

LENNAR CORP
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Operator: Welcome to Lennar's First 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.

Operator: I'd now like to introduce your host, Mr. Stuart Miller, Executive Chairman

and Co-CEO. Sir, you may begin.

Stuart Miller: Very good. Good morning, everybody, and thanks for joining us today. I'm in Miami today together with Jon Jaffe, our co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, and Fred Rothman, our Chief Operating Officer.

As usual, today I'm going to give a brief macro and strategic overview of the company. After my introductory remarks, Jon's going to give an operational overview, updating construction costs, cycle time, some of our other operating positions. As usual, Diane's going to give a detailed financial highlight, along with some limited guidance for the second quarter of 2025. And then, of course, we'll have our question-and-answer period. And as usual, I'd like to ask you to please limit to one question and one follow-up so we can accommodate as many as possible.

So, let me begin. As we noted in our press release last night, we're very pleased to review our 2025 first quarter results against the backdrop of a challenging economic environment for the housing market. We adhered to our strategy and focus on driving consistent volume and growth by matching sales and production pace and using our margin as a circuit breaker.

We completed our Millrose spin-off, distributing shares to our shareholders and supporting our transition to an asset-light, land-light model, and we completed our Rausch Coleman acquisition using our asset-light model as we expand into new markets. While margin and earnings have been adjusting to movements of the overall housing market, we are confident that our focus on volume and even flow will position us very well for resilience, durability, and growth in the future.

Let me briefly discuss the overall housing market. Consistent with last quarter's earnings call, the macroeconomy remains challenging as mortgage interest rates have remained higher for longer, which has left the overall housing market weaker for longer. Across the housing landscape, actionable demand has slowed materially.

On a bad-news-is-good-news basis, all of this has led to the long-awaited environment where the costs of both homes, new and existing, and apartments, start to come down. As we noted in our press release, our average sales price this quarter, net of incentives, declined to \$408,000, 1% lower than last year. Evidence suggests that the time is now, and the sticky and large housing component of inflation might soon contribute to curtail the last mile to the 2% target.

While underlying demand for homes remains strong, actionable demand is limited by affordability and credit, which remain challenged by limited funds for down payments as well as income qualification for a mortgage. Most recently, even where household income indicates an approvable mortgage qualification, elevated personal debt levels have often presented as an additional impediment to already strained mortgage access.

Additionally, until recently, consumers have been generally confident that they will remain employed and that their compensation is safe. But more recently, even that safety has been called into question. A somewhat confused consumer and wavering consumer confidence have challenged the consumer's desire and ability to transact. While there continues to be considerable traffic of customers looking for homes, the urgency to actually transact remains tepid.

The overall supply of homes has also remained constrained by years of underproduction. Additional shortfalls in production will likely be triggered by now-muted demand, together with already existing restrictive land permitting and higher impact fees at local levels, and higher construction costs across the housing landscape. Additionally, new approaches to both immigration and tariffs have potential limiting impacts, and Jon will discuss this further in just a few minutes.

In summary, the housing market has softened as affordability and consumer confidence have limited actionable demand. Incentives have been increasing, and net housing prices seem to be moderating. At very least, housing will not be contributing to inflationary pressures, and while demand is constrained, supply is equally limited.

Against this backdrop, let me turn to Lennar's operating strategy. Our strategy is and has remained very clear. That is, simplify our business by focusing on the two core tenets of our operating strategy. Operationally, build and deliver consistent volume to maximize efficiencies. And financially, drive asset-light, land-light focus to build cash flow. Now that we have completed our Millrose spin-off, we have intensified our focus on each.

First, we focus on consistent volume by matching our production pace with our sales pace. This means that as market conditions change to the positive or to the negative, we focus on driving and delivering consistent volume at the division level and at the community level, in order to maximize efficiencies in construction costs, in cycle time, in SG&A, and in all elements of marketing and sales.

We also strive to deliver consistent and even flow volume to our trade partners so they can be more efficient and deliver cost savings to us. While we

are not there yet, we're getting better each quarter and will accelerate progress now that the spin is behind us. Our execution in the first quarter was materially better than in the fourth quarter last year when we missed our expectation on sales volume.

This quarter, we did adjust and adapt to market conditions in real time, as we adjusted incentives and pricing. We achieved expected sales volume, and we did not enable our inventory levels to spike. We are laser-focused on keeping sales volume up in order to catch up pace and find even flow in each division and each community. By maintaining this discipline, we will not build up inventory in either built homes or in developed home sites, and we will efficiently convert production to cash.

As I noted last quarter, the catching up comes at a cost, and that cost is additional pressure on margins. Accordingly, as we've looked ahead to the second quarter of 2025, we expect to sell between 22,500 and 23,500 homes and deliver between 19,500 and 20,500 homes. We expect our margin to be approximately 18%, depending on market conditions, as we expect to continue to see margin pressure on deliveries that will be sold during the quarter. Nevertheless, we are focused on driving sales and closings and driving strong current cash flow, even at reduced profitability, while maintaining properly sized inventory levels so that as market conditions stabilize or improve, we will benefit from normalized margins across our growing volume.

