LENNAR CORP

Moderator: GRACE SANTAELLA
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Coordinator: Welcome to Lennar's fourth 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 David Collins for the reading of the forward-looking statement.

David Collins: Thank you, and good morning, everyone. 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 our earnings 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 and Co-CEO. Sir, you may begin.

Stuart Miller: Very good, and good morning, everybody, and thanks for joining today. I'm in Miami today together with Jon Jaffe, our Co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, and Katherine Lee Martin, don't want to forget the Lee, our new Chief Legal Officer. I guess you're not new anymore, Katherine, and Bruce Gross, CEO of Lennar Financial Services, along with a few others as well.

As usual, I'm going to give a macro and strategic overview of the company. After my introductory remarks, Jon is going to give an operational overview, updating construction costs, cycle time, and some of our other metrics. As usual, Diane is going to give a detailed financial highlight, along with some limited guidance for our first quarter of 2026 and for the year, and then, of course, we'll have a question-and-answer period. And as usual, I'd like to ask that you please limit yourself to one question and one follow-up so that we can accommodate as many as possible.

Before we begin, however, let me note, as I'm sure you're all aware by now, that this will be Jon's last earnings call as he has decided to retire, and will officially step down on January 1st, which is now right around the corner. Jon has been a partner and a leader at our company for well over 40 years. We stopped counting here after 40 years, and his leadership will certainly be missed.

Affectionately, Jon has been known as our company's plow horse, and as such, Jon has driven Lennar's operations with relentless dedication and commitment. He joined the company just one year after I started full-time, and together, we've learned every facet of this business, continually adapting and evolving. Over the years, we have tried new things. Some have been successful, others not so much, and we've navigated both the best and the most challenging of times. Through it all, Jon's partnership has been a joy and a privilege. Jon, I hope you find plenty of time to improve that ugly golf game of yours, and perhaps you'll find some time to work on that singing voice as well.

And with that, let's get started. So, let me begin by saying that we are very pleased to present Lennar's fourth quarter and year-end 2025 results against a backdrop of what is still a stubbornly difficult housing market. While our margin is under pressure as we focus on bringing affordable housing to an affordability-constrained consumer base, we can see that underlying demand is still strong, while supply is short.

During the past three years of difficult market conditions, we have maintained volume, we've grown market share, and we've re-engineered our operating platform for a better and more efficient future when the market bottoms and normalizes. We're extremely well-positioned, with very strong market share in strategic markets, and our margin is leveraged to the upside.

As you may recall, last quarter I noted that declining interest rates could signal the start of a market recovery. Unfortunately, that turnaround has not yet materialized. As rates slowly moderated in September, eased more in October, and remained flat in November, the customer response remained fairly tepid, suggesting that a combination of affordability and consumer confidence issues were continuing to limit demand. Of course, the coincident threat of government shutdown in September and the actual shutdown from October 1st through mid-November, further eroded already weak consumer confidence. While traffic was consistent, customers were both hesitant and limited by what they could afford to purchase.

With that said, our fourth quarter results reflect a continued softening of market conditions and affordability. Sales volume has been difficult to maintain and required additional incentives to achieve our expected pace, and to avoid an unintended buildup of excess inventory. While we exceeded our delivery goal for the quarter, and while we sold in line with the low-end guidance during the quarter, these accomplishments came at the expense of further deterioration of margin, which came down to 17%, even though we eased back the pressure on sales and pulled back our delivery goals for 2025.

As we look ahead to next quarter, we know that margin will remain under pressure, and sales and closings will be seasonally light. Nevertheless, we're very well positioned to provide the affordable supply that the market needs when demand is ultimately activated by either lower interest rates or government-sponsored programs to enable affordability. We are situated with a lower cost structure, efficient product offerings, and strong market positions to accommodate pent-up demand as rates moderate and confidence ultimately returns.

We believe that we have gotten ahead of current market realities, and we've built what we believe is a stronger, long-term margin-driving platform. We know the market has remained weaker for longer, but we also know our strategy has helped build a healthier housing market and has positioned Lennar for strong cash flow, higher returns on equity and capital, and stronger bottom-line growth in the future. Accordingly, we will remain focused on volume and even flow production. We will maintain responsible volume to maintain an affordable cost structure, and we will find our floor and rebuild our margin as the overall housing market continues to remain short on supply.

So, let me turn to a quick macro view of the housing market. Consistent with our third quarter, the macroeconomy remained challenging through our fourth quarter. While mortgage rates drifted marginally lower in the fourth quarter, consumer confidence became even more challenged by economic uncertainties and, of course, became even more challenged still by the government shutdown.

Clearly, inflation-driven affordability concerns rose to the center of the national conversation, shaping headlines and policy debates across the country. Cost inflation has clearly had a significant impact on the lifestyle of the average American family. At the same time, concerns about job security have become increasingly prominent as advancements in modern technology and artificial intelligence raise important questions about the future of employment for the American workforce.

The current housing market is entrenched in an affordability crisis, leaving many average American families feeling excluded from the traditional promise of upward mobility and homeownership. Against this backdrop, some advocate for what many call sweeping and sometimes "socialist solutions", offering broad promises of free and readily accessible resources as an appealing answer to the affordability dilemma.

