

LENNAR CORP

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11:00 a.m. ET

Coordinator: Welcome to Lennar's second 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 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. Sir, you may begin.

Stuart Miller: Very good. Thank you, and good morning, everyone. Sorry about the delay. We had a lot of people joining. We wanted to make sure people had an opportunity to get in. I'm in Dallas today together with Jon Jaffe, our Co-CEO and President, and we're joined remotely from Miami by Rick Beckwitt, our Co-CEO and Co-President, Diane Bessette, our Chief Financial Officer, David Collins, our Controller and Vice President, and Bruce Gross, our CEO of Lennar Financial Services. As I said, they are all in Miami, so there will be a bit of coordination here.

As usual, I'm going to go ahead and give a macro and strategic overview of the company. After my introductory remarks, Rick's going to walk through our markets around the country, comment on our land position. Then Jon's going to update supply chain, cycle time, and construction costs.

And as usual, Diane will give a detailed financial highlight, along with some limited guidance for the third quarter to assist in forward-thinking and some guidance for the year. And then we'll answer questions, as many as we can. As usual, please limit yourself to one question and one follow-up so we can get as many in as possible.

So, let me go ahead and begin by saying that we are quite pleased to report that the Lennar team has remained focused on production and pace, cash flow, inventory turns, and return on capital, and we have again produced strong and consistent results for the quarter.

Our second quarter results are consistent with the stabilization we have seen in the current economic environment, as well as consistent adherence to our core operating strategies that we've discussed on prior quarterly conference calls.

As it relates to home building, the economic environment has stabilized, as customers have adjusted to and accepted higher for longer interest rates, the supply chain chaos has normalized, inventories have remained low, and the supply of housing across the country is in very limited supply.

This environment seems to represent a new normal that has formed in the wake of the Federal Reserve's aggressive interest rate hikes starting last year. While persistent inflation remains in the system, aggressive rate hikes have given way to moderated and measured rate movements, allowing the market to adjust in orderly fashion.

The strong demand for housing that had been curtailed by sticker shock and affordability challenges has returned, while the housing market adjusted prices, incentives, including rate buy-downs, and production costs in order to enable customers to afford needed shelter.

And even while interest rates and affordability were primary headwinds to demand, the well-documented chronic housing supply shortage has kept inventory levels very low, which has continued to propel customers to stretch their finances for needed housing, as incentives and price reductions combined to spark sales activity.

The net price of homes has moderated through price reductions together with the use of interest rate buy-downs and other incentives, and the net average

sales price has stabilized and not gone higher, nor lower for that matter, even as demand has returned.

We have seen in our numbers that net average sales prices on home closings have dropped approximately 10%, or 11% on home sales, from the peak of approximately \$500,000 in 2022 to approximately \$450,000 now, and we expect that that pricing is going to remain constant throughout the year.

I would note additionally that through our multifamily apartment division, we are also seeing that rental rates have moderated. Given our extensive experience in the multifamily apartment market, along with our for-sale and for-rent housing business, we see that there is general downward pressure on rents as many markets have become somewhat overbuilt, and there is additional inventory being completed and coming online.

This inventory will complete over the next year and a half. While rents won't likely drop significantly, they are not likely to grow very much either, and remember that rentals and rent equivalents make up a significant part of the CPI calculation.

Overall, we believe that the housing market has leveled, and while net average sales prices are lower, cancellations have been normalizing, and margins have bottomed and are recovering as cost reductions and value engineering provide an offset to the price reductions.

Looking ahead, we continue to believe that the market and the economy will remain constructive for homebuilders as pent-up demand continues to come to market and consume affordable offerings. Additionally, we believe that the supply constraint will continue to limit available inventory and maintain supply-demand balance.

The core elements of the supply shortage will not resolve in the near term as the almost 15-year production deficit will take years to resolve. And note that even when existing homes with low-interest mortgages that are not currently trading do come to the market and add to supply, the sellers will also need a place to move, and that creates a net-zero to overall dwellings; an addition to supply and an addition to demand, and therefore still a housing shortage.

Bottom line, supply is short, demand is returning to affordable offerings, and builders will need to produce more homes to fill the void. Against this backdrop, the Lennar team has remained consistent in our commitment to strategies that we articulated as rates began to climb over a year ago.

Let me do a quick review as these strategies explain both what we have accomplished as well as what we expect to accomplish throughout the remainder of the year. First, we said then, as we say now, that we maintain volume and production as our constant and margin as our shock absorber, and we manage our business with certainty through volatility, staying focused on production, inventory turn, cash flow, and return on assets.

Accordingly, we maintain volume, keeping our production machine working efficiently while rationalizing costs. In the second quarter, our sales team engaged our digital marketing platform in conjunction with our dynamic pricing model to continue to drive sales volume at market pricing in order to maintain consistent production levels and improve our inventory turn.

We affectionately call this configuration the Lennar Machine, and it is designed to produce consistent sales pace at pricing that enables consistency as the market adjusts. Although it is not perfect yet, the Lennar Machine drove new order volume to 17,885 new orders, exceeding last year's volume by 1%,

and this enabled our production group to operate with predictability and consistency.

Additionally, we efficiently back-filled cancellations in the quarter, which have now dropped to some 13.5%, enabling our deliveries to exceed expectation at 17,074 deliveries, and that was up 3% over last year. If by chance, by the way, any of you happen to be in Miami, come on by and ask to see the Lennar Machine in action.

I think you'll get a better sense of our strategy, and you just might start to imagine where the often talked about AI might find its way into the sometimes stodgy homebuilding industry and improve productivity. And to this end, we have a new and exciting Chief Technology Officer at Lennar named Scott Spradley. Welcome aboard, Scott. Let's get to work.

We've continued to focus on selling homes at market-clearing prices, reducing margin when conditions weaken, and improving margin as conditions level and improve. Accordingly, our margins bottomed in the first quarter at 21.2%. Then, as the market leveled this past quarter, we saw margin improvement to 22.5%, and we're expecting further improvement next quarter to 23.5% to 24%, and further improvement beyond that, of course, depending on market conditions.

