

PulteGroup Investor Day
December 9, 2014
Part 1

PulteGroup™

Forward-Looking Statements

This presentation includes “forward-looking statements.” These statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “may,” “can,” “could,” “might,” “will” and similar expressions identify forward-looking statements, including statements related to expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future.

Such risks, uncertainties and other factors include, among other things: interest rate changes and the availability of mortgage financing; continued volatility in the debt and equity markets; competition within the industries in which PulteGroup operates; the availability and cost of land and other raw materials used by PulteGroup in its homebuilding operations; the impact of any changes to our strategy in responding to the cyclical nature of the industry, including any changes regarding our land positions; the availability and cost of insurance covering risks associated with PulteGroup's businesses; shortages and the cost of labor; weather related slowdowns; slow growth initiatives and/or local building moratoria; governmental regulation directed at or affecting the housing market, the homebuilding industry or construction activities; uncertainty in the mortgage lending industry, including revisions to underwriting standards and repurchase requirements associated with the sale of mortgage loans; the interpretation of or changes to tax, labor and environmental laws; economic changes nationally or in PulteGroup's local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See PulteGroup's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and other public filings with the Securities and Exchange Commission (the “SEC”) for a further discussion of these and other risks and uncertainties applicable to our businesses. PulteGroup undertakes no duty to update any forward-looking statement, whether as a result of new information, future events or changes in PulteGroup's expectations.

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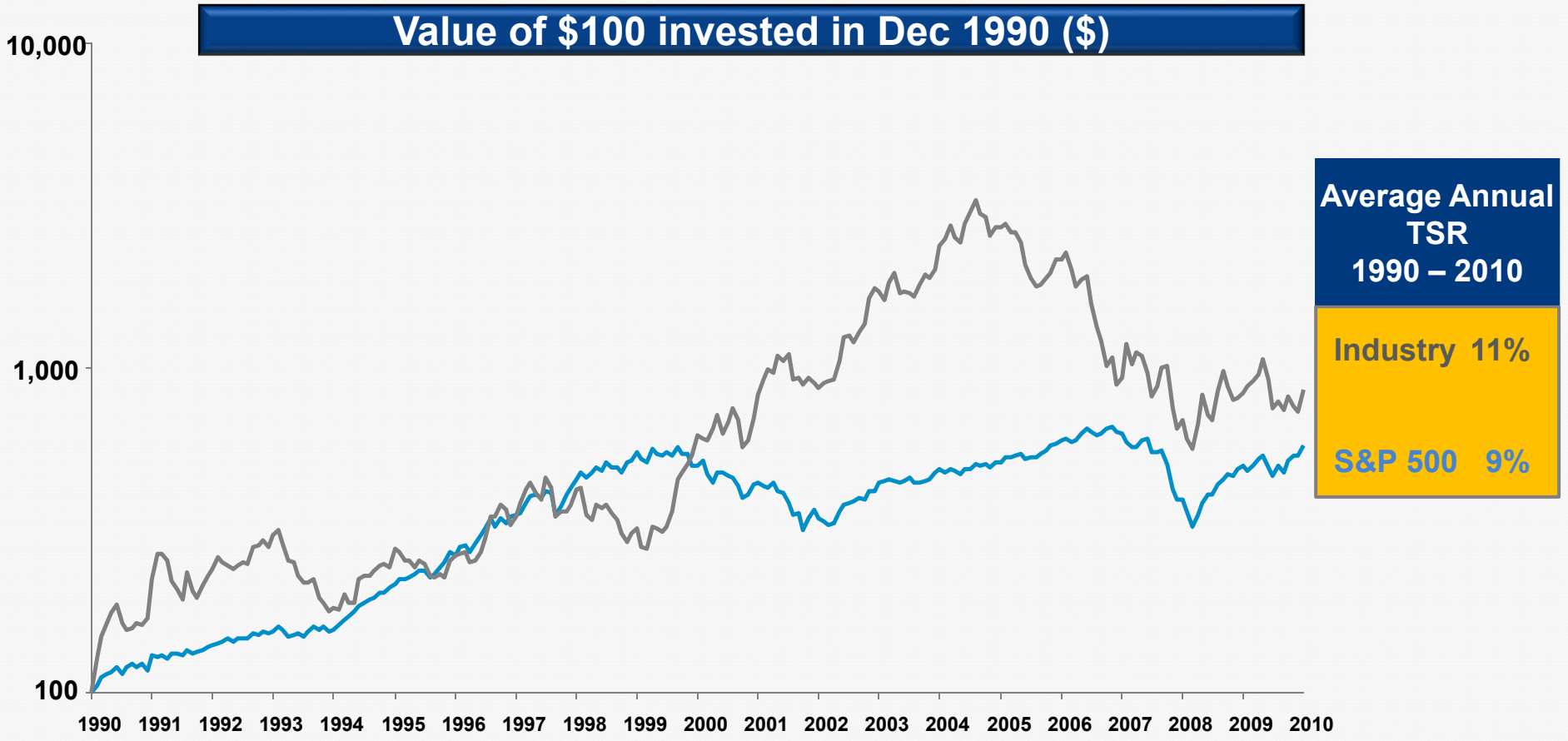


Richard J. Dugas, Jr.
Chairman, President & CEO

Today's Agenda

• The History of PulteGroup's Value Creation Strategy	R. Dugas
• Capital Discipline – Supporting Value Creation	B. O'Shaughnessy
• Building Capability – Next Steps	R. Marshall / M. Wyatt
• Mortgage Update	D. Still
• Field Operations: Aligned with Our Vision	H. Smith
• Financial Policy to Match Operating Philosophy	B. O'Shaughnessy
• Summary / Closing Comments	R. Dugas

20 Years of Data Show Homebuilding is a Good Business



Note: TSRs are December through December. Underlying financial data based on fiscal year data except for 2010, which uses LTM data through Q3 2010.
1. Peer index is a market-weighted index of the following peers: Beazer, Brookfield, D.R. Horton, Hovnanian, KB Home, Lennar, MDC, Meritage, M/I Homes, NVR, Pulte, Ryland, Std. Pacific, and Toll Bros.
Source: Bloomberg; Compustat; BCG ValueScience Center

Historically, PulteGroup Focused on Volume / Revenue Growth at the Expense of Key ROIC Drives

	1990 - 2010			
	PulteGroup Average	Top Quartile	Bottom Quartile	PulteGroup Quartile
Revenue Growth	10.2%	16.7%	0.6%	2nd
EBIT Margins	1.7%	8.9%	2.8%	4th
Asset Turns	0.90x	1.28x	0.88x	3rd
ROCE	2.3%	9.0%	2.4%	4th

PulteGroup's Relative TSR Performance Lagged Peers Throughout the Cycle

TSR Rank	1990 - 1994		1994 - 1999		1999 - 2005		2005 - 2010		1990 - 2010	
	Peer	Avg. Annual TSR %	Peer	Avg. Annual TSR %	Peer	Avg. Annual TSR %	Peer	Avg. Annual TSR %	Peer	Avg. Annual TSR %
1	Competitor	106	Competitor	54	Competitor	69	Competitor	0	Competitor	32
2	Competitor	40	Competitor	30	Competitor	58	Competitor	-11	Competitor	24
3	Competitor	30	Competitor	27	Competitor	57	Competitor	-12	Competitor	18
4	PulteGroup	26	Competitor	21	Competitor	53	Competitor	-17	Competitor	16
5	Competitor	17	Competitor	19	Competitor	50	Competitor	-18	Competitor	12
6	Competitor	12	Competitor	18	Competitor	47	Competitor	-19	PulteGroup	10
7	Competitor	11	Competitor	17	Competitor	43	Competitor	-19	Competitor	9
8	Competitor	4	Competitor	15	Competitor	41	Competitor	-24	Competitor	7
9	Competitor	1	PulteGroup	15	Competitor	40	Competitor	-27	Competitor	7
10	Competitor	-13	Competitor	13	Competitor	39	Competitor	-28	Competitor	5
11	Competitor	-25	Competitor	13	PulteGroup	39	PulteGroup	-28	Competitor	4
12			Competitor	12	Competitor	36	Competitor	-33		
13			Competitor	11	Competitor	36	Competitor	-38		
			Competitor	3	Competitor	32	Competitor	-39		

Summary Statistics – PHM vs. Top Peers

Higher gross margin, lower leverage, asset turns, free cash flow correlated with TSR & Valuation

1999–2010

Peers grouped by TSR

		Top	Middle	Third	PHM
Financial/ operating performance	**Revenue ($B)**	2.2	2.5	1.3	5.1
	Rev CAGR %	2.8%	-0.9%	-1.8%	2.9%
	Gross margin[1] %	18%	15%	13%	11%
	Δ GM	228bp	-201bp	-113bp	-1322bp
	SG&A avg. %	12%	13%	14%	12%
	Net income %	3%	-2%	-4%	-5%
	Δ Net income	-48bp	-980bp	-210bp	-2530bp
	Book equity CAGR	16%	5%	3%	5%
	Debt leverage%	32%	42%	56%	44%
	Δ Leverage	-1600bp	-230bp	1400bp	1300bp
Capital returns	**Asset turns**	1.3	1.1	1.1	1.0
	Capital CAGR %	9%	5%	5%	7%
	Av. ROCE	13%	3%	-3%	0%
	FCF cont. to TSR[2]	0%	-2%	-4%	-7%
Valuation	**Avg. Price to Book**	2.2	1.4	1.4	1.5

Overall size not an apparent value driver
- TSR leaders range from $1.6B to $8B

Gross margins correlated with TSR

Excess leverage is negatively correlated with TSR

Asset turns correlated with TSR

TSR leaders tend to utilize capital more efficiently and effectively
- ROIC>WACC
- FCF delivery

Top TSR companies are rewarded for their discipline with high P/B ratios

1. GM=Gross Profit / Net Revenue 2. FCF pp. TSR: Entity FCF contribution to TSR, including changes in debt, Ten years ending Sep 2010
Note: All SG&A, average and growth rate calculations are based on earliest year when data is available for each company. Source: Bloomberg; Compustat; BCG ValueScience Center

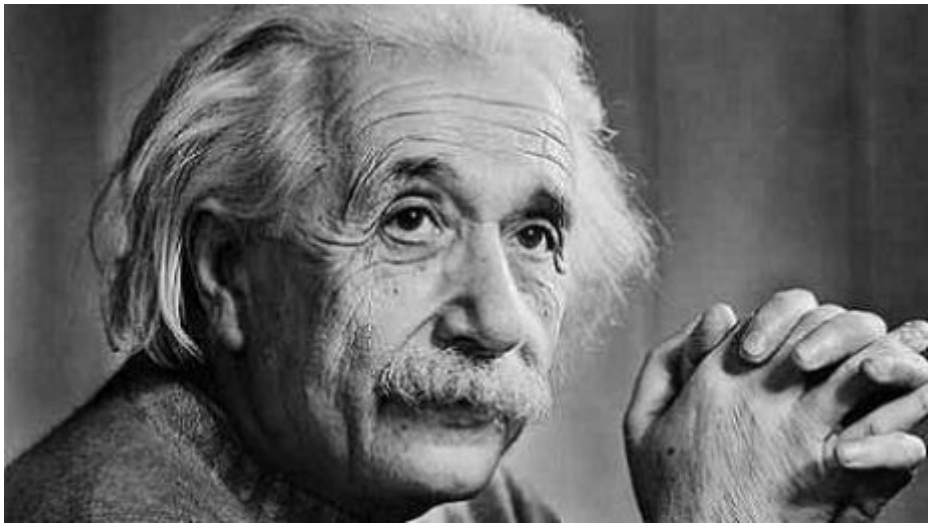
Key Takeaways From Analysis of 20 Years of Data (Good Cycles & Bad)

- The most relevant measure of "good" in homebuilding is ROIC
  - ✓ ROIC drives Total Shareholder Return (TSR) more than any other single metric
- Keys to systematically driving higher ROIC
  - ✓ High gross margins on product (keeps numerator high)
    - Production efficiency (value engineering) to optimize product & reduce costs
    - Purchasing efficiency ("should cost") to lower house costs
    - Strategic pricing initiatives to maximize margins (smarter pricing)
  - ✓ Efficient management of land & house inventory (keeps denominator small)
    - Enhance capital deployment (land capital focused on high return projects)
    - Move toward build-to-order model and drastically reduced spec inventory
  - ✓ Balanced leverage profile

Key Takeaways From Analysis of 20 Years of Data (Good Cycles & Bad) cont'd

- Keys to systematically driving higher ROIC
  - ✓ High relative market share in each market
    - Better access to land
    - Better leverage with trade base
    - Better leverage of overheads
- For PulteGroup, success required a re-tooling of the business
  - ✓ Refocus on generating improved returns over the housing cycle
  - ✓ Drive key income statement and balance sheet metrics

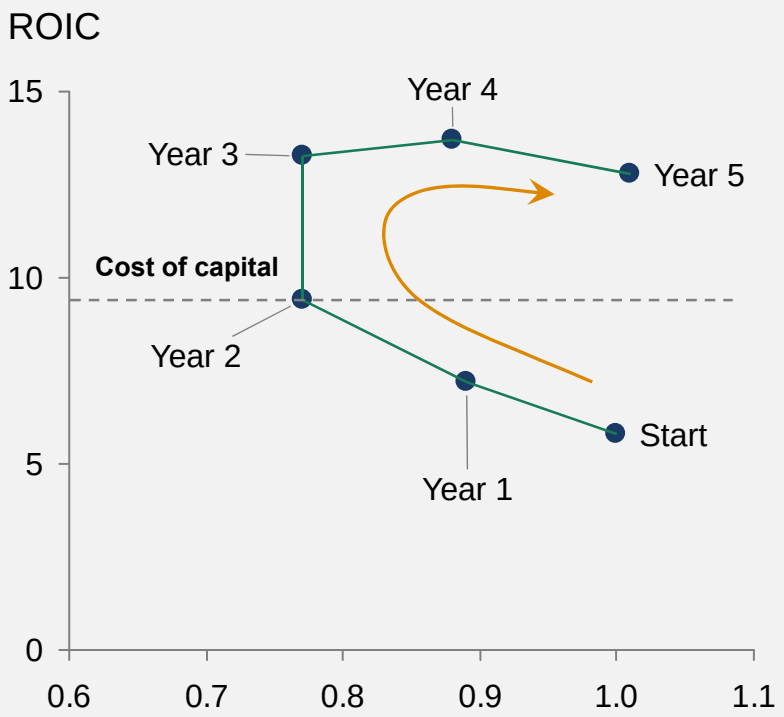
Given the Data and Facts, Change Was the Only Real Option



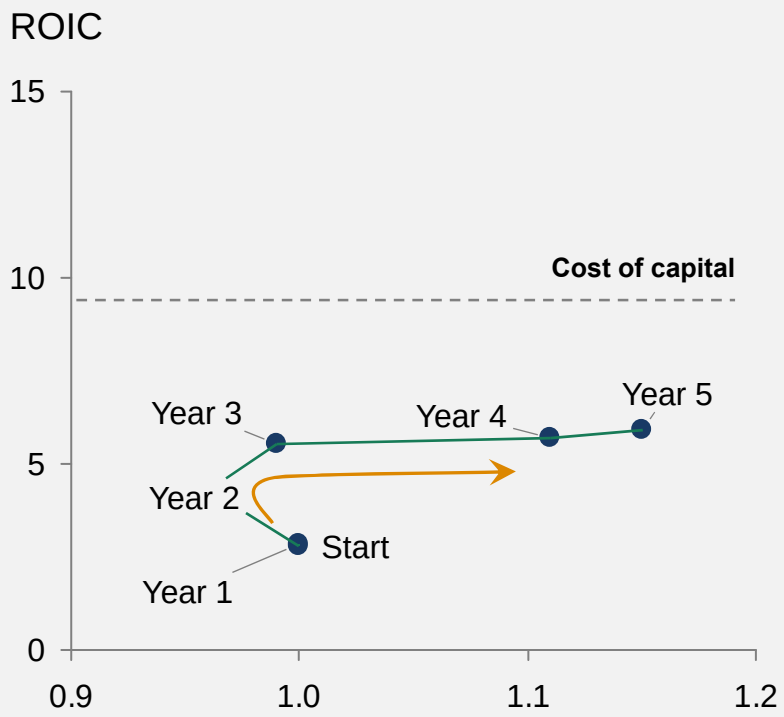
Einstein's definition of insanity: doing the same thing over and over again and expecting different results.

Most Successful Turnarounds Start with Fixing the Core Business and Raising ROIC *Before Increasing Investment*

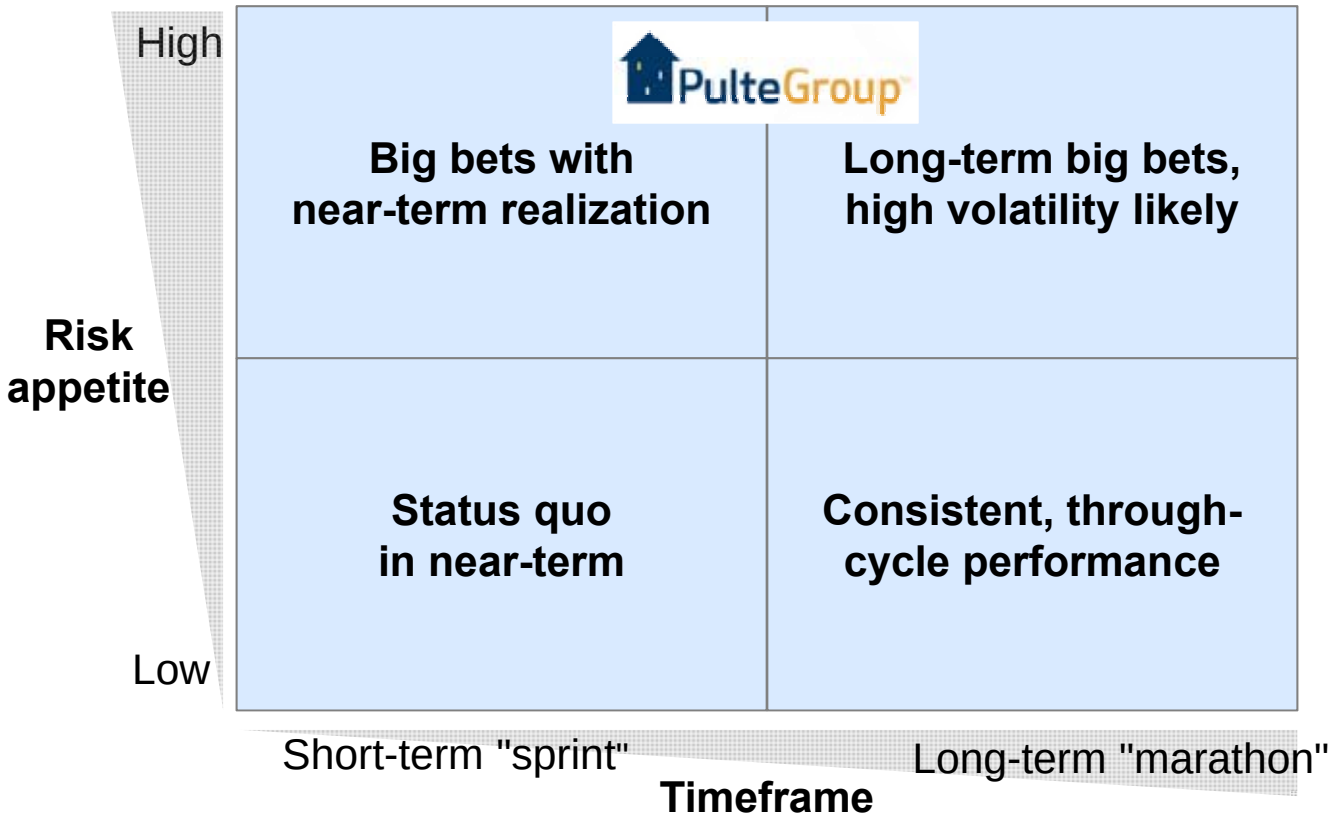
Successful turnarounds: "C" curve profile of improving profits then reinvesting for growth



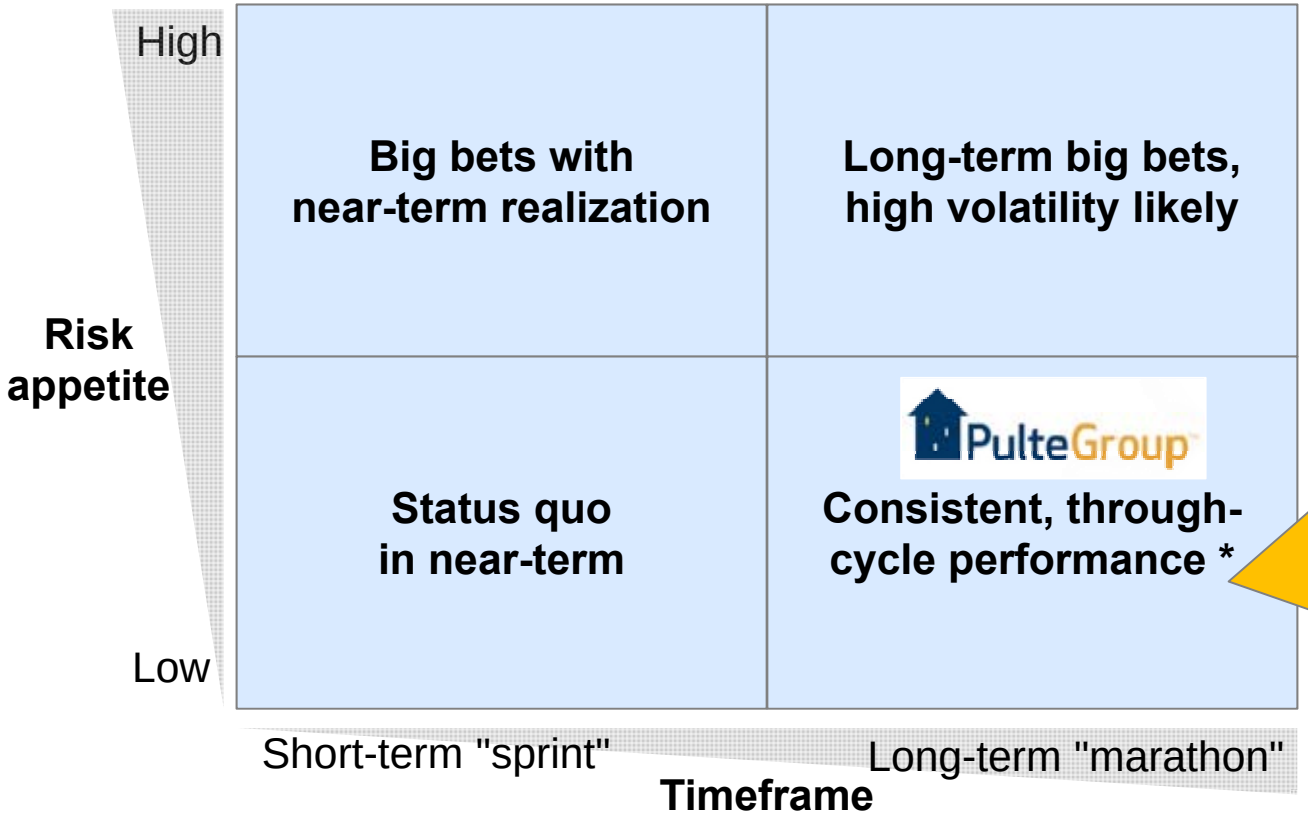
Unsuccessful turnarounds: Reinvest for growth before successfully raising profitability



PulteGroup's Previous Business Model Relied on Outsized Land Plays Needed to Feed Growth Focus



Early 2011: Begin Focus on Delivering Consistent, Above-Average Returns Over the Long-Term and Avoiding “Big Bets"



With this position, we must:

- Recognize the **industry is cyclical**
- Maintain or grow **competitive position**
- Focus on **consistent**, **above-average** through-cycle returns rather than "big bets"
- Have a **robust** plan under multiple market outcomes

*** This quadrant allows for more effective management of operations**

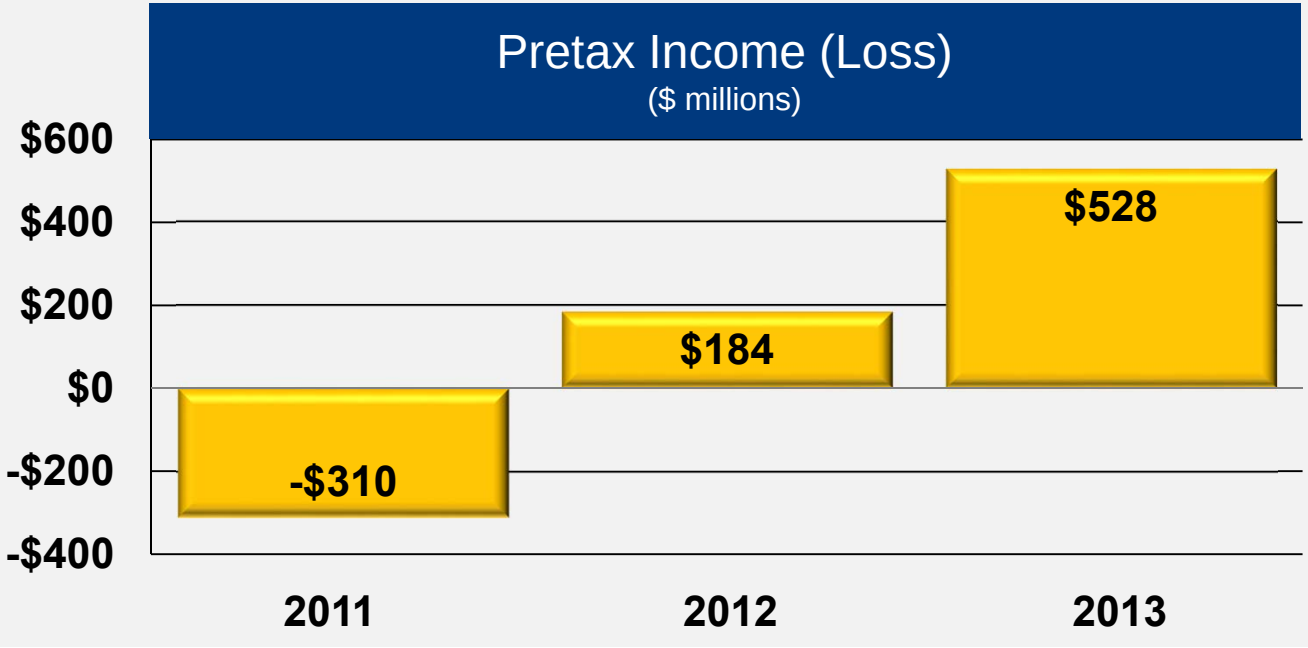
Operational Improvement

- In late 2010, PulteGroup introduced Value Creation (VC)
  - ✓ Long-term shareholder value to be primary metric for measuring success
- Goal of VC: deliver better ROIC in any housing environment and deliver top quartile TSR over time
  - ✓ Drive continuous improvement in margin, SG&A leverage, and asset turns
  - ✓ Capture greater construction efficiencies
  - ✓ Invest in markets where we can have strong relative market share
  - ✓ Leverage customer intimacy by providing clear value in our product offering and through effective pricing strategies
  - ✓ Deploy capital to those opportunities that can drive superior shareholder returns

Distinct Changes to PulteGroup's Operating Model

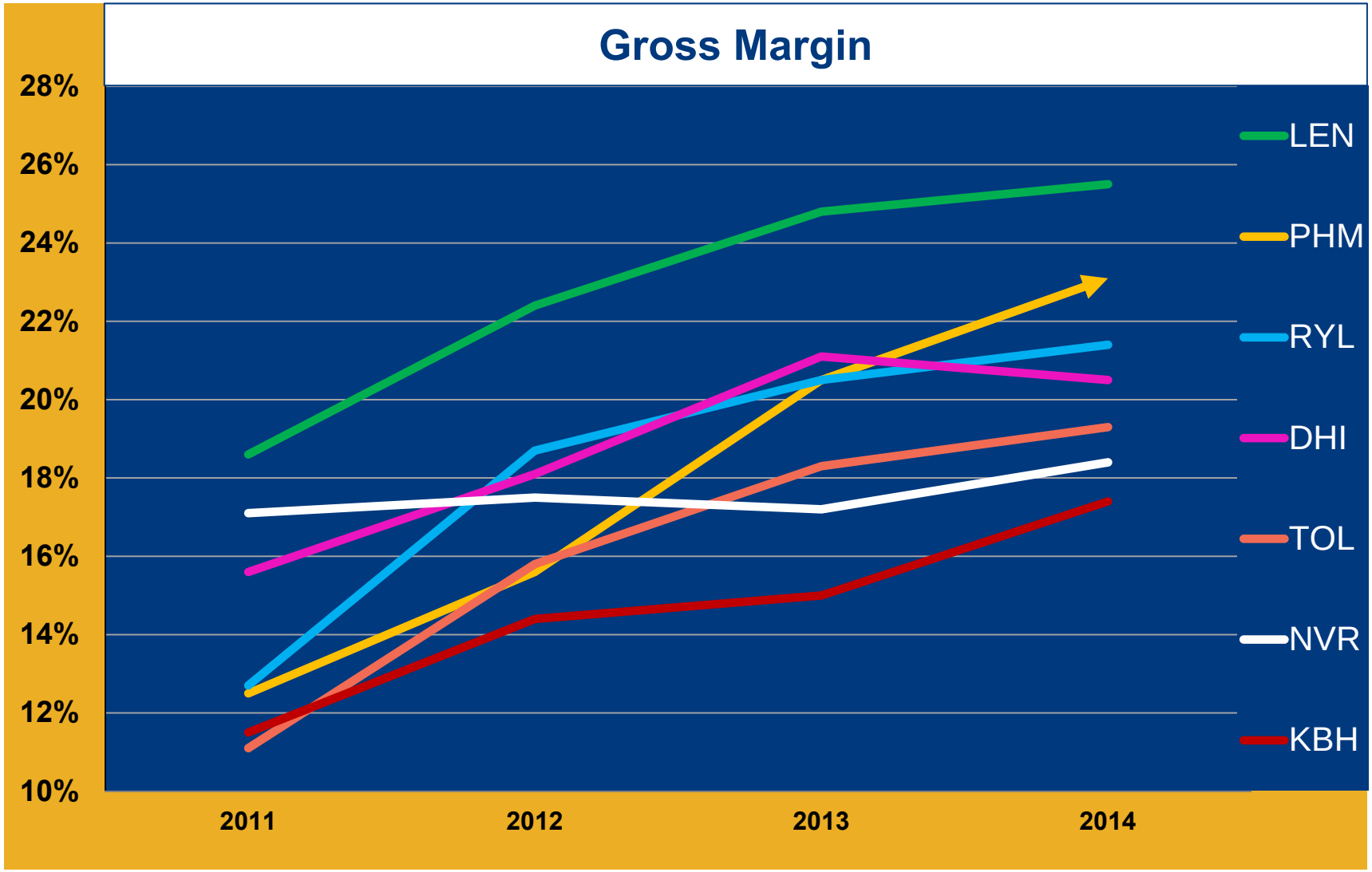
	Pre 2011: "Opinion - Based" View	2011 Forward: "Fact - Based" View
Primary objective	Maximize profitability and growth	Maximize total shareholder returns
Company focus	Land first, homebuilding second	Homebuilding is our primary business, supported by outstanding land positions
Land ownership	Typically land heavy	Agnostic, as long as we are managing risk & reaching asset productivity targets
Market participation	Geographic breadth, participating in high number of markets	Focus on increasing local market share; exit markets with no clear path to market leadership
Capital management	Areas/divisions drive capital deployment agenda	Corporate evaluates enterprise-wide portfolio and prioritizes investments for highest returns
Floor plan management	Each division manages plans independently; limited sharing	Commonly managed plans designed with consumer research and to maximize efficiency
Metrics	Emphasis on pace	Return focused: maximize opportunity given pace, margins and asset turns
Benchmarks	Internal	Balance of internal and external (peers)
Incentives	Focused on annual returns; cash based	Align with shareholders: ROIC and TSR

Which Drove Sharply Increased Profitability on Modest Volume Growth

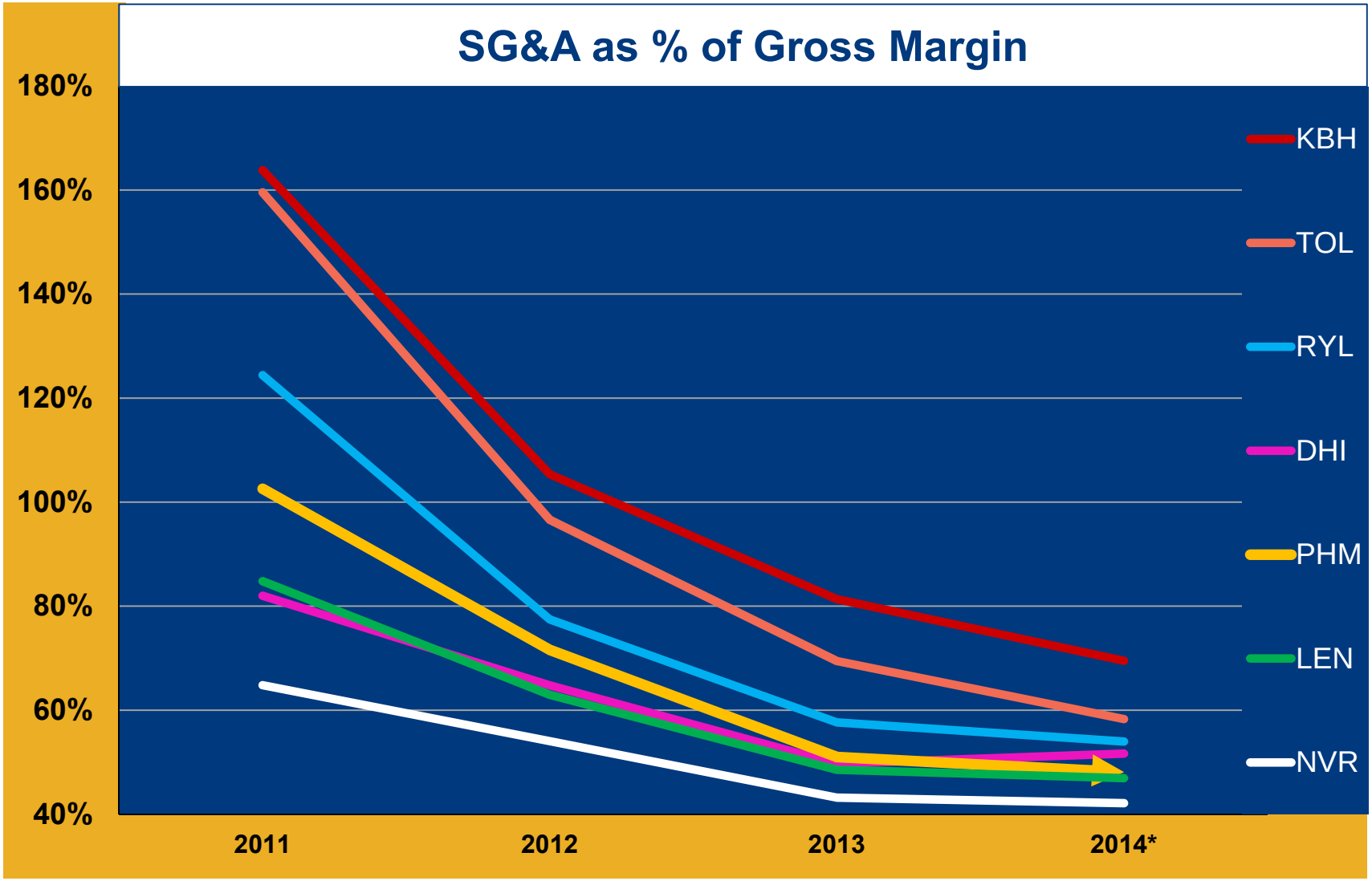


	2011	2012	2013	3 Year Change
Closings	15,275	16,505	17,766	16%
Gross Margin	12.8%	15.8%	20.5%	**Up 60%**
SG&A % of Gross Margin	102.6%	71.6%	51.0%	**Cut 52%**
Turns	0.65x	0.78x	0.97x	**Up 49%**

