

**LENNAR CORP**

**March 17, 2022**

**11:00 AM EST**

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 will now turn the call over to Alexandra Lumpkin for the reading of the forward-looking statement.

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 flow 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 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 like to introduce your host, Mr. Stuart Miller, Executive Chairman.  
Sir, you may begin.

Stuart Miller: Great. Good morning. Thank you and thank you all for joining this morning. I'm here in Miami joined by Jon Jaffe, our co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, our Controller and Vice President Bruce Gross, CEO of Lennar Financial Services and of course, Alex, who you just heard from. And we also have Rick Beckwitt, co-CEO and President on the line with us and he's joining us from Colorado.

As usual, I'm going to give a macro and strategic Lennar overview. After my introductory remarks, Rick is going to talk about market strength and land and community count. Jon will update on supply chain production, construction costs and then, as usual, Diane will give a detailed financial highlight and additional guidance. And then we'll answer as many questions as we can and will limit to one question and one follow-up please.

So let me begin and start by saying that we're quite pleased to announce another hard fought, well-executed quarterly performance by the associates of Lennar.

Our operating results reflect both the extraordinary focus and determination of Lennar's management and operating teams as well as the general strength in the housing market.

As questions abound given geopolitical turmoil, inflationary pressures building both around the globe and domestically, and interest rates are rising, the housing market remains very strong in all of our major markets.

Demand trends remain strong as family formation continues to rise. As our teams from around the country reviewed our weekly sales starts and closings on Monday for our regions and our divisions, the unanimous view was that our sales pace ranged in each market from strong to very strong.

Buyers are seeking shelter and they are seeking shelter from inflationary pressures as scarce rentals see rents escalating and escalating housing costs can be controlled with an owned home with a fixed rate mortgage.

While wages are going up so too are housing costs. So with employment strong and home prices rising, it is best to fix these costs.

Additionally the home is ever more of a control center or hub of our customer's lives and frankly geopolitical stress makes the security of home all that much more comforting.

While demand is strong, supply is short and constrained. The ability to actually build and deliver homes has been slowed by the supply chain that is all but broken, by the workforce that is short in supply, and the intense competition for scarce entitled land assets. Therefore the supply of homes has remained quite limited and is not prone to overbuilding.

Accordingly we're pleased to report operating performance that reflects the general strength in the housing market. Setting aside for the moment our non-cash mark-to-market gains last year and losses this year, our operating performance is consistent and very strong.

While deliveries increased 2% year-over-year to 12,538 homes, our gross margin improved 190 basis points to 26.9% and our SG&A improved 90 basis points to 7.5%, which drove net margin to 19.4% and drove net earnings from

operations to just over \$800 million and almost 20% bottom line improvement from operations.

Although deliveries have been constrained by the supply chain disruption, efficiency in our operations continues to drive strong bottom line improvement and very strong cash flow.

Additionally our financial services group continues to perform exceptionally for the company, adding \$90 million of earnings while supporting the closings of every possible home and making the closing process as joyful as possible in the current very difficult environment.

Our strong cash flow has been constructively deployed as our operations have been our primary focus. First, with the lengthening of our cycle times by six to eight weeks over the past year driven by supply chain disruption, we have more capital invested in our inventory as we are increasing starts and taking longer to deliver homes, even as we are significantly reducing the amount of land held on our books. We are deploying more cash into shorter term assets while generating cash from longer term assets.

Next, we're continuing to pay down debt as it comes due with the next tranche available for pay down in August and that's \$575 million that we expect to pay down from cash flow.

And of course, we have continued to repurchase stock with another 5.3 million shares purchased in the past quarter and another \$2 billion authorized by our board just yesterday.

With strong performance and cash flow, we have fortified our balance sheet with \$1.4 billion of cash on book, nothing drawn on our revolver and an 18.3% debt to total cap ratio as compared to 24% last year.

We expect our results to continue to strengthen throughout the year as our already increased start pace results in more deliveries and as we use our size and scale and our builder of choice relationships to alleviate and resolve some of the supply chain friction.

To that end last quarter I noted that John and Rick, our co-CEOs, have not chosen to sit idly in difficult times but instead they went to the problem and visited each of our 38 divisions over a six-week period.

Well that was last quarter. Monitoring my Jon and Rick cam this quarter, I noted that on top of rate of regular in the field operations reviews at division offices, they have jointly, with Kemp Gillis, our esteemed head of all things supply chain, gone to the problem and visited approximately 10 of our most strategic manufacturers at their offices to engage directly the problem-solving process.

This is just the beginning as many more trips are planned and the supply chain problem will find its way to becoming a supply chain opportunity. I'm betting on them. Time, focus and attention. Problems are being solved and that is simply the Lennar way. Leadership matters.

So let me quickly turn back to the mark-to-market volatility that I mentioned earlier. Our total first quarter earnings in the first quarter were \$503.6 million, or a \$1.69 per diluted share compared to first quarter 2021 earnings of \$1 billion or \$3.20 per diluted share. These numbers include our mark-to-market loss this quarter and gain last year at this time.

Let's avoid confusion. We have made significant strategic investments in various new technology companies that are working to reshape various parts of our company and our industry. Some are disruptors and some are enhancers. All of them are core to the future of, as well as the presence of, our core operating platform.

They have informed change in the core that have reduced SG&A and production costs. These cost reductions have made the investment in the companies and the LEN<sup>x</sup> strategy extremely valuable in creating long-term shareholder value.

These investments are also the tip of the spear in identifying and engaging our substantial industry leading sustainability initiatives from solar on the rooftop to microgrid technology across a community from water conservation to sustainable cement, our LEN<sup>x</sup> strategy is setting the course for Lennar's sustainable future.

A number of our LEN<sup>x</sup> investments have matured and become public companies and their short-term market price movements are volatile and that volatility runs through our earnings.