Through all phases of the market cycle, we are consistently producing strong cash flow. The elements of execution are working extremely well and improving with the Lennar Machine, and we've gained confidence in our ability to now guide to increased volume for the year of 68,000 to 70,000 deliveries, with strong margins and strong cash flow.

Our second strategy has been to work with our trade partners to right-size our

cost structure to the current sales price environment, while we continue to drive our cycle time to pre-supply chain crisis levels. Jon will cover this strategy in more detail shortly, but Jon and Rick have been focused across our platform with our production and our purchasing teams, as well as our trade partners.

Considerable results are reflected both on the margin improvement and in the number of homes that were construction-ready and available for delivery. On the margin front, since Lennar led the way with a reduction in margin while maintaining volume and increasing market share as the market corrected in the wake of an industry-wide reduction in starts, we engaged our trade partners to work side-by-side with us to help find efficiencies in production, to right-size their margins as well, and to work side-by-side in driving efficiencies on the site.

As margin expanded in the best of times, they benefited. As margins have now contracted in the more difficult times, we all understand the benefits of predictability and consistency that derives from consistent volume and scale.

Cycle time continues to be a work in progress. While we continue to make improvement, we improved from 219 days last quarter to 215 this quarter, this is truly like fixing a plane that is in flight, as progress is slow and difficult to measure as products change. Nevertheless, we're making slow but steady progress as improvement will help improve inventory turn, which now stands at 1.2 versus 1.1 last year.

Our third strategy is to sharpen our attention on land and land acquisitions, as well as on land and land bank strategy. While Rick will give additional detail on land, this has been a specific concentrated focus by all three of us, myself,

Rick, and Jon, across the platform, working connected and together to refine our approach to reducing land exposure and becoming increasingly asset-light.

We've made significant progress in reducing land held on our balance sheet, with now 70% of our land controlled and only 30% owned. As with our trade partners, our land partners or sellers have become strategic partners in maintaining volume and increasing market share, while helping to rationalize cost.

Our fourth playbook strategy was to manage our operating costs, or our SG&A, so that even at lower gross margin we will drive a strong net margin. While we've been driving our SG&A down over the past years, quarter by quarter, to new record lows, many of those changes, although not all, are hardwired into permanent efficiencies in operations, there are some components that have grown as we've had to address more difficult market conditions. Examples, of course, are realtor costs and marketing expenses which have had to expand as customer acquisition has become more challenging. Nevertheless, we were able to achieve a respectable 6.7% SG&A this quarter, which resulted in a strong net margin of 15.8%.

We know that in more difficult times there is and should be upward pressure on sales and marketing costs in order to drive and find purchasers and drive new sales. We believe, however, if we continue to drive volume, we'll be able to constrain increases and manage to a very attractive cost level and net margin.

Our fifth playbook strategy was to maintain tight inventory control, and the Lennar Machine of digital marketing, sales management, and dynamic pricing, has materially improved inventory control by enabling a focus on selling homes in inventory, focusing maximum attention on underperforming

communities, and bringing attention to product plans that are simply just not selling.

Clearing the homes that are complete and closable, rather than selling homes that are many quarters in the future, is exactly what drives cash flow, and we're focused on this part of our business every day. Both land and home inventory control is mission central for our overall business.

And in our second quarter numbers, you can see our continuing quarterly improvement, in our now 13.3% debt to total capitalization ratio, down from 14.2% last quarter, and our \$4 billion cash position, that our inventory and our balance sheet is being carefully managed to provide excellent liquidity and flexibility for our future.

These elements of business continue to be managed through every other day management meetings where numbers are reviewed at the regional and divisional levels by the entire management team. Starts, sales, and closings, are maintained in a controlled balance, with the end result of volume with defined expectations.

The sixth playbook strategy was to continue to focus on cash flow and bottom line in order to protect and enhance our already extraordinary balance sheet. If we reflect on our second quarter results, we not only accomplished excellent cash flow and bottom line results, but we repurchased \$208 million of stock, and we also repurchased approximately \$158 million of senior debt due in fiscal 2024. We expect to continue to generate considerable earnings in cash flow, and accordingly, we'll continue to retire debt and purchase stock opportunistically.

Let me say in conclusion that our second quarter of 2023 has been an

excellent quarter for Lennar. We saw market conditions level and stabilize, at least for now, and we executed on our core strategies. We are extremely well positioned to navigate the uncertainties of the current market.

We engaged the difficulties of the past year with a consistent strategy that promoted certainty of execution throughout the company. When market conditions were difficult and uncertain, Lennar associates knew their mission. Similarly, as the market has leveled, Lennar associates know their mission and exactly how to execute.

Our strategy is well known and understood through our division offices, and we have a plan as the inevitable cycles of our industry ebb and flow. We focus on maintaining volume while we price our homes to drive a consistent pace. We work with our trade base to manage costs and efficiencies.

We manage both our land and our production inventories to drive cash flow and returns on investment. We focus our asset light model in order to drive balance sheet efficiency and drive return on investment. Finally, we fortify our balance sheet to have liquidity for strength and flexibility.

Knowing what to do and executing per plan has driven this quarter's success and continues to guide us into the next quarter and beyond. We are confident that we will continue to perform and drive Lennar to new levels of performance. Thank you, and now let me turn over to Rick.

Rick Beckwitt: Thanks, Stuart. As you can tell from Stuart's opening comments, the housing market has continued to normalize and recover as buyers have become more comfortable with higher mortgage rates. Tight inventory levels in the resale and new home market propels demand for available new homes, and we offer

a combination of attractive pricing and compelling mortgage rate programs to capture that demand.

While many of our markets are performing well, in all of our markets, we are regularly adjusting base prices and incentives to maintain our targeted sales pace. Our strategy has been to maintain our targeted start pace, continue to sell homes, and adjust our pricing to reflect market conditions.

To match sales and starts, we have used our dynamic pricing model and the Lennar Machine Stuart just previewed to continuously find the market clearing price of each of our homes on a community-by-community basis as quickly as possible.

