

LENNAR CORP
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11:00 am ET

Coordinator: Welcome to Lennar's third quarter earnings conference call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time. I will now turn the call over to David Collins for the reading of the forward-looking statement.

David Collins: Thank you, and good morning, everyone. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial condition, results of operations, cash flows, strategies, and prospects. Forward-looking statements represent only Lennar's estimates on the date of this conference call, and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in our earnings release and our SEC filings, including those under

the caption Risk Factors contained in Lennar's annual report on Form 10-K, most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

Coordinator: I would now like to introduce your host, Mr. Stuart Miller, Executive Chairman. Sir, you may begin.

Stuart Miller: Very good. Thank you, and good morning, everyone, and thanks for joining us this morning. Pardon me, I've got a bit of a cold, so you'll hear that in my voice, might cough a little. So, today, I'm in Miami together with Jon Jaffe, our Co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, and Bruce Gross, our CEO of Lennar Financial Services. We're all here in Miami together.

As usual, I'm going to give a macro and strategic overview of the company and our performance. After my introductory remarks, Jon is going to give some color on overall market conditions. He's going to comment on our land position, and then he's going to give an operational overview, updating supply chain, cycle time, and construction costs.

And as usual, Diane is going to give a detailed financial highlight, along with some limited guidance for the fourth quarter and year-end 2023 to assist in forward-thinking and modeling. And then, we'll answer as many questions as we can, and please limit yourself to one question and one follow-up as usual.

Now, as you all know, since our last earnings call, Rick Beckwitt retired effective the end of the third quarter. Rick began his 17 years with Lennar at the very beginning of the Great Recession, as it's called, in 2006. He rejoined

an industry that was operating at the top of its game and was prepared to reach for even higher heights.

Rick found himself, however, in an industry that was caught in a changing and devolving economic environment that altered expectations and aspirations. Rick jumped in at Lennar and treated problems as his own, side-by-side with the rest of the team, and over the next years, he worked as part of the team, fixing what was broken and righting what was upside down.

He became fast partners with me and with Jon Jaffe, and together we navigated difficult times. We positioned Lennar for future success and began a move to reach for new heights, and we achieved the extraordinary. All of us at Lennar appreciate Rick's service and partnership. We all benefited from his experience in the industry, his natural intellect, and the camaraderie that we all shared.

We all reach that inevitable moment of retirement, but it is uncommon for that moment to coincide with the timing where the company is well prepared as well. This is that rare moment. As a team of three, Rick, Jon, and I, worked together, and as partners with the rest of Lennar operating leaders, to lift and position Lennar for leadership in the industry. Lennar today is both organized and positioned financially to move forward with a smaller organization structure and more efficient overhead.

Rick completed 17 years of service and retired as Co-CEO and President. Rick, I know you're out there. I know you're on the call and listening, because I know you just can't help yourself. I hope you're preparing to sharpen your golf game or building some wood cabinet in Maine. Rest assured that all is well and stable, and we're executing as expected here at Lennar.

So, now, let me turn to the business at hand and talk about the business of Lennar and how we are performing, as well as how we are positioned for our future. So let me begin by saying that we're pleased to report that the Lennar team has remained focused on balancing and maintaining production and sales pace, reducing cycle time and increasing cash flow, improving inventory turn and driving strong bottom line, and we have again produced a strong and consistent result for the quarter.

Our third quarter results reflect consistent adherence to the core operating strategies that we have detailed in prior quarters against the backdrop of an evolving macroeconomic environment and a constructively configured housing landscape. As I noted in our press release, the macroeconomic environment is constructive relative to the homebuilding market, and it has certainly stabilized relative to the aggressive interest rate climb that defined the environment last year.

It seems that we have entered a phase of more measured adjustments in order to curtail inflation while the Fed shrinks its balance sheet by approximately \$100 billion per month and engages other mechanisms to reduce capital in the market. Over time, these steps will hopefully bring inflation to desired levels.

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 a more orderly fashion. And while the Fed is working to reduce overall capital levels, the elimination of sharp turns and aggressive moves is generally constructed to consumers finding access to enough capital for their necessities, and housing is a necessity.

Against that backdrop, the current housing market is generally defined by a very short supply of affordable product and strong demand for affordable

product. The consumers have now adjusted to and accepted "higher for longer" interest rates, and are willing to purchase or rent what they can afford.

The consumer is employed and is confident they will remain employed and likely with a higher wage. Higher rates, with needs driving demand and housing in short supply, is the new normal, and the consumer understands that the cost of housing will likely continue to be higher.

Generally speaking, strong demand for housing has returned within the limits of affordability. The market has attracted consumers by adjusting prices, increasing incentives, including rate buy-downs, and driving down production costs in order to enable consumers to afford needed shelter, and customers have responded.

The net price of homes has moderated, and the net average sales prices have stabilized. We have seen in our numbers that net average sales prices on home closings have dropped approximately 10% or 11% from the peak of approximately \$500,000 in 2022 to approximately \$448,000 now, and we expect that pricing to remain fairly constant.

Concurrently, multifamily rental rates have also moderated. Two years of 500,000 apartment starts per year are now being delivered and creating supply increases, and in some geographies, excess supply, which are moderating rental rates.

While we expect a sharp drop-off in new starts this year, we don't expect that rents will drop too significantly, but they are not likely to grow very much either in the foreseeable future. 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 stabilized, as cost reductions in value engineering provide an offset to the price reductions.

