

D.R. HORTON, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at March 31, 2023 and September 30, 2022</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and six months ended March 31, 2023 and 2022</u>	<u>4</u>
<u>Consolidated Statements of Total Equity for the three and six months ended March 31, 2023 and 2022</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the three and six months ended March 31, 2023 and 2022</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>60</u>
<u>ITEM 4. Controls and Procedures</u>	<u>61</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	<u>62</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>62</u>
<u>ITEM 6. Exhibits</u>	<u>63</u>
<u>SIGNATURES</u>	<u>64</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt. We monitor our exposure to changes in interest rates and utilize both fixed and variable rate debt. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument, but may affect our future earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not have a significant impact on our cash flows related to our fixed-rate debt until such time as we are required to refinance, repurchase or repay such debt.

We are exposed to interest rate risk associated with our mortgage loan origination services. We manage interest rate risk through the use of forward sales of mortgage-backed securities (MBS), which are referred to as “hedging instruments” in the following discussion. We do not enter into or hold derivatives for trading or speculative purposes.

Interest rate lock commitments (IRLCs) are extended to borrowers who have applied for loan funding and who meet defined credit and underwriting criteria. Typically, the IRLCs have a duration of less than six months. Some IRLCs are committed immediately to a specific purchaser through the use of best-efforts whole loan delivery commitments, while other IRLCs are funded prior to being committed to third-party purchasers. The hedging instruments related to IRLCs are classified and accounted for as derivative instruments in an economic hedge, with gains and losses recognized in revenues in the consolidated statements of operations. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in revenues in the consolidated statements of operations, along with changes in the fair value of the funded, uncommitted loans. The fair value change related to the hedging instruments generally offsets the fair value change in the uncommitted loans. The net fair value change, which for the three and six months ended March 31, 2023 and 2022 was not significant, is recognized in current earnings. At March 31, 2023, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of \$3.8 billion. Uncommitted IRLCs totaled a notional amount of approximately \$3.0 billion and uncommitted mortgage loans held for sale totaled a notional amount of approximately \$996.4 million at March 31, 2023.

We also use hedging instruments as part of a program to offer below market interest rate financing to our homebuyers. At March 31, 2023 and September 30, 2022, we had MBS totaling \$1.1 billion and \$532.4 million, respectively, that did not yet have IRLCs or closed loans created or assigned and recorded a liability of \$2.4 million and an asset of \$4.8 million, respectively, for the fair value of such MBS position.

The following table sets forth principal cash flows by scheduled maturity, effective weighted average interest rates and estimated fair value of our debt obligations as of March 31, 2023. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale that are typically sold within 60 days, its outstanding balance is included in the most current period presented. The interest rate for our variable rate debt represents the weighted average interest rate in effect at March 31, 2023.

	Six Months Ending September 30, 2023	Fiscal Year Ending September 30,						Total	Fair Value at March 31, 2023
		2024	2025	2026	2027	2028	Thereafter		
(\$ in millions)									
Debt:									
Fixed rate.....	\$590.5	\$12.9	\$500.4	\$900.4	\$600.4	\$800.0	\$—	\$3,404.6	\$3,149.4
Average interest rate.....	5.5%	4.0%	2.7%	3.4%	1.5%	3.0%	—%	3.2%	
Variable rate.....	\$1,554.9	\$—	\$—	\$1,025.0	\$—	\$—	\$—	\$2,579.9	\$2,579.9
Average interest rate.....	6.4%	—%	—%	7.2%	—%	—%	—%	6.7%	

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of March 31, 2023 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits and other contingencies in the ordinary course of business. While the outcome of such contingencies cannot be predicted with certainty, we believe that the liabilities arising from these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds our estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

With respect to administrative or judicial proceedings involving the environment, we have determined that we will disclose any such proceeding if we reasonably believe such proceeding will result in monetary sanctions, exclusive of interest and costs, at or in excess of \$1 million.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

We may repurchase shares of our common stock from time to time pursuant to our common stock repurchase authorization. The following table sets forth information concerning our common stock repurchases during the three months ended March 31, 2023. All share repurchases during the quarter were made in accordance with the safe harbor provisions of Rule 10b-18 under the Exchange Act.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1) (In millions)
January 1, 2023 - January 31, 2023	869,609	\$ 96.53	869,609	\$ 236.2
February 1, 2023 - February 28, 2023	2,000,853	96.70	2,000,853	42.7
March 1, 2023 - March 31, 2023	285,836	90.02	285,836	17.0
Total	<u>3,156,298</u>	<u>\$ 96.05</u>	<u>3,156,298</u>	<u>\$ 17.0</u>

(1) Effective April 2022, our Board of Directors authorized the repurchase of \$1.0 billion of our common stock. During the three months ended March 31, 2023, we repurchased 3.2 million shares at a total cost including commissions and excise taxes of \$303.2 million, leaving \$17.0 million remaining on the repurchase authorization at March 31, 2023. In April 2023, our Board of Directors authorized the repurchase of up to \$1.0 billion of our common stock, replacing the previous authorization. The authorization has no expiration date.

ITEM 6. EXHIBITS

(a) Exhibits.

- 2.1 [Agreement and Plan of Merger dated June 29, 2017 by and among D.R. Horton, Inc., Force Merger Sub, Inc. and Forestar Group Inc. \(incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2017\).](#)
- 3.1 [Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as amended, of the Company dated January 31, 2006, and the Amended and Restated Certificate of Incorporation, as amended, of the Company dated March 18, 1992 \(incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the SEC on February 2, 2006\).](#)
- 3.2 [Amended and Restated Bylaws of the Company \(incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 8, 2017\).](#)
- 10.1 [First Amendment to Fourth Amended and Restated Master Repurchase Agreement, dated February 17, 2023, among DHI Mortgage Company, Ltd., U.S. Bank National Association, as Administrative Agent, Sole Book Runner, Lead Arranger, and a Buyer and all other Buyers \(incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 21, 2023\).](#)
- 10.2 [Master Repurchase Agreement, dated April 4, 2023, between DHI Mortgage Company, Ltd. and Royal Bank of Canada \(incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 10, 2023\).](#)
- 22.1 * [List of Guarantor Subsidiaries.](#)
- 31.1 * [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 * [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 * [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 * [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS ** XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH ** Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL ** Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF ** Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB ** Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE ** Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 104 ** Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101).

* Filed or furnished herewith.

** Submitted electronically herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

D.R. HORTON, INC.

Date: April 24, 2023

By: /s/ Bill W. Wheat

Bill W. Wheat
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: April 24, 2023

By: /s/ Aron M. Odom

Aron M. Odom
Vice President and Controller
(Principal Accounting Officer)