On the one hand, this causes some confusion on both the upside and the downside. For example in Q1 21, we reported a \$470 million mark-to-market profit and in Q1 of '22, this quarter, we reported a \$395 million mark-to-market loss.

On the other hand, these investments have been stepping stones to our higher gross margins as well as our never been lower SG&A at 7.5% in the first quarter, which is now the lowest we have ever seen in that first quarter.

These are non-monetary and non-operational profits and losses and they really do not reflect the state of the housing market or the operating performance of the company within that market.

With that said, we choose not to sell the ownership in these companies just because they go public. Instead, we are strategically engaged in the businesses of these companies and because we are very enthusiastic about the future of these businesses and our LEN<sup>x</sup> strategy. And of course, you can expect to hear a lot more about this part of our business in the future.

Now finally let me talk briefly and update our progress on SpinCo and our focus on becoming a pure play home building company.

As noted last quarter, we filed our private letter ruling with the IRS. Since then we've taken the next step with SpinCo and filed our confidential Form 10 filing in February so we can control the timing of the spin.

We have received since then our first round of comments from the SEC. We have also initiated the process with the NYSE to have the shares of SpinCo listed.

Nevertheless, given the choppiness in the capital markets and the work that is still being completed, we're pushing our expectations for the actual execution to the third or fourth quarter of this year.

We have noted before that the spin company will be an asset light, asset management business that will have a limited balance sheet. Many of the assets targeted for SpinCo will be either part of the limited balance sheet of SpinCo or are currently being monetized in the form of assets under

management that will be housed within the private equity verticals of SpinCo or they're being resolved and monetized in other ways.

Additionally while we are taking more time to execute the spin, we continue to migrate assets from the Lennar balance sheet into the assets under management that will comprise SpinCo. Therefore we are growing the management fees and returns that will define the value of the spun company.

This monetization has been and will be completed over the next year or so and the cash proceeds will be deployed in Lennar to fortify the balance sheet and/or to continue to buy back stock on an opportunistic basis.

As a reminder, our three core verticals of SpinCo have been identified in business plan and are already growing AUM in fee generation. They are multifamily, single family for rent, and land strategies. Each of these verticals already have raised and are continuing to grow third-party capital and are active asset managers.

LMC, our multifamily platform, had almost \$10 billion of AUM at the end of 2021 and as of the end of our first quarter had approximately \$10.7 billion of gross capital under management and is very close to our first closing for our third fund.

LSFR, our single family for rent platform, has grown from approximately \$1.2 billion of assets deployed at the end of '21 to approximately \$1.9 billion deployed as of the end of our first quarter.

And our land strategies platform, which is still being refined for SpinCo, expects to have \$4 billion to \$5 billion of assets under management at the time of the spin.

As I've noted in the past, the remaining Lennar Corporation will drive higher returns on our assets and equity base and the spin will not result in the material reduction of either our bottom line or our earnings per share.

So let me wrap-up and conclude by saying that we're extremely well-positioned financially, organizationally and technologically to thrive and grow in this evolving housing market.

As I said earlier, we expect our results to strengthen throughout 2022. We are picking up steam and we are picking up confidence. We recognize that interest rates are rising and inflation is a legitimate threat.

We also know the difficulties in the supply chain present challenges for Lennar and for the industry and that land and labor are in short supply. But we also recognize that the economy remains strong with wages rising and housing is in short supply across the country.

Strategically we remain focused on orderly, targeted growth with our sales pace tightly matched with our pace of production. We focus on gross margin by selling in step with production while controlling costs and reducing our SG&A and therefore maximizing our net margins.

As we look to the remainder of 2022, we expect continued strength in the market and double-digit growth for the company. As noted in our press release, we are projecting 16,000 to 16,300 deliveries in the second quarter at a 28% to 28.25% margin.

And we are now projecting 68,000 deliveries for year end at a 27.25% to 28% margin for the year. At this pace we will have a very strong bottom line and

very strong cash flow with a projected spinoff in the second half of the year and Lennar will have another record year.

So with that, let me turn it 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 home building machine where we carefully match home building production with sales on a community-by-community basis. We have continued to strategically sell our homes later in the construction cycle to maximize sales prices and offset potential cost increases.

To that end, we have slowed sales. Rather than writing sales contracts when customers visit our Web site or welcome home centers, we are putting people on a waiting list to contact them later when we release the homes for sale. This shift in the sales process is driving higher sales prices and stronger margins.

Our first quarter results prove out the success of this strategy as we achieved gross margin increases of 190 basis points year-over-year. During the first quarter, we started at 4.7 homes per community, sold 4.3 per community and we ended the quarter with less than 180 completed unsold homes across our entire footprint.

This production, margin driven, and sales focused program will continue to improve margin and lead to increased deliveries and profits in fiscal 2022.

In the first quarter, new orders, deliveries, gross margins were solid in each of our operating regions. We continued to achieve price increases and saw strength in all product categories, from entry level to move-up and in our active adult communities.

Let me give you some color on our markets. As Stuart said in his opening remarks. All of our markets are strong right now but here's some color.

Florida continues to benefit from core local demand as well as in migration from the Northeast, Midwest and West Coast, which is driving both sales pace and price. Inventory is extremely limited. The state is experiencing tremendous job growth, with employment exceeding pre-pandemic levels.

The hottest markets in Florida are Naples and Sarasota in the southwest, Miami-Dade and Broward in the Southeast and Tampa. Orlando is also a robust market, benefiting from a significant rebound in tourism. In all of these markets, we are the leading builder with the best land positions.

Atlanta continues to see strong and steady growth driven by limited inventory, relative affordability and strong job creation. During the first quarter, we entered the Huntsville, Alabama and Florida-Alabama Coast markets. Both markets are experiencing strong demand, driven by limited inventory and a quality of life.

Huntsville is especially thriving due to significant employment growth, fueled by an influx of many diverse industries attracted by a world-class airport, a supply of educated workers and a relatively affordable home price. The Gulf Coast is also experiencing outsized employment growth while providing a healthy outdoor lifestyle, favorable weather and the beauty of the Gulf of Mexico.

