

LENNAR CORP
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11:00 am ET

- Coordinator: Welcome to Lennar's Fourth Quarter Earnings conference call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time. I will now turn the call over to David Collins for the reading of the forward-looking statement.
- David Collins: Thank you, and good morning, everyone. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial condition, results of operations, cash flow, strategies, and prospects. Forward-looking statements represent only Lennar's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in our earnings release and our SEC filings, including those under the caption of 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. Good morning, everybody, and thank you for joining today. I'm in Miami today together with Jon Jaffe, our co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, Bruce Gross, our CEO of Lennar Financial Services, and a few others as well.

As usual, I'm going to give a macro and strategic overview of the company. After my introductory remarks, Jon is going to give an operational overview, updating construction costs, cycle time, and some of our land strategy and position. As usual, Diane's going to give a detailed financial highlight, along with some limited guidance for fourth quarter and full year of 2024. And then, of course, we'll have our question-and-answer period. As usual, I would like to ask that you please limit yourself to one question and one follow-up so that we can accommodate as many as possible.

So, let's begin. We are very pleased to report another very strong quarter and year-end of operating results for Lennar. We've executed our operating plan effectively over the past year, and accordingly, have simply never been better positioned from balance sheet to operating strategy to address market conditions in the new year 2024.

Throughout 2023, the dominant theme at the macro level has been the impact of higher interest rates on the homebuilding consumer as affordability has been tested and demand has been constrained by the ability to purchase, i.e., affordability, and the ability to qualify. Generally speaking, consumers are employed and are generally confident that they will remain employed and that

their compensation will generally rise. Overall, consumer confidence has been reasonably strong, and buyers that can transact have transacted.

Underlying this environment is a general chronic supply shortage of homes, especially affordable homes, across the country, as well as a growing pent-up demand for housing that is and has been held back by materially higher interest rates. There's been a very short supply of affordable product and a very strong demand for that affordable product. The new homebuilders have worked out a variety of incentive structures that range from interest rate buydowns to closing cost pickups to price reductions to meet the buyer, the purchaser, at the intersection of need and affordability.

The existing home market has been quiet as existing homeowners have coveted their low interest rate mortgages and remained on the sidelines. Homebuilders have been uniquely able to activate demand by using incentives that unlock the affordability constraint and enable purchasers to transact.

Over the past quarter, this narrative has been particularly difficult as interest rates spiked through the first two months of the quarter and then began to ease in November. As mortgage rates began to migrate from 7.5% towards 8%, the market began to feel like it was hitting a real inflection point, and the overall market conditions softened materially.

Most recently, of course, Chair Powell and the Fed have signaled that we might be closer to the end of the tightening cycle, and we might see lower rates as we enter 2024 and get into the new year. We will see.

Against this backdrop, Lennar's consistent strategy throughout the past year has been to continue to drive volume, to find affordability, to meet demand by

using our dynamic pricing model, and using appropriate incentives and provide supply to the market.

Over the past year, we have consistently detailed our operating strategy with the expectation that we would do as follows: number one, reduce our land assets while growing our business; number two, drive strong and consistent bottom-line earnings while concurrently generating consistent net cash flow; number three, reduce our construction cycle times while increasing our inventory turn; and number four, ultimately enhance the quality of our returns on equity and return on assets by focusing on the allocation of liquid assets, i.e. cash.

2023 was a year of strategy and successful execution for Lennar and sets us up extremely well for another strong year of execution in 2024. We began the year with a strong statement of operating strategy in a higher interest rate environment, and we focused on execution throughout the year.

Even as the macroeconomic environment continued to shift and adjust to inflation with higher interest rates, we adhered to our strategy, and we drove volume and production. We believed that demand was strong, though constrained by affordability, and supply was very limited. As others pulled back, we leaned in and maintained pace. We defined our operating strategy as driving production and sales pace while using price, incentives, and margin reduction to enable affordability. Rather than further constraining supply, we drove production and used our formidable size and scale to enable cost and operating efficiencies to drive affordability.

As you've seen in our press release, while driving higher volume, we also achieved strong operating results. We delivered over 73,000 homes in 2023, which represents a 10% year-over-year volume increase over 2022, and we

delivered a strong bottom line of \$3.9 billion, or \$4.82 a share. We also generated well in excess of the \$3.5 billion of homebuilding cash flow that we generated in 2022. And we are well-positioned with land and community count to expect to deliver 80,000 homes in 2024. Again, another 10% increase year-over-year.

Given the current interest rate signal from the Fed, we would also expect that margins will be at least consistent with our 2023 levels. And although we have embedded lower margins that will flow through the first quarter, those reduced margins will clear over the next quarter, and using our dynamic pricing tool, we will recover margin quickly and efficiently as lower interest rates enable us to reduce incentives.

The strategic benefits of driving volume came and will continue to come with advantages that are both immediately valuable, as well as durable for the company's future. I'd like to briefly detail some of those advantages.

First, by driving volume, we gained market share in most of our core markets as we leaned in when some others pulled back. Our trade partners saw a consistent and dependable partner that became worthy of the designation of Builder of Choice. We worked side-by-side with our traditional trade partners, and additionally, we found additional trade partner relationships with participants that found that they had dependable and consistent work with our strategy.

Through market share growth in local markets, we enhanced the ability to better manage our costs, enhance our efficiency of operation, reduce cycle times with efficient production templates, and enhance our inventory turn. Jon will discuss this in more detail shortly.

