

LENNAR CORP
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11:00 am ET

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

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

Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in our earnings release and our SEC filings, including those under the caption Risk Factors contained in Lennar's annual report on Form 10-K most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

Coordinator: I would now like to introduce your host, Mr. Stuart Miller, Executive

Chairman. Sir, you may begin.

Stuart Miller: Thank you and 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, who's here, our CEO of Lennar Financial Services, and we have 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's going to give an operational overview, updating construction costs, cycle time, and some other operating overviews. As usual, Diane's going to give a detailed financial highlight, along with some limited guidance for our third quarter and full year 2024.

And then, of course, we'll have our question-and-answer period. And as usual, I'd like to ask that you please limit yourself to one question and one follow-up so that we can accommodate as many as possible. But before I begin, however, I would like to express, on behalf of all of the associates of Lennar, the sadness we all feel for the recent loss of another pioneer of our industry, Don Horton.

While we homebuilders compete, sometimes aggressively, in the field and across geographies, it is always with humble admiration and respect for our competitors. We learn from each other. We have reverence for all of their accomplishments. We learn from their successes and sometimes their failures and we are pushed to be our very best by their comparative accomplishments. This business is not easy, and those who succeed over years are to be admired.

Don was a tremendous success among homebuilders, and his success spanned decades. He climbed from humble beginnings to the greatest heights within

our industry. To the associates of D.R. Horton, as well as to Don Horton's family, we express our most sincere condolences, and we look forward to continuing to live, to learn, to admire, and yes, to compete with the D.R. Horton name as you carry on Don's tremendous legacy.

With that said, let me begin my remarks today. We're very pleased to report another consistent and solid quarter of operating results for Lennar. We have continued to execute our operating plan effectively throughout the first half of 2024, as we have driven production pace and sales pace in sync, while we have used our margin as a point of adjustment to enable consistent production even as market conditions have changed.

This program has driven excellent operating results to date, and we have simply never been better placed positioned as a company, from balance sheet, to operating strategy, to execution, to be able to adjust to a changing market as it unfolds for the remainder of 2024 and beyond.

In the second quarter, we started approximately 21,400 homes. We sold approximately 21,300 homes, and we delivered approximately 19,700 homes, keeping us on target to deliver approximately 80,000 homes for the year. Next quarter, we expect to start, sell, and deliver similar consistency as we continue to drive a continuously improving even flow manufacturing model that we believe will continue to enhance our cash flow, our bottom line, as well as our predictability.

We've continued to target a consistent production and growth rate in order to maintain volume, minimize production costs, maintain even flow production and sales, all in order to drive cash flow, effective capital allocation, and higher returns. Our primary goal is to migrate to a pure-play, asset-light manufacturing model that will be supported by a durable, just-in-time,

homesite delivery program that will enable simultaneous growth and cash flow.

We believe that a cash flow-enabled capital allocation strategy will drive higher shareholder returns, higher returns on assets, and ultimately, higher returns on equity. As we migrate to our desired end state, margin is the springing mechanism that enables this all to happen.

This quarter, our margin was somewhat higher than expected at 22.6%, up from 21.8% last quarter. Next quarter, we expect our margin to be approximately 23% depending on market conditions. And for the full year, we remain focused on driving margin to be approximately the same as last year's full-year margin of 23.3%.

While we understand that that will require a substantially higher fourth quarter margin, that accomplishment is partially embedded in our backlog, while, as I have said before, the rest of that story will depend on market conditions, interest rates, and consumer confidence as we go through the remainder of the year. We will see.

While we have been refining our operating platform, we've continued to drive strong cash flow and have allocated over \$600 million to repurchase approximately 3.8 million shares of stock, and additionally, to repay over \$550 million of senior debt as we continue to improve our balance sheet with a homebuilding debt to total capital ratio of just 7.7%. While we continue to hold a sizable \$3.6 billion of cash on our book, we are crafting our strategy for strategic capital allocation in pursuit of our structural objectives, which I will discuss further in just a few minutes.

