

**LENNAR CORP**

**September 15, 2020**  
**11:00 a.m. EST**

Coordinator: Welcome to Lennar's third quarter earnings conference call. At this time, all participants are in a listen only mode. After the presentation, we will conduct a question and answer session. Today's conference is being recorded.

If you have any objections you may disconnect at this time. I would now like to turn the call over to Alexandra Lumpkin for the reading of the forward-looking statements.

Alexandra Lumpkin: Thank you, and good morning. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial condition, results of operations, cash flows, strategies and prospects.

Forward-looking statements represent only Lennar's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements.

These factors include those described in yesterday's press release and our SEC filings, including those under the caption Risk Factors contained in Lennar's annual report on Form 10-K most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

Coordinator: I would now like to introduce your host, Mr. Stuart Miller, Executive Chair. Sir, you may begin.

Stuart Miller: Good morning, and thank you, everyone. This morning, I'm here in Miami, once again, scaled-down crew that includes Diane Bessette, our Chief Financial Officer, David Collins, our Controller, Bruce Gross, CEO of Lennar Financial Services, and of course, Alex, who you just heard from, Rick Beckwitt, our Chief Executive Officer is in Colorado, and Jon Jaffe our President is in California, and they're on the line with us this morning and will participate in our question-and-answer period.

Today, we're going to keep our remarks brief. We have historically given a broad overview when market conditions have been uncertain. Today, however, with a clearly defined strong and improving market will leave more time for your questions.

Therefore, I'll give a brief overview, and Diane will give financial information, highlights and guidance, and then we will attempt to answer as many of your questions as possible. As usual, please limit questions to one question per customer and one follow-up.

So as you can see from our press release, our third quarter was an excellent quarter for Lennar, and it reflects the robust state of the housing market across the country. Inventories are limited and demand remains strong, driven by low interest rates and customer focus on owning and controlling their lifestyle.

Our solid sales growth rate of 16% year-over-year, which is well in excess of our targeted growth rate of 4% to 7% reflects excellent execution of a very disciplined approach to sales pace.

As we witnessed lumber prices accelerate throughout the quarter, we deliberately sold today's current inventory and limited sales on tomorrow's yet-to-be started homes. Our strategy in the current market condition is to be patient with longer-term sales and enable price appreciation to offset future cost escalations and maximize margin while selling only more current inventory improves our inventory turn.

Simply put sales could have been stronger with a singular focus on volume, but instead, we drove margin growth and cash flow while allowing price appreciation to cover cost escalation in the future.

As I've noted in prior calls, it is challenging at best to materially ramp production in this labor-constrained market, and it's even more challenging to replace entitled land in this land-constrained market. Therefore, our measured growth strategy produces sustainably high margins, higher inventory turns and the best return on our assets.

Accordingly, while managing sales pace, our margins have grown as demand has grown, and supply has remained limited. Our 23.1% gross margin and 15.1% net margin represents strong pricing power in the market and careful day-to-day oversight by our management team. We're expecting historically strong margins for the foreseeable future and throughout 2021, and we expect our bottom line to grow faster than our top line.

As expected, our closings in the third quarter were limited by the production pause we took in March, April and May, as we assessed the impact of COVID on the housing market. We increased starts and production as the market recovered, so production and deliveries will normalize as we move into 2021.

Alongside the homebuilder, Lennar Financial Services continued its focused attention to technology-enabled efficiencies. LFS's pretax contribution this quarter was \$135 million as compared to \$95 million last quarter, excluding a onetime profit realized from States Title, which represents a 50% sequential increase.

With the market this robust, the dominant questions for both Lennar and the industry are how will we continue to meet demand to grow land positions and manage labor, materials and particularly lumber costs.

These are the questions that have the undivided attention of our management team right now. And we're very confident that we'll be able to meet demand, drive high margins and cash flow while we continue to grow with the market.

For the short term, we are already extremely well positioned to manage costs and meet demand. While we're selling through communities somewhat faster than expected, we are well fortified with strong land positions that will be brought online. And while lumber, in particular, and other costs are rising, we are actively managing sales pace, primarily to started homes in order to manage that cost risk.

For the intermediate term, we are and have been accelerating starts and production of homes under construction, while also accelerating the readiness of new communities that we control wherever possible. And for the longer term, we are focused on ramping up our land purchases for new communities as we believe the industry will have a sustained expansion for the foreseeable future.