This narrative gains traction, especially when there's a lack of clear, actionable alternatives that addresses the challenges facing American families today. The "capitalist framework" has yet to speak and present tangible, practical strategies that effectively confront these realities and restore affordability and access to homeownership for the broader population. As I've noted on prior calls, mayors and governors across the country, both Republican and Democrat, understand this and continue to list the housing shortage as a priority concern, and they point to affordability or attainability as a real crisis.

But they also understand that this has been a difficult cycle, as low supply has fueled high prices, and high prices, especially with higher for longer interest rates, have locked out many buyers.

Inflation and short supply have kept home prices higher. Supply remains constrained in most markets, driven by years of underproduction. And additionally, new construction has slowed recently, exacerbating the chronic supply shortage as builders have pulled back on production due to slow sales and affordability concerns. But short supply can't be fixed by simply adding supply. It is important to recognize the downside of artificially lowering home prices or boosting inventory solely to drive prices down. Such actions could negatively affect the 85 million Americans who already own homes by diminishing their property values, which in turn could further weaken overall consumer confidence.

Moreover, if builders are unable to achieve sufficient returns, they may be forced to slow or halt construction, disrupting the production levels needed to address ongoing supply shortages in the housing market. On a positive note, the federal government has intensified its focus on the national housing crisis, with a strong likelihood of taking decisive action to enhance affordability.

In a constructive move, federal officials have initiated discussions with builders and industry associations, among others, to gain a comprehensive understanding of the challenges and work towards practical solutions. Although the specifics of potential programs remain to be seen, it is clear that significant attention is being paid to developing impactful initiatives, while thoughtfully considering possible unintended negative consequences.

Despite the public scrutiny and debate surrounding various proposed programs, it is encouraging to see that many bold ideas are being carefully elevated with the goal of improving affordability. Increasing affordability has the potential to spark new demand in the housing market, which can in turn drive an increase in construction activity, and help address ongoing supply shortages.

Although the specific outcomes and programs remain uncertain at this time, it is significant that for the first time in decades, the federal government is actively recognizing the vital role that housing plays, not only in the broader national economy, but also in the well-being of American families. I am confident that housing will emerge as a central element in addressing the affordability crisis and providing meaningful solutions for the future.

So, now let me turn to our results. As we noted in our press release, in our fourth quarter we started 18,443 homes. We delivered 23,034 homes, and sold just over 20,000 homes. While we were just above the low end of sales expectations and exceeded our delivery expectations, and we were able to grow our community count to 1,708 communities, or 18% over last year, positioning us for a better next year.

As mortgage interest rates moderated and consumer confidence declined, we continued to drive volume with our starts, though at a slower pace, while we incentivized sales to enable affordability and limit undesired inventory buildup. As we approached the beginning of the year, we intentionally focused on building inventory above our two completed unsold homes per community level to almost three per community to provide ready supply for the new year.

During the first quarter, sales incentives remained relatively flat at 14%, but reducing our gross margin to 17%, which was slightly lower than expected on an average sales price of $386,000. Our SG&A came in at 7.9%, which produced a net margin of 9.1%. As we look ahead to the first quarter of 2026, we expect our margins will be lower, as is expected in the first quarter, between 15% and 16%, of course, depending on market conditions.

We expect to sell between 18,000 and 19,000 homes, and deliver between 17,000 and 18,000 homes. We expect our average sales price to be between $365,000 and $375,000. And as I noted earlier, we expect to deliver approximately 85,000 homes in 2026. We expect our overhead in the first quarter to be approximately 9.5%, as we continue to invest in and evolve our various Lennar technology solutions that will define our future. These initiatives have been and will continue to add to SG&A, as well as corporate G&A, for some time, as they represent a significant investment in our differentiated future.

As I think about our results in the fourth quarter, two additional components really stand out. First, we have now rebuilt our entire company with an asset-lighter inventory structure. Currently, less than 5% of our land is on our balance sheet. Accordingly, our overall inventory has been reduced from just under $20 billion one year ago, to just under $12 billion today. With our now greater focus as a manufacturing company, we have also consistently reduced our vertical construction cost to build over the past two years, from 2023 to 2025, by approximately 10%.

While costs generally have been going up, we have been bringing ours down. Additionally, we have reduced our cycle time from 138 days a year ago to 127 days today for detached single-family homes. This has enabled us to improve our inventory turn to 2.2x from 1.6x last year. These measures tell us that we are now built for materially improved efficiency in the way that we execute our business, and we have a lot of room for additional improvement in each of these areas as well. We have certainly positioned Lennar for the time when market conditions normalize and our margins improve, and they will improve dramatically. We always keep in mind that incentives in normalized market conditions run in the 4% to 6% range, as opposed to the 14% incentives today. That gap defines our opportunity as market conditions change.