But let me briefly address the economic environment. Overall, the macroeconomic environment remains relatively constructive for

homebuilders. There are challenges and there are opportunities. The demand for housing remains strong, limited by affordability, interest rates, and sometimes wavering consumer confidence. Additionally, the chronic housing shortage driven by over a decade of underproduction of housing stock, is additionally problematic for families seeking affordable or attainable supply.

Demand remains robust if it can be supplied at an attainable price point with interest rate support that enables the consumer to transact. Through our second quarter, interest rates started lower and felt constructive at approximately 6.75% as the market was adjusting to a new normal. Then, through the quarter, rates began a gradual climb to 7.3%, before dropping again as the quarter ended.

Concurrently, consumers remained employed. They are confident that they will remain employed, and they believe that their compensation will rise as well. This is most often the foundation of a very strong housing market. But the chronic supply shortage, the impact of interest rates on affordability, as well as persistent and stubborn inflation, have moderated housing market strength.

In response, new homebuilders have worked out incentive structures that range from interest rate buy-downs, to closing cost pickups, to price reductions designed to meet the purchaser at their intersection of need and affordability. Those incentives have increased and decreased as interest rates have moved up and down.

Homebuilders, particularly those with strong balance sheets and ready access to capital, have been able to adjust, capture demand, and drive efficiencies by using incentives to reduce the affordability constraint and enable purchasers to transact.

Against this backdrop, in our second quarter, we have continued to execute our core operating strategy. That strategy has been to refine a manufacturing production model that is pure-play homebuilding and land-light, asset-light. And simply put, that is what we are refining.

As I noted last quarter, we have been refining our manufacturing model. We have also been actively migrating to a pure-play and land-light operating structure across our homebuilding platform and each of our 40 homebuilding divisions.

Let's start with manufacturing. We've continued to refine our manufacturing platform that has maintained production and sales pace while we continue to engineer our homes for efficiency and volume. Driving volume enables us to offer more attainable products. We add needed supply to the market, we meet the needs of the consumer, and we contribute to building a balanced and therefore healthier housing market.

In doing so, we have enhanced our inventory turn and grown volume as we generate substantial cash flow. The consistency of our production and sales program across our platforms, together with constructive capital allocation, enable us to simultaneously enhance shareholder returns, returns on inventory, and ultimately return on equity.

Let me turn to pure-play. We are a homebuilder that builds affordable housing in strategic markets that fill the chronic supply shortage. We will continue to reduce exposure to all non-core assets. We are intensifying our focus on producing affordable and attainable products across our platform.

Land is more expensive, impact fees are getting more expensive, and labor

and material costs have been rising as well. We can only reduce the cost of housing by increasing productivity through efficiencies of our operation. Our focus has been on doing just that.

We are building more consistent products that we call our core products that are carefully value engineered, and we are using our start pace to refine an engineered production cycle, enabling us to reduce cycle times and to work with our trade partners to build efficiencies in logistics and the way that we run our community production.

We are building attainable homes for primary purchasers who can afford a down payment and qualify for a mortgage. And as market conditions dictate, we have and will use incentives to enable primary purchasers to purchase and achieve homeownership.

We have also continued working on additional product approaches to help build a more healthy housing market. We have intensified our focus on build-to-rent, community-scale, and single-family-for-rent, scattered homes across markets. We believe that we can and need to build additional production for professionally-owned housing that can fill an important additional need.

Those professional purchasers need cost efficiencies in today's interest rate environment in order to make their rents attainable, and we can provide that. There are many families who are building their future and aspire to single-family lifestyles with backyards, schools, and parks, but who can't yet afford a down payment or don't have the credit characteristics to qualify the mortgage that they need.