On a side note, our margins are actually quite strong, except for the approximately 13% incentive we are using to enable affordability. These are outsized for the moment, and normalized incentives should be around 5% to 6%, and that would track for our normalized margin to be in the mid-20s percent. We remain focused on consistent volume in current market

conditions, and we will be very well positioned as the market normalizes.

The second focus of our operating strategy is to refine our asset-light configuration. We are much closer to the completion of the strategic rework of our operating platform from being a traditional homebuilder with sizable land assets to becoming a pure-play, land-light, asset-light, manufacturing-model homebuilder that benefits from just-in-time finished homesite delivery.

The Millrose spin completed the backbone structure of that rework. Now we are, and have the time to, focus on refinement of that platform. With Millrose operational, we now have a strong complement of land bank partners that enable the land and land development activity that enables the just-in-time delivery of fully developed homesites as a manufacturer.

Of course, each of these valued partners operates a little differently and has a different cost structure. But with the diverse land trade partners, we will refine cost and execution over time. As with all of our trade partners, our land partners will benefit from our consistent and predictable volume, and our cost structure will benefit as a direct result.

As we've noted before, once refined, we have conviction that our structured asset-light, land-light model enables far more predictable volume and growth with a much lower asset base and lower risk profile. We are confident that our operating strategies of consistent volume and an asset-light, land-light just-in-time delivery system of developed homesites, will continue to enable our company to be best positioned to rationalize our cost structure and be best positioned with strong volume as margins normalize.

Let me turn back briefly to our first quarter 2025 results. As I noted earlier,

we're quite pleased with the successes embedded in our first quarter results and accomplishments. In our first quarter, we started 17,651 homes, delivered 17,834 homes, and sold 18,355 homes. As mortgage interest rates remained higher for longer and consumer confidence searched for footing, we drove volume with starts while we incentivized sales to enable affordability.

As a result, during the first quarter, sales incentives rose to approximately 13%, reducing our gross margin to 18.7%. Our SG&A came in at 8.5%, which produced a net margin of 10.2%, although we were able to maintain construction costs and reduce cycle time, as Jon will detail shortly. We exceeded our sales and delivery expectations, while we were able to grow our community count from 1,447 last quarter to 1,584 communities this quarter, including our Rausch Coleman acquisition, and we're now better prepared for the remainder of the year. We continue to expect to deliver between 86,000 and 88,000 homes in 2025.

Our results represent a consistent and strategic quarter of operating results in the context of a very difficult economic environment, all while completing a time-intensive Millrose spin and growing into new markets with the Rausch Coleman acquisition. We clearly were able to walk and chew gum at the same time.

Additionally, on the positive side, we've driven our operating strategy to enable consistent cash flow, which has enabled us to strategically allocate capital. Our strategy has enabled us to repurchase another 5.2 million shares of stock for \$703 million in the first quarter while we continue to deliver a strong dividend.

Additionally, we distributed, as a dividend, to Lennar shareholders 80% of the shares of Millrose Properties, and through that Millrose ownership, they will

receive a regular dividend while providing the permanent capital which will drive the future success of Lennar. As for the remaining 20% of the Millrose shares, Lennar will shortly dispose of that remaining 20% in either a further distribution of Millrose shares or, at Lennar's option, may execute a potential exchange for Lennar shares, which would basically effectuate a cashless buyback of Lennar shares. Just to say this again, the additional 20% interest will be retained for a relatively brief period of time, and will either be distributed or exchanged for Lennar shares to effectuate a cashless stock buyback.

After our stock repurchases and dividends, we ended the quarter with \$2.3 billion of cash on book and an 8.9% debt-to-total capital ratio. We are well-positioned after the Millrose spin to be able to continue to return capital to shareholders as we continue to grow our business. We are very well-positioned from balance sheet to operating strategy to be able to adjust and address as the market unfolds as we execute through the year.

So, let me conclude and say that while this has been a constructive quarter for Lennar, and while the short-term road ahead might still seem a little choppy, we're very optimistic about the longer-term road ahead. This has been a very exciting quarter for Lennar, and we couldn't be prouder of the work and dedication of our extraordinary associates who've worked together to make it all happen.

Let me also take a minute to welcome to the team the talented new members of Lennar who have joined from our Rausch Coleman combination. We couldn't be prouder to now have us all working together as one. Together, we've expanded our platform as we have upgraded the financial and operating platforms of Lennar, and as we will continue to drive production and sales.

We've continued to drive production to meet the housing shortage that we know persists across the market. As and when interest rates normalize, we believe that pent-up demand will be activated, and our margin will quickly recover. As a company, we are well-prepared with a strong and growing national footprint, growing community count, and growing volume.

Perhaps most importantly, our strong balance sheet and even stronger land banking relations afford us flexibility and opportunity to consider and execute upon thoughtful growth for our future. In that regard, we will focus on our manufacturing model and continue to use our land partnerships to grow with a focus on high returns on capital and on equity.

We will also continue to focus our pure play business model and reduce exposure to non-core assets. We will continue to drive to just-in-time homesite delivery and an asset-light balance sheet. And as we complete our asset-light transformation, we will continue to refine our platform and generate strong cash flow and return new capital to shareholders through dividends and stock buyback, while we also pursue strategic growth. With that, let me turn it over to Jon.