We fundamentally believe that our price to market strategy reflects our balance sheet-first focus where we can maximize starts and sales, increase market share, generate cash flow, and keep our home building machine going. To this end, Jon will discuss the operational and cost benefits of maintaining our start pace.

Our second quarter results reflect the successful execution of our price to market strategy. During the quarter, our new sales orders increased 1% from the prior year and 26% from the first quarter, with the first to second quarter seasonal change exceeding our historical average over the last three years.

New orders increased sequentially in each month during the quarter. Our sales pace per community averaged 4.8 in the second quarter, down 4% from the prior year, but up 23% from the first quarter. Our second quarter new sales price decreased 11% from the prior year, and was up a slight 1% from the first quarter. Our cancellation rate during the quarter totaled 13.5%, which was a significant improvement from our first quarter.

All of these operating comparisons reflect a stabilization and normalization across our markets and Lennar's continued focus on using price and incentives to achieve our targeted sales pace per community. These results compare very favorably to nationally reported results, and highlight the increase in our market share across our footprint, driven by a carefully crafted starts and sales program. Our sales activity and cancellation rates in the first few weeks of June have been consistent with our second quarter results.

I'd now like to give you an update on our markets across the country. In prior quarters, I described three categories. One, markets that are performing well, two, markets that are performing but require slightly higher pricing adjustments and incentives to maintain our targeted sales, and three, markets that require more aggressive pricing adjustments, incentives, and repositioning to regain momentum.

In the second quarter, we did not have any of the category three markets. During the second quarter and so far in June, we've had 14 markets that are performing well. These include Southwest Florida, Southeast Florida, Tampa, Palm Atlantic, New Jersey, the Philly metro area, Charlotte, Raleigh, and Coastal Carolinas, Indianapolis, Dallas and Houston, Phoenix, and San Diego.

These markets are benefiting from low inventory and many are benefiting from a strong local economy, employment growth, or in-migration. New sales in these markets reflect more normalized incentives, which may include closing costs assistance, minor mortgage rate buy-downs in order to maintain sales momentum.

In the second quarter, we had 26 category two markets. While many of these markets have improved relative to the first quarter and are meeting our sales

targets, they still require higher pricing adjustments and incentives than our category one markets.

Our category two markets include Jacksonville, Ocala, Orlando, Gulf Coast, Northern Alabama, Atlanta, Virginia and Maryland, Chicago and Minneapolis, Nashville, Austin, San Antonio, Colorado, Tucson, Las Vegas, Cal Coastal, the Inland Empire, the Bay Area, Central Valley, Sacramento, Portland, Seattle, Utah, Reno, and Boise.

While inventory is limited in each of these markets, we've had to offer mortgage rate buy-downs, base price reductions, closing costs, and other incentives to maintain momentum. The size of the adjustments varied on a community-by-community basis and has often been limited to specific homes each week.

We've been very proactive and worked closely with Lennar Mortgage to create highly attractive, cost-efficient, and timely financing packages that have enabled us to offer attractive purchase prices for our customers. This hands-on coordination between our sales and mortgage teams has enabled us to sell our homes quickly and avoid building up finished inventory.

Before I turn it over to Jon, I'd like to discuss our land light strategy and community count. Much of our balance sheet and inventory management progress was driven by the execution of our land strategy, while simultaneously driving sales, delivery, and managing production.

Quarter after quarter, we have worked with our strategic land partners and land banks to develop relationships for them to purchase land on our behalf and deliver just-in-time finished home sites to our home building machine on a monthly and quarterly basis.

In the second quarter, about 90% of our \$1.2 billion land acquisitions was finished home sites purchased from various land structures. We continue to make significant progress on our land-light strategy. This was evidenced by our second quarter ending years owned supply of home sites improving to 1.7 years from 2.4 years the prior year, and our controlled home site percentage increasing to 70% from 68% for the same time period.

I would like to conclude by discussing community count. Our community count at the end of the second quarter was 1,263 communities, which is up 3% from the prior year period, and we expect to increase our community count in the high single digits by the end of fiscal 2023 from the end of fiscal 2022. As I mentioned last quarter, the bulk of these communities will come online in the fourth quarter. I'd now like to turn it over to Jon.

Jon Jaffe:

Thank you, Rick. As Stuart and Rick discussed, Lennar's operations have continued the steady execution of maintaining our starts and sales pace. Our strategy is to price homes to market so our construction machine can operate smoothly without the disruptions of stopping and restarting.

This strategy enabled us to reduce our direct construction costs as expected, delivering gross margin improvement in the quarter. While we achieved some gross margin benefit in Q2 from cost reductions, a greater amount of cost reductions will impact margins equally in Q3 and Q4 based on the timing of when homes were started.

As noted, our quarterly starts and sales pace were 5.3 homes and 4.8 homes per community, respectively. Utilizing the Lennar Machine, we focused on the orderly selling of homes at the right pace, so homes are sold prior to their completion. This process allowed us to not build up excess finished inventory,

as we ended the second quarter with approximately one inventory home per community, consistent with our Q1 ending inventory level.

Our strategy of maintaining starts also plays a major role in gaining access to the labor we need and is the foundation for our previously stated objectives of lowering construction costs, reducing cycle time, and achieving even flow production.

While Lennar starts were down year-over-year for the first half of '23, industry-wide start levels were down 100% more than Lennar's. We've heard from our trade partners how important it is to them that we have maintained starts in all of our communities and all markets.

Our production-first strategy has had a dramatic effect on Lennar being the builder of choice for trades. At many of our trade partners, Lennar represents over 70% of their business. These trade partners saw little to no decrease in their work, while at the same time, the industry start levels were contracting by 30%. Looking forward, we will continue to increase our starts and expect Q3 and Q4 starts to both be above 2022 levels.

Looking at our second quarter, as expected, our construction costs fell sequentially from Q1 by about 3%. While our Q2 costs were up about 8% on a year-over-year basis, this was down significantly from the 13% year-over-year increase we had in Q1. Again, this is the trajectory of cost reductions we guided to last quarter.