Institutional buyers fill that void for those families. Many have criticized the professionally-owned market and the investor class that competes with

primary homeowners to purchase product for rentals. This is flawed thinking.

We are also engaged in repurposing our blue-chip multifamily platform to build attainable rental products in an off-balance sheet configuration. We will build a singular product, another core product, called our Emblem Series. It will be built by our homebuilding division, but will be built with private equity capital. We have a strong history of successfully building multifamily products across the country. We have been building those products in an off-balance sheet configuration, and we expect to continue to build this vital, attainable product without encumbering our balance sheet.

Concurrently, we are repatriating capital that has been deployed in prior multifamily engagements. We are under contract to sell the assets of LMV Fund 1. There are multiple buyers, and we are working through the closing process of each asset with those buyers. We expect the assets will close throughout the second half of 2024.

Also, as we continue to stay laser-focused on our pure-play and asset-light strategy of generating cash and increasing returns, we are regularly reviewing the best strategy for other multifamily assets that are on book, and we may decide to monetize additional assets also in the second half of 2024. On a combined basis, these transactions could result in cash proceeds of approximately \$250 million in the second half of the year.

So, let me turn to just-in-time. We have been complementing our manufacturing model with a durable just-in-time finished homesite delivery system. Every home that is going to be built needs a homesite with a permit, and those homesites need to be optioned and off-balance sheet until we are ready to build.

We continue to focus on a just-in-time delivery program for land, just like we have for lumber and appliances, and we continue to make excellent progress in this regard. While we have always executed optioned land deals with third-party developers, those deals are not always available, and there are no developers in many of our markets. We only become structurally and durably land-light and asset-light by both negotiating optioned deals with landowners and developers, and also creating structured land strategies with private equity capital or permanent capital. Accordingly, we have worked with a series of private equity partners to create a homesite purchase platform where land is held and developed and ultimately delivered on a rolling option basis to the manufacturer as homes are ready to be started. This platform is a backstop for purchased land to be developed and delivered just-in-time to the manufacturer without land risk to that manufacturer.

By consistently focusing on a land-light strategy, we have materially enhanced and generated consistent cash flow through the ups and downs of interest rate changes, and we have enhanced our balance sheet and our liquidity. Our balance sheet, as I noted earlier, is situated with a 7.7% homebuilding debt-to-capital ratio, with \$3.6 billion of cash on hand and zero dollars drawn on our revolver. We have the flexibility to allocate capital strategically, first, of course, to growth, while also retiring debt, paying appropriate dividends, and repurchasing shares of Lennar stock.

We are aware that many have suggested that we have accumulated too much cash on our balance sheet and our leverage is very limited, which limits the ability of our returns to move higher. While we have understood the concern, we have remained patient as we have evolved not just the migration to land-light configuration, but also have remained focused on the long-term durability of the structures involved. Private equity capital can be fickle.

By driving volume through these programs, we have gained advantaged insights into the refined workings of our strategic land programs. Although we have a number of constructive partners in this regard, I would like to especially thank Ryan Mollett and Angelo Gordon for being an incredible and selfless partner in helping to evolve these programs over the past years.

He has been truly invaluable in execution and evolution and of course, never a mercenary in any engagement. With Ryan's help, the underlying plumbing system for the land strategies have been refined and questions have been answered as to the durability of the relationships that make up the counterparty relationship with the homebuilding partner.

Building on our experience, on our last earnings call, we announced that we were rekindling our focus on a strategic spin-off of most of our remaining land in order to create a permanent capital vehicle that can option developed homesites to Lennar, recycle capital into new homesites, and distribute market appropriate returns to shareholders.

I am pleased to inform you that we have made substantial progress over the last 90 days, and we confidentially submitted a draft registration statement to the SEC a few weeks ago. We are currently looking at approximately \$6 billion to \$8 billion of land that we expect to spin off into a new public company with no associated debt.