Jon Jaffe: Thank you, and good morning, everyone. Stuart has highlighted for you our strategy of being a consistent, high-volume homebuilding manufacturer. I'll further review this as I discuss our performance on sales pace, cost reduction, and cycle time reduction, along with the execution of our asset-light land strategy for the first quarter.

As noted, our overall first quarter sales pace of 4.1 homes per community per month was right in line with our start pace of 4.0. This was accomplished with consistent starts and accurate cycle times, which determine the sales pace needed at each community. Knowing the output of this production, our

marketing and sales teams engage the Lennar machine to turn digital leads into appointments and then convert appointments into sales.

Throughout each week, we evaluate leads, appointments, and sales activity to measure if we are on track to achieve the needed pace. We continuously adjust to ensure we end the week not only with a targeted number of sales, but with sales of the right homes. If a community falls short on pace in any given week, there's clear focus on taking action to course-correct and get back on pace.

To drive the needed level of quality appointments, we focus on improving the experience for our customers to achieve higher conversion rates versus the alternative of chasing more top-of-funnel leads, which increases marketing spend. We believe our approach produces more qualified and motivated customer appointments, which we can convert into sales at higher conversion rates.

During the quarter, as we moved past the beginning of February, we did not see the seasonal pickup typically associated with the beginning of the spring selling season. So, we continue to lean into our machine, focusing on converting leads and appointments, and adjusting incentives as needed to maintain sales pace. These adjustments came in the form of mortgage rate buydowns, price reductions, and closing cost assistance.

In general, homebuyers in Florida and Texas, our two highest volume states, needed more help than most other markets around the country. We needed more incentives in the Florida and Texas markets to assist buyers to achieve mortgage payments they can afford, as well as to offset both a slowing immigration environment and increased inventory. All markets around the country require incentives to assist buyers in the current homebuying

environment.

In this challenged macro environment, we utilized the Lennar machine, along with our dynamic pricing model, to identify unsold homes nearing completion. Appointments are set for those homes and prices are established to achieve sales, preventing the buildup of inventory. Accordingly, we ended the quarter with an average of about two unsold completed homes per community.

Our production team continued its stride of being an ever more highly efficient homebuilder. The disciplines of planning for and delivering consistent construction starts, designing efficient-to-build floor plans, deploying digitally-enabled scheduling and quality control processes, and a well-trained construction management team, all allow for the development of meaningful strategic partnerships with our entire supply chain.

The continuous improvement of these strategic relationships with our trade partners is the core of how we drive down both construction costs and cycle time quarter after quarter. In the first quarter, our construction costs were lower by 1% from Q4, and decreased on a year-over-year basis by 2.5% to our lowest direct construction cost since Q3 of 2021. We expect this trend to continue for our second quarter and into the year.

Also, in our first quarter, cycle time decreased on average by one day sequentially from Q4 down to 137 calendar days on average for single-family detached homes. This is a 17-day or 11% decrease year-over-year. We also expect continued improvement in cycle time reduction for our second quarter.

As Stuart discussed, the execution of our strategy of matching our sales pace to our production pace required sales incentives of 13% in the quarter, about

700 basis points above normal. Our trade partners know that we are doing this to maintain production levels which they greatly benefit from. Our trade partners work with us to reduce their operating costs, and when needed, to lower their margins. This is critical to our execution of reducing construction costs in each quarter.

Let me address tariffs. We've been in discussions regarding the potential impacts of tariffs with our supply chain. These discussions all start with a review of margin reductions Lennar has already taken. This leads to a constructive effort to identify alternative sourcing and material strategies. Additionally, we prepare our trade partners to absorb potential increases to their supply chain costs in the event of tariffs. To date, we have had no impact to our costs from tariffs, and we'll work closely with all our trade partners if further tariffs present themselves to mitigate and offset cost impacts.

Similarly, with respect to potential labor disruptions that could derive from immigration policy enforcement, our consistent high volume makes our construction a priority for our trade partners. To date, there's been no shortage of labor or impact to cycle time. Again, our strategic trade partners appreciate the financial impact to our margins of maintaining our consistent high volume, and we expect to be as well positioned as possible should any disruptions present themselves.

As Stuart addressed, and as Diane will provide further details, we have further executed on our asset-light strategy with the Millrose spin. Post-Millrose, we ended the quarter with our supply of owned homesites improving to 0.2 years, down from 1.3 years, and controlled homesite percentage increasing to 98% from 77% a year ago.

During the quarter, land banks acquired on our behalf about 29,000 home sites

for about \$1.8 billion, and a commitment of about \$1.1 billion in land development. We purchased during the quarter from our various land bank partners almost 15,000 homesites for about \$1.6 billion. Operationally, our production-first discipline of even flow starts allows for the planning and consistency of takedowns from land banks, providing for efficiencies in the operations of land management by both our land bank partners and ourselves.

As we move forward, we are focusing on refining the efficiencies in and around the coordination of just-in-time land acquisitions by our land partners and us for the commencement of land development and/or home construction. These improvements in the execution of all of our operating strategies enable capital and production efficiencies, leading to an improving inventory turn, which now stands at 1.7 versus 1.5 last year, a 13% increase.