In the Carolinas, Raleigh, Charlotte and Charleston are extremely strong markets. Inventory is very limited and the combination of core local demand and in-migration continues to push both sales pace and price. We are the top builder in all of these markets.

Texas continues to be the strongest state in the country, with in-migration from the East and West. The state's pro-business, employer-friendly economy is driving corporate relocations and exceptional job growth, especially in the technology sector. The state is also benefiting from a surge in oil and gas prices. The strongest market in the country continues to be Austin.

The Colorado market continues to gain momentum, benefiting from strong in-migration and solid job growth. Inventory is very limited and we are seeing great pricing power.

Phoenix and Las Vegas continue to be two of the hottest markets in the country. Both are benefiting from business-friendly environments, real job growth and in-migration from California. Nevada continues to lead the nation in new jobs, with employment significantly exceeding pre-pandemic levels. Phoenix is thriving due to real affordability. Inventory is extremely limited and demand continues to accelerate.

The Pacific Northwest continues to be a strong market, has significant land use and development restrictions limit production to meet growing demand. Notwithstanding these restrictions, we have an excellent land position with great growth opportunities.

Portland and Seattle are experiencing outstanding job growth, with both markets ranking in the top 10 in the country. With strong demand and limited supply, we continue to see strong price increases.

The California markets remain very strong. Driven by the state's severe housing shortage, there is more demand than supply, even with much of the out-migration from the state. The Inland Empire, Sacramento and East Bay Area have remained some of the strongest markets, with home buyers looking for affordability.

During the quarter we also saw a resurgence in the core markets of the Bay Area as employees are returning to work. As such, both our core and inland markets are firing on all cylinders. As I said and Stuart said, these are some of the strongest markets, but there is broad strength across the country.

Now I'd like to spend a few moments talking about growth in community count. During the first quarter, our community count increased 4% year-over-year as we focused on growth in our existing and new markets.

We expect our community count to build throughout the year and are still projecting to end 2022 with a low double-digit increase in community count year-over-year. While supply chain issues and inspection delays are impacting the timing of some of our community openings, we are in excellent position for strong growth in 2022 and 2023.

Our land pipeline remains robust with plenty of land in the queue to meet our growth goals over the next several years. We continue to see great buying opportunities in all of our markets and are confident this pipeline will produce strong community count growth for the next several years as we pursue deals to backfill beyond the near-term deals that are already owned or controlled.

We are also pleased with the excellent progress we are making on our land-light strategy and evidenced by our controlled home site percentage increasing

to 58% at the end of the first quarter from 45% last year. We believe we can increase this to 65% by the end of the fiscal year.

Our extreme focus on a land lighter model saved us a significant amount of cash spend on land acquisitions during the quarter. We ended the quarter with \$1.4 billion in cash, no borrowings on our \$2.5 billion revolver and a home building debt-to-capital of 18.3%.

As Stuart said, we repurchased 5.3 million shares of our common stock for \$526 million. These repurchase, combined with our significant earnings, contributed to a return on equity of 19.5%, which was a 180 basis point improvement from the first quarter of last year.

Now I'd like to turn it over to Jon.

Jon Jaffe:

Thanks, Rick. This morning I'll discuss how our first quarter was impacted due to supply chain disruptions, inflationary impacts on construction costs and on cycle time increases as well as our team's ability to manage through these challenges.

At Lennar we continue to deal with our fair share of disruptions. Some of the supply chain disruptions were like the ones we faced in our fourth quarter where we experienced intermittent disruptions affecting different trades at different times and in different geographies.

The first quarter was also different in that the Omicron spike in January dramatically impacted everything. A significant amount of labor at manufacturers, suppliers, local trade partners and our own associates was out from work. This was most severe in January and then eased rapidly in February.

At times in January it seemed as though as much as one-half of the workforce across the industry was quarantined at home. This challenged our management, purchasing and construction teams to be extremely nimble in finding work around solutions to the unique challenges that the Omicron spike created.

Labor returned in February to the manufacturing plants and at our communities as manufacturers and trades are now hard at work to make up for lost time. Many manufacturers have stabilized their lead times and there are currently fewer situations of late deliveries.

However some manufacturers still have meaningful challenges ahead. The following categories are continuing to deal with significant constraints. These are electrical equipment, garage doors, HVAC condensers, flex duct and cabinets.

In response to the ongoing disruptions and future unknown risk of new disruptions, our divisions are more closely managing the inventory of local trades and adding additional labor by onboarding new trade partners while our regional and national teams stay in constant communication with manufacturers and suppliers in support of our divisions.

The supply chain challenges in the first quarter resulted in an increase in cycle time and contributed to an increase in direct construction costs. Our average cycle time increased approximately two weeks sequentially over Q4 and about two months year-over-year.

Given the severity of the challenges created by the sudden Omicron spike, I want to take this opportunity to recognize and thank our associates for their leadership, creativity and tenacity in overcoming this situation. Their

extraordinary efforts enabled Lennar to deliver over 12,500 homes to eagerly awaiting homeowners in our first quarter.

As we look at the balance of the year and our guidance to deliver 68,000 we are strategically focused on accelerating starts to give us more inventory under construction. This will provide a cushion against expanding cycle times, allowing our management teams more opportunities to complete homes in line with our plans.

Turning to costs now, our direct construction costs were up 3% sequentially from Q4 and 23% year-over-year. Lumber was relatively flat sequentially but accounted for about 60% of the year-over-year increase.

As you are aware, lumber dramatically increased again, up almost 100% since December 1 to \$1,400 per thousand board feet. This increase in lumber will cause about a \$5 per square foot increase by August of this year.

Further increases are anticipated as lumber futures indicate short-term inflation through the spring cycle or into early summer, then based on our analysis and on feedback from key lumber industry participants, we believe a deflation of lumber prices will follow. This pattern looks to mirror what took place last year with dramatic - with lumbers dramatic rise and fall.

