

LENNAR CORP
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Coordinator: Welcome to Lennar's Third Quarter Earnings conference call. At this time, all participants are in 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, cashflow 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 make cause Lennar's actual estimated results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in yesterday's press release and our SEC filings, including those under the caption risk factors contained in Lennar's Annual Report on the Form 10K 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: Thank you and good morning everyone. This morning I'm here in Miami and I'm joined by our co-President and CEO, Jon Jaffe. And it happens to be his birthday today as well. Happy birthday, Jon.

Jon Jaffe: Thank you sir.

Stuart Miller: Diane Bessette's here, our Chief Financial Officer, David Collins, our Controller, Bruce Gross, CEO of Lennar Financial Services. And of course, (Alex) who you just heard from. And we have joining us also Rick Beckwitt, who's on the road I believe, in Dallas today. And Rick will be joining and contributing as well.

So listen, today's call is pretty straightforward. So we're going to try to keep our remarks relatively brief so we have plenty of time for your questions. As usual, I'll give a macro and strategic Lennar overview. Rick's going to talk about market strength and land and community count.

Jon will update on the popular supply chain, production, construction costs. And as usual, Diane will give a detailed financial highlight, additional guidance. And then we'll answer as many questions as we can. And as usual, please limit to one question and one follow-up.

So let me begin and start on our singular low note. As you saw in our press release, we missed the low end of our third quarter delivery guidance by 600 homes delivering 15,199 homes. And while at Lennar we are certainly not immune to supply chain disruption, we are simply not used to missing either. While our entire team feels the pain of this miss, it is not for lack of effort or focus that we missed, but instead it's a reflection of the current market conditions.

The supply chain for both land and construction is significantly stressed, and that will continue into the fourth quarter and beyond. Accordingly, we expect our community count at the end of the year will be up only approximately 7% versus the 10% we previously guided. And our deliveries will be approximately 18,000 versus the 19,000 to 21,000 we previously guided. And while we're not giving specific guidance for 2022, we fully expect double digit growth in sales, starts, closings and community count next year.

After my introductory remarks Rick will further address the land and supply chain and our performance and expectations and Jon will give color on labor and materials and the effects on production.

So except for the miss on deliveries, our third quarter results were very strong and quite extraordinary. Even with the supply chain constraint we still grew our deliveries 10% year over year, while our revenues from home sales grew 19% to over \$6.5 billion.

And by remaining focused on orderly, targeted growth with our sales pace tightly matched with our pace of production, we drove a 420 basis point gross margin improvement from 23.1% last year to 27.3% this year. Alongside gross margin, we recorded a significant improvement in operating efficiency as our SG&A decreased 100 basis points to 7% this year versus 8% last year. And that's without the embedded leverage of the missed closings.

Accordingly, our net margin increased 520 basis points year over year from 15.1% last year to a company all-time high at 20.3% in our third quarter. This drove a 54% after tax and before extraordinary items, bottom line improvement in net earnings from approximately \$667 million last year to over \$1 billion this year. So with our focus on bottom line over top line improvement 19% revenue growth drove 54% bottom line growth.

Our net new orders grew 5% year over year even as we have - even as we have matched our sales pace with production pace in this constrained environment and in spite of the difficult comparison to last year's strong recovery of fourth quarter numbers.

Additionally, our financial services group continued to perform exceptionally, adding \$112 million of earnings while supporting the orderly closing of our homes and making the closing process as joyful as possible in the current environment.

With the strong performance of our core operating divisions our balance sheet and returns continued to improve as well. Even after the purchase of 2.5 million shares of stock and the reduction of \$350 million of debt in the quarter, we reported a cash balance of over \$2.6 billion and a 21.2% debt to total capital ratio while a return on equity grew 800 basis points to 21.9%.

All in all, our core operating numbers are very strong and we expect the strength to continue into the fourth quarter and beyond. Of course, in addition to our core, we have generated additional upside this quarter by some of our LEN^X investments, which entered the public markets.

While market conditions resulted in lower valuations for these companies by our quarter end and those include Doma Title, Hippo Home Insurance, Blend mortgage processing and SmartRent automated entry systems, we still recorded just under \$500 million of profit from those investments.

So even though we are guiding down our deliveries for the next quarter, we are decidedly guiding the prospects for Lennar's continued success up as we continue to build on the core strategies that define our business. And Diane

will give more detailed guidance for the fourth quarter. But our expectations reflect overall strength in the market and optimism for our future.

From a macro perspective the housing market remains strong and these continue to be the best of times. Demand has been consistently strong, while the supply of new and existing homes remains limited. Since new home construction cannot ramp quickly enough to fill the void of the production deficit that persisted over the last decade, short supply is likely to remain for some time to come.

Even though home prices have moved much higher, the overall affordability remains strong. Interest rates are still lower than they were a year ago, and personal savings for deposits are strong. Wages for the average family seem to be rising faster than monthly payments. And while inflation numbers might seem to tell a different story, this is the story that we're hearing from our customers as they come to visit our field offices.

The primary driver of demand continues to be an upward spiral of housing consumer needs. Millennials are forming families. Apartment dwellers are purchasing first time homes. Yesterday's first time homes are selling at higher prices and anticipated - and appreciated equity is enabling first time move ups.

Yesterday's move up home is selling at strong pricing with increased equity enabling customers to consider and purchase an even larger home, all this while supply is limited for everyone.

Additionally, the iBuyer and Single Family for Rent participants are providing additional liquidity to the marketplace. The iBuyers are providing liquidity while becoming an essential convenience provider, as the coordination of the

closing of a new home is being complicated by supply chain disruptions. The convenience factor is becoming of real value proposition in and of itself.