Next, and maybe most important, by driving volume, we are positioned with

land and communities for strong volume in all of our operating markets. As we drove volume and delivered homes, we purchased new land and communities for the next year's delivery. We are extremely well positioned to continue to sell on pace as prices recover and as incentives subside alongside lower interest rates.

We are positioned to drive even stronger bottom-line results and cash flow as market conditions normalize. Additionally, by driving volume, we gained market share in land acquisition. Simply put, we continue to sell land by selling homes and then purchase land to replace communities, especially when others walked away.

Market share advances have given us the critical position to be an even stronger land buyer of choice to the owners and developers of critical land assets. They saw a dependable market participant remain consistent as market conditions became more tenuous, and we found that we were able to experiment with innovative land structures that work constructively as markets falter and then recover. Noteworthy in this regard is our variable land pricing tool that enables homesite values to move up or down as a percentage of the sale price of the home as markets move up and down.

Next, by driving consistent volume even at lower margins, we've generated consistent cash flow through more challenging times and enhanced our balance sheet and our cash liquidity, even after redeeming or repurchasing \$1.1 billion of senior notes through the year and repurchasing 10 million shares of Lennar stock through the year.

Situated today with a 9.6% homebuilding debt-to-total cap ratio, with \$6.3 billion of cash on hand and zero dollars drawn on our revolver, and with an expected \$3.5 billion, plus or minus, of net cash flow over the next year, we

have the flexibility to invest capital strategically in growth while retiring debt as it matures and repurchasing shares of Lennar stock, which we expect to repurchase at least \$2 billion of stock over the next year.

Fourth, by driving volume, we gained advantaged insights into and refined the workings of our strategic land banks. The flow of volume through the land banking relationships that define our current approach to land acquisition was invaluable. Questions have now been answered as to the durability of the capital partners that make up the counterparty relationship with the homebuilding machine. Our consistent volume helped define both trust and dependability in taking those relationships to another level as neither party flinched as market conditions tested the boundaries of relationship. While adjustments were made and lessons were learned, the structures and relationships became stronger and more durable.

Fifth, by driving volume, especially in the more difficult interest rate environments of the past year, we were able to develop, enhance, use, and improve the Lennar Machine. Our sales, marketing, and dynamic pricing machine is quickly becoming an advanced digital engine that has materially benefited by aggressive, focused use and engagement while the market was most difficult.

We focused on what was required to drive volume while market conditions challenged affordability. We pushed data and engagement through the component parts of this digital tool and stressed it often and to its limits. We reviewed 40 points of feedback from our 40 operating divisions and made adjustments and refinements as we learned. The result is that Lennar's Machine is becoming an invaluable partner as we drive volume by finding the market at affordable pricing and driving sales at the same pace as production.

Overall, our strategic focus on driving volume in both production and sales has enabled us to become a stronger and better-positioned company that has become more durable through the ups and downs of housing cycles. Our balance sheet has never been stronger, and our operating platform has never been better aligned.

Our fourth quarter and year-end of 2023 has been another strategic and operational success for our company. While market conditions have been challenging, we have consistently learned and found ways to address market needs. We know that demand is strong and there is a chronic housing supply shortage that needs to be filled. We will continue to drive production to meet the housing shortage that we know persists across our markets.

With that said, as interest rates subside and normalize, and if the Fed is going to begin to actually cut rates, we believe that pent-up demand will be activated, and we will be well-prepared.

To date, we have seen overall market conditions remain generally constructive for our industry. As higher interest rates have subsided, strong pent-up demand has found ways to access the housing market. Most recent movements in interest rates suggest a better road ahead.

Accordingly, we executed on our core strategy against the most difficult economic and industry backdrop. Given consistent execution, we are extremely well-positioned for even greater success as strong demand for affordable offerings continues to seek short supply.

We expect to start the new year with strong starts, sales, and closings, as we have guided to 16,500 to 17,000 deliveries in the first quarter, and a 21% to 21.25% margin as lower margin sales move through the first quarter.

We engaged the changing tides of the past year with a consistent strategy that has 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 costs and efficiencies and adjust product offerings to meet the market. We manage both our 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 the liquidity for strength and flexibility. Knowing what to do and executing per plan has driven this quarter's and this year's success and ensures consistent success for the foreseeable future.

As we look ahead to a successful 2024, we are well-positioned for and expect to see much more of the same. We are confident that by design, we will continue to grow, perform, and drive Lennar to new levels of performance.

So, with that, let me turn it over to Jon.

Jon Jaffe: Good morning. As Stuart discussed, our operational teams at Lennar continued focusing on executing our operating strategies in our fourth quarter. As our divisions continuously learn from their engagement with the Lennar Machine, they provide feedback for enhancements and improve the machine in our execution of our strategies. You can see the evolution of this improvement in our even flow operating strategy throughout the year, as starts and sales for the second half of 2023 were evenly matched at 37,053 and 37,032, respectively.

In the fourth quarter, our production pace was defined by an average of 5.0 starts per community per month, and an average sales pace of 4.7 sales per community per month. Importantly, this strategy is not just about the pace of sales, but it's importantly about selling the right homes at the right pace. Our machine matches up unsold production as homes progress toward completion, with pricing information from our dynamic pricing model on a community-by-community and home-by-home basis.

