

A Brief Explanation of Our Business Model, Values and Growth Strategy

Our business model is founded on the belief that locally-focused land development is the starting point for builders' profitability and that both homebuilding and land development are best executed on a decentralized basis. Zoning and land use are always locally controlled.

To really succeed, a builder/developer needs a track record of creating award-winning neighborhoods and decades of building superior local, political, and subcontractor relationships. Green Brick and our group of controlled builders, known as Team BuildersTM, have outstanding local relationships in land development and are recognized by homebuyers and by our industry for our award-winning neighborhoods and homes.

From the beginning, Warren Buffett's ideas on building businesses, including those in his 1986 investor letter ¹, have influenced how we have set about making Green Brick Partners into the best-performing diversified public homebuilding and land development company in the country.

Our Team BuildersTM have typically worked decades to build their reputations, establish brand recognition, and cultivate critical realtor and customer relationships.

Like Mr. Buffett and unlike public builders generally, we work to preserve our builders' unique brands and work hard to retain key employees. These steps help ensure builder success and increase returns. In addition, we differentiate ourselves with low leverage and a strong capital base which we deploy with discipline. At the same time, we create value and strengthen our Team Builders through our GRBK-managed standardized financial and integrated operating system. This system allows comprehensive real time visibility to enable our Team BuildersTM to grow their business with access to state of the art real-time data.

We also follow Mr. Buffett's lead on the importance of character and culture.

"We intend to continue our practice of working only with people whom we like and admire. This policy not only maximizes our chances for good results, it also ensures us an extraordinarily good time. On the other hand, working with people who cause your stomach to churn seems much like marrying

¹ <http://www.berkshirehathaway.com/letters/1986.html>

for money - probably a bad idea under any circumstances, but absolute madness if you are already rich."

We only seek local partnerships with Team BuildersTM of upstanding character who operate with the highest integrity. Notably, these Team Builders share Green Brick's values and take the "long view" in seeking to maximize economic returns. Like Mr. Buffett, we make a point not to run our business like our public peers, where success is measured by quarterly GAAP results that can distort the true value and economic results of the business. We believe this often causes issues including huge employee turnover at the division level, lower customer satisfaction, and lower realized returns in the long run. Much of our success can be attributed to this "long view" approach.

Moreover, our business is resilient, having evolved through economic cycles reflecting four complementary capital structures.

1. When I co-founded JBGL Capital, our predecessor company, with Greenlight Capital in 2008, our first builders were coming out of the great recession and lacked adequate capital. We own voting control and govern investment decisions and approve the budget while leaving construction and day to day operating decisions at a local level. We set up very high hurdle rates for our capital before these partners could share in any profits. For these first controlled Team BuildersTM, we developed lots wholesale, owned the lots on our balance sheet, and sold the lots at market/retail, providing 13.85% secured interest rate loans to the Team Builders as a non-bank lender, enabling them to build homes in a capital constrained environment. We then split the homebuilding profits with them. This structure has been a win-win for everyone.
2. Going forward, we intend to grow organically (we are in the best markets in the country) **and** by buying more builders much like Mr. Buffett/Berkshire did when they bought Fechheimer² and other companies. For such acquisitions, we are looking for deals where we can own 80%+- and the seller is a 20%+- minority holder. Importantly, we want the seller to be a side-by-side equity investor/partner with us who continues to run the acquired builder and shares in the economic upside of the deal. We recently used

² "Fechheimer is exactly the sort of business we like to buy. Its economic record is superb; its managers are talented, high-grade, and love what they do; and the Heldman family wanted to continue its financial interest in partnership with us. Therefore, we quickly purchased about 84% of the stock for a price that was based upon a \$55 million valuation for the entire business."

<http://www.berkshirehathaway.com/letters/1986.html>

this strategy successfully with the acquisition of an 80% majority ownership of GHO Homes.

3. We will also purchase 100% of a builder, or do a start up in a major market like we did with Trophy Signature Homes, but only if the top-level management team has a positive long-term track record and reputation in its local market. They must also want to work with us for a material period of time under an aligned short and long term compensation plan. Such a plan could include “shadow equity” as a way to keep us aligned.
4. We are willing to invest in a builder as a minority partner where there is a pathway to future ownership of a controlling interest. This was the investment format we used for our 49.9% investment in Challenger Homes.

We believe that our expertise, our demonstrated success at land development, our locally run Team Builder™ model, and our flexible capital structure allow us to optimize market opportunities and react faster than our competitors to local market conditions, enabling the best risk-adjusted returns for our investors today and tomorrow.

While we pride ourselves in our capital allocation flexibility, we remain staunchly inflexible in one area: our Team Builders™ and their managers must be **Honest, Objective, Mature and Efficient**. These common values are shared amongst all our Team Builders™ and are called “HOME”. For more details on all that “HOME” represents, please visit our webpage.³

As long as I am CEO and a meaningful shareholder, we will have a conservative balance sheet. With our ability to make industry-high margins and pre-tax returns, we do not need high leverage and the risk that comes with it to produce superior financial results for our investors.



Jim Brickman, CEO

³ <https://greenbrickpartners.com/team-builders/>