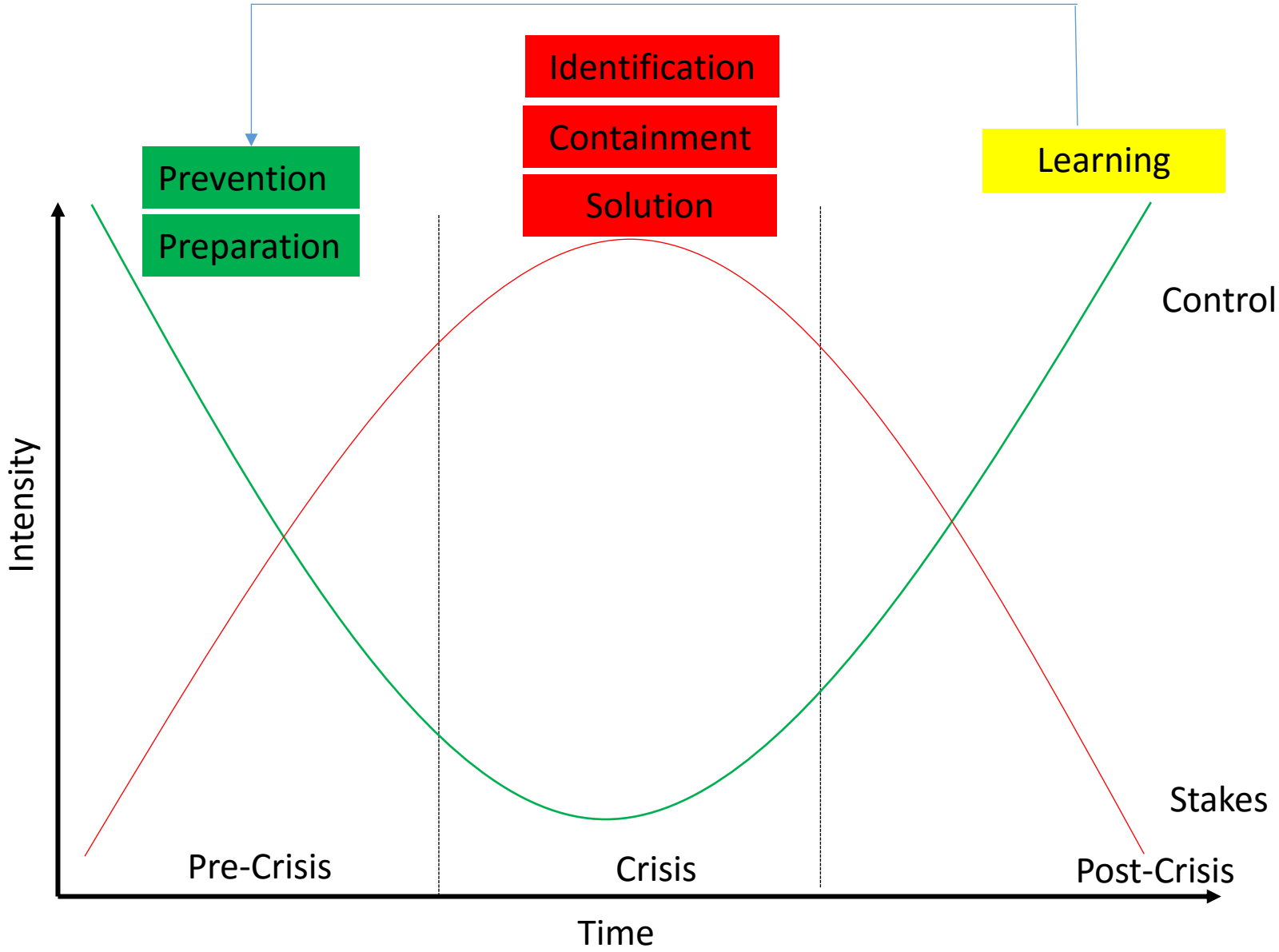
Tales from the Edge, Tips from the Trenches

NIRI Chicago IR Workshop

September 23, 2016


Identification
Containment
Solution
Prevention
Preparation
Learning
Control
Stakes
Intensity
Pre-Crisis
Crisis
Post-Crisis
Time

Beazer - Pre-Crisis

- Beazer Homes USA, Inc. (NYSE:BZH) - Founded in 1986 and was a subsidiary of UK conglomerate Hanson plc.
- IPO in 1994.
- Most of management team through multiple levels ‘grew up’ with the company.
- Significant growth through both US housing expansion and acquisition.
- Growth was financed predominantly through issuance of bonds in the high-yield market. At peak of the housing cycle in 2006, stock traded at all-time high and balance sheet was meaningfully levered.