The Single Family for Rent participants are also providing more liquidity while making a single family home lifestyle accessible to more families. Although higher home prices have exacerbated the well-documented affordability crisis across the country, the solution is building more housing and making a growing portion of that housing stock available to more families to rent if they can't yet meet the requirements for home ownership.

Professional ownership of homes enables renters to access a single family lifestyle while they build the credentials to own. Better housing for families, produces better outcomes for families and the industry is rewiring to provide those solutions.

As noted before, changes will also act as circuit breakers for the cyclicity of the housing market in the future. But for now, the housing market is very strong and we the builders just have to get the homes built.

Before I conclude, let me briefly talk about our spin company that I have too briefly described in the past. As you can see from our balance sheet and cash flow, the case for SpinCo is becoming more and more compelling. We have adequate and even excess capacity to spin our well-established ancillary businesses. And those businesses and business lines do not meaningfully contribute to our core earnings in their current ownership configuration right now.

In effect, these assets as currently positioned, are actually dilutive to our growing returns on equity and returns on capital. With an effective spin, the remaining Lennar Corporation can drive higher returns on our assets and

equity base, and we are pushing to make that happen. But as you would expect, we are determined to get it right and construct SpinCo as a standalone company that is investable, that is accountable, scalable and successful in its own right. The already successful business of SpinCo can and will be structured for success and accountability and form the beginning of a growth story that matches the success of Lennar.

Accordingly, we've continued to work on the structure, components, and organization of the new company. Time has continued to be our friend in the - in that the Lennar core business, the Lennar cash flow and balance sheet have continued to improve and provide even greater opportunity and flexibility.

Accordingly, I am once again to your disappointment, I'm sure, going to kick the can on delivering more detail on SpinCo. While nothing has changed in our expected execution and scope, the detail of standing up a new public company is time consuming and complex, and we do not want to detail an incomplete picture or miss an opportunity to just get it right.

To that end this quarter, we engaged a new participant, Matt Zames, as a senior adviser to the company, focusing on the configuration and execution of our SpinCo strategy. Matt is a seasoned veteran in the financial services world. As a past President of Cerberus Capital and as a past Chief Operating Officer of JPMorgan Chase, Matt's expertise in operations, execution and detailed financial modeling will help quickly advance the timeline for SpinCo and help bring it to market.

Matt is not a newcomer to Lennar, as we have worked with him through our very successful various advisory engagements with Cerberus. And I personally served with and for Matt on the board of Doma where Matt serves as an extraordinary chair of the board.

In addition to and supporting Matt, we have sequestered a team of senior internal leaders under the focused leadership of Jeff McCall to work with Matt on the substance and structure of the new company. This team meets regularly to map the structure, model expected growth and review progress. We are standing up a new company backbone, and the team includes all the leaders from the projected SpinCo verticals.

As last - as noted last quarter, our SpinCo will be will be configured as an independent and active asset management business that raises third-party capital to support our ongoing business verticals. As noted, two of these verticals already have raised third-party capital and they're active asset managers. LMC, our multifamily platform has approximately \$9 billion of gross capital under management and is raising its third fund right now.

LSFR, our growing Single Family for Rent platform currently manages approximately \$1.25 billion of equity already raised. Both of these programs are neatly configured as independent, self-sustaining operations. Additionally, we have a dynamic and growing independent land and land management business that has been refining - that has been refined. And we have a growing technology investment business that, as you can see from our numbers, is performing exceptionally well under the name LEN^X. As I noted last quarter, this separation from the home builder will enable these blue chip businesses to thrive and excel independently.

So let me wrap up and conclude by saying that in spite of the miss of deliveries and the supply chain disruption that is affecting us and the industry, we have simply never been better positioned financially, organizationally and technologically to thrive and grow in this evolving housing market. Demand and the market in general remains very strong, even as we return to traditional seasonality in our overall annual sales pace.

While difficulties in the supply chain present challenges for Lennar and the industry, the housing market remains strong and supply of new and existing homes is very limited. And of course, given supply chain challenges, the industry will not be able to quickly remedy the supply shortage with increased production.

Accordingly, we expect the market to remain in its current balance or should I say, imbalance for an extended period of time. 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 driving our net margin.

We have built a Just-In-Time delivery system for land at the front end, and we have built a Just-In-Time delivery system for our finished homes at the back end with our SFR, Single Family for Rent program. We have focused on cash flow, on debt reduction and stock buyback, land owned versus controlled, return on capital and return on equity and of course, driving incremental upside from investments in and upside on our innovative technologies.

We have an amazing group of talented associates driving our business forward and caring about the world around them at the same time. We are performing excellently on all metrics driven by strategies that have worked to our benefit. And the market condition remains extremely strong for this foreseeable future.

As we begin to look to 2022, we see continued strength in the market and double digit growth for Lennar. The story remains that supply is short and demand is strong. Some are concerned that demand is slowing as prices move higher and interest rates move. It feels to us that sales are slowing because

many sales were made early and the industry is building through those sales slower than expected.

We believe that home production has been constrained for a decade and we are making up the deficit now which should keep the housing market thriving for some time to come. With that, let me turn over to Rick.

Rick Beckwitt: Thanks Stuart. As you can tell from Stuart's opening comments, the housing market is very strong, our team is extremely well coordinated and our financial results continue to benefit from a solid execution of our core operating strategies. Key to that has been running a finely-tuned home building machine where we carefully match homebuilding production with sales on a community by community basis.

In this appreciated market with slightly longer cycle times caused by supply chain issues, we are strategically selling our homes later in the production cycle of the home to maximize prices and offset the potential cost increases.