Despite operating in this cost inflationary environment. Our first quarter direct construction costs as a percent of revenue were stable at 43% which is basically flat compared to 42% both sequentially and year over year. Simply put, our pricing power is offsetting these cost increases.

As Rick noted we're achieving this through the disciplined matching of sales pace to construction pace. Our divisions have been and remain laser focused

on being a production first operation. Our execution is an ongoing refinement and improvement of our dynamic pricing and FIFO sales approach, allowing effective control of which homes are released for sale and at what price.

In conclusion, it bears repeating that we remain disciplined and focused about our everything's included strategy, and on being a builder of choice for our trade partners, a program which is now entering its seventh year. This program has successfully created close relationships with our strategic building partners, allowing both parties to make adjustments in these unprecedented times.

These strategic relationships enable us to be better at solving problems in 2022 than we previously were. Additionally, as Stuart aptly noted, Kemp Gillis, Rick and I are currently traveling the country, meeting with senior management of key supply chain relationships to explore how to solve issues that need immediate attention and how to think differently about the supply chain going forward.

We have meaningful exchanges of thoughts and ideas on how to alter the current configuration of the supply chain to reduce and/or remove future disruptions. We believe these results - the results of these efforts will provide for the fastest path to stabilization of the supply chain for Lennar. We also expect to achieve meaningfully improved efficiencies throughout the supply chain, providing for better control of both cost and cycle times. Thank you, and I'll turn it over to Diane.

Diane Bessette: Thank you Jon and good morning everyone. So Stuart, Rick and Jon have provided a great deal of color regarding our homebuilding performance. So therefore, I'm going to spend a few minutes on the results of our other

business segments and our balance sheet and then provide detailed guidance for Q2 '22 and updated high level guidance for fiscal year '22.

So starting the financial services, for the first quarter, our financial services team produced \$91 million of operating earnings, slightly above the high end of our guidance. And then when you look at the details between mortgage and title on mortgage, operating earnings were \$67 million compared to \$100 million in the prior year.

As we've indicated for several quarters, the mortgage market has become increasingly competitive for purchase business as refinance volumes and resale inventories have declined. As a result secondary margins have been decreasing. This was the primary driver for our - of our first quarter, lower secondary margins as compared to the prior year.

Title operating earnings were \$21 million compared to \$30 million in the prior year. The prior year included a one-time, \$11 million gain related to the early pay down of the note receivable. Excluding this gain, earnings increased this year, primarily as a result of higher premiums, driven by an increase in average sales price per transaction.

And then looking at our Lennar Other segment, as Stuart indicated for the first quarter, our Lennar other segment had an operating loss of \$403 million. This loss was primarily the result of our non-cash mark to market losses and our strategic technology investments, which, as we indicated, totaled \$395 million.

As we've mentioned before, we are required to mark to market many of our technology investments that are publicly traded, and that valuation will fluctuate from quarter to quarter. And then turning to our balance sheet, we

ended the quarter with \$1.4 billion of cash and no borrowings on our \$2.5 billion revolving credit facility for a total of \$3.9 billion of homebuilding liquidity.

During the quarter we continue to focus on becoming land lighter. As a result, at quarter end, we owned 202,000 home sites and controlled 279,000 home sites for a total of 481,000 home sites. This portfolio of home sites provides us with a strong competitive position for continued growth.

As Rick mentioned our home sites controlled increased to 58% from 45% in the prior year, while our years owned stayed flat from the prior year at 3.4 years. Land transactions may fluctuate quarter to quarter, but progress is made year over year. And so we are still on track to reach our goal of 2.75 years owned and for 65% home sites controlled by year end.

And we remain committed to our focus on increasing shareholder returns. During the quarter we repurchased 5.3 million shares, totaling 526 million. Additionally, we paid dividends totaling \$110 million during the quarter, which was the result of a 50% increase of our annual dividend to a \$1.50 per share that took place in January of this year.

Our next senior note maturity is \$575 million which we will pay in August of this year. And we have no maturities due in fiscal 2023. The result of all these transactions with homebuilding debt to total capital of 8.3% which improved from 24% in the prior year.

And then just a few final points on our balance sheet, our stockholder's equity increased to \$21 billion. Our book value per share increased to \$69.98, and our return on inventory was 27.5%.

In summary, we had a solid balance sheet that positions us well for the future. And so with that brief overview, I'd like to provide some guidance detail.

As we look forward to the second quarter, we're assuming that market conditions remain similar to what we see today, strong demand and limited inventory driven by continued supply chain challenges. So with that backdrop we expect Q2 new orders to be in the range of 17,800 to 18,200 homes as we continue to moderate sales pace to match production cycle changes.

Community count is always challenging to estimate, as it's difficult to precisely predict when communities will open and when they will close out. However, we do expect our Q2 ending community count to be slightly up as compared to Q2 of last year.

Taking into consideration the continued supply chain challenges, we anticipate our Q2 deliveries will be in the range of 16,000 to 16,300. And our Q2 average sales price should be about \$470,000.

We expect to continue to produce strong gross margins in the range of 28% to 28.25% and we expect our SG&A to be between 6.8% and 7% as we continue to focus on simplification, efficiencies and leveraging our overhead. And for the combined home building joint venture land sale and other categories we expect a loss of about \$10 million.

And then looking at our other businesses, we anticipate that financial services earnings for Q2 will be in the range of \$90 to \$100 million as market competition for purchase business continues to increase. We expect a loss of about \$10 to \$15 million for our multi-family business.

And for the Lennar other category, we expect a loss of about \$10 million. This guidance does not include any potential mark to market adjustments to our technology investments since that adjustment will be determined by their stock prices at the end of our quarter.

We expect our Q2 corporate G&A to be about 1.5% of total revenue and our charitable foundation contribution will be based on \$1000 per home delivered. And we expect our tax rate to be approximately 25%. And the weighted average share count for the quarter should be approximately 292 million shares.