The second item is that we have now officially completed the Millrose transaction. This quarter, Lennar launched and completed the split-off exchange offer to swap our remaining 20% stake in Millrose, approximately 33.3 million shares, for outstanding Lennar shares tendered by our stockholders. While this transaction resulted in a $156 million one-time paper loss, this paper result was simply a function of the book value of the shares on Lennar's books on the day of the trade versus the stock price of the trade. More consequentially, this transaction resulted in an approximately 8-million share cashless repurchase of Lennar shares.

Finally, and before I conclude, let me briefly talk about our operating team as Jon retires. As you all know, here at Lennar, we have a deep bench of experienced professionals who have been here at the company for many years. Of course, Jon has been an important part of the execution and culture at Lennar. But that means that many of our leaders have worked together, and together with Jon, and are very prepared to pick up where Jon leaves off.

Specifically, Jim Parker, and David Grove, both tenured Regional Presidents, will each oversee operations for about one half of the country, and they have and will continue to work cooperatively. Additionally, Greg McGuff will move from his Regional President position to a new leadership role, taking on strategic corporate functions. Greg will begin by working on our land banking program by refining the execution around that very strategic part of our business.

All three of these leaders, Jim, David, and Greg, are very enthusiastic about their new opportunities to perform in their new positions, and they are anxious to get started. That doesn't mean we're kicking you out, Jon.

Jon Jaffe: Good to know.

Stuart Miller: We will not be hiring a replacement for Jon because the experienced leadership from within the company is part of the Lennar culture and are all three capable and qualified to carry the company forward without missing a step. So, let me conclude by saying that while this has been another difficult quarter in the housing market, it's another very constructive quarter for Lennar.

While the short-term road ahead might seem choppy still, we are very optimistic about our future. We are well aware that our numbers aren't where we'd like them to be, but neither are market conditions. We are very well positioned with a strong growing national footprint and growing community count and growing volume. We have continued to drive production to meet the housing shortage that we all know persists across our markets.

And as we have driven growth, production, and volume, we have positioned our company to evolve and create efficiencies and technology that will make us a better company and built for the future. We have materially reduced our inventory, our construction costs, and our cycle times, and we have and will continue to increase our inventory turn. We are determined to build more with less capital deployed so that as margin begins to grow, our returns on capital and equity will grow even faster.

In that regard, we will focus on and refine our manufacturing model and continue to use our land partnerships to grow, with a focus on cash flow and high returns on capital and equity. Additionally, our strong balance sheet and strong land banking relations afford us flexibility and advantaged opportunity to consider and execute on strategic growth for our future as well. Lennar is extremely well positioned for the future, and we look forward to keeping you up to date on our progress. And with that, let me turn over to Jon.

Jon Jaffe: Good morning, everyone. And thank you, Stuart, for a very special partnership, and to the Lennar team for what's been an amazing journey. As Stuart described, we remain steadfast in executing our strategy. Every day, we work on driving homebuilding efficiencies in our operations. This execution is reflected in achieving our targeted sales pace, record low cycle times, overall cost reductions, and increased inventory turn.

Starting with our sales and marketing machine, in the fourth quarter, we achieved a sales pace of four homes per community per month, meeting our sales plan. This starts with attracting qualified leads to our digital funnel, followed by rapid, high-quality customer engagement. Our average response time for customer-submitted RFIs, which we view as a critical metric, dropped to 42 seconds in the fourth quarter, a 12.5% improvement over the third quarter. This responsiveness now extends after hours, with digital agents available to assist customers at any time, even at 2:00 a.m., if that's when a customer is online looking for their new home.

We analyze customer interactions in our RFI responses to drive improvement and the quality of engagement. Improving our speed in responding and the quality of those responses drove a 15% year-over-year increase in appointments in the fourth quarter. Our pricing strategy focuses on continuous evaluation of demand patterns, inventory levels, and price discovery data, designed to set the price and incentives for each community to maintain the targeted sales pace. This maximizes sales efficiency and maintains our inventory at appropriate levels. As Stuart noted, we ended the quarter with an average of just under three unsold completed homes per community. This process and the easing of pressure on our sales targets resulted in new order incentives decreasing by 70 basis points quarter-over-quarter.

Next, I'll discuss our volume-oriented production-first strategy to drive efficiencies resulting in reduced construction costs. In the quarter, we maintained a consistent start pace of 3.7 homes per community per month, in line with our expectations. We continue to work throughout our supply chain, using this consistent volume to lower costs quarter after quarter. We continued our focus on plan and SKU optimization, along with a new national bidding software tool that streamlines management of thousands of SKUs in real time. This has enabled faster and more effective decision-making across the company, achieving further cost reductions.

Direct construction costs in the fourth quarter decreased by approximately 2% from Q3, and over 5% year-over-year. The downward trend will continue as we move into the first quarter of 2026. The average cycle time for single-family detached homes was 127 calendar days, matching our record low from Q3. This represents an 8% year-over-year reduction. With improved quality control and communications with our trade partners, we have reduced cycle times, minimized travel for trade, lowered warranty spend, and improved the customer experience. We saw tangible results with fewer work orders and a 45% year-over-year reduction in warranty spend. This was accomplished while maintaining consistent high-quality home deliveries for our customers, resulting in a highly regarded NPS score of 79 for 2025.