By Dramatically Improving Gross Margin

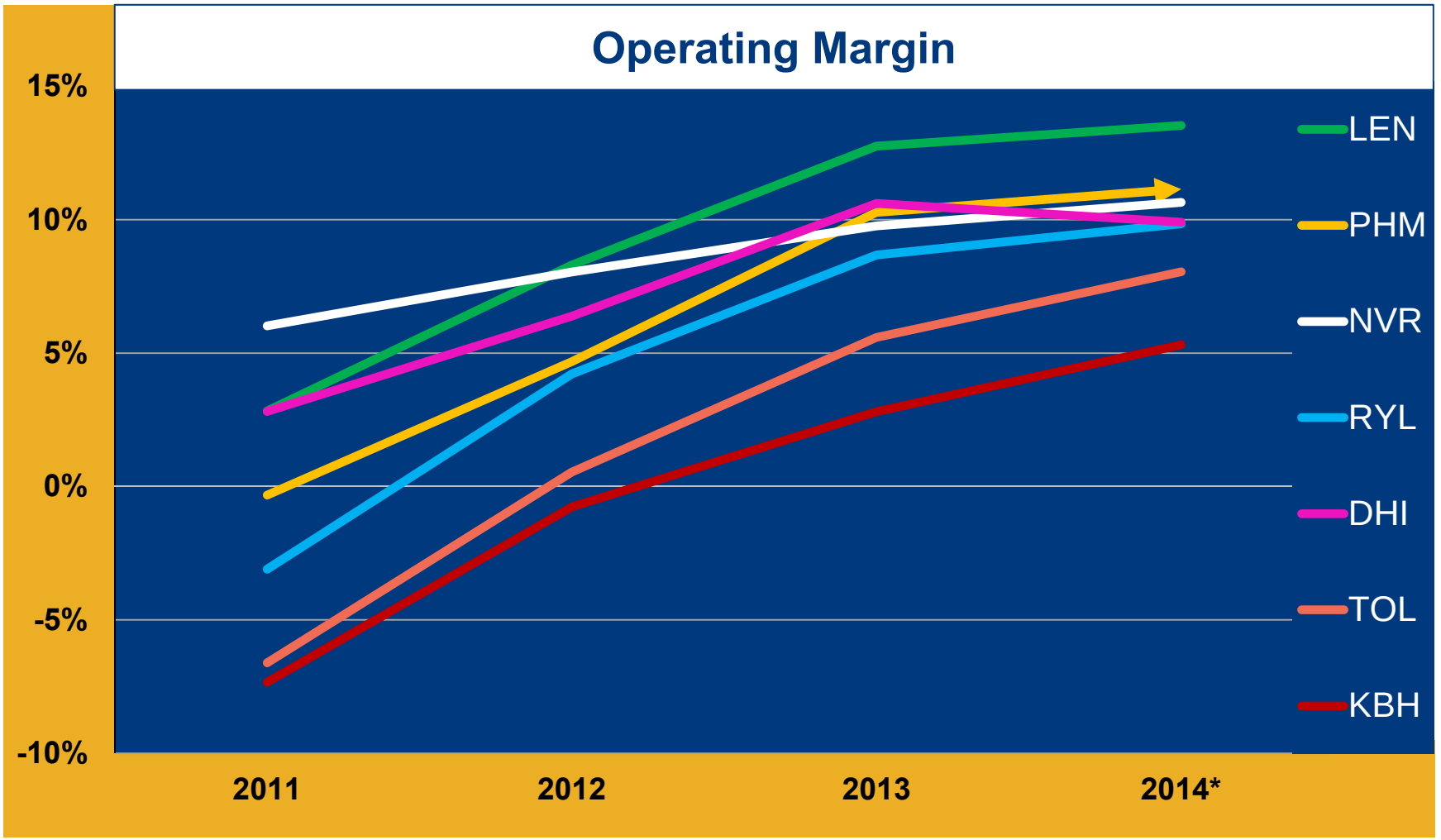


And Gaining Significant Overhead Leverage



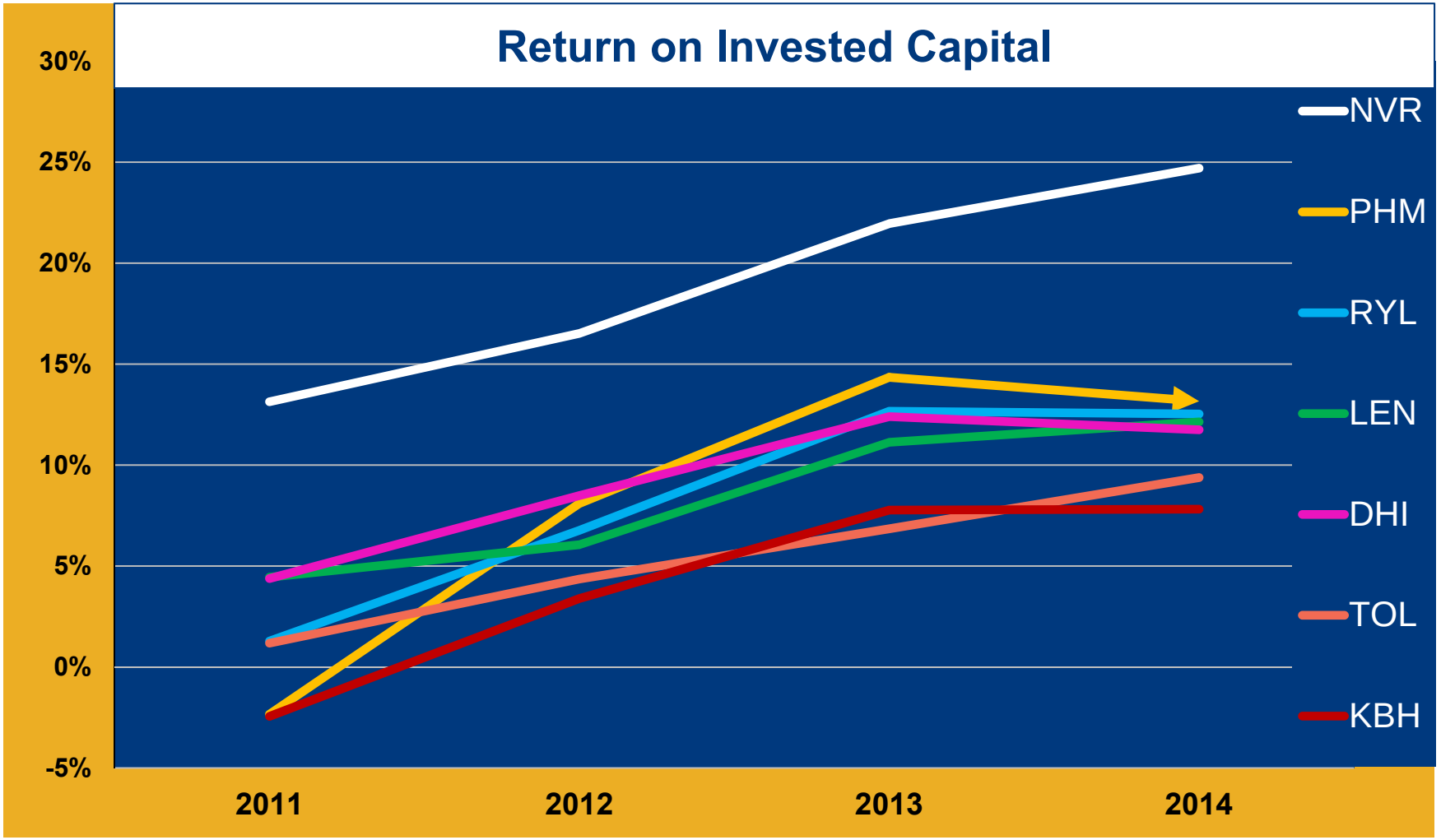
* 2014 excludes $84M insurance reserves charge

Which Have Driven Operating Margins Higher



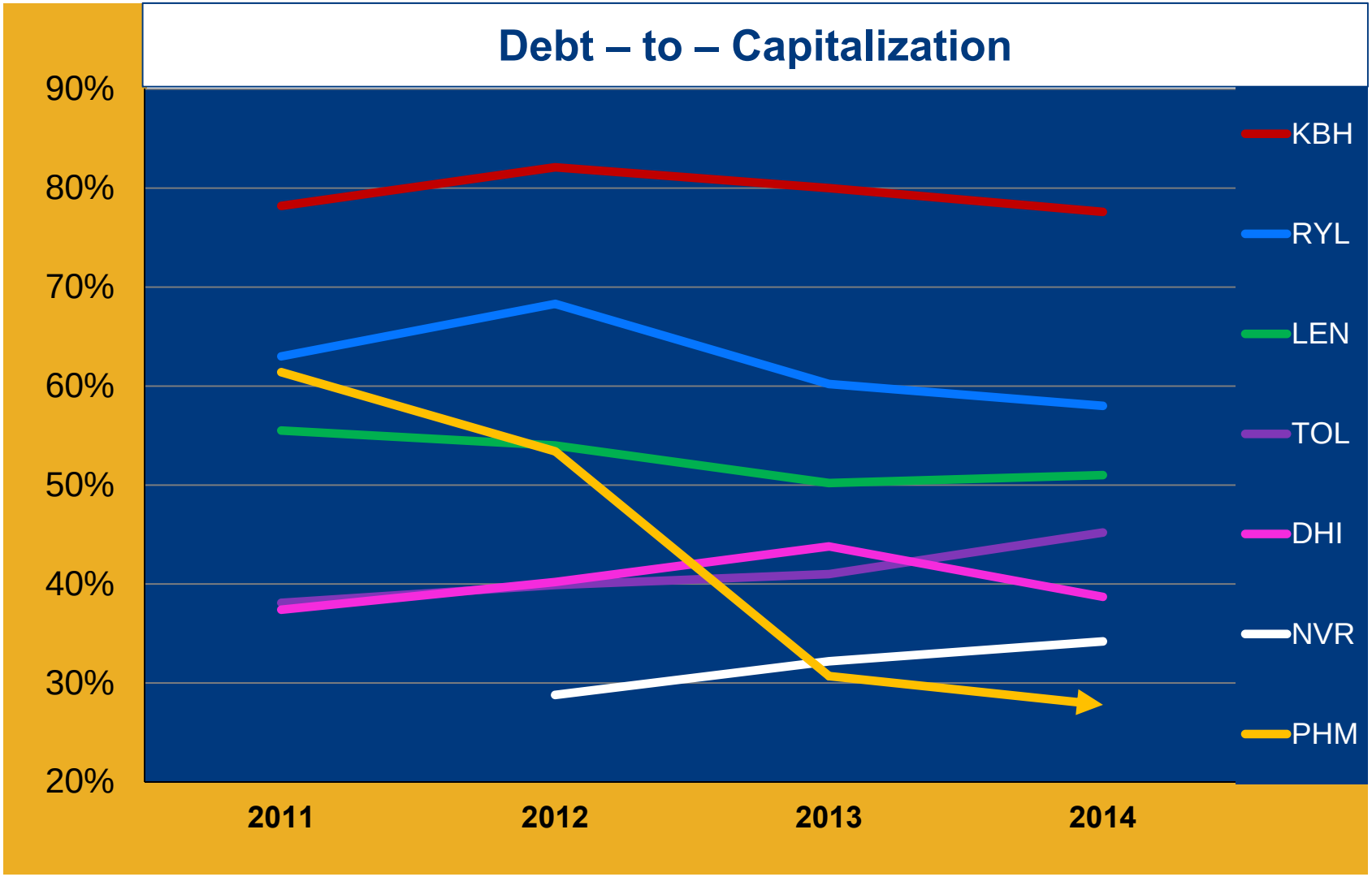
* 2014 excludes $84M insurance reserves charge.
Operating margin calculated as gross margin less SG&A

And Helped Increase Returns Above our Cost of Capital

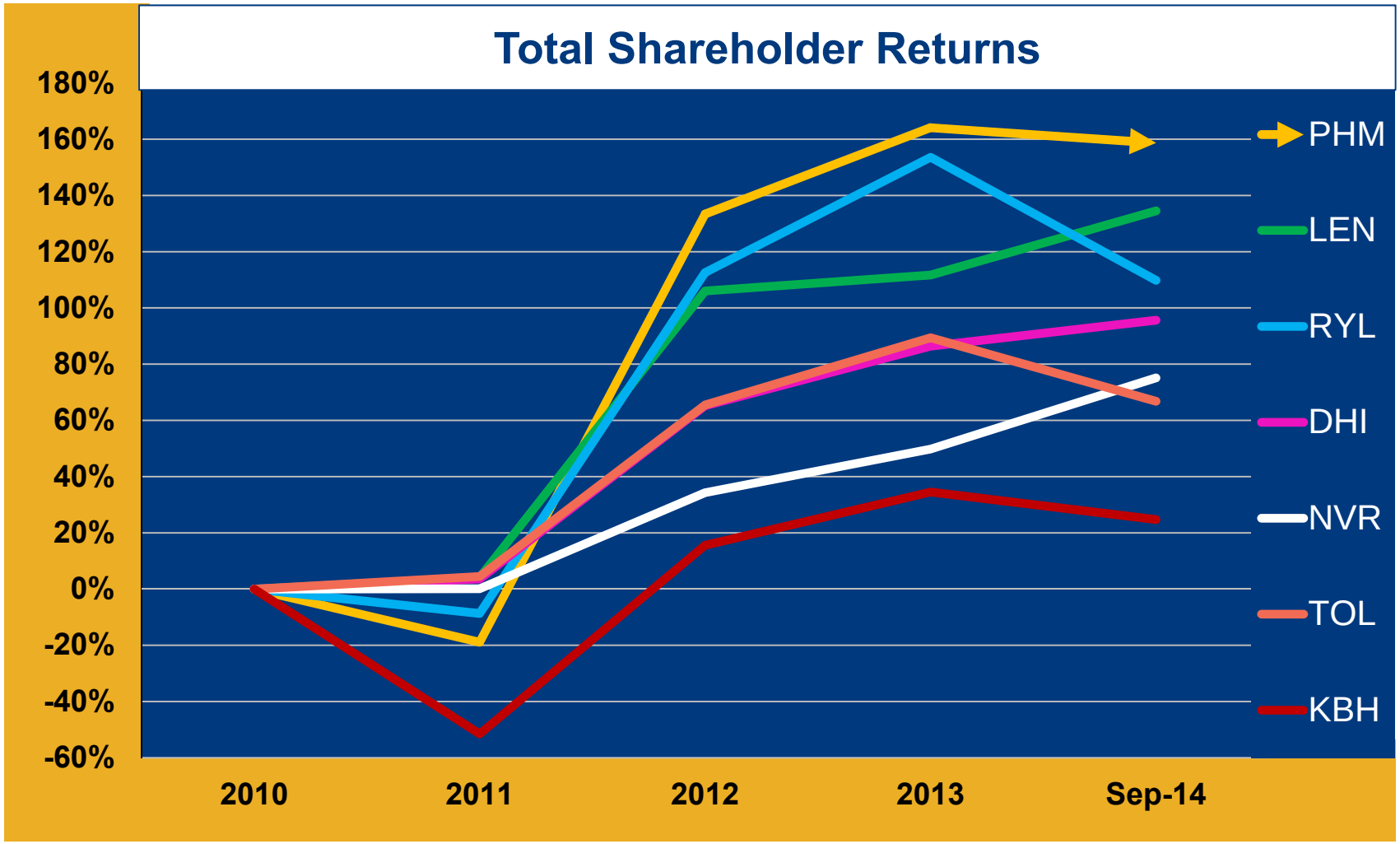


ROIC calculation: LTM EBIT divided by Average Debt and Equity (5 Quarter Average)

While Building a Strong Financial Base



And Achieving Our Goal of Higher Shareholder Returns



In Summary, Our New Approach is Delivering Results

Metric	Industry Rank Out of 7 Competitors	
	2010	Sept 2014 (TTM)
GM	6	2
SG&A %	7	3
Operating Margin	6	2
Debt-to-Cap	6	1
ROIC	7	2

Industry Peers: Pulte, DR Horton, KB Home, Lennar, NVR, Ryland and Toll Brothers

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Bob O’Shaughnessy
Executive Vice President & Chief Financial Officer

Capital Discipline – Supporting Value Creation

Attacking the Balance Sheet: Instilling Capital Focus and Discipline

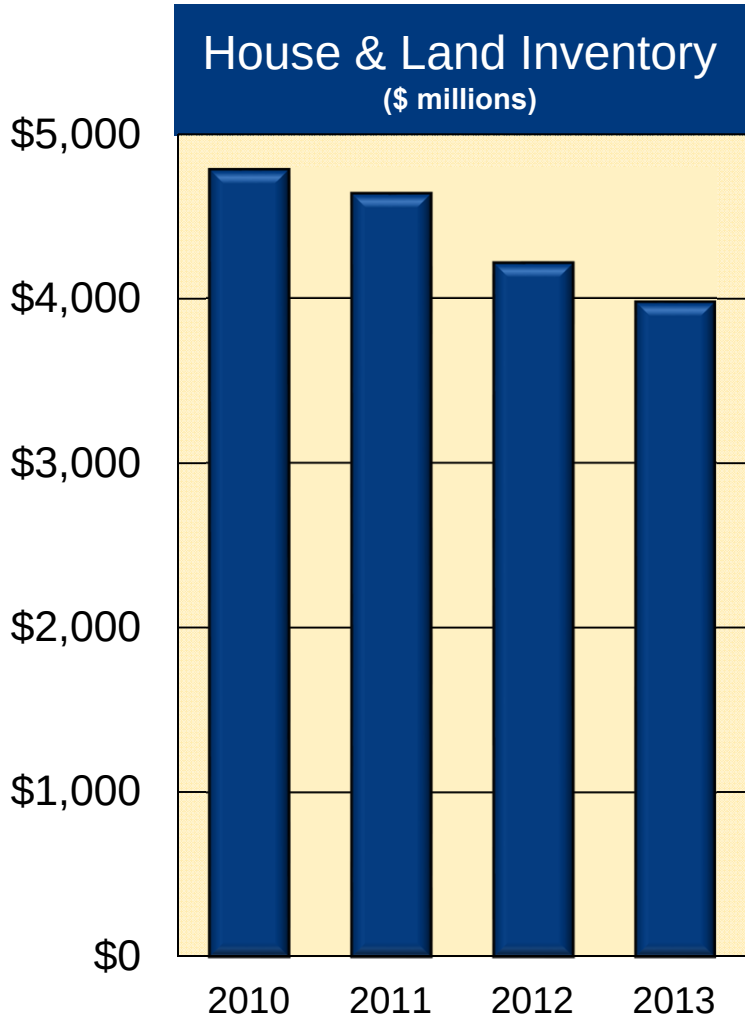
- Keys to systematically driving higher ROIC based on 20 years of data:
  - ✓Efficient management of house and land inventory (keeps denominator small)
    - Enhance capital deployment (land capital focused on high return projects)
    - Move toward build-to-order model and drastically reduced spec inventory

Attacking the Balance Sheet: Instilling Capital Focus and Discipline – cont'd

- Initial areas of focus
  - ✓ Evaluate current inventory position
    - Liquidate non-core land
    - Enhance land turns
  - ✓ Move away from spec-build model
    - Enhance house turns
  - ✓ Implement new processes for future investment
    - Better assessments of project opportunities and risks
  - ✓ Reduce balance sheet leverage – pay down debt

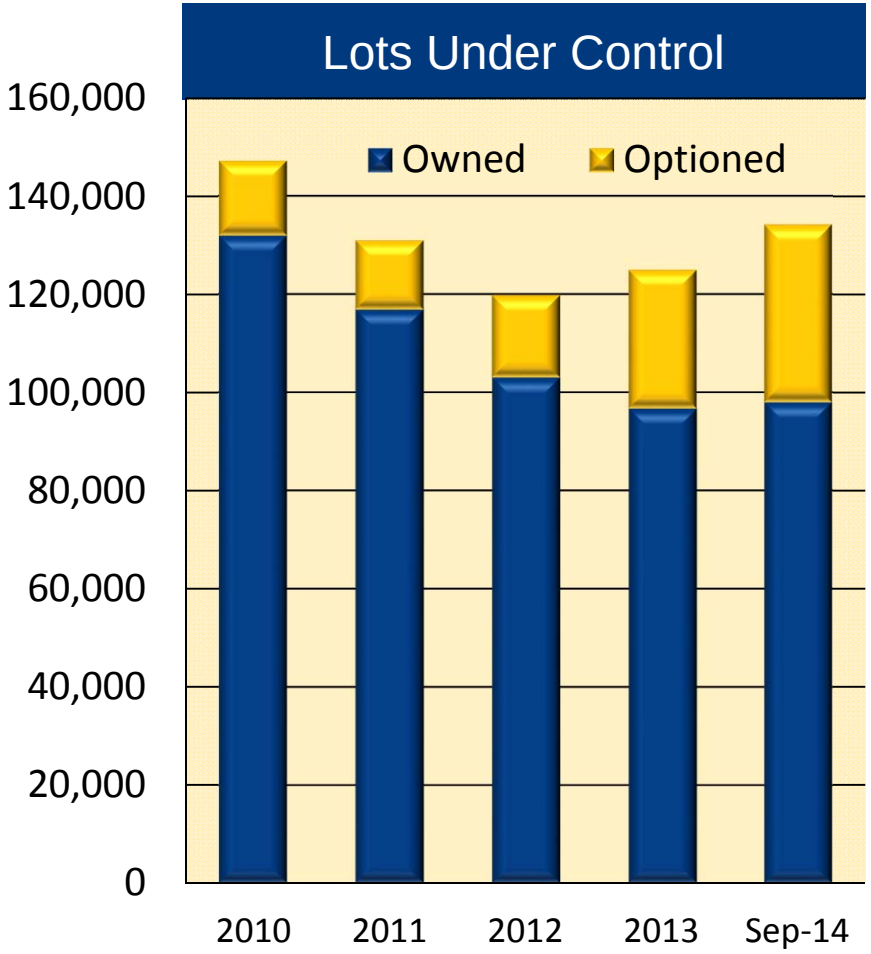
Attacking the Balance Sheet: Instilling Capital Focus and Discipline

- Restrict new land investment
  - ✓ Force focus on optimizing operating performance
  - ✓ Divisions prioritize and aggressively pursue the “best” deals
- Reduce house investment and spec inventory
  - ✓ Released $289 million off the balance sheet
  - ✓ Limited spec inventory also helps to:
    - Improve selling position and margins
    - Lower overhead costs
    - Reduce risk; no self-inflicted pressure to move units

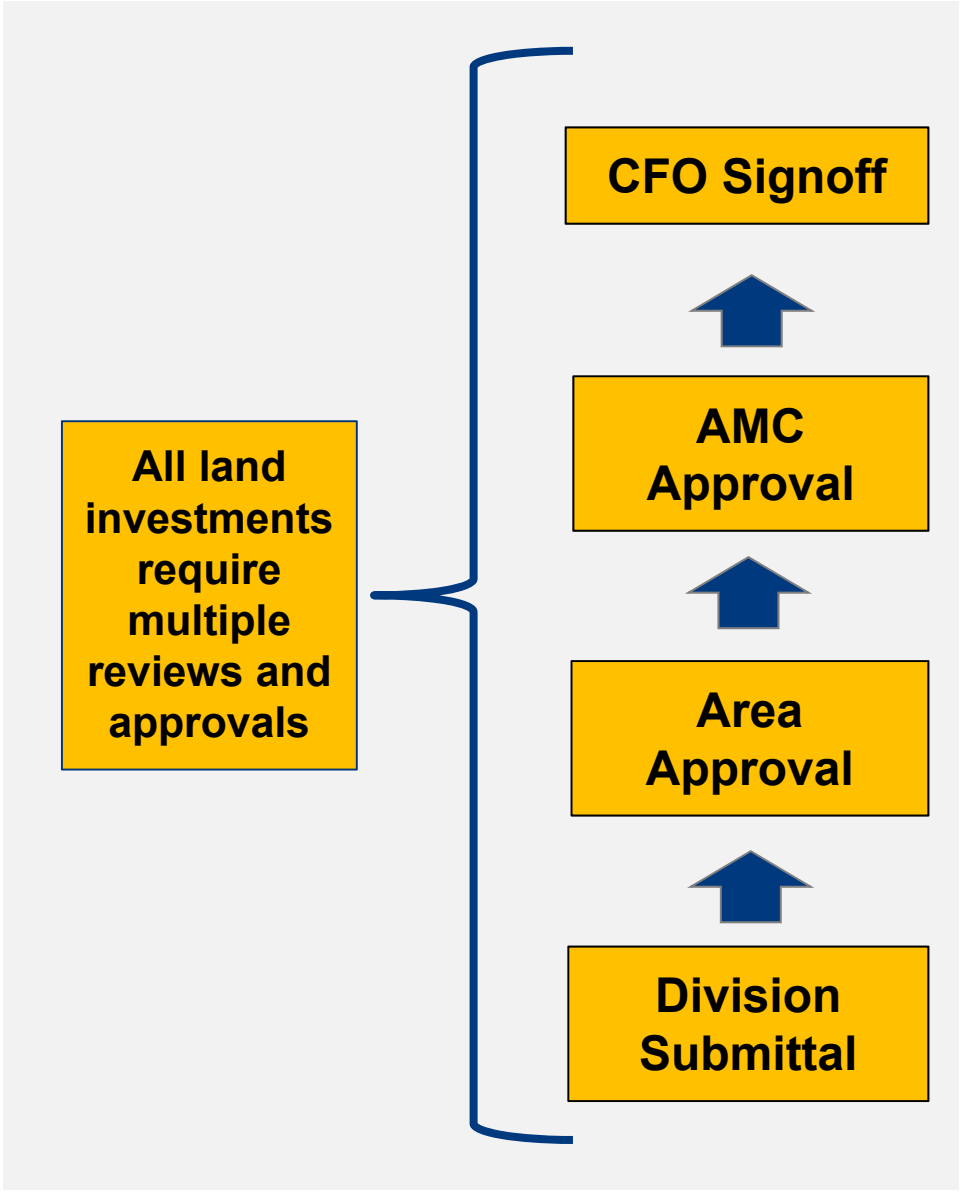


Attacking the Balance Sheet: Instilling Capital Focus and Discipline

- Challenge existing land inventory
  - ✓ Comprehensive assessment of every lot position
    - Keep the best positions; sell the assets we would never build or were many years out
    - Sold $259 million of land assets over the following 3 years; certain positions held for sale until after August 2014 to optimize tax position



How We Invest in Land Today



- In 2011, introduced risk-weighted criteria on new investment
  - ✓ Replaced flat 21% hurdle rate with formal 13-point risk / return weighting on new projects
  - ✓ Focus investment in markets where PulteGroup has strong relative market share
  - ✓ Focus on faster turns and control rather than ownership
  - ✓ Seek to expand use of options to enhance returns while lowering risk

How Do We Evaluate Land Transactions

- Project Feasibility Report
  - ✓ Comprehensive review and analysis completed for every transaction
    1. Project overview
    2. Financial Summary including risk scoring
    3. Market and submarket analysis
    4. Marketing assessment and financial reviews
    5. House costs and pricing
    6. Sales production and closing schedules
    7. Land analysis including entitlement and development timelines
    8. Contract structure
    9. Soils and environment

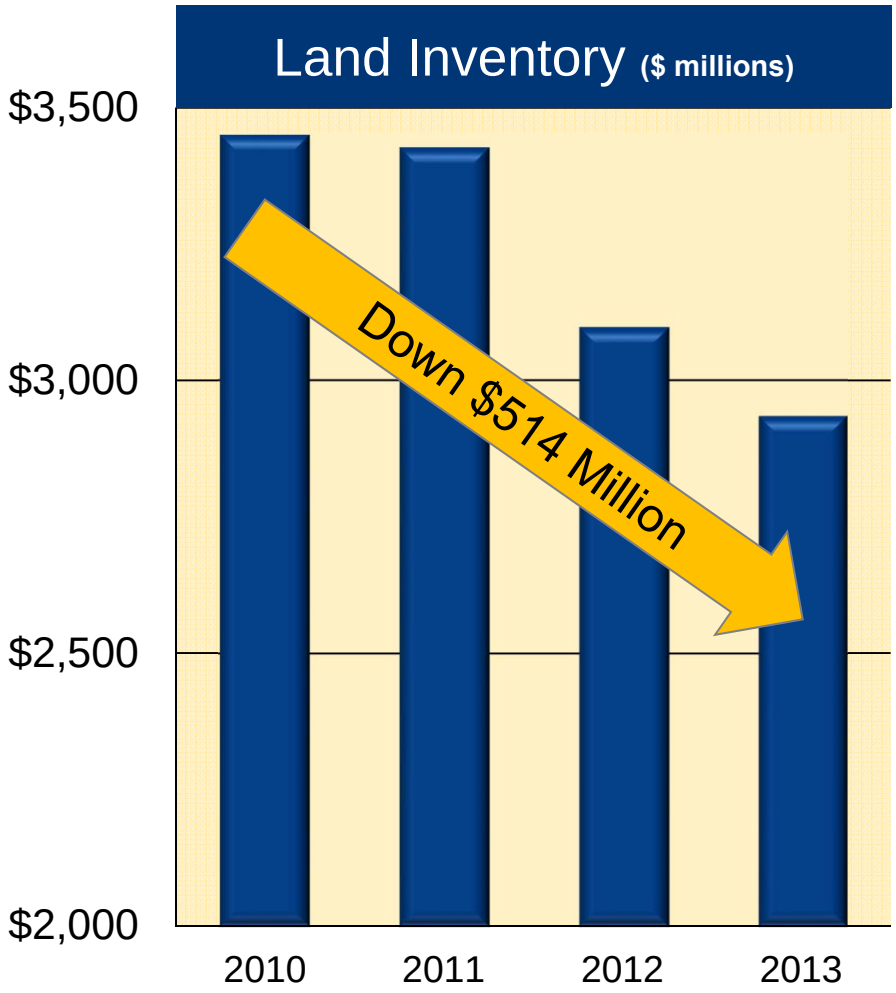
- Feasibility report completed for every project
- Asset Management Committee reviews every transaction to validate assumptions, stress test financials and identify opportunities to enhance project returns and/or reduce risks

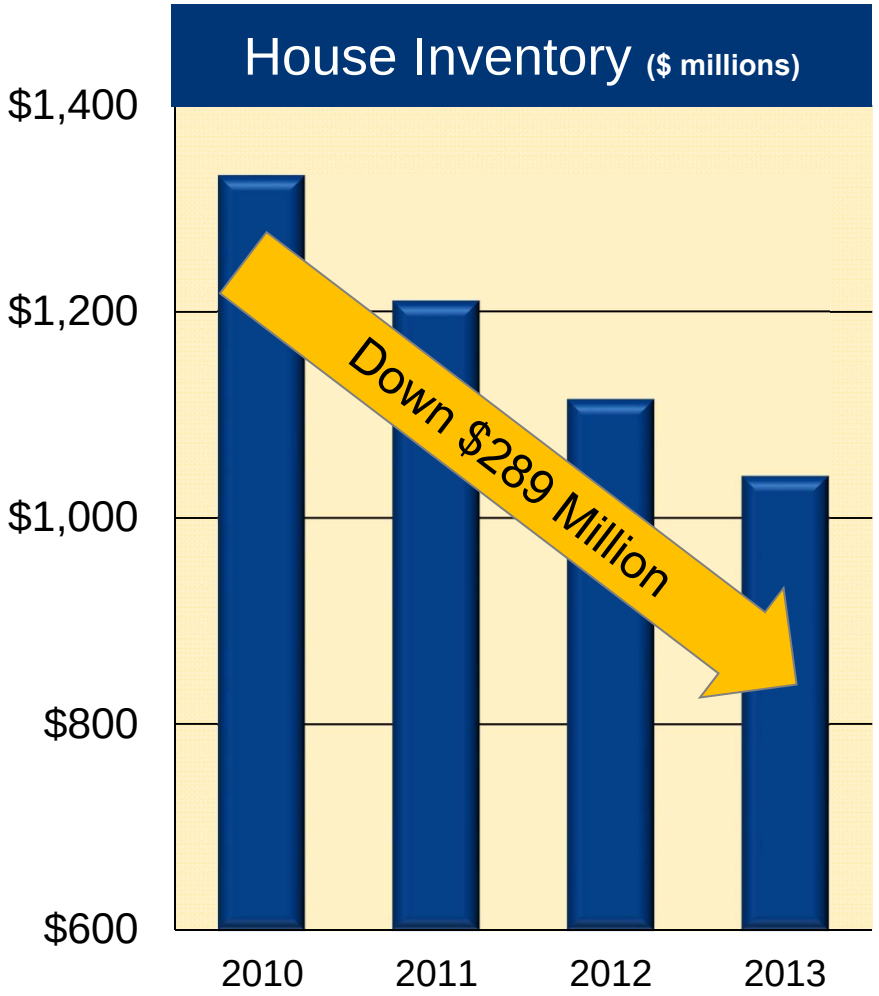
What Are the Risks We Assess?

IRR Threshold	18%	18%	18%	18%	18%	19%	19%	20%	20%	21%	21%	22%	22%	23%	24%	25%	26%	27%	28%	29%	30%
Score	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33

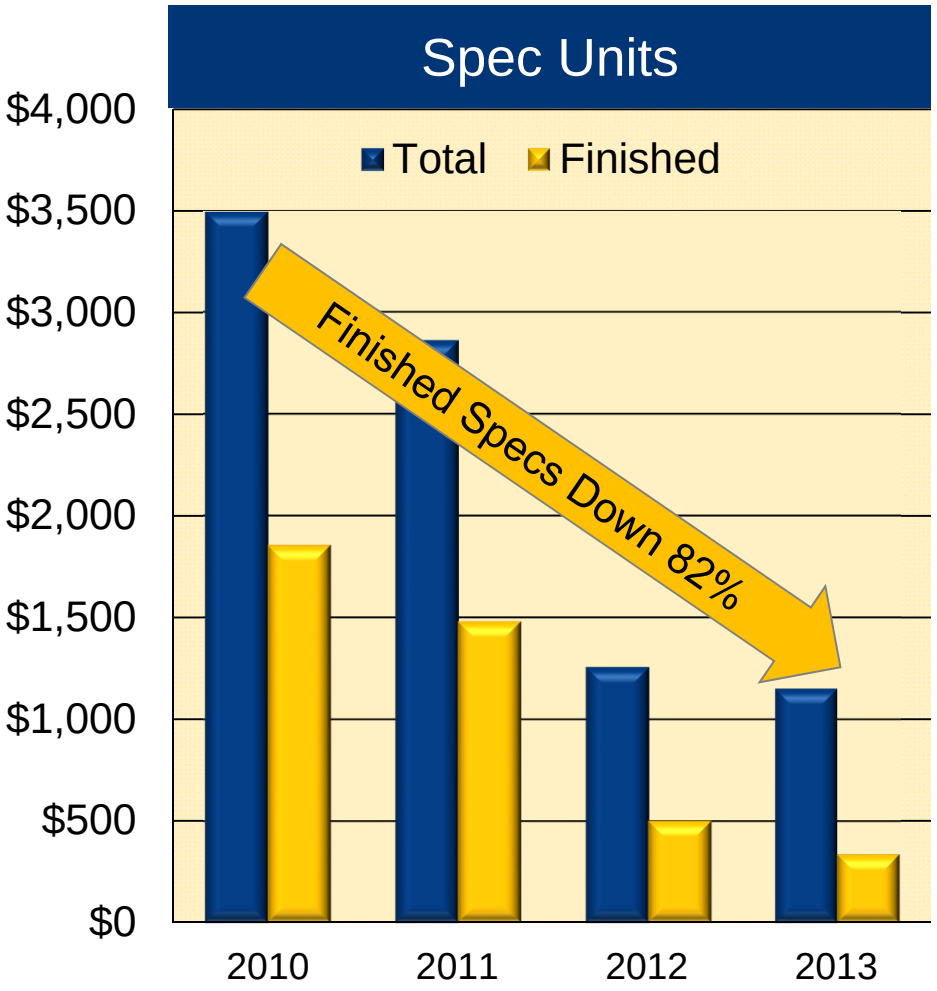
- Four major categories to determine risk profile
  1. Strategic Marketing
     - ✓ Location, marketability, supply & demand
  2. Execution Risk
     - ✓ Entitlement, development, product, recent performance
  3. Deal structure
     - ✓ Takedown structure, years supply, exit costs
  4. Operational metrics
     - ✓ Pace, price and sensitivity
- Process provides common language for assessing projects across operations

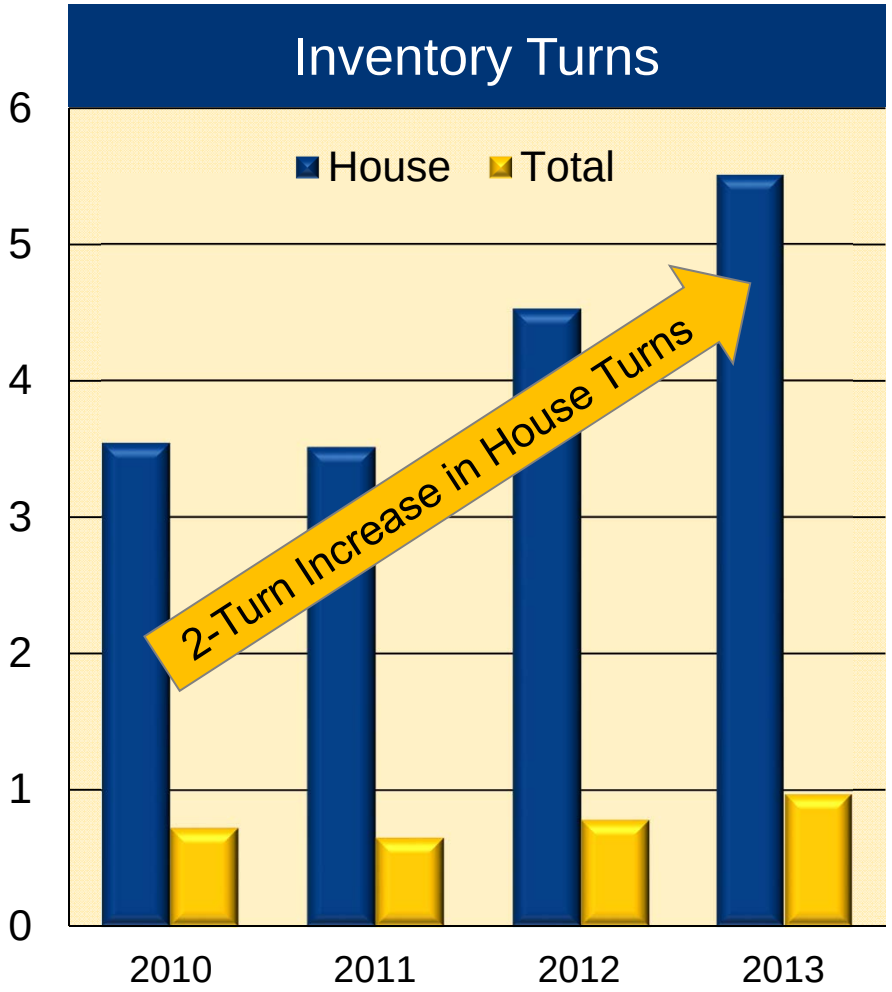
Leading to Improvements in Balance Sheet Metrics…





