

LENNAR CORP
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Coordinator: Welcome to Lennar's first 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 Chairman. Sir, you may begin.

Stuart Miller: Great, and good morning, and thank you everyone. This morning, I'm here in Miami, as the world is seemingly beginning to normalize with a scaled down and still socially distanced crew, that includes Diane Besette, our Chief Financial Officer; David Collins, our now Vice President and Controller; Bruce Gross, CEO of Lennar Financial Services; and of course, Alex, who you just heard from. Rick Beckwitt, our Co-Chief Executive Officer and Co-President, is in Colorado; and Jon Jaffe, our Co-Chief Executive Officer and Co-President, is in California, and they're on the line this morning as well.

So, today, we have a lot of ground to cover. I'll give a macro and strategic Lennar overview. Rick will talk about market strength, land and community count, and Jon will update supply chain, production and construction costs. And as usual, Diane will give the detailed financial information, highlights and additional guidance. Then we'll attempt to answer as many of your questions as possible. As always, please limit your questions to one question per customer, and one follow-up.

So, from a macro perspective, the housing market remains strong. Demand has continued to strengthen as the millennial generation, which had previously postponed its entry into the housing market, has now continued to drive family formation, while at the same time, the supply of new and existing homes, remains constrained. Even though interest rates have moved higher, at the same time that home prices have moved higher, overall, affordability remains strong.

Interest rates are still lower than they were a year ago, and personal savings for deposits are strengthening. Many American families have fortified savings as vacations and recreational activities have been canceled or

postponed, and stimulus money from the government continues to fill the remaining gaps.

The American dream of homeownership is an essential aspiration of the American population, and the seemingly imminent resolution of the pandemic is not slowing the growing demand. Apartment dwellers can today afford a first-time home, and demand is strong and growing.

Yesterday's first-time homes are selling quickly and at higher prices, enabling first-time move ups. The market for yesterday's move up home is strong, and enabling customers to consider and purchase a larger home with a larger yard, with an office, a nicer kitchen, and a new set of necessary spaces for an evolving market.

Also, the iBuyer and single-family for rent participants, are providing additional liquidity to the marketplace to sell and purchase homes as they evolve and provide ever more frictionless transactions. The underproduction of homes for the past 10 years, has created a housing shortage. And with strong demand, home prices are moving higher.

Although this reality is exacerbating the well-documented affordability crisis across the country, as workforce housing is limited and getting more expensive, the solution it seems, will be in the growing supply by - will be in growing supply by building more housing.

Current conditions have given rise to strong pricing power, strong though controlled sales pace, certainly labor and material increases, very strong gross margins, and even stronger net margins, and of course, the challenge of land scarcity.

In the context of overall market conditions, Lennar's first quarter results reflect the intersection of our clearly stated strategic focus, with excellent operational performance. Let me connect the dots. We have stated consistently that we would remain focused on orderly, targeted growth, and maintain our sales pace, tightly matched with our pace of production.

We actively managed growth at the topline in favor of even greater growth at the bottom line. We focused on gross margin by harvesting pricing power and controlling costs, while building a better mousetrap, as I've called it, in order to reduce our SG&A.

We have focused on cash flow, debt reduction, and stock buyback, land owned versus controlled, return on capital and on equity, and of course, innovative technologies. All of this strategic focus shows through in our first quarter results.

We grew our deliveries 19% year-over-year, and grew revenues 18%, which drove a pre-tax income before extraordinary items to an increase of 95% year-over-year, and an after-tax pre-extraordinary items income and EPS increase of 61%.

To achieve this, we've controlled sales pace and matched it with production. And while some have questioned our controlled and managed sales pace, the virtue of that strategy has been borne out by our 25% first quarter gross margin versus 20.5% last year.

At the same time, we've remained focused on improving our operating efficiency, driving our SG&A down to a first quarter all-time low of 8.4% versus 9.2% last year, and driving our net margin to 16.6% this year, versus 11.4% last year.

Alongside our homebuilding operations, our Financial Services Group has continued to exceed all expectations as well. While some of the remarkable \$146 million of earnings contribution from this segment is capital markets driven in today's market environment, much of the consistent performance beat from this group, continues to be driven by constant work and rework of the cost structure. Lennar Financial Services continues to be a leader in the drive to create a better experience for our customers at a lower cost to transact.

While operations have performed extremely well, we have also further improved our balance sheet. Rick will discuss our land program and our single-family for rent program, which will - which have - which continue to drive balance sheet improvements.

And just as you've seen dramatic improvement in other facets of our business, just-in-time delivery of land, and just-in-time delivery of completed homes, enables us to be laser-focused on our inventory turn, and we'll be reporting on progress in that area in coming quarters.

Of course, all of our work has strategically focused attention on our returns on equity and returns on capital, which have improved year-over-year by 470 and 420 basis points, respectively, and Diane will give more detail and our guidance in her comments.

So moving on, in addition to the solid operating performance that we reported this quarter, we also had an extraordinary item of note. We have been talking about the strength of our LEN^x technology platform. And this quarter, LEN^x requires some additional discussion.

Let me start by noting the remarkable contribution of Eric Feder and his team,

led by Sana Khan, and Christian Falk, at LEN^x. We have learned from scratch how to be a constructive, strategic investor in disruptive or adaptive technology companies through trial and error, together with study and engagement, and we have learned quite a lot.

This group has learned how to balance both the tip of the spear and engaging best-of-breed entrepreneurs and innovators, and the soft touch required to engage and bridge change management, together with our operating leaders within the company. Great work, team.

With that said, last quarter, we daylighted that Opendoor, one of our many LEN^x Technology business investments, would begin trading as a public company, and would require mark-to-market gain recognition. Accordingly, Opendoor is now a public company, and we recorded a \$470 million profit as a result.

While this gain is extraordinary relative to our operating platform, it is not a onetime event for the company. Through LEN^x, we have invested in a number of high-quality technology businesses that are changing the way business is transacted in our company and in the housing business, in general. Two more of our LEN^x investment companies, Doma, previously known as States Title, and Hippo Home Insurance, have both announced pending SPAC combinations.

Additionally, as we have recently announced, our SunStreet solar power company will be acquired by Sunnova Energy. Given our ownership interest in these companies, and understanding that we might or might not qualify for mark-to-market accounting treatment, we are conservatively estimating an economic gain in excess of \$1 billion from these companies.

Additionally, we believe that other companies in our technology portfolio, will mature over time as well. While some have questioned the heat in the technology market space, our LEN^x investments are not driven by the one-time gains that might capture attention. Instead, our LEN^x investments are focused on best-of-breed management teams that are building solutions to important problems that are adjacent to our core Homebuilding and Financial Services businesses.

These companies, their solutions, and their form of execution, are models for us to learn, participate with, and reengineer our own operating platform for improved performance. Our investment focus prioritizes the return to our operating platform over our outsized return on our investment.

Although the gains can be sizable and positively impact our earnings and balance sheet, they are, more importantly, indicative of the maturity and relevance of the underlying management and business. And while they are subject to the up and down fluctuations of stock market movements, the part of our investment that is not subject to market fluctuations, is the permanent impact to our operating platform and company performance.