Additionally, we believe that the new supply of homes will be limited, as developed land is scarce and increasingly more expensive to develop. This will continue to limit available inventory and maintain supply-demand imbalance.

Bottom line, the economy is constructive, housing supply is short and limited, demand has returned to affordable offerings, and builders will need to continue to produce more homes to fill the void.

So against that backdrop, the Lennar team has remained focused on our core strategies that are driving our company forward. First, we've continued to remain production and volume-focused, with a primary focus on driving production efficiency, driving higher inventory turn, driving higher cash flow and strong margins, and while focusing on return on assets. At the same time, we maintain a carefully matched sales pace using our digital marketing and dynamic pricing machine to keep production pace and sales pace closely matched.

In our third quarter, we started 18,675 homes, while we sold 19,666 homes, and we delivered 18,559 homes, or an 8% increase over last year. Our starts pace for the quarter was 4.9 homes per community per month, while our sales pace was 5.2 homes per community per month.

While these numbers don't fit perfectly together, they are getting closer every quarter, and we're operating our platform more tightly than ever and by careful design.

Our digital marketing and dynamic pricing machine helped drive our net sales pace to exceed our available starts, enabling us to backfill cancellations, which ran last quarter at a 3.3% rate, and we maintained a very controlled inventory level as a result, and that is of just over one home per community. This has driven the confidence to continue a consistent starts pace that enables operating efficiency.

With this focus, we've continued to sell homes at current market prices, improving margin as conditions improve, and reducing margins when necessary. Accordingly, our margins bottomed in the first quarter of this year at 21.2%, and as the market has improved, margins have recovered to now 24.4% this quarter, and we're expecting flat to modest improvement next quarter, with a range of 24.4% to 24.6%. Of course, through all phases of the market cycle, we are consistently producing very strong cash flow.

These elements of execution are working extremely well and improving, and accordingly, we've gained confidence in our ability to now guide to increased volume for the year of almost 71,000 and almost 72,000 deliveries with strong margins and strong cash flow.

Next strategy, we've continued to work with our trade partners to maintain our now properly configured cost structure relative to the current sale price environment, while we continue to drive cycle time to pre-supply chain crisis levels. Jon will cover these production components in more detail shortly, but Jon and our purchasing team have been laser-focused across the platform.

We were quick to reduce costs as the market corrected, and we have held costs down as the market has stabilized, and considerable success in this area is reflected in our margin improvement and as well as in the number of homes that were construction-ready and available for delivery this quarter.

Our third strategy has been to sharpen our attention on land and land acquisitions, as well as land and land bank strategies. While Jon will give additional detail on land, this has been a specific concentrated focus across the platform in every division to refine our approach to reducing land exposure and continuing to become increasingly asset-light.

We've made some significant progress in reducing land held on balance sheet, with now just 1.5 years owned and 73% of our land controlled. We have made exceptional progress in creating a materially more efficient manufacturing platform. Accordingly, our land programs and partners have become strategic partners in maintaining volume and increasing market share while helping to rationalize costs.

Our fourth core focus and strategy has been to manage our operating costs, or our SG&A, so that even at lower gross margins, we will continue to 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, and many of those changes, although not all, are hardwired into permanent efficiencies in operations, there are some components that have grown, as we've seen this quarter as we have had to address interest rate movements and sometimes more difficult market conditions. Examples are realtor costs and marketing expenses, which have had to expand as customer acquisition and engagement have become sometimes more challenging. Both of these areas saw increases in our third quarter numbers.

Nevertheless, we were able to achieve a very respectable 7% SG&A this quarter, which is higher than last quarter's 6.7%, but it did nevertheless result in a strong net margin of 17.4%, which is up from 15.8% last quarter.

We've continued to streamline our business even as we grow so that we can accomplish more with less. And as an example, many have asked if we'll need to replace Rick as he is now retired. And the answer simply is no, because we've built systems that are now in place that enable us to operate in ways today that would not have worked in past years.

Our fifth playbook strategy was to maintain tight inventory control in order to control our asset base. 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 products and plans that are not selling as expected.

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, higher inventory turns, and higher returns on assets, and we're focused on this part of the business every day. Both land and home inventory control is the mission control of our overall business.

And in our third quarter numbers, you can see continuing quarterly improvement in our now 11.5% debt-to-total capitalization, down from 13.3% last quarter, and down from 15% last year at this time. Additionally, with our \$3.9 billion cash position, our net debt-to-total capital is actually negative, and our balance sheet is being carefully managed to provide extraordinary liquidity and flexibility.

These elements of the business continue to be managed through an every other day management meeting where numbers are reviewed at the regional and divisional levels by the entire management team. Sales, starts, and closings are maintained in controlled, balanced sync, 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 third quarter results, not only did we accomplish excellent cash flow and bottom-line results, earning over \$1.1 billion or \$3.87 per share, but we used cash to repurchase \$366 million of stock, and we also repaid approximately \$475 million of senior debt. We expect to continue to generate considerable earnings and cash flow, and accordingly, we'll continue to retire debt and purchase stock opportunistically.

Let me say in conclusion that our third quarter of 2023 has been another excellent quarter for Lennar. We saw overall market conditions remain constructive for our industry, as aggressive interest rate moves subsided and the new normal defined expectations. Additionally, the housing market has continued to be defined by housing shortage and generally strong demand that is prepared to transact.

