Corporate Credit Profile

July 2013

D.R. Horton (DHI)

Business Profile

DHI, headquartered in Forth Worth, Texas, is the largest U.S. homebuilder with a 6.2% market share in FY2012. DHI mainly focuses on developing single-family homes for first-time (35-40% of sales) and move-up buyers (35-40% of sales).

DHI is also one of the most geographically diversified homebuilders in the U.S., with a presence in 77 markets in 26 states, and is the market leader in seven of the top 50 markets, including six of the top 20 markets (see Annex).

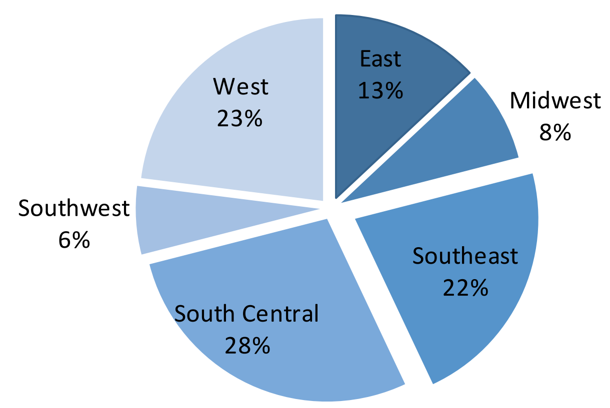
Moody's: Ba2/Positive

S&P: BB/Stable

DHI supports its sales (less than 3% of total sales) through mortgage financing and title agency services but only retains a small percentage after sale.

DHI strategy focuses on sales velocity and quick inventory turn given its speculative home concentration (homes under construction that have no buyer associated with them).

FY12 Revenue by Region



Source: Company Reports

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Industry Trend

Housing demand has improved given greater household formations, increasing affordability, and rising rents.

Housing construction in the single family residential market improved in August as builders continue to boost community count (defined as three or more homes that are available for sales) to tap directly into the markets where demand has emerged more dramatically.

Permits increased 3% sequentially in August for the single family market while housing starts jumped 7%.

While construction activity still remains low on a historical basis, the larger homebuilders are aggressively growing community count in specific areas in order to continue to grow market share.

Most acquisition activity in the sector has been related to particular land parcels or projects as opposed to entire corporations.

Various positive trends in the homebuilding industry took hold in 2012 - e.g. increase in homes sales (+21%) and housing starts (+28%) - and are expected to continue on in 2014. However, increasing mortgage rates remains a barrier to entry for the first-time homebuyer and the industry could be challenged by increasing input costs.

Recent Events

S&P upgraded DHI on 6/26/2013 from BB- to BB on the basis of improving top line performance, financial risk profile, and leverage.

In 2Q13, DHI issued $700 million in notes extending the maturity and raising new capital to support their renewed acquisition strategy aimed at growing community count in a robust housing market. The new issue will help support DHI's boosted land acquisition strategy to continue to grow community count in response to recovering markets.

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Interim Results

FY2012: DHI was one of the first homebuilders to return to profitability post-crisis. It recorded a 19.7% increase in revenue in FY2012 coupled with significant improvement in yoy profitability. Given pent-up housing demand from weaker household formations the last several years, backlogs have begun to accelerate (+49.2% in FY2012) and average sales price (ASP) increased 5.2% in FY2012.

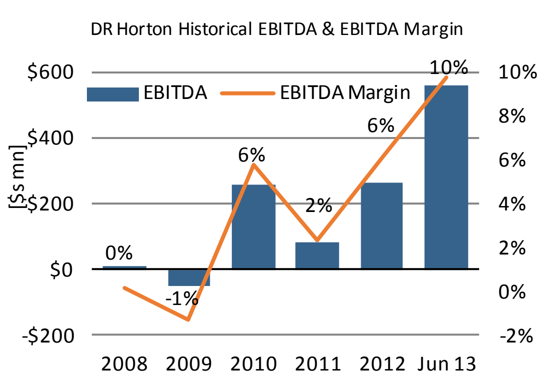
The company achieved this performance via aggressive cost cutting, and given its regional diversity, had the ability to adjust to different housing markets while reducing debt.

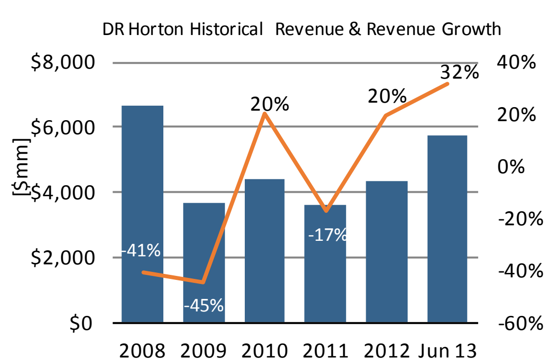
LTM 6/30/13: recent fiscal results showed continued improvement and DHI has now remained profitable for the last two and a half years. LTM sales surged driven by net new orders growth of 20%, and deliveries growth of 21% surged 31.7% versus FY2012.