Turning to land and our asset-light strategy. In Q4, we continued to carefully structure land acquisitions for just-in-time land closings, leveraging land bank and land developer relationships to minimize carry costs and deliver just-in-time finished home sites. Our asset-light strategy delivered improved metrics. Supply of owned home sites decreased year-over-year to 0.1 years from 1.1 years, and control home sites increased to 98% from 82%. These operational improvements increased our inventory turn 38% from the prior year.

In conclusion, our team is united and focused on executing strategies that drive improving customer acquisition results, reduce costs, enhance operational efficiencies, all while improving the customer experience. These efforts are delivering measurable results and positioning us for future success. Now, I'll turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning, everyone. Stuart and Jon have provided a great deal of color regarding our homebuilding operations, so therefore, I'm going to provide a quick summary of our Financial Services operations, summarize our balance sheet highlights, and then provide guidance for the first quarter of fiscal 2026. So, starting with Financial Services. For the fourth quarter, our Financial Services team produced operating earnings of $133 million, within our guidance range of $130 million to $135 million, and for the year generated $610 million. Once again, our Financial Services team contributed great profitability and, most important, worked in partnership with our homebuilding teams to provide a great customer experience for each home buyer.

So, now let's turn to our balance sheet. This quarter, once again, we continued to generate cash by pricing homes to market conditions. The result of these actions was that we ended the quarter with $3.4 billion of cash and total liquidity of $6.5 billion. Our year's supply of owned home sites was 0.1 years, and our home sites controlled percentage was 98%. We ended the quarter owning just under 10,000 home sites, and controlling 496,000 home sites, for a total count of 506,000 home sites. We believe this portfolio of home sites provides us with a strong competitive position to continue to grow market share and scale in a capital-efficient way.

During the quarter, we started about 18,400 homes, and ended the quarter with approximately 38,000 homes in inventory. This includes just under 5,000 completed unsold homes, which, as we've mentioned, is just under three per community. Our inventory cturn increased to 2.2x, and our return on inventory was approximately 20%. And then as we turn to our debt position, we ended the quarter with $1.7 billion outstanding under our term loan facility, and no outstanding borrowings under our revolving credit facility, and our homebuilding debt to total capital was 15.7%. We had no redemptions or repurchases of senior notes this quarter. Our next debt maturity of $400 million is in June 2026.

As Stuart mentioned, we successfully completed the divestiture of our Millrose investment by exchanging Millrose shares for Lennar shares. The result was a non-cash repurchase of 8 million Lennar shares. Note that during the exchange period, we were subject to a tender offer rule, which includes an exchange offer, that prohibited us from using cash to purchase our shares. However, during the year, we did use $1.7 billion of cash to repurchase 14 million Lennar shares. Thus, in total for the year, we repurchased 22 million shares valued at $2.7 billion.

Additionally, we paid total dividends this quarter of $170 million for a total of $521 million for the year. So, in the aggregate, for fiscal 2025, we returned about $3.2 billion to our shareholders. Our stockholders' equity was just under $22 billion, and our book value per share was about $89. In summary, the strength of our balance sheet provides us with confidence and financial flexibility as we progress into fiscal 2026.

So, with that brief overview, I'd like to turn to Q1 2026, and provide some guidance estimates. Some of these we've noted, but to start at the top, starting with new orders, we expect Q1 new orders to be in the range of 18,000 to 19,000 homes, as we match production with sales pace. We anticipate our Q1 deliveries to be in the range of 17,000 to 18,000 homes, with a continued focus on turning inventory into cash. Our Q1 average sales price on those deliveries should be between $365,000 to $375,000.

Gross margins should be in the range of 15% to 16%. As a reminder, we expense rather than capitalize field expenses. So, since the first quarter is historically the lightest delivery quarter of the year, and therefore light on revenues, we lose field leverage. Typically, Q4 gross margins to Q1 gross margins in the following year decrease 100 basis points to 150 basis points because of this loss of leverage. As it stands now, we believe Q1 gross margins will be the low point of the year.

Our SG&A percentage should be around 9.5%, but all of these metrics, of course, are dependent on market conditions. For the combined homebuilding, joint venture, and land sales and other categories, we expect a loss of approximately $10 million. We anticipate our Financial Services earnings to be approximately $105 million to $110 million. For our multifamily business, we expect earnings of about $20 million as we continue to strategically monetize assets to generate higher returns.

Turning to Lennar Other, we expect a loss of about $20 million, excluding the impact of any potential mark-to-market adjustments to our technology investments. Our corporate G&A should be about 2.2% of total revenues, and our foundation contribution will be based on $1,000 per home delivery. We expect our Q1 tax rate to be approximately 25.25%, and the weighted average share count should be approximately 245 million shares. And so, on a combined basis, these estimates should produce an EPS range of approximately $0.80 to $1.10 per share for the first quarter. With that, let me turn it over to the operator.

Coordinator: Thank you. We will now begin the question-and-answer session of today's conference call. We ask that you limit your questions to one question and one follow-up question until all 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 at any time, you may use Star 2. Again, that is Star 1 to ask a question. Our first question comes from Alan Ratner from Zelman & Associates. Please go ahead.