In addition to our trade partners stepping up with cost reductions, we also took our value engineering focus to a new level. While we have always value-engineered our plans, we created a dedicated team as part of our national supply chain group to focus on this area. This team works hand-in-hand with

our divisions, both in the field and the office, to drive cost and constructability efficiencies. Going forward, this team will focus on our core plan strategy. Rick and I were in Houston last week, attending our internal annual national supply chain meeting led by Kemp Gillis. There, we saw firsthand how this team has shifted from fighting the battle of supply chain disruptions, to achieving the needed cost reductions to offset our sales price reductions.

Now, this team is looking ahead and is fully engaged in initiatives that will impact our results in 2024 and beyond. This includes programs to structurally offset future cost increase pressures and to implement new technologies to both make the field process more efficient than ever and transform the way we manage information for the bidding process. We can report that there is a great intensity in this team and more focus on innovation than ever before.

With respect to the supply chain, the second quarter had the least supply chain disruption since 2020. This was due to the combination of a steep decline in industry-wide starts, along with manufacturers operating at much higher capacities for an extended period, augmented by Lennar's supply chain strategies and communication.

The lack of supply chain disruptions helped our continued reduction in supply and cycle time. We saw a modest improvement in our second quarter and expect to see a more meaningful improvement in the back half of the year. For the quarter, cycle time decreased by four days sequentially from Q1.

As we move into our third and fourth quarters, we'll benefit from greater cycle time reductions that are the primary driver for our increased guidance and deliveries for 2023. Additionally, we'll start about 3,500 homes in Q3 that, with reduced cycle time, will allow us to have the appropriate inventory levels to achieve our delivery guidance.

The reduction of cycle time in the back half of the year will also free up cash that is otherwise tied in our inventory, further strengthening our balance sheet. In the second quarter, we made meaningful progress in evolving from the production challenges of the supply chain disruptions toward even flow production.

While there's still meaningful progress to be made in obtaining even flow production from start to finish, I want to take this opportunity to recognize and thank all of our construction and purchasing associates for delivering one of the smoothest quarters of closings.

All of us at Lennar are focused every single day on lowering costs, reducing cycle time, achieving even flow production, enabling improved margins, SG&A efficiencies, a stronger balance sheet, and the delivery of high quality affordable homes. I would now like to turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning, everyone. Stuart, Rick, and Jon have provided a great deal of color regarding our homebuilder performance. So, therefore, as usual, I'm going to spend a few minutes on the results of financial services and reemphasize some of our balance sheet accomplishments, and then provide some high-level thoughts for Q3.

So, starting with financial services, for the second quarter, our financial services team had operating earnings of \$112 million. Looking at the details of the mortgage and title operations, mortgage operating earnings were \$82 million compared to \$74 million in the prior year. The increase in earnings was driven by a higher profit per locked loan due to higher secondary margins, which was partially offset by lower loss volumes.

Title operating earnings were \$33 million compared to \$30 million in the prior year. Title earnings increased primarily as a result of higher volume and a decrease in cost per transaction as the team continues to focus on gaining efficiencies through technology.

These solid results were accomplished as a result of great synergies between our homebuilding and financial services team, as they successfully executed together through this evolving market. They truly operate under the banner of One Lennar.

So, now turning to the balance sheet. There's a constant drumbeat at Lennar to be laser-focused on returns on invested capital and cash flow. This quarter, we were unwavering in our determination to turn our inventory and generate cash by increasing production as we priced homes to market to deliver as many homes as possible.

The drumbeat continues with our determination to preserve cash and increase asset efficiency, with a judicious eye towards land spend. As we noted, we spent approximately \$1.2 billion on land purchases this quarter, of which approximately 90% were finished home sites where vertical construction will soon begin.

The result of these strategies is that we ended the quarter with \$4 billion of cash and no borrowings on our \$2.6 billion revolving credit facility. This provided a total of \$6.6 billion of homebuilding liquidity. Given our continued focus on balance sheet efficiency, we enhanced our goal of becoming land lighter.

As we noted, our years owned improved to 1.7 years from 2.4 years in the

prior year, and our home sites controlled increased to 70% from 68% in the prior year. At quarter end, we owned 117,000 home sites and controlled 270,000 home sites for a total of 387,000 home sites.

We believe this portfolio of home sites provides us with a strong competitive position to continue to grow market share in a capital-efficient way. During the quarter, we started about 19,700 homes, and ended the quarter with approximately 37,300 total homes in inventory, of which about 1,300 were completed unsold as we successfully managed our finished inventory levels.

Consistent with our commitment to strategic capital allocation, we repurchased 2 million shares, totaling \$208 million, and we paid dividends totaling \$110 million. In our continued effort to further strengthen our balance sheet by reducing our debt balances, as we noted, we repurchased \$158 million aggregate principal amount of senior notes due in fiscal 2024 at prices below par.

We've repaid about \$5.6 billion of senior notes over the last several years, which equates to approximately \$300 million of interest savings. Combined with strong earnings, our homebuilding debt-to-total capital ratio was 13.3% at quarter-end, our lowest ever, which is an improvement from 17.7% in the prior year.

And then just a few final points on our balance sheet. We remain committed to increasing returns. Our shareholders' equity increased to \$25 billion. Our book value per share increased to \$87. Our return on inventory was 28%, and our return on equity was 18%.

So, in summary, the strength of our balance sheet, strong liquidity, and low leverage provides us with significant confidence and financial flexibility as we

move through 2023. So, with that brief overview, I'd like to turn to our thoughts for the third quarter and provide some ranges of each of the components of earnings, as well as a few data points for fiscal 2023.

Starting with new orders, we expect Q3 new orders to be in the range of 18,000 to 19,000 homes as we remain focused on achieving our production goals. We expect our Q3 ending community count to be flat with Q2 ending count, though, as Rick indicated, we expect to see high single-digit growth year-over-year by the end of our fiscal year on November 30th.