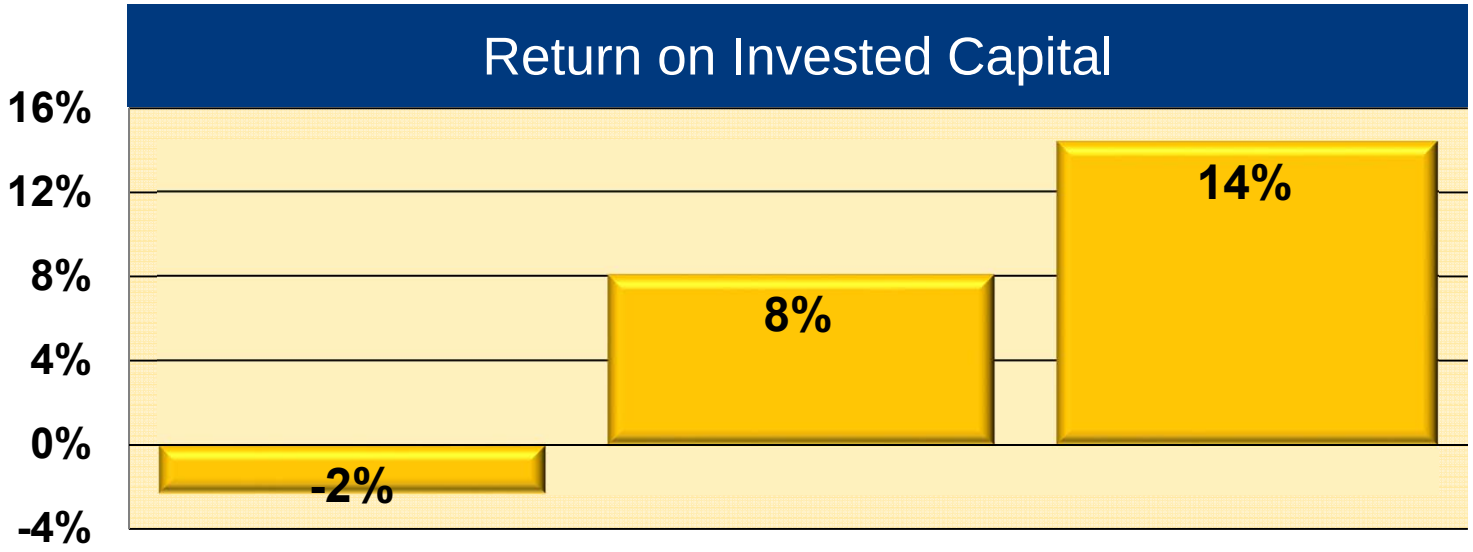
And Gains in Key Business Ratios…





Note: Inventory turns calculated as COGS over average house and land inventories

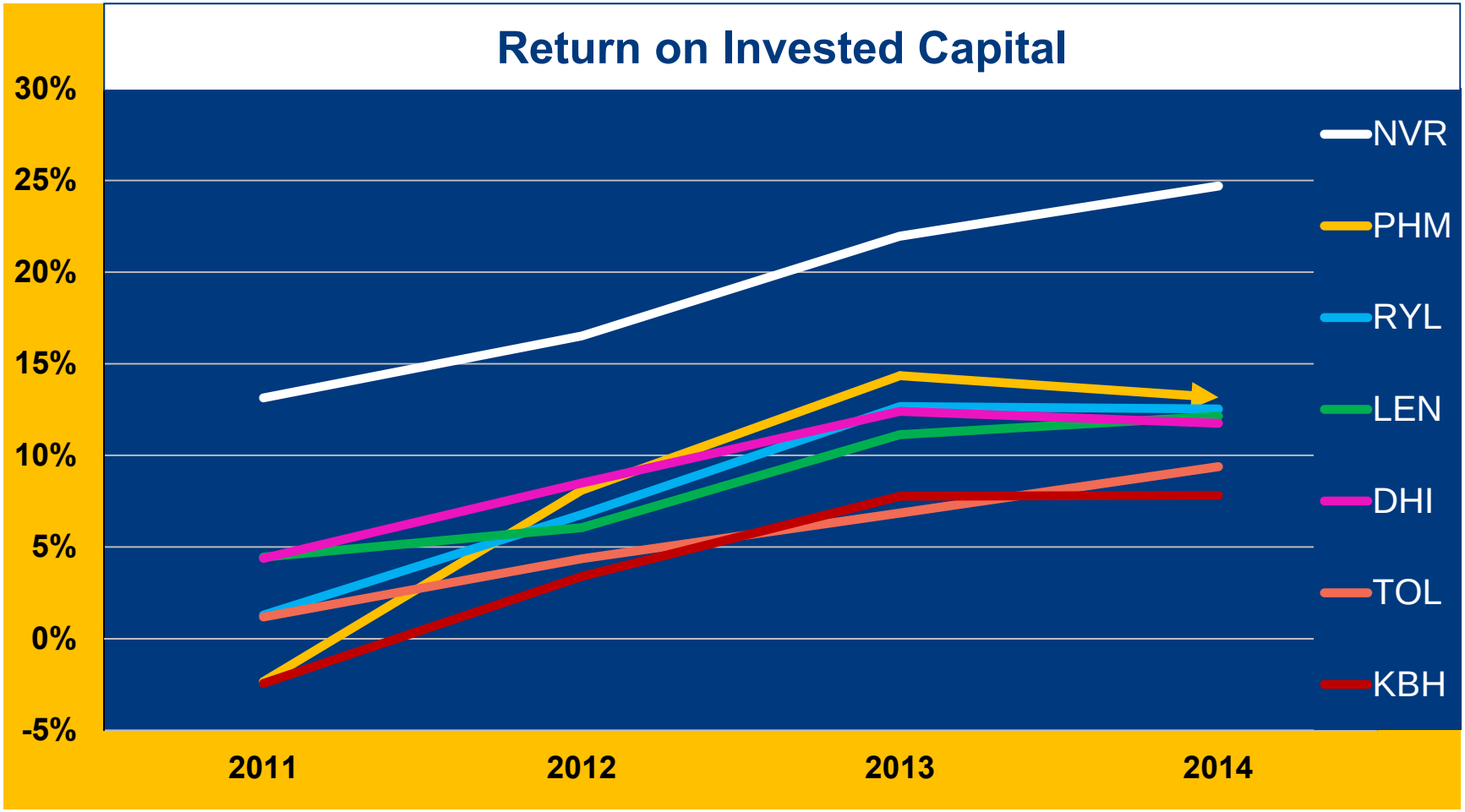
…Which Are Driving Significant Improvement in Capital Efficiency & ROIC



	2011	2012	2013	3 Year Change
Invested Capital	**$5.3 billion**	**$5.0 billion**	**$5.4 billion**	**2%**
ROIC	**-2.3%**	**8.1%**	**14.4%**	**1,670 bpts**
Closings	15,275	16,505	17,766	16%
Gross Margin	12.8%	15.8%	20.5%	Up 60%
SG&A % of Gross Margin	102.6%	70.0%	49.9%	Cut 51%
Turns	0.65x	0.78x	0.97x	Up 49%

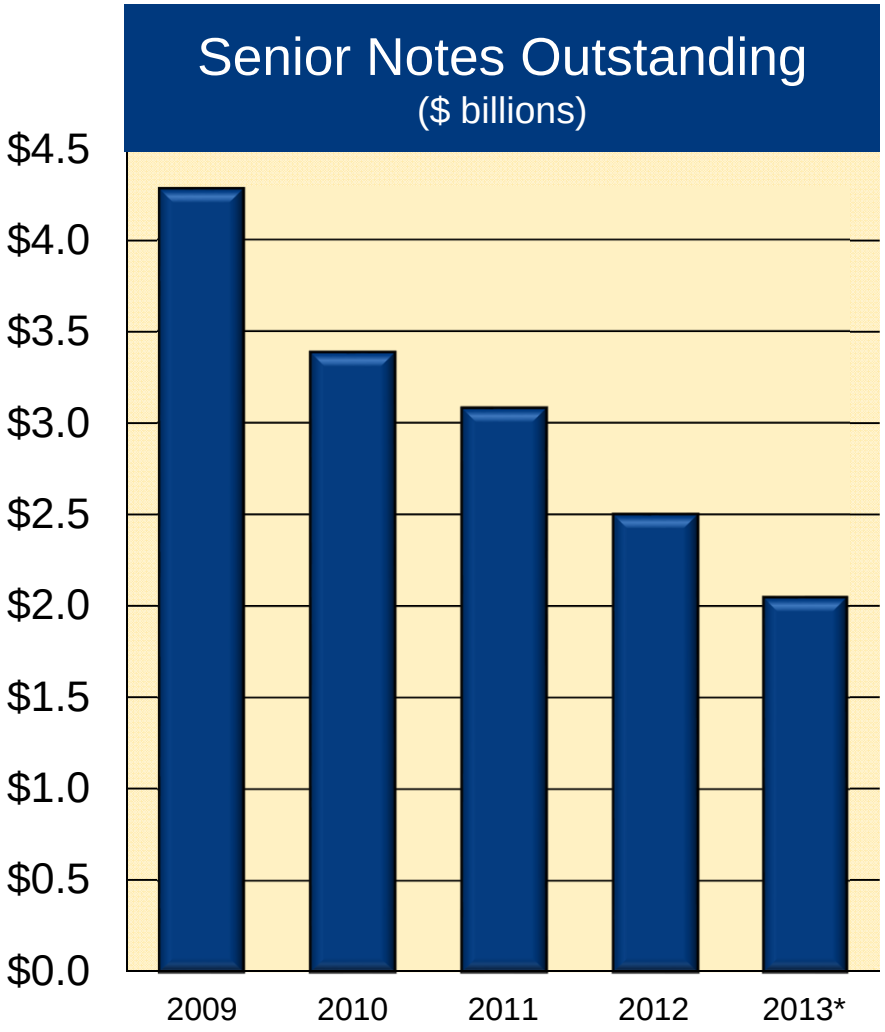
Note: invested capital is a 5 quarter average of debt and equity

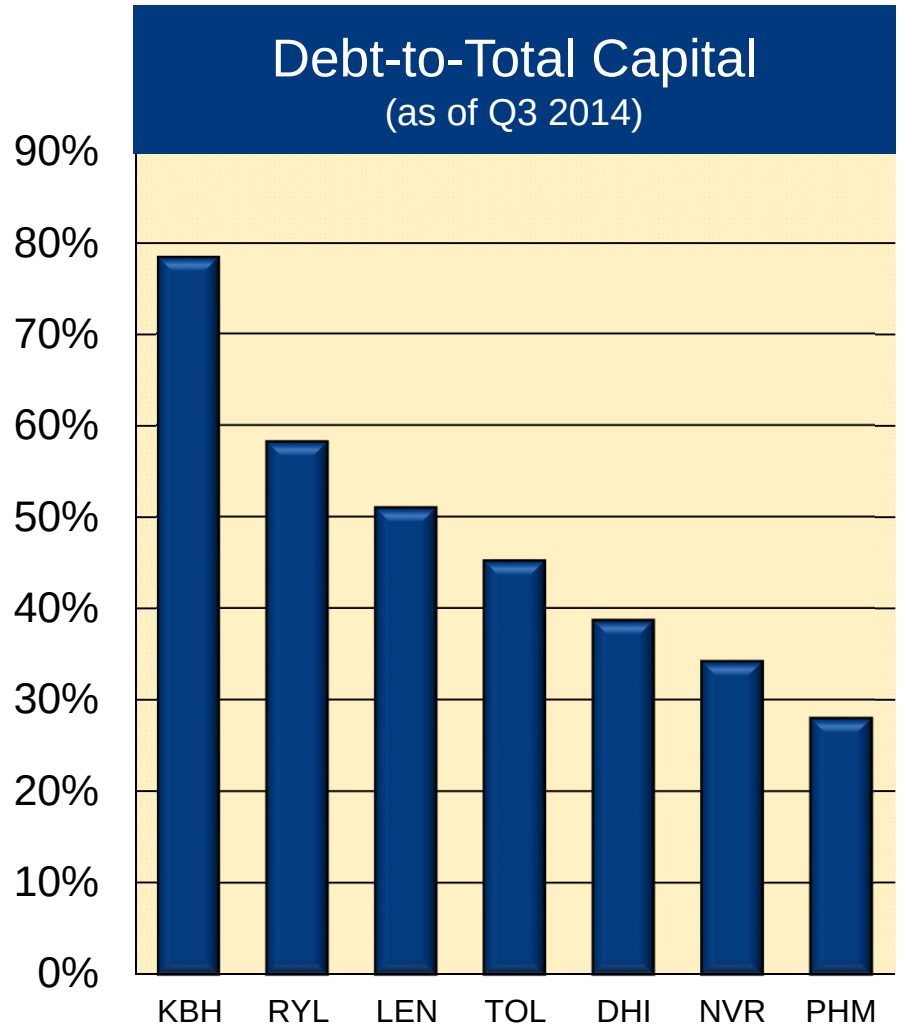
…And Improving Relative Performance



ROIC calculation: LTM EBIT divided by Average Debt and Equity (5 Quarter Average)

Improved Operating Performance Has Also Translated into Financial Strength and Flexibility





* Includes $1.0 billion due June 2032 and beyond

Capital Discipline

- Implementation of Value Creation has fundamentally altered the Company's direction and results
  - ✓ Driven greater discipline and efficiency into our operations
  - ✓ Elevated key performance metrics
  - ✓ Created financial strength and flexibility
  - ✓ Reduced risk within the business model
  - ✓ Allows for greater confidence to invest in the business
  - ✓ Allows us to increase dollars returned to shareholders
  - ✓ Helping us achieve our ultimate goal of increased total returns to our shareholders

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• Mortgage Update	D. Still
• Field Operations: Aligned with Our Vision	H. Smith
• Financial Policy to Match Operating Philosophy	B. O'Shaughnessy
• Summary / Closing Comments	R. Dugas

PulteGroup®





Ryan Marshall
Executive Vice President
Homebuilding Operations

Extending the Gains of Value Creation

Opportunities to Extend Value Creation Gains



Homebuilding Operations

Our business is straight forward:

- Buy and develop land
- Design product
- Price, sell, and build homes
- Service the home

PulteGroup's Value Creation Journey

YESTERDAY	TODAY	FUTURE
Below Average TSR	Above Average TSR	Superior TSR
Modest capital discipline	Better capital discipline	Excellent capital discipline
Average performance	Improved performance	Outstanding performance
Undifferentiated vs. competitors	Pulling even with or ahead of competitors	Outpacing Competitors

Attacking the Income Statement by Building Processes, Technology and Capabilities



Initiatives have improved results, but opportunities remain to build an even higher performing, repeatable operating system

Attacking the Income Statement: Sales



- Strategic Pricing Tools
- Digital Selling Tools
- Centralized New Hire Training
- Sales Recognition

Attacking the Income Statement: Sales

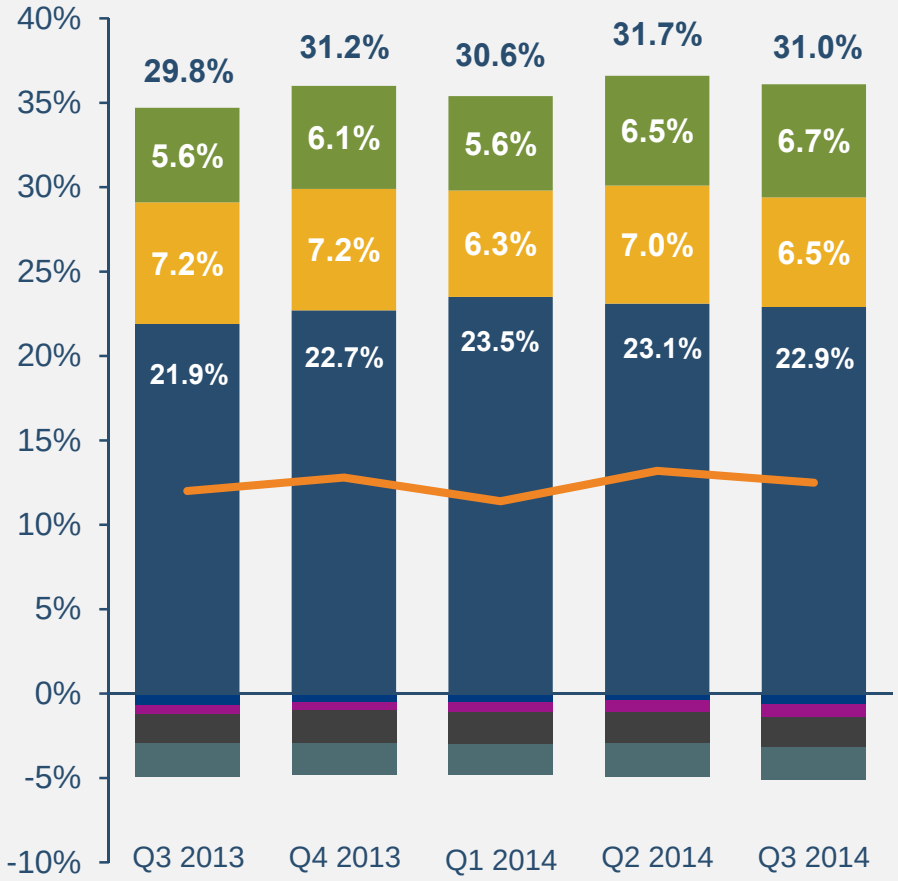
Extending Strategic Pricing Opportunities

- **Shifted pricing approach**
  - ✓ Great base house with an offering of more options/upgrades
  - ✓ Greater choice to consumers and greater margin opportunity for Pulte
  - ✓ Increased margin and more balanced pace selling premium home sites
- **Better data analytics**
  - ✓ Optimize option choices and pricing
  - ✓ Better cross-market analysis and sharing
  - ✓ Fine tuning all the price dials:
    - Base house
    - Lot premiums and options
    - Incentives and discounts
    - Commissions

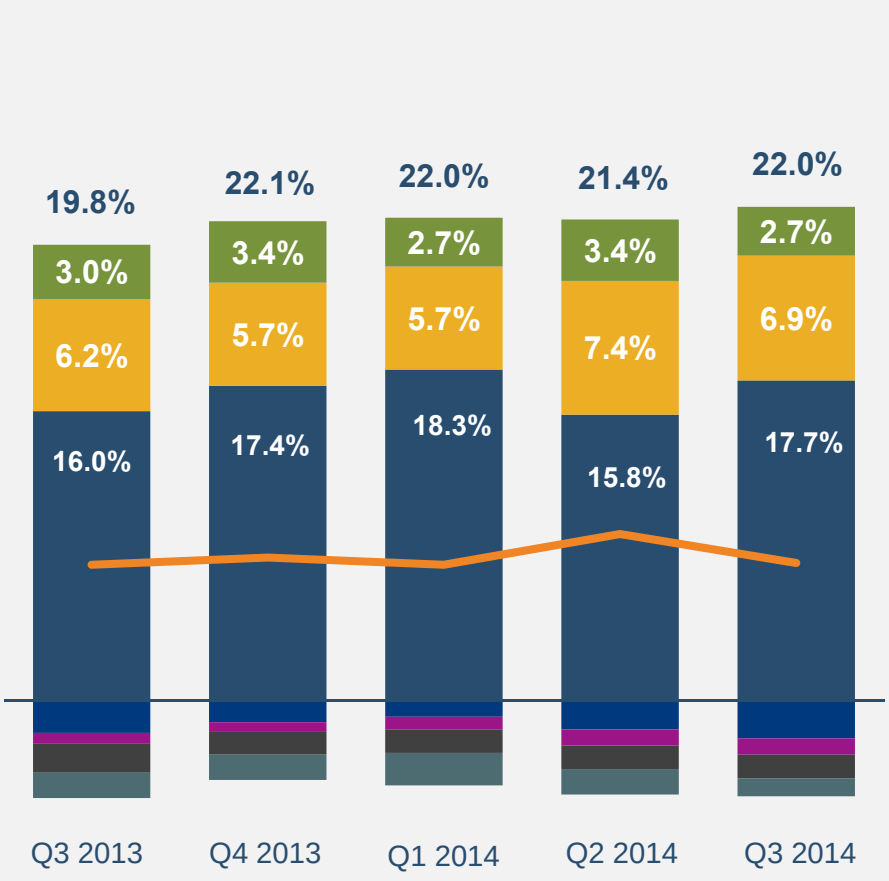
Revenue Breakdown	2010	Thru 9/30/2014
Base House	93.5%	83.6%
Options	10.9%	14.3%
Lot Premiums	2.2%	3.8%
Sales Discounts	(6.6%)	(1.7%)
Adjusted Gross Margins	13.5%	27.0%

Attacking Every Component of Margin

HIGH PERFORMING DIVISION



LOW PERFORMING DIVISION



Lot Premium
Options
Base House
Discounts
Closing Costs
In-House Commissions
Realtor Commissions
Extras %

PulteGroup

Attacking the Income Statement: Sales
Better Option Selling Tools

Roslyn-1 Light Mini-Pendant



74158
One Light Flemish Bronze Pendant

compare
Add to Wishlist
Add to Wishlist

Stirling-1 Light Mini-Pendant



74168
One Light Mini Pendant

compare
Add to Wishlist
Add to Wishlist

Somerton-1 Light Mini-Pendant



74163
Single Light Mini Pendant

compare
Add to Wishlist
Add to Wishlist

Oslo-2 Light Ceiling Pendant



74144
Two Light Semi-Flush Convertible in Chrome Finish with Etched Opal White Glass

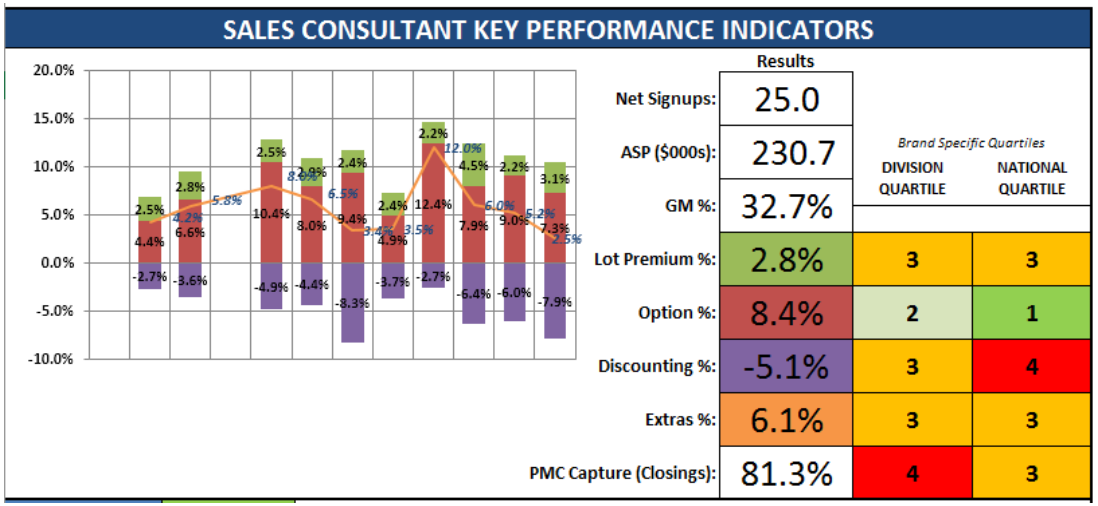
compare
Add to Wishlist
Add to Wishlist

- Tool allows consumers to efficiently select and price hundreds of options
- Helps increase option sales while decreasing field construction issues
- Arizona pilot confirmed additional revenue and margin opportunities

Using Data Analytics to Optimize Performance

Sales Consultant Coaching Tool (SC KPI)

Consumer Experience Measures and Quantitative Business Results enable performance management.



SALES LEADERBOARD

YTD RESULTS THRU 9.30.2014

PRES. CLUB		SALES PROFESSIONAL		YTD SIGNUPS				CONSUMER CPRE SURVEY							
RANK	POINTS	NAME	DIVISION	GOAL	ACT	%	Points	C	Points	P	Points	R	Points	E	Points
1	372.5		Michigan	26	37.00	142.3%	142.3	4.62	23.1	4.61	23.1	4.64	23.2	4.22	21.1
2	370.5		Michigan	14	26.00	185.7%	150.0	4.47	22.3	4.69	23.4	4.28	21.4	4.47	22.4
3	368.0		South Florida	26	43.00	165.4%	150.0	4.43	22.2	4.69	23.4	4.02	20.1	3.87	19.3
4	366.2		Raleigh	13	21.50	165.4%	150.0	4.38	21.9	4.26	21.3	4.23	21.2	3.98	19.9
5	363.7		North Florida	15	28.99	197.7%	150.0	4.28	21.4	4.31	21.5	3.90	19.5	3.85	19.2

Sales Leaderboard

Recognizes our most productive and well-rounded Sales Consultants by measuring business results and consumer experience.

Attacking the Income Statement: Marketing

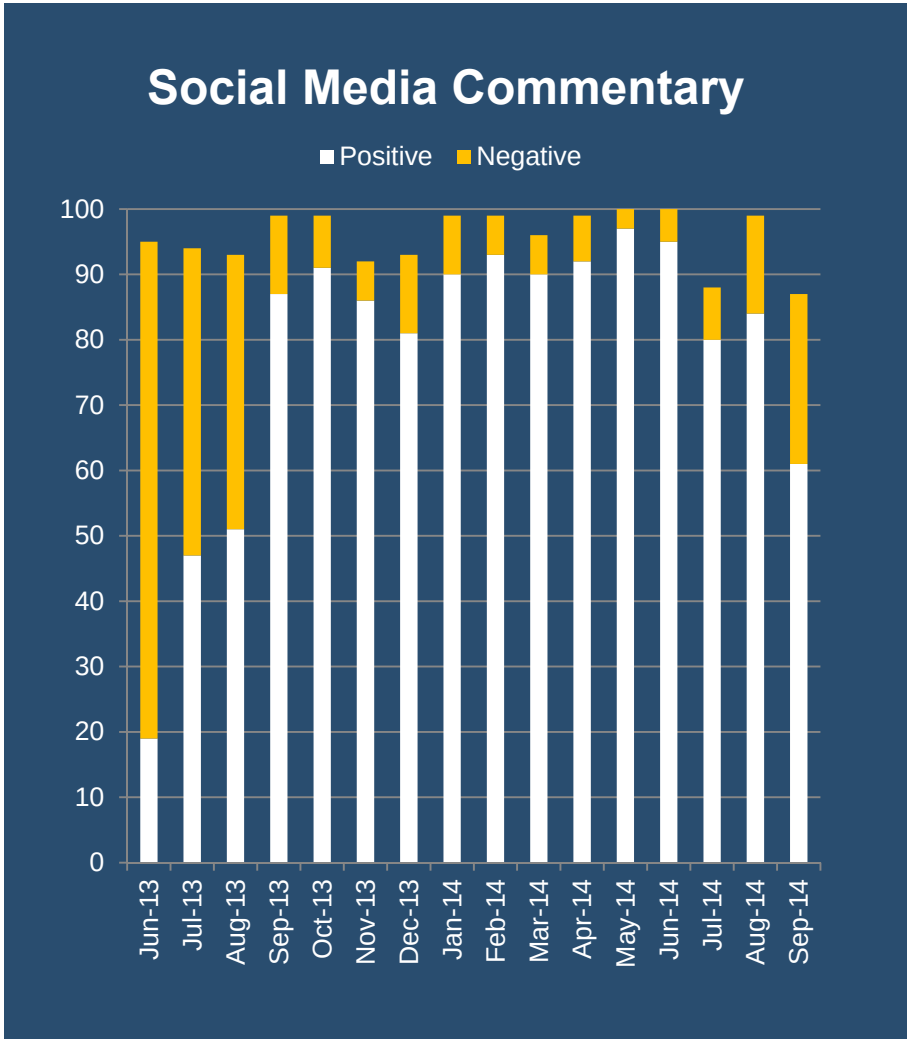


- Improved online presence
- Voice of the Consumer Scorecard
- Consumer Insight Process

Attacking the Income Statement: Marketing

Building a Better Internet Presence

- Over 43% of media budget allocated to online activities; up from 26% in 2010
- During the TTM, over 7 million visitors to our brand websites
- Ongoing website enhancements and consumer experience upgrades
  - ✓ Constant upgrades of visual content relating to the house, community, neighborhood
    - Over 4 million views of YouTube video series during TTM
  - ✓ Online concierge
  - ✓ Online resident feedback and ratings
  - ✓ Real time lot availability
  - ✓ Homeowner portal



Voice of the Consumer Scorecard



Current Measures + Additional Measures = Voice of Consumer Scorecard

Current Measures

- Product Development Validation
- Sales Experience Surveys
- Sales Mystery Shops
- CSMS Surveys
- Online Reputation Scores

Additional Measures

- New Consumer Experience Survey (replaces CSMS)
- Enhanced PMC / PGP Title Survey visibility
- Shopper Rejecter Surveys

Voice of Consumer Scorecard

- Will be the repository for all consumer feedback
- Will provide actionable reporting based on pivotal metrics
- Will allow faster and more proactive changes to consumer trends

PulteGroup®





Mike Wyatt
Senior Vice President
National Homebuilding Operations

Capturing Construction Efficiencies

Attacking the Income Statement: Home Building



- Purchasing Zones
- Common Plan Management
- Value Engineering
- Should Costing
- Build Quality
- Process Standards

Key Takeaways from the 2010 Work

We had more than

3,000

floor plans with an average throughput of under 4

Industry leader had plan catalog of approximately **250** with an average throughput exceeding **70**



Were not leveraging our purchasing scale advantage

- Divisions operated independently



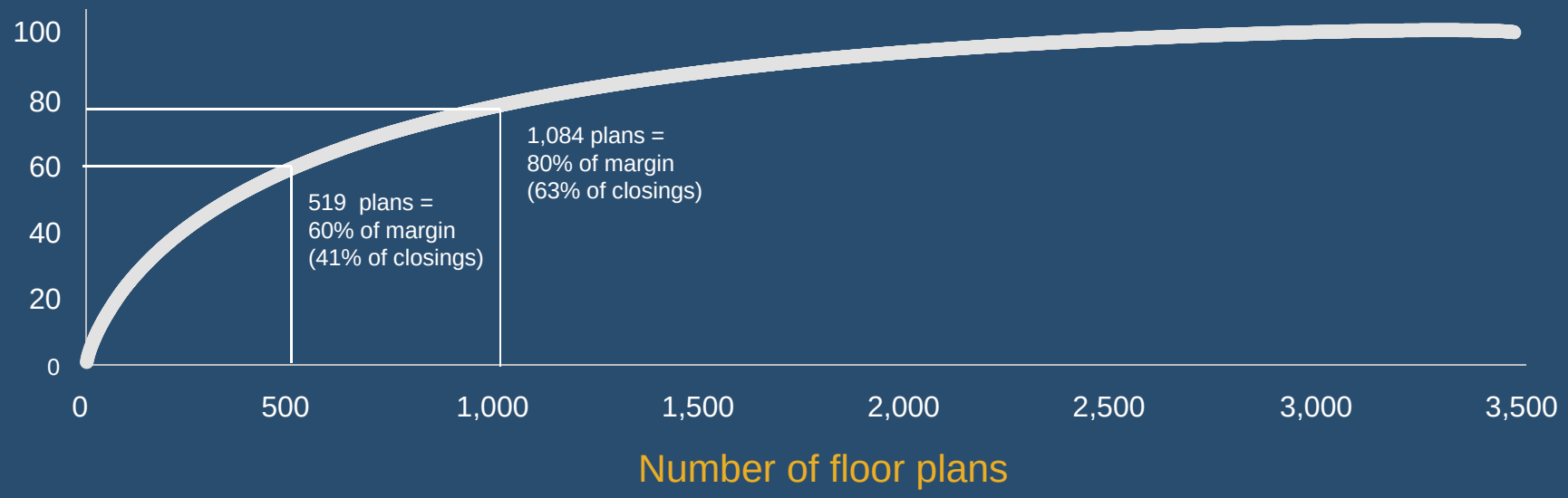
Consumer research is critical as it allows PulteGroup to design homes that more effectively meet home buyer needs

What is Common Plan Management?

Supports Value Creation efforts in the Homebuilding Operation	✓ Focuses on how we design and purchase our homes
Product and Purchasing Zones create a “virtual plant”	✓ Incorporates manufacturing thought process in the organization
Delivers consumer validated floor plans to local divisions	✓ Enables leverage of national plan catalog to increase throughput ✓ Goal is higher throughput and plan catalog of ~500
Leverages purchasing capabilities across the country	✓ Incorporates Value Engineering and “should cost” into all floor plans

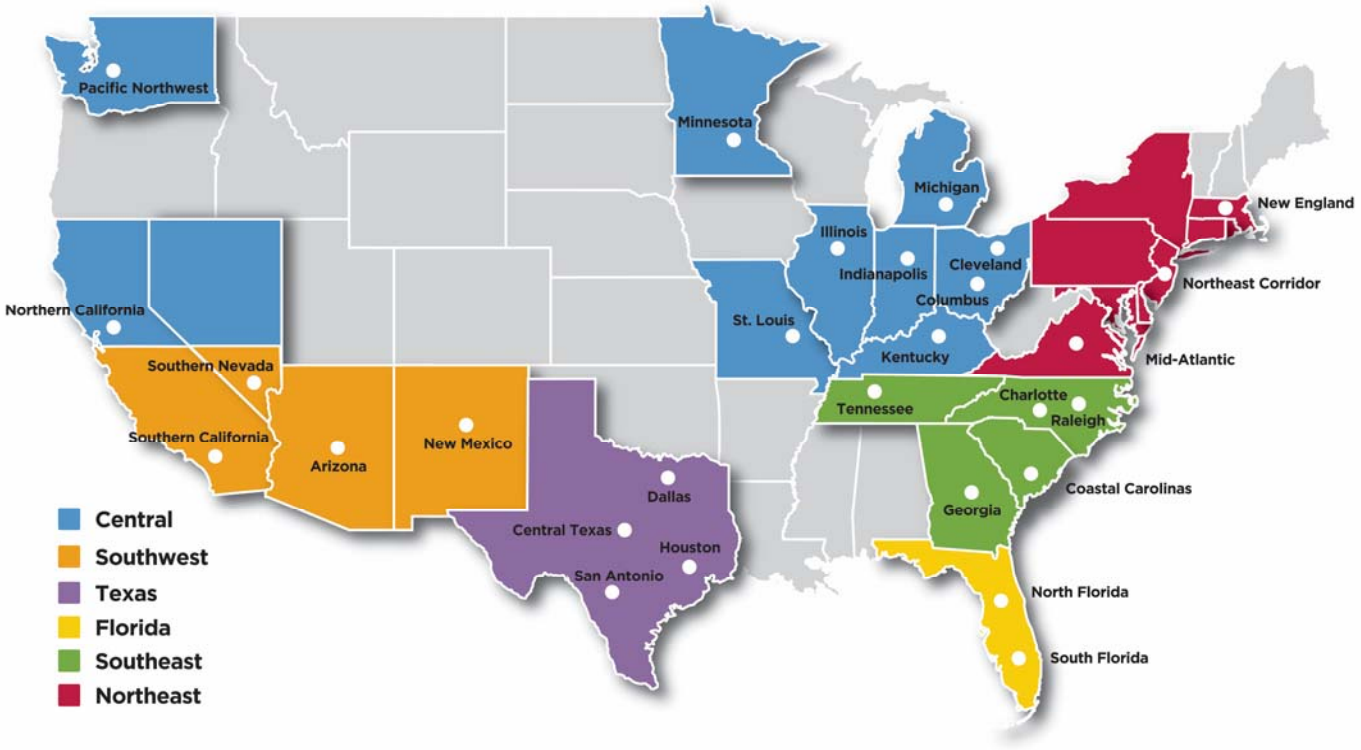
Attacking the Income Statement: Home Building
Driving Plan Throughput

What the 2010 Data Analysis Revealed



Attacking the Income Statement: Home Building

Established Product and Purchasing Zones



Zone manages product development and design freeing Division managers to focus on land acquisition and operations

Zones organized around how people live and common code requirements

Sequenced rollout of zones: Texas first in 2011; Northeast last in 2013

Optimized floor plans deployed over larger areas

Attacking the Income Statement: What Should Construction Activities Cost?