In our fourth quarter, as interest rates peaked, this process informed us as to how much we needed to buy down interest rates and/or offer other incentives to maintain the desired pace. We maintained consistent starts and sales paces, generating increased market share in almost all the markets we build in. This is seen in our overall growth of 10% from last year, as our consistent starts have filled the void of other builders who have pulled back.

Some examples of markets where we have a leading and increased market share in 2023 over 2022 are as follows. Here in South Florida, we are ranked as the number one builder, with a market share of 74%, up from 63% a year ago in Dade County, and 33% in Broward County, up from 28%. Across the State, in Southwest Florida, we have a 38% market share, double that of the number two builder.

In the Carolinas, we are the number one ranked builder in Charlotte, Raleigh, and Charleston, with market shares of 10.5%, 16%, and 22.5%, respectively, representing an average increase in share of about 150 basis points. In the Midwest, we are number one in Indianapolis and Minnesota, with over 25% market share in each market, an increase of over 400 basis points in each.

In Texas, we have increased market share in each of the markets there. In Austin and Dallas-Fort Worth, by 200 basis points to an 11.5% and 10%,

respectively. In Houston, by 300 basis points to 11.5%, and in San Antonio by 700 basis points to 22.5%. In Colorado, where we rank number one with almost 10% market share, which is double that of the number two builder who has been the perennial market leader.

Moving out west, in Phoenix and Las Vegas, we have the number one share with 12% and 18%, respectively. In California, we are the number one builder in all of the markets there and have grown a significant market share across the State, from 25% in the Inland Empire and Central Valley, to more than 35% in San Diego and Sacramento.

And lastly, in the Pacific Northwest, we are the largest in Seattle and Portland, with 14% and 17% share, respectively, both an increase of about 250 basis points.

The execution of our pricing strategy is based on the strength of each individual market matched against the level of production by community in that market. As Stuart noted, the market conditions in our fourth quarter were defined by the chronic shortage in housing supply and a more volatile interest-rate environment as compared to greater variations in market strength across our markets that we saw in prior quarters. In the current market environment, all markets are benefiting to similar degrees from greater demand than supply. Our sales pace of 4.7 homes per community in Q4 is up from the pace of 3.7 compared to Q4 of 2022, further demonstrating improvement in executing the strategy of pace in Q4 is that it was the same as our overall pace for fiscal 2023.

As interest rates rapidly moved higher during the quarter, our homebuilding teams worked in close coordination with Lennar Mortgage to find the right mortgage solution home buyer by home buyer.

Focused execution of the process I just described led to completing the quarter with less than one unsold inventory home per community. Our strategy of finding market-clearing pricing to match the pace of sales to homes under construction allows us to maintain both a high volume and a consistent volume of homes under construction, which is the foundation for our Builder of Choice program with our trade partners.

As we continuously improve the way we execute this game plan, we have deepened the partnerships with our trade base. Working together with our trade partners, we have consistently eliminated and/or prevented supply chain constraints and reduced cycle times. These and other efficiencies that benefit our trade partners enable us to lower construction costs in a cooperative manner with our trades.

By consistently starting homes, despite the changing interest rate environment during the quarter, we increased our starts in the fourth quarter by 43% from the prior year and starts were flat sequentially from Q3. This increase in starts attracts a larger trade base to Lennar, and together with a normalized supply chain environment, led to another significant improvement in our cycle time.

For the fourth quarter, cycle time decreased by 22 days sequentially from Q3, down to 161 days on average for single-family homes. In most of our markets, this represents being at or close to pre-pandemic cycle times.

Looking at the fourth quarter, as expected, our construction costs fell sequentially from Q3 by about 4%. In addition, our Q4 costs were down about 13% on a year-over-year basis. This is the direction of construction costs we expected in our guidance from last quarter. Moving forward, we expect costs to be consistent with where they are now over the next few quarters.

In order to further improve our production efficiencies, we are working side-by-side with our trade partners on value engineering, co-planned series, and production sequencing across markets to reduce the cost and time to build, with the goal of delivering a greater value to the homebuying customer.

Next, I'll discuss the execution of our land-light strategy. In the fourth 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 as Stuart described.

Consistent with the third quarter, about 84% of our \$1.5 billion of land acquisition in the quarter was finished homesites purchased from our various land structures. We've made significant progress in the fourth quarter as our years' supply of owned homesites improved to 1.4 years from 1.9 years, and our controlled homesite percentage increased to 76% from 69% year-over-year.

The bottom line is focusing on our operating strategies, which results in a reduction in cycle time, and a reduction in owned land has, as Stuart articulated, increased our cash flow, as well as helped improve our inventory turn, which now stands at 1.5 versus 1.2 last year, a 25% increase.

Our community count at the end of the fourth quarter was 1,260, which is up 4% from the year-ago period, and we expect to increase our community count in the mid to high single-digits by the end of fiscal 2024.

I want to recognize and thank all of our associates for their hard work and dedication in focusing on the execution of our strategies, and also, importantly, for accomplishing the change management needed for the

required process changes and implementing these strategies of our machine, while at the same time delivering a very strong fourth quarter and fiscal 2023.

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 some comments on the first quarter.

So, looking at Financial Services, for the fourth quarter, the Financial Services team had operating earnings of \$168 million. Mortgage operating earnings were \$119 million, compared to \$80 million in the prior year. The increase in earnings was driven by higher locked volume as a result of higher orders and capture rates, and higher profit per locked loan, as a result of higher secondary margins and lower cost per loan, as the team continues to focus on efficiencies.