With historically low interest rates, and the production deficit that has defined homebuilding for the past decade, together with the limited inventory and

short supply in the market, housing and especially affordable housing is and will continue to be an essential driver of the economy.

As we grow offerings for the future, we've remained focused on our optioned versus owned land strategy and will continue to manage towards a 50-50 target. At the end of the third quarter, we had expanded our options percentage to 35% from 30% earlier in the year.

We also continue to focus on cash flow and returns on equity and capital as we ended the quarter with almost \$2 billion of cash on hand, zero drawn on our revolver and a healthy debt-to-total cap of 29.5%.

Needless to say, our well-known technology initiatives have contributed meaningfully to our readiness for current economic and structural shifts, while helping to improve our core business and drive SG&A to a historical low of 8%.

Concurrently, our meaningful investments in technology disruptor companies have not only informed change within Lennar, but are proving to be successful investments in their own right.

Today's announcement by Opendoor and early Lennar Investment is a case in point. Opendoor pioneered the iBuyer Space and Opendoor and Lennar jointly developed a seamless move-up program that today is becoming an industry standard.

By coordinating and redefining the move-up buyer sale of their first home, while moving up to a larger home, the customer experience is becoming a frictionless, coordinated and joyful engagement. Less friction means more transactions and more transactions at a lower cost to all parties engaged.

I'd like to take a quick moment to congratulate our friends at Opendoor and their leader, Eric Wu, as they take their vision and their dream to the next level. For us at Lennar, it has been an honor to be a part of their journey thus far as we have learned and adjusted together to build a leader and innovator in the iBuyer space.

In advance of the completion of Opendoor's transaction with Social Capital, we would like to welcome you Opendoor to the public markets, as you continue to define the path forward in this industry transforming space.

In conclusion, let me say that our third quarter results were solid in all respects and they reflect our focused execution on our strategy to balance between growth, margin, cash flow and returns. In just a minute, Diane will give some additional color on our third quarter numbers and our expectations for the fourth quarter.

But before turning over to Diane, let me say, the third quarter has been a clear point of pivot for the housing market in general, from the slowdown created by COVID to the expansion ignited by COVID. Today, the home is becoming more and more essential to the way we live and the quality of our lives.

The home, which used to be just shelter is now becoming the hub of your life. It is our shelter and our multiple generation's shelter. It is our office, our gym, our recreation center and our school. It is Wi-Fi connected, and it is automated. It is sustainable and environmentally sensitive. It is both a healthy home and a health system.

While some of these elements will change over time, some of them will become our new way of life. Regardless, home is a refuge where families

thrive through the best of times and sometimes as well through the toughest of times.

At Lennar, we are focused on meeting the needs and the changing appetites and aspirations of this changing world, and we have never been better positioned financially, organizationally and technologically to meet the challenge as well as the demand.

With that, let me turn over to Diane.

Diane Bessette: So thank you, Stuart, and good morning to everyone. So I'd like to begin with a few Q3 highlights and then provide detailed guidance for Q4. And so let's start with our balance sheet.

As Stuart mentioned, as a result of our continued focus on cash flow generation, we ended the quarter with \$2 billion of cash and no borrowings outstanding on our \$2.4 billion revolving credit facility. On a year-to-date basis, through the end of Q3, we have generated \$1.8 billion of homebuilding cash flow.

We also continue to make progress to become land lighter. As stated, our years supply owned decreased to 3.8 years, and our home sites controlled increased to 35% of total home sites. For the quarter, our land acquisition spend was \$607 million, and our land development spend was \$571 million.

Additionally, we also made progress with our goal of reducing debt. During the quarter, we paid off approximately \$400 million of debt. And as a result, our quarter end homebuilding debt-to-total capital ratio was 29.5%. This is the lowest debt-to-total capital ratio we have ever achieved. Our focus on debt

reduction will continue as we pay off \$300 million of senior notes due in November.

Since the acquisition of CalAtlantic and including the notes we intend to pay off in the fourth quarter, we will have repaid \$2.8 billion of senior notes which results in an annual interest savings of approximately \$156 million. Our stockholders' equity increased to \$17.2 billion and our book value per share was \$54.91.

And so with those balance sheet highlights, let me now briefly review our operating performance. As we said, we ended the quarter with new orders of 15,564, up 16%, and our new order dollar value was \$6.3 billion, up 20%. Sales were matched with starts and our starts were up 17% year-over-year.

Our sales pace was 4.2 for the quarter compared to 3.4 in the prior year. And we ended the communities with 1,198. We ended the quarter with 1,198 communities. Our cancellation rate was 15% compared to 19% sequentially in Q2 and 16% in Q3 of the prior year.