Accordingly, we executed on our core strategies against the economic and industry backdrop. Given consistent execution, we are extremely well positioned for continued success as strong demand for affordable offerings continues to exceed the current short supply. We expect to finish out this year strong, and we also expect to enter 2024 with a 10% initial growth expectation, and we're very well positioned to achieve that level.

We engaged the changing tides of the past year with a consistent strategy that enabled certainty of execution throughout our company. Our strategy is well known and understood throughout our division offices, and we have a simple and consistent model of execution. We focus on maintaining volume, while we price our homes to drive matched pace. We work with our trade base to manage cost and efficiencies and adjust our product offering to meet the market. We manage both land and our production inventories to drive efficiency, cash flow, and returns on our asset base. We focus on our land-light model in order to drive balance sheet efficiency. 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 ensures consistent success for the foreseeable future. As we look ahead to a successful fourth quarter and year-end 2023 and into 2024, we are positioned for and expect to see much of the same as we go forward. We are confident that we'll continue to grow, perform, and drive Lennar to new levels of performance.

Thank you, and with that, let me turn it over to Jon.

Jon Jaffe: Thanks, Stuart. Good morning, everyone. As Stuart noted, the housing market is healthy overall, but supply remains tight, demand remains strong, and buyers have become more comfortable with higher mortgage rates. In our third quarter, we continued to offer a combination of attractive pricing and compelling mortgage rate programs to capture that demand.

Our price-to-market strategy reflects our balance sheet-first focus where we can maintain starts and sales, increase market share, generate cash flow, and keep our homebuilding machine going. The execution of our pricing strategy is based on the strength of the individual market, matched against the level of

production we have in that market, is done on a community-by-community basis.

In the current environment, all of our markets are benefiting from greater demand than supply. And while some markets, like in Florida or the Carolinas, are stronger than others, we were able to achieve our desired sales pace in all our markets. In our third quarter, the majority of our markets had a higher sales pace in Q3 compared to Q2, and also just higher incentives in Q3, along with an increase in marketing and broker spend.

In all markets, our homebuilding teams worked closely with Lennar mortgage to find the right solution for each buyer to help fulfill their desire to purchase. Our sales strategy of finding market-clearing pricing is designed to match the pace of homes under construction, which in turn gives us confidence to maintain a consistent pace of starts. This consistent start pace is the foundation for our production-first strategy.

As we continuously improve the way we execute this game plan, we have grown our trade base, maintained lower construction costs, and reduced cycle time. These improvements enabled our third quarter starts to increase 17% from the prior year.

Continued focus on our production-first strategy has enhanced Lennar's position as the builder of choice for trades. Our existing trade partners are increasing their business with Lennar, while our approach is also attracting new trades. This increase in access to trades, combined with a normalized supply chain, led to a significant improvement in our third quarter cycle time.

For the quarter, cycle time decreased by 32 days sequentially from Q2. Progress is difficult to measure precisely, as product mix changes, but we are

clearly on a path to getting back to pre-pandemic cycle times, and expect to continue to see improvement in the fourth quarter and into 2024.

Looking at our third quarter, as expected, our construction costs fell sequentially from Q2 by about 5%. In addition, our Q3 costs were down about 4% on a year-over-year basis. This was down significantly from the 8% year-over-year increase we saw in Q2. Again, this is the trajectory of cost reduction we guided to last quarter.

Looking forward, you can expect Lennar to be focused on plan and SKU reductions, value engineering to further reduce costs, and introducing additional workforce housing communities in many markets across our platform.

I would like to conclude with our land-light strategy and community count. In our third quarter, we continued to effectively work with our strategic land and land bank partners, where they purchase land on our behalf and then deliver just-in-time finished homesites to our homebuilding machine.

In the third quarter, about 85% of our \$1.5 billion land acquisition was finished homesites purchased from our various land structures. We have made significant progress again in the third quarter as our years supply of owned homesites improved to 1.5 years from 2.2 years, and our controlled homesite percentage increased to 73% from 69% year-over-year, respectively.

The reduction in cycle time and reduction in owned land will increase cash flow, as well as help improve inventory turn, which now stands at 1.3 versus 1.1 last year, an 18% increase. Our community count at the end of the third quarter was 1,253, which is up 5% from the year-ago period, and we expect to

increase our community count in the high single digits by the end of fiscal 2023 from 2022.

The strategies of our sales pace matching production pace, which leads to lower cycle times and construction costs, combined with an asset-light focus, which leads to the reduction of owned land, are reducing risk, improving returns, and strengthening the balance sheet for Lennar.

I want to recognize and thank all of our associates for their hard work and dedication in focusing on these strategies and for delivering a solid third quarter.

I'd now like to turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning, everyone. So, Stuart 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 financial services operations and our balance sheet, and then provide guidance for Q4 2023.

So, starting with financial services. For the third quarter, our financial services team had operating earnings of \$148 million. Looking at the details, mortgage operating earnings were \$111 million compared to \$64 million in the prior year. The increase in earnings was driven by higher lock volume as a result of higher orders and capture rates and higher profit per locked loan as a result of lower cost per loan, as the team continues to focus on efficiencies, and additionally, higher secondary margins.

Total operating earnings were \$37 million compared to earnings of \$33 million, which excludes a \$36 million one-time charge due to litigation

accrual 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 using technology to increase productivity. These solid results were accomplished as a result of great synergies between our homebuilding and financial services teams. They truly operate under the banner of One Lennar.