Title operating earnings were \$50 million, compared to \$44 million in the prior year. Title earnings increased primarily as a result of higher volume and greater productivity, as the team continues to embrace technology to run a more efficient business. 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.

Now, turning to our 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, with the goal of delivering as many homes as possible to meet housing demand. The results of these actions was

that we ended the quarter with \$6.3 billion of cash and no borrowings on our \$2.6 billion revolving credit facility. This provided a total of \$8.9 billion of homebuilding liquidity.

As a result of our continued focus on balance sheet efficiency, we once again, as Jon mentioned, made significant progress on our goal of becoming asset-light. At quarter end, our years owned improved to 1.4 years from 1.9 years in the prior year, and our homesites controlled increased to 76% from 69% in the prior year; our lowest years owned and highest controlled percent in our history.

At quarter end, we owned just under 100,000 homesites, and controlled 310,000 homesites, for a total of 410,000 homesites. We believe this portfolio provides us with a strong competitive position to continue to grow market share in a capital-efficient way. We spent \$1.5 billion on land purchases this quarter, with 84% being finished homesites where vertical construction will soon begin. This is consistent with our manufacturing model of buying land on a just-in-time basis, which is less capital-intensive. And finally, looking at returns, our inventory turn was 1.5 times and our return on inventory was 29%.

Let me make one comment about our inventory balance. This quarter, we re-classed deposits on future land purchases from inventory into a separate line on our balance sheet. This re-class, which was about \$2 billion at year-end, was made to better align ourselves with most participants in our industry, and thus, brings greater comparability and less confusion to the investor and analyst communities.

During the quarter, and consistent with our production focus, we started about 18,400 homes and ended the quarter with approximately 38,200 total homes in

inventory. This inventory number includes about 2,200 models, and also includes about 1,200 homes that were completed and sold, which is slightly less than one home per community, 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, as we mentioned in the fourth quarter, we redeemed the remaining balance, \$378 million, of our 4.875% senior notes due in December 2023, and repurchased \$110 million of senior notes due in fiscal 2024 and 2027, all at or below par for a quarterly total of \$488 million. For the full year, we repaid or redeemed \$1.1 billion of senior notes.

As a result of these debt reduction initiatives, we ended the quarter with a total senior note balance of about \$2.5 billion. There is only one note due in 2024, which is \$454 million due in April. Combined with strong earnings, our homebuilding debt-to-total capital was 9.6% at quarter-end, our lowest ever, which is an improvement from 14.4% in the prior year.

Consistent with our commitment to strategic capital allocation, we repurchased 3 million of our outstanding shares for \$337 million in the fourth quarter, and for the year, we repurchased 10 million shares totaling \$1.1 billion. Additionally, we paid dividends of \$105 million during the quarter, and \$431 million for the year. So, in total, we returned almost \$1 billion to our equity and debt holders in the fourth quarter, and about \$2.7 billion for the full fiscal year.

And then a few final points regarding our balance sheet. Our stockholders' equity increased to almost \$27 billion, and our book value per share increased to \$94.61. In summary, the strength of our balance sheet and strong liquidity

position, provides us with significant confidence and financial flexibility as we enter 2024.

So, with that brief overview, I'd like to turn to Q1. Given the evolving interest rate environment, we'd like to once again provide some guidelines for Q1 to assist with your modeling, starting with new orders. We expect Q1 new orders to be in the range of 17,500 to 18,000 homes, as we keep production pace and sales pace closely aligned. We anticipate our Q1 deliveries to be in the range of 16,500 to 17,000 homes, with a continued focus on efficiently turning inventory into cash. Our Q1 average sales price should be about \$420,000, and we expect gross margins to be in the range of 21% to 21.25%, indicating some impact from higher interest rates in Q4. Additionally, also remember that our Q1 margins are always negatively impacted by the current period expensing of field costs. While we are working towards an even flow process of starting and constructing homes on a fairly consistent quarterly basis, revenues in Q1 are the lowest of the year because of seasonality. So, for this Q1, the current period expensing will have a negative gross margin impact of approximately 150 basis points when you look sequentially from Q4. Also note, consistent with last year, the first quarter will be a low point of margin during 2024.

Turning to SG&A, we expect to be in the range of 8% to 8.2% for Q1. For the combined homebuilding joint venture, land sales, and other categories, we expect to have earnings of about \$20 million. We anticipate our Financial Services earnings for Q1 to be in the range of \$85 million to \$90 million, and we expect a loss of about \$25 million for our multifamily business, and a loss of about \$15 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 the quarter. We expect our Q1 corporate G&A

to be about 2.2% of total revenues. These expenses are likely to trend up a bit as we continue to invest in cybersecurity and technology development that is robust and durable to support our future growth. 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 279 million shares. And so, on a combined basis, these estimates should produce an EPS range of approximately \$2.15 to \$2.20 per share for the first quarter.

And then finally, just to reiterate a few notes on fiscal 2024. As we indicated, we affirm our target of 10% delivery growth in 2024, which would result in approximately 80,000 deliveries for the year. And for gross margin, as Stuart mentioned, we expect to maintain the levels produced in 2023.

Whilst we also remain confident in our cash flow generation, as such, we continue to be committed to allocating capital to our stakeholders. We're targeting a total capital allocation of at least \$2.5 billion for 2024, remembering that \$454 million will be allotted to our April 2024 debt maturity, and the balance of roughly \$2 billion to share repurchases.