For the quarter, deliveries totaled 13,842, up 2%, and both deliveries and new orders were the highest for a third quarter in the company's history. Our gross margin was 23.1%, as a result of strong pricing power and our focus on construction costs. And our SG&A was 8% as a result of creating an efficient platform and continuing benefits from technology. The 8% is the lowest third quarter SG&A we have ever achieved.

Turning to financial services. They also executed at high levels, as Stuart mentioned, reporting \$135 million of operating earnings. Mortgage operating earnings increased to \$113 million compared to \$57 million in the prior year.

Mortgage earnings benefited primarily from an increase in volume through a higher capture rate of increased deliveries, 82% versus 77% last year, and a lower percentage of cash buyers, combined with an increase in secondary margins.

Title operating earnings were \$21 million compared with \$18 million in the prior year, and title earnings increased primarily due to an increase in closed orders. And LMF commercial had operating earnings of \$1 million compared to \$4 million in the prior year, primarily due to lower securitization volume.

And so with that quick summary, let me provide you with a little more detailed guidance for Q4 than what we included in our earnings release. Starting with homebuilding. We expect new orders between 13,800 and 14,300, and should end the year with approximately 1,165 active communities.

We expect to deliver between 15,500 and 16,000 homes. Our average sales price should be around \$390,000. We expect our gross margins to be in the range of 23.25% to 23.5%, and our SG&A should be in the range of 7.7% to 7.8%.

And for the combined category of homebuilding joint ventures, land sales and others, we expect a loss of between \$15 million and \$20 million. We believe our financial services earnings will be between \$100 million and \$105 million. And for both our multifamily and Lennar Other segments we expect a slight loss.

Corporate G&A, we expect that to be around \$95 million for the quarter. Expect our tax rate to be approximately 23.5%. The weighted average share count should be approximately 309 million.

And when you combine all of this, the guidance should produce an EPS range of \$2.22 to \$2.38. We hope that you find this guidance helpful. And with that, let's turn it to the operator for questions.

Coordinator: Thank you. We will now begin the question and answer session of today's conference. We ask that you limit your questions to one question and one follow-up question until all questions have been answered.

If you like to ask a question, please unmute your phone, press star one, and record your name clearly when prompted. If you need to withdraw your question, you may press star two. Again, that is star one to ask a question. One moment while we wait for the first question to queue up. And our first question in queue is from Ivy Zelman at Zelman associates. Your line is open.

Ivy Zelman: Congratulations, guys, on a great quarter. Stuart, although you mentioned and sort of highlighted the fact that you could have grown at a stronger rate, while we see other builders posting numbers like MDC today over 70% growth.

I think the market is looking and frowning on your results from an order perspective because you're losing market share which, of course, we don't see that over a longer-term basis. You'll continue to gain share.

But maybe talk about the benefit of measured growth, you mentioned cash flow, returns, costs and really the - and the risk maybe of not trying to grow faster and walk us through in more detail, maybe providing some metrics on the risk and benefits and more specifics?

Stuart Miller: We highlighted some of this in our comments. There are a number of benefits as we see it. We noted that as we watch real time, lumber prices spiral

upward, and this is across the country, across the industry. We recognize the risk associated with getting way out ahead in cost as production ramps up.

We all know that the labor market has been constrained. It's possible that with unemployment levels, we'll find new entrants to our market over time. We'll have to wait and see. We know that there's exposure on the cost side of the equation.

We have chosen not to get into the race to see how many sales we can have, but instead, to carefully focus on the homes that we have in inventory, that we have under production and really limit sales going forward.

So that price appreciation can cover cost increases as we go forward. And of course, the focus on current inventory just helps ramp up inventory turn, which helps focus on returns on capital, return on equity.

Jon, Rick, do you want to weigh in on that?

Jonathan Jaffe: Sure. It's Jon. As Stuart mentioned, on lumber, it increased almost 100% from the beginning of our quarter to the end of our quarter. And so to be very measured with taking advantage of an increasing sales price environment to match that, meaning as we patiently pace our sales, we will benefit from that price appreciation, really helps offset that increase.

And as you look at the supply chain, it is not just labor, but from the manufacturers, it's probably why lumbers run up there, there's constraints. And so again, to be very measured in terms of being able to communicate to our trade vendors exactly what our production capacity is instead of quickly trying to ramp it up, which is not really feasible to do. We think it's a much more measured and appropriate approach.