We anticipate our Q3 deliveries to be in the range of 17,750 to 18,250, and we're raising our delivery expectations for the full year to 68,000 to 70,000 homes, which is an increase from the previous guidance of 62,000 to 66,000. Our Q3 average sales price should be consistent with Q2 as we continue to be focused on delivering affordable homes.

We expect Q3 gross margin to be in the range of 23.5% to 24% as we see continued impact of our cost savings initiatives, with some offset for higher land costs as we continue to purchase a greater number of finished homesites. I'll note that, as is historically the case, we expect our Q4 gross margin to be sequentially higher than Q3, though it is difficult to provide more direction at this time.

We expect our Q3 SG&A to be in the range of 6.7% to 6.8%, and for the combined homebuilding, joint venture, land sales and other categories, we expect to have earnings of about \$25 million. We anticipate our financial services earnings for Q3 will be in the range of \$100 million to \$105 million.

We expect a loss of about \$10 million from our multifamily business, and a loss of approximately \$20 million for the Lennar Other category. Remember

that the Lennar Other estimate does not include any potential mark-to-market adjustments on our technology investments since that adjustment will be determined by their stock prices at the end of our quarter.

We expect our Q3 corporate G&A to be about 1.4% to 1.5% of total revenue, and our charitable foundation contribution will be based on \$1,000 per home delivered. We expect our tax rate to be about 24.7%, and the weighted average share count should be approximately 284 million shares.

So, when you pull all that together, these estimates should produce an EPS range of approximately \$3.35 to \$3.60 per share for the third quarter. And with that, let's turn it over to the operator for questions.

Coordinator: Thank you. We will now begin the question-and-answer session of today's conference. We ask that you limit your questions to one question and one follow-up question until all questions have been answered. If you would like to ask a question, please unmute your phone, press Star 1, and record your name clearly when prompted. If you need to withdraw your question, you may use Star 2. Again, that is Star 1 to ask a question. And our first question comes from Kenneth Zener from Seaport Research Partners. Please go ahead.

Kenneth Zener: Good morning, everybody.

Stuart Miller: Good morning, Ken.

Kenneth Zener: As I understand the benefit of your even flow process, you're able to decapitalize your balance sheet, lifting inventory turns, which is consistent with our inventory turns equals alpha thesis. So, my first question is, what do you consider to be the most efficient or targeted start pace long-term, given

starts equal orders, relative to 2Q's 5.3 pace that you set your margin shock absorber to, in your words?

Stuart Miller: Let me start by saying, Ken, that, you know, it's a combination of, you know, even flow is a combination of going asset-light, but it's also a very focused program on our building partner relationships, enabling consistency and predictability relative to our trade partners to enable us and them to become the most efficient versions of ourselves.

So, your question is, what is that start pace? And the start pace is a program that we think about putting in place as we evolve our understanding of performing and underperforming communities, their relationship to sales and closings, and a lot of this is data-driven and evolving.

So, there isn't a number that we can give you. It's more a concept that we are solving to and iterating to and using a lot of data feedback loops to come to numbers that make sense across a broad spectrum of 40 divisions, 40 geographies all working in sync. Jon?

Jon Jaffe: I would also add that it's very dependent upon community specifics and to market specifics in terms of what's the right pace. So, it might be a very different pace for Dallas than it is, say, for Seattle, and we very carefully measure that balance market by market so that we can match a sales pace and start pace according to market demand, land availability, labor availability.

Kenneth Zener: I appreciate that there. It sounds like there's several layers to peel. Second ...

Stuart Miller: Yes, there are. And by the way, let me just say, it's handled with an every other day meeting and not just data feedback loops, but interpersonal feedback loops that are constantly in motion. But go ahead.

Kenneth Zener: No, no, it sounds like you have to be actually responsive to the trade in part. So, second, considering your non-WIP inventory, owned lots fell about 20% year-over-year to 1.7 years, very impressive. And Diane, I'm very glad that you report and adjust out inventory units. So, my question is, to what level can owned lots go to in your even flow framework, given Rick's 90% finished lot purchase comment, if I heard that correct?

And are you willing to kind of offer a goalpost for FY '24, perhaps, implied cash flows, given you've been dropping almost 0.2 years owned sequentially? It's very impressive. Thank you very much.

Stuart Miller: Sure, thank you. And Rick, why don't you go ahead and take that question.

Rick Beckwitt: We haven't put a target out for 2024 yet. All I know is that Stuart mentioned in his comments, Jon, myself, and Stuart are laser focused on our asset-light balance sheet and continuing to improve the percentage of home sites we control versus owned. We've developed some incredible relationships with our land partners and with our land banks that really have facilitated us to improve on these metrics going forward.

Diane Bessette: And I just might add, while we're not there yet, our goal as we continue to be asset-lighter and have less years owned, our goal would be to have our net income equaling our cash flow. We're not there yet, but we're working towards just replacing what we're delivering. So, that's the longer term goal.

Stuart Miller: You know, and let me just say that, look, we set out a goal in terms of becoming an asset-light model. We report outwardly to all of you our progress along the way. But inwardly and in the background, we are working on not

just relationships, but structural programs to enhance the ability to manage an asset-light model and to continue to improve it.

Where we will actually end up, we're not going to lay out timeframes and numbers, but you can expect that there's going to be continuous improvement in the space.

Kenneth Zener: Thank you.

Stuart Miller: Sure. Next question?

Coordinator: Next, we'll go to the line of Susan Maklari from Goldman Sachs. Please go ahead.

Susan Maklari: Thank you. Good morning, everyone.

Stuart Miller: Good morning.

Susan Maklari: My first question is, you know, it sounds like the supply chain is slowly improving, and you are seeing some healing happening there, but it does feel like it's in general still fairly fragile. Are there lessons that you learned in the last couple of years that you can apply as the starts pace does pick up from here so that you can make sure that you're not running into some of those same challenges that you face and therefore maintaining those inventory turns, maintaining that cash generation that you're looking to do?

Stuart Miller: Jon, why don't you take that?