		Actual Floor Plan Example (Texas)			
		Texas Market 1	Texas Market 2	Texas Market 3	Texas Market 4
Lumber, Components and Framing	Labor	$10,375	$9,975	$9,250	$7,530
	Material	$22,160	$18,250	$21,450	$22,775
Drywall	Labor	$3,990	$4,480	$3,975	$3,700
	Material	$3,300	$3,175	$3,200	$3,150
HVAC	Labor and Material	$5,770	$7,835	$5,800	$5,600
Electrical	Labor and Material	$4,250	$5,300	$5,250	$5,050

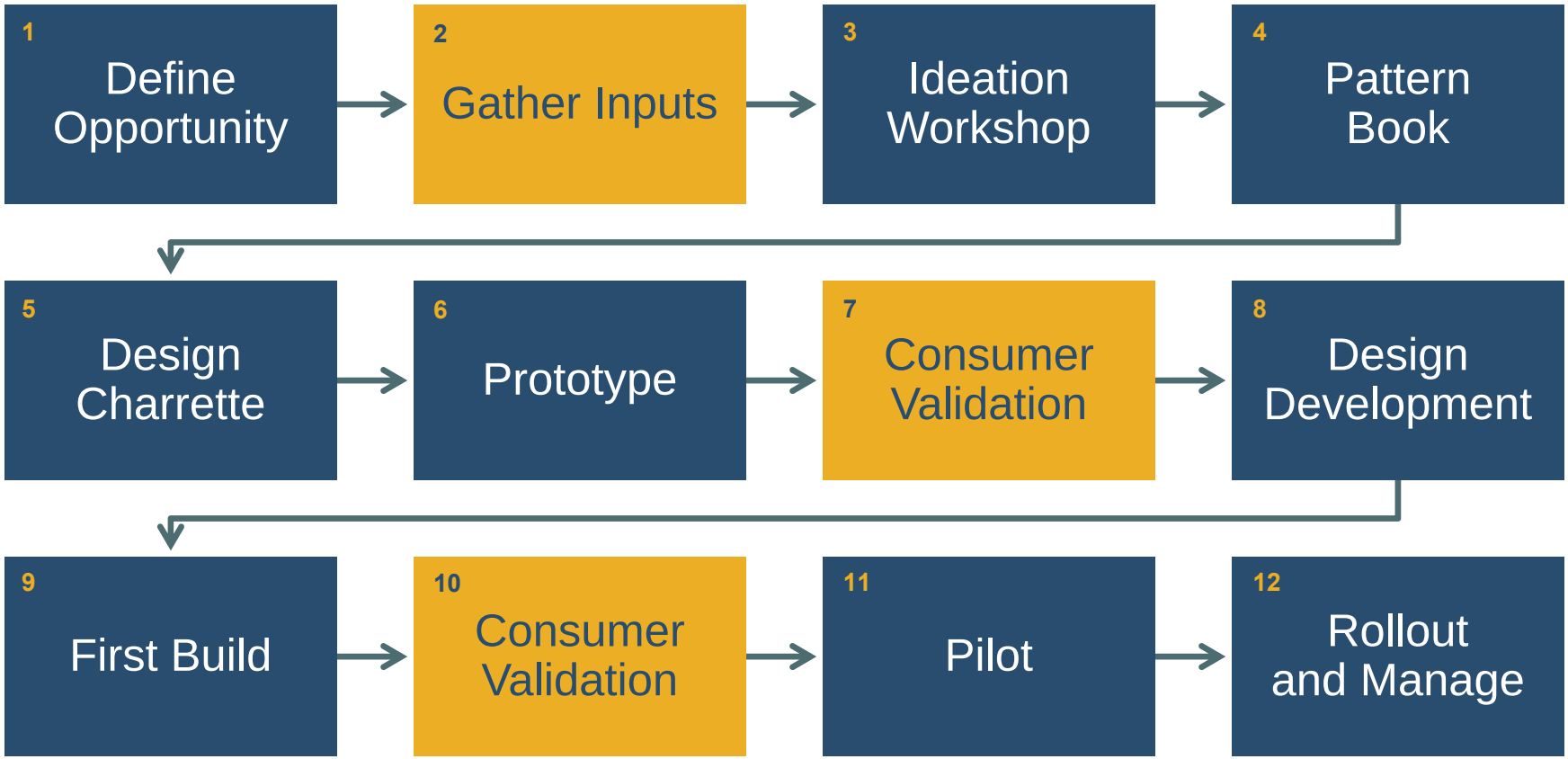
- With standardized floor plans, comparing costs can identify savings opportunities
- More information means a stronger negotiating position with trade base
- In many markets we're now saving $3,500 - $6,000 per plan
- Trade bases and costs are very different from market to market, but this helps us ask the right questions

Attacking the Income Statement: Product Development



- Consumer Validated Designs
- Life Tested Features

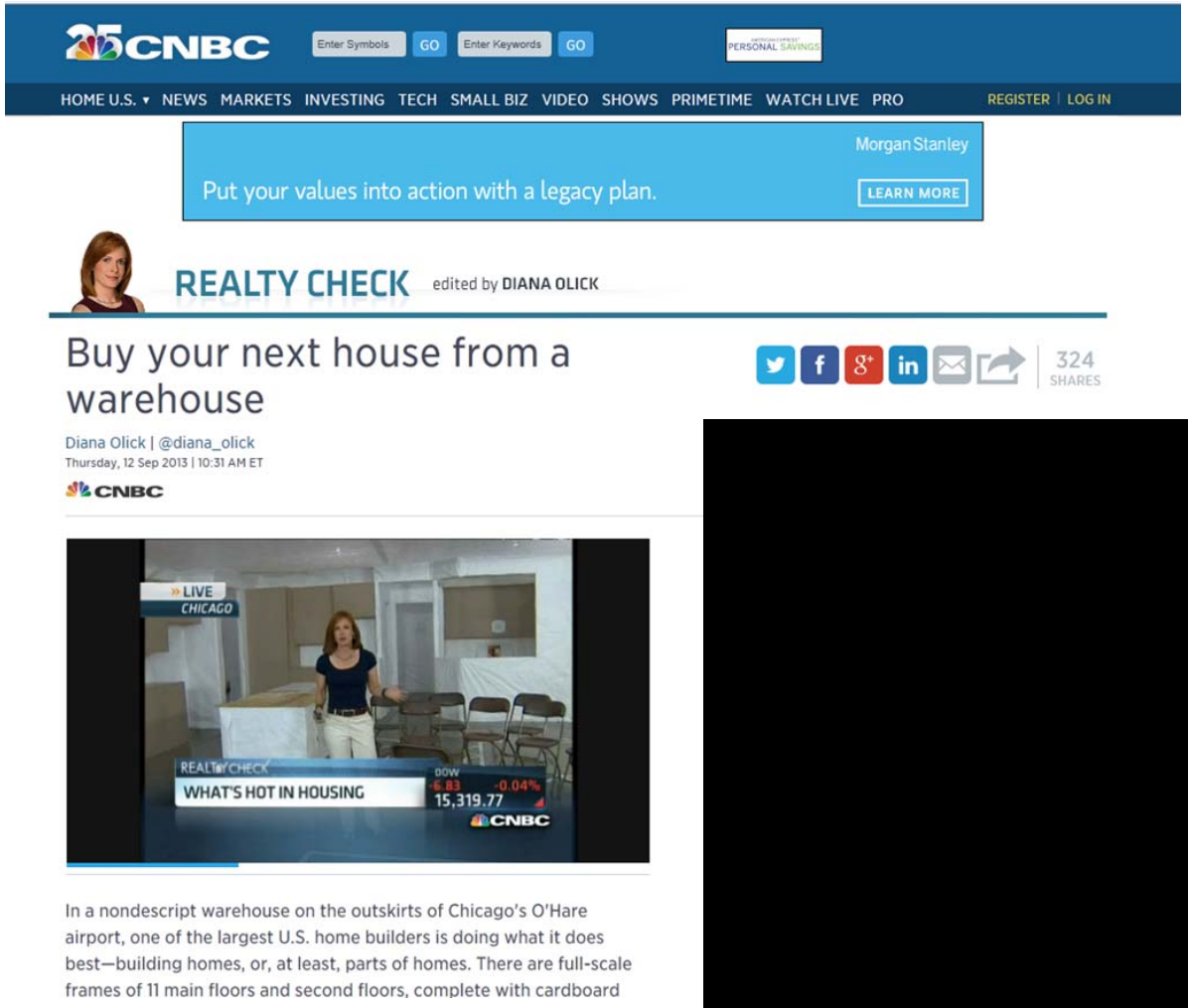
Enhancing Capabilities: Product Development



- Over 290 plans have been launched through the process
  - ✓ 201 new floor plans completed
  - ✓ 89 additional plans are in development
- Goal is for planned obsolescence of floor plans

Attacking the Income Statement: Product Development

Getting Consumer Input and Validation Upfront





Attacking the Income Statement: Product Development

- Accelerating the speed of process
- Establishing two prototype locations
  - ✓ East Coast and West Coast
  - ✓ Prototype phase completed in advance of need
  - ✓ Removes **3-4 months** from the process
- Plan portfolio refresh as our common plan portfolio grows
  - ✓ Ideally, we can run our business with ~500 plans vs. over 3,000 in 2010
  - ✓ Assuming a capacity of 75-100 plan reviews each year, entire Plan portfolio would be turned over every 5 years (planned product obsolescence)







Pulte Life Tested® Features Add Value

His & Hers Spaces





Oversized Pantry



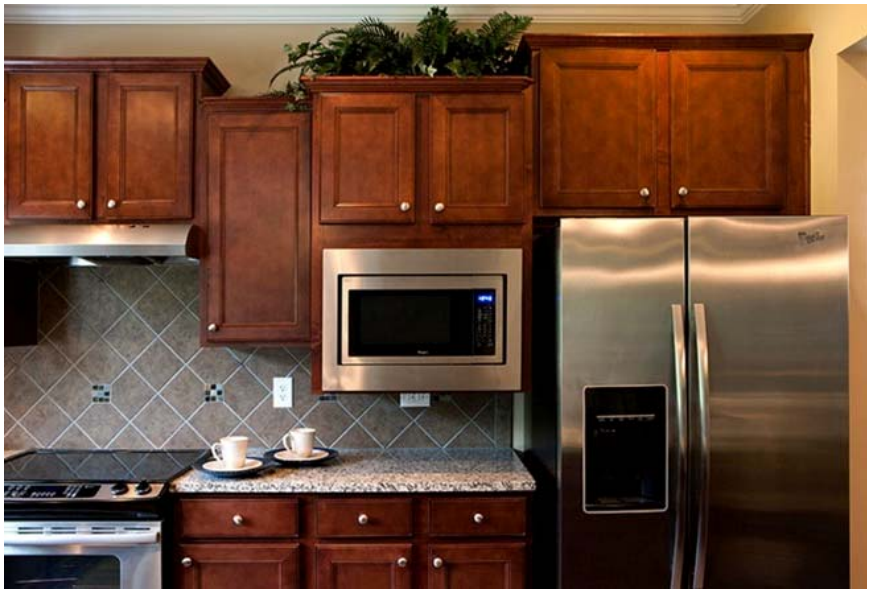
Super Laundry

Del Webb Inspired Designs Offer Added Convenience

Curved Countertops



Lowered Microwaves





Raised Dishwashers

Exterior Elevation: Providing Choice and Curb Appeal



Good



Better



Best

- Multiple styles provide great neighborhood curb appeal
- Multiple price point offerings
- Priced to market demand

Exterior Elevation:
Value in Curb Appeal

before

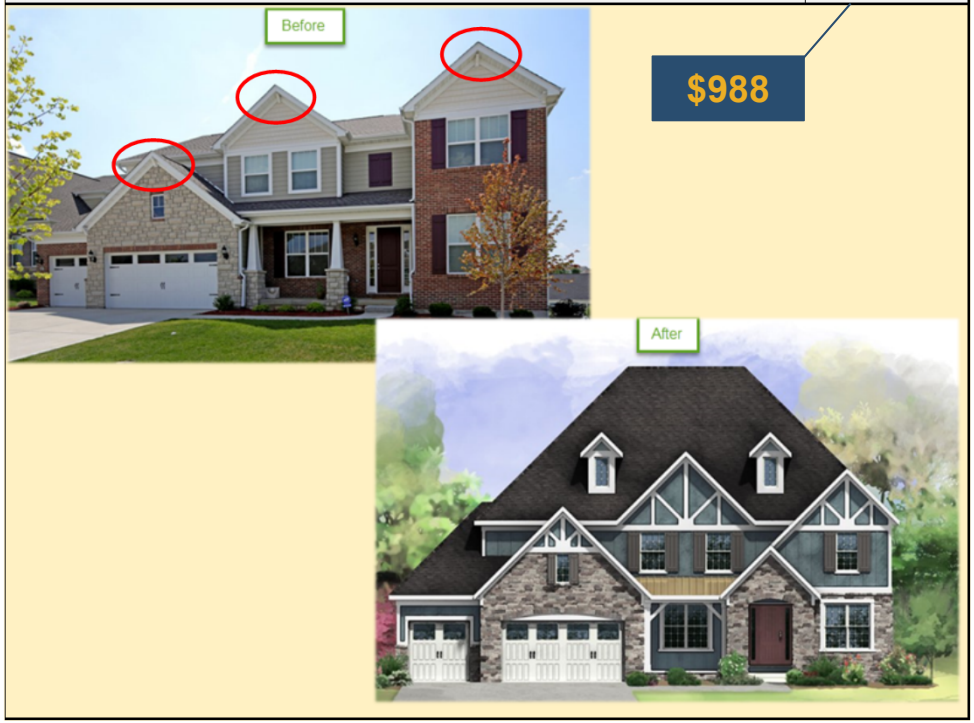


after

Exterior Elevation: Value in Curb Appeal

- Improved curb appeal of elevation through design process
- Full review of all costs
- Small increase in cost enables ability to sell for higher price and more margin

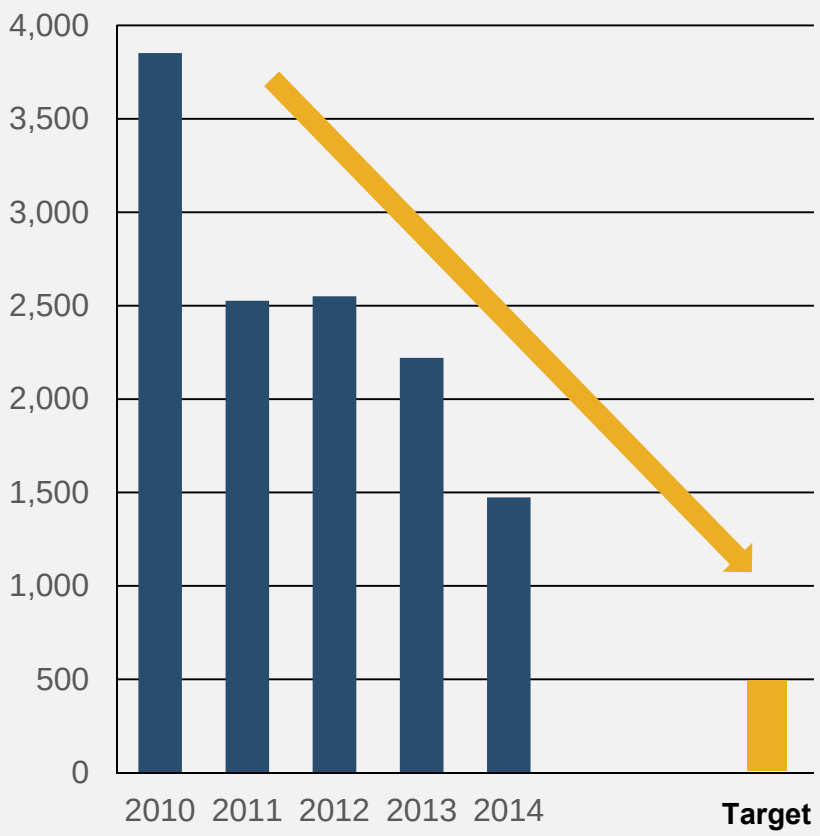
Cost Study - Value Added Design		
Original Design	**Improved Design**	**Cost Impact**
Elevation Windows	Reallocated windows to include dormers	$150
Masonry Veneer	Changed from masonry / Siding mix	($3,690)
Cornice Features	Added gable structure to compliment the Tutor architectural style.	$157
Full Hip Roof & Pitch Increase	Full Hip Roof with dual pitches, acsentuating the roof to the curb plus the addition of 2 small dormers.	$3,688
Metal Front Porch Roof	The addition of metal in leu of architectural shingles.	$548
Colors	Through the use of colors the elevation expresses a warm curb appeal with highlighted architectrual features.	$135
	Cost Impact for Improved Design	**$988**



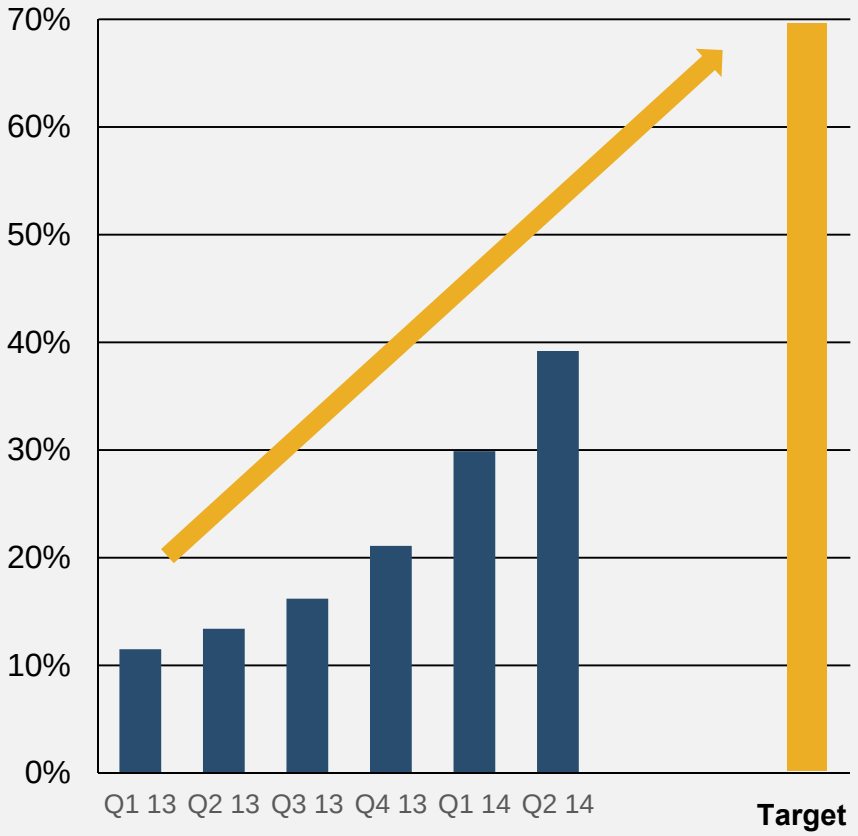
PulteGroup

Reducing the Number of Plans in the System and Building a Greater % of More Profitable, Commonly Managed Plans

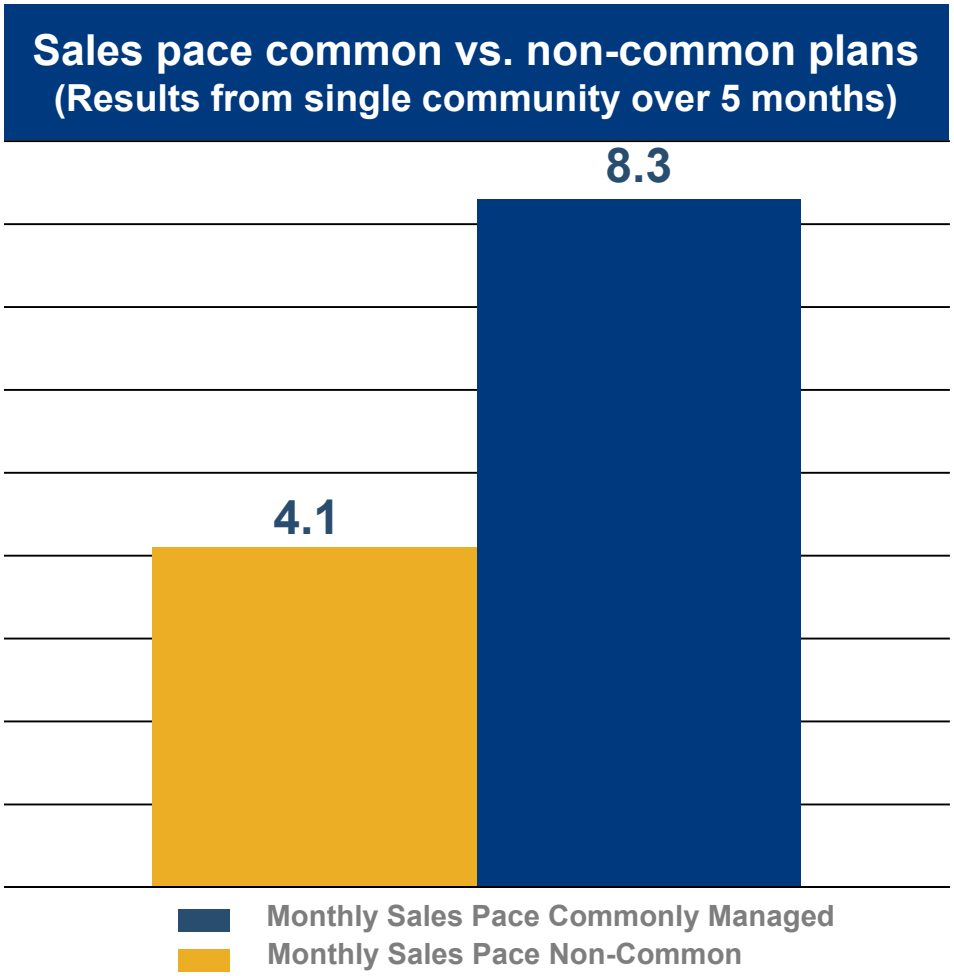
PLAN COUNT



% OF CLOSING CMP

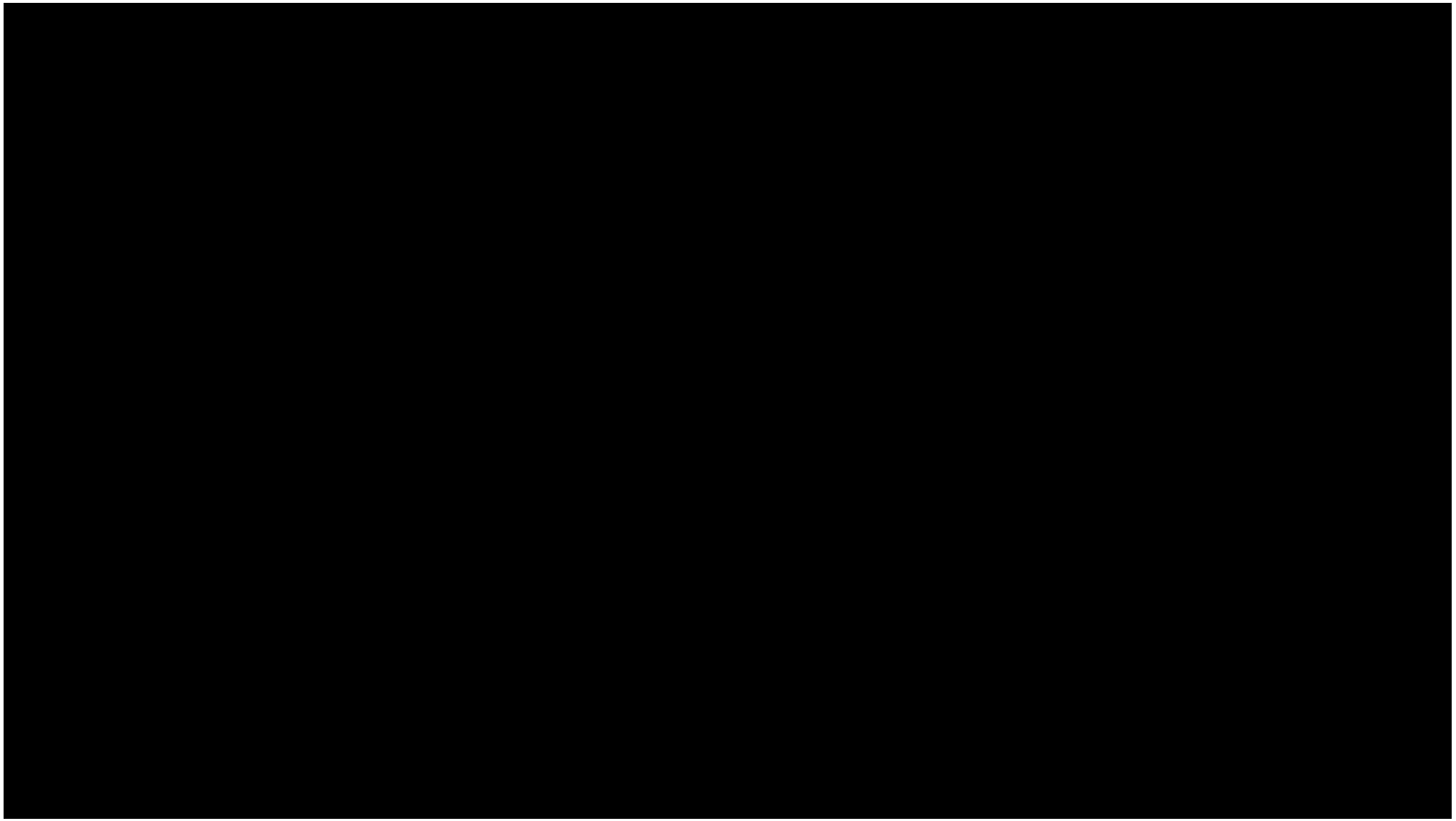


Attacking the Income Statement: Common Plans Offer Multiple Benefits



- Commonly managed plans typically sell better than older product
- Margins in this particular community 400 bps higher
  - ✓ Efficient design = lower cost
  - ✓ Increased option sales
  - ✓ Superior design = additional pricing power

Built to Honor



Today's Agenda

• The History of PulteGroup's Value Creation Strategy	R. Dugas
• Capital Discipline – Supporting Value Creation	B. O'Shaughnessy
• Building Capability – Next Steps	R. Marshall / M. Wyatt
• **Mortgage Update**	**D. Still**
• Field Operations: Aligned with Our Vision	H. Smith
• Financial Policy to Match Operating Philosophy	B. O'Shaughnessy
• Summary / Closing Comments	R. Dugas





Debra Still
President and CEO
Pulte Financial Services

The Mortgage Landscape

The Mortgage Landscape

- Getting Housing Back on Track
- Regulatory Complexity
- Government's Role in Housing
- Tight Credit
- The Cost of Credit
- Key Business Drivers
  - ✓ Volume/Productivity/Profitability/Ability to Compete
- Why Won't Lenders Lend?



Washington's View of Real Estate Finance

- ***Access to credit for qualified borrowers***



- ***A vibrant and competitive marketplace***



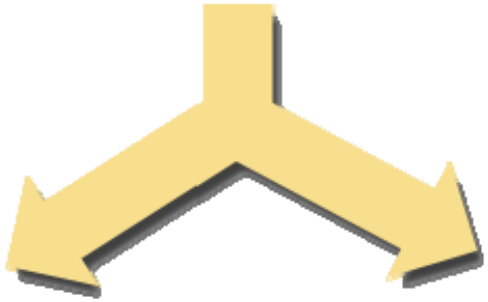
- ***The housing recovery***



Getting Housing Back on Track

The Fundamentals

Recovering Economy
Employment
Historic Low Rates
Rent vs. Buy
Desire to Own



The Big Questions

Access to Credit?
Avoiding Bubbles?
Private Capital?
Future Role of GSEs?

The Disincentives

Litigation
Fees and Penalties
Put Backs
Headline Risk
Regulatory Conflict

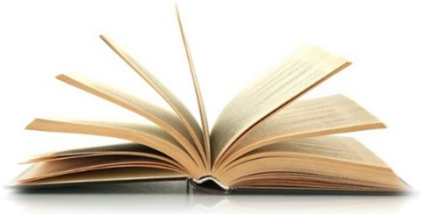
New Dodd/Frank and Other Rules

Rule	Release Date	Implementation
Ability to Repay/QM Final Rule	January 10, 2013	January 10, 2014
HOEPA High-Cost Mortgage Rule (Reg Z)	January 10, 2013	January 10, 2014
LO Compensation & Qualifications Rule (Reg Z)	January 20, 2013	January 10, 2014
National Servicing Standards (Reg X and Reg Z)	January 17, 2013	January 10, 2014
ECOA Appraisal Disclosure Rule	January 18, 2013	January 18, 2014
Appraisals for Higher-Priced Mortgage Rule	January 15, 2013	January 18, 2014
HUD Disparate Impact Rule	February 15, 2013	March 18, 2013
Basel III Rule	July 2, 2013	Various
RESPA-TILA Integration Rule (Reg X and Reg Z)	November 20, 2013	August 1, 2015
Risk Retention/QRM Rule	October 21, 2014	October 21, 2015/16
Home Mortgage Disclosure Act (HMDA) Rule	TBD – 2014	TBD
Loan Originator Anti-Steering Rule	TBD – 2014	TBD

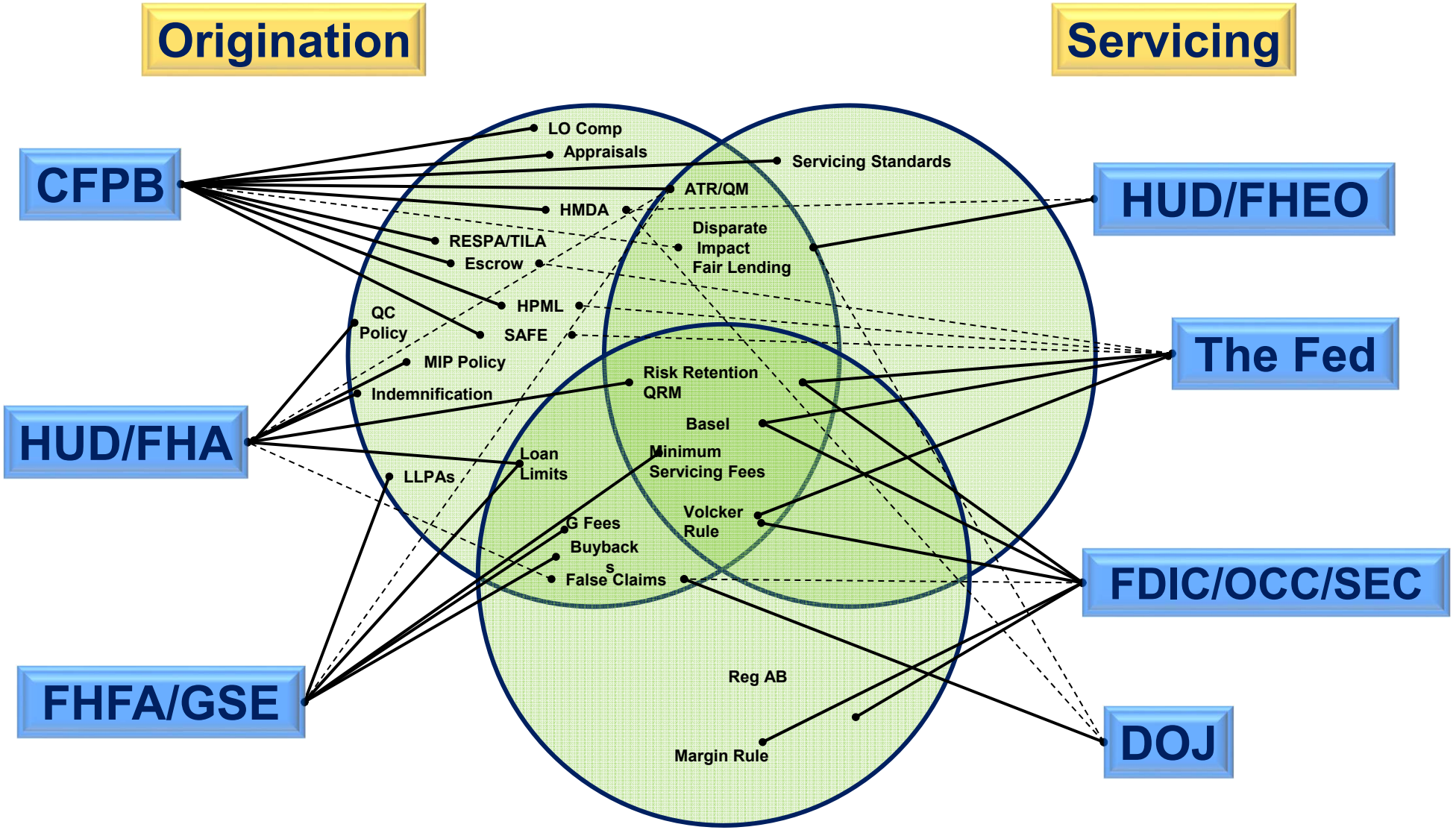
A Big Industry Change

1888 Pages of New Regulation

- New definition of loan application
- “Intent to Proceed” signed before processing
- Changes to over 1000 forms
- 500 new calculations/data elements
- Lender now responsible for settlement statement
- 3/6 day wait to close from Closing Disclosure received
- Applications after 8/1/15 means support of old and new



A Backdrop of Complexity



Source: MBA

Supervision By a New Regulator

2014 cfpb

Educate



Enforce



Study



- 8.3% budget increase
- 1,624 FTEs
- 46% for supervision/enforcement/fair lending
- Consumer response operations up 85%
- Enforcement and fair lending up 66%

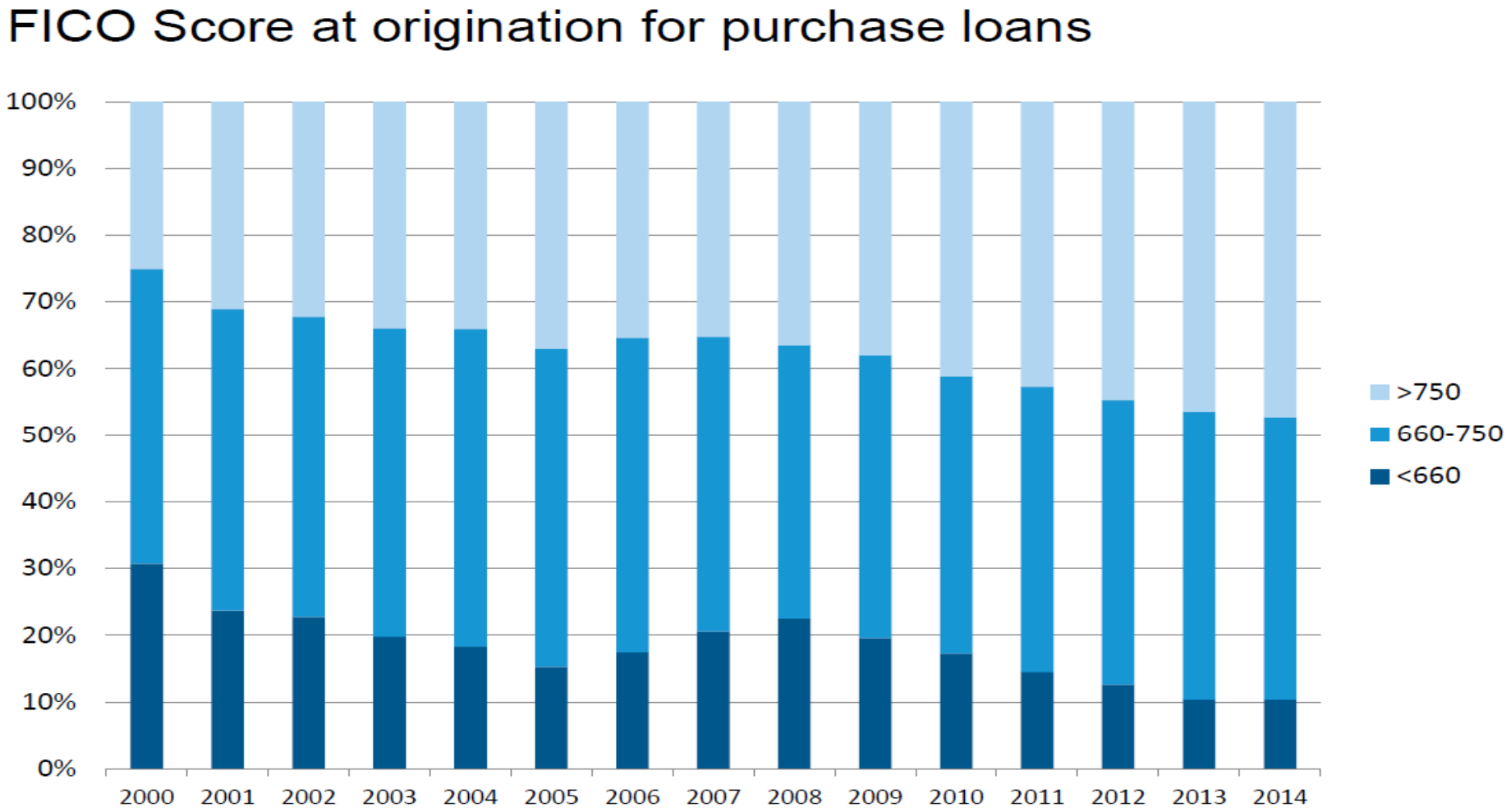
The Government's Role in Housing



Purchase/2013 HMDA Data

Source: FFIEC, MBA – Residential Retail/Broker, Home Purchase, First Lien

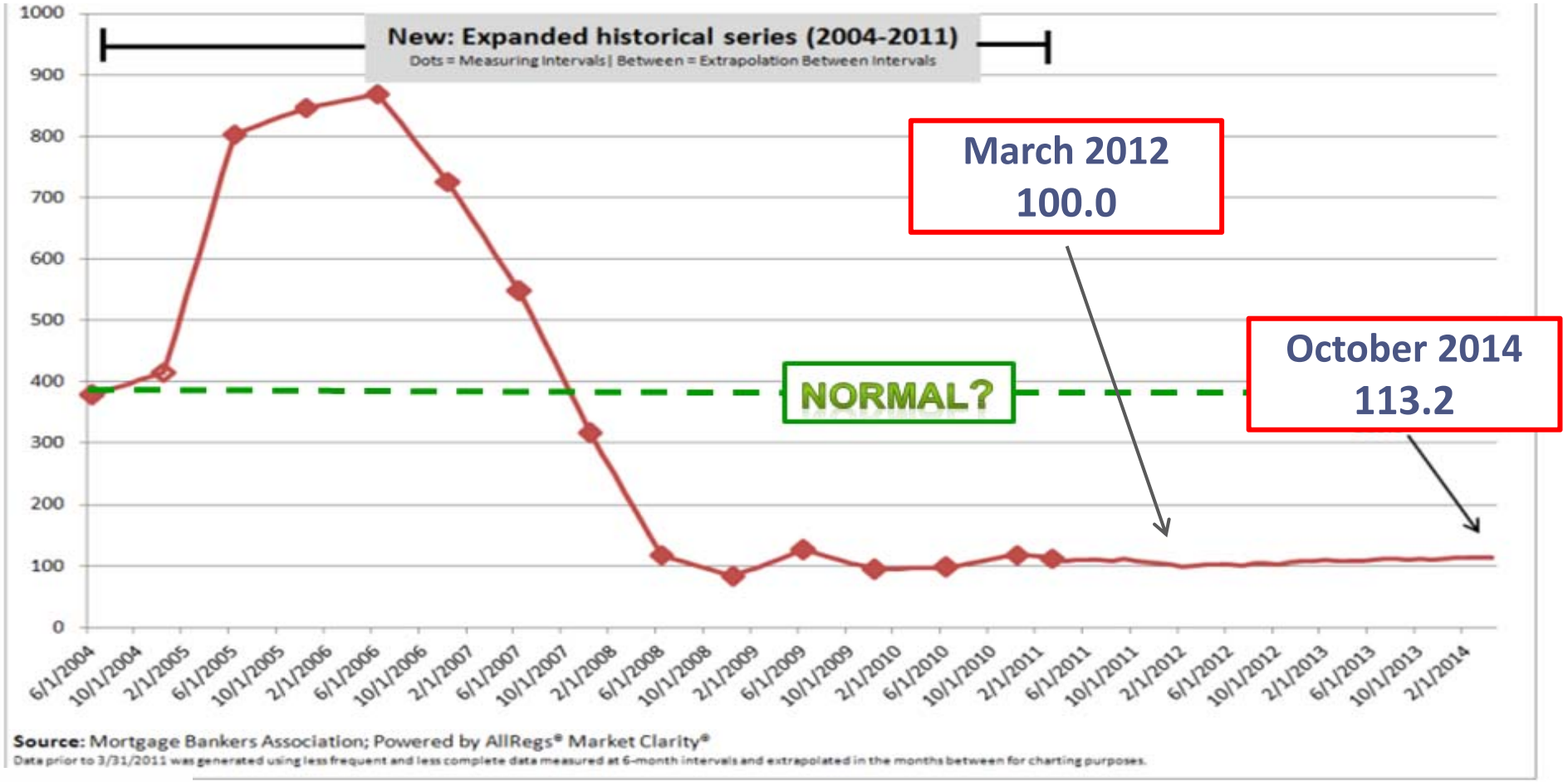
Credit Is Tight



Source: Core Logic, Prime Servicing, Urban Institute

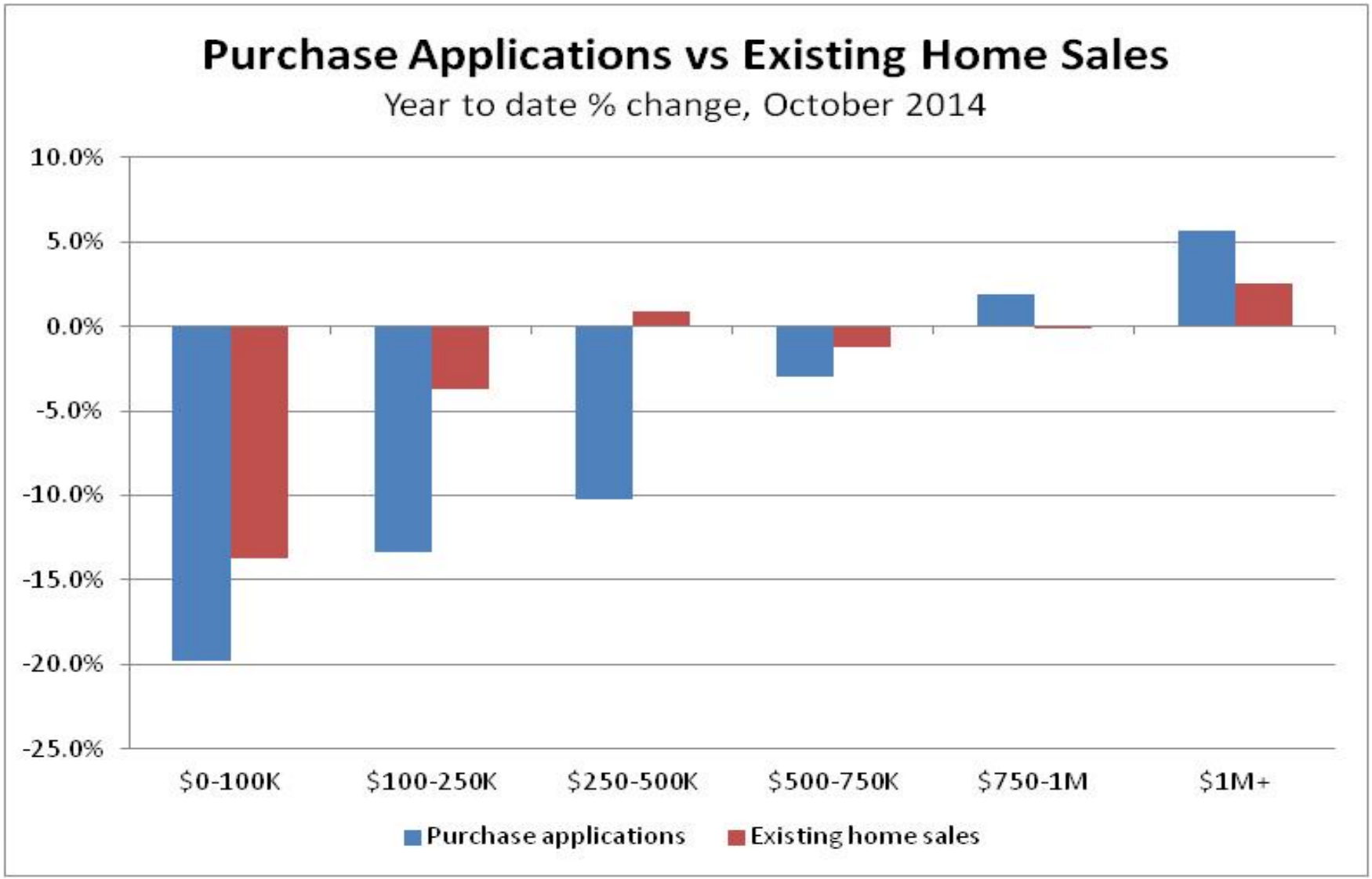
A Ways To Go Before “Normal”