Richard Beckwitt: Yes. Ivy, the only thing I'd add to that is, as Stuart, Jon and I have really looked at the limited inventory that's available on the market, there's really premium pricing available for things that are close to completion or completed. And it doesn't make sense for us to sell so early or do a dirt sale when we can command a higher price because people want something they can move into.

Stuart Miller: At the end of the day, let me just say that at the end of the day, for us, it comes down to margin and margin growth and margin focus. We're going to be able to increased returns on the assets that we have and have a measured approach going forward.

I think it's very difficult in this market to ramp up production at an accelerated rate when we see sales rates coming in at a very high rate, production just has to lag, there's only so much that can be brought to the market at any one time.

Ivy Zelman: And I would just add just to maybe have you frame the market share question because we had a bunch of questions this morning. If we think about market share over a 2-year period and thinking about being the leading builder in the U.S., there's no question that next year, these builders are going to have a very challenging time growing off of that.

So maybe just comment around market share. And recognizing you guys aren't about market share, it's about returns. But just to comment on market share, if you would, please.

Stuart Miller: Okay. Thank you. Rick, John, go ahead.

Jonathan Jaffe: I think we've talked for a long time, Ivy, about our size and scale position. And we're #1 or 2 in virtually all the markets that we're in. And that size and scale really gives us an advantage relative to land positions as a go-to builder for the land sellers and as the go-to builder for the trades.

And in this constrained environment, that strategic position is very important to us. And it's one that we're not going to give up. But instead, it's a very, as we said, very steady and measured pace, creating predictability for both land and for the trades.

Richard Beckwitt: And I guess the other thing I'd add, Ivy, which is just math. If you just take a 16% growth in sales for the quarter on a 50,000 plus type of run rate and compare that to a much higher growth rate on a smaller builder, we're still gaining share.

Coordinator: Our next question is from Carl Reichardt from BTIG.

Carl Reichardt: I had a couple of questions on land for you all. We know about constraints from a product perspective, from a labor perspective. Can you talk about if there's been some normalization in terms of permitting processes, entitlements and approvals, since we've seen COVID sort of come back a little bit here? Are we seeing some normalization in the time it takes to get land to market?

Jonathan Jaffe: Carl, it's Jon. I think certainly, cities have opened up compared to when COVID was first hitting us in cities closed down. But they clearly are under stress. They all have their budgetary constraints, many of them operating virtually.

So it's not back to normal pre-COVID, but it's better than it was at the worst part of the COVID experience. It's somewhere in between and so it is definitely not an easy process, given those constraints that exist.

Carl Reichardt: Okay. And then as a follow-up, can you talk about markets where land has gotten appreciably tighter, say, over the last year or two? Are there a couple out there that - where we've seen a big change in the availability of lots, pricing of lots as builders have expanded?

Richard Beckwitt: I don't think we've seen any specific markets that are out of whack. We continue to benefit from the solid relationships we have with the land community. We've been doing transactions and strategizing for years with the land community. And those deep relationships are continuing to provide us opportunities, as Stuart mentioned.

Stuart Miller: I think as we look ahead and as we have looked ahead, we think that our position, our strong market share position across the board, enables us to access land and grow community count as we look towards 2021. Rick, maybe you'd like to comment on some of that?

Richard Beckwitt: Yes. So for in 2021, we're anticipating a 10% community count increase year-over-year. We have all those communities in hand today. And are very comfortable with the rollout of those throughout the balance of 2021.

Coordinator: Next we have Stephen Kim from Evercore ISI.

Stephen Kim: Yes, I think that comment about the communities was something that we were kind of waiting for. So that really helps frame all of your commentary about your longer-term plan for growth and so forth. So I want to ask you a question

about mix. The data we've been seeing nationally seems to be pointing to a positive mix occurring in the resale market, at least, from what we can see.

It's a pretty dramatic reversal from the past several years. And at the same time, though, for builders like yourself, moving away from the resale market. You have so little inventory at the lower price points in the resale market that you're getting a lot of spillover demand into the new market.

So I'm trying to figure out you got, on the one hand, buyers kind of wanting to trade up to maybe a little larger footprint and larger homes. And at the same time, you got the spillover demand out of the resale market flowing into the new home market, bringing lower mix.

So as you look out over the next year, which is going to be a bigger factor, the trading up, positive mix effect? Or the first-time buyer negative mix effect coming from the resale market?