And so when you put all this together, this guidance should produce an EPS range of \$3.80 to \$4 per share for the second quarter.

And then turning to full year guidance, we are increasing our guidance for the year now. We now expect to deliver approximately 68,000 homes more or less, which is an increase from our previous guidance of 67,000 homes. We believe our average sales price for the year will be in the range of \$470,000 to \$475,000. This would result in about \$32 billion of home building revenues which would be an increase of more than 25% from fiscal '21.

We are also increasing our gross margin guidance for the year we mentioned. We now expect our margins to be in the range of 27.25% to 28%, which is an increase from our previous guidance of 27% to 27.5%.

We've provided somewhat of a wide range to take into consideration some of the potential uncertainties as we look ahead. And with our continued focus on technology and efficiency and an increase in volume, we expect our full year SG&A to be in the range of 6.6% to 6.8%. And for financial services we're

affirming our annual guidance of \$440 million to \$450 million. And finally, our tax rate should be approximately 25%.

And so as we continue to execute our core operating strategies, maintain a strong balance sheet and remain focused on cash flow generation and return, we are in an excellent position to have a strong fiscal year 2022. And with that, let me turn it over to the operator.

Coordinator: Thank you. At this time, you may press Star followed by the Number 1 to ask a question. Please limit to one question and one follow up. One moment, please, for the first question.

Truman Patterson with Wolfe Research, you may go ahead.

Truman Patterson: Hey good morning everyone. Thanks for taking my questions. So first, you mentioned that cycle times extended a couple of weeks, but you increased your closings guidance and starts remain relatively healthy. So a two part question for me on the supply chain.

Just first, you all mentioned visiting manufacturers. I'm hoping you can elaborate on some of your internal initiatives that might be giving you, you know, better access to materials, labor and whether you know, some of the materials that you mentioned, if there's any kind of relief in sight going forward?

And then the second part you made an interesting comment about enhancing your market position. You all gained quite a bit of share last quarter. I'm hoping you can give us kind of the lay of the land in 2022 for smaller private peers in a pretty constrained environment and your ability to continue taking share.

Stuart Miller: So let me start and I'll hand it over to Jon in the second and say that as I noted Truman we're - we are not just picking up steam, but we're picking up confidence. And a lot of that derives from the focus on starts. It's not that the supply chain is quickly getting resolved, it's that we are putting more homes in the ground.

We recognize that cycle time is extended and with additional homes under production that are farther along, we have a larger pool to draw from as we look at closings. So we're picking up steam and picking up confidence in being able to, in the current environment, kind of see some visibility to what we're able to deliver.

And let me just say it is - this is not an easy migration. It is taking a lot of focus, time and attention. And I just want to say that what we're finding is that size and scale matter quite a lot.

That means the way that we engage with our building partners and that builder of choice kind of mentality that we've brought to the table is critical. And the day to day engagement directly with the participants in the supply chain is becoming more and more important. When you put those pieces together that you find, we find that we're able to have greater visibility as to how our business is migrating forward.

So Jon maybe you'd like to embellish on that.

Jon Jaffe: I think you hit on a lot of the key points Stuart but starting with size and scale, as you mentioned really gives us a seat at the table in the prioritization.

But Truman as you can imagine, if you sit down with CEOs and key executives of manufacturers of distributors for four to six hours, really

opening up the thought process, how do we have a different approach to the products we buy, to the way that they're distributed to joining together manufacturers and distributors to think through from the origin of the supply chain all the way to the installation in our home, you're going to come up with a lot of interesting thoughts and ideas.

And we're in the process right now of really vetting those. We'll be beta testing them and are very confident that we already see opportunities for significant improvement. As I mentioned, it's going to give us a better cost control for both us and for our trade partners and give us much more clarity as to the delivery process.

And it begins a lot with our technology and our ability to give forecasting information with real clarity to our vendors, which is critically important for them as they plan how to strategically supply us.

Stuart Miller:: And Rick, why don't you weigh in on market share and where we think the current supply chain programming brings us on ability to capture even greater market share?

Rick Beckwitt: Yes so there's no question we continue to gain market share on the private builders and many of the larger mid-market public builders. This is going to continue to happen. A lot of this is driven by really access to land because, you know, when we have 20% to 40% market shares the land market needs to work with us. So those land relationships are driving a lot of the game.

And then, you know, just the efficiency of our product, our everything's included program allows us to work much more efficiently with the supply chain. And as a result of that, we're capturing more product.

Truman Patterson: Oh, okay thanks for that. And, you know, you all are acknowledging the risks. But you know, you mentioned that demand should remain strong for the foreseeable future.

My question is more on the land side and higher rates outlook, et cetera. Have you seen any shifts in landowners willingness to option or changes in land banking terms that, you know, might push out your ability to hit that 65% option target by the end of 2022?

Stuart Miller: The short answer to that is, no, there hasn't been shifts in the appetite or ability to option. And remember that we're focused on building a structured approach to that. You know, the options program and have been working through land structures to do that.

I think that we'll be able - we are certainly migrating in that direction with a greater portion of our land asset optioned versus owned, and I think it - we'll continue in that direction.

Truman Patterson: Okay. Thank you.

Coordinator: Thank you, our next caller is Mike Rehaut from JPMorgan. You may go ahead, sir.

Mike Rehaut: Thanks. Good morning everyone. Thanks for taking my question. You know, first I just wanted to kind of go back to some of the comments you made on demand. And we very much appreciate the fact that, you know, you kind of stated in a couple of different, you know, instances in the prepared remarks about how demand remains so strong.

You know, I think, you know, obviously everyone is very, very much focused on any type of, you know, graduated difference, you know, in other words, maybe still remaining very, very strong, very robust, but any kind of changes on the edges. And what I'm referring to is, you know, obviously yesterday we had NAHB survey where future sales component was down ten points. Obviously, that's a national number and might be just drilling more sentiment driven.

