot deliveries, revenue or operating profits from FOR's existing assets
- DHI expects to accelerate lot absorptions and improve the return profile across FOR's existing asset base, but those benefits are not included in this analysis
- DHI sources 8 projects for FOR within the first year, scaling up to a run-rate of 24 projects per year by 2021 across DHI's 78 operating markets
- Project level assumptions are based on a representative sample of deals that DHI either currently owns or controls
- This growth plan is funded with FOR's existing balance sheet and assumes modest project-level leverage and no new equity

Sources: DHI Management, public filings, Forestar definitive proxy filed 6/1/17

# Letter to Forestar Board of Directors



June 5, 2017

The Board of Directors of Forestar Group Inc.  
8300 Bee Cave Rd., Ste. 500  
Austin, Texas 78746

Gentlemen:

On behalf of D.R. Horton, Inc. ("D.R. Horton"), I am pleased to submit our proposal for a transaction in which we would acquire 75% of the currently outstanding shares of Forestar Group Inc. ("Forestar") for \$16.25 per share in cash. This proposal represents a 14% premium over the purchase price to be paid to the Forestar stockholders pursuant to the existing Starwood Capital merger agreement. It would deliver substantial cash to Forestar's stockholders, while enabling them to participate in the significant opportunities for value creation that D.R. Horton's proposal would provide Forestar.

This transaction would establish a strategic relationship between D.R. Horton and Forestar. Leveraging D.R. Horton's existing infrastructure, people and relationships, the Forestar business would benefit from significant advantages of scale with potential to become the leading national, publicly traded land development company, selling finished lots to D.R. Horton and other homebuilders. Forestar would be led by new executive chairman Don Tomnitz, who served as CEO of D.R. Horton for over 15 years, and a strong management team that is expected to include Forestar's talented existing leaders and employees.

We urge you to take prompt action under the terms of your existing merger agreement with Starwood to enable us to commence immediate discussions that allow your stockholders to receive compelling value in a transaction that would be transformative to Forestar.

Our proposed transaction would be effected through a merger of a newly formed, wholly owned subsidiary of D.R. Horton with Forestar (the "Merger"). The Merger would have a "cash election" feature in which Forestar stockholders would have the right to elect, for each share of common stock held, either to receive \$16.25 per share in cash as merger consideration, or to retain such share of the surviving entity ("Forestar Successor"). Cash and stock elections will be prorated, as appropriate, such that 75% of the shares of Forestar common stock outstanding before the Merger are converted into the \$16.25 per share cash consideration. Following the Merger, D.R. Horton would own 75% of the outstanding Forestar Successor shares, and existing stockholders would own 25% of the outstanding Forestar Successor shares. Forestar would remain a public company and the common shares of Forestar Successor would continue to be traded on the NYSE following the Merger.

Concurrently with the execution of a merger agreement (the "Definitive Agreement"), we propose that D.R. Horton and Forestar enter into a land-supply arrangement (the "Master Supply Agreement"), the form of which accompanies this letter, under which D.R. Horton and Forestar would collaborate to identify attractive new raw-land assets for Forestar to develop. Following the identification and development of those assets, Forestar would sell developed lots to D.R. Horton and other builders. We believe that the proposed opportunity to partner with America's largest homebuilder on a long-term land supply arrangement provides Forestar with a unique and compelling growth opportunity. D.R. Horton currently has approximately 227,000 lots owned and under control, and over time we would expect Forestar to be providing a meaningful percentage of our lots under option.

We expect that D.R. Horton and Forestar would also enter into a stockholders agreement, the form of which accompanies this letter, providing D.R. Horton with customary governance rights and restrictions commensurate with the equity interest it would acquire in the Merger.

We believe that our proposal will deliver significant value to, and be enthusiastically supported by, your stockholders. The proposal allows your stockholders to receive a substantial premium to the Starwood price and provides your stockholders the opportunity to participate in the future growth potential of the Forestar/D.R. Horton relationship.

Our proposal provides certainty of closing that is superior to the Starwood transaction. D.R. Horton has the necessary cash and other immediately available funds to complete the transaction. Our proposal is not conditioned upon any regulatory or third party approvals, and we believe that we would be in a position to close the transaction quickly.

We require minimal confirmatory due diligence. Such diligence can be completed simultaneously with our finalization of definitive documentation for the proposed transaction.

The board of directors of D.R. Horton unanimously supports this proposal. We are confident that, after you have considered our proposal, you will agree that its terms are considerably more attractive to your stockholders than the Starwood transaction, that our proposal constitutes or could reasonably be expected to constitute a "Superior Proposal" under the terms of the Starwood merger agreement, and that it would be inconsistent with the Forestar board's fiduciary duties to Forestar stockholders not to promptly engage in discussions with us regarding our proposal. We respectfully request that you make that determination as soon as possible.