Expanded Historical Series: Mortgage Credit Availability Index



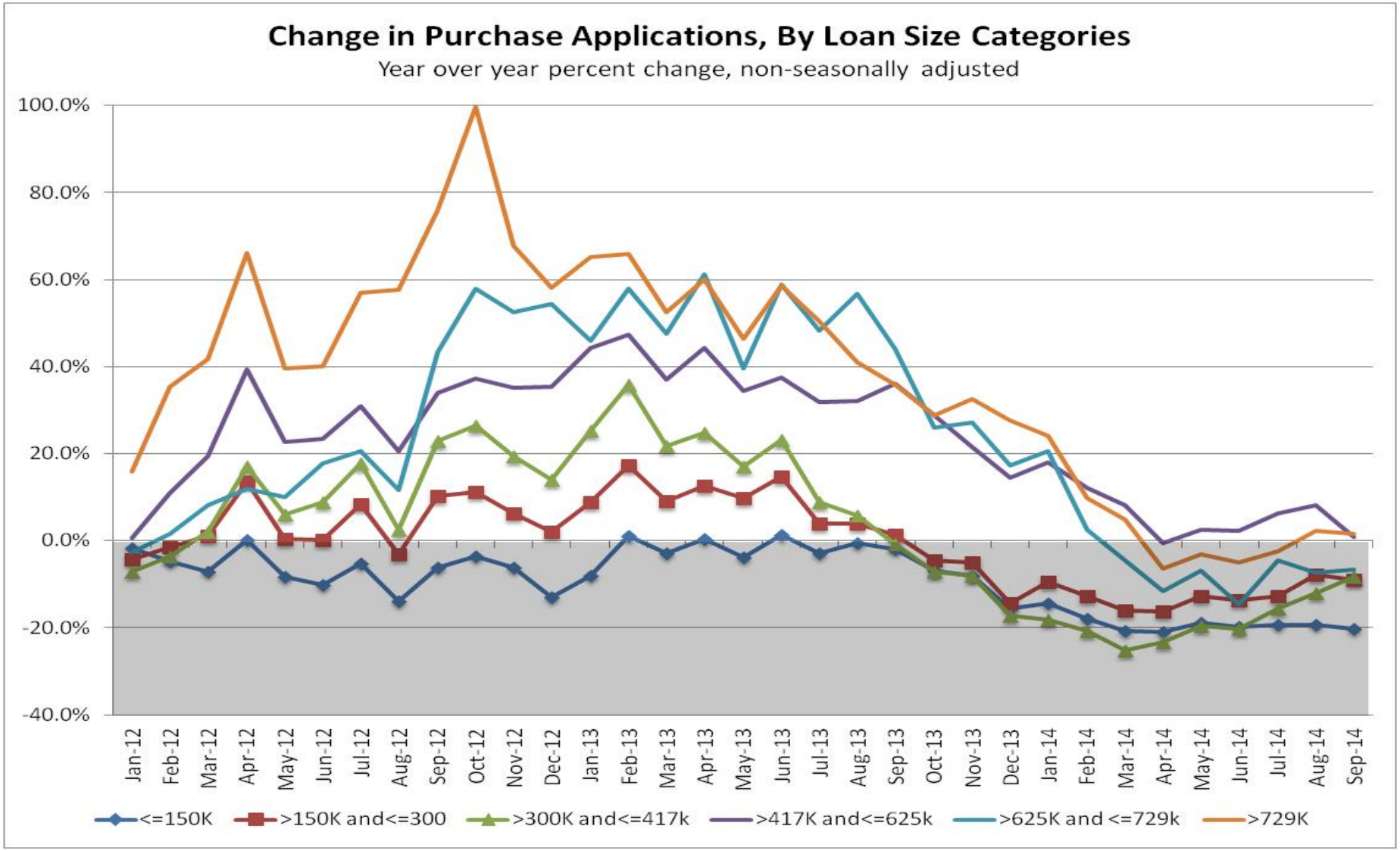
Source: MBA, Powered by AllRegs *Market Clarity*

Credit Is Tight: Weakness at Entry Level



Source: MBA, NAR

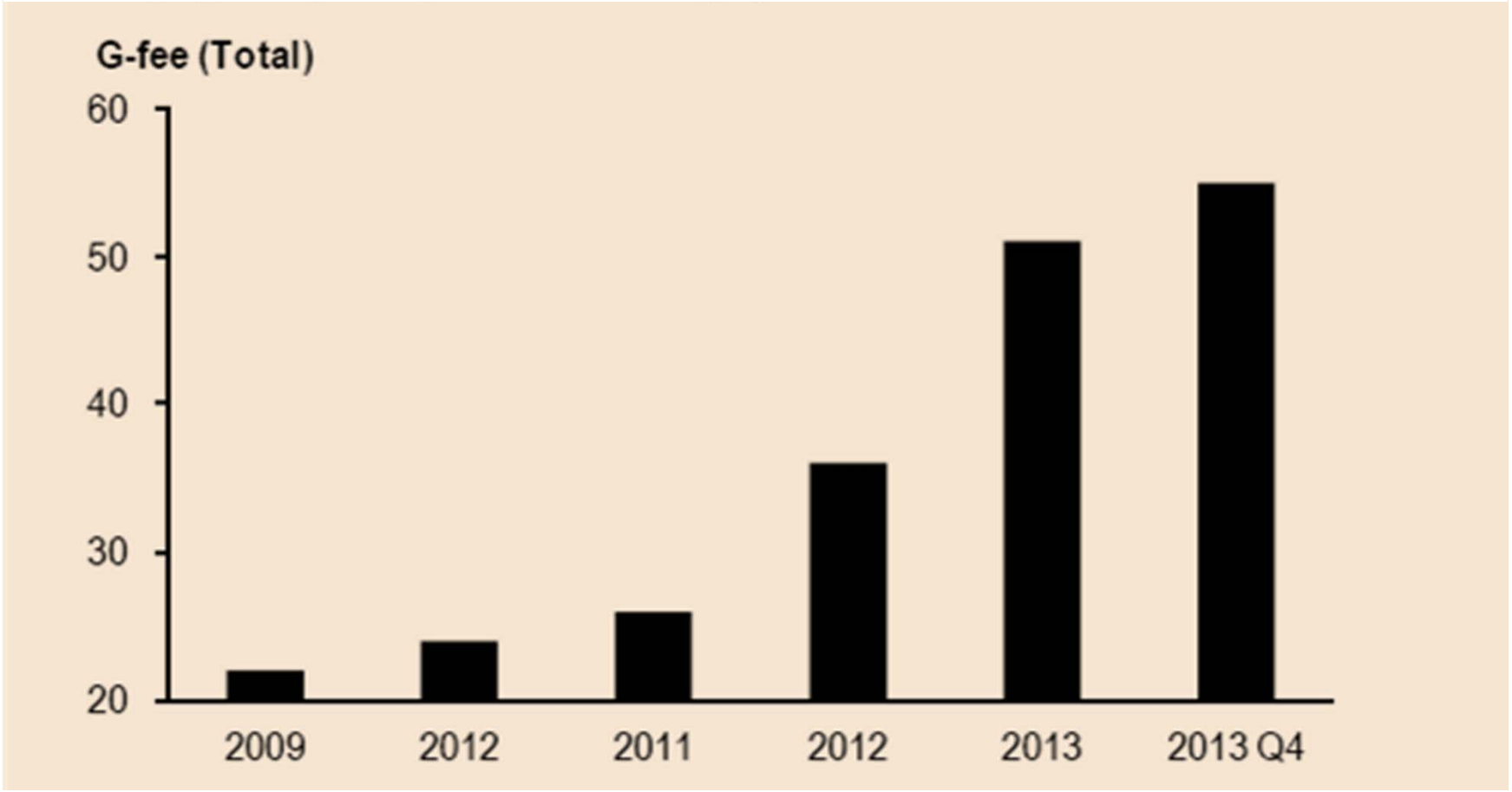
Credit Is Tight: Weakness at Entry Level



Source: MBA Monthly Profile of Mortgage Activity

The Cost of Credit

GFees Have Risen 30 Basis Points in Three Years



Source: JP Morgan, Freddie Mac

The Cost of Credit

Table 1: Adverse Market Delivery Charge *

0.250%

+0.25%

* Applicable to all mortgages delivered to Fannie Mae, including FHA, VA, Rural Development 502 Mortgages, HUD 184 Native American Mortgages, matured balloon mortgages (refinanced or modified, per *Servicing Guide* requirements) redelivered as FRMs, and reverse mortgages.

Table 2: All Eligible Mortgages (Excluding MCM): LLPA by C

75-80%

PRODUCT FEATURE	LLPAs by LTV Range								
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%	SFC
Representative Credit Score	Applicable for all mortgages with terms greater than 15 years								
≥ 740	-0.250%	0.000%	0.000%	0.250%			0.250%	0.250%	N/A
720 – 739	-0.250%	0.000%	0.250%	0.500%			0.500%	0.500%	N/A
700 – 719	-0.250%	0.500%	0.750%	1.000%	1.000%	1.000%	1.000%	1.000%	N/A
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	1.000%	N/A
660 – 679	0.000%	1.000%	2.000%	2.500%	2.750%	2.250%	2.250%	1.750%	N/A
640 – 659	0.500%	1.250%	2.500%	3.000%	3.250%	2.750%	2.750%	2.250%	N/A
620 – 639	0.500%	1.500%	3.000%	3.000%			3.250%	3.000%	N/A
< 620 (1)	0.500%	1.500%	3.000%	3.000%			3.250%	3.250%	N/A

700-719

640-659

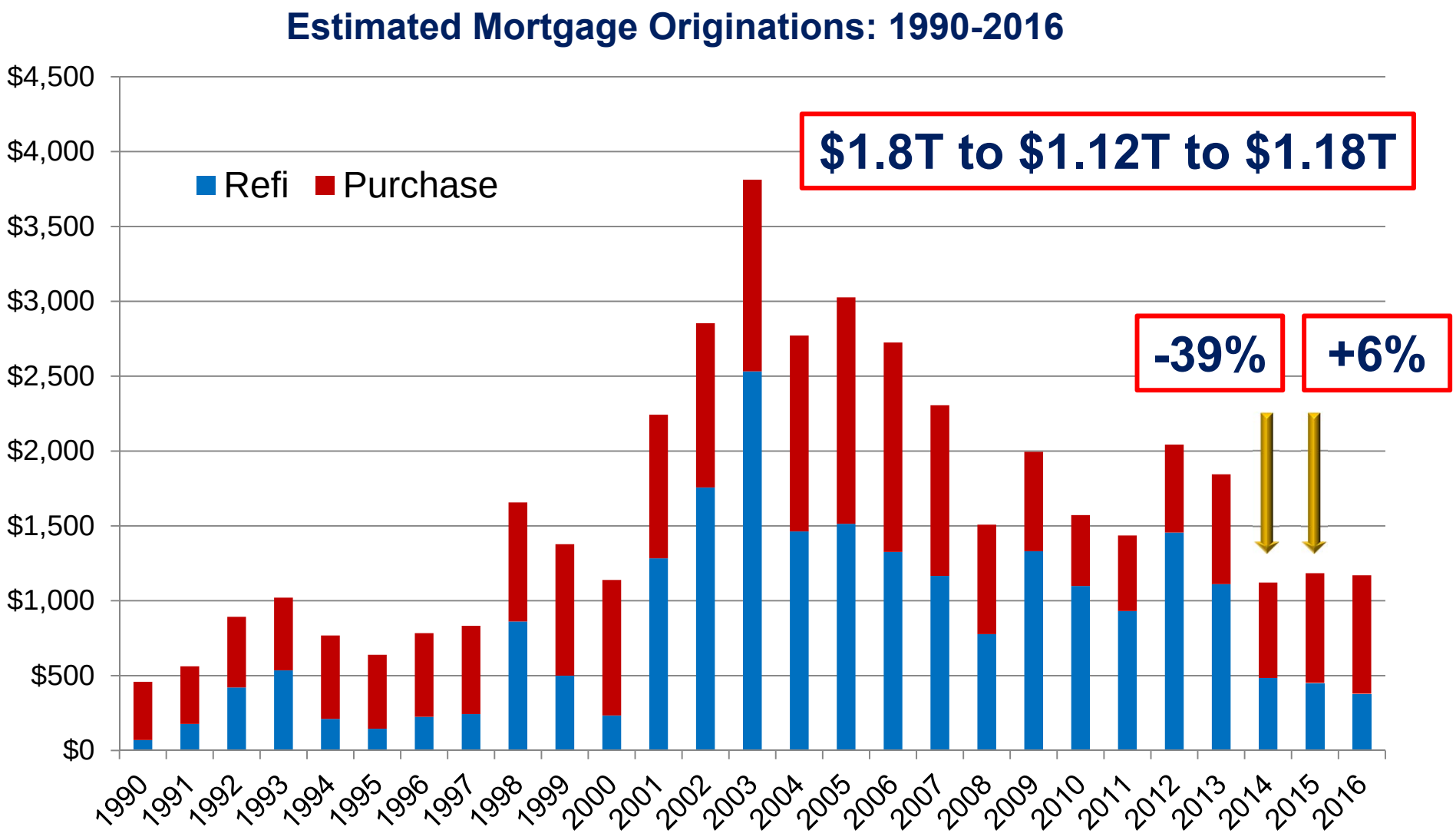
+1.00%

+3.00%

(1) A minimum required credit score of 620 applies to all mortgage loans delivered to Fannie Mae in accordance with the *Selling Guide*; exceptions to this requirement are limited to loans in which any borrower has nontraditional credit and those originated in accordance with Refi Plus™ or DU Refi Plus (see the Refi Plus Pricing Matrix).

Source: Fannie Mae LLPA Matrix

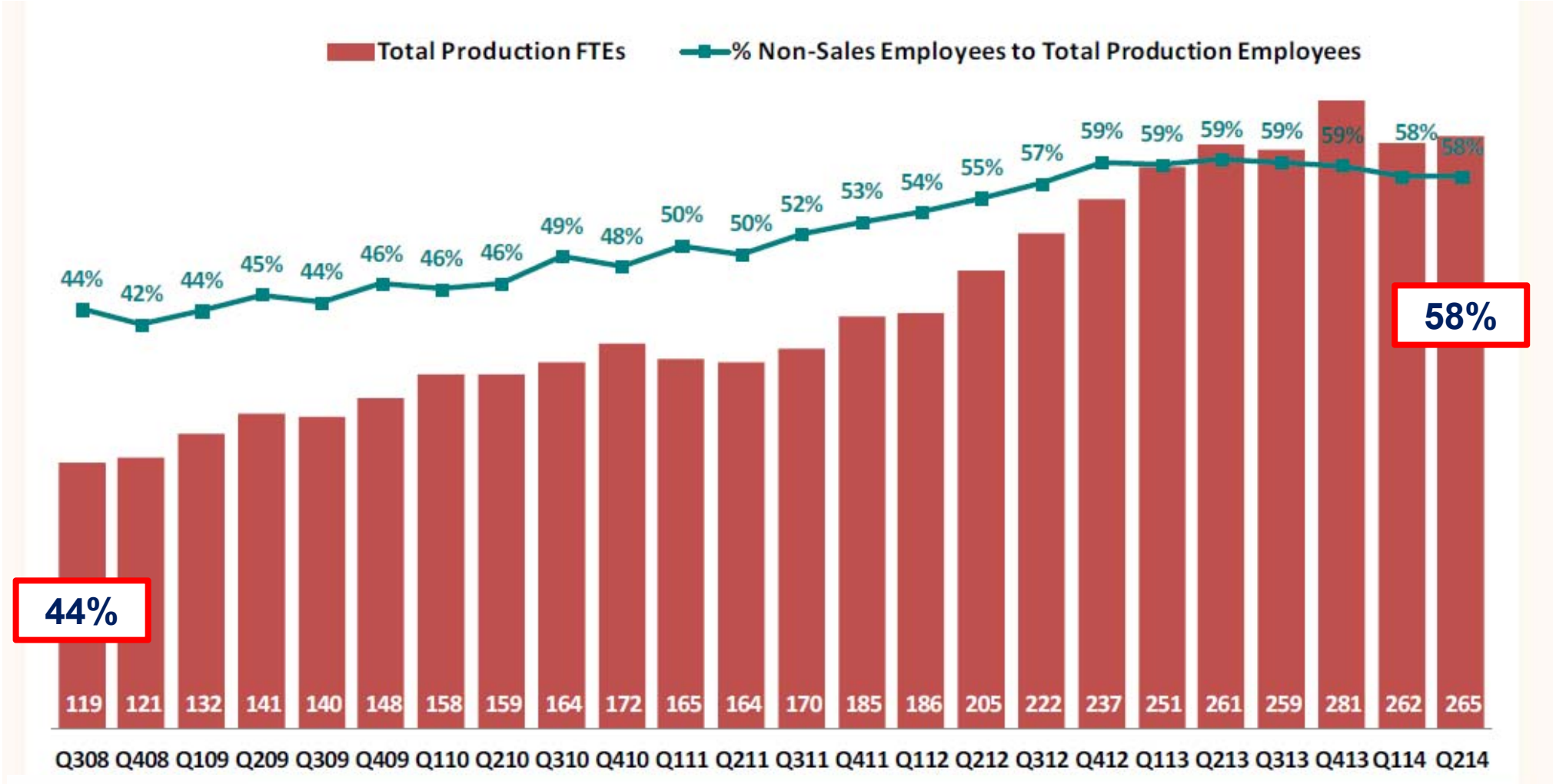
Volume



Source: November 2014 Forecast

Productivity

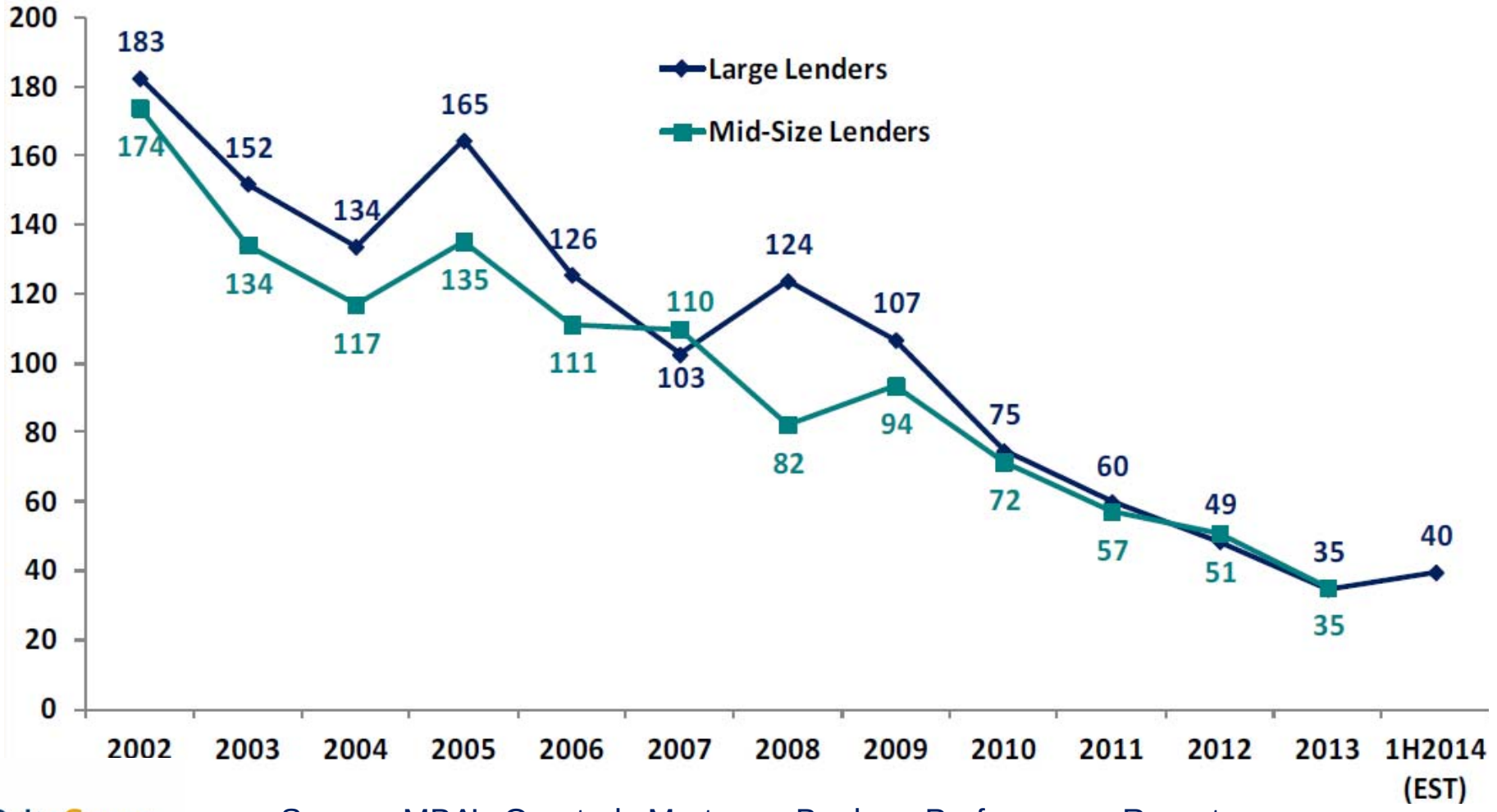
Non-Sales as percent of Total Production Employees



Source: MBA's Quarterly Mortgage Bankers Performance Report

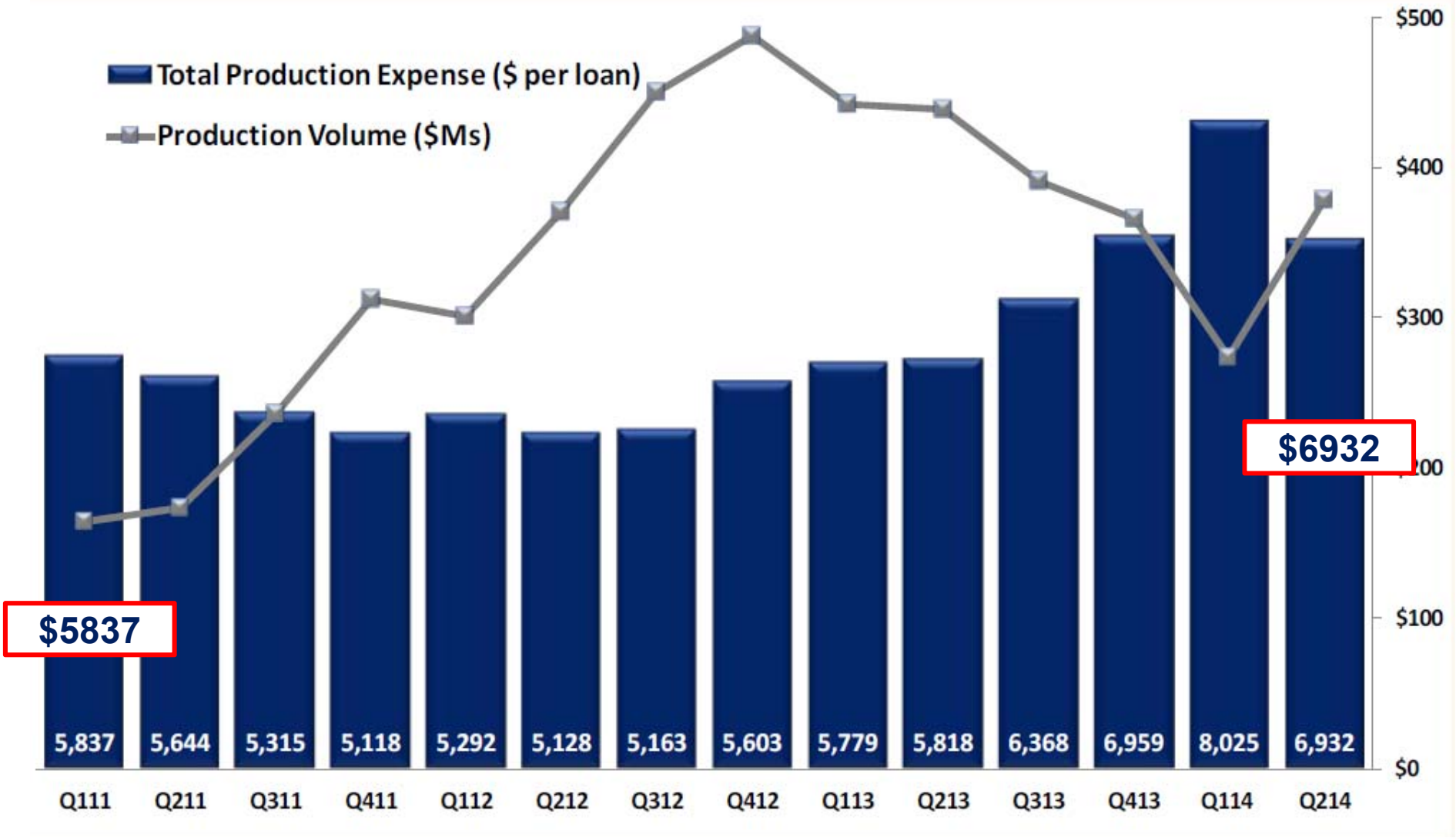
Productivity

Applications Per Underwriter Per Month



Source: MBA's Quarterly Mortgage Bankers Performance Report

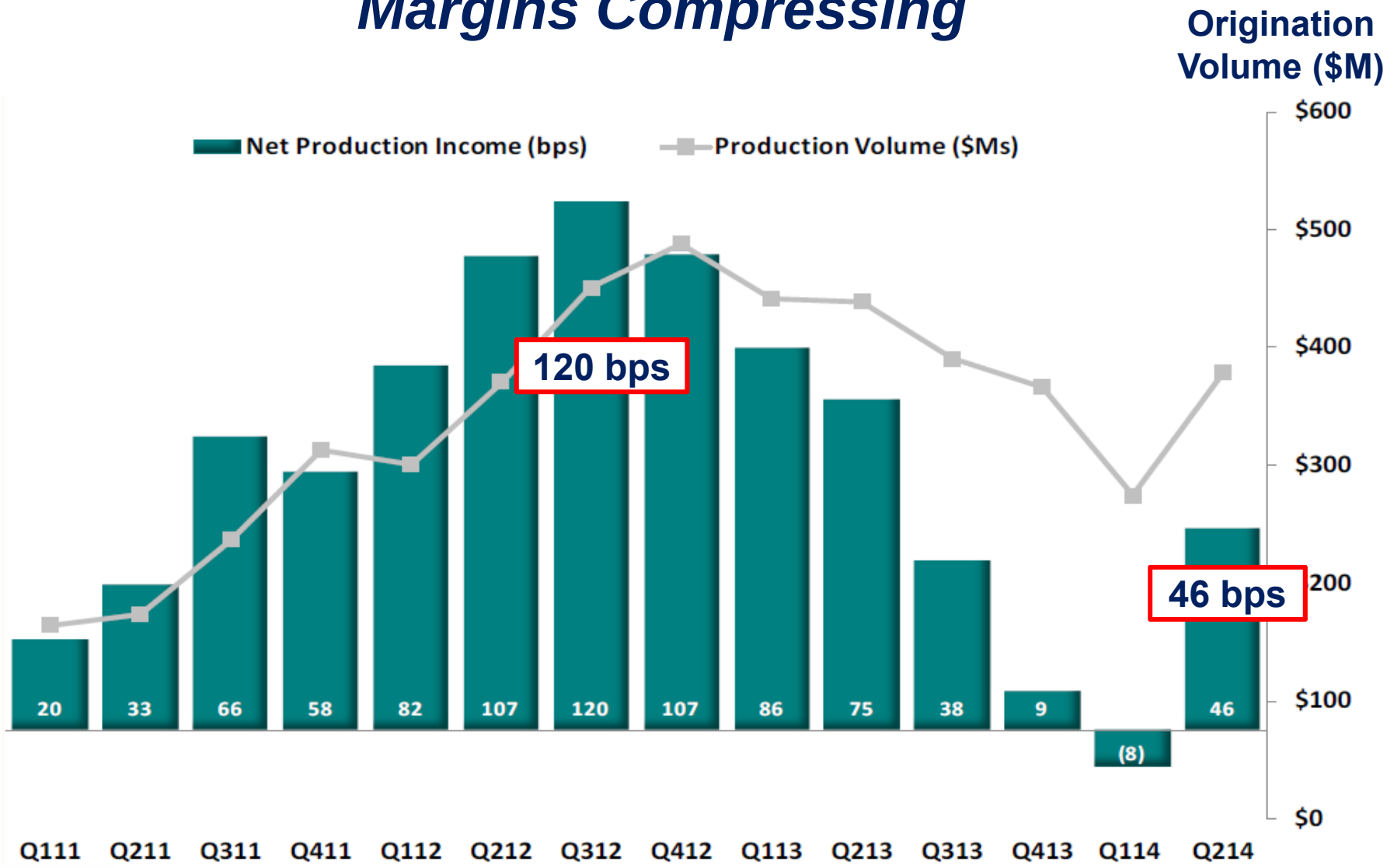
Production Expense



Source: MBA's Quarterly Mortgage Bankers Performance Report

Profitability

Margins Compressing

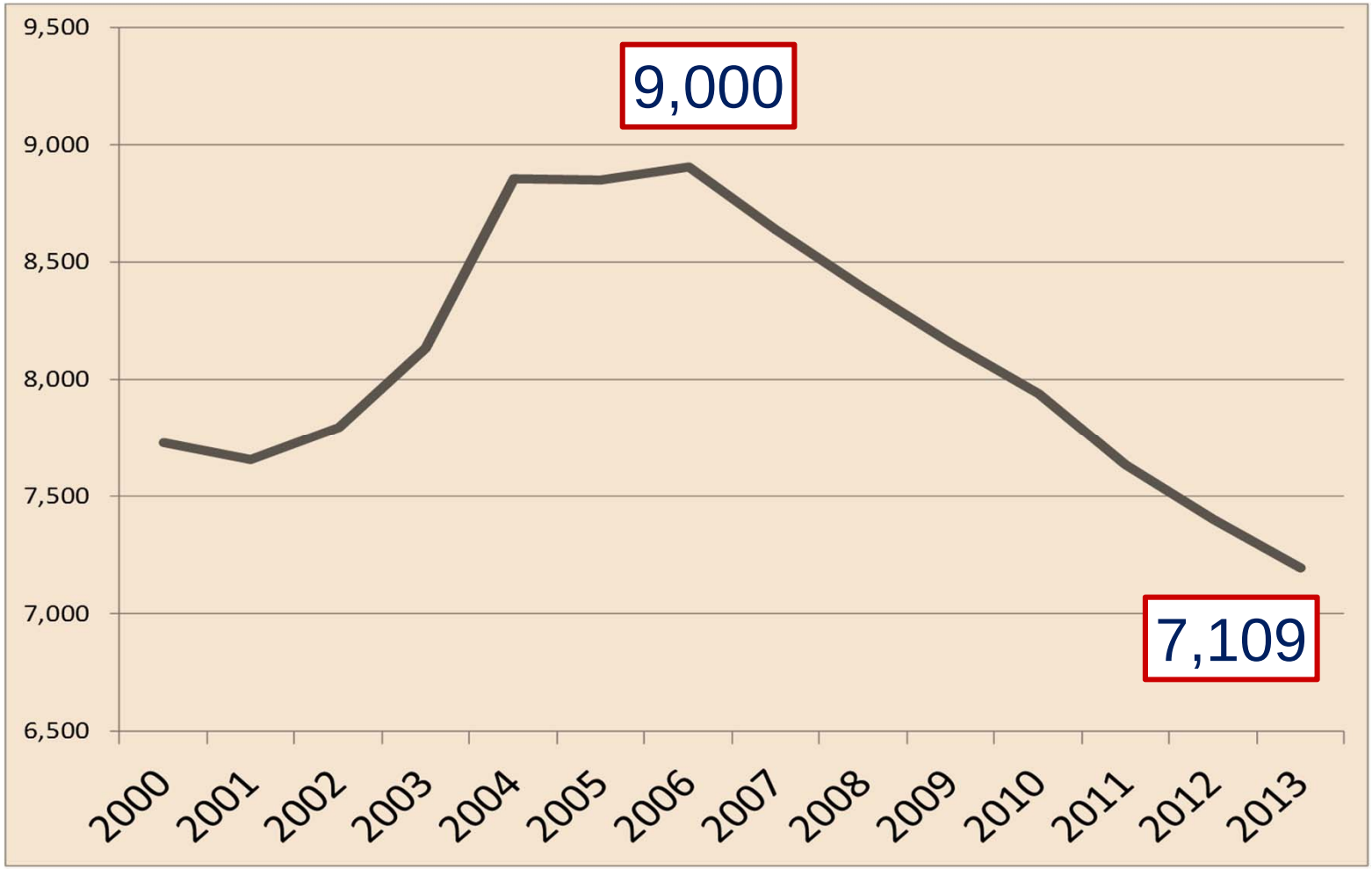


Source: MBA's Quarterly Mortgage Bankers Performance Report

Competition Exiting / Barriers to Entry

A Net Exit From the Business

Lenders

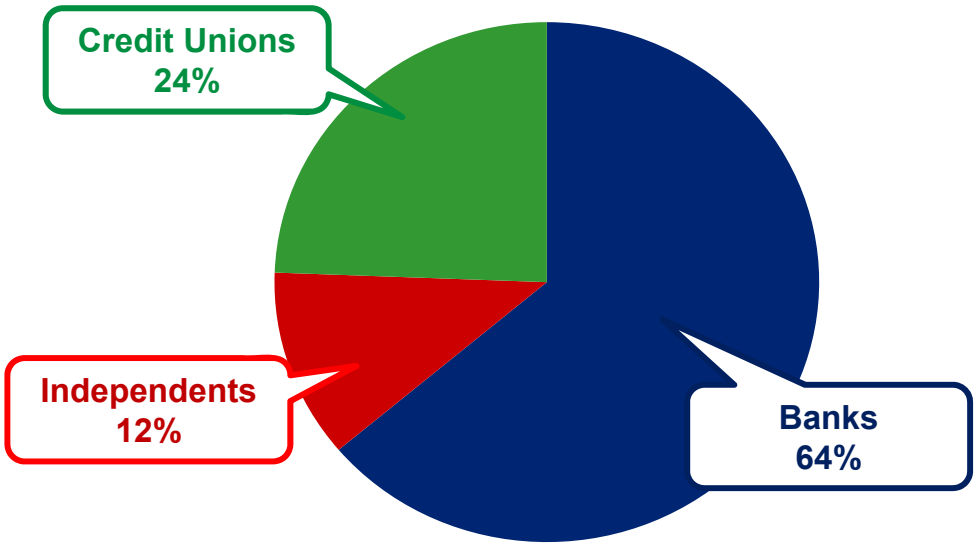


Source: 2013 Number of Institutions Reporting HMDA Data

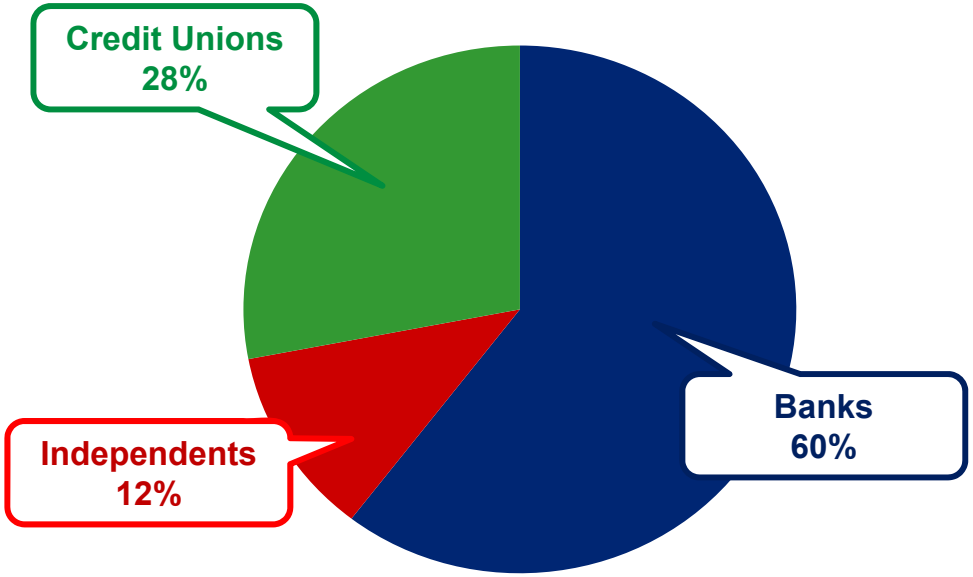
Competition Exiting / Barriers to Entry

Who's Reporting…

2008 (n=8,388)