Our third quarter results prove out the success of the strategy as we achieve gross margin increases of 420 basis points year over year and 120 basis points sequentially.

During the third quarter, we started 4.9 homes per community, sold 4.5 homes for community. And we ended the quarter with less than 200 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 in fiscal 2022 given the ramp-up in starts in the third quarter.

In the third quarter, new orders, deliveries and gross margins were strong in each of our operating regions with August being the strongest month in the

quarter. In addition, we saw strength in all product categories from entry level, to move up, to active adult. The strength of the market was also reflected in a historically low cancellation rate, which was 10% in the quarter -- down 470 basis points from last year.

In the third quarter we continued to achieve price increases, although at a lower rate than earlier in the year. In general the market has moderated from being extremely hot to a strong market that is returning to normal seasonal trends.

Here's some color on some of our stronger markets. Florida continues to benefit from core local demand, as well as in migration from the Northeast and the West Coast, which is being driven - both which is driving both sales pace and price. Inventory is extremely limited and buyers are moving fast to close. The hottest markets in Florida continue to be Naples and Sarasota in the southwest, Miami Dade and Broward in the southeast and Tampa. We are also seeing a strong recovery in Orlando with the increase in tourism.

These markets - these are all markets where we are the leading builder with the best land positions. In the Carolinas, Raleigh, Charlotte and Charleston are extremely strong markets benefited from - benefiting from limited inventory, job growth and quality of living. We're the top builder in each 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 tremendous job growth, especially in the technology sector. The state is also benefiting from the recovery in the oil and gas sector.

Notwithstanding out migration from parts of California, the markets are strong in California driven by the state's severe housing shortage. There is more demand than supply. The Inland Empire, Sacramento and the East Bay Area are the strongest markets. All are seeing migration from other California coastal markets due to a higher level of affordability, compounded with the ability to buy a larger home for the money in those markets.

Phoenix and Las Vegas continue to be strong markets. Both are benefiting from business-friendly environments, real job growth and in migration from California. The casinos in Las Vegas are full and the city is benefiting from increased tourism. Phoenix is thriving due to real affordability.

These are some of the strongest markets, but as I said there is strength and depth of market across the country. Now, I'd like to spend a few moments talking about growth and community count. While our community count is up slightly from the beginning of the year. We ended the quarter flat on a year over year basis. This was driven by a faster sales pace in certain existing communities which caused some communities to close out sooner than expected.

Our community count was also impacted by delays in getting new communities open because of supply chain type issues and municipalities being overwhelmed with short staff due to the Delta variant and not being able to process the entitlements, permitting and inspections on a timely basis.

Similar to the supply chain delays experienced by our home building operations, the land issues are not caused by any operational failures, but instead by various external forces. The impacts of COVID; from quarantine of sick workers, to the necessary workplace modifications to ensure compliance with safety protocols has severely hampered many municipalities' ability to

timely process approvals and conduct inspections. Likewise, the active tropical basin this year caused not only site specific land development delays, but added to the logistical supply chain channels that already existed, primarily associated with PVC, drainage structures and valves. The snowball effect of these delays, combined with a shortage of crews due to COVID quarantines really slowed down the process.

While these challenges persist, we are proactively managing these challenges. With all this in mind we now expect to end the year with a 7% increase in community count versus the 10% we targeted at the beginning of the year. While we are disappointed with these delays. We know this is just a timing thing and that these communities will come online.

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

We're also pleased with the excellent progress we are making on our land light strategy as evidenced by our year's supply of homesites improving to 3.3 years at the end of the third quarter from 3.8 years at last year's third quarter, and our controlled homesite percentage increasing to 53% from 35% for the same periods.

Finally I'd like to thank all of our associates for their tireless efforts as we've work through these challenges associated with the supply chain. Now, I'd like to turn it over to Jon.

Jon Jaffe: Thanks Rick. I will now briefly address how we're managing through the supply chain disruptions that are impacting Lennar and the industry. We'll answer any detailed questions you have in the Q&A.

As Stuart noted, our closing miss for Q3 was driven by supply chain disruptions that led to a general increase in our cycle time to build homes, but also some intermittent shortages that stalled production beyond cycle time causing these closings to be delayed into our fourth quarter.

As you have heard from various building product companies and from other homebuilders, disruptions are affecting different trades at different times and in different geographies. They're intermittent and they are not over yet.

In many ways, it's truly a game of whack-a-mole creating a traffic jam. Like cars, the construction process is backed up, creating a chain reaction of delays that cascade from one trade to the next. The team at Lennar is aptly dealing with the situation to manage for the best possible outcomes. Like the rest of the industry, we not only saw our cycle time increase approximately two weeks in our third quarter, but we also had additional surprises that quickly changed delivery dates.

Fortunately, at Lennar we have extraordinary supply chain, purchasing and construction teams that are very coordinated and are managing our scheduling on a day by day basis in partnership with each of our trade partners. We work with our partners to solve issues in real-time, as well as planning ahead for our future demand needs.

Our decades long platform of everything's included has minimized the impact of supply chain shortages as we have fewer SKUs to manage and we can plan

out material needs far in advance. This has become more important than ever as lead times have materially expanded for most manufacturers.

Additionally, we're now in our sixth year focusing on being the builder of choice for our trade partners. Over this time span, we have rewired interactions with our building partners to help them manage their cost inputs, reduce their labor needs and enable them to grow. This has earned us a seat at the table with our strategic trade partners in these stressful times to work through solutions partner by partner. Even where the solution is bringing in alternative manufacturers this is done in a collaborative manner with our existing partners to help them versus hurt them.