And we also had a private builder call yesterday that we hosted where, you know, on the margin, very, very minor and still characterizing the market as strong as you did. You know, the builder kind of pointed to, you know, maybe the first time or entry level buyer taking a little bit longer to make a decision, maybe a very slight pickup in cancellations and even, you know, taking a slightly smaller home or a home further out to adjust to the new interest rate backdrop.

So, you know, in that context, you know, I just curious again on the margin, if you see any - if you've seen anything, you know, across that entry level, you know, lower price point, if any market stands out in that regard as well?

Stuart Miller: So Mike, I've tried to be very clear in my comments, I noted that our - earlier this week management call we surveyed almost exactly that question across our geographic footprint. And the answers were that sales were ranging anywhere from strong to very strong. And I think that that's the - that's been the consistent answer by our divisions and our regional presidents. So that's what we've been seeing.

Now with that said, I also try to daylight in my comments that there are definitely elements in the economy that give rise to questions. And I know that some will kind of look for any evidence of kind of a change in the

environment. We haven't seen it yet, and yet we're very cognizant of inflation and inflationary pressures interest rates and the upward movement that is, you know - and I, you know, and I can never predict interest rates, but it's seemingly all but certainly moving up.

And we recognize that there are potential crosscurrents here. But those very crosscurrents can be arguments both for sustainable strength in the market as well as fissure in the market.

You know, in the current environment, as I noted, wages are going up, but so too are housing costs, the inflationary pressures on rental rates. This is really important as we look at first time buyers and people coming into our Welcome Homes Centers.

They're seeing significant increases in their rental rates and looking for a defense mechanism as stability measures that they can inject in their finances to at least hold steady one component of their cost structure. They can't really do much for gas prices and food, but their housing costs they can fix with a 30-year fixed rate mortgage.

So, you know, there are crosscurrents out there. We have not seen to date any change in the demand patterns except towards strength. And we're watching it very carefully as you are. And you know, we're just giving you as straight a shot as we can across the country it's been pretty strong.

Rick Beckwitt: You know, and the only thing I'd add to that, Stuart, is, you know, sequentially our cancellation rates actually went down. And what we're finding is that if something cancels that home is gobbled up very quickly at a higher price than what it was put under contract. So the markets are strong and just continue to feel, you know, healthy.

Jon Jaffe: And Mike, I would also add that, as we mentioned, we're very carefully controlling what we release for sale. There's clearly demand across all our markets where if we released more homes, they would sell. And people are waiting for us to release more homes.

And I also point out one data point, which I think just supports the current state of what we're seeing is that our Web sessions online are up over 20% year over year, and the conversion of those to leads is up almost 50%, just indicating the significant interest that's out there in home ownership.

Mike Rehaut: No, no, those comments are really helpful, and I appreciate, you know, Rick and Jon, your added comments as well. It's very, very helpful.

You know, maybe second question kind of shifting to SpinCo, you know, a lot of focus there, obviously. Just trying to get a sense, you mentioned, you know, kind of a two-parter here. You mentioned the land strategies component of the SpinCo that would have 4 billion to 5 billion of assets under management.

Just trying to confirm if you know, when you think about the SpinCo in totality, you know, how should we think about the total amount of assets that will be taken off of Lennar's balance sheet? I assume the 4 billion to 5 billion is a part of that, but perhaps there's incremental parts as well.

And secondly, you know, in terms of the fees that are made because obviously there's going to be an asset management business effectively, when you think about the fees on the multifamily, on the single family for rent, on the land strategies, how should we think about, you know percent, you know, fees as a percent of assets under management, you know, in terms of an income stream?

Stuart Miller: So decidedly Mike, we haven't given enough detail for you to make those translations, and we're not prepared to give that detail. In terms of the assets that are flowing from Lennar towards SpinCo I think that it's still good math to think in terms of \$5 billion to \$6 billion. Some of it has already gone, migrated into assets under management that will ultimately be verticals of Spin Co. And -- but we don't have a clear translator for you at this point.

But order of magnitude from the assets that will actually be spun on the day of the spin to the assets that are being put into the SpinCo it's in that order of magnitude.

You know, if you look at, for example, if you look, for example, at the multifamily component, the multifamily component year over year or from the end of the fourth quarter to the end of this quarter, we've gone from about \$10 billion of assets under management to about \$10.7. I can't give you a percentage, but a sizable percentage of that increase in assets under management was actually land and construction for multifamily that migrated into a - an asset, an AUM, asset management program.

Relative to land, some of the land that will be inland strategies is coming from book. Some of it is coming from assets that we're purchasing that are never coming onto book. So there isn't a perfect translator.

I still think that order of magnitude we're looking a \$5 billion to \$6 billion range of assets that will have migrated into that form of ownership. And you're seeing cash flow into Lennar reflective of some of that as we make the migration towards a spin-off day.

In terms of the fee stream we haven't laid out how those fee streams work and we haven't built for the street yet the model of how those fees will work. But there will be that clarity as we get closer to a spin off day.

Mike Rehaut: Great, thank you.

Stuart Miller: Thank you.

Coordinator: Thank you. Stephen Kim with Evercore ISI, you may go ahead.

Stephen Kim: Yes, thanks a lot guys. I wanted to ask you a couple of questions about the land situation. It was interesting to me that your lots owned increased pretty noticeably this quarter sequentially. Was just curious if you could sort of talk about that because that number had been kind of flat for quite a while. And just if you could put it in the context of your broader overall outlook, which would seem to be calling for a downward trajectory from the 202 you own today.

And then secondly, we did an analysis where we looked at where - how much land you either owned or controlled right before the pandemic hit. And, you know, assume - we assume that you didn't walk away from any of your options.

And if you sort of do that and sort of work that down from whatever closings you've done since then, I mean, you wind up with a very, very significant number of lots that I would think are probably reflecting pre-pandemic pricing, you know, something you know on the order of prior to this quarter, you know, 180,000 lots. You know, and then you only delivered another 12,000 or whatever this quarter.