I'd like to end by sincerely thanking the Lennar financial teams, accounting, planning, and IR, for their combined great efforts that allow us to host our year end earnings call two weeks after year end. You guys are amazing.

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. We ask that you limit your questions to one question and one follow-up question until all questions have been answered. If you would like

to ask a question, please unmute your phone, press Star 1, and record your name clearly when prompted. If you need to withdraw your question at any time, you may use Star 2. Again, that is Star 1 to ask a question.

Our first question will come from the line of Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Great. Thanks very much, guys. Yes, so much great information you provided, so thanks a lot. I imagine folks will be asking you about a little bit more detail on the gross margin. So, what I actually wanted to focus on was your balance sheet. And in particular, you ended the year with a very heavy level of cash, over \$6 billion, I think, of homebuilding cash, and I was curious what you feel sort of a normal level once all the dust settles and you get to a level of cash where you feel it's sort of sustainable and appropriate to sustain over the long term. What that level roughly would be, how we should think about that?

And related to that, given that I assume \$6 billion is probably more than that number, I'm guessing by maybe a couple of billion or something like that, your \$2 billion in share repurchases that you sort of set as the baseline level seems frankly a little low given that we're expecting you guys to generate cash flow and so forth this year. So, I was wondering if you could help us understand how we should be thinking about your cash balance going forward and what it would take for you to apply more of that to repurchases. And I guess I should have specified that I'm curious if you could articulate why you're willing to hold more cash than you need at this time.

Stuart Miller: Well, Steve, let me start by saying, you know the old adage, rich or poor, it's good to have cash, right? So, just starting there, I would say that we're really growing into the new us and developing a by-design approach to the way that we operate our business. And as is the case with evolution in general, you

kind of grow into, with some stops and starts, the new version of how you kind of look at the way you're configured.

So, I would say this. We're starting to look at our cash flow numbers, cash flow generation. We're starting to see kind of a consistency year-over-year, kind of a baseline in the \$3-3.5 billion range. You'll probably see in our K that that number will be higher for 2023, but the amount of consistent annual cash flow is something that we're watching develop over time.

So, when you ask your question, it fits into the context of how do we think about the certainties of the programming that we have in place? As I noted in my comments, one of the interesting things of this past year was looking at the durability of our land banking relationships, the capital providers, and the execution in and around land banks as markets become stressed. There's been a tremendous amount of learning around that and evolution.

So, the answer to the question is, we kind of see our steady state cash flow is developing around \$3-3.5 billion a year. How much cash we feel comfortable holding is something that we recognize that maybe at \$6 billion, or \$5 billion, or \$7 billion, some might say that that's too much. As we gain confidence, as we start looking at the by-design approaches to the component parts of what's developing into a Lennar Machine, we're going to be increasing the amount that we return to shareholders through stock buybacks and other mechanisms. And so, we might be a bit behind the curve that people perceive. Right now, we're going slower rather than faster as we develop real core components to our strategy that are becoming etched in stone and where we're developing confidence.

So, again, it might be a little slower than some might think it should be, but

we're hitting stride with our comfort zone in buying back stock and thinking about the deployment of liquid assets.

Stephen Kim: That's really helpful because, obviously, you're undergoing a very significant transformation, and I think I'm hearing a lot of steady state, I'm hearing a lot of predictability in what you're laying out, and, obviously, that's something that we think is critically important to an eventual revaluation. It just seems like when you had initially started off your comments, you said it's good to have cash, but I think that when you're arguing for a revaluation, some of the investors that we speak with would argue that holding too much cash actually is a hindrance to a revaluation because it effectively seems like the company may be holding on to cash with the hope that they could deploy it in some sort of traditional way, i.e. land or something like that, which maybe isn't in line with what a lot of the rhetoric around being asset-light is.

So, your commentary about, this is a period of time where you're sort of gradually developing the systems to the point where you have that predictability, I guess it's helpful. So, if I'm interpreting your comments right, we should basically expect the level of cash to come down to maybe a lower level once you have established those systems to your satisfaction, but you're not there yet. Is that a proper way of paraphrasing what you're saying?

Stuart Miller: Thank you for the commentary. I think that helps me answer a little bit better. And let me say that we are decidedly not holding onto cash to execute the next large-scale M&A program or some out-of-the-box growth program. So, I wanted to dispel that thought process. This past year has been an incredible year for our company in terms of developing the confidence around durable systems that are actually working very well. It's been a proving ground. And so, I would say, don't read too much into the holding of cash. It simply is the

development of confidence and stride in terms of the way that we deploy liquid assets.

Stephen Kim: Okay, that's helpful. I really appreciate it. There was some news very recently regarding the marketing of your rental portfolio. I was wondering if you could put some context around that for us, because we got a lot of questions from folks around whether this is something that we should be expecting to provide a cash infusion even above and beyond what the normal operations would generate.

Stuart Miller: So, look, I think that the base answer to that question is, we'll see. The determination to market the portfolio was driven by limited partners. And the timing is one where it's kind of a sub-optimal time to be thinking about a sale, although who knows where interest rates go, that could change quickly. So, we'll see what happens. There might or might not be.

This is an episodic kind of program where it'll happen or it won't, but it won't be material to either the balance sheet or the income statement of the company. I'm sure that if there's any profit, it would be discounted. And in terms of the cash infusion, it would simply be additive to our cash position and might even inspire us to do more stock buyback. So, we'll just have to wait and see on that. I don't think there's any additional guidance that could be given at this point.