Each of these companies have meaningfully impacted our core operating platform. Let me give some examples. Opendoor pioneered the iBuyer space. We invested and participated in molding and evolving this business. We learned that the iBuyer space can reshape the entire home transaction, especially a move up transaction.

As this solution continues to evolve and mature, the iBuyer sale will become an industry standard, as seamless, trustworthy and timed for the customer's convenience, become an expected way of transacting in the homebuying world.

For Lennar, Opendoor ignited an internal digital marketing transformation that altered our entire customer acquisition and engagement. We both learned from them, and then began to teach ourselves. We changed. And as a direct result, we significantly reduced SG&A by reducing selling, marketing, and outside realtor costs, and enabling better coordinated closings for us and for our purchasers.

Doma, formerly States Title, is pioneering the instant digital home and mortgage closing. The conventional process of title insurance underwriting and traditional escrow closing, is confusing to the customer, time-consuming for lenders - and time-consuming for lenders, builders and customers alike. Doma is simply working to reduce a 14-day workstream to 14 minutes.

By eliminating the traditional process, a buyer dashboard and seamless customer interface, will affect an instant closing with one tap convenience. This eliminates time and risk for the lenders, reduces complexity for the customer, and reduces cost for all parties involved.

Lennar became a shareholder in Doma by selling our retail title business for debt and equity in the company. Lennar's retail platform and title underwriter became a springboard for Doma's growth and evolution. For Lennar, we simplified allowing our team to focus all of their attention on just our captive business. Our operation and overall operating costs will reduce significantly, helping to drive Lennar Financial Services bottom line.

Hippo Insurance has pioneered an instant and personalized home insurance product. Home insurance historically, has required a detailed application process that resulted in a one-size-fits-all, overly expensive insurance policy. Hippo uses Big Data and technology to gather detailed information on each

home, deliver a refined policy at a lower cost, and with coverage for what matters most to the customer.

The process is simple and frictionless. Lennar invested in Hippo by joint venturing our captive home insurance agency and investing additional dollars over time. This investment enabled us to participate in the development of the Hippo product for the new home market, add design elements to the home, like Security by Ring, and Flo by Moen water shutoff valve, that lowers home insurance rates, and designed the engagement for the new home buyer.

Today, Hippo underwrites every Lennar home before the purchase. Our customer simply opts in to hear from Hippo, and they will get an immediate quote. Hippo has already done all the work. Lennar participates in the agency fee with no overheads, and thus simplifying Lennar Financial Services once again, and enhancing our bottom line.

Finally, we have recently announced that we will sell our SunStreet solar operations to Sunnova in exchange for stock in the company. We built the SunStreet platform to install solar panels on every Lennar home in certain markets where it was feasible. We built a blue-chip team that excels at installation for production new homes, as opposed to retrofit.

The SunStreet platform is readily expandable, and we expect Sunnova will effectively grow that business. Lennar will benefit by simplifying our business and partnering with Sunnova to take standard solar installations and turn communities into microgrids, with battery storage generators and advanced arbitrage technology.

We expect to develop next-generation energy solution for new homes and communities that will solve the problem of power outages and electric grid

deficiencies for new communities. We look forward to working with the Sunnova team, who specializes in this space, to solve the critical problem of energy generation and distribution in an environmentally efficient manner.

Simply put, Lennar is a very different company. We are no longer just a homebuilding company with technology operating in the background. We are now a focused, technology-aware, and technology-engaged homebuilder, that incorporates effective and new technology solutions to enhance our core operations and our product offering.

We invest in technology companies and professionals. We work alongside them to develop products for our industry. We incorporate new ways of doing business, and we profit as well by investing in world-class innovators and entrepreneurs that help illuminate our path forward.

To the investor world, we would not make the case that a higher EPS from non-operating income, or loss for that matter, should be used with our multiple to value our company. But instead, I would make the case and will make the case over time for multiple expansion, as our focus on cash flow and returns, together with an improving operating platform, with embedded upside from strategic investments, merits consideration.

Now, before I turn over to Rick, let me briefly turn to our ancillary business divisions, and our drive to focus on our core homebuilding and financial services businesses. We have continued to drive and grow our excellent ancillary business divisions, and they continue to mature, but being simpler enables us to focus on our core business units ever more.

As noted in past conference calls, we have been working on strategies to better position our multifamily business, called LMC, along with our now

maturing SFR, or single-family for rent business that Rick will talk about in a minute.

Additionally, we have a dynamic and growing land program and land management business. We have also LMF, Lennar Mortgage Finance, our commercial mortgage business, another excellent business. And finally, we have a growing technology investment business, which is part of LEN^x.

We've concluded that the best way to enhance corporate value is to have Lennar standalone as a pure-play homebuilder and financial services company, and to enable these blue-chip businesses to thrive and excel independently.

Therefore, we are working to construct a tax-free spin-off of all or parts of these ongoing businesses in a unified company. This SpinCo may contain all or part of the assets of these businesses, together with certain land assets and programs, as well as part of our LEN^x Investment business.

The expected size of the spun enterprise would be between \$3 and \$5 billion in asset base, with no debt, which our balance sheet can comfortably accommodate. The remaining Lennar would see almost no loss of operating income from the spin-off and will continue to have a very liquid balance sheet. The standalone company would ultimately drive income from significant asset management fees.

The SpinCo will be focused on building an active asset management business that raises third-party capital to support ongoing business verticals, included in land - including land development. The company will become an active asset and property management company. The backbone for the company will be LMC's operating platform, together with the LMV structures.

This resolution is no longer a long-term strategy, but is immediate, as we focus on driving higher returns, with less noise in our numbers from lumpy profits and losses, which will increase visibility for the capital markets into our core operation. Expect to hear a lot more about the spin over the next quarters as our thinking matures.

Today, we can only give a brief sketch of the future of this program. I know you will thirst for more detail, but we're not in a position to give it at this time. But we did feel that it was time to share our thinking with the investment world as we work to fill out the detail and build a new company.

So, in conclusion, let me say that our results and our expectations for the year are solid in all respects, and they reflect our focused strategy to balance growth and drive bottom-line margin, cash flow, and returns. But complementing our business performance, we continue to be - to focus on our broader mission of making the world around us even better.

Whether it's with our social focus on extending home ownership to a broader social and economic array of customers, with our emerging single-family for rent program, which Rick will discuss shortly, or our \$1,000 per home that we contribute to our Lennar Foundation for social, health, and educational programs across the country, or our solar initiative for better and more sustainable energy for our homes, we are positioned to do well, but always focused on doing good.

At Lennar, we have never been better positioned financially, organizationally, culturally, and technologically, to thrive and grow in this evolving and exciting housing market. With that, let me turn over to Rick.

Rick Beckwitt: Thanks, Stuart. As you can tell from Stuart's opening comments, the housing market is very strong. Our team is extremely well-coordinated, and our financial results continue to benefit from a solid execution of our core operating strategies.