The goal of the spin-off is to accelerate our land-light strategy, which would allow for off-balance sheet treatment of the land assets. We are excited about the opportunities that we believe this spin-off will bring us to the innovations that we have developed for the operation of the spun-off entity.

Following the spin-off, the new public company will be completely

independent from Lennar. Lennar will have option purchase agreements to purchase back finished homesites on a just-in-time basis. Our team, led by Fred Rothman, has been fully dedicated to bringing this project to life as soon as we can, but we are still early in the process and there is no specific timeline to completion or guarantee that the transaction will be completed. Because of the ongoing review by the SEC, we cannot comment further on the spin-off, but we look forward to providing you with an update on progress and timing in the future.

After the spin-off, the new company would be another bucket of capital, in other words, additive, consistent, and compatible with other relationships that have existed and will continue to thrive alongside Lennar. Such a transaction would distribute capital to shareholders, it would reduce inventory on Lennar's books, and it would provide permanent, dependable capital for future land options. Our balance sheet would remain very strong, with consistent earnings and cash flow to continue to pay down debt and to repurchase stock.

So, let me conclude and say, at Lennar, we are continuing to modernize and upgrade the Lennar operating platform as we drive consistent production and sales. It has been a busy and productive quarter, and we have continued to execute in the short term while we build our platform for continued and future success.

Our second quarter of 2024 has been another strategic and operational success for our company. While market conditions have remained 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 actually going to begin to cut rates, we believe a pent-up demand will be activated, and we will be well prepared. If not, we will continue to produce volume and add to market supply. For that, we are well prepared.

Even though higher rates have remained sticky, strong pent-up demand has found ways to access the housing market. Given consistent execution, we are extremely well positioned for even greater success as strong demand for affordable offerings continues to seek short supply.

Perhaps most importantly, our extraordinarily strong balance sheet affords us flexibility and opportunity to consider and execute upon thoughtful innovation for our future. We will focus on our manufacturing model and continue to execute. We will focus on 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 we will continue to allocate capital to growth, debt retirement, and stock repurchases as appropriate.

We have the luxury to execute flawlessly in the short term while we continue to return capital to our shareholders through dividend and stock buyback, while we also, and I emphasize also, pursue strategic distribution to shareholders that fortifies our future. We have clearly earned an enviable position.

As I look forward to a successful 2024, we are well-positioned 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 consistent and predictable performance. We are guiding to 20,500 to 21,000 closings next quarter, with approximately a 23% margin. And we do expect to deliver approximately 80,000 homes this year, with a little over a 23% margin. We also expect to

repurchase in excess of \$2 billion of stock in 2024, as we continue to drive very strong cash flow. We look forward to a very strong year, and for that, I want to thank the extraordinary associates of Lennar for their tremendous focus, effort, and talent. And with that, let me turn it over to Jon.

Jon Jaffe: Good morning. As you heard from Stuart, our operational teams at Lennar continue to refine and improve upon the execution of our core operating strategies. Each quarter, our divisions further refine the elements of these strategies and how they can more effectively work in concert.

We are laser-focused on creating an even flow production-first homebuilder designed to deliver maximum results. As part of this process, Stuart, myself, and our regional presidents, travel to our divisions, meeting with their management teams after the close of each quarter to review each of the elements of our operating strategy.

In fact, we're in the middle of these reviews right now, taking today off, of course, to address our earnings, but back at it tomorrow. In these meetings, we learn together what is working and what needs improvement. With the end goal in mind of even flow production, we have built a strong sense of confidence and reliability in results, driven by selling the right homes at the right pace.

Every day our divisions learn from their engagement with the Lennar machine, constantly adjusting and trying new tactics. The machine produces information in the form of dashboards for analysis and decision-making. There is a continuous feedback loop as leads move from the top of the funnel, through the funnel, and ultimately to a sale.