We believe time is of the essence, and we are prepared to engage immediately with the Forestar board and its advisors to undertake confirmatory due diligence and negotiate definitive transaction documentation. We have already dedicated considerable time and resources to an analysis of a potential transaction. We have retained Moelis & Company as our financial advisor and Gibson, Dunn & Crutcher LLP as our legal advisor. Our team is prepared to devote the additional time and resources necessary to ensure a smooth and expedited process. We and our advisors are ready to meet with you and your team at any time to discuss this proposal and to answer any questions you or they may have regarding our proposal. If you have any questions or would like me to clarify any aspect of our proposal, please do not hesitate to call me at (817) 390-8200.

This letter does not create or constitute any legally binding obligation or commitment by us regarding the proposed transaction, and there will be no legally binding agreement between us regarding the proposed transaction unless and until a Definitive Agreement is executed by D.R. Horton and Forestar.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Auld', is written over a horizontal line.

David Auld  
President and Chief Executive Officer

## Proposed Master Supply Agreement

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- Promotes FOR's acquisition, development and sale of lots to DHI and other builders
- FOR and DHI teams would collaborate on new lot development opportunities across DHI's broad national footprint
- FOR and DHI teams would each source and present potential lot development opportunities for evaluation
- For potential lot development opportunities sourced by FOR, 50% of lots would be offered to DHI on market terms; if DHI declines offer, FOR may market and sell the lots to other builders
- DHI would present potential lot development opportunities to FOR with up to 100% of the lots to be sold to DHI; if the parties fail to agree on terms, DHI will retain the opportunity
- Approval of independent directors would be required as appropriate

## Proposed Stockholders Agreement

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- Customary terms for this type of investment including:
  - Permits DHI to nominate a number of members of FOR's board of directors commensurate with DHI's equity ownership
  - The FOR board of directors would include at least three independent directors
  - Provides DHI customary controlling shareholder consent rights at any time it owns more than 30% of the outstanding FOR equity
  - Establishes an investment committee for decisions regarding property acquisitions and certain debt incurrences by FOR

# D.R. Horton Overview

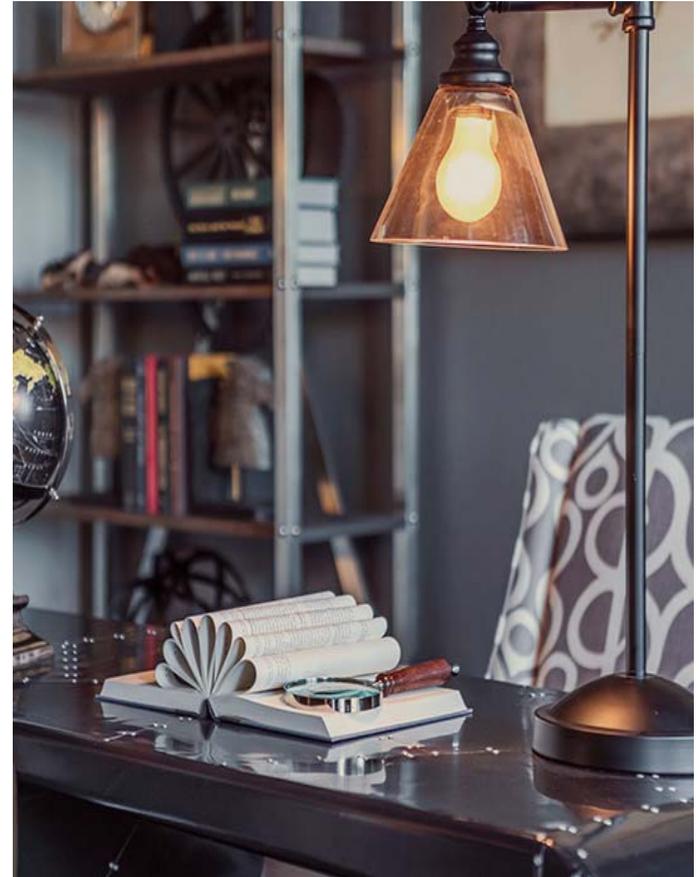
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## D.R. Horton, Inc.