Key to that has been running a finely tuned homebuilding machine, where we carefully match homebuilding starts with sales on a community-by-community basis. In this environment, it makes no sense to sell too far out ahead, because you lose the ability to offset potential cost increases with sales price increases.

Our first quarter results prove out the success of this strategy. In the quarter, both new orders and starts were up 26% over the prior year, enabling an orderly construction program, and a just-in-time delivery of completed homes. This sales and production-focused program allowed us to drive a 450 basis point improvement in our gross margins year-over-year, with strong results in each month of the quarter.

In the first quarter, new orders, deliveries, gross margins, were up strongly in each of our operating regions. In addition, we saw strength in all product categories, from entry-level, to move up, to our active adult communities. The strength of the market was also reflected in a historically low cancellation rate, which was 9.6% in the quarter, down 450 basis points from last year. This is additional evidence that buyers have the required down payment and mortgage qualifications to purchase a new home, and they have little desire to risk canceling their new home purchase due to the risk of rising sales prices.

As Stuart mentioned, technology-driven innovation and a focus on process, has significantly lowered our SG&A. This has been reflected in each of our operating regions, with net margins up across the board in every region.

Now, I'd like to spend a few moments talking about growth and community count. As expected, our community count at the end of the first quarter was down 8% from the prior year. Notwithstanding the 8% decline, we achieved a 26% increase in new orders in the first quarter, driven by a 45% increase in sales per community.

While part of the increase in absorption pace was driven by improved market conditions, part of it was due to the fact that we have been targeting larger, higher volume entry-level communities that can deliver more homes per month than smaller communities.

In the next several quarters, our growth will continue to come from an overall higher absorption pace, as well as an increase in community count, and we are still on track to increase our active communities by about 10% in fiscal 2021, with the increase coming in the back half of the year.

While we continue to be focused on our community count, we are intensely focused on replacing our existing communities with larger, higher volume communities, as this allows us to better leverage our overhead, improve our bottom line, and increase our returns and cash flow.

As I've mentioned on prior calls, improving our returns on capital and reducing our balance sheet - our on-balance sheet investment in land is a top priority. With that in mind, we have been laser-focused on increasing our percentage of optioned homesites, and reducing our year's supply of owned homesites, all while increasing our overall homesite supply.

During the first quarter, we made significant progress on all of these fronts, as our controlled homesite percentage increased 1,400 basis points year-over-year, and 600 basis points sequentially, to end the first quarter at 45%. In

addition, our years owned supply of homesites dropped to 3.4 years from 4 years in the year ago period, and 3.5 years sequentially.

Most importantly, we increased our total controlled and owned homesites by approximately 37,000 homesites in the quarter, with approximately 95% of these being optioned or controlled homesites. Based on this progress, we are in excellent position to achieve our goals of 50% controlled homesites, and a three-year owned supply by the end of fiscal 2021.

These improvements reflect the strength of our relationships with local developers and other strategic partners. We've been building a just-in-time delivery system for our land inventory that we believe is sustainable throughout the cycles.

We've created relationships with developers and investors with appetites for different duration risk for land and have matched that duration risk with appropriate risk-adjusted returns. These short-term land and long-term land programs, will allow us to continue to strengthen our balance sheet, while generating strong margins and increased returns on capital.

Consistent with our land-light strategy, and a focus on increased profitability and returns, we are excited to expand our business through the creation of a first-of-its-kind single-family rental platform that will facilitate a better time delivery of our homes with reduced cycle times.

Following this earnings call, we will formally announce the formation of the Upward America venture. This business will initially be capitalized with a total equity commitment of \$1.25 billion, led by Centerbridge Partners, alongside Allianz Real Estate, and other high-quality institutional investors.

Including leverage, the venture will be positioned to acquire over \$4 billion of new single-family homes and townhomes from Lennar. We expect Lennar's peak capital investment to be \$50 million in the Upward America venture. This venture is uniquely positioned to quickly scale, given its direct access to Lennar's pipeline of both purpose-built single-family communities, and scattered single-family homes that meet the venture's investment criteria.

The initial pipeline of purpose-built communities for this venture, includes approximately 3,000 homes in 27 communities, with a total purchase price of approximately \$900 million. Like our multifamily build-to-core business, this platform will be asset-managed by Lennar, with third-party equity and debt owning the assets in an asset-light program for Lennar.

As housing needs and demographics continue to evolve, we believe that the single-family rental sector will continue to outperform. In addition, the Upward America venture continues Lennar's vision of becoming an ESG-driven homebuilding company, by making our high-quality homes not only available for sale, but also for rent, with the portion of the homes available with a rent-to-own option.

The vehicle's social focus provides a unique opportunity for families and individuals across the country to live in brand-new Lennar homes at an attainable price point, all without putting up a down payment. Given this, we have a distinct opportunity to create upward mobility in the housing market through this initiative. Now, I'd like to turn it over to Jon.

Jon Jaffe:

Thank you, Rick, and good morning, everyone. As Rick and Stuart noted, matching sales pace with our production pace, has been our consistent strategic focus that has enabled us to drive excellent performance. By paring

production and sales, we've maximized margins and driven bottom line profitability.

In the current environment, we could have easily generated more sales, but our view has been and remains that the key to success in this market is all about managing the supply chain and production. I'd like to briefly describe our strategy, performance, and expectations for production and construction costs, in order to shed some light on how this strategy has been central to our accomplishments this quarter, and how it will impact the balance of 2021.

First, let me share with you some statistics from our first quarter. Our total construction cost per square foot was down 0.7% in Q1 year-over-year, but up 1.9% sequentially from the fourth quarter. In the first quarter, lumber costs increased about \$1 per square foot or \$2,300 per home, both year-over-year and sequentially.

These cost increases were more than offset by other cost decreases year-over-year, but not sequentially, resulting in the overall year-over-year cost decline and sequential cost increase. Year-over-year, our construction cost, as a percent of average sales price, decreased from 45% to 42%, and remained flat sequentially as our pricing power, driven by our controlled sales pace, offset the cost increases seen in our first quarter deliveries.

Let me take a moment to discuss the situation of lumber and other supply chain challenges. As we all know, lumber is the largest component - is the largest cost component of new home construction. It is well documented that the cost of lumber is at all-time highs, as supply is limited and demand is high.

We will see additional cost increases from lumber throughout the year, with increases from today's all-time high lumber pricing starting with Q3

deliveries. Given the unprecedented pricing levels we've seen, it's challenging to predict how lumber prices will trend, but we're encouraged by the additional OSB capacity currently coming online, and the lumber future market indicating some relief.

The overall production environment today is defined by a supply chain with limited to no excess inventory. Normally, the manufacturers that supply our industry, carry 30 to 60 days of inventory and are able to adjust distribution to meet varying demand. However, due to COVID-19 disruptions in manufacturing facilities in the US, Mexico, and overseas in 2020, that capacity has, at best, been dramatically reduced and at worst, eliminated.

At the same time, demand has increased from both new home construction and big box retailers. This situation makes the supply chain particularly vulnerable to further disruptions, such as the deep freeze that struck Texas last month. That storm shut down the plants that manufacture MDI and poly-based resins, impacting the manufacturing of OSB, paint, insulation, refrigerators and other products. We're working closely with all of these effective manufacturers to ensure that we have the products we need being delivered to our job sites as we need them.