This review enabled lower customer acquisition costs while also improving

the customer experience. Again, this quarter, our operating results produced starts that were evenly matched with sales and are projected to be evenly matched again in the third quarter. We will continue to refine this process of matching sales and production pace, delivering even more dependable and predictable production, which provides maximum benefit to our supply chain and our trade partners.

Last quarter, I described to you how our divisions hold machine Monday meetings to optimize the selling of the right homes at the right price based on the prior week's activities. Our operating teams review dashboards comparing actual results to the planned activity and make adjustments in real time to marketing plans for the upcoming week.

Currently, these meetings are focused on how to cost effectively drive higher quality leads, what we refer to as less hay and more needles. In turn, this reduces the overall number of leads we interact with, delivering more higher quality leads to our team. These improvements will result in a better customer experience, higher conversion rates, and lower customer acquisition costs.

In our second quarter, as interest rates fluctuated around 7%, this process informed us as to where we have pricing power or where we need the buy-down of interest rates and/or other incentives to achieve the desired pace. Achieving the pace resulted in ending the quarter with an average of less than one unsold completed home per community and enabled our growth of 19% in sales and 15% in deliveries year-over-year.

Our sales pace of 5.7 homes per community in Q2 is up from the pace of 4.8 last year. This increase was, by design, to match the start pace of 5.8 homes per community in Q2. The match sales pace to production pace means the sales pace we achieved varied across our markets. We are able to flex sales

pace faster or slower as needed in order to match production on a community-by-community basis.

Next, I'll discuss cycle time and construction costs. As I mentioned, by continuously improving the way we execute this game plan of predictable and reliable production, we deepen the partnerships with our trade partners. We focus on maintaining both a high volume and, importantly, a consistent volume of homes under construction that allows our trade partners to reduce their input costs despite the inflationary macro environment.

This strategy, along with value engineering and skewed rationalization, produces many efficiencies benefiting our trade partners. By consistently starting homes, even as interest rates rose during the quarter, we increased our starts by 9% from the prior year and 17% sequentially from Q1.

For the second quarter, cycle time decreased by four days sequentially from Q1, down to 150 days on average for single-family homes, a 30% decrease year-over-year. We expect to see cycle time continue to improve as we become increasingly more efficient.

Looking at the second quarter, as expected, our construction costs also decreased sequentially from Q1 by about 1% and on a year-over-year basis by about 9%. Moving forward, to drive further efficiencies and cost reductions, we are making significant progress on utilizing highly value engineered home plans, which, as Stuart mentioned, we call our core product strategy.

We saw our first starts of these homes in Texas late in the second quarter, and we'll see expanded starts throughout Texas and Florida in the third quarter, with first deliveries in our fourth quarter. The initial success of these core plans is seen as we engage with our trade partners, and believe this will

improve upon our position as a builder of choice. The reduced cost and time to build these core plans will help us achieve the goal of delivering more attainable housing to meet the needs of the home buying consumer.

Next, I'll discuss our land-light strategy. In the second 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 homesites to our homebuilding machine. In the second quarter, about 90% of our \$1.7 billion, or approximately 16,000 homesites acquired in the quarter, were finished homesites purchased from these various land structures.

This drove further progress in the quarter of our supply of owned homesites as it improved to 1.2 years, down from 1.7 years, and controlled homesite percentage increased to 79% from 70% year-over-year. These improvements in the execution of our operating strategies, resulting in reduced cycle time and less land owned, has increased our cash flow, as well as improved our inventory turn, which now stands at 1.6 versus 1.3 last year, a 23% increase.

The second quarter demonstrated ongoing progress in the execution of each of the strategies Stuart and I have reviewed. We started with a focus on Lennar marketing and sales machine, then to our production and on to land strategies. We focused on improving and connecting these strategies together, driving even more consistency and improvement.

Defining these strategies means that change is constant and the focus and hard work to execute is consistent. Yes, change can be challenging, but our associates are leaning into each of these strategies, embracing the challenges, and are executing at even higher levels. I also want to thank our associates for their commitment to this effort, and now I'd like to turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning, everyone. 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, summarize our balance sheet highlights, and then provide estimates for Q3.