EBITDA margin (9.8%) continued to improve (industry average is 7.8%) mainly driven by a 32.3% increase in ASP from $223k in FY2012 to $295k.

Revenues [$mm] and EBITDA

	2008	**2009**	**2010**	**2011**	**2012**	**LTM 6/30/13**
Revenue	**6,646**	**3,658**	**4,400**	**3,637**	**4,354**	**5,735**
% Growth	**-41.2%**	**-45.0%**	**20.3%**	**-17.3%**	**19.7%**	**31.7%**
EBITDA	10	(49)	255	85	266	561
EBITDA growth	-99%	n/a	n/a	-67%	212%	111%
EBITDA margin	0.2%	-1.3%	5.8%	2.3%	6.1%	9.8%
Net Income	**(2,634)**	**(545)**	**245**	**72**	**956**	**423**





Source: Company Reports

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Capital Structure and Liquidity

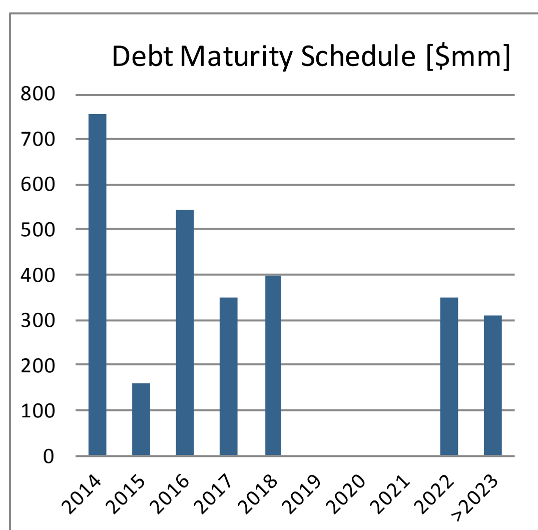
Significant available liquidity including $1.4 billion in cash and marketable securities, and untapped $600 million revolving credit facility. After terminating its credit facility during the downturn, DHI reentered the market with a new unsecured $125 million revolver in September 2012, and subsequently increased the capacity to $600 million in November 2012, in order to further fund its land and development activity where demand has improved.

Debt maturities are concentrated between 2014 – 2016, when $1.5 billion in debt is coming due (however this includes $500 million convertible notes maturing in May 2014 at a conversion price of $12.96, which is below the company's current stock price of $21.33). Historically, DHI has channeled free cash flow to reduce debt -- $1.3 billion was extinguished from FY2008 to FY2012. Current leverage stands at 5.5x -- well below industry average of ~14x.

Free cash flow, however, was -$1.4 billion in LTM 6/30/13 owing to $1.2 billion in land acquisitions as DHI actively rebuilt its inventory position in order to meet growing demand.

DHI has continued to pay a regular quarterly dividend throughout the downturn and accelerated its 2013 dividends from $48 million to $72 million in LTM 6/30/13.

DR Horton Capitalization [$mm]	6/30/2013	Debt/LTM EBITDA
$600mn revolver L+225-325 due 9/7/17		
Repurchase Agreements/Other Debt @ L+2.8%	220	
Term Loans	10	
5.625% Sr. Unsec. Notes due 2014	138	
6.125% Sr. Unsec. Notes due 2014	146	
5.625% Sr. Unsec. Notes due 2015	158	
5.625% Sr. Unsec. Notes due 2016	170	
6.500% Sr. Unsec. Notes due 2016	373	
4.750% Sr. Unsec. Notes due 2017	350	
3.625% Sr. Unsec. Notes due 2018	400	
4.375% Sr. Unsec. Notes due 2022	350	
4.750% Sr. Unsec. Notes due 2023	300	
2.000% Sr. Convert. Notes due 2014	471	
Total Debt	**3,084**	**5.5x**
Cash	1,395	
Net Total Debt (incl. Holdco)	**1,689**	**3.0x**
LTM 6/30/13 EBITDA	**561**	



Source: Company Reports ; FactSet

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Capital Structure and Liquidity