To manage through these disruptions in the supply chain of materials, as well as to be the builder of choice in a continually constrained labor market, we employ the following strategies and processes. First, we remain disciplined about our Everything's Included approach, which simplifies the entire building process for our trades.

We share data by providing frequent forecasts and open purchase order information. We simplify by rationalizing SKUs across multiple categories.

We access alternative supply chain solutions, and aggressively pre-buy materials as needed.

Most importantly, we communicate. Our trade partners know well in advance of our upcoming production needs. Our divisions know of extended manufacturing lead times in real-time, and our national supply chain team, led by Kemp Gillis, together with our retail purchasing VPs, are in constant communication with each other, our divisions, and all of our trade partners.

I would best describe the production environment as challenged, but manageable. In the first quarter, we saw a mild increase in our cycle time, as we dealt with resolving issues as they presented themselves. And through our strong supply chain partnerships, we were largely able to overcome supply constraints.

Our highest volume partners have given us expanded lead times, which we were able to accommodate due to our production-first model, where our needs are forecasted several quarters out. We believe we're well positioned with our disciplined and production-first process to continue to manage through new challenges as they present themselves.

Our focus on these processes is why we are comfortable affirming our deliveries for the year. However, this environment is not easily stressed to allow for an increase in deliveries. So our focus is on maintaining our planned starts, deliveries, and maximizing margins.

In conclusion, Lennar's strategy of a managed approach to production and sales pace, produced great results in our first quarter. As we look to the balance of the year, we're confident that our gross margins will remain around 25%, and will drive our SG&A lower, producing higher net margins and a

stronger bottom line, while maintaining our planned volume. And now, I'll turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning, everyone. Although you've heard some of our financial results from Stuart, Rick and Jon, I'll begin by recapping certain of our Q1 2021 highlights, and then provide detailed guidance for Q2 2021 and high-level guidance for fiscal year 2021.

So we'll start with homebuilding. For new orders, we ended the quarter with new orders of 15,570, a 26% increase year-over-year. While this was the highest new order total for a quarter in our history, we continued to be focused on production first, matching sales and starts.

In the first quarter, our starts were 15,982, also up 26% year-over-year. From a pace standpoint, our monthly sales pace was 4.5 for the quarter, matching our monthly start pace of 4.6 for the quarter. We ended the quarter with 22,077 homes in backlog, with a dollar value of 9.5 billion, and ended with 1,162 active communities. Our cancellation rate was about 10%.

For the quarter, deliveries totaled 12,314, up 19% year-over-year. Our gross margin was 25%, up 450 basis points from the prior year. This increase was primarily driven by a continued focus on attaining price increases, while controlling and matching cost increases.

In addition, we also had lower interest expense per home as a result of our continued pay downs of senior notes in the past several years, and lower field expense per home due to our higher delivery volume. Our SG&A was 8.4%, down 80 basis points from the prior year. This improvement is primarily a result of our intense focus on incorporating technology to gain efficiencies across our homebuilding platform.

Our net margin for the quarter was 16.6%, the highest first quarter net margin ever achieved. Our Financial Services team also executed at high levels, reporting \$146 million of operating earnings. Mortgage operating earnings increased to \$100 million, compared to \$41 million in the prior year.

Mortgage earnings benefited primarily from an increase in volume and lower cost per loan, combined with an increase in secondary margins. Title operating earnings was \$31 million, compared to \$10 million in the prior year. Title earnings increased primarily due to an increase in volume.

We also started to realize upside from our technology - from our strategic technology investments in our Lennar Other segment. As Stuart mentioned, during the quarter, we recorded a \$470 million mark-to-market gain on our Opendoor investment, as a result of the company going public in December. The gain was based on Opendoor's stock price at the end of our first quarter, which was \$28.02. This investment will be marked-to-market at each quarter end, based on Opendoor's stock price at that time.

I also want to mention that we have a new line item on our P&L titled Charitable Foundation Contribution, which is the contribution to our Lennar Foundation. Previously, our annual contribution to the foundation was 1% of net income. Beginning with this year, 2021, we will be increasing our contribution to \$1,000 per home delivery.

And so just for a bit of perspective, using fiscal 2020 numbers, our net income last year was about \$2.5 billion, which resulted in a contribution of about \$25 million. If we had contributed at \$1,000 per home level, our contribution would have been about \$53 million. So the increase is significant, and we are very pleased and very proud to be able to give back even more to our communities, doing good while we do well.

And then turning to the balance sheet. We ended the quarter with \$2.4 billion of cash and no borrowings outstanding on our \$2.5 billion revolving credit facility. We continue to focus on our strategy to become asset-lighter, by developing a just-in-time delivery system for land and homes, improving returns, and generating increased homebuilding cash flow.

At quarter end, we owned 189,000 homesites, and controlled 154,000 homesites. This resulted in our years supply owned decreasing to 3.4 years from 4.0 years in the prior year, and our homesites controlled, increasing to 45% from 31% in the prior year.

We continue to make progress, as Rick mentioned, in reaching our goal of three-year supply-owned and 50% homesites controlled by the end of the year. During the quarter, we repurchased a small amount of shares, 510,000, for a total of \$43 million.

At quarter end, our homebuilding debt to total cap was 24%, down from 33.6% in the prior year. And just a few final points on our balance sheet. Our stockholders' equity increased to approximately \$19 billion from \$16 billion in Q1 of the prior year. And our book value per share increased to \$60.30 from \$51.39 in the prior year.

And finally, just a few weeks ago, we were upgraded by Fitch to BBB flat from BBB minus. This upgrade follows the upgrade to investment grade from Moody's that we received last November. We are quite pleased with the rating agency advances that we have achieved in recent months. So in summary, our balance sheet is very strong. This balance sheet enables us to execute a spinoff, and even after that transaction, we will have a rock solid balance sheet.

And with that brief overview, let's turn to guidance. I'll first provide detailed guidance for the second quarter, and then some high level guidance for the fiscal year. So we'll start with homebuilding. We expect Q2 new orders to be in the range of 16,500 to 16,700 homes, and our Q2 deliveries will be in the range of 14,200 to 14,400 homes.

Our Q2 average sales price should be around \$405,000. As we mentioned, we expect to maintain our gross margin at about 25% for Q2, despite rising material and labor costs. We expect our Q2 SG&A to be in the range of 7.9 to 8%, as we continue to focus on benefiting from technology efficiencies.

And for the combined category of homebuilding joint venture, land sales, and other, we expect a Q2 loss in the range of about \$5 to \$10 million. We believe our Financial Services earnings for Q2 will be in the range of \$100 to \$105 million.

For our multifamily operations, we expect a loss in the range of \$5 to \$10 million. And for the Lennar Other category, we also expect a loss in the range of \$5 to \$10 million. Now, remember that this guidance for Lennar Other, does not include any potential mark-to-market gains on our Hippo or States Title Doma investment.