Jonathan Jaffe: I think we're benefiting from both. And it's really a great time for the housing market. And that fluctuation mix may vary within specific submarkets. But we're seeing a tremendous amount of conversion of renters into home buyers in that first-time segment, and we're seeing good strength in a lot of our move-up markets from that spillover, as you noted.

And with people looking for new, looking for moving away from density, we expect we'll continue to see the demand from both of those mix segments.

Richard Beckwitt: Yes. And just following up on the new home automation is just incredible demand. Wi-Fi connectivity, no dead spots in the home. The home automation package that we're offering is a real driver of growth, whether it's on the entry-level or the move-up side.

Stuart Miller: And along those very same lines, home innovation, the way that people are using their home today is completely facilitated by new technologies or better technologies that are driving the home forward, whether it's automation, whether it's connectivity, whether it's healthy home or access to health services, the home, as I said in my remarks, it's not just shelter anymore. It's multigenerational. It's an office. It's a gym.

It's recreation. It's all of the attributes. And so newer homes with newer designs and newer technologies are definitely benefiting in today's market. Temporarily, at least for the time being, cleanliness and access to a clean environment to look at a new home is an added advantage.

And just going back to an earlier part of your question, Steve. Remember that the first-time buyer home market in many ways, ignites the move-up market. So whether first-time buyers are looking at resale homes, that enables the first-time buyer of yesterday to move up.

And first-time buyers are also looking at first time brand-new homes in large part because of technologies and different designs. So it's all meshing together. The primary driver is the production deficit that we've been talking about for the past years.

It's been a decade-long that you've seen production deficit which means that we are in short supply across the board given the population. So all segments of the market are moving at the same time.

Stephen Kim: Yes. It's kind of been a thesis of ours that when you see home buying preferences changed quickly that you would see the new home price premium

increase because builders such as yourselves can change what you sell and what you build to adjust to those new preferences.

And so in that regard, you talked about a 10% increase in community count next year, obviously, with strong sales, that's a - you're bringing a lot of new communities online to sort of offset the ones that you're burning out of or selling out of.

So if we were to look at the communities that you are bringing online, over the course of the next year. And we were to compare that with the communities that we brought online over the last year or so.

Would we see a discernible mix difference in those communities? Whether it be the kinds of options and upgrade or the amount of options and upgrades that you would have included in your - everything is included packages or some other things maybe more next gen?

Or if there's some way you could talk about how your future communities are reflecting the opportunity for some of these new features and maybe directly enhancing your mix?

Stuart Miller: At the community level, you're not going to see much of a change. It's at the product level that you will see discernible change. You've seen us emphasize more and more our next-gen product, which is the home within a home or an office within a home or gym within a home, that product mix has been moving.

But additionally, you're seeing additional product offerings embedded in the homes that we deliver. We are rolling out as we speak, a new home automation package that is designed for the family lifestyles of tomorrow.

And you're seeing more emphasis on elements like healthy homes and other attributes that people are looking for in today's market. These are action items that are defining the appetites of customers, and you're seeing it at the product level, not so much at the community level, and this is across our product offering. Rick?

Richard Beckwitt: Yes. So the only thing I'd add to that is that you'd see us utilizing extremely efficient, highly-productive product that's going to continue to drive those margin increases.

Jon and the team have done a phenomenal job at value engineering, what we build and just continuing to drive cost out. That combined, you'll see a continuation of our focus on the entry-level and that first-time move-up, to really capture the flag that you were talking about with regard to where the market growth is.

Coordinator: Next, we have Michael Rehaut from JPMorgan.

Michael Rehaut: Congrats on the results. First, I just wanted to hit on pricing. Obviously, a lot of talk about managing pace versus price and the gross margin results are certainly impressive. Just trying to get a sense for - if you could give us any type of range perhaps of the magnitude of price increases on average that you were able to implement this quarter across our community base.

And as part of that, you mentioned premium pricing for your inventory which you had moved. I - if there's any ability to also give some color on if you were able to move price more on the spec or as well as what price you were able to achieve, price increases on your overall build-to-order product or more typical mix?

Jonathan Jaffe: So - okay. We've seen pricing power really across almost all of our markets. It's anywhere from good to very strong. And it'd be hard to really single out one product type or price point or market that really - another. We've seen strong sales pace and strong pricing power across the board.

And that's reflected in that margin improvement that we had over our guidance. As Rick said, we really applied that to our inventory. So that turned very quickly into our deliveries and reflected very well in our margins in our third quarter deliveries and our margin in our backlog as we look forward.