Alan Ratner: Hey, guys. Good morning. Thanks for all the details so far.

Stuart Miller: Good morning.

Alan Ratner: So, you know, I think gross margin is obviously on the top of everybody's mind, and you obviously walked through a lot of the moving pieces there. You know, it's encouraging to hear that incentives actually ticked lower in the quarter, and I know you also gave some encouraging data on your cost reduction. So, can you just walk through exactly what's contributing to the continued pressure on margin? I know there's some seasonality in Q1, but this quarter's results came in a bit below guidance, and I know in the past you've kind of talked about margins maybe stabilizing. So, I'm just curious if you could walk through exactly what's contributing to the downside given the improvement or the reduction in incentives.

And the follow-on to that, I guess more broadly, is if we don't see any material improvement in demand, you know, given your growth expectations for 2026 at 3%, a little bit below kind of your target range you'd given previously, is that an environment where you think you can potentially dial back those incentives further? Thank you.

Jon Jaffe: It's Jon. I'll begin. You know, during the quarter, we faced some unexpected headwinds, particularly with the government shutdown. That definitely had an impact on consumer confidence, which is primary to, you know, our customer. And so, that definitely challenged our ability to, particularly in some markets, stabilize pricing. So, we saw some impact in terms of what we accomplished versus what we expected because of what was happening in real time in the marketplace.

And, you know, it's not consistent. It varies across the country. You know, if you're asking, like, which markets are strongest or weakest, it really ebbs and flows across our markets with just sort of an overall overhang of what's going on in the economy with the government and general customer confidence erosion.

Stuart Miller: You know, I think as we started the quarter, the expectation was that with interest rates kind of moving down a little bit, even with consumer confidence, you know, somewhat negative, the thinking was, from our divisions, that the incentive structures would come down through the quarter. I think that it's our feeling that the government shutdown had a material effect on, you know, the consumer psychology going through the quarter and reacting kind of real time.

Now, does that come back? It is - you know, as we look through our numbers as we go through next year, I think that there's a general view that incentives will be coming down. And then layer on top of that, it does seem that the federal government is very focused on coming up with programming that kind of activates, you know, affordability. What that's going to look like, I just don't know. But it does seem like there's a lot of activity around focusing on this very important part of the economy.

So, we think that incentives will come down through the year. But as we went through this quarter, we definitely hit a headwind across the country. It's pretty consistent that really brought our incentive expectation to be lower than what we actually ended up with.

Alan Ratner: Got it. I appreciate the detail there. And then, Stuart, you know, you obviously spoke a lot about the administration efforts and recognizing, you know, maybe there's nothing ready to bring public at this point. I'm just curious, you know, do you feel like this is something that will be announced in 2026, and something - whatever the government does have in mind, is there anything that can be implemented fairly quickly? Obviously, the midterms are coming up. Or is this something that is more of a multiyear view in your mind? Thank you.

Stuart Miller: You know, look, I think the crystal ball around government activity is really complicated. But I can tell you that, you know, a number of homebuilders have gone in to see critical officials within the government. We have received a lot of attention. There's a lot of thought process going on. You've seen trial balloons put out around various types of programs. What's interesting is that the government has been very tuned in to the industry to make sure that they're not walking into unintended consequences. So, whatever is done, that it be constructed properly is important.

And to your question of, you know, do I think that something will come out in 2026, I'd be surprised if something isn't done. I think affordability is very much on the table. It's a political issue right now. And I think across the country, you're hearing the drumbeat of that being a primary focal point. And politically, it's important that someone pick up the mantle and do something to address it rather than just throw money at it. So, it'll be interesting, and we'll all have to sit back and wait and see what comes out.

Alan Ratner: Appreciate the thoughts. Thanks a lot.

Stuart Miller: You bet.

Coordinator: Next, we'll go to John Lovallo from UBS. Please go ahead.

John Lovallo: Good morning, guys. Thanks for taking my questions as well. I guess the first one, Stuart, is, you know, given your strategy of maintaining volume and really focusing intently on cost and efficiency, I'm curious, you know, how you sort of envision the upside in, you know, your ability to recapture margin as the market improves, I mean, particularly considering all the hard work and, you know, the changes that have been made over the past few years?

Stuart Miller: Yes. Look, that's really at the heart of what we've been doing is, you know, if you buy into the notion that there is a supply shortage, and I think that's pretty well documented, we certainly believe that there is a significant supply shortage. If you believe that there is a pent-up demand that is, you know, not able to activate itself because of affordability, and we definitely believe that and see that in our traffic and in the field, then, you know, as we maintain volume over time, we're going to figure out and push our large enterprise to re-rationalize its cost structure, and that's what we're doing.

You know, we've detailed this in prior earnings calls. We're focused on using modern technologies. We're focused on building efficiencies in everything that we do. You know, you see this in every element of our business, how we're re-rationalizing our overhead expense, our vertical construction costs, horizontal construction costs. And, you know, we think that embedded in our program at 82,500 homes, growing to 85,000 homes, we are going to be an efficient structure as market conditions rethink themselves.