We have not yet concluded if we will be able to utilize mark-to-market accounting for these investments. And if we do, the gain will be determined by the stock price of each company at the end of our second quarter. Additionally, this guidance does not include any potential adjustments to our current Opendoor investments, since this too will be determined by the stock price of Opendoor at the end of our second quarter.

And lastly, the guidance does not include a gain related to the sale of our

SunStreet Solar company, since the shares that we will receive as consideration, will be valued at Sunnova's closing price on the date that the transaction closes.

We expect our Q2 corporate G&A to be about 1.5% of total revenue. And as I mentioned, our charitable foundation contribution will be based on \$1,000 per home delivered during the quarter. We expect our tax rate to be about 24.5%, and the weighted average share count for the quarter should be approximately 311 million shares. And so, when you pull all these together, this guidance should produce an EPS range of \$2.25 to \$2.35 per share for the quarter.

And so, now let me provide some guidance for the fiscal year. We still expect to deliver between 62,000 and 64,000 homes, but with now higher gross margin guidance of about 25% for the year, and an even more efficient operating platform, with SG&A guidance of 7.6% to 7.8% for the year.

And we believe our average sales price for the year will be about \$400,000. And our Financial Services earnings will be in the range of \$445 to \$460 million. And finally, our tax rate should be about 24%. And so, as we continue to execute our core operating strategies, maintain a very strong balance sheet, and remain focused on cash flow generation and returns, we are well-positioned for another excellent year. And so with that, let me turn it over to the Operator for questions.

Coordinator: Thank you. We would now like to 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 the questions have been answered. If you would like to ask a question, please unmute your phone, press Star 1 and record your name clearly when prompted. If you need to withdraw your question, you may use Star 2. Again, that is Star 1 to ask a question. And our

first question comes from Truman Patterson from Wolfe Research. Your line is open.

Truman Patterson: Hi. Good morning, everyone. Thanks for taking my questions. Wow, a lot of detail on the call. And, Stuart, I feel like you're baiting me to ask a question about the SpinCo, but I'm going to refrain for now. So ...

Stuart Miller: Right.

Truman Patterson: So, first question on the gross margin guidance. You all bumped it up to 25%. That implies flat sequentially throughout the year, when normally we see, you know, sequential improvement due to leverage as we move through the year. Could you just let us know what your expectations are for, you know, land, labor, material inflation is, as we move through the year?

And, you know, does this imply - since it's, you know, flat gross margin through the year, does this imply that some of your internal efficiencies are starting to level off or pricing you assume is cooling? Just walk us through some of the moving parts there, please.

Stuart Miller: Well, let me just start, as Rick and Jon collect their thoughts on that question. But just remember, Truman, that our guidance on margin was pretty consistent through the year at between 23.5% to 24-ish-percent. And so, we're upping our guidance. It was flat through the year, recognizing that along the way and through the year, some of the construction costs would rise and would pull through at different parts of the year.

So, this is consistent with how we were thinking at the beginning of the year in terms of the way the year would shape up, even with, as you say, the leverage embedded in increased volume as you go quarter-by-quarter. So,

what you're seeing is significant improvement that we're reflecting in each quarter's results. Jon, Rick, do you want to add some color to the way that margin is shaping up?

Jon Jaffe: Sure. This is Jon. You know, as I mentioned in my prepared remarks, you know, lumber is the biggest mover on the cost side of the equation. And we'll see in Q2, more of an impact from lumber prices that they were spiking in like October of 2020.

And so, I said we have about \$2,300 per home increase in our lumber costs in Q1. That will go up by about another \$4,000 - 5,000 per home as we move into Q2. And then in Q3 and Q4, we'll see a repeat of that pattern as lumber prices moved higher in the recent months, before what we hope will be an expected leveling off.

So, as, you know, all of us have mentioned, we've got significant pricing power that's overcoming that big needle mover of the lumber cost increases that's just a reflection of where the lumber market is, and not something that any of us can do anything about until the market self-corrects.

And then as I mentioned, we're seeing other cost increases, other categories. There is supply constraint and increased demand. So, natural supply and demand that's occurring in the supply chain.

Rick Beckwitt: Yes. I think that Stuart and Jon have covered it. You know, I view this as, we bump overall year guidance by 125 basis points. So we feel that that's a really big increase from a quarter ago.

Truman Patterson: Yes. I would agree with that. And apologies if I missed - I missed the first part of the call. So, apologies if I ask something that was covered earlier on.

But clearly, it sounds like demand is healthy, but on the flip side, you know, are you seeing any demand softening with the recent increase in rates? And I'm trying to link this to your 2Q orders guide. It seems like it's below what we would expect seasonally, right, sequentially.

You know, is this just you all are comfortable running your mousetrap at this level and you're fine with demand outstripping, you know, supply? Or are you concerned of the market softening near term? And, you know, with that, your guidance was about 16,600 orders or starts, I would estimate. Is that the level that you all are comfortable you can produce going forward?

Stuart Miller: Rick?

Rick Beckwitt: So, as Jon said in his commentary, we could get - we could have sales be whatever we wanted. The market is extremely strong in all price and product categories. And what we've really been focused on is matching starts with sales and making sure that we are maximizing our bottom line through operating efficiencies.

And we've looked at what some of the other builders have done in selling so far out ahead and without the ability to match a price increase to cover a cost that maybe potentially come in. It just doesn't make business sense for us. So, we're sticking to our plan, and feel very good about what we've laid out for you.

Stuart Miller: Yes. You know, look, we're managing a carefully controlled business. And as you heard from the earnings call and our commentary today, we have a number of moving parts in the company. We've been focusing on balancing margin and bottom line and cash flow, and really building that rock-solid balance sheet.

I know that you hesitated, and I ask everyone to hesitate in asking questions about the spin, but balance sheet is really the key to spinning and leaving both companies with rock-solid balance sheets. And all of this comes about through a carefully managed program of matching starts, production, and sales, and keeping them in orderly relationship to each other. And that's exactly what you've seen from the company as we map out our strategy for going forward. Next question?

Truman Patterson: Thank you.

Stuart Miller: You bet.

Coordinator: Thank you. Our next question comes from Stephen Kim from Evercore ISI. Your line is open.

Stephen Kim: Yes. Thanks very much, guys. You've certainly been busy. Good to see, and we'll be looking forward to a lot more information coming forward. I did want to ask you generally, though, about LEN^x, which I understand is LEN to the X power. But, you know, I see two potential approaches, and I'm curious, which is more the priority for you? Which is really more the emphasis that is sort of driving your decision-making or will drive your decision-making around LEN^x?

You know, one would be to create, you know, a separate operating segment of sorts in order to have a collection of businesses be more easily valuable by the Street, you know, literally able to be valued more easily. But then another alternative would be that you want to create an ecosystem, an ecosystem of tech-enabled businesses that a customer enters into when they walk into one of your sales centers, or one of your rental offices, in order to sort of

maximize the value that you can both provide and get compensated for by that customer.

And I'm wondering, which was more the priority, or is more of the priority in your mind? And then the follow-up, you know, do we consider - should we consider these initiatives to be cash flow positive or negative meaningfully over the next few years at all?