Beazer - Crisis

Initial/Identification:

Fall 2006 – Winter 2007 - *Charlotte Observer* begins series of inquiries to company around foreclosure rates and mortgage lending practices in Beazer's NC communities.

March 19 – 26, 2007 – *Charlotte Observer* runs front page 3 part series, "Sold a Nightmare"; Local Charlotte office served with grand jury subpoena.

Escalation/Containment:

March 27 – 29 – **FLASHPOINT** – Businessweek publishes online article quoting FBI agent saying the FBI, USAG, IRS and HUD launched an investigation of 'all types of fraud'; stock drops 20%; class action complaints filed; Company announces audit committee inquiry and hiring of independent counsel.

Summer 2007 – SEC notifies company of informal inquiry; internal investigation continues; Chief Accounting Officer terminated; SEC notifies company of formal investigation.

July 26, 2007 – Q3 earnings release and conference call contain language re: timing and content of existing and future disclosures.

August 1, 2007 – Bankruptcy rumors take stock down 20%; company issues statement.

August 10, 2007 – Company notifies it will not file its 10-Q in time, elects to furnish financials on 8-K.

September 7, 2007 – receives purported default notices on senior notes for failure to timely provide financials.

Beazer - Crisis

Solution:

October 11, 2007 – Company announces results of internal investigation, including need to restate 10 years of financials.

October 29, 2007 – Completes consent solicitation with bondholders to delay filing until May 12, 2008. No quarterly earnings releases or conference calls until that time. Did continue to provide operating metrics and cash positions each quarter on form 8-K.

February 1, 2008 – Company announces it will exit the mortgage origination business and several homebuilding markets.

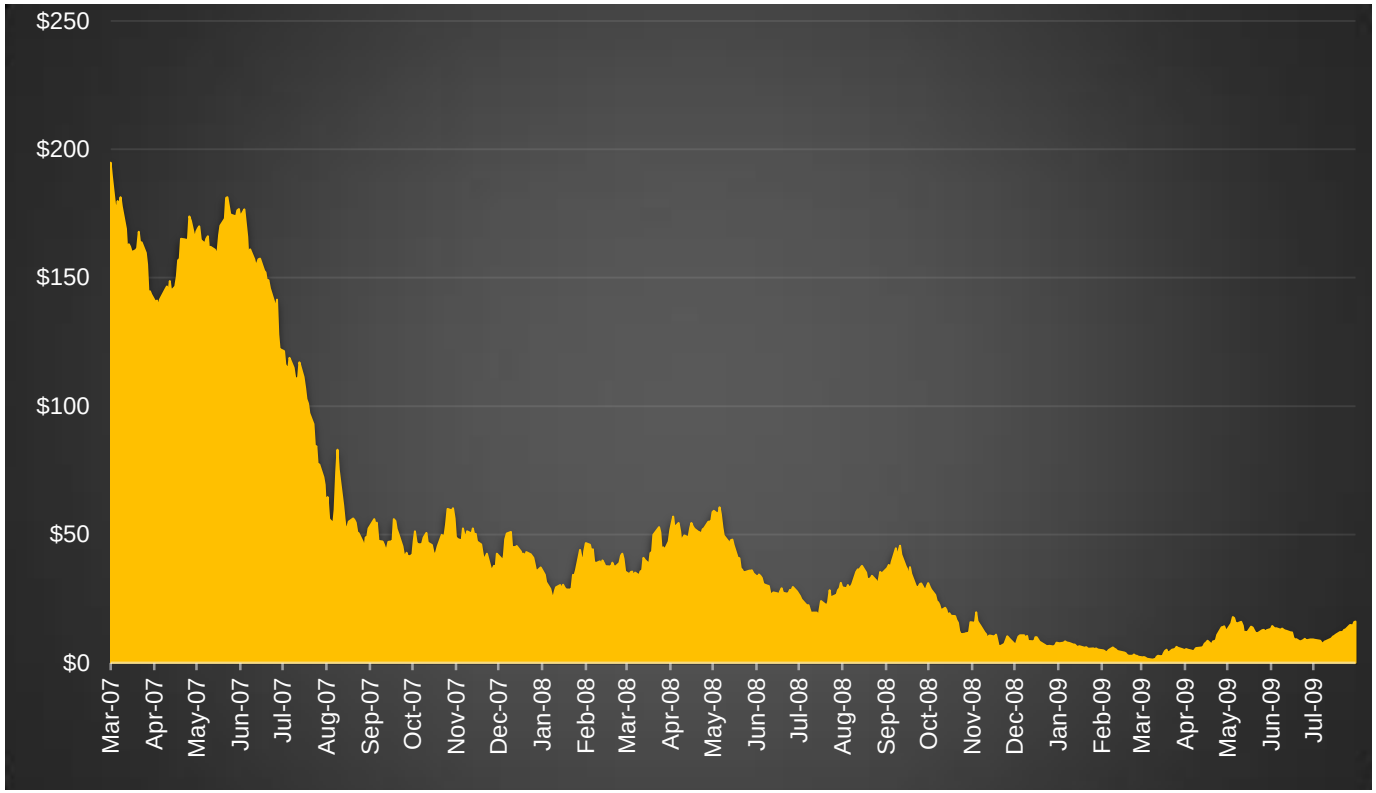
May 12, 2008 – Files restated and delayed financials.