We are doing a better job than ever at a time when it is most needed in communicating with our trade partners and giving them detailed forecasting information. Let me give you a quick sense of where the greatest impacts are being felt right now.

From a national manufacturing perspective, the categories most impacted are engineered wood, windows, garage doors, paint and vinyl siding. On a regional basis, it is brick and lumber capacity in Texas, concrete block in central Florida, insulation in north and southwest Florida and in Phoenix and Minnesota, there are labor constraints.

We believe we will feel the effects of this backup for the next few quarters and then based on the plans we have in place with all of our trade partners, we would expect to see stabilization in our cycle times by Q2 of 2022.

As mentioned in our quote, we remain focused on consistently increasing our start pace. And in the third quarter we averaged 4.9 homes per community, up

from 4.2 homes per community last year, or 17,630 homes started in the third quarter, up 16% from last year.

This positions us well for growth in 2022. And as discussed earlier, we are in regular communication with our entire supply chain in advance of these starts in order to support this increase in activity.

The construction cost impacts in our third quarter closings were primarily from the lumber increases taken earlier in the year that are now impacting costs as homes close. In the third quarter costs were up \$5.40 per square foot over the third quarter of last year and lumber accounted for about 95% of that increase.

We will see increased cost of lumber, although at a lower level in Q4 and Q1, with lumber cost reductions thereafter. In the various other product categories, cost increases have been pushed in the second and third quarters as a result of supply chain disruptions and labor shortages.

These increases will flow through closings starting in Q1 of 2022 but will be offset by the reduction in lumber costs, resulting in a net reduction in costs by Q2.

As we have noted in prior quarters, our revenues are growing at a faster pace than construction cost increases, resulting in a decrease in construction costs as a percent of revenues, the 41.4% compared to 43.6% last year.

Overall, our management team is focused daily on managing through the current supply chain disruptions. It is a truly all hands on deck.

Stuart, Rick, our regional presidents and myself support Kemp Gillis and our supply chain team by joining them in meetings with the leadership of key trade partners. In these meetings we listen and learn, understand the challenges and then craft solutions.

We review production needs for the weeks and months ahead, implement our solutions and then execute as partners. This pattern of execution, combined with maintaining our disciplines of everything's included, builder of choice platforms with an additional focus on further SKU reductions and enhanced communications allows us to be nimble in responding to and managing through this environment.

As we look ahead, there are bumpy parts of the road and a traffic jam or two to work through. With those increased starts and much appreciated cooperation from our trade partners, we are setting up for solid growth in deliveries in 2022. Thank you. And I'll now 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 Q4 of 2021.

So starting with financial services for the third quarter, our financial services team reported \$112 million of operating earnings. Mortgage operating earnings decreased to \$80 million compared to \$113 million in the prior year.

As we've indicated for several quarters, the mortgage market has become more competitive with the purchase business as refi volumes have declined. As a result, secondary margins have been decreasing.

Our third quarter was negatively impacted by lower secondary margins compared to the prior year and was the primary driver for the decrease in mortgage operating earnings.

Title operating earnings increased to \$26 million compared to \$21 million in the prior year. Title earnings increased due to the growth in both volume and profit per transaction. Our title team has been laser focused on technology, automation and efficiency with the goal of driving higher productivity.

So, then turning to our Lennar other segment for the third quarter, our Lennar other segment had operating earnings of \$492 million. The driver of the earnings was LEN^X, which is our growing technology investment business.

Three of our LEN^X investments, Hippo, SmartRent and Blend went public, as Stuart mentioned, during the quarter, and we recognized mark-to-market gains of \$433 million on these investments.

We also had mark-to-market gains of \$61 million on our existing public investments, Opendoor and Sunnova. And as a side note, we do have an investment in Doma Holdings, which also went public in the third quarter. However we do not utilize mark-to-market accounting for this investment primarily because of our level of ownership.

If we had marked the investment to market, the unrealized gain would have been \$638 million. Again this does not appear in our P&L or balance sheet, just a noteworthy point.

So, you can see that LEN^X continues to first and foremost add value to our core homebuilding operations but also provides potential upside with investment earnings.

Now turning to our balance sheet, we ended the quarter with \$2.6 billion of cash and this is after deploying almost \$600 million to retire debt early and buy back stock, which I'll discuss in a minute. We had no borrowings outstanding on our \$2.5 billion revolving credit facility.

We continue to execute on our strategy to become asset lighter by developing a just-in-time delivery system for land and homes generating significant homebuilding cash flow and improving returns.

At quarter end we owned 190,000 home sites and controlled 216,000 home sites. This resulted in our year supply owned decreasing to 3.3 years from 3.8 years in the prior year and our home sites controlled percentage increasing to 53% from 35% in the prior year.

All this progress resulted in achieving a 23% return on inventory, excluding consolidated inventory not owned and is consistent with our intense focus on increasing all returns.

During the quarter, we paid dividends totaling \$78 million and we repurchased 2.5 million shares totaling \$246 million. This brings our year-to-date repurchase amount to 4 million shares totaling \$388 million.

We also retired early our \$300 million, 6.25%, senior note that was due in December 2021, further reducing our debt balance and saving about \$9 million in interest as we utilize the six month par call feature.

Our next maturity, \$600 million due in January, 2022 has a three month par call, which we will also utilize to prepay the note next month. This will leave us with no senior note maturity until October 2022.

Additionally during the quarter we also paid off \$50 million other non-public homebuilding debt. So when you pull all this together at quarter end, our homebuilding debt to total capital was 21.2% down from 29.5% in the prior year.