Stuart Miller: So, fair question, Steve. Our primary focus in building LEN^x, and it has been evolutionary, has been the latter approach. It was and continues to be all about - in the background of our core business, we inject these new streams of activity that are enabling a better customer experience and better cost structure for our company.

I've called it and said it's building a better mousetrap. And if you think about the companies we've talked about over time, you know, you could imagine that a customer walks in and says, I've got a home to sell. We've got a solution. It's the iBuyer space. And that leads right into a blend powered mortgage application, which is a seamless, simpler technology-enabled mortgage application, feeding right into Doma and the entire closing process being one tap and digitized, and an immediate home insurance policy, it becomes a joyful experience with our technology companies operating in the background, creating an excellent experience for our customer, but driving our cost structure down, and enabling us to build profitability and even pass on some of those savings to our customer, which is a greater good.

And I haven't really mentioned that each of our technology companies, has an ESG component and focus as well, and that will develop over time. So, really think about it as, we're building a better Lennar by investing in these technology companies and the investment in the technology company.

We're not really isolating and looking at as a separate operating business. And I would - I just want to daylight that Eric Feder and his team of Sana Khan, Christian Falk, and a number of others, have really developed some expertise in creating a focus on technology companies that matter, together with change management, dovetailed within the company.

And I think that over time, what you're going to see, as these companies develop their own value proposition, as you've already started to see, they do become cash flow positive in their own right, and each of them has a map to that strategy. And the dovetail with Lennar and the operating performance, is what gets us very enthusiastic.

So we're more focused on the latter approach than we are on the former. And we really want to deemphasize what I call the shiny object of, you know, the big gains, and I want to emphasize more the core program that Rick is involved in, Jon is involved in, Eric is involved, I'm involved in, every single day of building a better company. That's what it's really about.

Stephen Kim: That's great. Thanks a lot for that, Stuart. Appreciate it.

Stuart Miller: Sure.

Stephen Kim: The second thing I wanted to ask about relates to this land venture, which you talked a little bit about in your 10-K, and you talked a little bit about today. Rick, I believe you spoke to the idea that this would be creating a structure by which you can basically bucket land parcels into various - or categorizing, to put them into buckets with different durations and different returns on capital expectations.

You know, in a way, though, that's kind of what you've always been doing,

right? I mean, like homebuilders always, you know, what they're doing things properly are sort of evaluating parcels of land to - you know, for duration and returns on capital expectations and so forth.

So, is what's different here that you've got some form of a system that enables you to do that more quickly by isolating specific metrics or something? I don't want to put words in your mouth because I'll probably get it wrong, but can you - but to the degree that there's already that discipline that existed in Lennar previously, can you zero in on exactly what is different and special about this particular relationship and venture?

Rick Beckwitt: Let me start off, and I'll let Jon follow. You know, Steve, you're right. We have always done what we thought we could do to maximize the land opportunities out there, whether they be short-term or long term. I think the key difference associated with this is, we've created something that's very programmatic and systemized and oriented, where we're matching capital and returns to either short-dated and long-dated land opportunities.

And what we've learned as we've evolved our thinking over the last several years is that, there is tremendous appetite out there in the market for risk-adjusted returns. And, you know, the returns associated with the short-term sort of current inventory type of opportunity, is a much lower threshold than something that is a little bit riskier.

And by creating a programmatic systemized machine, where we funnel our land opportunities to either one of these programmatic structures, it allows us to become very efficient and to really incredibly scour the land opportunities out there to grow our business. So, Jon, anything you want to add to that?

Jon Jaffe: Yes, Steve, I'll just add that perhaps the fine tuning of what we've always done has been to further define the risk buckets associated with land. So if you think about the least risky component, that's the land in which we're building a home on. And that should really be financed at the lowest cost of capital, primarily our cash on hand or revolver.

And then if you look at the next bucket and call it the land that is more like WIP, and that's ready to come into that production assembly line, that's from say zero to four years out, that is properly structured relatively very low risk and should attract a cost of capital that is also very low, and separated from sort of that mid-term bucket of land, which has historically looked for, you know, high teens to 20% kind of returns from an investment standpoint.

And by properly structuring and really reducing the significant portion of risk associated with that middle bucket, we're able to create, as Rick said, more of a systemic approach of a significant size and scale to it, allowing for a one-stop facility to be able to make it very easy to transact and to really position land to be de-risked.

Stephen Kim: Great. Appreciate it. I'm sure we'll be hearing more about this as we go forward. But thanks a lot, guys, and good luck, and good job with everything so far.

Stuart Miller: Steve, let me just say before you get off that it's really a just-in-time delivery system for land that we're building. But I love the fact that the question is coming from you and I reminisce about you, me, David Dwyer, sitting in my old office, going through this, you know, kind of tranching risk-reward association relative to CMBS probably 25 years ago. And here we are, going through that same thinking process again as it relates to another asset class.

Stephen Kim: Yes, indeed. And I imagine that the returns from this might even be greater than what you saw in the early '90s from the other one, which was pretty meaningful as well.

Stephen Kim: But thanks for that (unintelligible) certainly.

Stuart Miller: Well, we did okay with that, but this will be very interesting. Very good. Thank you.

Stephen Kim: Thanks.

Coordinator: Thank you. Our next question comes from Buck Horne from Raymond James. Your line is open.

Buck Horne: Hi. Thank you for the time, and quite a bit of news to digest. So, thank you so much for going through it. Let me back it out to just more of a higher level and kind of policy type question for you. We're hearing a little bit more chatter coming out of DC, that there's some renewed consideration of President Biden's proposal for a \$15,000 first-time buyer tax credit, and among some other things out there.

But I'm just wondering what your thoughts might be on how a tax credit like that could affect the current housing market? You know, would the benefits outweigh the costs? And do you see any other policy options that might be more supportive to increasing housing supply at these levels?

Stuart Miller: So, you know, look, the last thing I think we should be weighing in on is politics these days. There's no question that stimulus is a significant part of the equation. As I've noted in my remarks, you know, interest rates are still low by all measures. Yes, they've ticked up a little bit, but the other side of

the equation is the savings rate and the stimulus that's out there just in the most recent stimulus bill.

Additional legislation seems to be coming down the track, and that will, once again, stimulate even more demand. The complicating part is that we're dealing more with supply shortage, than we are dealing with a shortage of demand. The fact is, demand is very, very strong. And a tax credit to stimulate more demand, it seems is probably going to layer on more demand to an already constrained supply, which will probably have the impact of raising prices somewhat, just supply and demand imbalance.

So, you know, the question is, what do you do across a country that is talking about workforce housing and short supply as a governing kind of component? And it seems that there's going to have to be some additional initiative to focus on more land entitlement, more streamlined, you know, government involvement, and constraining the supply, but we'll have to see how it all shakes out.

As things sit right now, when we look at the housing market, it's one of the reasons that we think that for the next years, the housing market benefits from a fairly strong supply limitation and demand strength - strong demand and shorter supply. And for the homebuilders, we're going to have to be an active participant in finding reconciliation here and participating in building new homes.