So, now turning to the balance sheet. This quarter, once again, we were steadfast in our determination to turn our inventory and generate cash by maintaining production and pricing homes to market to deliver as many homes as possible to meet housing demand. The drumbeat also continued with our determination to preserve cash and increase asset efficiency. The end result of these actions was that we ended the quarter with \$3.9 billion of cash and had no borrowings on our \$2.6 billion revolving credit facility. This provided a total liquidity of \$6.5 billion and great financial flexibility for the future.

As a result of our continued focus on balance sheet efficiency, we made significant progress on our goal of becoming land-lighter. At quarter end, our homesites controlled increased to 73% from 69% in the prior year, and our years owned improved to 1.5 years from 2.2 years in the prior year, our highest controlled percentage and our lowest years owned in our history. As Jon mentioned, we spent approximately \$1.5 billion on land purchases this quarter. However, about 85% were finished homesites where vertical construction will soon begin.

At quarter end, we owned 107,000 homesites and controlled 284,000 homesites for a total of 391,000 homesites. We believe this portfolio provides us with a strong competitive position to continue to grow market share in a capital-efficient way. During the quarter, we started about 18,700 homes and ended the quarter with approximately 43,600 total homes in inventory. This

inventory number includes about 2,000 models, and also includes about 1,400 homes that were completed unsold as we successfully managed our finished inventory levels.

In our continued effort to further strengthen and de-risk our balance sheet by reducing our debt balances, we retired \$425 million aggregate principal of our 5.875% senior notes due in November 2024 and repurchased about \$50 million of senior notes also due in fiscal 2024, all at or below par. We've repaid about \$6.1 billion of senior notes over the last few years, which equates to more than \$330 million of annual interest savings. As a result of our debt reduction initiatives, we ended the quarter with a total senior note balance just under \$3 billion, which was less than our cash balance of almost \$4 billion. The next senior note maturity of \$378 million is due in December 2023. Combined with strong earnings, our homebuilding debt-to-total capital was 11.5% at quarter-end, our lowest ever, which is an improvement from 15% in the prior year.

Consistent with our commitment to strategic capital allocation, we repurchased \$3 million of our shares totaling \$366 million. Year-to-date, we've repurchased 7 million shares totaling \$763 million. Additionally, we paid dividends totaling \$107 million during the quarter. So, in total, we returned almost \$1 billion to all our investors this quarter, our equity holders and our debt holders.

And just a few final points on our balance sheet. Our stockholders' equity increased to almost \$26 billion. Our book value per share increased to just over \$90. Our return on inventory was 26%, and our return on equity was 16%.

In summary, the strength of our balance sheet, strong liquidity, and low leverage provides us with significant confidence and financial flexibility as we come to the end of 2023 and head into 2024.

So, with that brief overview, let's turn to guidance. Starting with new orders. We expect Q4 new orders to be in the range of 16,200 to 17,200 homes, as we match sales with production, and as Jon mentioned, we expect our Q4 ending inventory count to increase in the mid-single digit percentage range year-over-year.

We anticipate our Q4 deliveries to be in the range of 21,500 to 22,500 homes. This would bring our annual deliveries to be in the range of 70,800 to 71,800, which is an increase of 7% to 8% year-over-year. Our Q4 average sales price will be approximately flat with Q3, as we continue to price to market and offer incentives to match affordability.

We expect gross margins to be in the range of 24.4% to 24.6%, and we expect our SG&A to be in the range of 6.7% to 6.9%, as we continue to focus on maintaining sales and production paces.

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 Q4 to be in the range of \$130 million to \$135 million, and we expect a loss of about \$20 million for our multifamily business, and a loss of approximately \$25 million for the Lennar Other category. The Lennar Other estimate does not include any potential mark-to-market adjustments to our public technology investments since that adjustment will be determined by their stock prices at the end of our quarter.

We expect our Q4 corporate G&A to be about 1.1% of total revenues, and our charitable foundation contribution will be based on \$1,000 per home delivered. We expect our tax rate to be about 24.5%, and the weighted average share count should be approximately 281 million shares. So when you put all that together, these estimates should produce an EPS range of approximately \$4.40 to \$4.75 per share for the fourth quarter.

And finally, as Stuart mentioned, as we think about 2024, our initial growth expectation is currently 10%. And so, therefore, we look forward to another very successful year.

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

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

Truman Patterson: Hey, good morning everyone. Thanks for taking my question. So, Diane, thanks for clarifying that at the end, that 2024 growth target of about 10%. But, looking at your fourth quarter guide, you had very strong third quarter orders. I'm just trying to understand that fiscal fourth quarter order guide down about 15% sequentially.

Was that really due to the healthy third quarter selling, where you reduced your spec availability and kind of internal inventory positioning going into the fourth quarter? Is it just normal seasonality? Does it imply, you know, a

modest deceleration in the consumer given the recent rate move? Just hoping you can help us unpack that.

Stuart Miller: Sure. Thanks, Truman. Yes, you're right to tie those together. The fact is that as we enter the fourth quarter, which is seasonally a quieter time of the year, we did have very strong third quarter sales. We do expect to see strength in the fourth quarter, but seasonality has returned to some extent.

And additionally, we've seen interest rates pick up again. So, we're just moderating our view of where the fourth quarter goes and making sure that as we come into the fourth quarter, we're well-positioned to achieve exactly what we say.