And then a few final points on our balance sheet. Our stockholders equity increased to approximately \$21 billion from \$17 billion in the prior year and our book value per share increased to \$66.73 from \$54.91 one in the prior year.

Our return on equity was 22% compared to 14% a year ago. And finally in June we were upgraded to investment grade by S&P and are now investment grade with all three rating agencies.

We are extremely proud of this status with the agency and believe it reflects the successful execution of our operating strategies as well as our very strong balance sheet.

And so with that brief overview, let me turn to guidance for the fourth quarter, starting with homebuilding. We expect Q4 new orders to be in the range of 15,200 to 15,400 homes as we return to more seasonal patterns. And we expect our deliveries, as we said, to be about 18,000.

Now, this estimate has some plus or minus to it because the supply chain challenges bring a great deal of uncertainty. So the final number of homes delivered will be dependent on outcomes to existing issues which, of course, we are navigating each and every day.

Our Q4 average sales price should be about \$445,000 as we continue to see price appreciation. We expect our gross margin to be about 28% and we

expect our SG&A to be about 6.7%. However, once again, these amounts will move up or down a bit, depending on the number of homes delivered.

And so the combined homebuilding joint venture, land sale and other categories, we expect a Q4 loss in the range of \$10 million to \$15 million.

And returning to our other business segments, we believe our financial services earnings for Q4 will be in the range of \$95 million to \$105 million as market competition for purchase business continues.

We expect our multifamily operations to be about break even. And for the Lennar other category, we expect earnings in the range of \$5 million to \$10 million. The guidance does not include any potential adjustments to our mark-to-market investments since this will be determined by their stock price at the end of our quarter.

We expect Q4 corporate G&A to be about 1.2% of total revenue and our charitable foundation contribution will be based on \$1,000 per home. We expect our tax rate to be approximately 23.8% and the weighted average share count for the quarter should be approximately 306 million shares.

And so when you put all of this together, this guidance should produce an EPS range of \$4.12 to \$4.16 per share for the fourth quarter.

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 well positioned to have a strong end to our fiscal 2021.

And with that, let me turn it over to the operator for questions.

Coordinator: Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star 1, unmute your phone and record your name clearly. If you need to withdraw your question, press star 2. We ask that you limit yourself to one question and one follow-up question until everyone has had the opportunity to have their questions answered. Our first question will come from Stephen Kim with Evercore ISI. Your line is open.

Stephen Kim: Yes. Thanks very much, guys. I appreciate all the detail. I want to talk about the homebuilding business specifically.

Stuart, three months ago, we talked about how it might be more accurate to describe the move in home prices that the industry and you have seen over the past year as a correction upward since home prices rose, you know, in order to reduce demand down to the depressed level of supply. There was, you know, a gap between supply and demand.

And so this quarter you've talked in your opening remarks about demand as being at a more normal seasonal level. But it's also fair to say that supply constraints have worsened too. So basically at this point what I'm asking is, would you say that demand is still above supply and that home prices are still generally rising?

And more specifically, maybe how did demand respond to pricing actions you took over the summer? And how would you say things are trending thus far in September?

Stuart Miller: So interesting question, Steve. You know, look, you do have these kind of crosscurrents. I would clearly say that demand is above supply and therein you see pricing power.

But at the same time, the kind of conflict that you're daylighting is that if you think about the sales pattern of last year, it stalled in and around COVID and then picked up very sharply as you went into the third and fourth quarters. And so your comparisons are relative to a kind of catch-up that was embedded in sales numbers back at that time.

So, yes, you still have very strong demand. You have very strong sales. You're not catching up anymore. And because you have short supply and a delivery system or production system that is slowed by the supply chain, that demand is clearly outstripping supply.

You still see pricing power but comparisons are kind of, you know, tepid in terms of seeing sales growth because nobody wants to get way out ahead of what they can actually produce.

When you ask about pricing over the summertime and how has that moderated sales, that's exactly what you're seeing in our numbers is pricing power, pricing pulling back on sales a little bit and keeping our sales in check with the actual production abilities that are out there. Is that helpful?

Stephen Kim: Yes. Absolutely. Yes, I think it's important to call out as you did the unusual seasonality last year. And then, of course, you know, at some point the market is going to start focusing more on 2022 and beyond.

And so I wanted to - my next question sort of gets to that. Jon, you gave some good numbers. I thought you said \$5.40 per square foot in terms of cost, but lumber being 95% of that increase.

And you've laid out an expectation that by 2Q of next year, the decline in lumber costs will be greater than other inflationary forces that you see in your

cost structure, which I assume is a fancy way of saying that margins, gross margins, you know, could trend upwards. I wanted to make sure that I didn't oversimplify and that that is actually what you are trying to convey.

And then as a follow-on to that, I would ask generally maybe for Stuart, the outlook for gross margins is one of the major areas of disagreement for the Street for next year. And I was curious, my view is that a return to sort of normal seasonality, like what you talked about, in no way suggests that margins are going to quickly return back to some sort of historical norm in part because home prices have already reached a new level and land costs are embedded in your balance sheet already at a lower cost.

I was wondering if you could help us understand how you think about how margins may trend over the next few years if supply and demand starts to come more into balance. Are we going to see margins quickly return or would we likely see some hang time here on the gross margins?

Jon Jaffe: So, Steve, relative to your first follow-up, you heard me quite accurately. You know, lumber is down about 70% from its peak. The starts that we're seeing in September are incorporating that lower price. And that's why I say by Q2 we'll see the benefit of that.

And again, you accurately heard me that we expect that that benefit will be greater than the cost increases in other categories combined, resulting in a lower cost per square foot on the homes that we built that we will be delivering starting in Q2.