Liquidity [$mm]	2008	2009	2010	2011	2012	LTM 6/30/13
CFO	1,880	1,141	709	15	(298)	(1,257)
Total Capex	(7)	(6)	(19)	(16)	(34)	(50)
FCF	**1,873**	**1,135**	**690**	**(1)**	**(332)**	**(1,308)**
Dividends	(142)	(48)	(48)	(48)	(48)	(72)
Share Repurchases	0	0	0	(39)	0	0
Net FCF	**1,731**	**1,088**	**643**	**(88)**	**(380)**	**(1,380)**
$600mn Revolving Bank Facility due 9/7/17						600
Cash & Marketable securities						1,395
Liquidity						**1,995**

Metrics [$mm]	2008	2009	2010	2011	2012	LTM 6/30/13
Capex as % sales	0.1%	0.2%	0.4%	0.4%	0.8%	0.9%
Total Debt	**3,748**	**3,145**	**2172**	**1,705**	**2,493**	**3,084**
Capitalization	6,613	5,546	4,795	4,328	6,085	6,988
Total FCF as % Debt	46.2%	34.6%	29.6%	-5.2%	-15.2%	-44.7%
Total Debt/EBITDA	**371.1x**	**-64.5x**	**8.5x**	**20.0x**	**9.4x**	**5.5x**
Market Capitalization						6,886
Enterprise Value						9,266
EV/LTM EBITDA						16.5x

Operational Metrics [$mm]	2008	2009	2010	2011	2012	LTM 6/30/13
Net New Orders	21,251	17,034	19,375	17,421	21,048	25,236
% Growth		-19.8%	13.7%	-10.1%	20.8%	19.9%
Deliveries (units)	26,396	16,703	20,875	16,695	18,890	22,864
% Growth		-36.7%	25.0%	-20.0%	13.1%	21.0%
Average Selling Price ($'000)	234	213	206	212	223	295
%Growth		-9.0%	-3.3%	2.9%	5.2%	32.3%
Backlog (units)	5,297	5,628	4,128	4,854	7,240	9,911
% Growth		6.2%	-26.7%	17.6%	49.2%	36.9%

Source: Credit Sights ; Citi research ; Factset

Strengths & Opportunities

Leading market position with significant scale and geographic diversity, allowing greater cost efficiencies versus peers. In particular, given its scale DHI benefits from pricing power with national building products companies. DHI utilizes local real estate brokers for a majority of its home sales (70-80%), capitalizing on relationships to generate traffic to its communities, while at the same time incurring less overhead as external realtors do not add to SG&A. DHI's SG&A as a percentage of revenue is amongst the lowest in the industry (~12-13% in FY12 versus industry 14-15%).

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Operating leverage and cost focus have helped improve margins. However, the improved housing environment has led to an increase in input costs that could put pressure on margins.

The housing industry continues to recover, given improving demand and a more balanced housing supply. Demand has improved due to increasing affordability, and rising rents. At the same time, inventory of unsold homes has decreased to 4.8 months (5-5.5 months is the long-term equilibrium). This has resulted in rising home prices (Schiller index was 146.3 as of June 2013).

Key DHI markets are showing growth. Many of the key markets in which DHI participates are growing. DHI has a good supply of finished lots in the South Central region (24% of FY2012 sales). Texas, in particular, has exhibited strong job and housing growth, and tends to be the biggest driver of this region. DHI experienced similar trends in other markets such as the West (26% of FY2012 sales).

Weaknesses & Threats

Leverage is high (5.5x in June 2013), but well below industry average of 13.9x.

The company's large speculative build percentage of over 50% and moderately long land supply of six to seven years leave it exposed in the event of a sharp or sudden downturn.

DHI customers consist largely of first-time or move-up buyers (70-80% of sales) and could be discouraged from purchasing homes given persistently high unemployment, declining median incomes, and rising interest rates (especially for first-time buyers).

As a result of rising rates, DHI has experienced an increase in cancellation rates from 19% in 2Q13 to 24% in 3Q13. Increased competition for land and lower finished lot supplies could result in larger expenses for DHI.

Cost inflation could compress margins. The recent improvement in homebuilding has led to increased demand for wood products such as lumber and oriented strand board (OSB). In 2012, lumber prices increased 41% while OSB prices increased 93%. Lumber prices have been very volatile in 2013. DHI does not hedge commodities pricing through forward contracts - although DHI's scale allows it to negotiate better terms versus peers.

Outlook

Subsequent to the announcement of Federal Reserve's intention to taper quantitative easing as early as late 2013, mortgage rates rose sharply. While rates have a direct impact on demand, mortgage rates would likely need to move much further to significantly depress demand. However, higher rates may prevent homebuilders from raising prices. Overall, the homebuilding industry is still buoyed by the lack of supply that resulted from the lack of new construction between 2006-2011.

DHI has a relatively stable credit profile, geographic and product diversity, although with some focus on the less active first time homebuyer market.