In our second quarter, we will continue to refine the execution of the Lennar marketing and sales machine, our even flow, high-volume production, and all land acquisition and development activities to be even more operationally and capital efficient. I also want to extend a welcome to our Rausch Coleman associates to the Lennar family and thank all of our Lennar associates for their hard work, focus, and dedication. And now I'll 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 operating performance. So, therefore, I'm going to spend a few minutes summarizing balance sheet highlights and then provide estimates for the second quarter. So, starting with the balance sheet, this quarter, once again, we were highly focused on turning our inventory and generating cash by pricing homes to market conditions. The result of these actions was that we ended the quarter with \$2.3 billion of cash and no borrowings on our \$3 billion revolving credit facility. This provided total liquidity of approximately \$5.3 billion.

As noted, during our first quarter, we completed the distribution of shares of Millrose Properties to our shareholders. As a result, we spun off from our balance sheet \$5.6 billion of land, representing 87,000 homesites, and \$1 billion of cash. With this strategic transaction, we completed the next milestone in our journey of becoming a land-light, just-in-time manufacturer of homes, and established a provider of recyclable cash for the future.

In addition, we also completed the acquisition of the homebuilding operations of Rausch Coleman Homes, which extended our footprint into both new and existing markets. As a result of the Millrose and Rausch transactions, we ended the quarter owning 13,000 homesites and controlling 533,000 homesites for a total of 546,000 homesites.

As Jon noted, this translated into our years owned supply improving to 0.2 years and our homesites controlled increasing to 98%, our lowest years owned and highest controlled percentage in our history. We believe this portfolio of homesites provides us with a strong competitive position to continue to grow market share and scale in a capital efficient way.

As we look at ratios, our inventory turn was 1.7x and our return on inventory was almost 30%. During the quarter, we started approximately 17,700 homes, and ended the quarter with approximately 38,300 homes in inventory. This inventory number includes approximately 3,100 homes that were completed unsold, which is about two homes per community, well within our target historical range.

Turning to our debt position, we had no redemptions or repurchases of senior notes this quarter. Our next debt maturity of \$500 million is not until May 2025. Our homebuilding debt to total capital was 8.9%, including the impact

of the Millrose spin-off. Consistent with our commitment to increasing total shareholder returns, we repurchased 5.2 million of our outstanding shares for \$703 million, and we paid dividends totaling \$132 million. This was, of course, in a distribution to the Millrose shares. Our stockholders' equity was just under \$23 billion, and our book value per share was about \$86. In summary, the strength of our balance sheet provides us with significant confidence and financial flexibility as we progress through 2025.

So, with that brief overview, I'd like to turn to Q2 and provide some guidance estimates, starting with new orders. We expect Q2 new orders to be in the range of 22,500 to 23,500 homes as we match sales and production paces. We anticipate our Q2 deliveries to be in the range of 19,500 to 20,500 homes, with a continued focus on turning inventory into cash.

Our Q2 average sales price on those deliveries should be about \$390,000 to \$400,000 as we continue to price to market to meet affordability. We expect our gross margins to be approximately 18%, which excludes purchase accounting, depending on market conditions. Margin is impacted by our use of incentives as a bridge to customers and affordably priced homes. Our SG&A percentage should be in the range of 8% to 8.2% to maintain sales activity.

For the combined homebuilding, joint venture, land sales, and other categories, we expect a loss of about \$15 million. We anticipate our financial services earnings to be in the range of \$135 million to \$145 million. For our multifamily segment, we expect to be about breakeven for the quarter. Then turning to Lennar Other, we expect a loss of between \$25 million to \$30 million, excluding the impact of any potential mark-to-market adjustments for our public technology investments.

Our Q2 corporate G&A should be about 2% of total revenue, and our foundation contribution will be based on \$1,000 per home delivered. We expect our Q2 tax rate to be approximately 25.3%, and the weighted average share count should be approximately 261 million shares. And so, on a combined basis, these estimates should produce an EPS range of approximately \$1.80 to \$2.00 per share for the quarter. And with that, let me turn it over to the operator.

Operator: 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 until all the 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, press Star 2. Again, that is Star 1 to ask a question. Our first question comes from Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Yeah. Thanks a lot, guys. Appreciate all the color. And I guess my first question relates to the long-term normalized margin that you referred to. Stuart, you're referring to the gross margin of kind of the mid-20s and I was wondering if you could give us a sense for what the operating margin might be after corporate expense. I assume corporate expense you're thinking maybe longer-term like 1.5% or something like that, but it would be helpful to understand what you think the normalized operating margin would be. And what do you think the path looks like to get your SG&A and corporate combined down from its current elevated level?

Stuart Miller: I think that across the board, Steve, that you're really looking at efficiencies that are being brought to all elements of the business, especially in the wake of having spun Millrose and some of the activity that just had to take place as we went through what was a time-intensive program. I think that all parts of

our business are being re-looked at and re-rationalized.

The simple math that I did was basically around the abnormally high level of incentives that are out there in the market right now to get to the volumes that enable us to realize some of the efficiencies that we think we'll ultimately get. So, I haven't figured out what I think that normalized bottom-line operating margin is going to be, but it's significantly higher than where we are right now where we're basically having to incentivize affordability at a very elevated level.

Stephen Kim: Okay, but it's fair to say though, you don't think that a 10% to 11% combined SG&A and corporate rate is sort of the normalized level going forward, right?