Stephen Kim: Great.

Stuart Miller: So, look, I think that as you asked the question about margin, to think out two, three, five years, that's too hard of a projection to make. But as we're looking ahead to 2022, we certainly see margin strength.

You're properly noting that while labor and materials are going up in some respects, the big ticket item, lumber, is coming down and has come down. And those numbers are only starting to flow through in sequence in the production cycle that exists.

So you do have somewhat of margin protection. You know, as we think ahead to 2022, we think our margins are going to continue to be quite strong. Rick, do you want to weigh in on that?

Rick Beckwitt: No, I think you guys have covered it pretty well. You know, we're seeing nothing that would reflect a downward adjustment in margins. We're underwriting land deals with the same intensity.

You know, we're fortunate because we've got all our land in shape for 2022 and almost everything for 2023. And, you know, we've just got tremendous visibility in what that pipeline is. So we feel pretty good about where we are.

Stephen Kim: Great. Thanks very much, guys.

Stuart Miller: Thank you.

Coordinator: Our next question comes from Truman Patterson with Wolfe Research. Your line is open.

Truman Patterson: Hey, good morning, everyone, and happy birthday, Jon. I couldn't think of a better way to spend it than on a conference call.

So I do apologize. I did get disconnected during the opening comments from the call. So if I double-up on anything, like I said, I apologize. But you all were able to increase starts 16% year-over-year. You're mentioning some fairly significant supply chain issues.

My question is on materials availability and just discussions with your vendors. Do you think they'll actually have enough capacity to support a double digit growth rate in '22? You know, our hope is the manufacturers will be able to improve inventory during the seasonally slower winter months. But we really haven't seen any evidence yet. I'm just trying to get your take on how the next year unfolds.

And I believe in your prepared remarks, you said you're expecting, you know, these constraints to ease by the second quarter. I'm just wanting to understand your thoughts there.

Jon Jaffe: Yes. That's right, Truman. What we're seeing is there still is constraint on the supply chain that feeds our manufacturers, our supply chain. And that's not over yet, as I mentioned. But, you know, lead times have expanded, which is giving some breathing room to these manufacturers to start to catch up.

And that's what I meant by the plans we have in place, you know, manufacturer by manufacturer, trade partner by trade partner give us some visibility although it's been not perfectly clear that as we get into Q2 of next year that we expect that cycle times will stabilize.

We feel very confident that, as I mentioned, that the plans we have in place will support our double digit growth that we have planned. It's not an all of a sudden growth change for us. It's very methodical.

As Stuart and Rick both mentioned, we carefully match our production pace, our sales pace and so this is all planned out way in advance with real good visibility for trade partners to support us.

Stuart Miller: Let me just add to that, Truman. I don't think that we can stress enough how hands-on this program has been and will continue to be. In fact, Jon and Rick are jointly going to go out and meet with various strategic partners, trade partners, one-on-one in their offices over the next months.

You know, and that's very much by way of making sure that what we're saying is what we bring to market. We don't like missing. We don't like setting expectations that are not achievable.

We've done a lot of homework to think about where we are and what we can achieve. We've daylighted the fourth quarter, you know, there's still some volatility in that. But we're developing more and more certainty as we get out ahead with proper preparation, with our everything's included program limiting SKUs with our builder of choice program maximizing affinity and focusing on making sure that we're in lock step with our trade partners.

Jon Jaffe: So just to emphasize the point, as Stuart said, of our everything's included program, our manufacturer lead times have expanded anywhere from four to seven times their normal lead times. The ability to know what we're going to build way in advance as compared to a design studio program really gives us the ability to communicate very effectively with those manufacturers and adjust to their lead times.

Truman Patterson: Okay. Okay. Thank you for that. And then community count you walked down modestly, but it's still growing, you know, 7% by yearend. You know,

with permits and entitlements becoming more delayed, how are you viewing your community count going into '22?

And then also just big picture I'm trying to understand how you all view some of your private competitors. We've been hearing that they're fairly land constrained. Do you think they're going to remain land and community count constrained or will we start to see a normalization or a catch-up in inventory in 2022?

Trying to understand, you know, some of the market share dynamic potential as well.

Rick Beckwitt: So I'll take that. I think you're going to continue to see the smaller and the regional builders have a difficult time to get community count up. The overall industry in the market is shifting to really have the land market addressed to the top builders.

And, you know, we have such a market share advantage that, you know, the developers want us in their deals. So that's number one.

Number two, as I mentioned in my comments, we're anticipating double digit community count growth in 2022. We've got the land in place. Permitting and planning and plan approval and all those entitlement things are problematic. But we're going to make our way through that and we've got good visibility.

You know, this whole supply chain disruption thing has given us the ability to do triage on how we deal with some of the towns. And we're getting to a point where we can help them help us in a more efficient way. So it's working and we feel pretty confident that's what we're going to do.

Stuart Miller: And, Truman, let me just add to that and say, you know, Rick said something that was somewhat nuanced in his comments, but very important. And that is we have plenty of land. It's converting land to community count that has kind of slowed down a little bit right now.

So we have tremendous visibility given our land acquisition, our land engagement machine that's out in the markets where we really do have a tremendous advantage over those smaller, more regional builders in accessing land. But it's in finalizing entitlements and actually getting communities open where you see some of the stickiness.

Rick daylighted that it's, you know, with final approvals of final plats or actually the land development where you might have PVC shortage or things like that that impair your ability to actually get it into the community count and open for business.

So, you know, I think that we have pretty good visibility on where we're going. Not pretty good, excellent visibility on where we're going. It's just about some of the impairments that exist at the local level in the field. And we're working through that.