So, at the end of the day, I lay out that there's, you know, a pretty clear path to margin improvement. There will be, at some point, a reconciliation of incentives that migrates from what is today our 14%, down to a traditional kind of 4% to 6%, and that's a lot of margin improvement. And we think there's still a lot of efficiency that we're going to bring to our operations as we go forward. It's just a time game, and we're going to patiently keep pursuing the focus.

The core reason that we're focused on building inventory is because the country has such a significant shortage. So, we're going to continue to be that machine that keeps pushing forward, recognizing the shortage, and believing that there's going to be a moment where we're able to activate the buying public to purchase at prices with lower incentives.

Jon Jaffe: And I'll just add one thought, and that is, as you hear us talk about our operational efficiencies, we think about it as structural, not episodic. So, as the market does stabilize, does recover, we have really retooled ourselves to maintain these efficiencies that we've worked so hard on achieving.

Stuart Miller: Yes, and Jon's a good example of that. I mean, we have built efficiencies and effectiveness in our operating group, and as Jon retires, we're not going to replace him because we're going to lower the vertical nature of our hierarchy. We're going to take costs out, but we're using modern technologies and homegrown talent to be able to do that. And Fred retired a couple of months ago, same thing there. We have a talent base that can fill that gap, and we don't have to build replacement. But a lot of that has to do with the technologies that we've incorporated that enable us to transmit information more efficiently and effectively to a shallower operational structure.

John Lovallo: That's helpful color. Thank you. And then, you know, embedded in the fiscal year 2026 ...

Stuart Miller: Sorry about throwing you under the bus.

Jon Jaffe: That's exactly the plan.

Stuart Miller: Sorry about that. Go ahead.

John Lovallo: So, embedded in the fiscal year 2026 delivery outlook of 85,000, that's up about 3% year-over-year, how should we sort of think about community count growth versus absorption and, you know, your performance versus the market?

Stuart Miller: Well, you know, we're continuing to focus on community count growth. You've seen our community count grow year-over-year at a higher rate than we're going to continue to grow it. But if you look at our volume growth, if we look at last year to this year at 82,500-ish, it's about 3%. We're expecting about a 3% growth rate next year. A lot of that will come from additional community count and strategic markets across the platform. And I think that you're going to see a consistent model of execution.

If you look backwards, projected forward, and that's very much the strategy. The strategy is let's build the volume that the country and the consumers need. Let's make it affordable at this time where affordability is so strained, and let's find ways to make ourselves more efficient, and let's expect that something's going to come through the governmental ranks to support that affordability and enable the market to enter the housing market. And the reduction in incentives is going to flow through to our margin.

John Lovallo: Got it. Thank you, guys.

Stuart Miller: You bet.

Coordinator: Next, we'll go to Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Thanks very much, guys. Yes, Stuart, taking the risk of paraphrasing what you're saying because I know that it's obviously a bit complex, and I don't want to oversimplify, but am I hearing you right that you anticipate that there's the makings for government actions to improve the affordability in some way, shape, or form? And if we assume that, which I don't necessarily disagree, Lennar has over the last year or so really emphasized volume while others in your peers have sort of ratcheted back volume.

Are you saying that in 2026, your expectation is that you've got the volume, you've got therefore the platform to be able to harness margin improvement from lower incentives without necessarily needing to increase your volume, and that you can do that even if others in a somewhat better environment do have to increase their volume so that you might actually give up a little bit in terms of share, if you will, but your margin will more than make up for that? Is that essentially what you're laying out for us in 2026?

Stuart Miller: A, that is what we're laying out. That's what we've been laying out. And the reality is we don't have to restart the machine. The machine is actually just running and running very efficiently. We don't have to run out and buy a new community count. We're already doing that. We don't have to retool and increase the volumes. We just have to accept a lower incentive structure in order for margin to grow. And that's why I say in my comments that we're just levered to the upside in terms of margin growth.

Stephen Kim: Yes. Okay, that's really helpful. Very interesting and important. I did also want to follow up on the machine. I think that when - you know, obviously, you've been at the vanguard of developing technology and AI-driven tools so that you can more dynamically respond to market conditions. Obviously, that's been something that's been a big focus. If I listen to the way you talk about the elevation of Jim, David, and Greg into somewhat new roles, but not replacing Jon or Fred, is it right to think that these investments and developments of the, for lack of a better phrase, the Lennar machine, have now reached a point where you can have those systems play a more direct role in managing the business, and that not replacing the, you know, co-CEO and COO positions is a function of, or an indication of just how far that machine has come in actually being able to have tangible effects on your business? Is that the right way to think about it, I guess, is essentially the question.

Stuart Miller: Yes. So, I'm going to tread in an area that I promised our friend Rick Beckwitt that I wouldn't tread into, and that is technology, because I feel like you've all gotten worn out with our discussion about technology, but we are massively enthusiastic about our technology initiatives, in large part because of the things you've daylighted. I mean, if you listen to Jon's comment, in the middle of the night, we're at a point where we can engage a customer on their terms at their time when it's convenient to them with digital technology that gives them an experience that is getting very close to an interpersonal experience.