Jon Jaffe: And I'll just add, Truman, that it's all part of our process to have a designed sales pace so that it matches the production coming out of our assembly line out in our communities.

Truman Patterson: Okay, perfect. I thought Rick was going to be on this call to congratulate him on retirement, but since he can't defend himself, maybe we should just air our grievances against him. But just big picture, how are the two of you, Jon, Stuart, just kind of dividing responsibilities given Rick's retirement?

Stuart Miller: Well, listen, we have very comfortably streamlined the business. Jon is overseeing operations across the country at this point, and he has been doing that for some time now. And what has happened over the past years is our regional presidents and our operators have just really stepped up and have become far more self-sufficient, driven by some of the technology support that we've created across the platform.

There's just a very orderly program of operations as we go forward that is guided by Jon on a regular basis, in combination, between what we call our daily call, it's actually every other day, and additionally, our operations review meetings, which we're kind of in the middle of right now, we begin at the beginning of each quarter. Jon goes to some, I go to some, but we are present, we are engaged, we are involved in kind of level-setting our divisional focus across the platform. And Jon and I have comfortably shared responsibility for about 40 years. I think we're kind of in step and in tune with doing that. We'll be able to comfortably do that right now.

Jon Jaffe: Yes, I think that can't be underestimated, the familiarity of working together for 40 years and managing the business across the country. But I think starting on the key point which is, we're a different company today. The efficiencies that we're driving in large part are because we've become much simpler, particularly at the land acquisition standpoint.

You remember we used to have a lot of complex joint ventures. We used to speculate more on land. Today, we're a very efficient buyer of finished homesites from some strategic land partnerships and strategic land banks, and that really fuels the front end of a machine that is very orderly and very focused in today's role for Lennar.

Truman Patterson: Perfect. Thank you all.

Stuart Miller: Okay. Thank you, Truman.

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

Susan Maklari: Thank you. Good morning, everyone. My first question is, Stuart, you mentioned that you continue to expect to see growth next year, even with the meaningful strides that you've made over the last several quarters in there. When you think about the production constraints in the industry though, can you talk to how you think you can add capacity in this kind of an environment and any thoughts on how to think about 2024 from a volume perspective?

Stuart Miller: So, as we've looked at 2024, it's not so much about adding production at this point. We are positioned for a very strong 2024 right now. We have the land. We have it identified. It is under contract or in our pipeline. It is under development. 2024 at this point, except for the overall sales environment, is pretty much embedded in our system.

So, we have pretty good visibility at this point. We keep talking about selling and building and programming by process, and by process, we just have great visibility into what we're able to produce for 2024. And in fact, if you look at our kind of five-year land planning and overall production schedules, we have pretty good visibility even beyond.

Now, the question is, what's the market going to do, and how's the market going to react? We are going to continue to price to market conditions. We are an operating manufacturing platform that is going to price to market, and if the market moves a little bit, you're going to see our margins be, as I said before, the shock absorber.

So, when we talk about a projection of growth for 2024, we have pretty good certainty that we can accomplish that, and how the market unfolds in these kind of uncertain times where interest rates are moving, the Fed is clearly trying to take liquidity out of the system, we're going to wait and see how it actually evolves. But our target right now is in that low double-digit level of

growth for 2024, and we know it's achievable. We'll see how the market performs.

Jon Jaffe: And Susan, you asked about production capacity. That visibility Stuart speaks to. We clearly communicate that with our trade partners today about what is coming in the future quarters. So, they're prepared and we're prepared as that production that's already in our system will be coming online to be able to manage that volume.

Diane Bessette: And Susan, I guess I would just add, that 10% low double digits, that's sort of from a volume perspective. We'll have to see how kind of margin and other items play out, but at least it gives you a perspective on the volume level.

Jon Jaffe: A target.

Diane Bessette: Target, yes.

Susan Maklari: Okay, that's very helpful. And maybe building on that a bit, you've obviously talked a lot about thinking of the cash generation of the business and converting that income to cash flows. As you think about the go-forward and the environment that we're in and the increased agility in the business, what could that mean for cash generation next year? Any thoughts there?

Stuart Miller: Everything that we have done to reconfigure our business is focused on turning profitability into cash flow and making sure that we are generating a consistent level of cash coming in. And everything that we're underwriting right now, even if margin moves up or down to some extent as a moderator for where sales or interest rates might go, our cash flow is still going to be very, very strong as we go forward.

Susan Maklari: Okay, great. Thank you for 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: Thanks very much, guys. Appreciate all the color and congrats on the results. I did want to touch on some of your longer-term comments. So, first of all, not to get too granular, but in 2024, the closings number, we've observed that as cycle times have improved, you've been able to deliver more units or close more units than you've taken orders for.

I was curious as you look into 2024, Diane, is it reasonable to think that you could likely close as many units as you take orders for? And then secondarily, I think, Stuart, you talked about return on assets as being an important metric for you. I'm curious if you could give us a sense for longer term where you target your ROA as you think about the business going forward.

Stuart Miller: We do think that as we sell our delivery schedule is really tied pretty closely to - given the fact that we are not selling way out in front, it's pretty much tied to how we're selling and current sales pace. And so, you can look at that today and see our operating machine really working, sales and starts and closings are all working in close proximity to one another.