So a very, very significant percentage of the land you have still has pre-pandemic pricing embedded. And I was curious if you could comment on whether you think that that's an accurate statement?

Stuart Miller: Okay. So I'm going to ask Diane to lead with an answer on this one because she spends all of her time focusing and obsessing over this and Rick to follow-up. So go ahead.

Diane Bessette: Yes I guess I'd say Steve, you know, you're right. I mean are - look as I said in the comments, land purchases are, you know, they fluctuate quarter to quarter. You often see a pickup in the first quarter because our land sellers are very motivated, often to transact before the calendar year is over.

But I wouldn't extrapolate that. It's just lumpy and we're really focused on just making progress year over year. So you are right, a little heavier this quarter, but it's just lumpy and it fluctuates.

Rick Beckwitt: Yes Diane's exactly right. A lot of that was just timing, and some of it was driven - a lot of it was driven by the potential fear of tax rate changes you know, given some of the talk that was going on earlier in the election cycle. People wanted to avoid paying a higher tax and transacting in 2022. It's really just timing. We're very focused on bringing that down.

And with regard to your question about pre-pandemic pricing and land opportunities, you're right. And I think that that's why you're seeing our margins continue to improve and the level of land embedded in on a cost percentage be very attractive. So we're really pleased with what our land teams have done.

Stephen Kim: Yes it would seem to suggest quite a bit of hang time here in terms of the margin opportunity projection, particularly with the fact that home prices are still going up.

And that sort of segues to my next question. You know, we know that when you look at your average price in backlog, for instance, that that can be influenced by more shorter cycle times for cheaper homes and longer cycle times for more expensive homes and that sort of thing.

But if I look at your order price, you know, then the average price you took in orders this quarter, I would generally think that those mix shift effects should be very muted. And we notice that your average order price was something on the order of \$495,000 bucks which was, you know, I think it was up like 6% or something like that sequentially. It was a very, very strong number.

And I was curious as to whether or not you believe that that's a reasonable level that we could expect your closings, you know, in some quarter in the not too distant future could reach. I know that your guidance for closings was \$472 [k]. It seems like it's baking in a fair amount of conservatism when you contrast it with the \$495 [k] you did this quarter. So hoping you could comment on that?

Stuart Miller: Rick why don't you take it?

Rick Beckwitt: Well, so we're not guiding for \$495 [k] ASP for the 2022. A lot of this is just mix and timing and sale and which communities we've released product from.

You know, there's no question we are seeing a very healthy sales price. We'll continue to execute on a strategy of releasing sales and in small releases to maximize that price. And there is tremendous pricing power out there.

But given the overall mix of communities that we have for the balance of the year going in and the product that we've started, you know, some of those are smaller homes that we just haven't released for sale yet that are going to blend that price down.

Jon Jaffe: Steve, just to add some color to what Rick said, we are very focused on accelerated growth in Texas. So when he's referring to that community driven mix it's not a timing thing, It's strategic and it's going to be ongoing as compared to the growth rate in California.

So California still is growing and has a higher ASP. But Texas is growing about twice as fast strategically for us at a lower ASP.

Stephen Kim: Yes, sounds good. We'll take it. Okay thanks a lot guys.

Stuart Miller: Thank you.

Coordinator: Thank you. John Lovallo with UBS. You may go ahead, sir.

John Lovallo: Good afternoon guys. Thanks for taking my questions. You know, the first one is on the delivery outlook being raised, which is obviously encouraging. Just curious though, what the impact from the Breland acquisition would be and if there's any sort of back half gross margin, you know, negative impact from purchase accounting that we should consider? And maybe that's why there's not that second half kind of move up in margins that some would have expected.

Diane Bessette: Yes. Yes John, very, very small. Happy to have positioned ourselves into a new market as Rick indicated. But it's very small. It's - the Breland will add

only about 1% to our delivery count for the year. So pleased to have a new market, but very small relative to total deliveries.

John Lovallo: Got it. And so the purchase accounting would also be very small I would imagine then?

Diane Bessette: Yes, that's right, very little gross margin, as you can imagine but again, not very impactful with the total gross margin given the small volume.

John Lovallo: Got it. Okay and then, you know, on the SpinCo, the land strategy, it seems like you guys are leaning towards spinning it and optioning back rather than I think at one time there was some talk about possibly selling it and optioning the land back. You know, is that sort of the final decision, do you think? And what's driving that decision as to sort of spin it?

Stuart Miller: I'm not sure I'm following the question. It's spinning versus selling and optioning back. We're - help me out with that?

John Lovallo: Yes, sure. So I'll try to be more clear. I thought, I mean, correct me if I'm wrong, that there was talk at some time of potentially not spinning the land but actually selling it where there would be cash proceeds that would be received and they could be used for, you know, various things like, you know, funding, working capital, buying back stock, you know, things of that nature. Maybe I'm misunderstanding, but that that was my impression.

Stuart Miller: No, that is exactly what's happening is, look, we're basically in all of these areas stood up asset management verticals and ultimately they will be pulled together as SpinCo.

Those verticals are - they are currently using third party capital to acquire assets and assets that in some instances we have on our books, in some instances we are buying from third parties are going into those asset management verticals currently.

As the assets started on our book that is generating cash for Lennar and being redeployed into the business or for stock buyback, debt retirement or whatever the strategy is. But the SpinCo process is already in progress right now, and the migration of assets to the asset management verticals is happening both for Lennar multifamily for its SFR and for land strategies.

And as we pull that together, I think it will be clearer that some of the assets are coming from our book and generating cash to the core, and some of them are just avoiding cash that would otherwise be spent on the side of each of those verticals. And that is happening currently as we prepare for the actual spinoff.

Diane Bessette: And maybe John, I'll just jump in because you and I talked about this, I think, remember you're absolutely right, there was going to be a contribution of land.