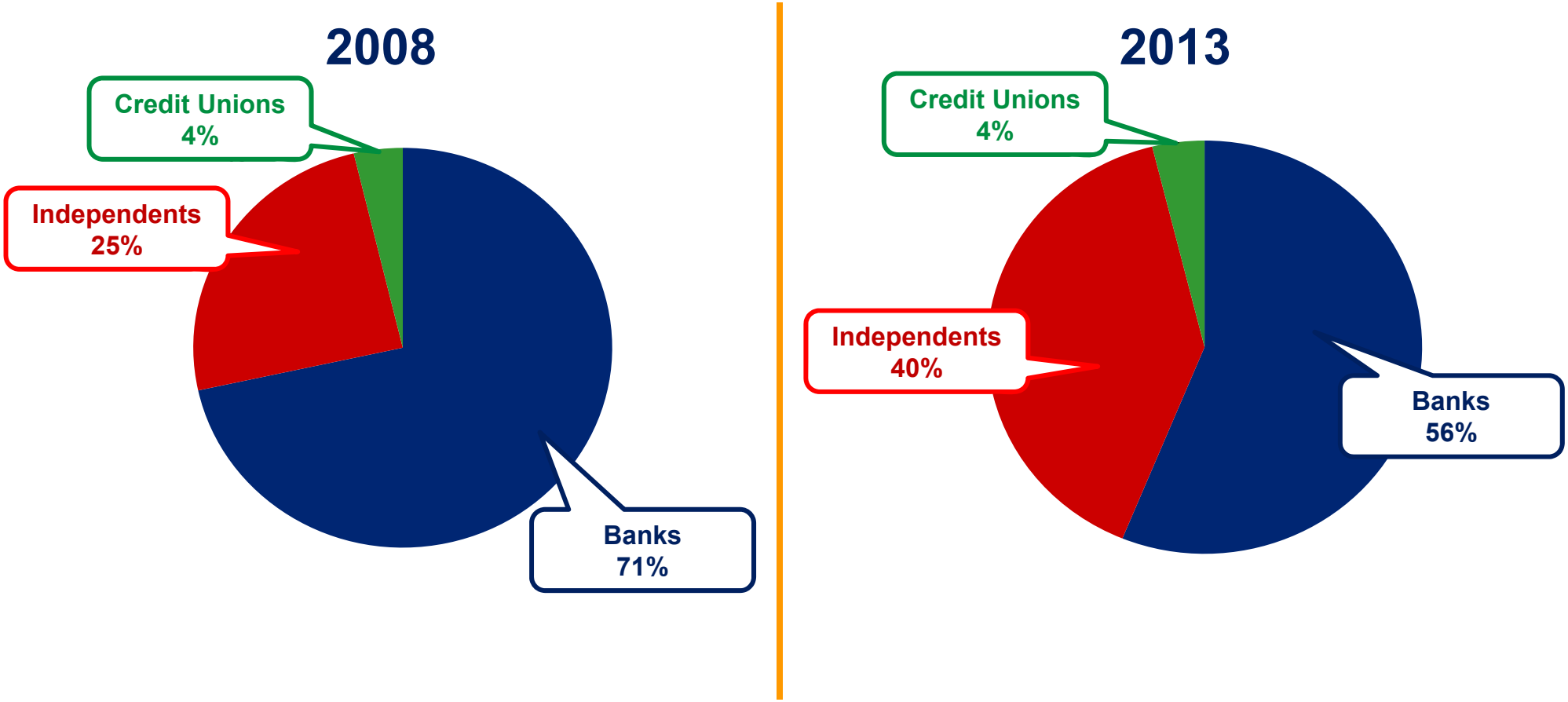
2013 (n=7,109)



Source: HMDA, MBA

Market Share is Changing

Home Purchase Dollar Volume



Source: HMDA, MBA

Why Won't Lenders Lend?

"The most painful business ever"

~Jamie Dimon, Chairman/CEO, JPMorgan Chase, April 2014



Managing Mortgage Risk

Protecting the Franchise

Credit

Market

Liquidity

★ Operational/Transaction ★

★ Legal/Compliance/Regulatory ★

Strategic

Reputational

CFPB/Other Rules Impact On Underwriting

	Impact to Credit	
• Ability to Repay – QM	Modest	★
• HOEPA High-Cost Mortgage Rule	None	
• Loan Officer Compensation Rule	None	
• National Servicing Standards	Modest	★
• ECOA Appraisal Disclosure Rule	None	
• Appraisals for High-Priced Mortgage Rule	None	
• HUD Disparate Impact Rule	Modest	
• Basel III Rule	Modest	
• RESPA/TILA Integration Rule	None	★★
• Risk Retention/QRM	None	
Coming Soon		
• HMDA	None	
• Loan Officer Anti-Steering Rule	None	

★ Work = Costs to Consumers or lack of competition

If Not Regulation…Why is Credit Still Tight?

- **Operational Risk – Loan Manufacturing/Risk Transfer**
  - "Guidelines" have become "rules"
  - Documentation is extraordinary
  - Lack of clarity of reps and warrants
  - GSE "Zero Defect" QA programs
  - FHA new QA/QC initiative
- **Financial Risk**
  - Repurchases
  - Indemnifications
  - Compensatory fees
  - Curtailment of debenture interest
  - Regulatory enforcement
- **Reputation Risk**
  - Headlines



Getting Housing Back on Track

- **Reps and Warrants/Risk Transfer** ①
  - ✓ LOL exclusions, alternative remedies, IDR
  - ✓ FHA Defect Taxonomy
  - ✓ GSE/FHA: Reasonable foreclosure timelines/penalties
  - ✓ FHA certification process
- **Enforcement** ②
  - ✓ Calibrate penalties to the infractions
- **Pricing and Affordability** ③
  - ✓ FHA: HAWK Program, MIP reductions
  - ✓ GSEs: Finalize PMIERS, upfront risk share, expand credit scoring models, GFees, LLPAs
- **Regulatory** ④
  - ✓ CFPB: Safe Harbor 200 bps over APOR, expand QM points and fees, right to cure

Today's Agenda

• The History of PulteGroup's Value Creation Strategy	R. Dugas
• Capital Discipline – Supporting Value Creation	B. O'Shaughnessy
• Building Capability – Next Steps	R. Marshall / M. Wyatt
• Mortgage Update	D. Still
• **Field Operations: Aligned with Our Vision**	**H. Smith**
• Financial Policy to Match Operating Philosophy	B. O'Shaughnessy
• Summary / Closing Comments	R. Dugas





Harmon Smith
Executive Vice President
Field Operations

Field Ops – Aligned with the Vision

Overview of Field Operations

- Experienced leadership team
- Implementing corporate initiatives at a field level
- Assessing the Valuation Creation opportunities that remain
- Further leveraging the power of PulteGroup's unique multi-brand approach to consumers







PulteGroup

Experienced Operating Team



Harmon Smith
Executive Vice President
(25 Years)

John Chadwick
West Area
(23 Years)



Tony Barbee
Midwest Area
(16 Years)



Peter Keane
Southeast Area
(21 Years)



Steve Teodecki
Texas Area
(12 Years)



Steve Schlageter
East Area
(12 Years)

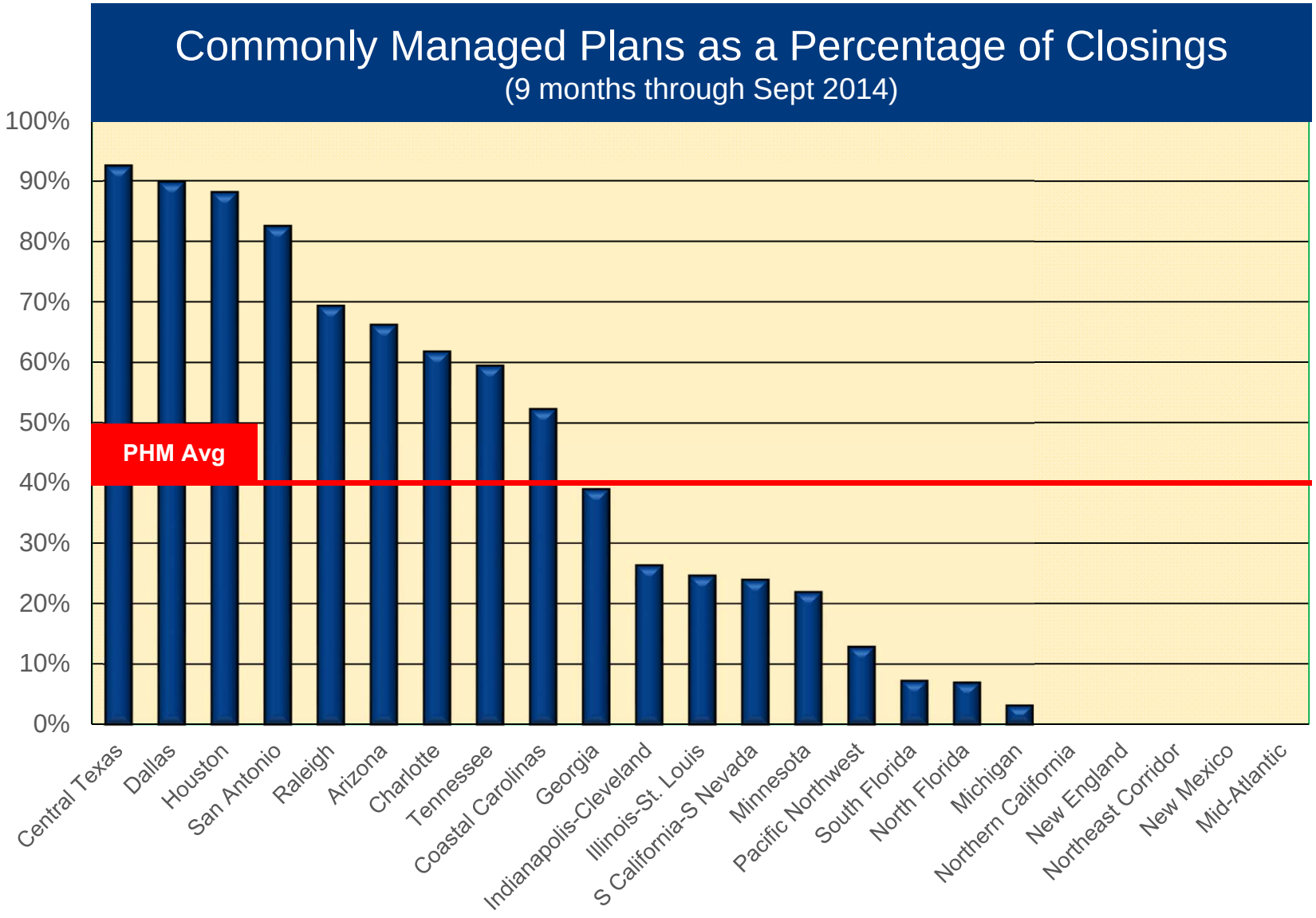


Experienced Operating Team

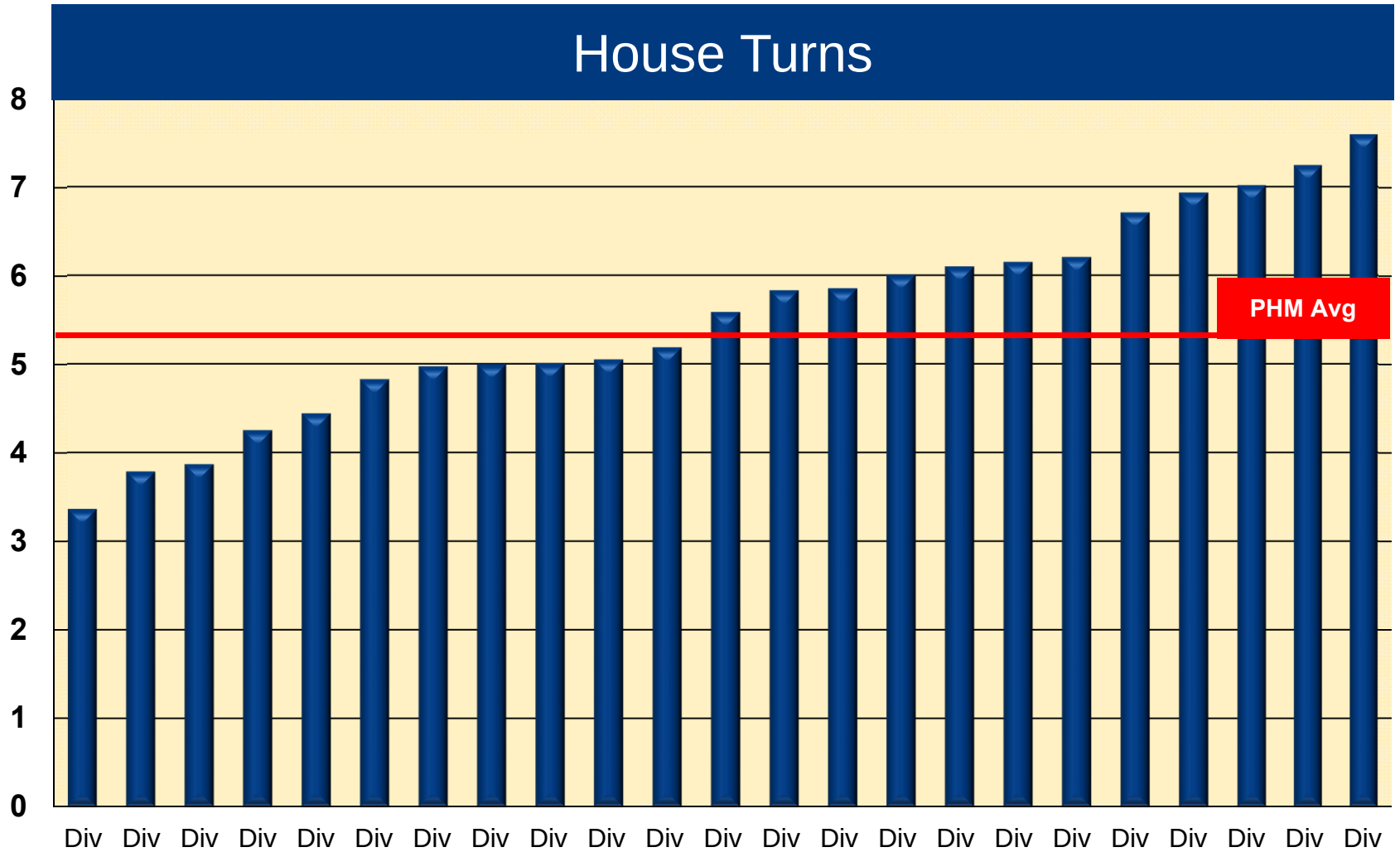
- Profile of Area President:
  - ✓ Strong business and financial acumen with extensive operational experience
  - ✓ Has held multiple roles within the organization
  - ✓ Has served or continues to serve as division president helping to ensure real-world perspective
- Demonstrated leadership skills
- Team player able to execute corporate initiatives at the field level

- Focus areas
  - ✓ Market strategies
  - ✓ Land investment
  - ✓ Organizational development
- Ongoing implementation of Value Creation initiatives
  - ✓ Complete rollout of existing programs
  - ✓ Implement new initiatives and tactics currently under development
- Example of opportunities to raise the performance bar…

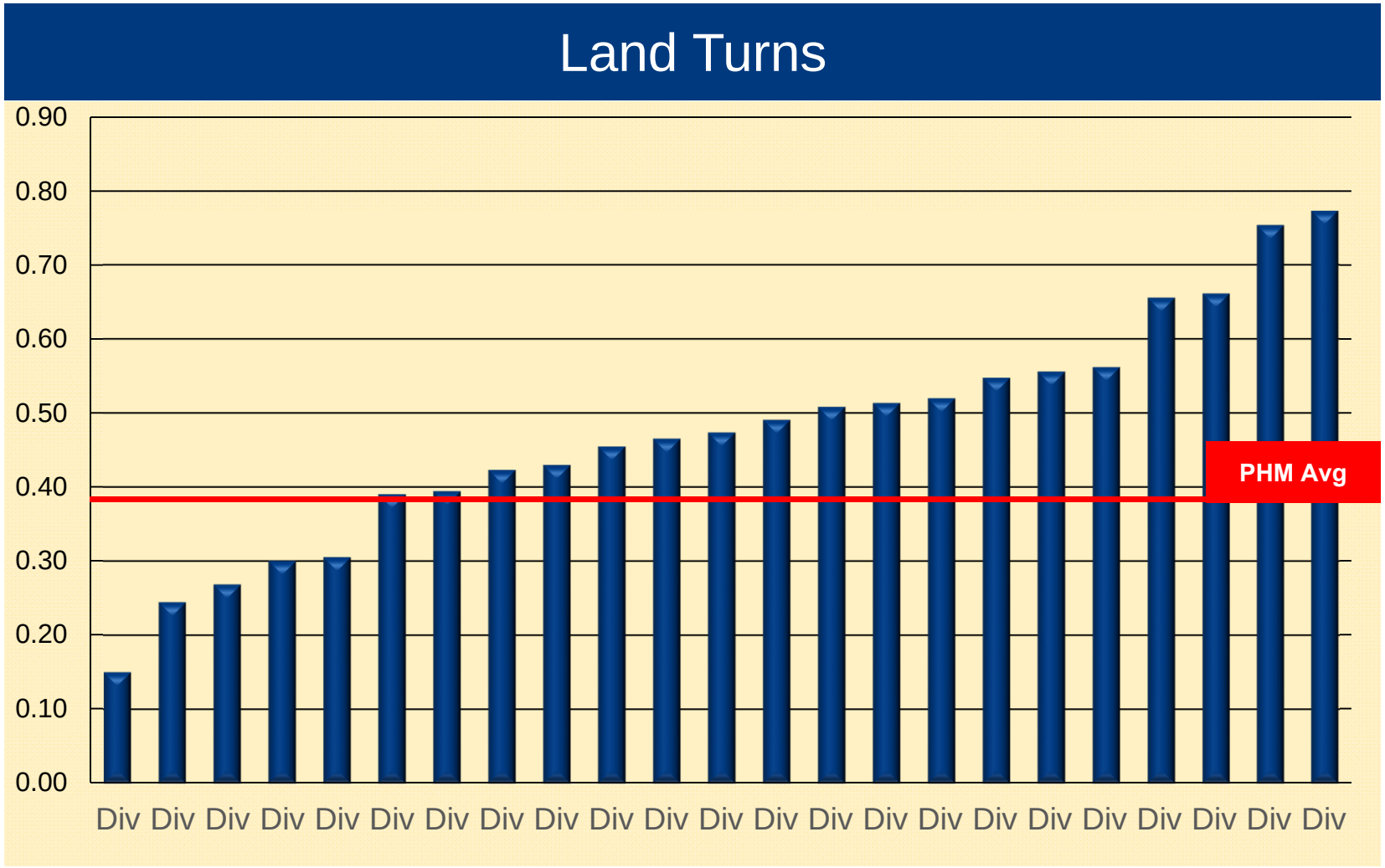
Achieve 70% Common Plan Target Within 24 Months



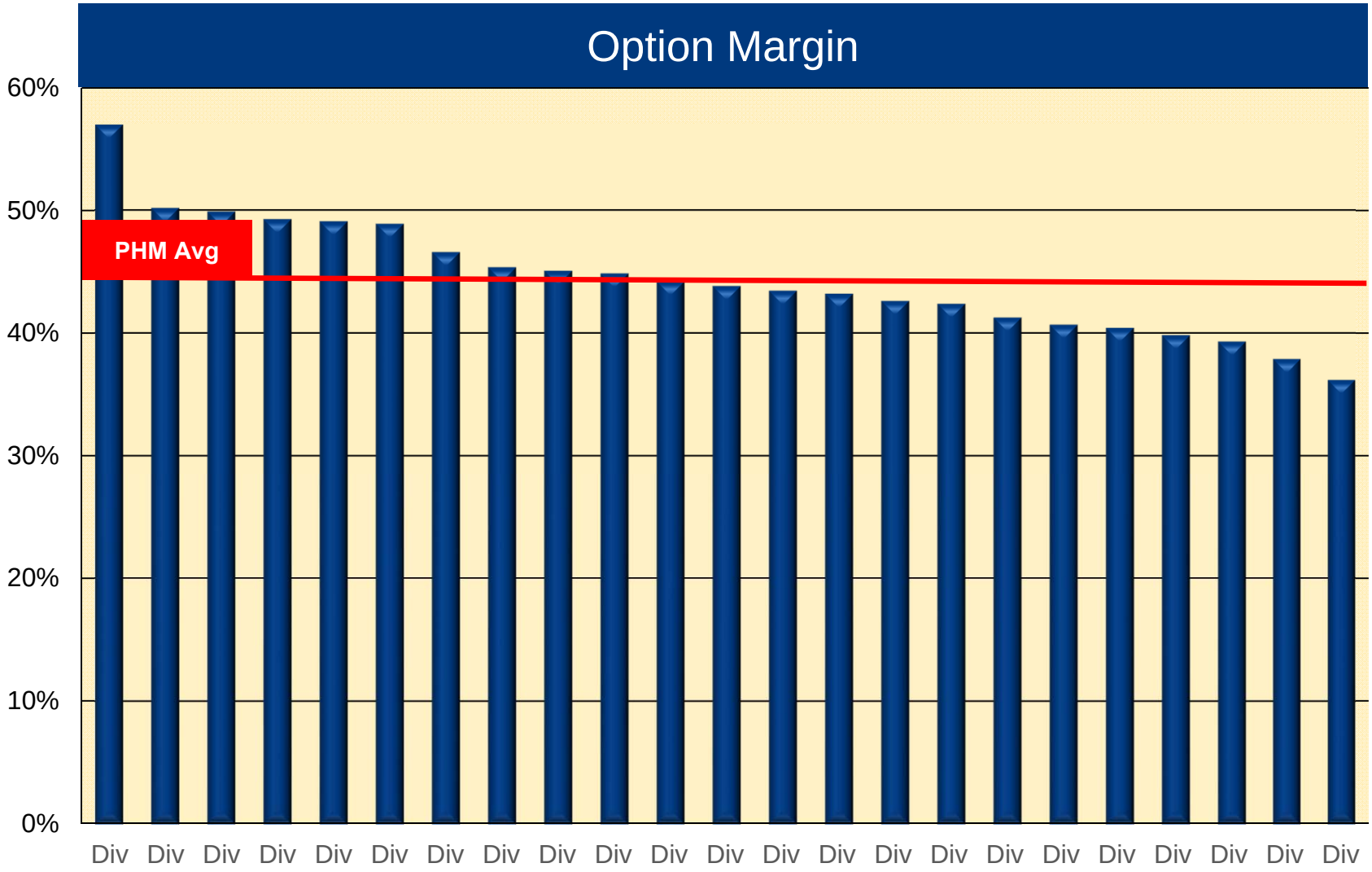
Common Plans and Other Tactics Can Further Accelerate House Turns



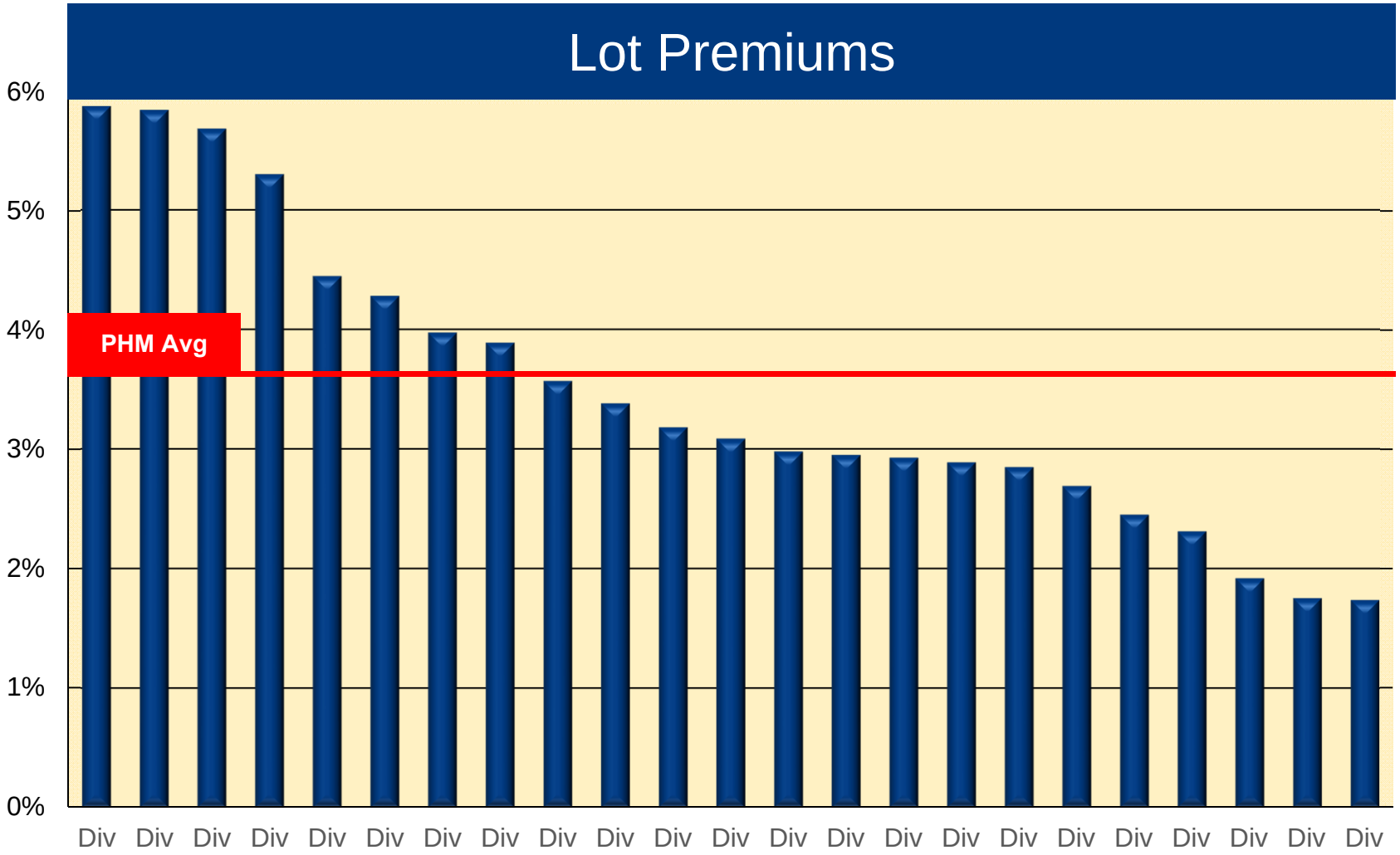
Better Balancing Land Turns with Land Investment



Expanded Data Analysis Can Help Raise Option Profits



Divisions Are Still Just Scratching the Surface on Lot Premiums



Opportunities to Drive Further Gains

- Significant gains realized across operations:
  - ✓ Gross margins raised to among the industry leaders
  - ✓ Implemented Common Plan strategy and related activities to drive construction efficiency
  - ✓ More return-friendly approach to land investment
  - ✓ Rolled out strategic pricing model
- Focus on continuous improvement to capture further gains across critical business functions

- Disciplined land investment
  - ✓ Locate new investments within targeted submarkets which can generate appropriate returns
  - ✓ Manage through existing municipal approval delays
- Maximize benefits associated with strategic pricing
  - ✓ Increase option revenues and margins
  - ✓ Increase lot premium dollars
- Remain focused on improving the fundamentals



Leveraging Our Unique Brand Opportunities

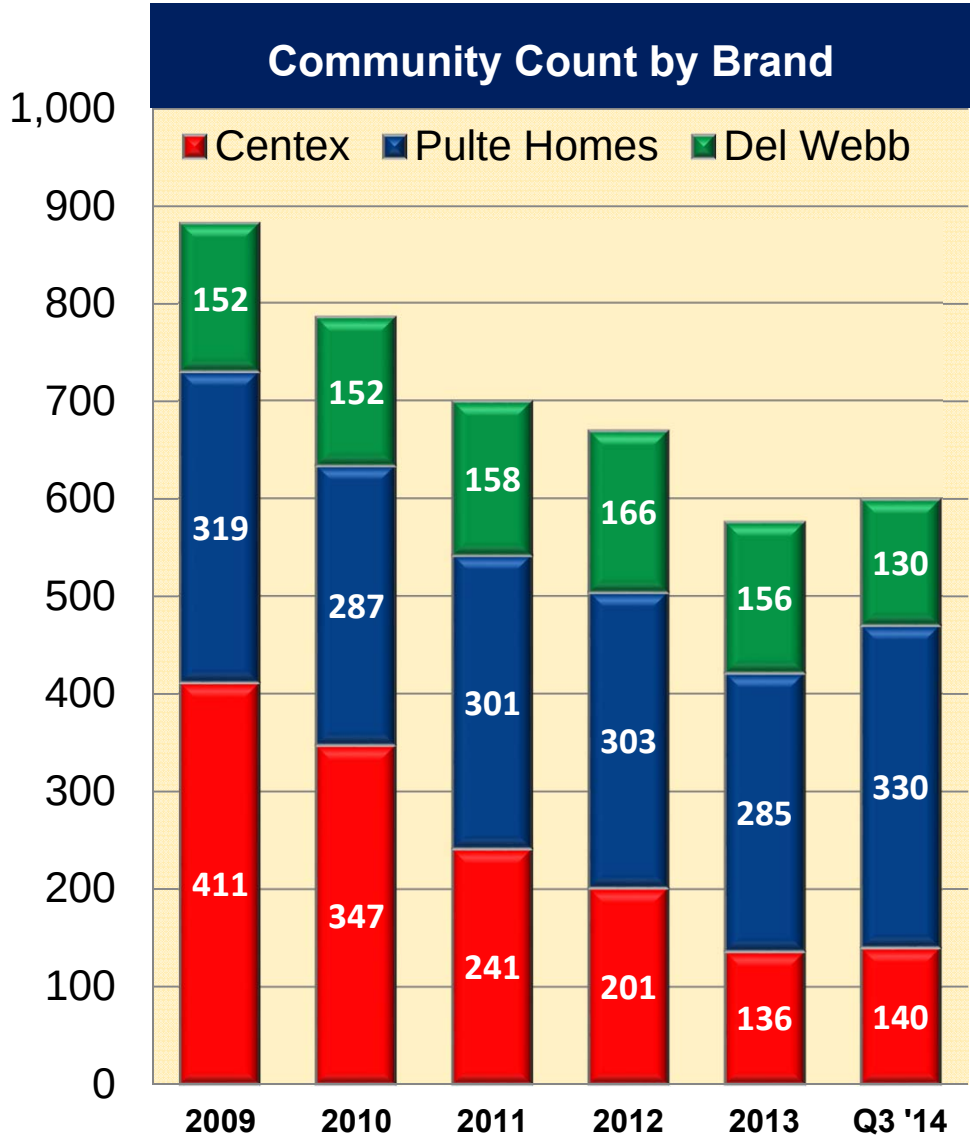
Current Composition of Our Business

Centex	Pulte Homes	Del Webb
TARGET: Entry-Level Buyers	TARGET: Move-Up Buyers	TARGET: Active Adults
POSITIONING: Bringing pride of home ownership within reach	POSITIONING: Crafting smart, life-enhancing environments that enrich everyday life	POSITIONING: Inspiring life's most exciting possibilities
		
25%	44%	31%

Sept YTD 2014 Closings

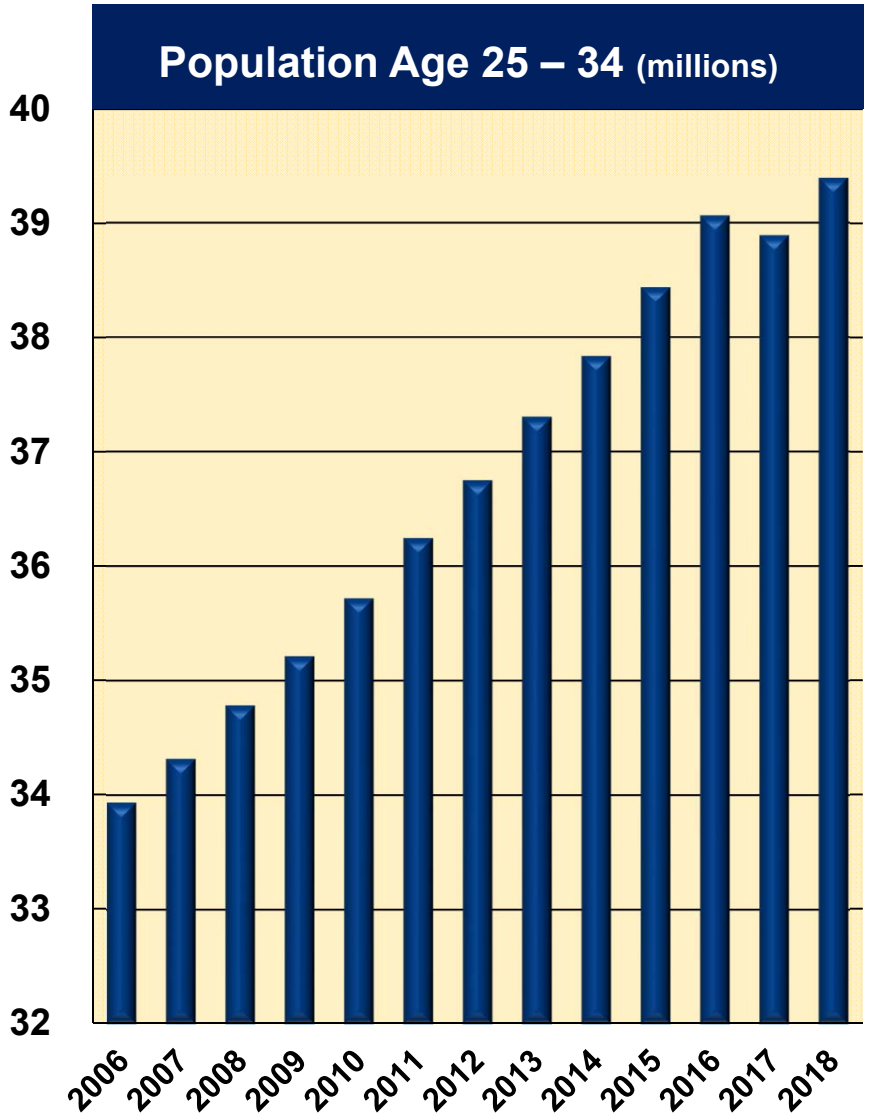
Shift in Business Consistent with Demand Environment