Stephen Kim: Appreciate that. Thanks so much, Stuart.

Stuart Miller: Thank you, Steve.

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

Alan Ratner: Hey, guys, good morning. Thanks for all the detail, and congrats on the great performance this year. Stuart, I'd love to get your thoughts because I heard a lot in the commentary about the tailwinds that you guys had over the course of this year related to tight inventory, and the interest rate move these last few days or weeks has been obviously striking. But I think one of the great unknowns and uncertainties is what impact that does have on the resale market as far as potentially freeing up some inventory and getting some people to move. And obviously, there's puts and takes to that on your business. But what is your expectation there, assuming rates settle out near current levels as far as what that could do to the resale market and how the new home market might react to higher inventory levels in 2024?

Stuart Miller: Really interesting question, Alan. I've thought about this a lot over the past year, as the resale market has appropriately held on to mortgages that are at very attractive interest rates, and therefore have not added to the traditional supply that defines the resale market.

But the more I think about it and test my thinking, it just seems to me to be a zero-sum game. If the resale market is activated by a tick down in interest rates, which it might be, because in traditional fashion first-time buyers find that the family is growing, and they move up to a second move-up position, it does seem to me that to the extent that interest rates do activate the resale market and additional supply comes on the market, along with that supply comes additional demand, because what has been missing from the market is the traditional resale buyer looking for that move-up home, and decidedly the first-time market has been very thirsty for a new home product because the traditional resale product simply hasn't been available.

So, I suspect if the existing home market is activated as interest rates do trend

down, should they trend down, that it will result both in additional supply for the first-time buyer and additional demand for the move-up buyer. And we've been thinking a lot about that, and I think that we're very well prepared for that migration as well.

Alan Ratner: Great. Appreciate your thoughts on that topic. Second, on the margin, you're not giving formal full-year guidance, but I guess we can certainly piece together your expectations by you saying that you expect full-year margins to be pretty similar to 2023. So, that would imply a fairly healthy ramp through the year.

I was hoping you can give us specifics on what type of trajectory on incentives does that imply? I would imagine land costs are going to be trending up in terms of what's flowing through the P&L. So, should we just interpret that as your expectation that incentives should come down 200, 300-plus basis points over the course of the year from where they sit today?

Stuart Miller: So, if you go back to the days when seasonality was the norm and we went on a seasonality hiatus for a period of time, that was always the case. The trajectory of our margin started lower in the first quarter and accelerated through the year, and I think Diane detailed that in her comments. That has been the case.

I think that in our case, specifically as we went through the fourth quarter, the fourth quarter was a pretty rugged interest rate quarter, especially as we went through the first couple of months. And so, I think that you have kind of an anomalous margin push-down in our first quarter. I think that you're going to see a normal flow of margin improvement as we go through the year. I think the more extreme incentivization in the fourth quarter to maintain pace looks today as if it's really a thing of the past at that level. And as we look at where

our margin is likely to go, I think we have pretty good visibility because we went through November and then early December in seeing the market kind of ease up and the buyer come back to the market as interest rates did start to ease. Jon, do you want to weigh in on that?

Jon Jaffe: I would agree with what you said, Stuart. In addition, we did see, as we moved into sort of the holiday season at the end of the quarter less of a rebound as interest rates came down due to the holiday seasonality, which is sort of normal. I also think that you should expect that the real focus on not just the fact that rates are lower, but more effective use of adjustable rates in order to bring down the cost of mortgage buydowns, as the buyer still is in need of a lower effective interest rate to both qualify and afford homes at today's prices.

Alan Ratner: Great. Thanks again, guys. Appreciate it.

Stuart Miller: Okay. Thank you, Alan.

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

Kenneth Zener: Good morning, everybody.

Stuart Miller: Good morning.

Kenneth Zener: A key part of even flow cadence is structuring land as a variable cost, I think a very meaningful innovation for you guys. But can you quantify what percent of your closings have been coming from these finished homesites that averaged 85% to 90% of your purchases this year? So, what percent of the

closings came from these finished homesites in the quarter? If you could give us some context, that would be useful versus last year or earlier this year.

And then this is the key question. Quantify the margin impact that you're making versus the asset efficiency that you're achieving, because I think the latter point is misunderstood. That's my first question. Thank you.

Diane Bessette: Okay, I can just jump in. So, in the fourth quarter, about 48% of our deliveries were on finished homesites that we purchased from third parties. I don't know what it was at the beginning of the year, but I'm sure it trended up every quarter, and I think that we should expect to see that trending up in 2024 as we continue to become even more land lighter, reducing land on our balance sheet and having more control.

Stuart Miller: There was a second part to the question.

Kenneth Zener: Right, the margin impact versus the asset efficiency.

Diane Bessette: So, I think if you look big picture, it's a growing number, but I would say that it's probably 20 or 30 basis points, and that'll probably grow as we increase that percentage. But for now, I'd say it's about 20 or 30 basis points.

Kenneth Zener: Excellent. And then I think the second item, and I think this is more about messaging, and we've spoken about this in the past, but investors are seeking clarity on net income to cash flow and buybacks. I realize your company is evolving as you reduce your land exposure, but just generally as a heuristic, can you kind of affirm the statement? I think, Diane, you might have said this actually, that the balance of cash flow will go to share repurchases, absent debt payments. Is that a simple rule of thumb that is guiding your company? And Stuart, I think you were highlighting that you're not looking for large

land deals. So, I think with the simple heuristic, people would have more confidence in that application of your cash flow. Thank you.