Stuart Miller: We do not. We actually think that as we get more and more focused on the new version of the way that we're configured, every part of our business will come under efficiency focus. And it starts with elements of the land side of our business, the land acquisition side of our business, the operating side that we've talked about, the corporate side. Everything becomes simpler as we move forward. It's just going to take some time to embed that.

Diane Bessette: Stephen, I guess I would just say if you go back to kind of, like, 2023, our SG&A was probably around 7% versus 8% now. So, I think that gives you a little bit of a framework. And our corporate G&A was about 1.5% versus 2%. The only thing I'd say there is that we do continue to invest in technology. We see that being a very important component. So, that one is a little tougher to call, but I agree with Stuart. I think that we're in a more elevated mode now than we will be in the future.

Stephen Kim: Yeah. No, that's encouraging. I guess my second question is a broader one, and it relates to how you've determined what the sales pace is that you want to

build your platform to deliver. Obviously, demand's been running below that pace, hence the incentives and all, but you've expressed the view that demand is ultimately going to normalize higher and that your margins will normalize once that happens. But an alternative view might be that this is the normal level of demand. And it's been kind of a while now that demand has been a little disappointing. And so, I'm curious, how long is Lennar going to tolerate subpar margins before you begin to question if maybe the machine's ought to be built to a lower level of volume than what you chose to build it, let's say, a year or two ago?

Stuart Miller: Interesting question. I think that we clearly live in a dynamic world in the housing world. The question of what normalized demand is, is something that we're going to reassess as we move forward. As we're looking at things right now, it's really very much at the community level. And for the communities that we have, we know we're looking at an absorption rate that we think over time is a normalized absorption rate. Will that change? We'll have to wait and see.

But if we think through the math of where the housing market is, we keep going back to the fact that we've been underproducing any notion of normalized production for the past 10 to 15 years. And so, we think that the underlying demand relative to the population and relative to where production has been leaves us in a supply shortage.

And so, it's our belief that right now with interest rates where they are, with inflation having affected affordability, we think that the market is undersupplied and that the embedded demand levels are much higher than what is actionable right now. And so, that's what we're solving to. Might we change our mind as we go forward, as the market evolves, as immigration questions come up, and other questions come up? We'll have to wait and see.

Jon Jaffe: I would just add, Steve, to Stuart's comments, that as each new normal presents itself in the future, our machine is very clear, and we have the ability to focus on adjusting it rather quickly throughout the platform.

Stephen Kim: Okay. So, if you do change your mind, it's something you're saying you could do relatively quickly, Jon. Okay, so that's encouraging. Would you put that in, like, within a few quarters that you could adjust, or is it something that you could do even quicker than that, just to clarify?

Jon Jaffe: I think how quickly we'll move will depend upon what's happening relative to a new normal, how severe it might be. In most cycles, it's a much more gradual process and the adjustment is over several quarters. If we find ourselves in a place we need to move faster, I feel comfortable we can do so.

Stuart Miller: I think the bottom-line answer to the question is, we can adjust our production levels and therefore our sales pace pretty quickly. That would probably take a quarter or two. So, we can make those adjustments pretty nimbly, and I think that we're getting better and better at being able to tweak up or tweak down.

Stephen Kim: Okay, great. Thank you very much, guys.

Operator: 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 so far and congrats on all the exciting news during the quarter. I know it was a busy time for you guys, so nice job getting all of it to the finish line. So, Stuart, I think you walked through the normalized margin conversation well. I'd like to drill in a little bit more there. So, obviously if incentives go back to normal tomorrow, yes, your

margins are going back to the mid-20s, but I think one of the advantages of your strategy and your model today is you are turning through your inventory a lot quicker than other builders, and a lot of that inventory was underwritten in a different environment when incentives were much lower.

So, I guess my question is, you guys are out there buying land every day, buying a lot of land or tying up a lot of land. The land you're tying up today, is it being underwritten to an incentive level closer to today's level? And if so, can you get back to a gross margin north of 20% even if incentives don't necessarily get back down to that 5%, 6% level over the next few years? Or is it really going to require that type of return to normal to get that margin lift back up?

Stuart Miller: You know, Alan, we probably haven't told that part of the story well enough yet. The way we've looked at our land reconfiguration is we're focused on turning that land inventory for exactly that reason. As we run through production levels where they are, we are basically selling the land that was underwritten in a different level, and we are redeploying at current levels. So, in just a second, I'm going to ask Fred to weigh in on this because Fred's kind of front and center in a lot of it, but the whole focus is, let's run through the land and the inventory that was bought yesterday, and it is a constantly refreshing group of assets, both the home inventory and the land inventory, and particularly in a difficult market as we're in, yesterday's land acquisition isn't going to get better with time. So, let's replace it with the next one. Fred, why don't you weigh in?

Fred Rothman: Sure. So, we're very strategic right now in how we're approaching land acquisition. We're being patient, but we're also underwriting the current information and incentives and gearing to higher margins. What we're going to watch to see, land tends to be trailing some of the other aspects of our

business in moving down. And we're now finally starting to see land sellers, site development contractors realize what's happening in the market, and we're going to take advantage of that over time.