- Initial phase of the housing recovery built on move-up demand
  - ✓ Buyer had the life stage need and financial capacity
  - ✓ Higher margins drive superior relative returns even at modest absorption paces
- Harvesting prior investment in Del Webb
  - ✓ Fully invested in Webb expansion in the 2003 to 2006 timeframe
  - ✓ Large legacy communities with multi-year build out remaining
- Difficult to find replacement Centex communities as slow absorption paces limit project-specific ROIC



Centex® Rebound in Entry Level Demand is Expected

- First-time buyers below 30% of total housing demand; normal range is 40% to 45%
- Home ownership increases with age*:
  - ✓ Age 25 to 29 – 36.8%
  - ✓ Age 30 to 34 – 51.6%
- Expectations about this buyer:
  - ✓ They are slower to form new households
  - ✓ They are getting married later
  - ✓ They are starting a family later
  - ✓ They still believe in homeownership



*U.S. Census Bureau, data through 2010

Centex® Business Strategy

- Long-term opportunity, but near-term headwinds:
  - ✓Lack of jobs/higher wage jobs
  - ✓Increased student loan debt
  - ✓Constrained mortgage availability
- Sustained buyer demand focused on closer-in communities
- Centex ASP of $204,000 targets the higher end of the category
- Absorption pace is critical driver of ROIC, so need to see consistent, higher sales velocity
  - ✓ Business can deliver high returns, but margins are inherently lower



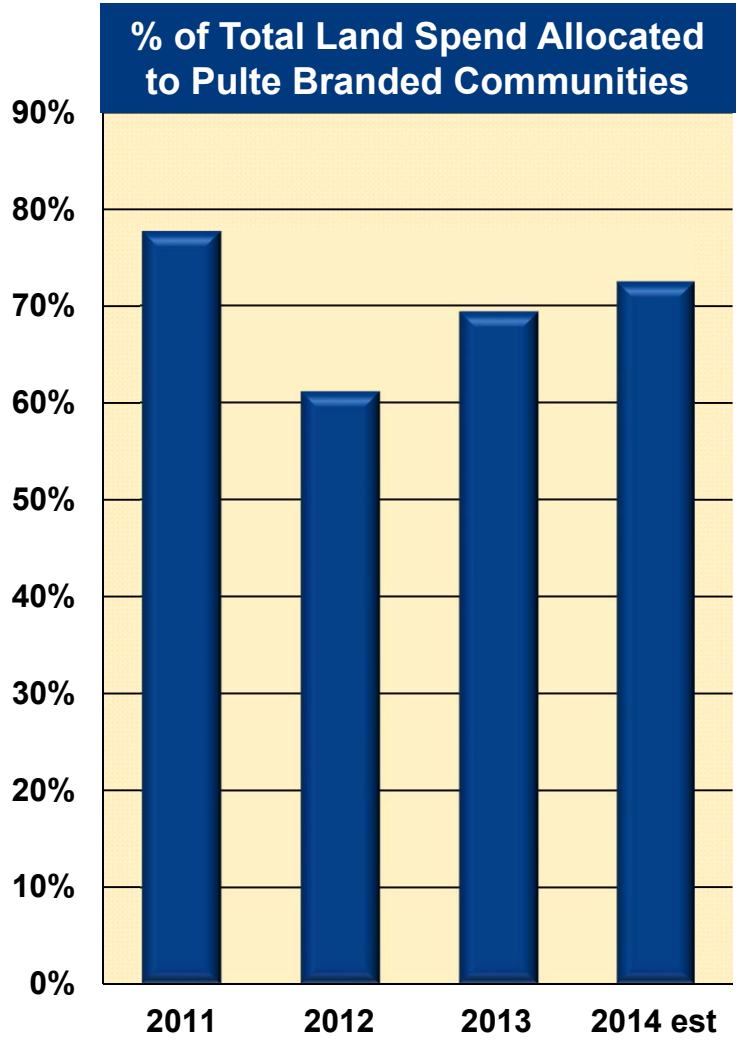


Centex® Business Strategy

- Investing in projects that can generate acceptable returns
  - ✓ Approximately $150 million of 2014 land spend expected to be in Centex branded communities
  - ✓ Focus on closer-in communities; not betting on outlying, albeit lower cost, land positions
- Areas of investment focus: Texas, the Midwest, Florida, the Carolinas and California
- Ongoing work to lower overall product costs, but not targeting the lower price points of the segment
- 2015 plan for a comprehensive review of first-time buyer to identify opportunities for increasing investment
  - ✓ Prepared to respond to expanding buyer demand as it develops rather than “rolling the dice” on speculative land investment

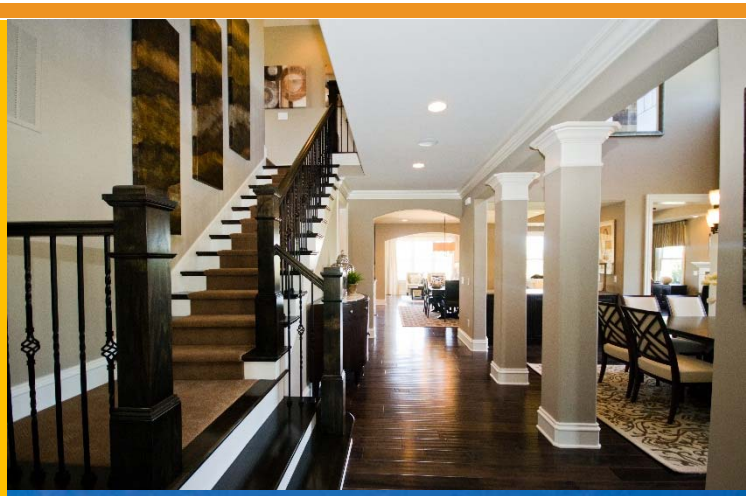
Sustained Strength of the Move-Up Buyer

- Buyer group has driven the first leg of the housing recovery and currently accounts for majority of housing demand
  - ✓ Higher likelihood of children and need for more space
  - ✓ Financially capable and benefitting from recovery in stock market
  - ✓ Greater access to mortgage financing
  - ✓ May be capturing some older first-time buyers
- Recent Census data showed home ownership among individuals age 35 to 54 exceeded 65%

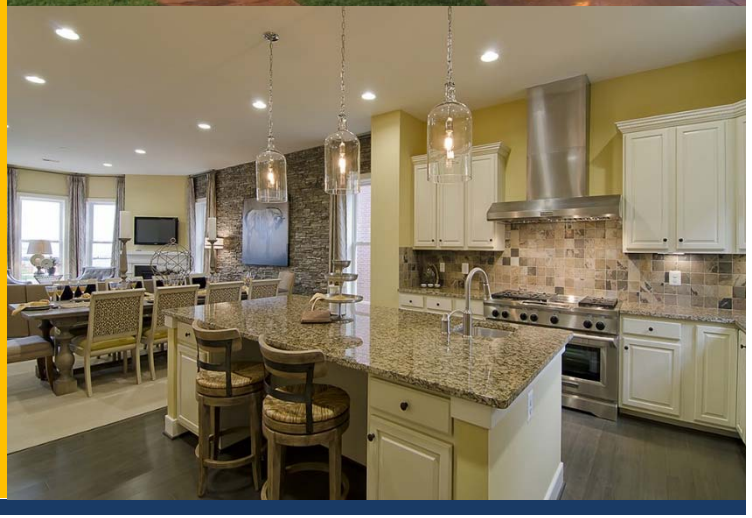


Business Strategy

- Experienced multiyear strength as buyer group has realized better wage growth and credit availability
- Over past 3 years majority of land investment allocated to Pulte Homes
  - ✓ Prior period investment will result in ongoing mix shift toward the move-up buyer in future quarters
- Average size of recent projects is 90 lots
  - ✓ Closer-in projects with an expected cycle time of 24 to 36 months for development and build out
- Continue to develop innovative new floor plans and product features

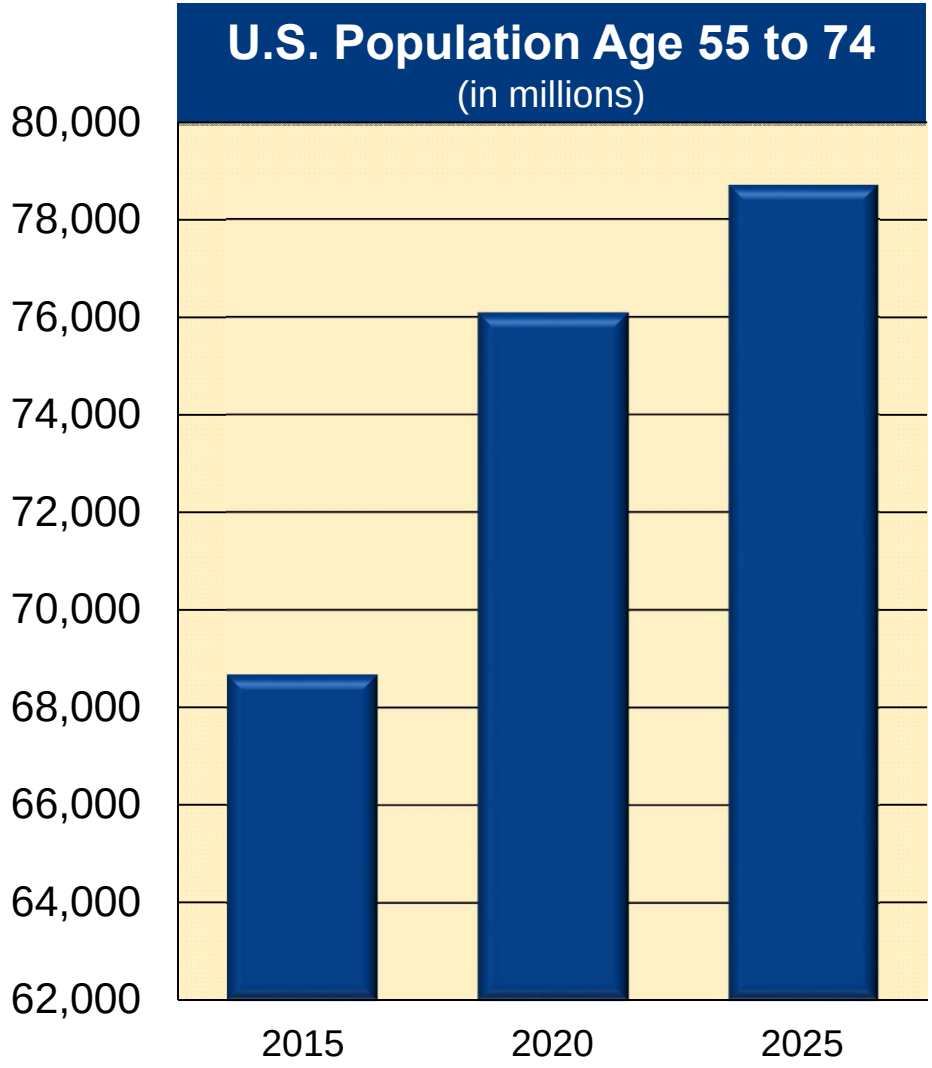






Del Webb® Continued Growth of the Active Adult Market

- 76 million baby boomers; 50% between the ages of 50 to 58
- Considered the wealthiest generation in the country
  - ✓ Financially the most capable home buyers with 43% of Del Webb customers paying cash
- Viewed as later-cycle buyer
  - ✓ Benefitting from recovery in demand for, and price of, move-up homes



Del Webb® Business Strategy

- Legacy investment in large, highly amenitized Del Webb communities
  - ✓ Continue to work down investment and redeploy capital to other opportunities
  - ✓ Owned Webb lots total 35,000, down from 47,000 as of 12/31/11
- Company's highest gross margins, so keeping paces high is vital
- Changing profile of Webb projects;
  - ✓ 1,000 to 1,500 lots with right-sized amenity
  - ✓ Closer-in projects with good returns and less risk
  - ✓ Faster turning and less capital intensive communities

Carolina Arbors in North Carolina

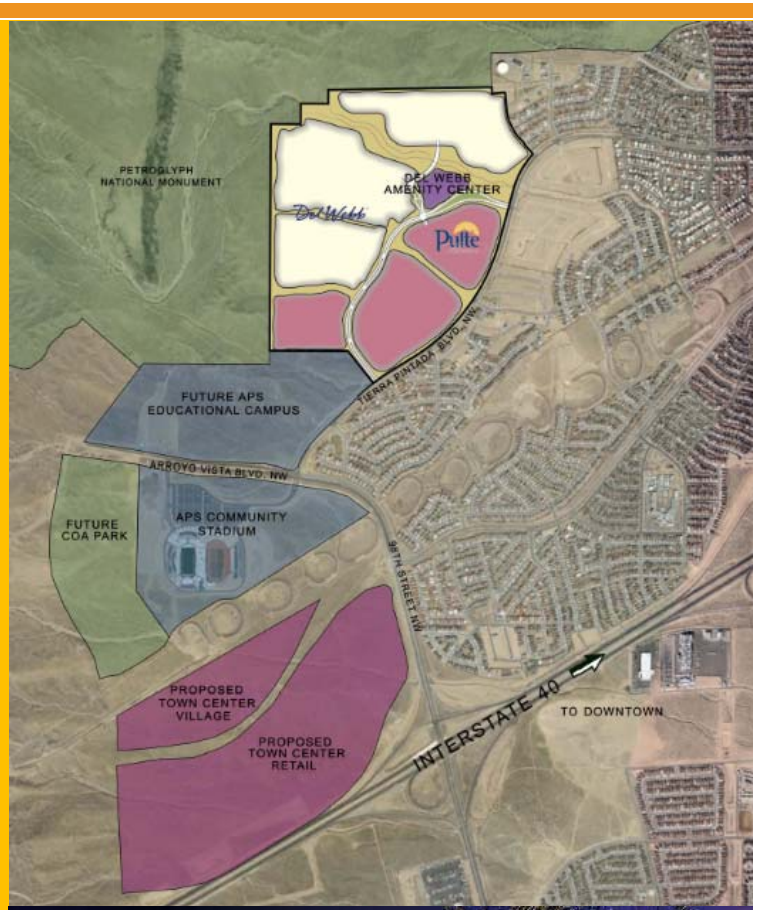




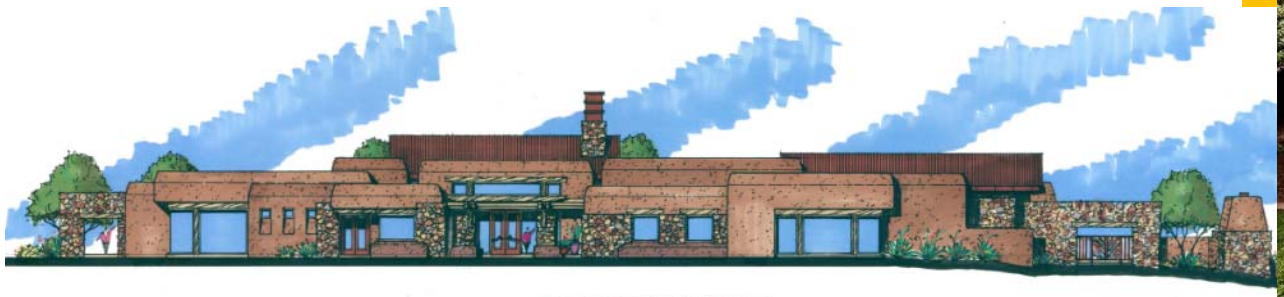


Newest Del Webb Project

- Del Webb Mirehaven in Albuquerque
  - ✓ Located just 6 miles from downtown with direct access to adjacent national park
    - Large central amenity but hiking and other outdoor activities replace need for golf courses
  - ✓ 550 Webb homes with outstanding amenity package
    - An adjoining Pulte Homes parcel of 350 homes will serve move-up buyers; opportunity to leverage overhead spend
  - ✓ Using common plans from Arizona
  - ✓ Deal structure minimizes upfront expense to enhance overall returns



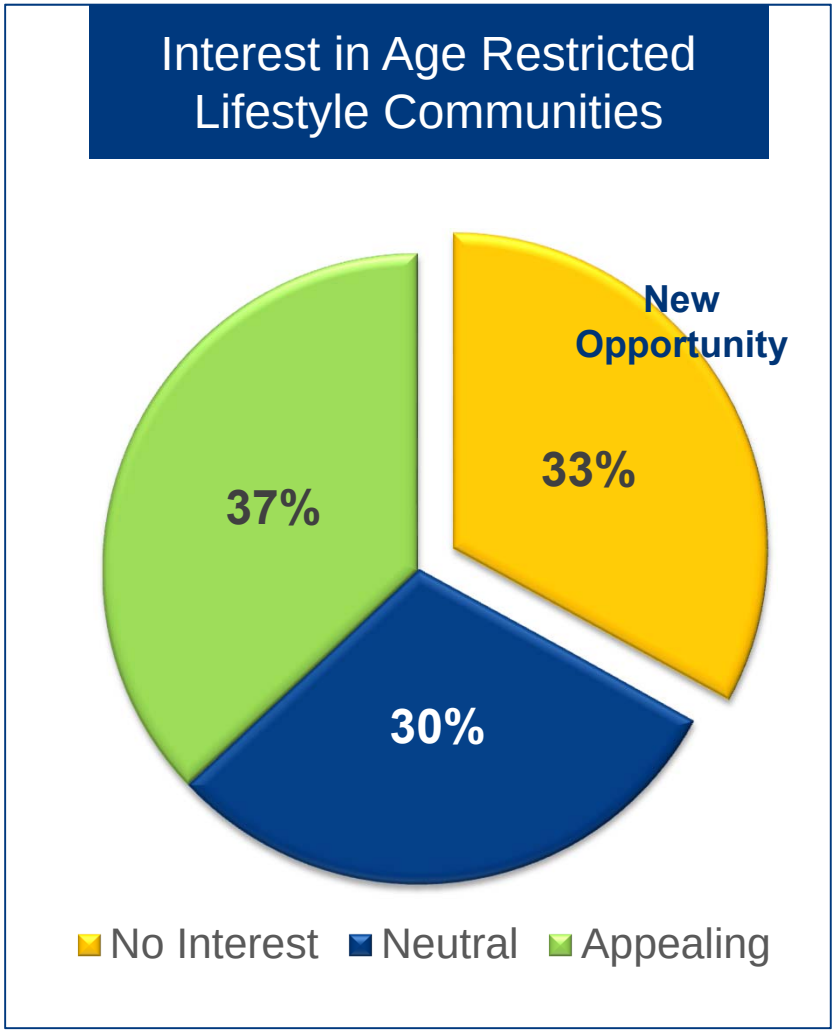




FRONT ELEVATION

Expanding Penetration of Active Adult Market

- Assessing opportunities to extend our penetration of active adult market
  - ✓ Potential to offer smaller, non-age restricted communities
  - ✓ Focus on product with “lite” or no amenity package
  - ✓ Would not carry the Del Webb brand
  - ✓ Test communities have demonstrated the concept resonates with the consumer group





PulteGroup Investor Day
December 9, 2014
Part 2

PulteGroup™

Today's Agenda

• The History of PulteGroup's Value Creation Strategy	R. Dugas
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• Building Capability – Next Steps	R. Marshall / M. Wyatt
• Mortgage Update	D. Still
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PulteGroup®



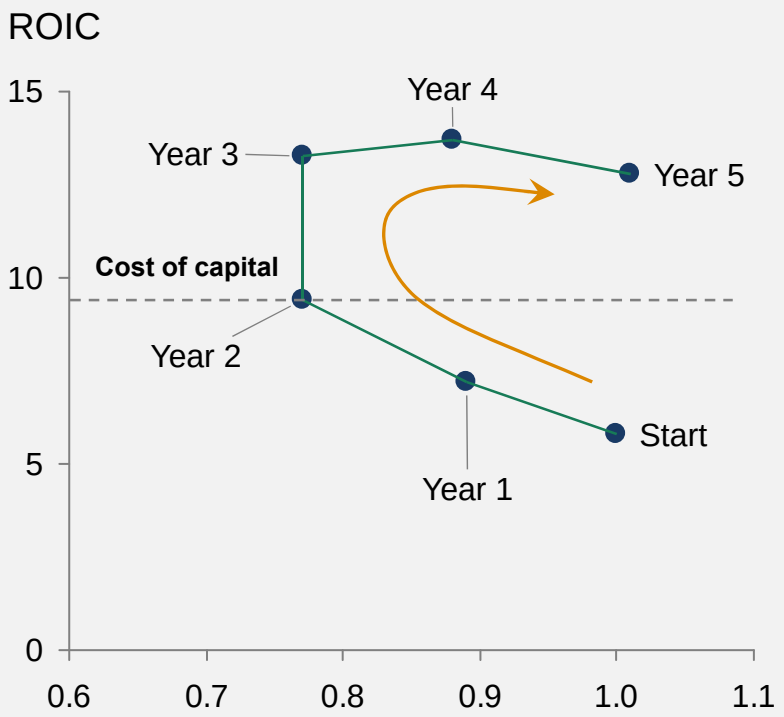


Bob O'Shaughnessy
Executive Vice President & Chief Financial Officer

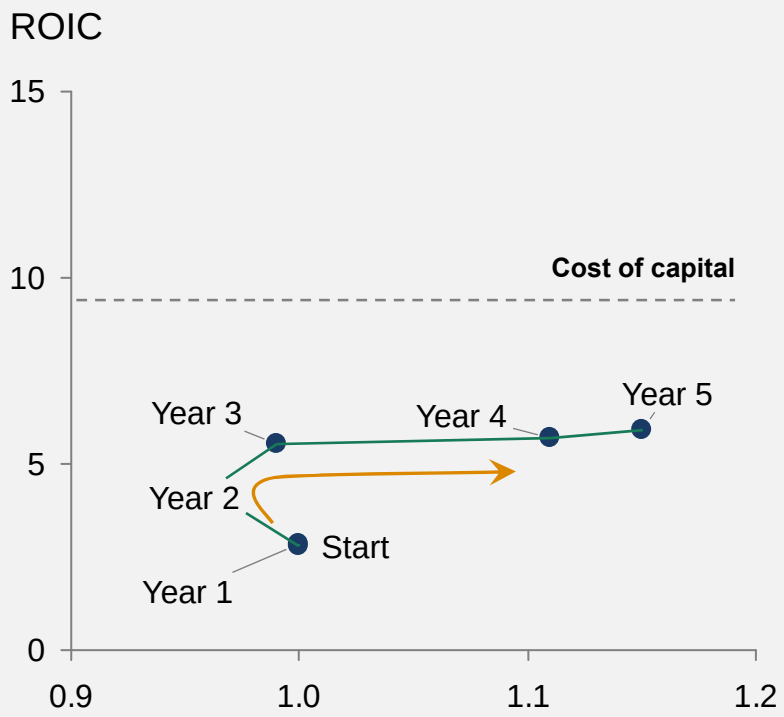
Capital Allocation Policies to Match Operating Philosophy

Recall this slide – Successful Turnarounds Start with Fixing the Core and Earning Your Cost of Capital

Successful turnarounds: "C" curve profile of improving profits then reinvesting for growth



Unsuccessful turnarounds: Reinvest for growth before successfully raising profitability



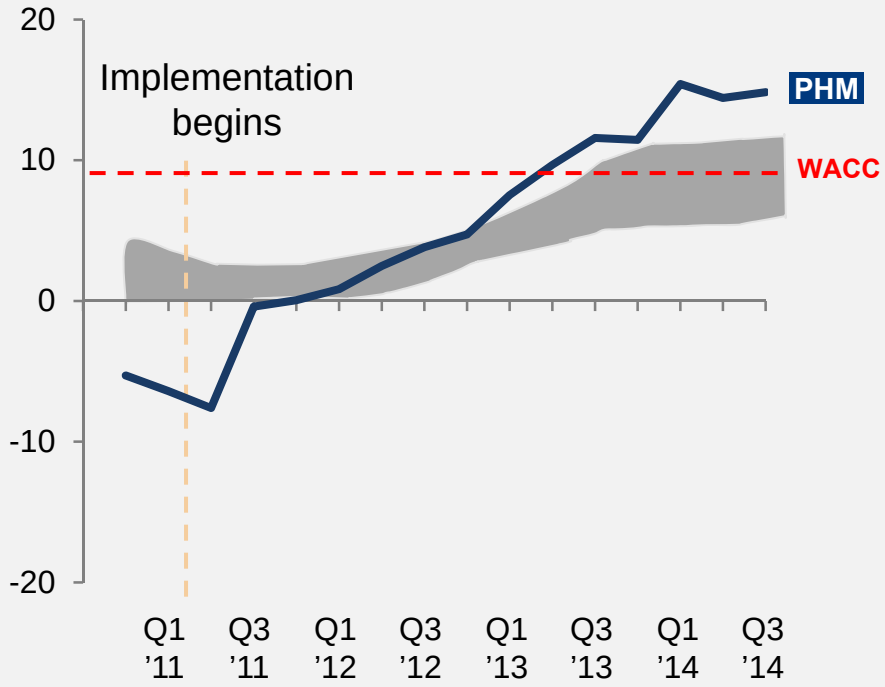
Invested capital (indexed to 1 at starting point)

We have delivered operational improvement

Meaningfully enhancing ROIC and substantially outperforming on TSR

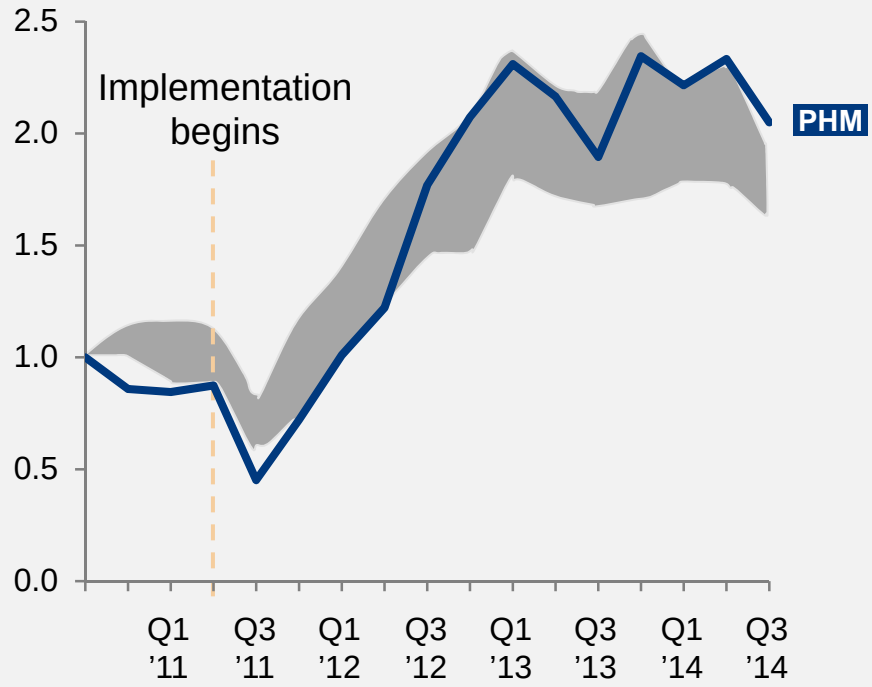
PHM improved capital returns relative to peers...

ROIC % (LTM)[1]



... driving substantial total shareholder return outperformance

2010-14 TSR (indexed to 1)[2]



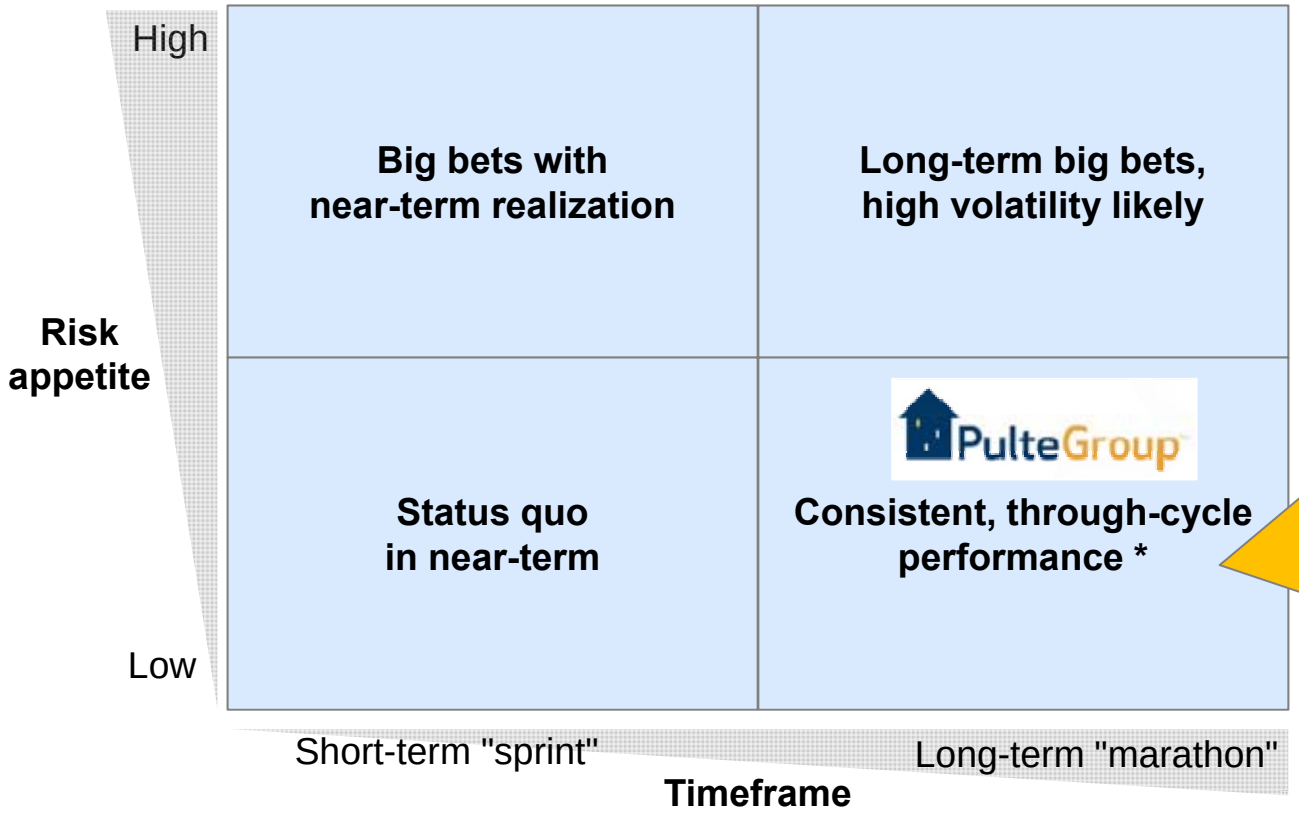
Annualized TSR[3] : 20%

1. ROIC Calculated as: EBIT / (Land + NPPE + Working Capital + Cash – Accum. Liabilities); Starting period in Q4 2010
2. Assumes starting value of 1 at beginning of Q3 2010 and calculates change in total shareholder return (share price + dividends) quarterly.
3. TSRs are Q3'10 through Q3'14

Performance ranges based on 9 company homebuilding peer group including DHI, RYL, TOL, LEN, MTH, MDC, KBH, PHM, NVR

Source: Capital IQ; BCG ValueScience® Center

And Recall This Slide: We Will Operate to Deliver Consistent, Above-Average Returns Over the Long-term and Avoiding "Big Bets"



With this position, we must:

- Recognize the **industry is cyclical**
- Maintain or grow **competitive position**
- Focus on **consistent**, **above-average** through-cycle returns rather than "big bets"
- Have a **robust** plan under multiple market outcomes

*** This quadrant allows for more effective management of operations**

Long-Term Housing Market Mechanics Look Like This…

~2-2.1 M jobs/yr supports population growth



1
Job



0.63
Households
1.2M–1.3M HH/yr

RENT

OWN



0. 22 (35%)
Renters
~0.5M/yr



0. 41 (65%)
Owners
~1.0M/yr



0.15 (70%)
Multi Family
~350K/yr



0.07 (30%)
Single Family
~150K/yr



0.12 (29%)
Owner Built
~300K/yr



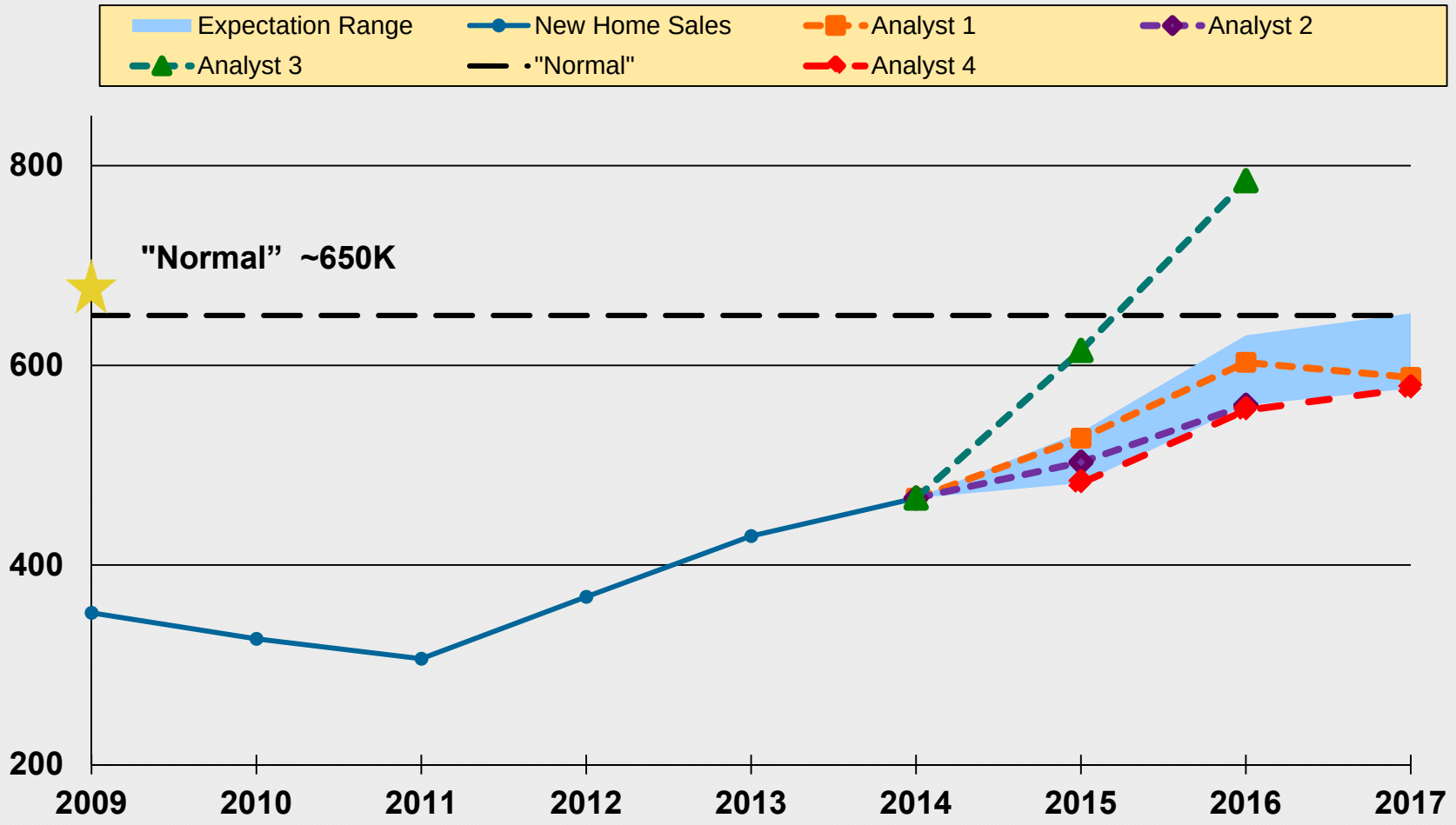
0.29 (71%)
Built for Sale
~700K/yr

~1.5M housing starts is "normal", including **~200K** housing units scrapped /yr

~700K homes built for sale is "normal"

However, There are Varied Expectations on the Rate of Recovery for Housing

Single Family New Home Sales (000s)

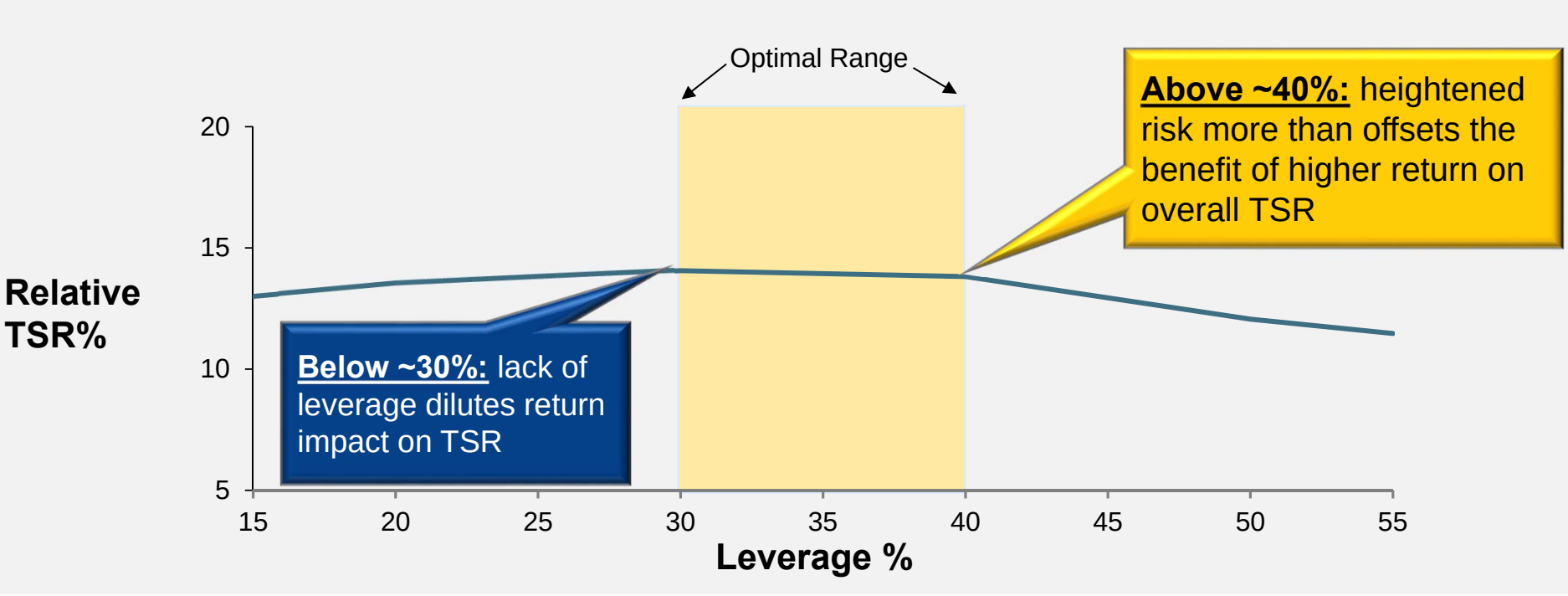


In Light of These Expectations, What's Next?