- Traded on NYSE as DHI
- #1 builder for 15 consecutive years<sup>1</sup>
- Annual revenues of \$13.1 billion<sup>2</sup>
- 43,075 in annual homes closed<sup>2</sup>
- Annual pre-tax income of \$1.5 billion<sup>2</sup>
- Total assets of \$11.9 billion<sup>3</sup>
- Shareholders' equity of \$7.2 billion<sup>3</sup>
- Book value per share of \$19.23<sup>3</sup>



Notes:

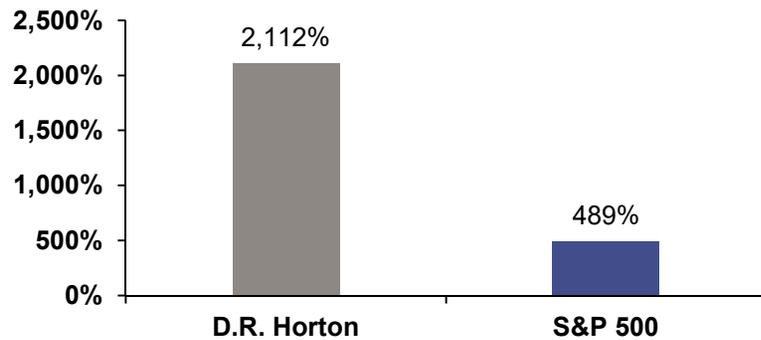
1. By closings volume for fiscal years 2002 to 2016
2. Twelve months ended March 31, 2017
3. As of March 31, 2017

# Delivering Outsized Returns

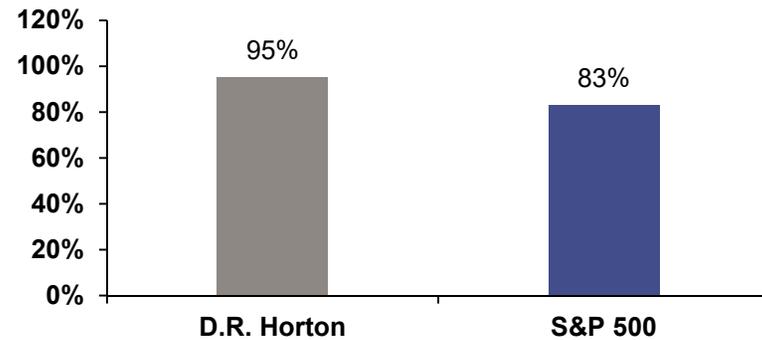


DHI has successfully managed to outperform the market through multiple cycles, delivering outsized returns to its shareholders

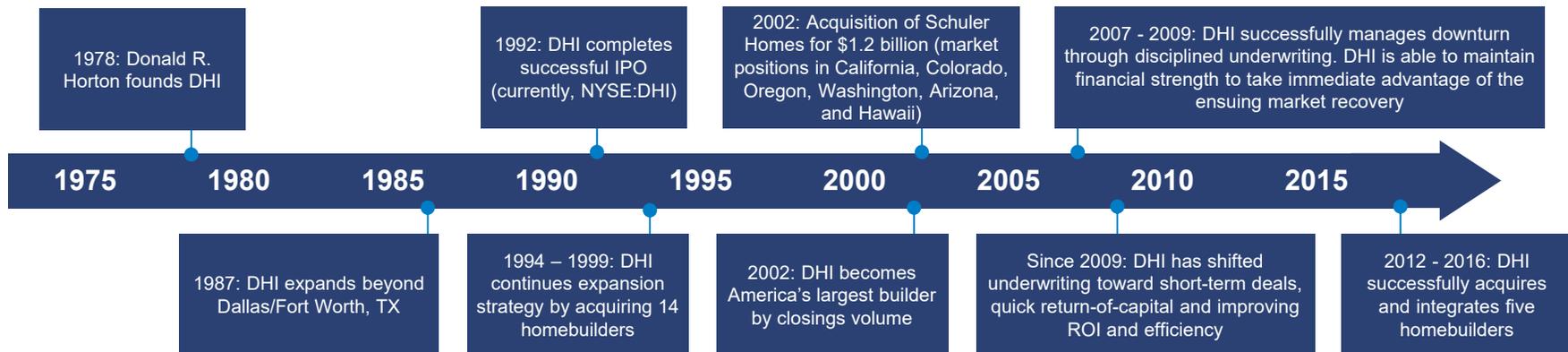
**Cumulative Return Since D.R. Horton IPO:  
(June 1992 – May 2017)**



**5-Year Cumulative Return:  
(May 2012 – May 2017)**



## D.R. Horton Key Events



Source: Company Website, Company Annual Reports, International Directory of Company Histories (Vol. 58. St. James Press)