So it is unusual to think about inventory as a premium. Usually inventory are the homes that you have trouble moving. But in this environment really is what is desired by the consumer to want to move now, move into a new situation move out their old housing.

Michael Rehaut: Great. No, that's helpful. I appreciate that, Jon. I guess, secondly, maybe shifting to returns and obviously, turning your inventory fast over is certainly a great way to achieve better returns.

There are several levers, however, that you guys continue to look at and try and pull, I think, as part of your strategy over the next couple of years to drive higher returns. You talked about the increase in option lots. I was hoping to maybe shift the focus and ask about two other areas, One, your balance sheet itself has various investments that are, as you've kind of highlighted with Opendoor, important and strategic, you obviously have \$1.2 billion in Lennar Multifamily.

You have other investments in unconsolidated of around \$1 billion. How do you think about those assets going forward? And also, if I can squeeze in on

the share repurchase, how should we start thinking about that over the next year or two?

Stuart Miller: Rick, you want to take that?

Richard Beckwitt: Yes. I think we're constantly evaluating ways to maximize the underlying value of those investments. Stuart has said over and over that we're very focused on reverting to core. We're very focused on enhancing the returns and maximizing the value of the assets.

If you look at the various components, whether it's LMC, which is a blue chip, Class A Multifamily production machine, they have created a great franchise. Moving to the technology, I'll really let Jon and Stuart talk about that.

But the investments that have been made there as Stuart has said, benefit the core with regard to increasing the efficiencies of our operations, but also really lay the groundwork for, hopefully, some great returns on those investments in and of themselves.

Stuart Miller: So let me just add to that and take two pieces of it. It does not escape our attention that our Multifamily reported earnings as opposed to the accumulated value that we've created. The reported earnings are virtually nothing relative to a very sizable investment, and that does not enhance our returns.

Accordingly, we have focused on the fact that it no longer is a strategic benefit for us to have that on book because it is dilutive to the returns that we're striving to achieve.

And so we are very focused on looking for our next program relative to LMC, our Multifamily program, as Rick properly notes, it is a blue-chip asset, a blue-chip operating platform, and we're focused on where it will land in its next iteration. So this has been a day-to-day focus for both myself and for Rick. We're working on that regularly.

You asked the question also about stock buyback. You'll remember that prior to the COVID-19 moment, we were buying back stock on a regular basis. We have - we postponed that as we saw COVID drive the market lower.

We took a wait and see attitude. We've continued that latency attitude and have not bought back stock during the past quarter as well. But as we look ahead, we are clearly looking at our extraordinarily strong cash and liquidity position, and looking how we deploy capital in an even keeled way.

We're clearly going to pay down debt which we've already daylighted. We will, in some form, resume a stock buyback program and look at other ways to properly deploy capital to enhance returns. So that's our focus.

Coordinator: Next, we have Truman Patterson from Wells Fargo.

Truman Patterson: So first question on land. You've mentioned a few times tightness in the land market. Do you all still plan on bringing your level of owned land down to 3 years and freeing up \$3 billion in free cash flow?

Or given the tightness do you plan on maybe holding on to a bit more owned land, help growing your community count a little bit more? And then just overall, could you just elaborate a little bit more in the land market, what you're seeing competition, especially post COVID?

Richard Beckwitt: So on the land hold side, we are laser-focused on bringing the land owned down to that 3-year level or less. We're very focused, as Stuart said, of getting to that 50/50 owned-optioned. And we have a high degree of confidence that we'll get there. The entire company, all of our land acquisition folks are laser-focused on achieving those goals.

Jonathan Jaffe: Yes. Truman, I'd add that during COVID, we didn't walk away from a single land deal. We didn't lose a single land deal. We postponed and pushed. And so we - in this quarter, continued that purchase of land.

And as you saw, our percentages shifted to a greater percentage of controlled. So even though we're in a constrained land market, our focus and execution is consistent with our stated goal and what Rick just described what we're driving towards.

Stuart Miller: Yes. We're in no way, Truman, changing our strategy, given the fact that the market is much, much stronger than any of us saw coming in the midst of COVID. The strategy continues to be migrating towards a just-in-time delivery model for land, and we have been working and focusing on getting there.

You've heard Rick and you've heard Jon talk about land relationships and programs in specific markets. We've been focused on land relationships and programs at the corporate level as well in order to move and migrate towards that just-in-time delivery model, which includes a much greater emphasis on optioned land, much greater cash flow and deploying cash in areas where we're producing highest returns. And you can expect that going to be a continued strategy as we go forward.