We're going to be able to be faster and better, higher quality in the way that we engage with our customers, and I think that we're making this progress. You know, it's not fast because we don't have the engineering teams that some of these technology companies have, but we're building them, and we're going to get better, faster, and stronger because of the technologies that we incorporate. And it's not just in the machine that is the marketing and sales machine.

It's in our overall customer experience all the way through to warranty. It is in our land acquisition component. It is in our financial reporting component. It is in our Financial Services group. Every part of our company has its own unique strategy relative to modern technology, to not just modernize and be a better interface with our customers, but to be a better interface internally to breed efficiencies and effectiveness that we've not seen before. And I think that you're going to see - over the next year, two years, you're going to see a lot of those advancements really reveal themselves.

Stephen Kim: Okay, wonderful. Well, we'll be watching. Appreciate that color.

Stuart Miller: Okay, good.

Coordinator: Next, we'll go to Mike Rehaut from JPMorgan Chase. Please go ahead.

Mike Rehaut: Thanks. Good morning, everyone. Thanks for taking my questions.

Stuart Miller: Hi, Mike.

Mike Rehaut: Hi, Stuart. How are you? So, first, I wanted to kind of dive in a little bit towards your approach. You know, last quarter, your approach to the market, and I know you kind of stressed even on this call, prioritizing supply and making sure that you have the product out there when things turn. You know, last quarter, you maybe dialed back slightly around that approach and said, you know, you wanted to ease back on your delivery expectations to help establish a floor on margin. And I don't know if this is exactly the right way to interpret today's results, or, you know, fourth quarter results, but your margin did come in a little less than expected, despite maybe some of those efforts.

You know, there's been a lot of focus on prioritizing supply today. So, where are you in that journey of, you know, perhaps trying to establish that floor on margin? And, you know, it seems like even without - if you kind of exclude the seasonality, maybe you're still looking at a slight further erosion in gross margin in 1Q versus 4Q. So, just trying to triangulate, you know, how committed are you to just pushing through that supply versus if demand remains weak, maybe you would even further continue to ease back on some of your delivery aspirations?

Stuart Miller: Mike, I think we're pretty committed to the volume and maintaining the volume. And I think your assessment is correct that we had an expectation of finding a little bit more of a floor. But I've said consistently in every one of our earnings calls that the numbers and expectations that we're giving to you are dependent on market conditions. And market conditions are fluid, and they evolve day by day. Interest rates have been going up a little bit, down a little bit, down farther a little bit, and then back.

It's not just the interest rates. It is the inflation impact, you know, from the spike of inflation that we had a few years ago that is still rippling through the consumer's wallet. It's buildup in debt. It's general consumer confidence. I don't want to overstate it because it seems like I'm, you know, blaming a hurricane or blaming, you know, or a weather condition. But the government shutdown was relevant. There were a lot of people that were affected there.

And so, that comes about in the middle of a quarter where we made an expectation that lower interest rates would help bring consumer confidence up a little bit. Well, there was an offset to that. Hopefully, the government and its shutdown will then step up and find kind of a counterbalance and say, okay, we're going to do something to activate consumer confidence and affordability.

So, you know, we're ebbing and flowing relative to a dynamic marketplace with an understanding that behind us there is a supply shortage, there is a demand for the housing, there is a need for affordability, and government action is going to matter here. So, we'll see what happens, but we are focused on the volume because it's with the volume that we're able to build the efficiencies that are going to build us into a company for the future.

Jon Jaffe: You know, Mike, I would just add, to state the obvious, we don't control the economy and its impact on our consumer, but we're very laser-focused on becoming a manufacturer of homes. And with that, we can really leverage volume and technologies to be the most efficient manufacturer that one can be. That's what we remain laser-focused on.

Mike Rehaut: Okay. No, I appreciate that. I guess secondly, you highlighted in your prepared remarks, obviously, the ongoing focus of returning cash to shareholders through a combination of repurchases and dividends. On the repurchase side, I think you finished up the year around $2.7 billion. How should we think about 2026 now that your balance sheet is significantly repositioned, and the much more aggressive move via Millrose to asset-light? Just trying to get any sort of boundaries on kind of numerically, should it be similar to 2025 at this point? Should we be modeling something maybe a little higher than that? Just your thoughts, you know, given the fact that you've already kind of outlined, you know, a closings number, and you're hoping that the gross margin number will, in the first quarter, be the low point of the year.

Stuart Miller: Yes. So, you know, I'm pretty enthusiastic about looking and seeing what happens in 2026. You know, if you think about the transition that we've made as a company to an asset-lighter model, if you think about the dynamic of all the changes that we've made as we have maintained volume, it's pretty extensive. And when I said in my comments that it is noteworthy that we have now completed the Millrose transaction, this has been a few years in the making. It's now behind us.

And a number of other things are behind us, whether it's Essential Housing and the land banking program that we started with them. It extended to Millrose, and we have a number of other land banks. Less than 5% of our land is on book today. That migration took time, energy, money, focus, and that's behind us. We are now focused on a much more pure manufacturing model, with a lot less energy spent on other things that are the transitional things that got us to where we are.