Truman Patterson: All right. Thank you all and good luck on the upcoming quarter.

Stuart Miller: Thank you.

Coordinator: Next, we'll hear from Carl Reichardt with BTIG. You may proceed.

Carl Reichardt: Thanks. Hello, everybody. Stuart, I keep trying to catch the can you keep kicking. But I won't to ask about that. More on the supply chain, right. It's a

mess. And I'm trying to figure out, you know, Jon, you called for a stabilization, I think, in build times in Q2 '22.

What are the critical early signs we should be looking for to tell us that we're on the path to normalization? Is it a product availability type or a process normalization? And then in the long run, how does the current environment impact strategies or tactics you or the industry might use to get more control over the supply chain in the future?

Jon Jaffe: So relative to signs to look for in stabilization, as I mentioned, we're in day-to-day coordination and conversation with our key manufacturers and our key trade partners.

And it's really about the planning process to look at the weeks, months and quarters ahead so that they can plan their productivity to match what we're doing and also, as I mentioned, to bring in additional trade partners to help support those partners of ours that are not able to ramp up to the needs that we have. And that, again, is very closely coordinated to make sure that we can get enough volume out of them.

Stuart Miller: But Carl, if you're looking for a signal that you can kind of watch and wait for, I don't think you're going to see it until we tell you that it's happening. It's going to flow through our numbers and we're going to see it before others see it.

And you're going to - you're just not going to be able to see the stabilization until it's actually happening. That's kind of my view of it.

Jon Jaffe: That's exactly why as we work through this planning process, it will be the outcome of that that will show up and be visible.

Carl Reichardt: Okay, Stuart, challenge accepted then. The next question I had is on single family build. What percentage of your deliveries are going to non-owner occupants now, whether it's sales of homes to institutions or mom and pop operators?

And then, Rick, you talked about the land opportunities. You still see good ones out there. Are you concerned that some of the well-funded, sort of startup build-to-rent operators who are beginning to look for land transactions and have very different performance than a traditional builder might - that what they're willing to pay, their more aggressive approach has an impact on land availability long-term for you all?

Stuart Miller: But let me just start there and say we don't have - we haven't separated out numbers on what percentage are going to final users versus, you know, what some might say are the non-traditional users.

In many markets, the single family for rent buyers are just an ordinary part of the market and have been a regular participant. So we just haven't separated out those numbers. But it is an active and important part of where the market is going, enabling people who can't necessarily get the down payment currently, get them into a single family lifestyle, which I think is a greater good.

Rick Beckwitt: So maybe I'll address the second component of your second question, which had to do with the competitiveness of the other SFR players. You know, as Jon and I have been looking at this, and we're very close to the market, we're seeing relatively little competition associated with these deals.

As I said, the developers want execution and they are very focused on making sure that people close on the land, work through the land because in many cases they're leveraged. And as a result, they want to make sure that they've got the cash flow to keep their businesses up.

These other players don't have the cost structures that we have. So from a cost standpoint, we build so much cheaper than they will ever have the capacity to build. So it's difficult for us to feel that they pose any competitive threat in disrupting the land market.

Carl Reichardt: Great. I appreciate that. Thanks, everyone. Happy birthday, Jon.

Jon Jaffe: Thank you.

Coordinator: Thank you. Our next question comes from Alan Ratner with Zelman. Your line is open.

Alan Ratner: Hey, guys. Good morning or I guess good afternoon now. Top of the hour here.

So first question, you know, you guys obviously went into a lot of detail on the material challenges you guys are facing. I'm curious on your start pace for the quarter. You know, obviously, you're up a lot year-over-year, but your starts were down about 2,000 homes sequentially.

So, you know, I'm curious what went into that. Is that a function of more labor tightness on the front end, or was that more by design to prevent some of those later-stage material challenges from getting even worse?

Jon Jaffe: No. I'd say the real answer to that is in the normal planning process of the cyclical of the year, you know, the seasonality of the year more correctly. So we typically will have more starts in our second quarter that feed into our, you know, our largest delivery quarter, the fourth quarter. Then third quarter starts are feeding into the beginning of the year. So that's more of the normal pattern.

Alan Ratner: Got it. So, you know, the thought process, that demand is so far outstripping supply, that wouldn't negate any type of normal seasonality going forward from a start perspective. Like you're not going to be trying to accelerate that or move against seasonality, given the view that demand is so sharply outstripping supply.

Jon Jaffe: Well, I think that we closed the gap on that because, as we said, that demand is stronger than supply and, you know, we see that in the next few quarters. So, as I said, we're up 16% year-over-year in our third quarter starts, which I think demonstrates our bullishness on starting more homes.

Alan Ratner: Got it. Okay, I appreciate that Jon. Second question, you know, would love to circle back to that question earlier on margin and land underwriting. And I think, Rick, you made a comment towards the end of that, that, you know, you're still underwriting your land deals to the same intensity.

You know, would love to dig into that comment a little bit more. Does that mean, you know, when you look at the underwriting on deals today, recognizing it might take a couple years for those land deals to flow through that it implies a gross margin in the 28% range that you guys are delivering today?

Rick Beckwitt: Well, I'm not going to take the bait on two or three years out. And Stuart decided not to answer that one as well.

But, you know, I think that, you know, as we look at near term and we underwrite pricing and cost structures we're underwriting to very similar margins as to what we've got now.

Alan Ratner: Got it. Okay. I appreciate that. Thank you.

Coordinator: Our next question will come from Matthew Bouley with Barclays. Your line is open.