Stuart Miller: I think that's a good characterization for right now, but what I'm trying to articulate is that we are evolving our thinking in this regard. I want to say emphatically that we're not looking for and holding back for large land deals. We're not looking for and holding back for M&A transactions. So, let's say that that's not the direction that we're going right now. And that the cash flow generated would (unintelligible) though conservatively right now, allocation between debt retirement as debt comes due and the remainder for stock buyback.

Diane Bessette: And I think, Ken, I would also just add, as it relates to debt, you might be referring to the fact that in prior quarters and prior years, we did a fair amount of early redemption on our future senior notes. I've always said that while the debt to total capital ratio is important, I think what's perhaps more important in my mind is the nominal dollars on your balance sheet. And so, we really wanted to take down the nominal dollars of our senior note balance. And now we're at \$2.5 billion, it feels like there isn't quite the need to keep calling debt forward. We can just kind of pay it down in an orderly fashion as it becomes due. So that's what I was thinking about it at the moment.

Kenneth Zener: Thank you very much.

Stuart Miller: Thank you.

Coordinator: Thank you. Next, we'll go to the line of Michael Rehaut from J.P. Morgan. Please go ahead.

Michael Rehaut: Thanks. Good morning, everyone, or I guess almost good afternoon. Thanks for all the comments so far, and also congrats on the fast turnaround after year end. That is very impressive. So, I would agree with Diane's comments earlier.

I wanted to first zero in a little bit on SG&A and corporate G&A for the first quarter. It looks like you're having revenue growth expectations predominantly driven by the higher closings but negative leverage, I guess, on both metrics by a pretty decent margin, given a double-digit revenue growth outlook. So, I just want to understand the drivers of that. I know you said on the corporate G&A there's more investment. So, maybe just talking a little bit more on SG&A, if there's higher commissions or other factors that we should be aware of. And on a full-year basis, should we expect SG&A and corporate G&A leverage outside of just this first quarter dynamic?

Diane Bessette: So, I think, Mike, as we've been articulating, we have been seeing a little bit more broker participation as sales have been a little challenging at certain times. We've been utilizing brokers judiciously, certainly using tiered programs and the like to ensure that we are capturing sales but spending dollars judiciously.

Additionally, as you heard us talk about the machine, a very big part of that is the lead generation on the digital side. How do we get more leads into the funnel so that we have higher conversion rates? And so, we've been, again, judiciously spending dollars on that spend because we believe that in the end that will really produce a higher net margin for us because it's less costly than brokers or other things. So, I think those are the two areas that have really been impacting our SG&A in the last few quarters.

Stuart Miller: That was a great articulation of the operational side of it. That was good, Diane. But the fact is that as we've gone through the ups and downs of the past year with interest rates, the use of our digital platform has really been a learning curve and has challenged us to get better and better and better. And while we have great affection for and engagement with our realtor community, we certainly don't want to incur costs that we don't have to incur. And so, we have been working carefully to make sure we're managing the balance between the necessary engagement with realtors and what we can actually accomplish organically through our digital platform. And that is rippling through our SG&A. We've seen the realtor spend and some of the marketing spend tick up as we have driven to maintain sales pace. So, we're seeing some of that. It's going to be a story of evolution as we go through 2024. Anything you want to add to that, Jon?

Jon Jaffe: I think that's the right articulation. As you said in your opening remarks, Stuart, we're continuing to learn about the execution of our machine. And as we turn the dials, whether it's interest rate buydowns or incentives or the flow through our digital funnel or the selective use of brokers, we're in that stage where we are trying, learning, experimenting, and providing the feedback to how to get better and more efficient at each of those levers that we pull to drive this consistent production sales pace.

Michael Rehaut: Great, thank you for that. I guess, secondly, just drilling down a little bit more on the gross margins and understanding it's a pretty fluid situation, certainly, but against kind of a backdrop where you've done low 24% gross margins in the back half of 2023, now you're talking about low 21% in the first quarter, but perhaps the full year getting back to something around what you did on a full year basis in 2023. It would seem like, this upcoming first quarter obviously you took steps to ensure volume and orders coming in the door that appear to be maybe, I don't want to say extraordinary, but you did what you

needed to do, let's say, to ensure those volumes coming through, it may be a little bit more of a stressed period.

Is it fair to kind of think about perhaps a 200 basis point or 200 to 300 basis point type of first quarter deviation as being kind of a, I don't want to say a one-time event, but as you have the more recent interest rate backdrop coming back to late summer and where you did a gross margin closer to that 24%, is there any reason not to think that you'll be getting back to that 23%, 24% type of gross margin in relatively short order outside of, again, perhaps some more aggressive measures that you took from an incentive standpoint that are kind of tangible and quantifiable that you see as more of just affecting the first quarter? Is that kind of the right way to think about kind of moving past this period in the very short term?

Stuart Miller: So, it's a great question, Mike, and it's one that we're thinking a lot about. And I think that the answer to that is we'll see, but it is our instinct that that is very much the case. As I noted in the fourth quarter, you really saw, as interest rates started to migrate above 7.5 and towards 8, as I said in my remarks, it really felt like you were hitting an inflection point where you really felt in the field that the buyers were maybe starting to hit a tipping point of losing some confidence.