Jon Jaffe: Susan, first, let me say that from Lennar's perspective, it really feels like the supply chain disruptions are behind us, with a few minor exceptions. And

perhaps that's, as I noted in my remarks, due to our size and scale, working with manufacturers that are running at an extended period of time of full capacity. But there are definitely lessons learned.

As we had to scramble through the supply chain disruptions, we learned how to work differently with our manufacturers, providing them different types of forecasts, more visibility into what's coming, as well as how we can create local distribution for them that really cuts down the lead times.

And so, there's no question there's lessons learned, and that really is reflective of my comment of the intense focus on the look forward that we hope is going to drive improved results in '24 and beyond.

Stuart Miller: I feel that your question really is, have we altered some of the landscapes in the way that we stockpile parts and programs? I think that there are definitely things that we have seen and learned as we've gone through the challenges of the supply chain.

I think that Rick and Jon together have been working with our trade partners to think about how we prevent those same kind of logjams or bottlenecks from taking place again, and that's an evolving picture. Can we point to specifics right now? Probably not as much as you'd like us to, but it is something that we're focused on.

Susan Maklari: Okay, that's very helpful color. And then I guess, you know, staying on the topic of cash generation, when you think about Diane's comments to Ken's question around free cash flow conversion, it implies that you're going to have really some very impressive levels of cash.

How do you think about the allocation of that capital? You bought back some

stock this quarter. You paid down debt, but long term, how are you thinking about the shareholder return piece of that and where that sort of fits relative to where we are today?

Stuart Miller: Yes, great question. We're very focused on that. As you can imagine, we do see increased cash flow accumulating, and Diane won't let me tell you to what extent, but it's greater than where we are right now, and that sets up opportunity. Capital allocation has become a very strategic part of our thinking process.

We consider regularly the relationship between debt retirement and stock buyback. For now, we are taking an opportunistic view of stock buyback in that we have basically been focused on a steady state level of repurchase, but that could grow over time as we look opportunistically.

And we are also looking at other strategic possibilities that we'll reveal over time. We're not asleep at the switch. We recognize that the accumulation of cash is a bit unusual within the industry. We're not uncomfortable with it, and we're being very thoughtful about it. That will evolve over time.

Susan Maklari: Okay. Thank you for all the color, and good luck.

Stuart Miller: Okay, thank you.

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

Stephen Kim: Yes, thanks very much, guys. My first question is going to also focus a little bit on the balance sheet side. I guess specifically, in the wake of the regional bank stress, we're hearing that there's this window of opportunity that's opening up to maybe acquire some attractively positioned lots or even

operations from some of the smaller, less well-capitalized builders, allowing builders such as yourself with a big war chest to accelerate market share gains.

And I'm curious, could you weigh in on that? Are you seeing that as well? And if you are, can you take advantage of these kinds of opportunities, these emerging opportunities, while maintaining your asset-light program by utilizing your existing off-balance sheet structures? Or is it reasonable to think your own lot count might move up a little bit before moving down again later? Or that you would need to create some other structures in order to accommodate it? If you can just give us some sense of how you're thinking about that relative to this window of opportunity that we're hearing about.

Stuart Miller: So, Steve, these are focal points that are well right in the middle of our radar screen. I think that we're a bit early stage in some of the questions and considerations. I think that some of these questions are more applicable immediately in the land development side of the business, where land developers who are not part of Lennar, are definitely feeling some stress.

I think that the capital accumulation that we have in cash on our books is a strategic opportunity for us to participate in making sure that there is even flow by some of the participants, either through partnership or other structures. In terms of some of the homebuilders, I think that there is still capital available for those that are operating in the production world.

Whether that changes over time, we certainly have a front seat at the table in terms of being able to act where the right opportunities fit. We've done it before. We're not afraid to go forward. Your question about off-balance sheet structures is a really important one, because many know that we've spent an awful lot of time and are spending a lot of time on creating systemic solutions for what I think of as kind of an opco-propco type configuration.

There is no question that the structures that we have worked on can be constructive relative to some of the dysfunction that is in the market right now, and we're working in those directions as well. So, I guess the best answer to your question is a broad one, and that is, all of the above, it's all on the table.

We are uniquely positioned to be able to participate, and all of it will be focused on building production trajectory, production consistency in growing the core business, the manufacturing homebuilding business. As we go forward, we have the latitude of balance sheet to be able to do that in a lot of different ways.

Stephen Kim: That's great. Yes, it's going to be interesting to watch. With respect to your income statement, you gave a 3Q order guide, which we appreciate, and it suggests an absorption rate, sales per community per month, above what you achieved in the heyday of 2021 or the post-pandemic period, it appears.

I'm curious, are absorption rates benefiting from a sort of mix shift of community types such as maybe more communities with attached product or larger communities or something like that? And if so, if there is this kind of mix shift that's happening behind the scenes, can you give us a sense for how much further this mix shift can go in a positive direction?

Stuart Miller: Rick, why don't you take that and then Jon.

Rick Beckwitt: So, I would tell you that the pace that we're looking at going forward, particularly with regard to Q3, is really a reflection of the strategy that we all have implemented with regard to starts, and as we said, we're going to run a production machine. Jon, Stuart, and I, have really laid out, worked with our

regional teams and division teams to develop that community by community start pace.

We are benefiting a bit by some lower entry level communities in a few markets, but over and above what it really gets down to is a very disciplined, carefully managed starts program, and that's why we're comfortable in giving you the visibility that we've given.

Jon Jaffe: What I would add, as Rick is saying, it is really paying attention closely to matching sales to our start pace so we don't build up inventory, and it's not so much going to attached product, it's going to markets that allow us to have a higher sales pace because we're at a lower price point.

Many of the Texas markets are a great example of that. We're really able to go down the price curve. But we're doing that in all of our markets, and that allows us to incrementally, quarter by quarter, to increase our sales pace.

Stephen Kim: And starts pace. Got you. Thanks so much, guys. Appreciate it.

Stuart Miller: Thank you.

Coordinator: Thank you. And our next call comes from Truman Patterson from Wolfe Research. Please go ahead.

Stuart Miller: Good morning.