Richard Beckwitt: If you think about it, Truman, when you're a landowner, one of the biggest drivers of your ability to make a cash flow on that asset is the builder's ability to work through those home sites on an accelerated basis.

And given the fact that our cycle time is industry leading, we offer a great solution to a landowner on a takedown basis because they make their money at the end of the deal, not at the beginning of the deal.

Truman Patterson: Okay. Jumping over to lumber and labor costs. I know lumber costs, I believe you said, increased about 100% during the quarter, but both have been key talking points in the industry's lumber futures have really been bouncing around a lot. How do you all think about lumber costs and labor costs over the next 2 to 3 quarters?

And what type of pricing do you need to cover these costs? It seems like you guys have been leaning a bit more on the price lever. So I imagine looking out a couple of quarters, you'll probably be able to cover this, but kind of rolling everything together.

Jonathan Jaffe: Truman, it's Jon. Well, lumber peaked really at the end of our quarter, end of August, and it has already come back about 19% in terms of future's - future pricing. So as we look forward, I would expect we'll probably see a decline of probably up 40%, maybe a little bit more as you roll forward about 3 months.

And so as we think about the impact, we will re-lock for Lennar our lumber prices in October. It will impact about half of our closings in Q1 and about half in Q2 just because of different cycle times. And as I said, I expect that the other half of Q2 will probably be lumber pricing. That's somewhere 50% to 60% of current levels. So we do see that coming down.

As we look at our third quarter, our labor and material costs were pretty much flat both sequentially and year-over-year. And so as Rick mentioned earlier, I think the team has done a really great job of focusing on value engineering on plan selection to make sure that we can really manage our costs well.

And particularly on the labor side, we continue to be laser-focused on our even flow strategy, which is just a huge benefit to the trades as they manage through the labor constraint. And let's say we just continue to hit strides, as Rick mentioned, our cycle time is really strong, is actually this quarter, it was enhanced over prior quarter and year-over-year. So all those focuses, I think, bode well for us. And as you mentioned, we are making sure that we're not selling out too far ahead, so we can take advantage of pricing power. And if we continue to manage cost the way that we are, we should continue to those higher-margin results for us, as we spoke about in the beginning of the call.

Coordinator: Next, we have Jade Rahmani from KBW.

Jade Rahmani: I was wondering to what extent you believe the current uptick in housing represents a long-term demand trend as opposed to something more short term? And if there's any data at your mortgage company that perhaps gives you particular insights or perhaps the mix of spec, lower speculates and people perhaps buying further out than historically?

Stuart Miller: So this really goes back to the theme that we've had for the past many years, and that is the one around production deficit. Is this a short-term phenomenon or has COVID ignited a sustainable expansion for housing?

I think that there are attributes of what has happened in the recent past that might dissipate the migration from urban to suburban or from vertical to horizontal - might or might not dissipate. But at the end of the day, we still are

left as a country - across the country with a deficit in dwellings in housing, both rental and for sale, both Multifamily and single-family dwellings for the population.

We have seen millennials enter market. We have seen more move-out of a co-living space with their parents and enter the household formation and ownership market. I think we're going to continue to see these trends.

People are valuing where they live, how they live in a much greater way. I think it was partially ignited by this moment with COVID, but it was destined to happen in time as family formation grew as postponement gave way to the realities of Family formation homeownership.

So at the end of the day, a 10-year production deficit, which is what we've seen is in our view is going to be the fuel for an expansion that covers the next years, not just for the short term. And that's how we're viewing the market. That's how we're thinking about our future.

Jade Rahmani: And just a follow-up is, could you give the percentage of deliveries this quarter that were from spec? And comment on how that compared with a year ago or historically?

Stuart Miller: I don't have that information off hand, but I know Diane will be able to accumulate it and give it to you later. Yes, we'll pass it on later.

Diane Bessette: Yes.

Stuart Miller: Let me just say that as part of that - the answer to that question, Rick, Jon, do you want to comment on our inventory levels per community or across the board right now because they are at historic lows.

Richard Beckwitt: Yes. I'll tell you that right now, we're very lean on completed inventory per community, which is exactly where we want to be. It's around one or less on an aggregate basis on a community level basis, which means that we're keeping a highly efficient cash flow model going. We've got an assembly line that is producing homes to fill that gap. And we're exactly where we want to be on completed homes as well as under construction homes, right.

Coordinator: Next, we have Matthew Bouley from Barclays.