The way I think about it is, as we've gone through this time of higher interest rates, even as we saw the sharp increase in interest rates at the inception, we were able to see incentives work. The incentives were able to help the buyer get to a point of affordability, and they transacted on the need for their housing. As we got into the fourth quarter, it was starting to get to that point where we weren't sure that incentives, even on the aggressive side, were going to work. Time went on, interest rates started to moderate just a little bit, not kind of as they did in the past couple of days, but just that moderation took

kind of the edge off. And maybe the market needed to get to a new normal. I don't know what that was actually going to be.

But the answer to your question is, we did what we had to do. We did what it took to activate the market at the moment in time. We're not going to build inventory. We are not going to pull back on the overriding strategy. We're driving cash flow. We're going to meet the market where the market is, and we're going to drive through it, and that's exactly what we did through our fourth quarter. You're right that some of the margin impact might be a bit more severe as we reflect that through the first quarter. And there could well be a kind of snap back, and we'll have to wait and see because we are going through the seasonality of this time of year right now.

Jon Jaffe: Stuart, if I could add, as you think about the machine and the process that we've been describing to you for quarters now, it's really a reflection of the reality that none of us have the crystal ball at any moment in time to see which way rates or buyer enthusiasm is moving. So, as we sat in the fourth quarter, we just dealt with the rates for what they were versus the speculation of where they might go. And so, as Stuart just articulated, we appropriately used mortgage rate buydowns to keep the pace going.

As we sit here today, rates look better, but again, we don't know where they're going, but we're well-positioned to just maintain that pace, which by definition means we would use lower-cost mortgage buydowns, continue to drive the consistent pace. So, as Stuart articulated and I've articulated, we use our margin as a shock absorber through the market conditions, interest rate environments, and you should see it move up and down as the market moves up and down.

Stuart Miller: One last thing I'll say is an interesting anomaly that we noted through our fourth quarter was there was greater reluctance to use an ARM product than would normally take place as we go through an interest rate cycle and much more focus on a 30-year fixed buydown, which was more expensive. And just a small tick or normalization of interest rates, and especially what's happened over the past days, really is migrating the attention of buyers through the prospect of an ARM product being more acceptable. This, of course, reduces the amount of incentive that's flowing through the system. And so, we're going to have to wait and see. Again, it's touch and feel on a day-by-day basis, and that's what we're working on.

Why don't we take one more question?

Coordinator: Thank you. Our final question comes from Susan Maklari from Goldman Sachs. Please go ahead.

Susan Maklari: Thank you for squeezing me in. Good afternoon. My first question is just building on your comments in response to the last question, which is, as you think about coming into the year with less than one finished spec per community, which is low and especially relative to maybe some of your peers that are in sort of similar product price points markets. How do you think about the ability to leverage the improvements in the Lennar Machine to flex the business to get to the 80,000 closings that you've guided to, or to even perhaps flex up or flex down relative to that number depending on how the market comes together this year?

Stuart Miller: Look, to that extent, everything that we are doing even the migration to the larger number of deliveries is by design. It's about the number of communities that we have and the pace through those communities. And this is becoming very much a focused, detailed program that is managed by Jon, with what we

call our daily call, it's actually every other day, and our operating group is laser-focused on production pace, starts pace, cycle times, dovetailing with sales pace at the division and community level. This is being handled on a very active, hands-on basis. Jon, why don't you add?

Jon Jaffe: Just as you said, Stuart, the by-design approach is to not have completed inventory, but to have new inventory moving through our production machine, which we don't need to flex up or down. It will consistently come through and will consistently drive deliveries towards our goal of about 80,000 for this year. And so, the market conditions will ebb and flow most likely, but our machine will be very consistent through that, delivering that by-design target that we have.

Susan Maklari: Okay. And then in your comments, you detailed some really impressive market share gains that you've realized over the course of the year. As you think about the forward year, can you talk a bit to maybe who those share gains you think largely came from, and then the ability to further outgrow the market as you drive some of these company-specific initiatives?

Stuart Miller: So, we're certainly not going to be naming names, and it's different across the platform, and I don't think we would even be able to identify where it came from. I would say every market is different. Every strategy in various markets for the competitive landscape has been different. Remember that there are some builders that have been constrained by access to capital. There have been others that just have a very different strategy. Our strategy has been clear and consistent, and where there has been pullback by one, another, or a group of other builders, we've leaned in. We've filled certain voids and picked up market share in that process, whether it's been a land acquisition, whether it's been in the acquisition of new trade partners to help focus on cycle time and

help bring costs into focus, or whether it's been in accelerating sales or sales pace, we've been able, across the board, to lean in and drive market share.

Jon Jaffe: I think the market share, the position is a byproduct of the strategy as you're hearing. It's becoming the most efficient, effective buyer of choice for land sellers and the most efficient, effective builder of choice for our trade partners. That's what really drives our strategy and produces, is that other builders pull back or maybe accelerate, we'll provide that consistent growth, that consistent volume to both land sellers and to our trade partners.

Susan Maklari: Okay, thank you for the color. Good luck.

Stuart Miller: Okay, thank you very much. We're going to end it there. I want to say thanks everybody for joining us. It's been a really exciting year for our company in terms of evolution, in terms of execution, and in terms of learning curve, and look forward to reporting on progress through 2024. Thanks 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