September 2008 – SEC settlement – no monetary penalty.

May 2009 – Securities class action settlement for $35 million.

July 2009 – DOJ and other agencies settlement for up to $50 million.

Beazer Crisis Stock Price Performance
March 2007 – July 2009
A Crisis Can be Value-Destroying



Industry recession coupled with company-specific issues

Beazer - Post Crisis – Lessons Learned

- Have a response team in place.
- Don't be tempted to publicly draw conclusions or 'put a box' around an issue too early.
- Do maintain some sense of 'business as usual' – a crisis can last longer than you think it will.
- Be a step or two ahead of possible escalation; the 'cockroach' and 'where there's smoke, there's fire' theories are true more often than you'd like to think.
- You MUST be in the loop. Also understand your personal rights and obligations.
- Find good, trusted communications advisors.
- Be confident with management.
- Understand the motivations, roles and responsibilities of key constituents:
  - Board; Management & Colleagues; Board's counsel and Company's counsel; Auditors; Regulatory Authorities; Debt and Equity holders; Media
- Trust your instincts. If you have to think about it for more than 5 minutes, it IS material.
- Continue to engage with shareholders and bondholders.

And Finally……***if you ever doubt your potential worth to your organization, look no further than the latest poorly handled crisis.***

Transocean – Anatomy of a Value Destroying Crisis In Two Acts

- Act 1: Spill, Regulatory intervention, Company and Stock Uncertainty
  - Most valuable message
    - Employees first
    - We are being direct, honest and responsive, but we don't have all the answers
    - For once, investors will take a back seat until the situation is stabilized
    - Public disclosures will be consistent, but reliant on knowing the proper facts
  - Most valuable communications vehicle
    - On the spot communications
    - Using normal communications vehicles for crisis responses
    - CEO statements tinged with personal (and true) sentiment
- Act 2: Icahn Activism
  - Most valuable message
    - Downside of activism is financial instability
    - What is being proposed is not a good long term plan for the company
    - Our board and management team is in constant and meaningful dialogue with investors and compliance officers
  - Most valuable communications learnings
    - Perception study at the core of the messaging plan
    - Board videos
    - Social media helpful in bringing partially interested parties to hear our side of the story

Special Crisis Lessons For Small Caps

- Pre-identify and prepare the spokeperson
- Have a “break the glass” plan for the likeliest crisis
- Local media can be the most helpful (or hurtful)
- Showcase strategy not MD&A language in the quarterly earnings cycle
- Beware the “reluctivist” activist