# Geographic Footprint

78 Markets | 26 States



Source: Builder Magazine – 2017 Local Leaders issue  
 Note: Market share rankings based on homes closed

Green text represents common DHI and FOR markets

# Management Tenure & Experience



Average employee tenure:

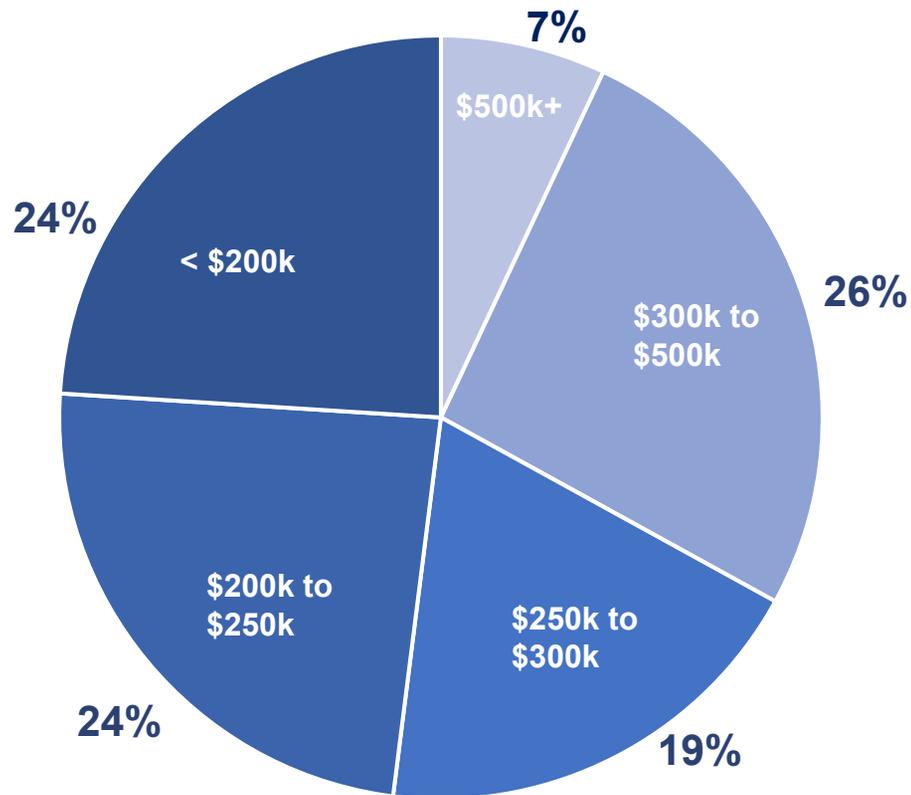
- Executive Team and Region Presidents – over 20 years
- Division Presidents and City Managers – over 13 years



# Broad Range of Product Offerings



Homes for entry-level, move-up, active adult and luxury buyers



Represents homes closed for the trailing twelve months ended 3/31/17

# Family of Brands



DHI targets the entire spectrum of homebuyers from entry-level to luxury through its suite of respected brands



- The heart of our business
- Offered across all 78 markets and 26 states we operate in
- 67% of homes closed and 70% of home sales revenue
- Average selling price of \$311,000



- Introduced in 2013, focused on the higher-end **move up** and **luxury buyer**
- Currently in 43 markets and 18 states
- 4% of homes closed and 8% of home sales revenue
- Average selling price of \$617,000



- Introduced in 2014, targeted at the true **entry-level** buyer
- Currently in 55 markets and 18 states
- 29% of homes closed and 22% of home sales revenue
- Average selling price of \$220,000