Truman Patterson: Hey, good afternoon. Wanted to follow up on Steve's question on the third quarter orders guide that suggests orders atypically increase sequentially when they normally decline. A few ways of looking at this, clearly your starts pace, but underlying demand is remaining healthy and atypically strengthening

sequentially, or that solid starts pace that you talked about, available spec inventory is taking market share from traditional build-to-order builders, and/or private builder spec capabilities are more limited today from bank tightening. I'm just hoping you all can help us think through this a little bit further.

Stuart Miller: I'm going to let Jon answer that, but before I do, I want to correct you, Truman. I'm in Dallas, so it is still morning here. So, go ahead, Jon.

Jon Jaffe: Hey, Truman. So, if you look at our strategy, we really accelerated our starts in Q2, recognizing the market opportunity where the industry was pulling back, and given that we didn't have an inventory buildup because of our strategy, we felt there was an opportunity to be more aggressive with starts and take advantage of the lack of resale inventory, as well as the lack of new sale inventory.

So, we feel comfortable that we'll be able to sell at an accelerated pace because we'll have the inventory when the marketplace in general isn't providing that inventory with a backdrop of really healthy demand for housing. So, that gives us confidence that we'll be able to continue to accelerate our sales pace matching that start pace.

Truman Patterson: Okay, perfect. And then it seems like you all are getting the cost savings that you spoke about previously, but wanted to follow up on the comment, you know, further improvement in gross margin beyond the third quarter, depending on market conditions.

But if we assume that, you know, conditions are just stable from here, would fourth quarter gross margins continue to increase just outside of normal, you know, field expense leverage on deliveries? You know, said another way,

should you see incremental cost savings sequentially into the fourth quarter while, you know, maybe some modest pricing benefit on an apples-to-apples basis flows through?

Stuart Miller: Yes, so we decidedly didn't give any broader thoughts on margin for our fourth quarter, recognizing that, number one, we're feeling some leveling, so we're giving you some guidance for our third quarter and some, you know, thoughts on production for year-end.

I think that the market still has enough proving to do, and it's moving around enough to where we really don't want to go beyond what we've said, and that is depending on market conditions, and we're going to let them evolve. Certainly, yesterday with the Fed chair pausing, but maybe it's not even a pause, I think there's a lot of wait and see in terms of where interest rates go and where the market goes and talks of recession and jobs.

We're going to wait and see a little bit on that, but as we sit right now, what we've said is that we see our margins continuing to improve as we go through the year. We're not going to give a boundary as to what that actually means. Let's give it some time.

Truman Patterson: If I could just follow up quickly.

Stuart Miller: Sure.

Truman Patterson: The cost savings, should they just build into the fourth quarter, the cost savings that you've spoken about previously?

Stuart Miller: You know, I think again, this is something that we're going to wait and see a little bit, see how demand patterns continue forward. But our constructive

relationship with our trade partners really enables us to maximize - what we have found in this past year is that commitment to the consistency and the predictability of volume is really working to everybody's benefit.

And I would say that again, not to get too far over our skis, as we look ahead, we continue to see consistency in the trajectory, but we will have to wait and see how they actually flow through.

Truman Patterson: Perfect. I think we're seeing it in the results and good luck in the coming quarters.

Stuart Miller: Thank you.

Coordinator: Thank you. Our next question comes from Alan Ratner from Zelman & Associates. Please go ahead.

Alan Ratner: Hey guys, good morning.

Stuart Miller: Good morning.

Alan Ratner: Good afternoon, wherever anybody is today. Nice quarter.

Stuart Miller: We're split.

Alan Ratner: Exactly. I do have a question on some of the more near-term demand drivers, but Stuart, you did kind of bring up AI in your prepared remarks, and I know you guys have always been at the forefront of innovation in housing.

And frankly, you don't hear AI mentioned a lot when it comes to housing. So, I'm just curious if you're able to share any specifics in terms of where you see

AI impacting your business going forward and any steps the company has taken to be at the forefront of that.

Stuart Miller: Yes. So, Alan, I wanted to be very careful with the use of that catchphrase that seems to be incendiary relative to stock prices when people are using them. I don't want to get out over our skis, but I did want to daylight that the machine that we described that we are engaging, is really a data-driven approach to so many components of our business.

And I think that we've done a tremendous amount of work. If you look at our digital marketing program, you look at our dynamic pricing model, both of them we've talked about for many, many quarters, for years, and these are data-driven approaches to the way that we're engaging the customer acquisition componentry of our business.

It's a very integrated set of systems that is dependent on feedback loops, and any time that you find a process that becomes data-driven and the data improves to the point that it's actually relevant, at some point there are larger learning models that can be helpful in enhancing productivity.

These are the areas where we're leaning in. I mentioned that we brought on a strategic Chief Technology Officer in Scott Spradley, and all of this is a coordinated program of taking steps at a time to improve the ingestion of data, to use the data more constructively, and then to bring it to its next level where we're actually driving productivity gains within our business.

We'll have more to report. In the meantime, if you find yourself in Miami, come on by, we'll show you what we mean. We have visualized it, and you can understand what we're doing.

Alan Ratner: Great. Looking forward to checking that out, and I appreciate the additional information there. Second, on the pricing side, would love to just drill in there a little bit. So, volume has continued to come in ahead of initial expectations. Your closing guide for the year now is about 10% above where it was six months ago. You're expecting orders to be up sequentially, which understood is a function of your start pace, but you're probably not starting homes unless you think there's demand for them. Yet when I hear your pricing commentary, it seems a bit more muted than I would expect, frankly, as far as more stability, as opposed to maybe some pricing power returning to the market.

I know you've always been very articulate about your belief in the housing shortage at affordable prices, which I think is the key distinction there, and I'm curious if your decision at this juncture to not be more aggressive raising price, is a function of your views on perhaps if prices were to go up or reaccelerate, that that would kind of take demand out of the market, or is it just more of a conservatism stance around wanting to take market share in this still kind of choppy environment right now?