Despite solid cash flow generation capability, negative cash flow generation should persist given the aggressive pace of land acquisition. The company is expected to continue raising debt to fund land investments, hence leverage is not expected to decline in the near term. Leverage may improve if/when the $500 million of convertible notes that mature in May 2014 convert to equity.

What differentiates DHI from other homebuilders is its low cost base, high volume approach employing a real estate agent model, speculative home focus, and targeted entry level and move-up customer (average selling price of $295k in June 2013).

Overall, DHI's results should continue to improve reflecting the increased exposure to the higher quality move-up market and deemphasizing of the lower-margin, more volatile first-time home buyer market.

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Data Annex

Valuation

Peer Analysis [$mm]	S&P Rating	Market Value	Enterprise Value	Sales	EBITDA	EBITDA Margin	Ent. Value/EBITDA	Total Debt	Total Leverage
KB Home	B/Negative	1,565	2,924	1,932	47	2.4%	61.8x	1,943	41.1x
Lennar Corporation Class A	B+/Positive	6,972	11,630	4,859	489	10.1%	23.8x	5,150	10.5x
PulteGroup, Inc.	BB-/Stable	6,963	7,864	5,289	394	7.4%	20.0x	2,180	5.5x
NVR, Inc.	BBB/Stable	4,382	4,205	3,599	403	11.2%	10.4x	601	1.5x
Toll Brothers, Inc.	BB+/Stable	5,842	7,310	2,128	128	6.0%	57.2x	2,478	19.4x
DR Horton	BB/Stable	6,886	9,266	5,735	561	9.8%	16.5x	3,084	5.5x
Average		5,435	7,200	3,924	337	7.8%	34.6x	2,573	13.9x

Source: Factset

Market Position in Top U.S. Markets

DHI Exposure to Top 50 U.S. Markets as a Top 2 Builder

Market	U.S. Market Rank [1]	2012 Closings	% of Total Closings	Market Share	Local Market Rank [2]
Dallas/Fort Worth/Arlington, Texas	6	516	3%	6.9%	1
Houston/Sugar Land/Baytown, Texas	24	569	3%	16.6%	1
San Antonio/New Braunfels, Texas	8	644	3%	10.0%	1
Phoenix/Mesa/Scottsdale, Ariz.	14	669	3%	12.9%	1
Seattle/Tomaca/Bellevue, Wash.	8	1,030	5%	14.9%	1
Orlando/Kissimmee, Fla	7	1,139	6%	15.9%	1
Altlanta, Marietta/ Sandy Springs/Marietta, Ga.	2	2,024	10%	14.1%	1
Austin/Round Rock, Texas	12	561	3%	10.3%	2
Las Vegas/Paradise, Nev.	3	908	5%	8.5%	2
Portland/Vancouver/Hillboro, Ore./Wash.	29	261	1%	9.1%	2
Riverside/Ontario, Calif.	19	430	2%	9.4%	2
Chicago/Joliet, Wisc.	17	439	2%	9.1%	2

[1] Based on 2012 total closings

[2] Market Share calculated as 2012 closings divided by total market closings (per June 2013 *Builder*)

Source: DB Research

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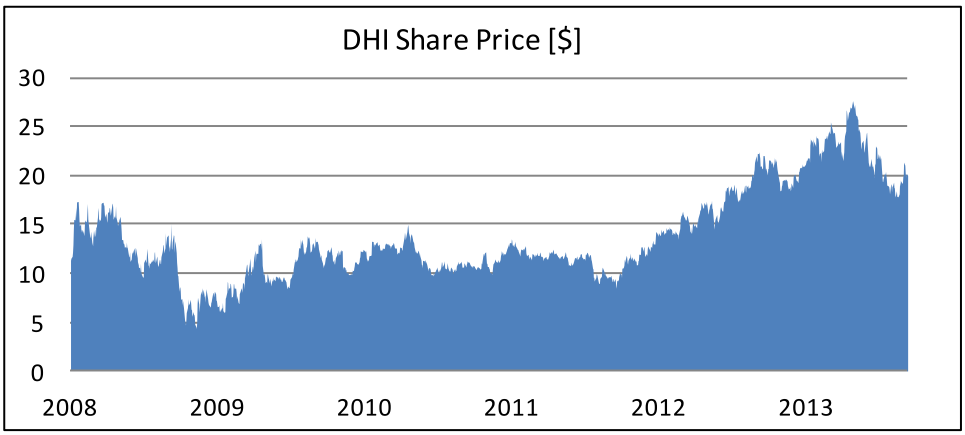
Data Annex

Stock Performance



Source: Bloomberg

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Disclosure

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