I'm enthusiastic to see how our operations evolve over this next year. We have very high expectations, and we're pretty enthusiastic about it. Of course, everything is going to happen in the context of what's happening to the economy, what's happening to consumer confidence, and what's happening to affordability. The government's going to play a role in that. I can't predict what's going to happen there.

And so, there's variability. But for us, as we think about the way that we run our business, it is an everyday hands-on approach to how do we be the best manufacturing model that we can be. And ingrained in some of the transitions and evolutions we've gone through, there are still wonderful efficiencies to be reaped from the focus and attention on the details that surround those programs.

I laid out Greg McGuff's new role. He's starting off with our land banking programs. We've put these things together pretty quickly. There's a lot of efficiency and execution that we can bring to that. These are the kinds of things that 2026 is going to engender, and we'll see how it plays out. But it's all going to be modified, amplified, or changed by the macroeconomy that we end up playing into.

Coordinator: Thank you. Next, we'll go to Susan Maklari from Goldman Sachs. Can you hear me?

Stuart Miller: All right. Why don't we take this as the last one?

Coordinator: Okay. Our last question comes from Susan Maklari from Goldman Sachs. Please go ahead.

Susan Maklari: Hey, thank you, everyone. Thanks for fitting me in.

Stuart Miller: Good morning.

Susan Maklari: My first question - good morning, or good afternoon now, I guess. My first question is thinking about the efficiencies that we've talked a lot about. How do you think of where you can get inventory turns over the next several quarters, given the environment that we are in? Can you hit that 3x number in this kind of condition? And just generally speaking, how does the core product fit into that strategy?

Stuart Miller: So, great question, because there's part of me that almost pinches myself when I see our inventory turn at 2.2. There was a time where we didn't think we'd be able to get there. But the interesting thing is, given the way that we've reconfigured the company, we think that there's a lot of improvement that can come on top of where we are. And a lot of it derives from, number one, cycle time. We are improving our cycle time, and all of this derives back to our core product.

Our core product offerings are getting more and more efficient, more and more effective in terms of the way that not only, how does the cost structure come in, but more importantly, how do we build, and how efficiently do we build product that is very familiar out in the field? And so, our focus on core has accelerated, and we're still fairly early stages in that regard. And I don't want to go through it, but I will tell you that a lot of the ways that we're getting to greater adoption and engagement with our core product is technology-based.

It's the technology of how we're looking at land and how we're adapting to an environment where each piece of land is looked at through the lens of core product. And with a diffuse environment, getting that to happen in 50 different divisions, technology is a big part of the assistance. So, all of this ties together. We think there's a lot of upside in bringing our inventory turn from where we are to where we think it can be, and a lot of it does surround our core product.

Susan Maklari: Yes. Okay, thank you for that color. And then maybe building on Mike's question on uses of cash, as you do think about all the efficiencies that are coming through and that you will realize, how does that play into the cash that you think you need to hold on the balance sheet for the business? Does it change that at all? And what are you watching to determine what the appropriate levels are there in terms of the cash?

Stuart Miller: Well, we think that our model becomes ever more cash flow-efficient, and we know that over time we're going to be using cash to buy back stock and to return to shareholders, and that's going to be a more programmatic part of our business. One of the things that we've all - I don't know how to say this, but that we've all heard from the government, the government certainly wants to see that we as homebuilders and as the machine for supplying the homes that are needed in the country, that we're focused on our growth model and focused on how we bring affordability to market.

So, we're going to knit all of this together as we go forward. We're going to see how things evolve. So, I'm not going to speak to use of cash right now, but that's going to be an evolving picture as we go forward. And the bottom line of what I say is as you get to an inventory turn that is higher, as we're producing more volume, and as our margin starts to come back, our cash flow is going to be very, very solid.

Diane Bessette: And, Susan, I would just add relative to your question on how much do we hold on the balance sheet, you know, it really depends on market conditions, right? You see us have a little bit more cash on our balance sheet when there's uncertainty and less cash when that uncertainty, you know, ebbs into a more positive direction. Additionally, we look at, you know, what are our upcoming maturities.

So, I would say generally as conditions stabilize and uncertainty, you know, becomes less of a focus, you'll see us holding less on our balance sheet at each quarter end. Hard to determine amounts and don't want to make a - you know, give a goal of a specific amount, but it really does depend on market conditions and other things, because we have a lot of readily available liquidity. It's just, you know, what type of market conditions are we in?

Susan Maklari: Sure. Yes. Okay, well, thank you all for the color.

Stuart Miller: All right, let's leave it there. Congratulations, Jon. You made it through your last earnings call. Congratulations. And I want to say to everybody, thanks for joining us today. We're really pretty enthusiastic about our business and our business model. We're proud to be supplying homes to a difficult market, but we think that we are, as I said, levered to the upside in terms of margin improvement, and we'll see where the market takes us. Thanks, and we'll see you at the end of the first quarter.

Coordinator: That concludes Lennar's fourth quarter earnings conference call. Thank you all for participating. You may disconnect your line, and please enjoy the rest of your day.

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