Matt Bouley: I wanted to ask about the Q4 new order guidance. Obviously, suggesting a bit of a deceleration in selling pace, which is normal seasonally, and I hear you around limiting sales intentionally as well. And the community count, in addition, it sounds like it steps lower a bit.

So I understand all that, but just in light of how much stronger Q3 came in versus that guide? Is it fair to say that what I just mentioned is really the majority of the drivers? Or are you baking in a similar level of conservatism as you did last quarter around the macro and around the sustainability of housing strength?

Stuart Miller: Well, look, I think that, as we said in our remarks, our 16% year-over-year growth rate in new orders was well above our targeted rate. And we continue to maintain that targeted rate. It's a function of cash flow.

It's a function of efficiency and effectiveness. It's also a function of what we believe we and the industry can actually put into production in the short-term as we start to ramp up to meet the demand that's in the marketplace.

So as we looked ahead to our fourth quarter and we started to give guidance, perhaps there is an element of conservatism. But at the same time, we are managing to a more constrained growth rate than perhaps others are.

We don't want to get that far out over our skis. We recognize what is doable relative to production levels and simply don't want to get into the rat race of chasing something that is way out over the horizon.

So it's a function of not just what the market is giving or what we can sell into the market, but also a function of what rate we can actually ramp up production and accommodate the request and the demand that's in the market right now.

Richard Beckwitt: Yes. And one of the things you mentioned is when we pause the activity on both the starts and the development during COVID, it slowed down some of our newer communities from opening. So as you highlighted, community count is dipping in Q4. But as I said, in 2021, you'll see a rebuild of that.

Matthew Bouley: Okay. Understood. And then I wanted to ask a question on the gross margin as well, I guess, a little bit of a higher level. So exiting 2020 over 23%, as you guided, it kind of looks like Lennar pre-CalAtlantic, we haven't seen a level like that perhaps since 2016.

So putting kind of that lumber volatility aside, should we be thinking that structurally Lennar gross margins can sustain at these type of levels? Or should we kind of understand that if there's any near-term pricing power or mix that's in there and we perhaps shouldn't get too carried away with assuming that persists?

Stuart Miller: No, I think that's what we spotlighted in our opening remarks, is that we expect gross margins to be towards the higher levels for the foreseeable future.

We say that given the backlog that we have and the expectations for how we will manage the business going forward, recognizing that there is an automatic caveat for where costs actually go to how aggressively they move, that will be in part determined by how quickly the industry moves to ramp up production.

And so we have to leave that out there as a question mark. But I think that if you look at where Lennar is situated and how we see the future, you can expect that our margins are going to be migrating towards the higher side, and as we said, for the foreseeable future.

Coordinator: Next, we have Jack Mancino from SIG.

Jack Micenko: And I guess I'll wrap it up with one big - bigger picture questions since most of might have asked. Stuart, 4Q '18, I think the industry and collectively, most of us on the call were surprised at how quickly the new home demand market decelerated when rates moved up.

And certainly, no one's thinking about that now, although there is some conversation about inflation coming back in. I'm curious how you think about this strategy shift in light of the risk there. Is it - are you comfortable that being smaller than - or sort of reining in the growth is somewhat defensive?

How quickly operationally can you change direction if we see a spike in the 10 year? And just general thoughts around how to manage that because you're clearly going and pushing price, curious how do you think about that as a risk scenario?

Stuart Miller: Yes. It would be easy to look at this as a defensive positioning, but that's not at the root of our strategy. We've daylighted pretty consistently over the past quarters that our strategy is to manage our growth rate to focus on cash flow and returns and to deploy capital in that direction.

I think that what you're seeing in the way that we're managing our business as the market has ramped up very quickly, is a controlled program of moving forward of growing our business and expanding our production.

But doing so in an orderly fashion, focusing on returns and making sure that we're also focused on not selling way out of the head, dirt sales where costs are less certain, but instead, inventory homes that are under production that increase our inventory turns as well.

So this is a very detailed strategy that we're very pleased with the way that we've executed. And it's not - as I said earlier, we think that the dynamics of the market right now are poised for a future growth rate that continues along the lines that you're seeing today.

I'm not talking about for Lennar, I'm talking for the industry overall. We think that the market is strong and is likely to remain strong, and we're likely to see an expansion for homebuilding for the foreseeable future.

Stuart Miller: You're welcome, and I want to thank everybody for joining us today, and we look forward to reporting back at the end of our fourth quarter. Thank you.

END