In terms of return on assets, Steve, which is a great question, we have the difficulty of an asset base that, just because of strong earnings and strong cash, it becomes a tougher and tougher hurdle. Our focus is on a return on assets closer to 20%, but it gets harder to achieve as we keep adding earnings and asset base to the program. And one could argue that we need to be buying back stock a little bit more aggressively. Diane and I talk about this all the

time, and I'd say that we look at this opportunistically. It looks like today's stock price is getting even more attractive. So, it's part of the program, but we are targeting in excess of a 20% return on assets.

Diane Bessette: Yes, I think that's right, Steve. I mean you have to kind of make it a little bit more granular, right, as we focus on turning our inventory, as we focus on reducing our years owned. Those are all real helpful components, of course, to return on assets. And then if we pair that with a consistent buyback program, which we have been consistent, the amounts may vary quarter to quarter, but we have a pretty consistent program, I think that all bodes well in us achieving something over 20% as time goes on.

Stephen Kim: Yes, that's really helpful, and that's kind of where I was going to go next, so appreciate you anticipating that.

Stuart Miller: We saw you coming.

Stephen Kim: The next question I have relates to sort of market conditions, and in particular, the entry level of the market in light of the rate increase. My question is, in general, would you say that the move-up segment right now is performing a little stronger than entry level? And at the entry level, when we think of rate buy-downs, like what percent of your sales are using a rate buy-down? And are you going into the market making forward purchase commitments? And are you increasing the degree of rate buy-down relative to the prevailing rate? Or are you continuing to buy down that rate by about the same spread?

Stuart Miller: So, listen, as we've said, as rates move around, as demand moves around, we are tapping incentives up or down, we're maintaining pace. But the fact is that we haven't had to move dramatically in either direction as rates have moved currently. You asked whether it's the entry-level buyer or the move-up buyer

that is doing better. Frankly, there's strong demand across the platform and, in all segments, we are seeing strong demand out there. Affordability is kind of the question, and meeting the buyer where the affordability exists is kind of the trick of the market and getting it just right.

And so these are tweaks right now up and down, and of course, depending on where interest rates go, that is going to be the determinant of how much of an incentive has to be given or doesn't have to be given, and that's what you're kind of working your way through right now as you go through pricing. Jon, could you add to that?

Jon Jaffe: Yes. Steve, you asked the question, we do buy forward commitments, but we do see, even as interest rates fluctuate, the participation in those commitments stays very steady from month to month, quarter to quarter, and it's primarily used for our first-time buyers. And as you know, with our production model, it's very effective because we sell homes closer to being completed versus selling homes before they're started, so we're able to lock in our buyers, which is really important because those buyers, once they're locked in, aren't at risk to suddenly not qualifying if rates move on them.

We keep the spread pretty consistent on average, but obviously, we have to help our first-time buyers more than our move-up buyers. But because of our ability to do that and really manage it closely to our production pace, we don't really see a difference in the levels of demand from quarter over quarter, month to month, between those buyer segments.

Stephen Kim: That's really helpful. Thanks very much, guys.

Stuart Miller: Okay. Thanks, Steve.

Coordinator: Next, we'll go to the line of Carl Reichardt from BTIG. Please go ahead.

Carl Reichardt: Thanks. Good morning, everybody. Stuart, I hope you feel better. I have a question on dynamic pricing. I think it's fair to say, if we ran the tape last year, that using dynamic pricing allowed you to find elasticity, find homes at market-clearing prices really quickly and across the platform quickly. So, if you look at the model today and look at sort of a histogram across your geographies and markets, where do you see pricing power? Where are things still weak? And do you effectively say more markets are stable than we have more markets where we're making a lot of adjustments up or down?

Jon Jaffe: Hey, Carl, it's Jon. In every market, we are using closing costs, mortgage rate buy-downs, pricing to hit that desired pace. Clearly, we don't have to use it as much in, say, Florida, the Carolinas, parts of Texas, other markets around the country, where there's in-migration, strong job growth. In some markets, where you've seen a shift in Austin and Boise, parts of California, we have to use them a little bit more. But as I said earlier in my comments, we're able to achieve our desired pace by managing those levers with each individual buyer at each community, home-by-home basis, to find the right monthly payment for them, to deal with their mortgage qualification issues, get them locked into a loan, and to hit our production levels.

Carl Reichardt: Okay, thanks, Jon. And then on SG&A, again, long-term strategy for the company has been to lower buyers' broker's commissions, probably more aggressively than any other builder, at least that I cover. Market got weaker, buyers' brokers have come back. So, where does that strategy sit now in terms of your reliance on those brokers or your desire to continue to effectively disintermediate them or rely less on them? Thanks, all.

Stuart Miller: We pretty consistently said that the realtor community that supports the industry and that comes in and does the work of bringing customers to our sales center and actually engage in the process is a friend of Lennar, and we're always trying to work with the realtor community. But at the same time, what we've tried to do is eliminate the friends and family component that is basically just giving away. So, we've done a pretty good job of creating a constructive relationship with the broker community while not overspending. And it migrates up and down as traffic is represented more and more by realtors.

Now, of course, as the existing market has been more constrained, the realtors have been more focused on the new home market, and that means that we're getting a lot more traffic from the realtor community than we were getting when the existing market was more normalized. And with that said, you'll see our brokerage spend go up and down a little bit, which affects our SG&A.

Jon Jaffe: As Stuart highlighted, it's at very low levels compared to our historical norms. And the way that we use the broker community is really just where we have completed inventory homes to move. We're very disciplined about what we make available to the broker community so that we maintain that focus and control over our SG&A.