Stuart Miller: Listen, that's a great question. I think we'll all speak to that. Let me start by saying we've been very thoughtful about this, and we're thoughtful about it on a day-to-day basis. We view the fact that at the affordable level, as you properly point out, there is a housing shortage.

You know, you hear it when you speak to mayors and governors across the country, you don't hear it as a national expression as much. But at the local levels, the need for workforce housing is a dominant need, and it's become a social imperative.

So, thinking about where we fit into the equation, and I don't want to, you know, make too much of this, but we have focused on saying, look, there's a

void that needs to be filled. There's a need and an appetite, and what we're going to do is, instead of driving price, we are going to drive pace and hold price.

And that relationship between price and pace is something that Jon, Rick, myself, Diane, we talk about it all the time. It's the whole focal point of the machine that we talk about, and at the core, we're recognizing that from the national landscape and the local landscapes, they need the volume, the supply is constrained, and therefore we're focusing more on pace than we are on price, and we're focusing on consistency and predictability of pace so that we can rationalize cost at the same time. Rick, Jon, whoever.

Rick Beckwitt: Stuart, I think you answered it well. It's really that consistency and cadence between starts and sales that really keeps our machine going and makes us incredibly efficient. We're very focused on keeping our products affordable.

In many cases, that's working hand in hand with our mortgage company, Lennar Mortgage, in determining what that mortgage payment needs to be in order for us to transact. So, it's a very careful and methodical approach, and if prices move, they move, but we're going to start and deliver the number of homes that we've targeted on a community-by-community basis.

Jon Jaffe: I would only add that if you think about our core strategy of being a production-first builder, we have consciously chosen not to limit production and drive pricing to maximize margins. We think we are a better company by being production-first and managing sales pace to start pace, because it drives better returns, better cash flow that drives better returns, and that consistency that we all have spoken about really makes us a much more solid company. So, it's a strategic decision that really is reflected in the way that you see our pricing.

Alan Ratner: Great. Thanks a lot, guys.

Stuart Miller: Why don't we go ahead and take one more question?

Coordinator: Absolutely. Our final question comes from Mike Rehaut from JP Morgan.
Please go ahead.

Mike Rehaut: Hi, thanks. Appreciate you getting me in before the end here. I wanted to just circle back if I could on the idea around 3Q orders. I think it's an important distinction in terms of your approach and maybe how that differentiates versus the market, and really what I'm trying to get at is, you know, you're talking about obviously the orders being driven by your own starts pace and strategy.

I'm curious if, you know, in effect, because we've also heard in the last month, maybe month and a half, of an expectation by a lot of builders to return to normal seasonality. Historically your own sales pace has been down about 10% sequentially, 3Q versus 2Q. So, do you feel that at this point in the game, and you kind of highlighted the first few weeks of June, do you feel that this approach that you're taking is in fact resulting in market share gains?

In other words, that what you've seen over the last few weeks, maybe month, we've heard a little bit of sequential softening month-to-month, which is typical. So, I'm just trying to get a sense of, you know, when you talk about your 3Q outlook and your approach to starts, if this is in fact kind of an active, you know, kind of gain of share relative to what you're seeing across the broader marketplace.

Stuart Miller: Yes. So, I think Jon laid this out a few minutes ago. And what we saw was that the appetite of the market favored ready-to-go inventory, shorter cycle

closings, and that many were actually pulling back in that regard. And there are really multiple ways to think about this.

Number one, the existing home market, which is generally a supplier of short-cycle ready-to-go inventory is somewhat constrained in that regard. Number two, a number of the builders in the context of the sharp increase in interest rates pulled back.

The banking questions have perhaps limited part of the productive machine of the new home market to actually build inventory. We felt that there was an opportunity for us to fill a void.

So, I guess the answer to your question, Mike, is, I think that we do see an opportunity to pick up some of the market share where the market is not positioned to have that ready-to-go production or inventory in place available to the market.

And we'll have to wait and see in the third quarter if we're right or not, but I think we feel pretty confident that we know where the market is, we know where the strength is, and that's what we've solved for.

Jon Jaffe: I would only add one point, Stuart. I think you covered it well, and that is, remember, Mike, we have a lever that the resale market doesn't have. It starts with the fact that there's record low inventory in resale, as you know, but we can buy down mortgage rates where the resale market can't. So, if we need to accelerate our sales pace when the market is giving us, we have that lever that we can pull that's at our disposal.

Mike Rehaut: Right. No, no, that all makes sense. I appreciate that. I guess secondly, and I apologize if I missed this from earlier, but I would love to get a sense of

current incentives and discounts as a percent of sales. You kind of highlighted over again or a few times during this call the mortgage rate buy-downs.

But just holistically, when you look at either buy-downs or other types of incentives or discounts, where are you today versus a quarter ago? And how you're kind of expecting perhaps that to trend, especially if ASPs are kind of steady.

And you've kind of alluded to it with your opening remarks, perhaps some consumers having stretched finances, and perhaps the rate buy-downs are part of a solve there, but just trying to get a sense maybe how incentives and discounts on a total basis have trended so far this year and how you're thinking about it going forward.

Stuart Miller: Okay. So, Diane, why don't you go ahead and give some color on that, and we'll fill in?

Diane Bessette: Yes, Mike, so if you look at incentives in what we delivered in the first quarter, it was 10.2%, and that went down to 8.4%. So, I think you're seeing a nice sequential decline, and all of that is just tied to being able to make homes affordable for people.

So, it all ties into the narrative that Stuart, Jon, and Rick just went through. As we think about the rest of the year, again, that's kind of our lever, right, it's adjusting prices, and it's using incentives to make those homes affordable. So, we'll see how that goes. We haven't given guidance, but we definitely saw a downward trend from Q1 to Q2.

Stuart Miller: All right, why don't we go ahead and leave it there? Mike, thank you for your questions. And I want to thank everybody for joining us. We're pretty

enthusiastic about how our business is navigating sometimes turbulent waters. And we look forward to reporting in our third quarter how things have continued and progressed. Thank you for joining.

Coordinator: That concludes today's conference. Thank you all for participating. You may now disconnect your line, and please enjoy the rest of your day.

END