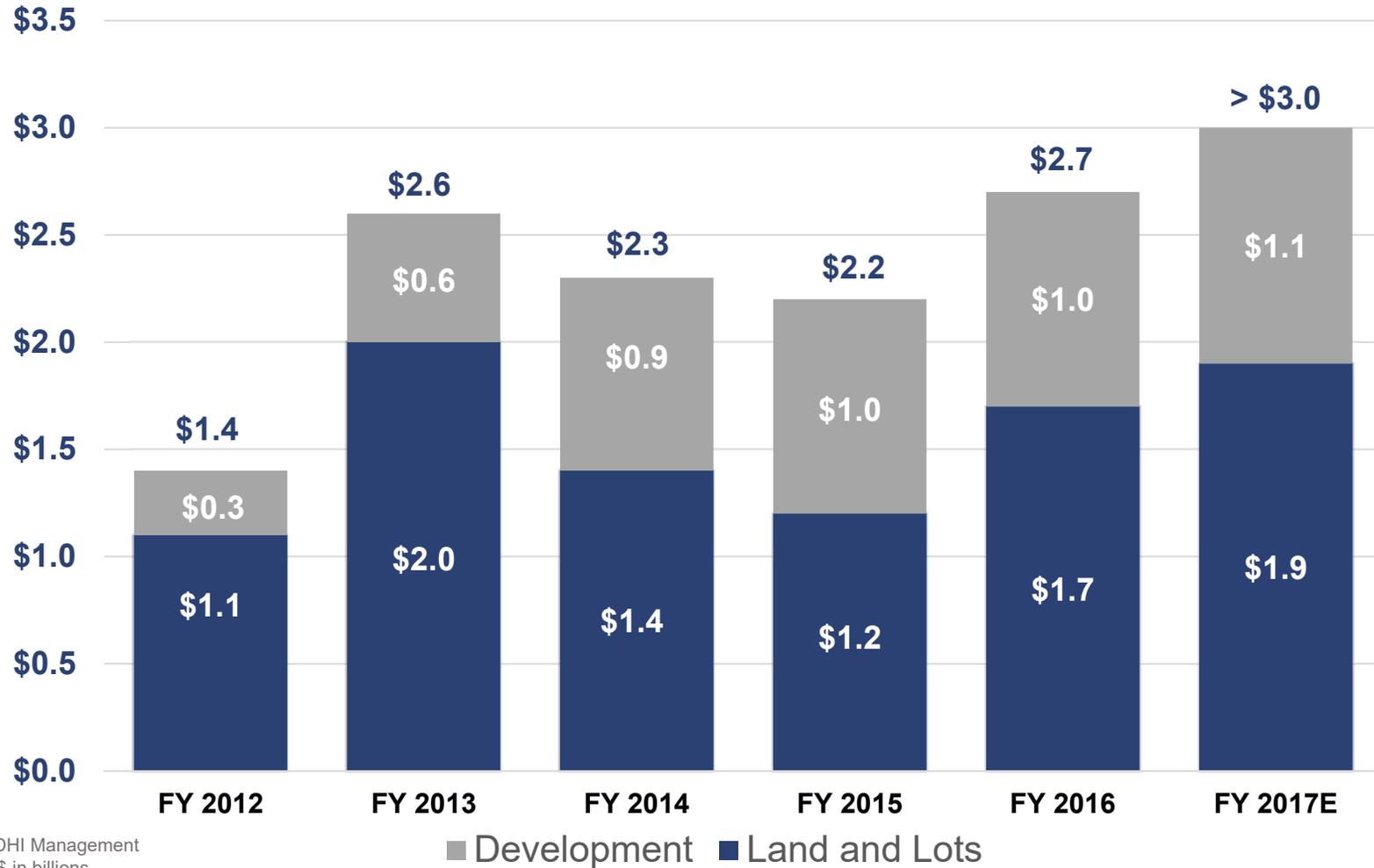
- Introduced in July 2016 as carefree affordable living for **active adults**
- Currently in 10 markets and 8 states
- Low-maintenance lifestyle
- Expect to have available in approximately 1/3 of our 78 markets by the end of the year

Note: Based on Q2 FY 2017 results

# Land and Development Investment



DHI is one of the largest acquirers and developers of land in North America



Source: DHI Management  
 Note: \$ in billions

## Additional Information



- In connection with the possible completion of D.R. Horton's proposed transaction with Forestar, it is expected that the parties would cause the filing with the SEC of a registration statement on Form S-4 that would include a proxy statement/prospectus to be distributed to Forestar stockholders. SECURITY HOLDERS ARE ADVISED TO READ THE REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. The registration statement, proxy statement/prospectus and other relevant documents will be available at no cost at the SEC's website at <http://www.sec.gov> and on D.R. Horton's website at [investor.drhorton.com](http://investor.drhorton.com). Copies may also be obtained at no cost by contacting D.R. Horton's Investor Relations department by telephone at (817) 390-8200 or by email at [InvestorRelations@drhorton.com](mailto:InvestorRelations@drhorton.com).
- D.R. Horton and its directors and certain of its executive officers may be deemed to be participants in any solicitation in connection with the proposed transaction with Forestar. Information regarding D.R. Horton's directors and executive officers is available in D.R. Horton's proxy statement for the 2017 Annual Meeting of Stockholders, filed with the SEC on December 9, 2016. Other information regarding D.R. Horton participants in any proxy solicitation in connection with the proposed transaction and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement/prospectus and other relevant materials to be filed with the SEC. As of the date hereof, the D.R. Horton participants do not own any securities of Forestar.
- This document shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the U.S. Securities Act of 1933, as amended.