Stuart Miller: And let me just say lastly, we've talked an awful lot about our digital sales funnel, together with our dynamic pricing model and sales engagement. We are really striving to drive more and more of our customer engagement through our digital world, where we access customers, meet them where they want to find us, and engage them very directly.

That's where we think we can have the very best engagement with our customers. And so, we talk about our digital sales machine. It's an important

part of the way that we're creating a process around our sales program for the future, and it is evolving.

Carl Reichardt: I appreciate that. Thanks, guys.

Stuart Miller: Okay.

Coordinator: Next, we'll go to the line of Alan Ratner from Zelman & Associates. Please go ahead.

Alan Ratner: Hey, guys. Good morning. Really strong results. Nice job.

Stuart Miller: Good morning, Alan.

Alan Ratner: Stuart, first question, when you kind of talk about the net price declines in that kind of 10%, 11% range, historically, the typical spread between a new home and a resale I believe has been around 15%. I'm not sure you see it that way, but that's kind of what the data would show roughly.

And we clearly haven't seen that level of price declines in the resale market, which it feels like to me when you compare the strength we're seeing in the new home market today versus the resale market, I think there's this thesis out there, it's all inventory-driven. But it feels like some of that historical spread has definitely narrowed this year as you and other builders have been more aggressive on pricing to market.

So, when you think about that and you think about some of your other comments with your land cost is probably going to continue to rise, construction costs, while there's been progress made there, it's probably stable from this point forward. If you don't see resale prices rising, can you maintain

that progress you've made this year as far as now closing that spread versus resale? Or do you see that spread returning just as a function of higher costs over time?

Stuart Miller: Well, I'd say, Alan, that you're kind of sitting in a very strange configuration in the housing market right now. The resale market's inventory is very, very constrained. It's been well-documented that interest rates rising as much as they have, have left existing homeowners with two assets. They have a home that is valuable, and they have equity. They also have a mortgage that is at a very low interest rate, and that also has great value. So, they're just not bringing existing homes to market at the rate that you would traditionally see. And that short supply of existing homes has enabled that part of the market to stay a little bit more robust in pricing, as the new home market has used incentives to meet the market where affordability actually exists. So, that configuration is creating an anomaly in the way that existing homes and new homes are priced.

I've said in the past that I still think that the existing home market is kind of a zero-sum game in terms of the supply and demand, because every time somebody sells an existing home, they go out and they have to buy another home. So, you add inventory, you subtract inventory, and I think that's kind of how that's configured. But from a pricing standpoint, I'm not surprised to see a little bit more parity between new and existing homes at this point.

And yes, I think that we can continue on our trajectory, depending on the overall macro environment, the interest rate environment, and where affordability is down, I think we can continue on our existing trajectory even as the existing home market remains relatively strong because of short supply.

Alan Ratner: Got it. No, that's helpful to hear your thoughts there. Second, I guess circling back to the ROA conversation, it has been a few quarters I think since you've

talked publicly about the SpinCo plans and recognizing that's seemingly on hold for the time being. You still have about 10% of your assets right now not generating returns, which is clearly impacting the overall return calculation. So, just curious if you care to provide any updated thoughts on ways to monetize that more quickly, recognizing the capital markets may not be the most advantageous right now.

Stuart Miller: Yes, I think that you've laid it out well, that it has been some time and the capital markets continue to be not very constructive for executing a plan. It does sit in the background, in the wings, and I think it's something that will come back into light at another point in time.

It's very much at the front of our mind. We think about how we're going to configure some of those assets that can be positioned differently, and there will be a moment in time where we come forward with a plan. It's not something that we've stopped thinking about. It is something that we've stopped talking about, because we just don't think that the capital markets are constructive for our program right now.

Alan Ratner: Understood. Appreciate the update, guys. Thanks a lot.

Stuart Miller: Okay. Next.

Coordinator: Thank you. Next, we'll go to the line of Ken Zener from Seaport Research Partners. Please go ahead.

Ken Zener: Good afternoon, everybody.

Stuart Miller: Good afternoon.

Ken Zener: So, I have two questions. They might have some subparts to them, so bear with me. But, first question is broadly speaking, the prioritization of returns versus growth, and I ask because this is basically a balance that you're striking between even flow and gross margins. So, first item is, it seems like even flow is in this 19,000 plus or minus range. The word even would suggest less variance than seasonality. So, quarterly, I mean, do you think variance is up, let's say, sub 10% sequentially in that start number? Or how is your machine working? Because it's obviously not such a larger variance of normal seasonality.

And then, related to that, it doesn't appear that we're seeing your focus on pace affecting gross margins, right, at 24%. So, could you maybe kind of talk to that? I haven't heard you really talk about the dynamics of gross margins much, but the pace relative to the margins and what you think your start pace can be on a variance basis.

Stuart Miller: So, Ken, we've been fairly unapologetic about saying that pace is our core focus. We're looking at even flow. We're using even flow to drive efficiencies, whether it's in SG&A or whether it's in construction costs. You can expect, as we've said before, that that consistent drumbeat of production is going to prevail, and we're going to use margin as the shock absorber or moderator to enable us to maintain production pace. Your numbers are by and large correct. There will be some adjustments for seasonality, which is anticipated. You see this in our fourth quarter projection or guidance.