Alan Ratner: Got it. Okay, that's encouraging to hear because it's obviously a big part of the strategy to be able to constantly refresh that cost basis. So, appreciate the thoughts there. Second question, also on margin, but more near-term. I know you're not guiding for the remainder of the year, but it looks like you're closing guidance, which you're maintaining, implies a pretty solid ramp in revenue in the back half of the year. Typically there's decent seasonality in your gross margin. You have about 150 basis point lift in margins over time in the back half of the year just on a higher revenue number. Recognizing all the moving pieces here, you've got purchase accounting, you've got Millrose, the higher costs flung through there, although that's probably more a 2026 and beyond story, you've got the Rausch Coleman mix issue. Should we expect all else equal, a similar seasonal trend in your margin this year, or are those headwinds going to offset the typical seasonality?

Stuart Miller: Well, that is definitely a backdoor to asking for some guidance on margin, and we're decidedly staying away from that. And I think that the market is still defining itself as we look ahead. There are all kinds of movements in the market that are political and social and economic. I think that we're going to just leave things where they are. We're going to wait and see how the market evolves.

I think that going back to your first question though, Alan, is this is a time where turning assets to cash and then redeploying with a new view of market conditions is a real strategic advantage. It's what we're doing every day. Right now, we're going through our Ops reviews. We've been in a number of our divisions, we're midway through, and the focus is on exactly that, spinning of

land, continuing to keep the sales pace up, and we might take a lower margin, but we're generating cash, and we're redeploying at a new understanding of where the market is, and potentially where it's going, I think it's going to work to our benefit.

Alan Ratner: Appreciate it. Thanks a lot.

Operator: Next, we'll go to the line of John Lovallo from UBS. Please go ahead.

John Lovallo: Good morning, guys. Thank you for taking my questions as well. Maybe just to parse out the second quarter gross margin or the walk from the 18.7% to the 18%, it sounds like that's excluding the purchase accounting. So, Diane, I guess I'm curious, what is the expected purchase accounting agreement? And then maybe to Alan's question, Millrose, the impact from that seems like it might be more longer dated, but there's probably some impact, maybe 10 to 30 bps from that. And then along the same lines, are you guys currently selling homes at sub-18% margins right now?

Diane Bessette: On the purchase accounting, yes, it was about 10 basis points in Q1, and I think it'll probably be in the range of about 20 basis points in Q2, as we have a full quarter of activity from Rausch.

Stuart Miller: Now the second part of the question.

Diane Bessette: What was that again? What are we selling at?

John Lovallo: The second part was Millrose and what are you currently selling at now? Yes.

Diane Bessette: The margin guidance that we gave for Q2 was in part because there will be a lot of sell-and-close activity, and we're probably in that zone with our

current sales and closings in the current quarter.

John Lovallo: Okay, understood. And then curious to get just how you guys would respond to sort of the bear argument that we hear quite often. But, I mean, I personally understand the benefits of the even flow strategy over time, but I think there is a perception out there that you've sort of increased the cyclicalities in the results, most prominently the margin, and that this is sort of a divergence in the discipline that the industry has worked so hard to get credit for over the past decade. How do you guys kind of respond to that?

Stuart Miller: I'm not sure that I'm fully following the question, but we've been through these times before and if we're building homes and as we're building homes, we're quite sure that whether it's the land underneath it or whether it's the home itself, in a market that is defining itself to the negative side, the home doesn't get more valuable, nor does the land get more valuable with time.

We've kept our land assets far more short-term, and therefore, to be able to move through the land assets and ultimately to build homes, tomorrow's pricing is not likely to be a lot better than today's. So, that's how we're thinking about it, and that's certainly how we've been executing. If we need to tap back on production, that's a decision we'll make as market conditions present themselves.

John Lovallo: Okay, thank you, guys.

Stuart Miller: You bet.

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

Michael Rehaut: Thanks. Good morning, everyone. Thanks for all the details always.

Stuart Miller: Good morning, Mike.

Michael Rehaut: First, I wanted to zero in a little bit on some of the mechanics and how to think about the interactivity with Millrose going forward from two aspects. One, obviously, you've already had a significant portion of your land under option to begin with, but now you're taking it up by about another 20 points or so. So, I'm just wondering relative to perhaps, let's say, fiscal 2024, what the full or annualized gross margin impact might be from pushing that additional 20% of your land base through options where theoretically it might be a little bit of a lower gross margin, all else equal.

And secondly, on the Millrose side, with, the tougher sales backdrop, was wondering if there's any element of walking away from some options that I'm sure with the 18% average, there's something at one of the tail ends of that curve, and if there would be any kind of option walkaways or things that we should anticipate over the next couple of quarters.

Stuart Miller: So, relative to the margin and the impact of Millrose and to the land banking approach, the migration that we've made to an asset-light program, we've generally seen over time where it's a little less mixed in with some of the other movements of market conditions, that the impact is generally about 100 basis points. That's what we've kind of calculated as we've gone through the migration over the past years. Of course, if we look at the current situation, it's a little bit more difficult to kind of ferret out exactly what the impact is, but it does represent about 20% of our business. So, you can kind of extrapolate from there in what is kind of a messy calculation right now.

In terms of deposit walkaways, we're not thinking about very many, if any, deposit walkaways. The cost of walking away is probably higher than just working through the assets at a lower margin. We've been inclined to work through assets at lower margins. And so, we're not injecting any deposit walkaways in our numbers.