Matthew Bouley: Hey, good afternoon. Thanks for fitting me in here. Just following up on the production capacity, so I'm doing the math, right, around your starts. I think, you know, year-to-date maybe it was about five per community. Obviously 4.9 in the latest quarter. And you're talking to communities increasing double-digits next year.

So, you know, my question is, if five - is that an achievable run rate for production as you look out to '22? Because mathematically that would put you close to perhaps 80,000 homes produced. Or do you really need kind of an easing in supply chain to make a number like that realistic? Thank you.

Stuart Miller: We definitely need an even supply chain. And it's going to be volatile, at least in the beginning of the year. We'll see how it evolves through the year.

But look, we were appropriately anticipatory as we put starts on the ground early on, early in the year. We've ramped up our starts in order to have production that could meet what we thought would be long-term demand

trends. And that's going to enable us. You're right. If you do simple math, you can get to some interesting numbers for 2022.

But I think that, you know, we're going to see how the supply chain actually evens itself out. What cycle times actually become as you go through a year like next year. And there's going to be an early year ripple from the supply chain disruption or the complexity that exists right now.

So we're not really giving guidance for next year. We did daylight that we see strength in the market that will reflect itself in double-digit growth in our significant kind of metrics. And we're going to leave it at that for right now. As we get to the fourth quarter and in the fourth quarter, we'll give guidance for the following year. But it'll be based on a better understanding and a better belief system of not only what's in the pipeline, but also what the supply chain is really shaping up to look like.

I daylighted that Jon and Rick together are going out and meeting with a number of our trade partners, one-on-one in their facilities. We found those meetings to be very telling and helpful in kind of mapping out what we can expect. And so it'll be interesting to see how our update goes in the fourth quarter.

Matthew Bouley: Great, thanks. Thanks for that detail there, Stuart. Second one just on the regions and looking at the sales pace, I couldn't help but notice that in the East, your sales pace was actually up sequentially in the quarter there.

So I'm just curious, you know, I know you gave some great commentary at the top around demand strength in Florida, but just speaking about production again, you know what was different about the East overall that allowed you to continue to keep sales pace over five? And is production just easier to come

by there or, you know, what's different there about the rest of your markets?
Thank you.

Stuart Miller: Rick.

Rick Beckwitt: Well, some of the East, particularly, I think we have Florida in the east, is that correct? Because I look at it from the way we run our company regionally, really hasn't faced as many of the issues associated with framing. You know, we - a lot of concrete block construction in Florida. We, you know, dominate the Florida markets and really have a good control of the trade base there. So that's one of the drivers of that.

Matthew Bouley: Okay, understood. Well, thank you very much, and congrats on the results.

Stuart Miller: All right. And why don't we take one more question?

Coordinator: Our last question will come from Susan Maklari with Goldman Sachs. Your line is open.

Susan Maklari: Good afternoon. Thank you for taking my question.

Stuart Miller: Good afternoon.

Susan Maklari: The first question is just, you know, we talked a little bit about the land market, but can you give us more sense of, you know, as you're kind of targeting more of this optioned versus owned strategy, exactly how that's coming together and how we should be thinking about it for next year?

Stuart Miller: Well, we've daylighted for a number of quarters now, and I think that we've executed very much in line with what we've laid out. And that is that we're

very focused on migrating to a higher optioned versus owned program. And we've worked and focused on building kind of an institutional model for making that happen. We've talked about the land program that we have in place where we really have quite a structured program for land optioning and that's working extremely well.

And that program is enabling us to make this migration in orderly course quarter by quarter. We are improving the number, the number of lots that are actually, or home sites that are actually positioned in an optioned program.

And I think that you'll see more and more over time that we're really developing a quite structured Just-In-Time Delivery System for land at the front end with much less land that will be held on our books, but much more land that is controlled for our future.

Susan Maklari: Okay, that's helpful. And then my follow-up is, you know, you've obviously made a lot of progress on the SG&A side. You know, you took the guidance to 6.7% for the fourth quarter.

Can you talk about, you know, the incremental initiatives that you're seeing coming together there? And what else is that we should be thinking about as we look forward?

Stuart Miller: So, you know, Susan, thank you for bringing up our SG&A. I think we all feel, you know, we've got a bounce in our step because we think that this is one of the most important parts of how our company has focused 5 and 10 basis points at a time on improving the underlying model that will define our way future. Our net margin continues to grow.

And there aren't big items that we can point to in controlling SG&A. It's just a lot of small initiatives across our business all the way from the internal plumbing system of our IT Group and the way that we're compiling numbers and putting - getting to quarter-end literally within days, closing our books within days after the close of quarter and bring our numbers and projections to light digitally and automatically as opposed to with an awful lot of work from our people in the field. The efficiencies that we're injecting in every part of our business all the way from marketing to realtor commission to the way that our construction operations are actually run. Every element of our business is being reworked and re-plumbed for efficiency. And it's reflecting quarter after quarter after quarter in our SG&A.

So we think it's one of the most important things. We don't get enough questions about it. But it really is every quarter incremental improvement. And we have some divisions that have just taken it to new levels. And I think that we're just - we're still a bit in, you know, the early innings of doing what we can accomplish in the future.

Susan Maklari: Gotcha. Okay. That's very helpful. Thank you and good luck with everything.

Stuart Miller: Okay, good. Thanks for the question. And, you know, again, everyone, thank you for joining us today. We look forward to reporting again in the fourth quarter. And I think in the fourth quarter we'll be able to give a little bit more color on where the supply chain is shaping out and look forward to reporting on that. So thanks for joining us and we'll see you next time.

Coordinator: That does conclude today's conference, thank you for participating. You may disconnect at this time.

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