But with that said, you can expect that you're going to see an even flow production model that, within boundaries, we recognize that if the market really moves dramatically, one way or another, we'll adjust those production levels, but within boundaries, you're going to see us focus on that constant production pace, defining a constant sales pace.

Ken Zener: Okay. And then the second question, I didn't hear the necessarily gross margin, which seems to be in a positive position versus your implied 20% return on capital. But the second question, and I think this is the most important issue that investors are overlooking for Lennar, even flow tied to capital light, less capital intensity, 85% finished homesites acquired in the quarter, one and a half years of land. If that were to fall to one year, which if you keep buying finished lots, it doesn't seem crazy, it's hypothetical, but one and a half down to one year, that would be almost a third decline in land requirement on a land base of nearly \$7 billion, equivalent to nearly \$3 billion of decapitalization.

I ask as EPS, as you get smoother, your EPS is increasingly going to be a cash flow metric, which affects valuation, but it also, if you're going to be generating earnings plus this \$3 billion or so in land and whatever comes through WIP, it seems as though you will be forced into a systematic buyback program, which is an okay problem. I'm just thinking of some of your peers who have gotten deeply into a negative leverage position. Is that something that you're thinking about avoiding? And comment on the cash flow from less owned land. Thank you.

Stuart Miller: Jon, did you want to add something to that?

Jon Jaffe: Yes, just on the gross margin question, yes, everything we're doing, as Stuart mentioned, is really driving to efficiencies. A big part of that efficiency is all aimed around how do we bring construction costs down for the benefit of affordability and for margins. And so, as we track and look at direct construction costs as percent of revenues, they are falling, and that is helping support our margins, even though we are aggressively managing the pace.

Stuart Miller: Okay. And to your more recent question, we think about the size of our stock buyback. We're very focused on continuing to drive cash flow. You are correct, our land owned and controlled relationship is an area of focus. The year supply is very much an area of focus. You've seen these numbers migrate from much higher to the point that they're at now, and we're not finished. We recognize that there will be an additional level of cash that comes into the company. We don't think it puts us in a bad position to end up with negative net debt to total cap. And we recognize that we will continue to be cash generative. We fully expect that. We think that at year-end, we'll probably be in a better position than we are right now. And so, without projecting, let me say that we are very focused on stock buyback and using our capital strategically to position the company well, to have flexibility, to have liquidity for the opportunities that might present themselves for us as markets kind of adjust. But at the same time, our stock buyback program is front and center in the way that we're thinking about our future.

Diane Bessette: And I guess I'd add, Ken, that just operationally, we are focused on getting to the point where net income equals cash flow. We're not there yet, but it is a focus. And then what we do with that cash flow Stuart answered, but I think it is a real goal for us to have those two equate. Not there yet, but it's a goal.

Ken Zener: Thank you so much.

Stuart Miller: All right. Why don't we now take one last question?

Coordinator: Thank you. And our final question comes from John Lovallo from UBS. Please go ahead.

John Lovallo: Hi, guys. Thank you for fitting me in here. Maybe the first one, just going back to the 10% growth target for next year, curious how you're thinking

about community count in the context of that 10%. Are you expecting high single digits, maybe low double digits community count growth? Is this really going to be driven more by absorptions?

Stuart Miller: So, let me preface this by saying that community count is probably the most difficult part of the number in a projection to get right. So, whatever Jon is going to say about community count right now, I am saying this is not a projection. This is not guidance. This is just Jon answering your question.

Jon Jaffe: Thank you for that caveat, but it's very true, whether it's municipalities, litigation, it is the most challenging aspect to hit right on the timeline. But with that said, we have in place, as Stuart said earlier, a land pipeline that makes us very comfortable to target that 10%, that low double-digit growth.

That will come from probably like a high single-digit community count and some increased absorption as we bring on more affordable workforce housing communities across our platform.

Stuart Miller: So you can expect that our community count will grow. It'll grow somewhere around where our growth expectations are generally, but it's not all about same-store sales. Our business doesn't work perfectly that way. I'm not talking about Lennar's business. I'm talking about the new home business. It doesn't work perfectly that way. So, we expect our community count to grow.

John Lovallo: Understood. Okay. And then maybe just going back quickly to Alan's question, if I can, on Quatterra. There's clearly economic uncertainty out there, but the capital markets do seem to be improving. There's even a homebuilder IPO out there in the market. Have you guys dusted off the plans here at least on Quatterra? Is this something that could get back in motion here in the near term? Maybe any incremental thoughts there.

Stuart Miller: Well, the reality is, we never really put it on the shelf. We've been working in the background on the way that we might or might not configure Quarterterra. And so, it's not something to be dusted off. It's just, at the right time, we will make the right move, something that works and dovetails with where we're going and how our company is configured.

But we have stopped talking about it, because quarter by quarter, we don't want to feel like we're missing expectations. We don't want to put something out there that just isn't right or doesn't feel right. One thing that I will say is that the opportunity to spin or to move off balance sheet some of our assets, we think is constructive for return on asset and some of the other calculations. We recognize that opportunity. It'll happen at the right time.

John Lovallo: Understood. Thank you, guys.

Stuart Miller: Okay, thank you. And so let's leave it there. I want to thank everybody for joining us. We really look forward to continued execution as we go forward. Very happy with our third quarter. Looking forward to reporting year-end and look into 2024. We'll talk next time. Thank you.

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

[End]