- We will more directly match our capital allocation priorities to our operating philosophy
- As we've indicated, our first priority is to invest responsibly in the business, after which we will seek to distribute excess cash to shareholders on a routine and systematic basis
- Specifically, we expect to:
  1. Invest in the core business to maintain or grow relative market share in markets where we operate
  2. Fund an increasing dividend
  3. Selectively engage in return accretive M&A to grow our footprint/share
  4. Distribute any residual capital through systematic share repurchases
- Do all of this while managing our total capital against a pre-determined leverage range

Targeted Leverage is a Determining Element

- Our leverage is a critical component of returns and TSR
- Our target leverage will be between 30% - 40%
  - ✓ Supportive of returns and TSR without outsized risk



- Willing to flex above 40% leverage for the right opportunities – provided there is a plan to return to desired range in a reasonable timeframe

Priority #1: Invest in Core Business to Maintain or Grow Relative Market Share

Amount will fluctuate with market

Reinvest a percentage of net income assuming long-term market growth

- Through cycle average investment should target long-term growth (population growth plus housing inflation)

However, this varies significantly based on point in the cycle

- Going into a downturn, would shrink or maintain inventory level to match market outlook
- Emerging from a downturn, reinvestment can be ~3-4x+ net income (net income may be low, but forward growth rates could be substantial)

Therefore, objective is to maintain or grow competitive position through cycle

- Through cycle, seek to match land investment to market growth outlook in order to maintain or grow share
- Requires **maintaining discipline** and keeping close eye on market developments

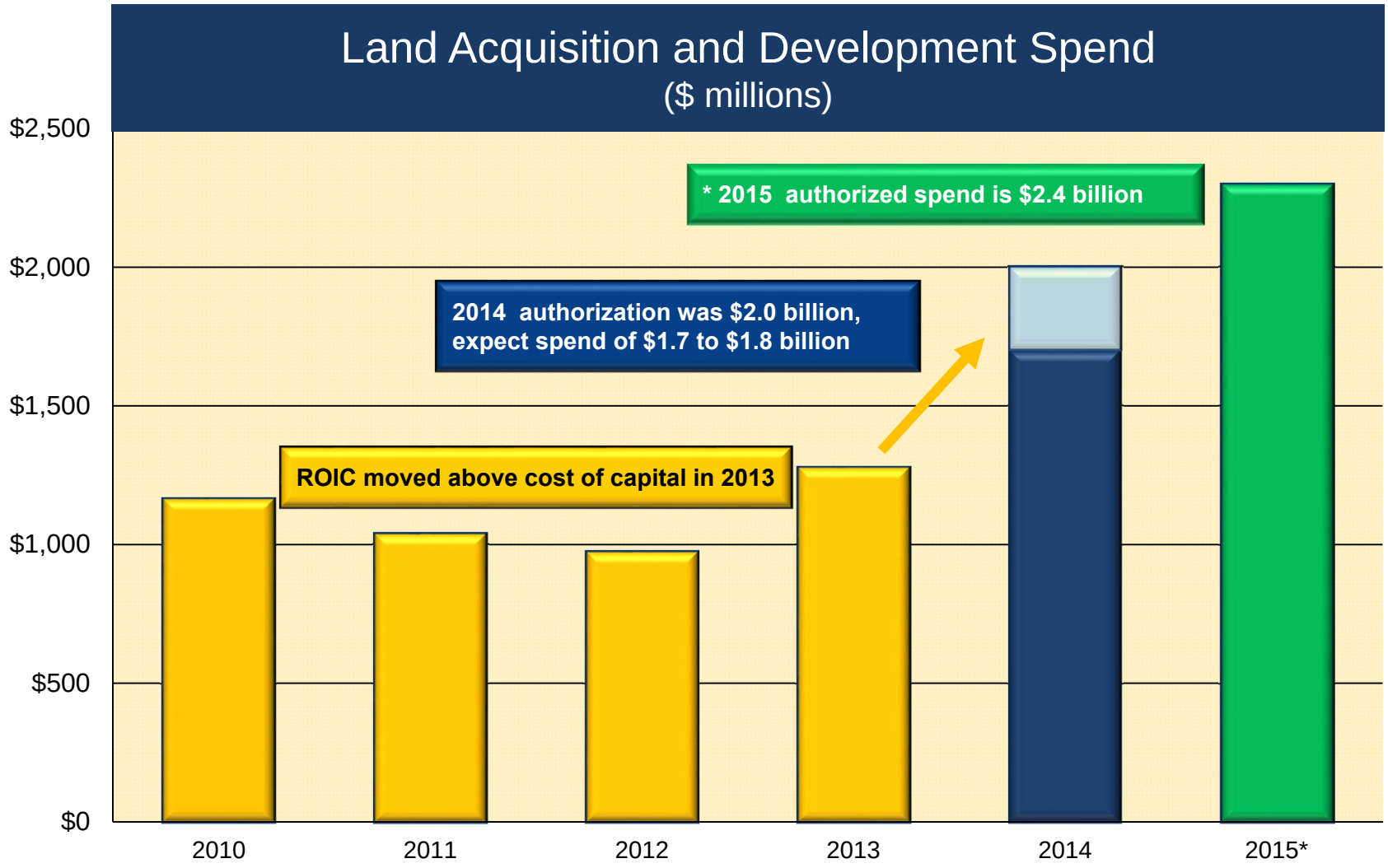
But…We Will be Disciplined

History is our guide

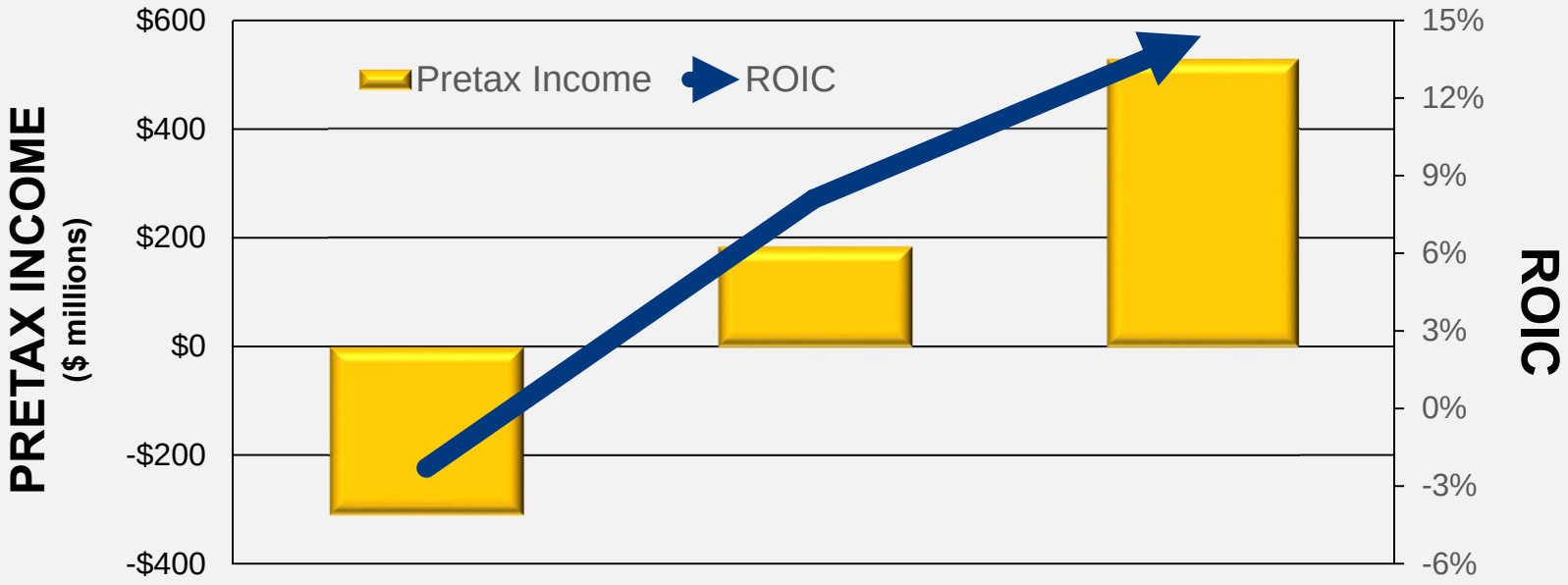
- Recall: "Big Bet" land investment and aggressive revenue growth don't necessarily translate into high returns or TSR
  - ✓ Builders have not been great market timers and have been too optimistic with investments
  - ✓ Pulte wrote off over 30% of 2004 land investment – fully 24 months before the last downturn began
  - ✓ Pulte's previous aggressive growth profile did not result in higher TSR

	1990 - 2010			
	PulteGroup Average	Top Quartile	Bottom Quartile	PulteGroup Quartile
Revenue Growth	10.2%	16.7%	0.6%	2nd
EBIT Margins	1.7%	8.9%	2.8%	4th
Asset Turns	0.90x	1.28x	0.88x	3rd
ROCE	2.3%	9.0%	2.4%	4th
Average Annual TSR %	10%	28%	5%	3rd

Priority #1: Invest to Maintain or Grow Relative Share



Because Operational Improvement (Increasing Turns & Margins) Can Have a Larger Impact on TSR Than Revenue Growth



	2011	2012	2013	3 Year Change
Closings	15,275	16,505	17,766	16%
Gross Margin	12.8%	15.8%	20.5%	**Up 60%**
SG&A % of Gross Margin*	102.6%	71.6%	51.0%	**Cut 52%**
Turns	0.65x	0.78x	0.97x	**Up 49%**

* Gross margin excluding capitalized interest amortization and land impairments

Priority #2: Our Dividend Policy

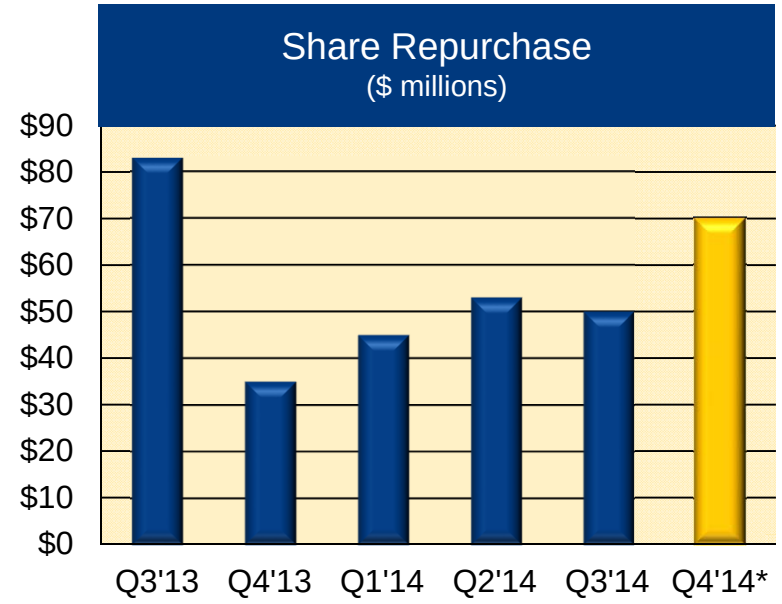
- The Company has historically paid a modest dividend
- Research indicates companies paying a larger dividend realize higher P/E multiples as long as the dividend is deemed sustainable
- We ultimately target a dividend equivalent to ~2.0% to 3.0% yield
  - ✓ Endeavor to maintain sufficient liquidity to continue funding our dividend through normal market downturns
- We declared an $0.08 per share dividend payable in January 2015
  - ✓ 60% increase over then existing dividend – 1.9% yield on the date of declaration
  - ✓ Approximately $120 million aggregate annualized dividend stream; 25% of trailing 12 month net income
- Future dividend declarations subject to Board of Director approval which will depend on market conditions, expected cash flows and other variables

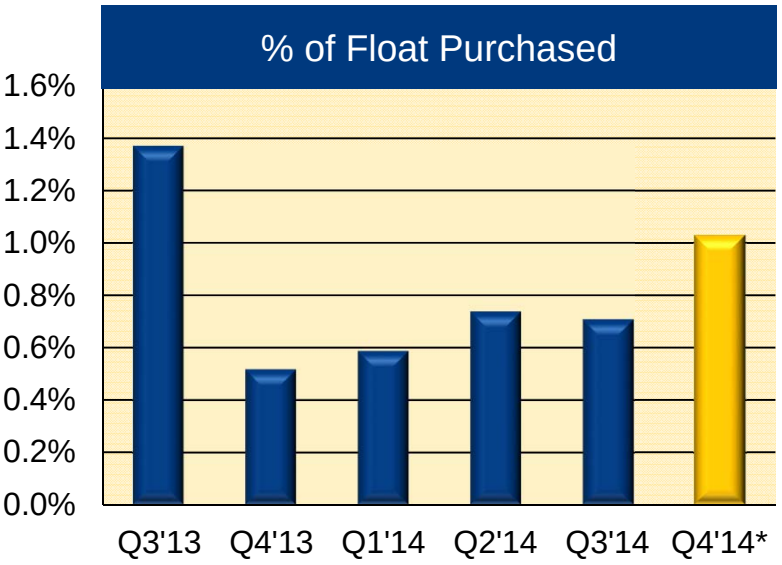
Priority #3: Opportunistic M&A

- We have excellent visibility to assets in market
- Continue to evaluate available opportunities as land transactions – we will not chase growth for growth's sake
- Interested in transactions that:
  - ✓ Provide depth/fill a production gap in markets where we operate today
  - ✓ Offer an opportunity to access attractive markets
- Willing to flex above 40% leverage for the right opportunities – provided there is a plan to return to desired range in a reasonable timeframe
- Only pursue if accretive to earnings and returns
- Recent transaction for Dominion homebuilding assets a good example
  - ✓ $83 million cash purchase price for 8,200 lots – no goodwill
  - ✓ Projected to be earnings and return accretive
  - ✓ Access to 2 new Top 50 metro markets: Columbus, OH and Louisville, KY

Priority #4: Return Excess Capital to Shareholders Routinely via Share Buybacks

- Continually evaluate capital needs of the business, including: investment in the business; dividends; and acquisition opportunities
  - ✓Consider macro market conditions, projected earnings, and leverage
- Use excess capital to routinely repurchase shares
- Plans designed to acquire pre-determined amounts
  - ✓No intention to time the market
  - ✓Will contemplate changes that may occur in the market
- Likely more significant until deferred tax assets are realized
- We announced incremental $750M repurchase authorization in October 2014
  - ✓Through November 2014, $336 million (19 million shares, or 5% of outstanding) repurchased since reactivating the program in July 2013

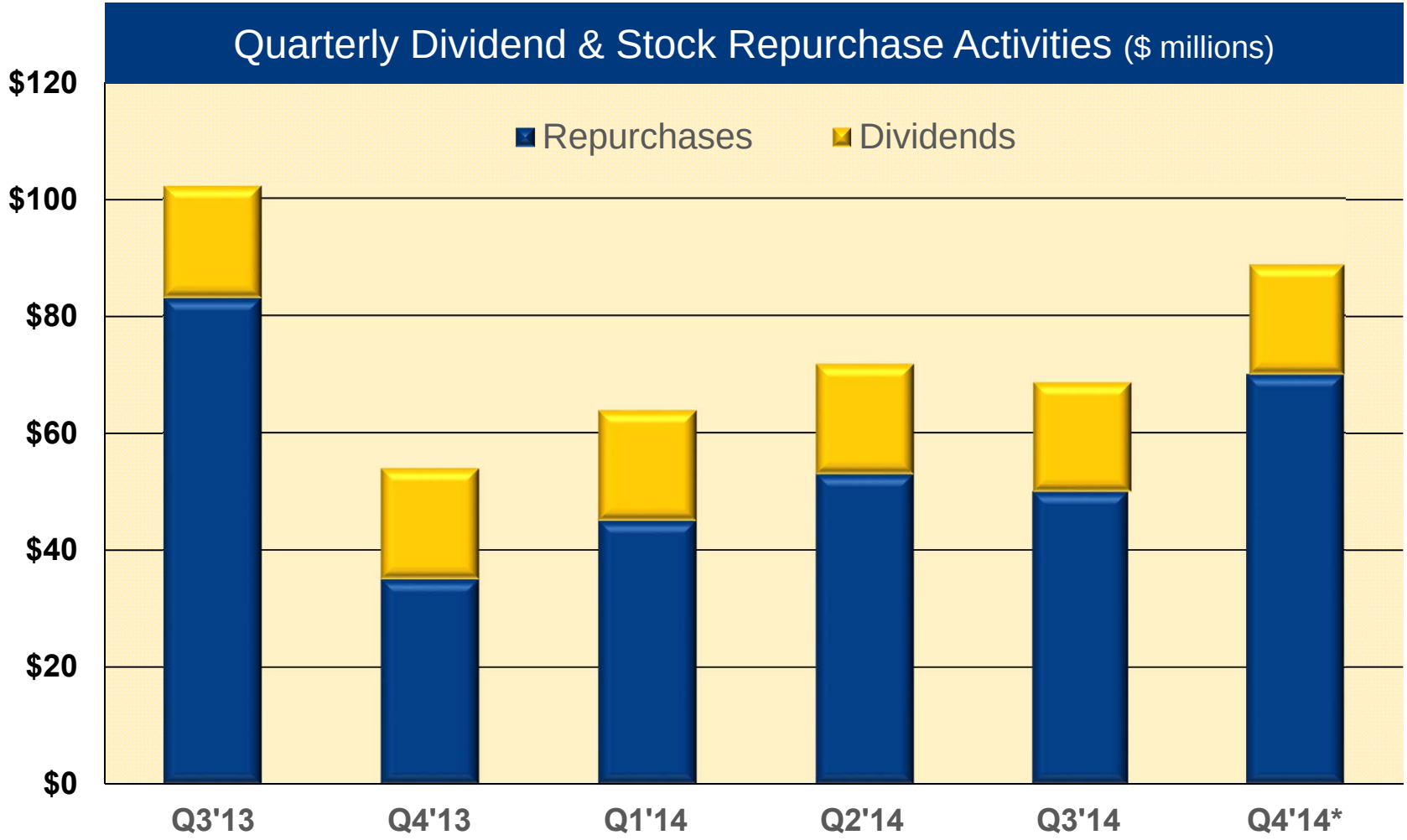




*Q4 2014 share repurchase activity through November

PulteGroup

Demonstrated Commitment to Returning Funds to Shareholders in Support of Higher TSR



*Q4 2014 share repurchase activity through November

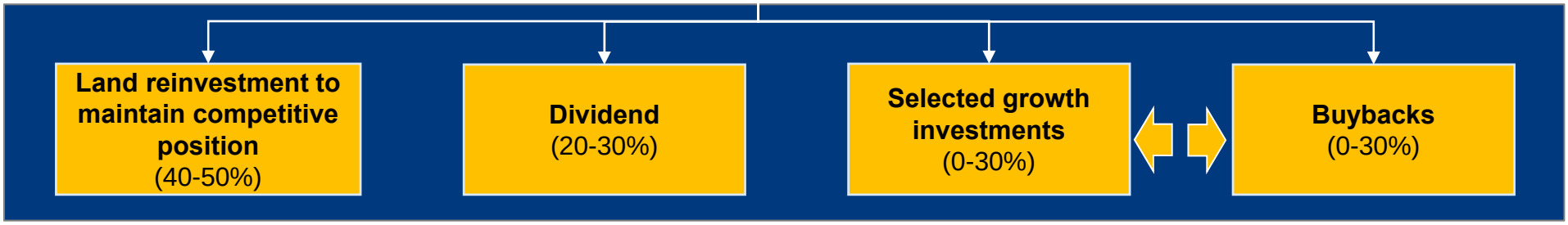
In Summary: How We Plan to Manage Capital in the Future…

Balance sheet targets	
Debt / Cap	Target a balance sheet with 30% - 40% debt-to-cap
Liquidity for working capital and potential market downturn	Maintain sufficient liquidity, including availability under credit facilities, to meet working capital needs based on projected business activity and sustain dividend through potential market downturn

Target cash deployment	
Investment in the business	Reinvest to maintain or grow competitive position through cycle
Fund on-going dividend	Grow dividend to ~2.0% to 3.0% yield
Fund high-return, opportunistic growth	Engage in selective, opportunistic M&A to profitably grow share
Payout residual cash routinely	Payout residual cash routinely and systematically through share repurchases

What Will our Cash Distribution Look like with these Priorities?

Cash flow sources	% of total
Cash flow from operations	~70%
Maintain debt-to-cap	~30%
Total	100%



- **Organic land investment to maintain or grow competitive position**
- **Level will fluctuate significantly based on point in the cycle and market growth**

- **Requires reserve cash to maintain through down cycle**

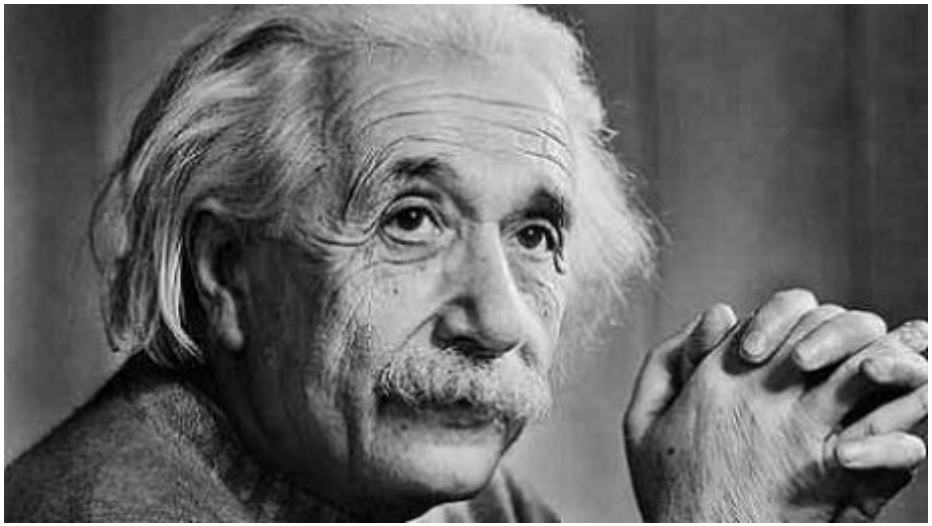
- **Opportunistic, high-ROIC reinvestment to gain share**
- **Selective tuck-in M&A**

- **Systematic and predictable distribution of remaining cash through buybacks**

Today's Agenda

• The History of PulteGroup's Value Creation Strategy	R. Dugas
• Capital Discipline – Supporting Value Creation	B. O'Shaughnessy
• Building Capability – Next Steps	R. Marshall / M. Wyatt
• Mortgage Update	D. Still
• Field Operations: Aligned with Our Vision	H. Smith
• Financial Policy to Match Operating Philosophy	B. O'Shaughnessy
• **Summary / Closing Comments**	**R. Dugas**

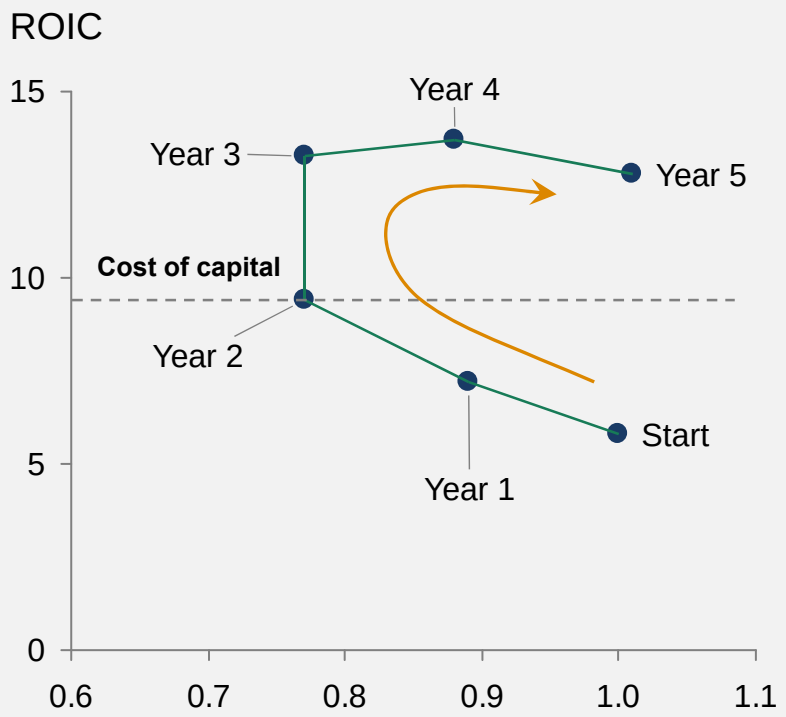
Given the Data and Facts, Were We Going to Repeat Past Actions or Look For Better Answers?



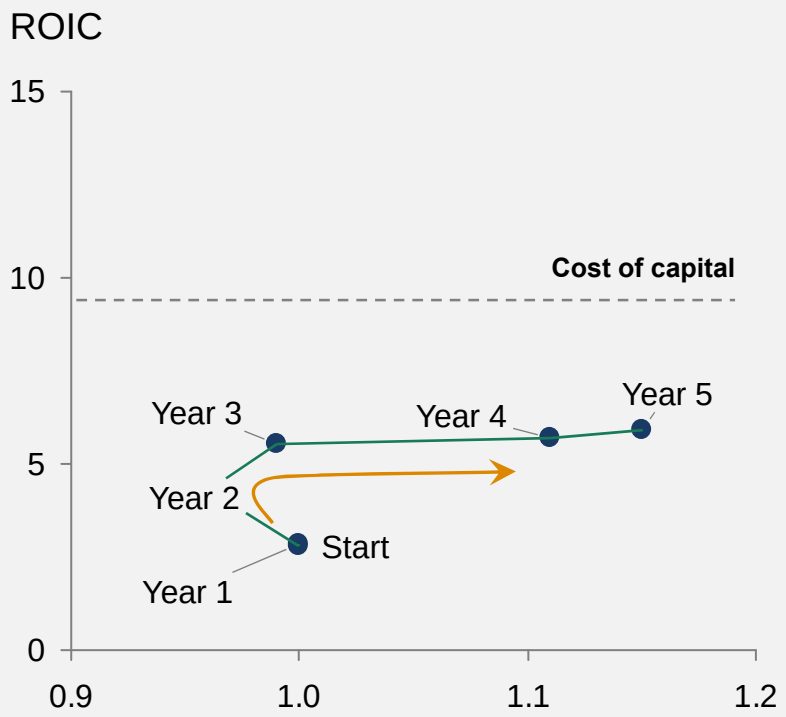
Einstein's definition of insanity: doing the same thing over and over again and expecting different results.

We Needed to Get Returns Up Before Reinvesting – and We Have

Successful turnarounds: "C" curve profile of improving profits then reinvesting for growth

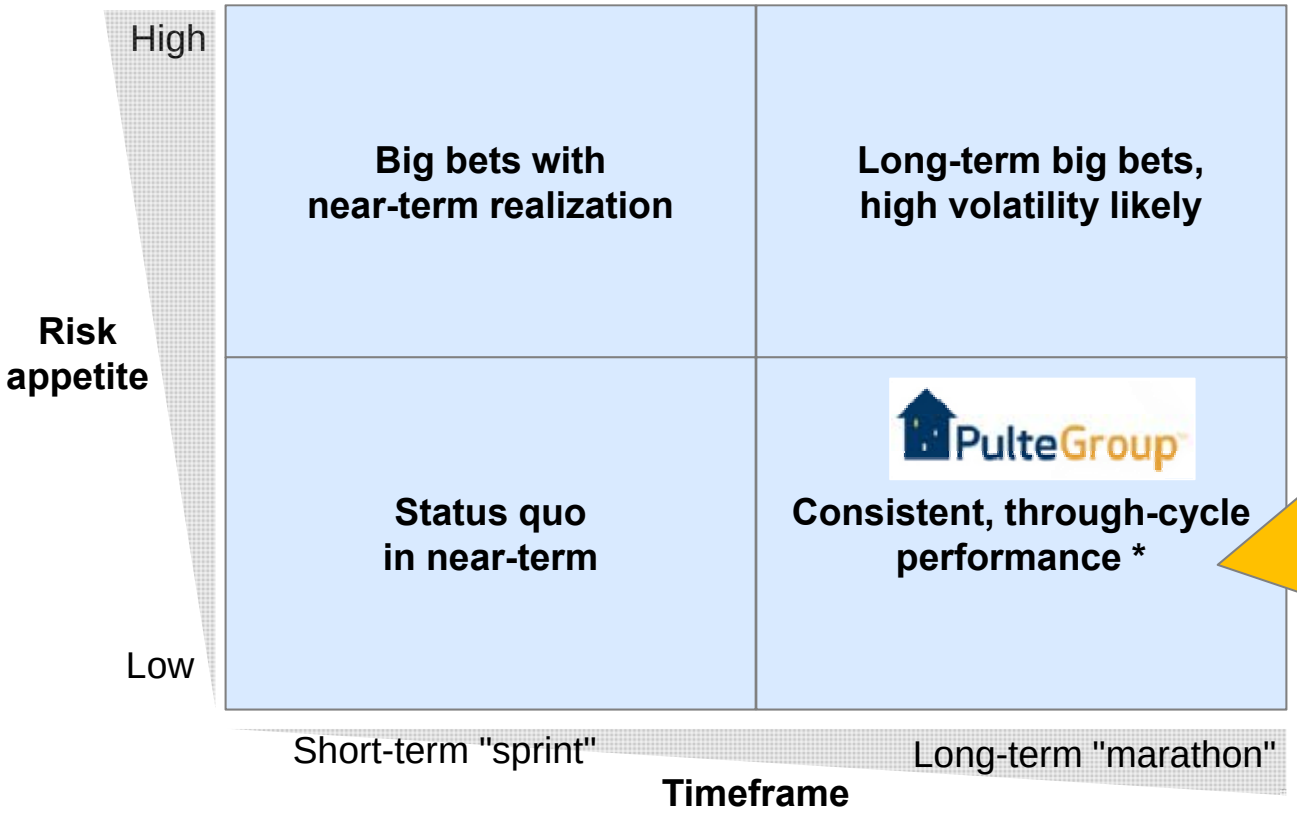


Unsuccessful turnarounds: Reinvest for growth before successfully raising profitability



Invested capital (indexed to 1 at starting point)

Running PulteGroup for the Long Term

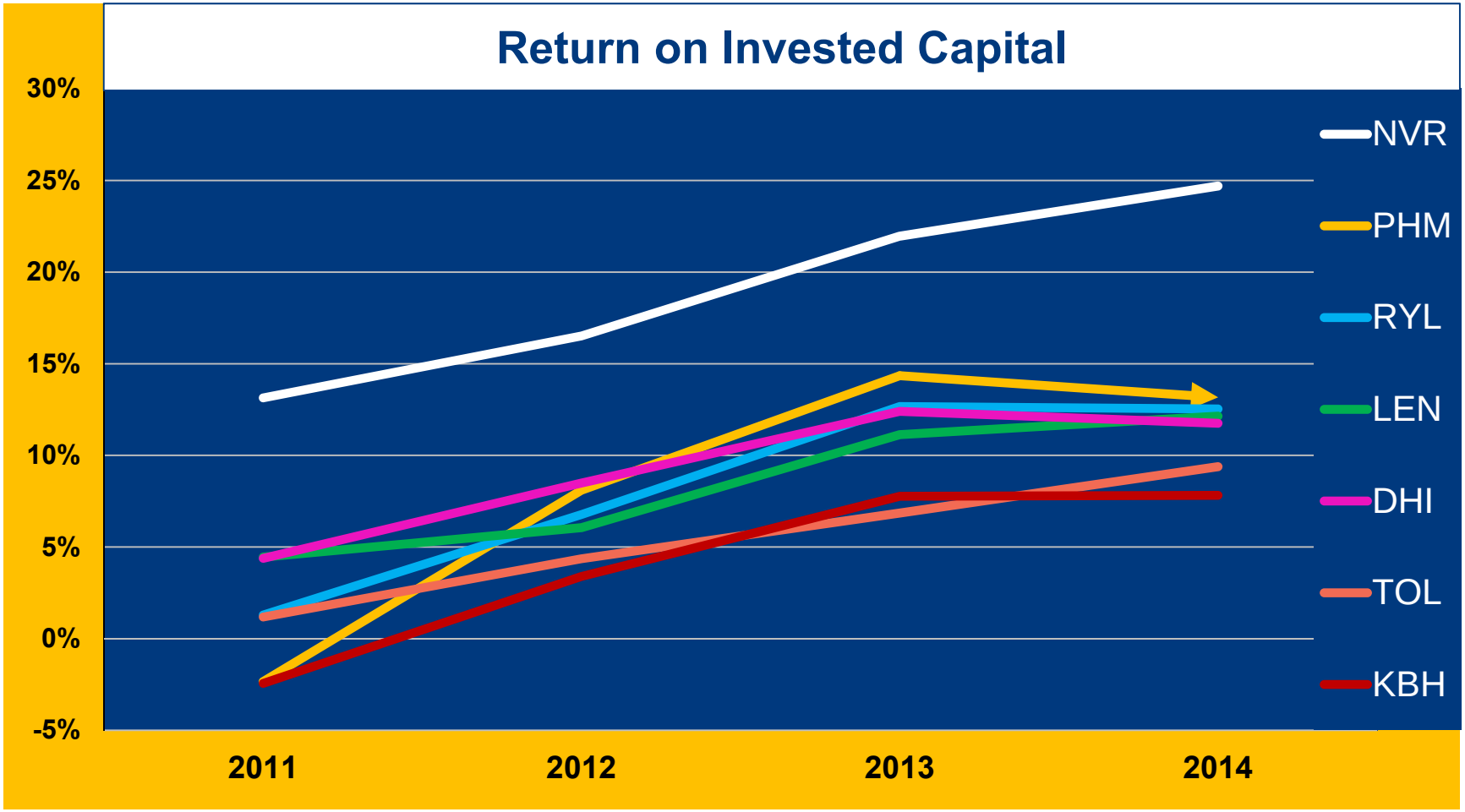


With this position, we must:

- Recognize the **industry is cyclical**
- Maintain or grow **competitive position**
- Focus on **consistent**, **above-average** through-cycle returns rather than "big bets"
- Have a **robust** plan under multiple market outcomes

*** This quadrant allows for more effective management of operations**

Our Strategy is Working



ROIC calculation: LTM EBIT divided by Average Debt and Equity (5 Quarter Average)

Now is the Right Time to More Directly Match Our Financial Policy to Our Operating Policies of The Past Few Years

Operating Policies

- Focus on ROIC
- Improve fundamental business results
  - ✓ Expand gross margins
  - ✓ Gain greater overhead leverage
  - ✓ Accelerate inventory turns
  - ✓ Effective allocation of capital
- Implement Value Creation initiatives
  - ✓ 12-step process and commonly managed plans
    - Product and purchasing zones
    - Value engineering and should costing
    - Strategic pricing

Financial Policies

- Capital allocation priorities
  1) Invest in our core homebuilding business to maintain or grow relative market share
     - ✓ Maintain disciplined investment process focused on high return projects
  2) Systematic return of funds through a sustainable dividend program
  3) Opportunistic M&A
     - ✓ Provide depth/fill a production gap in markets where we operate today
     - ✓ Opportunity to access attractive markets
     - ✓ Accretive to earnings and returns
  4) Use excess capital to routinely repurchase shares
     - ✓ No intention to time the market

Financial Goals & Objectives

- ROIC remains the critical metric, supported by:
  - ✓ Gross margins at or near the top of the industry
  - ✓ SG&A leverage at or near the top of the industry
  - ✓ Inventory turns improving to eventually reach top quartile in several years
    - Ongoing reduction of existing long-lived assets
    - Reinvestment in faster-turning, higher return/lower risk assets
- Grow with discipline and return excess funds to shareholders routinely and systematically

Going Forward: What Can You Expect?

- Value Creation – opportunities remain to realize additional benefits
- Capital Allocation – disciplined and focused
- Consumer Focus – it is about costs and revenues
- Long-Term View – running the business for success over the entire cycle

THANK YOU FOR YOUR TIME