Buck Horne: Great. Thank you so much for that. Let me follow-up with a question on the single-family rental platform, this new strategy. There's a lot of detail to cover there. So, just for clarification, would Lennar be the exclusive builder to this new SFR venture? You know, what's the - I mean, kind of what's the

initial timeline to ramp up deliveries to this venture? And would the returns or margins on these homes be similar to the for-sale product?

Rick Beckwitt: So, a bunch of questions there. The duration of the venture is a 12-year period. Has a four-year investment period. The venture is not exclusive to Lennar, although our partners in the venture are very comfortable with Lennar product, and it's been geared towards buying our new homes. And - so what was the last part of your question?

Buck Horne: Just, you know, would the returns in margins on build-for-rent product be similar to for-sale?

Rick Beckwitt: Yes.

Stuart Miller: So, let me say this. This is primarily a focused program on Lennar product. We have the ability within the program to buy other builders' product as well. But think of it as primarily focused on a new build program that is going to be basically opening the ability to purchase across Lennar's platforms. That's the exciting part of this program, is the ability to ramp-up.

We have already started buying homes into this program, even though the ink is just drying on the Centerbridge-led financing component. We had a head start on this program and have started buying homes. We'll be ramping up pretty considerably over the next year. And you can expect that our margins are going to be exactly in line with the margins on the rest of our products. So there will be no pullback or compromise in that regard.

Rick Beckwitt: Yes. And consistent with Stuart's comments on technology and visibility, this business allows the venture to have complete visibility across our pipeline, and make it very seamless for them to transact with Lennar. So, it's a ...

Stuart Miller: Let me just say one more thing. One of the things that has us most enthusiastic about this program, is the social component. This is an upward mobility program. It produces access across Lennar's landscape to a broader array of social and economic participants in our communities, and really stretches and gives single-family lifestyle access to a much broader array of the population.

Now, that's the case for single-family for rent in general. But notably, in this program, we have a component of our program that is dedicated to, and focused on, lease with an option to buy. And we're really focused on finding a way to not only create accessibility to our single-family homes - in our single-family for rent program, but also to engage more people in the ability over time to find their way to home ownership, which we think is a greater good. So, this is an exciting program for the company, and I think ultimately for the industry, and we've designed it to be ultimately an industry solution as well.

Buck Horne: Thank you. Appreciate that. Thank you.

Stuart Miller: You bet.

Coordinator: Thank you. Our next question is from Carl Reichardt from BTIG. Your line is open.

Carl Reichardt: Thanks. Good morning, everybody.

Stuart Miller: Good morning.

Carl Reichardt: I'm just going to ask one so you can get someone else in here, but Rick or Stuart or whoever, Jon, if you - can you talk about how mix has changed in terms of entry-level versus first time move up or even down to next-gen? You mentioned that folks are looking for larger homes now, more space. And I'm interested if your community count, as it changes over the year, is going to address that, if you're seeing more demand for higher-end home now compared to, say, six months ago when entry level was a big driver?

Stuart Miller: Jon, Rick?

Jon Jaffe: This is Jon. I'd say that we're seeing consistent demand across our platform. So, it's - you know, you still have tremendous drive for the more affordable home as people come out of apartments and are able to access home ownership for the first time, driven in large part, as we discussed, by historically low interest rates.

But we see it throughout to our next-gen product, as you mentioned, which is a phenomenal solution for those looking for a home that's better suited for working at home, playing at home, educating at home, as well as the need for multigenerational families as America continues to age.

We're seeing continued demand or renewed demand in our active go product line. But if you look at our square footage, which is - averaged the first quarter about 2,300 square feet per home, it's really maintained a very constant level. So, even though we have a shift towards more first-time affordable product in our overall mix, you can see the impact of the demand for larger homes, really balancing out our average square footage across the entire platform.

Rick Beckwitt: Yes. But in addition to what Jon said, consistent as to what we've said in prior calls, we are very focused on expanding our entry-level market share. And that's what's been driving, you know, our sales prices down on a consolidated basis, notwithstanding the fact that we're seeing pricing power in that segment. We're really focused on higher returns, higher volume in our entry-level and first-time move up communities.

Carl Reichardt: All right. Thanks a lot, Rick. Thanks, Jon.

Coordinator: Thank you. Our next question is from Ivy Zelman from Zelman & Associates. Your line is open.

Alan Ratner: Hey, guys. Good afternoon. It's actually Alan on for Ivy. Congrats on all of the exciting things going on, and the great performance.

Stuart Miller: Thanks, Alan.

Alan Ratner: My first question, I think, you know, a lot has been discussed about all the ancillary businesses. So, I'll probably leave that to the side for now. But, you know, just in terms of the home - the core homebuilding side, you know, I thought it was interesting. Last week we saw an announcement from the GSEs about actually capping the percentage of second homes and investment properties that they're going to be buying.

And I'm pretty sure that's the first real example of, you know, tightening on the mortgage side we've seen in a while. And I know it's a small part of the business. But curious, have you looked at what impact that might have on your business? What percentage of your sales today or to second home owners or investment property owners? And just kind of curious if that differs across your footprint?

Bruce Gross: Sure. Good morning, Alan, this is Bruce. I'll take that question. We're running somewhere in the 8% range, and the limitation they talked about was 7%. So what that means is, we'll look to the private market to sell those loans, as opposed to the GSEs.

So, you know, the impact might be a little bit on the margin side within Financial Services, but we'll still be able to go ahead and offer those loans. We'll just be selling them elsewhere.

Alan Ratner: Got it. Very helpful there, Bruce. Good to hear your voice.

Bruce Gross: Likewise.

Alan Ratner: Second question, I guess, is on the land side, you know, obviously tying up a lot of land there. And I think you made the comment about looking towards larger communities, so you can kind of keep a higher sales pace going. Can you provide any additional color about, you know, the underwriting on the land you've tied up over the last year, and how that might differ from, you know, land prior to the pandemic, whether that - you know, quantifying the number of lots per community, absorption rates that you're assuming going forward, you know, margins - implied margins on that? Any color you can give would be great.

Stuart Miller: Rick?

Rick Beckwitt: Yes. So from an underwriting standpoint, we're pretty much consistent with where we've been in prior time periods, you know, with the exception of coming out of the downturn where there was a lot of distress out there. From

an underwriting standpoint, we're really not focused on underwriting inflation.

We're staying very close to where the markets are with regard to sales prices and pace. We have a lot of metrics right now with regard to what current activity is. And as Stuart and Jon talked about, we're really matching duration risk to risk-adjusted return for the various programmatic structures we've got.

Jon Jaffe: What I would add to that is, we have an intense focus because of our production first strategy to looking for land that fits existing product that we build. So we can maximize the reuse of product, which really creates efficiencies throughout the system, as you can imagine, for both us internally and all of our trade partners.

Alan Ratner: Got you. So just to clarify, though, on the absorption comment, because I think you said, you know, you're kind of looking at today's absorption. So is this 4.5 per month range that you're kind of running at, is that the right way to think about how you anticipate the pace staying over the next, you know, X number of years as these projects come online? Because that's obviously much higher than the cycle average. I'm just curious if there's any, you know, haircut being implied there on the new land?