But as Stuart mentioned, as we refined the thinking and thought that having a land lighter balance sheet or land light balance sheet or asset light balance sheet for SpinCo was a better way to go, that was the migration into assets under management for all of the components, not just the multifamily and single family rental, which were always going to be assets under management.

So you might remember that we made that transition in the best interest of SpinCo.

Stuart Miller: Yes, and not only in the best interest of SpinCo, given the amount of time.. that it's been taking to get SpinCo stood up not to simply wait and then contribute and then reconfigure. We've just been doing as we're going. Matt Zames as we've noted, has been working with us on this and has been an advocate for let's not waste time. Let's get this going right now. If you know Matt he's that kind of person.

And so we have energized the program of converting assets into cash, turning cash into stock buyback, into debt, retirement, into increased inventory and increased certainty and delivery. And that's exactly what's been happening as we prepare to spin.

John Lovallo: Got it. Thank you guys.

Stuart Miller: Okay, why don't we do our last question?

Coordinator: Thank you. Alan Ratner with Zelman & Associates. You may go ahead sir.

Alan Ratner: Hey guys, thanks for squeezing me in -- appreciate it.

Stuart Miller: Hey Alan.

Alan Ratner: So you know, there's been some data points that suggest, you know, maybe more in a global kind of a housing market scale that recently that you know, the strength in sales on - at least on a year over year basis has been driven primarily by non-primary buyers. So that would kind of be a catch all for second home buyers, you know, SFR investors and funds built for rent, et cetera.

And you know, the actual primary buyer activity has kind of stalled a little bit. And there's probably a lot of reasons for that. And maybe that's not representative of the new home market specifically.

But I was wondering if you could talk a little bit about the mix of your business, you know, right now that that is non-primary to the extent you can quantify it. I know it's often challenging to identify all investors that might come in through the MLS, et cetera.

But you know, are you seeing any differences in trends among the primary non primary buyers, maybe over the last 60, 90 days, especially since rates have started to move?

Stuart Miller: Let me start and ask Rick to see if he can dig up a statistic or two, but there hasn't really been a big change or migration away from primary buyers towards the institutional group.

But what I would say is, you know, it all seems to me to be a zero sum game. If you look at both rental properties on the multifamily side, rental properties on the single-family side and for sale properties where people primary buyers are actually buying, all of them are fully occupied.

And rental rates are migrating upwards in - at a fairly rapid clip suggesting that, you know, these are not really institutional purchases or the building of spec inventory or things like that. It's all basically primary but done in a format that might be primary buyer owning their home or institutional buyer, enabling someone to access a single family lifestyle or just multifamily tenants.

And across the board you're seeing pretty aggressive escalation in prices because demand is strong and supply is constrained. So that's what we're seeing in our world. Rick have some statistics or anything?

Rick Beckwitt: Yes, I would say that probably less than 5% of the homes in the last quarter were sold to folks that either are institutional renters of product. We sold some homes to our Upward America venture that we have with our other investors that Stuart talked about that has about \$2 billion of committed funds for that vehicle. But it's a very small percentage, and most of what we're seeing out there are primary buyers.

Alan Ratner: Got it. All right no, that's helpful, and thank you for the thoughts there Stuart - - appreciate that.

I guess second one just to kind of end the call here so the acquisition you made the Breland, I know you kind of talked about it being, you know, fairly small in terms of their contribution for the overall business.

But just curious, you know, this - at this stage, you talked a lot about your views on likely continuing to take share from smaller private builders, and it's clear that you guys, you know, definitely have a real operating advantage in today's difficult kind of environment.

Are you seeing, you know, perhaps I don't know if capitulation is the right word, but more interest from private builders looking to sell or partner up, given the challenges that are out there in the market. And how high is your demand right now on the M&A front from that standpoint?

Stuart Miller: So let me just say that I wouldn't - and Rick you'll jump in in a second I know. But let me just say I wouldn't say that we're seeing capitulation out there. The

market is in strong. Demand is strong across the board. Capitulation would suggest throwing up the arms and, you know, pricing coming down. I think that pricing is robust.

The bigger issue or question for us is we've identified markets where organically we would like to step in and participate in those markets and where we can find a first class established management team and basically make an organic step into a market but with a management team. That's a unique opportunity.

Breland is clearly best of class in this part of the world. We are really enthusiastic about the operators as well as the assets and things that we have a unique opportunity with that one. Those will be few and far between because we're so focused on the quality, not just of the assets, but the people as we step into new and unique markets. And Rick, you want to add to that?

Rick Beckwitt: Yes I think Stuart's it's exactly right. We're laser focused on quality and professionalism. And that's exactly what the Breland opportunity brought to us. You know, they're a great company. They are laser focused on product that is simple to build.

And one of the better parts of that opportunity was having the opportunity to created land relationship on a go forward basis with Louis Breland, who is an expert in finding land and titling land. And it's just a continuation of our land strategies business where we have that done not on our balance sheet, but off balance sheet and controlling that pipeline is very consistent with what our focus is.

Alan Ratner: Got it and I appreciate that. And, sir, just to clarify, I wasn't referring to capitulation on the demand side, more just that the frustrations with the supply chain and how difficult that is for smaller builders in today's environment.

Stuart Miller: So I appreciate that Alan. I don't I don't think we've seen that yet. But earlier, the question was asked about, you know, picking up market share. This is kind of one of those markets where it kind of seems inevitable.

Size and scale is working to our benefit and in reconciling supply chain, it's getting frustrating out there. We'll see what happens. We're not going to be engaging a lot of M&A as we grow our business at the large scale side, but as we enter new markets, it's certainly on the table.

Alan Ratner: Great. All right guys, thanks a lot.

Stuart Miller: All right, very good. Thank you, everyone, for joining us today, and we look forward to reporting back with our second quarter. Have a nice day.

Coordinator: Thank you. This concludes today's conference call. You may go ahead and disconnect at this time.

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