We actually think, as we've looked back at past downturns, including the Great Recession, that the best execution with shorter-term, fully-developed positions is almost invariably to work through the assets and turn the land asset to cash and redeploy the cash, rather than a position of walking through, taking a hit relative to deposit money and ending up not covering your overhead and moving forward. So, we think that the way we've configured our program actually incentivizes us and others for that matter to execute the better economic solution, take a lower margin, work through the asset, redeploy the cash.

Michael Rehaut: Great. No, thank you for that, Stuart. Secondly, I'd love to just shift a second to the balance sheet and cash flows, and now with, obviously, the Millrose transaction still pretty close in the rearview mirror, but nonetheless, if you have any updated thoughts around leverage, free cash flow, and I believe earlier there had been talk perhaps of net income being more or less equivalent to free cash flow and presumably a significant, if not, a large portion of that would be towards share repurchase. So, any updated thoughts around there and maybe even any guardrails around share repurchase for 2025?

Stuart Miller: Well, look, we've daylighted this repeatedly on prior earnings calls where we've explained that the cash flow reconciliation over the next year or so is going to be complicated business. There are a lot of inflows and outflows. Millrose was anomalous in that we were actually spinning a large number of

assets that ultimately would kind of flip back around into a cash flow negative kind of configuration as we're taking assets off book and then bringing them back on book over time.

That rotation, we're going to have to let that work through a little bit, but we do have as kind of a North Star and where we're headed, a distinct focus on the fact that as this cash flow anomaly kind of works its way through, we think that we will be generating cash approximately equal to earnings, and we do expect to reignite a cash stock buyback program that will be rather robust as that cycling kind of works its way through over the next year. Diane?

Diane Bessette: Yes, I'll just add, Mike, I agree with that. The way I think about it is 2025 is a little bit of a year in transition. There's a lot that changed with Millrose and just the whole reconfiguration of our balance sheet. But I think, as you know, we're always long-term focused, and we strongly believe that the asset-light, capital-light model that we've developed is going to be really advantageous in the future and will meet all of the goals that we've established, which is generate cash and really make sure that we're increasing total shareholder returns.

Michael Rehaut: Perfect. Thanks so much, guys.

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

Susan Maklari: Thank you. Good morning, everyone.

Stuart Miller: Good morning, Susan.

Diane Bessette: Good morning, Susan.

Susan Maklari: Good morning. My first question is just sticking with thoughts on the cash generation of the business. One of the things that you mentioned is that now that the spin is done, you can accelerate the progress in terms of the even flow production side and standardizing your product and those efforts in there. Can you talk about where you are within that and how we should think about the progress that can come through over the next couple of quarters and what that will mean for your ability to sustain cash generation, even in a more volatile or weaker demand environment?

Stuart Miller: So, I would say that we're pretty early stage in terms of some of the cost rationalization and efficiencies that we know are going to come from the way that we're configured. These last few quarters have really been juggling a number of items to get to the completion of the Millrose spin and the combination with Rausch, which I say parenthetically, is just working out to be exactly as expected. And I think that the asset-light approach has worked out very well also.

But the more we're now able to focus on a simplified business model, and we're seeing this in our current Ops meetings, the ability to focus attention on the component parts that make this a simpler model is going to generate a lot of benefits as we go forward.

As it relates to cash generation, I think that the relationships that we now have established and that we are continuing to create on the land side of the business, where we have a very carefully crafted dance, it's a lot like appliances or other materials that we put into the home. We have a just-in-time delivery system that's getting more and more efficient and effective. And I think that not only will that kind of rotation or dance of buying land, developing land, providing just-in-time delivered homesites on time as expected, it'll look a lot more like the production cycle that we see in the

building of a home. And I think the efficiencies embedded in that will be strong.

And the cash flow that will be defined by a pure production machine will be very realistic because we've developed and spent the time to make sure that those land programs are durable, they're systemic, and just like other materials that are delivered for the building of a home, we're able to rationalize the cost and the delivery system. Jon, anything?

Jon Jaffe: Yes, I would just add, Susan, that we're really enthusiastic, as Stuart said, of really turning land into more of a production commodity to allow us to achieve the kind of efficiencies that we've achieved on the production vertical side of our business with land and land development. And we think that there's a world of opportunity to become more efficient, which will translate into our cash flow and into our bottom-line.

Stuart Miller: Yes, but just on the land side, we're being pretty religious right now about making sure that we're not pulling land back on our books, we're not accumulating developed homesites as additional inventory. And those efficiencies are going to define your question on cash flow. How do we get cash flow to equal actual earnings? We think that's going to be exactly where we end up.

Susan Maklari: Okay. That's helpful color. And then thinking about the forward growth of the business, post the spin, does that change how you consider acquisitions? And can you talk about the kinds of deals that you might be interested in, and what you're seeing in terms of the M&A pipeline and perhaps the health of some of these smaller private builders, given what's going on in the market?

Stuart Miller: So, over the past years, we've actually had a component of our growth that has

been defined by combinations with smaller builders, either fortifying positions in communities that we're already operating in, less so relative to growth into new markets. I think that the Rausch Coleman transaction is a more sizable transaction with a strategic operating team that is able to, and I think is, looking forward to working within the Lennar system.