Rick Beckwitt: So, as we look at land in general, absorption pace actually changes depending on the community. And what we've found is, in our larger communities, we can have multiple product lines going at any point in time, so the pace is a bit higher. But we're not forecasting across the board 4.5, you know, over the next several years. It's really geared to what the land opportunity is and the drivers of the local market there.

Stuart Miller: Let me just say that I think that we've noted that we could tune up or down the actual sales pace in any of our communities right now. Demand is just that strong and has been that strong. In terms of underwriting, we tend to conservatize that sales pace, recognizing that we can get away with ourselves if we start, you know, anticipating that it's much higher.

So we really haven't - we haven't tuned up the sales pace, though we could achieve it. And we're probably underwriting to something closer to a four, even though we're running at 4.5 right now. And so, maybe that gives some guidelines as to how we're thinking about land.

Alan Ratner: Yes. That's very helpful. I appreciate that extra color. Great, guys. Good luck.

Stuart Miller: Okay. Thank you. And why don't we take one more question?

Coordinator: Thank you. Our last question comes from Michael Rehaut from JP Morgan. Your line is open.

Stuart Miller: Morning, Mike.

Michael Rehaut: Thanks for squeezing me in. I think this is the second time I got the squeeze-in before the door closes. So, I appreciate it.

Stuart Miller: We'll have to make you first next time.

Michael Rehaut: I won't argue with that.

Stuart Miller: I am making notes.

Diane Bessette: It's noted.

Michael Rehaut: You know, Stuart, and team, obviously appreciate all the detail and the results. I wanted to ask, you know, two quick questions. One, operationally, on the homebuilding side and one, see if there's any way to squeeze out a couple more numbers on the spin.

On the sales pace side, in particular, you guys have been very consistent in your approach to managing pace, and where possible perhaps getting a little bit more on the margin side. And I think that strategy really comes home in an environment today, where rates are rising, which everything else equal, would lower the true, what I'm kind of referring to recently as, you know, theoretical level of demand, because certainly, as you've said, your sales pace is below that level. You could run a lot hotter if you choose.

And so, you know, in that type of dynamic, you would think that if rates going higher impair overall market demand, but you're running below that, you should be able to still maintain a pretty steady business and a pretty steady order inflow.

So, you know, obviously we're just in the initial stages of this rate rise, but I was wondering if that theory is accurate in that over the last - throughout the first quarter, particularly February and into March, given again that you could have run a lot hotter, and in other words, below true market demand, that, you know, the recent move-in rates really hasn't impacted you at all from the order cadence.

Stuart Miller: So, look, I think, Mike, the way to think about it is, I think that there tends to be a knee-jerk that interest rates move up and the homebuilders are going to

have sales turmoil, and that might be conventional wisdom. But in today's market, as I've noted, there are offsets to the movement in interest rates.

First of all, interest rates have - are moving from a historically, you know, abnormally low rate. We're still lower than we were a year ago. Interest rates are still low. But the offset is the fact that the savings rate in the country, has really enabled so many more people to be able to afford a down payment.

The increase in home prices is, on the one hand, a negative, but on the other hand, a positive in that someone who owns a home, who's going to sell their first-time home, has a bigger down payment for their move up home. So, there's this kind of trickle up, you know, portion of this. And then, stimulus is adding to the availability of capital to support the home and mortgage business.

You might find that interest rates knock some people out of the credit boxes that are out there, but there's so much demand. The backfill has been pretty readily, you know, supportive of maintaining sales pace. So at the end of the day, we've really seen very little trail-off in demand. In fact, it's continued to be strong and be building what has been traditionally a spring selling season.

It's hard to detect where the spring selling season is, because we've been consistently strong all the way through what, at this time, should be the beginning of the spring selling season. So, I think that what I'd say is that we're still seeing a very strong demand pattern. And even with interest rates ticking up, there are offsets to that tick up that are keeping demand strong.

Michael Rehaut: Great. No, I appreciate that, Stuart. Thank you for that. Secondly, and I know you guys are probably fairly reticent, but, you know, with the stock up on today's news, obviously both on the strong results, but also I think on the

news of the spin, you know, I don't know if there's any other type of metrics you could provide?

I think, you know, one of the key numbers, I guess, was that this tax-free spin would - could be comprised of \$3 to \$5 billion in assets with no debt. And you mentioned, obviously, the different businesses that would - from which the spin could be comprised of, with LMC being the backbone.

I was hoping, if it's possible, if you kind of take that \$3 to \$5 billion asset range, what would be the corresponding range for liabilities? And also, on the income statement side, any type of corresponding, you know, management fees or income that you're deriving from today that's running through your income statement, as well as on the corporate G&A side? So, I don't know if you could give perhaps all those numbers, but even a few would be very helpful.

Stuart Miller: So, you know, as I said, we're giving you a skeleton right now. I think that my starting point in just giving you some answer to that is, we start with a really strong balance sheet right now. You see a debt to total cap at 24%, and sizable profitability coming through the year. So you can imagine, our balance sheet continues to get stronger.

That really enables us to do a spin of a sizable amount of assets with no liabilities associated, meaning no debt. And it leaves us with a balance sheet at Lennar that is just rock solid. So, very little impact to the balance sheet. Now, from an operating and earnings standpoint, you can think similarly.

Look, we've been building these businesses in the background, and we've been reporting on them for years. These businesses are up running and have been operating, but because of the composition of some of them, like LMC,

where you have depreciation and you have, you know, third-party management fees and a variety of things, they don't show GAAP profitability.

So, there's deferral - that's right. You're going to see very little, if any, impact to the earnings of the core company. But these operating businesses, as they stand on their own, with their own identified metrics, this enables those businesses to be able to run more effectively and efficiently as a stand-alone company.

This is not about, you know, creating some notion of value or anything else. The standalone Homebuilding, Financial Services Group, and the standalone Asset Management Business, is the right configuration for these businesses on a go-forward basis. And you'll see very little impact to Lennar's the RemainCo bottom line, and an exciting value proposition and standalone enterprise for SpinCo as it stands on its own.

That's the structure. That's the skeleton. It's as far as we can go right now, but all of this is driven by the fact that we have a balance sheet that supports. We can give this kind of a strong spin or dividend, as you might think of it, without impacting the underlying balance sheet and building two, or furthering two very strong companies on a go-forward basis.

And I would just say, Mike, as you think about this, remember, Lennar has done this before. In 1997, we spun LNR. And we did it in a very carefully constructed manner where it was two separate businesses that were long-standing, and we identified and ran both companies in a very successful manner, and we expect to be doing some of that similarly all over again.

Michael Rehaut: Great. Thanks so much.

Stuart Miller: Okay. You bet. Listen, I know that this has been a lot to absorb, and we've run over time, but I thought it was worth the time to do that. We look forward to continuing to update you on all elements of our business and look forward to a strong 2021. Thank you for joining.

Coordinator: Thank you all for participating in today's conference. You may disconnect your line and enjoy the rest of your day.

END