So, starting with Financial Services. For the second quarter, our Financial Services team had operating earnings of \$146 million. The strong earnings were primarily driven by an increase in homebuilding volume and a higher capture rate. Additionally, there's a constant drumbeat to embrace technology to continue to find ways to run a more efficient business.

Our Financial Services team is intensely dedicated to providing a great customer experience for each homebuyer, and has created true partnerships with our homebuilding teams to best accomplish that goal. That partnership is clearly reflected in their solid results.

So, 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 \$3.6 billion of cash and no borrowings on our \$2.2 billion revolving credit facility. This provided total liquidity of \$5.8 billion. As a result of our continued focus on balance sheet efficiency and reducing our capital investments, we once again made significant progress on our goal of becoming land-light.

At quarter end, as Jon indicated, our years owned improved to 1.2 years from 1.7 years in the prior year, and our homesites controlled increased to 79%

from 70% in the prior year, our lowest years owned and highest controlled percentage in our history. At quarter end, we owned 91,000 homesites and controlled 340,000 homesites for a total of 431,000 homesites. We believe this portfolio provides us with a strong competitive position to continue to gain market share in a capital-efficient way.

We spent \$1.7 billion on land purchases this quarter. However, about 90% were 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.

Of the homes closed during the quarter, about 60% were from our third-party land structures where we purchased the homesites on a finished basis. As we continue to reduce our ownership of land and purchase homesites on a just-in-time basis, our earnings should more consistently approximate cash flow. And over time, it would be our goal to align capital returned to shareholders more closely with that cash flow.

And finally, our inventory turn was 1.6x, up from 1.7x last year, and our return on inventory was 31.4%, up 110 basis points from last year. During the quarter, and consistent with our production focus, we started about 21,400 homes and ended the quarter with approximately 40,000 homes in inventory excluding models.

This inventory number included about 1,100 homes that were completed unsold, which is less than one home per community, as we successfully managed our finished inventory levels. And looking at our debt maturity profile, we repaid \$454 million of our 4.5% senior notes due April 2024, and we repurchased in the open market \$100 million of senior notes due November 2027 at an average price of \$98.6. Our next debt maturity is not

until May of 2025.

We continue to benefit from our previous paydowns of senior notes and strong earnings generation, which brought our homebuilding debt to total cap down to 7.7% at quarter end, our lowest ever, and a remarkable improvement from 13.3% in the prior year. Consistent with our commitment to increasing shareholder returns, we repurchased 3.8 million of our outstanding shares for \$603 million. Additionally, we paid total dividends this quarter of \$139 million.

And just a few final points on our balance sheet, our stockholders' equity increased to almost \$27 billion, and our book value per share increased to \$97.88. In summary, the strength of our balance sheet, strong liquidity, and low leverage provides us with significant confidence and financial flexibility as we move through 2024 and beyond.

And so, with that brief overview, I'd like to turn to Q3 and provide some guidance estimates. We expect Q3 new orders to be in the range of 20,500 to 21,000 homes as we continue to sell homes in line with our production pace. We anticipate our Q3 deliveries to also be in the range of 20,500 to 21,000 homes, with a manufacturing focus of efficiently turning inventory into cash.

Our Q3 average sales price on those deliveries should be in the range of \$420,000 to \$425,000. And we expect gross margins to be about 23%, and our SG&A to be in the range of 7.3% to 7.5%, with both estimates having some plus or minus depending on market conditions.

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 Q3 to be in the range of \$135 million to \$140

million, based on expected product mix in our mortgage operations.