I think the coordination that happens there is facilitated by our land programming that I think is going to work very well with the Rausch Coleman program. And that does define the opportunity to think a little bit differently about how we grow. The more standard kind of M&A deals that we've done in the past have been more along the lines of finding land assets and new community count. I think that we'll be able to enter actually new markets in a more strategic way, and using an asset-light approach really facilitates the ability to do it in a capital-efficient way. Fred, would you add to that?

Fred Rothman: Yes. The use of Millrose and the Rausch Coleman acquisition was a prime example of where M&A could become available, but we're very selective, and we're out there looking, but we're going to be very strategic in this as well and continue to use our Millrose and potentially others to be the source of the capital for the land and us buying the operational side. So, it's a nice fit, but we're continuing to look at other opportunities.

Susan Maklari: Okay. Thank you all for the color. Good luck with everything.

Stuart Miller: Okay. Thank you, Susan. And why don't we take one more question?

Operator: Thank you. Our final question comes from Ken Zener from Seaport Research Partners. Please go ahead.

Ken Zener: Afternoon all.

Stuart Miller: Hi, Ken.

Ken Zener: I know you guys are saying it again and again, but it's being missed by investors. Could you expand on your decision to start a home on an incremental cash flow basis where land is increasingly, if not, a variable cost, and what you think that means for your cash flow per unit? Because I think that's what is the disconnect between where your model is going and the focus on a more margin-centric response, because that's how the industry traditionally looks at it.

Stuart Miller: Diane?

Diane Bessette: I guess, Ken, I'd just be repeating what we've said. We think there's a lot of efficiencies by maintaining the production that offsets the cost that you might be thinking about. I think as you listen to Jon, for example, talk about the cost reductions in an inflationary environment, I think those cost reductions that we've seen on the direct construction side are pretty incredible, and the ability to have third-party capital available for the land component is pretty important, as well as covering overhead and those types of things. So, you're right, land is definitely increasing, but in our view, when you look at it from a much higher lens, the efficiencies really supersede that.

Stuart Miller: Are you asking about the decision to build each home?

Ken Zener: Yes, because what people think, if you have a let's call it a 10% EBIT margin, people think could that be a 10% cash flow? No, it's not, because traditional model, each unit you sell, you need to go out and acquire a raw lot that you need to develop, where that's turned into a variable cost, i.e. cash flow. It is

your earnings. I think people are still kind of missing that, because it seems to me that's how you're making your choices absent the need to buy land, which outside the margin side is your cash flow drag historically.

Stuart Miller: Well, listen, I don't think it's quite that linear. The fact is that we're going out, and we're looking for a piece of land. And the reality is, that land might have to be developed. And it might take a year, year and a half for the land to actually mature to a developed homesite. And while it isn't situated on our books, we have been a participant in making the decision on that piece of land, which we basically assign an absorption rate to. It might be three homes per month, four homes per month, but we are making that decision.

The real benefit of where we are is that we're constantly refreshing. We're keeping those land obligations much shorter, and as they mature to developed homesites, we're taking them down, we're committing to an absorption rate, and that commitment is limited in its scope or in its risk by the amount of deposit and commitment that we have, but we are looking at building a model that says where we make a commitment to a takedown schedule, we're going to do our very best to execute on that in order to work through that land. And that's how the land bank becomes a lot more efficient over time.

The dependability on that absorption rate will enable them to bring the cost of capital down and re-rationalize the actual cost of our inputs relative to the home. So, I wouldn't think of it as a homesite-by-homesite optionality that just flows through, but on the other hand, you are running through land on a more cash flow basis and redeploying that cash into better land over a shorter period of time.

Jon Jaffe: I think very much to your point, Stuart, Ken, is that, as Stuart described, we're underwriting this land and determining an absorption pace of, say, four a

month. We're, at that time, laying out a timeline for development to get to that finished homesite Stuart described, and then a timeline of start sequences at that four a month that's going to match. So, it's really, at that time of underwriting, we're almost making the decision of when we're going to start homes and the pace and sequence that we're going to stick to.

Stuart Miller: Right.

Ken Zener: Very good. I guess my second question would simply be, if you guys quantify the spread between what you saw in backlog and what became intra-quarter order closings in 1Q, comment on the 2Q spread, if it exists or not. And if your share count guidance, Diane, for 2Q, what that effect would be if your exchange was fully executed? Thank you very much.

Diane Bessette: Well, if I look at the second quarter, just from high level, what's in backlog, and it's pretty close to that 18%, and what we expect to sell and close is close to that as well, or what we've experienced so far. So, that's why, as Stuart mentioned, the margin will really be dependent on that sell and close as we go forward. We don't have a lot of data behind us, right, since March 1st, just a couple of weeks, to the extent that it increases or decreases, our margin will be impacted because there is always a lot to sell and close in the same quarter. But right now everything's hovering around the margin guidance that we gave.

Ken Zener: Excellent.

Stuart Miller: Okay, thanks, Ken, and let's end it there. I want to thank everyone for joining us. These are tricky times as we look at the housing industry. You can always count on getting a straight shot from Lennar. We're going to tell you where the market is and how we're addressing it, and look forward to keeping you updated as we go forward through 2025. Thank you, everyone.

Operator: That concludes Lennar's first quarter earnings conference call. Thank you all for participating. You may disconnect at this time, and please enjoy the rest of your day.

END