We expect a loss of about \$20 million for our multifamily business, and this estimate does not include the impact of the multifamily transactions that Stuart outlined in his narrative, since the specific timing is still uncertain. And then turning to Lennar Other, we expect a loss of about \$25 million for this category. This estimate does not include any potential mark-to-market adjustments for our public technology investments, since that adjustment will be determined by their stock prices at the end of our quarter.

Our Q3 corporate G&A should be about 1.8% of total revenues, and our charitable foundation contribution will be based on \$1,000 per home delivery. We expect our tax rate to be about 24.25%, and the weighted average share count should be about 271 million shares.

And so, on a combined basis, these estimates should produce an EPS range of approximately \$3.50 to \$3.65 per share for the quarter. For the full year, as we mentioned, we remain focused on delivering 80,000 homes, which would be a 10% growth year-over-year, with a gross margin that is consistent with last year's gross margin.

We also remain confident with our cash flow generation. As such, we are still targeting a total capital allocation of at least \$2.5 billion for 2024. \$1.7 billion has already been utilized to repurchase shares and reduce our debt levels through Q2, and so the balance will be applied to additional share repurchases in the second half of the year. And with that, let me turn it over to the operator.

Coordinator: Thank you. We will now begin the question-and-answer session of today's conference call. We ask that you limit your questions to one question and one

follow-up question until all questions have been answered. If you would like to ask a question, please unmute your phone, press Star 1, and record your name clearly when prompted. If you need to withdraw your question, you may use Star 2. Again, that is Star 1 to ask a question. Our first question comes from Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Thanks very much, guys. I appreciate all the color and solid results in the quarter. I wanted to first start with the land asset structures that you're envisioning, particularly the spin. I know you said that there's going to be more information provided at a later date, but you did offer up that it would have about \$6 billion to \$8 billion of land. That's higher than I think that you previously envisioned. I think you said it would have no debt, the team would be led by Fred Rothman.

And so, just taking some of those, I'm curious, what additional land assets are now being included versus what you previously thought? When you say the spin will have no debt, do you mean on a standalone basis it will operate with no debt? And if so, are you going to seed the entity with cash do you think? And then lastly, is the entity going to be staffed by current Lennar employees or primarily industry external personnel?

Stuart Miller: So, that's a bundle of questions in one question, Steve. We see you. So, as noted, we're fairly limited in what we can talk about. Just for clarification, it's being spun with no debt. We do have land assets on our books and have continued to, as we have evolved our thinking and structuring of the spun entity.

As I noted, we have stood up a straw man with a \$4 billion number. As we refined our thinking, we've just included more of the assets that we have. Giving more detail than that would be outside of the boundaries.

What I noted about Fred is that he has been leading the effort to build the filing that was filed with the SEC. And we haven't gone beyond that to talk about the population of the spun asset. That is something that we'll discuss at some future date. It was more to highlight that we have a dedicated team that is very focused on the execution of the program that we are putting forth, and there will be more detail as we report in the future.

Stephen Kim: Okay, that's fine. I guess we're going to have to wait for more info. That's fine.

Stuart Miller: That's correct.

Stephen Kim: The second question I have relates to your gross margin. I think you alluded to the curiosity that people have about the guide seeming to imply something around 25% or something in 4Q. I'm hoping you can talk about what kind of gives you confidence that the 4Q gross margin will rise. And in particular, I know that you have talked about your even flow production schedule perhaps affecting the seasonal cadence of gross margin.

So, maybe I can ask the question this way. If hypothetically market conditions were to be stable for like a whole year, how much seasonal variance would you generally expect by quarter? Would it be that your fourth quarter would generally have the highest margin with a consistent set of market conditions? And help us think through the quarterly cadence, if you could.

Stuart Miller: Well, first, let me say that we've been clear that we are migrating to a much more even flow model, and that will take some of the seasonality out of the margin variance that has been historic and has been seasonal, but some of it. Some of it just tends to ebb and flow along with market conditions during different seasons of the year.

We do understand that margins will be materially higher in the fourth quarter. Some of that is seasonal. Some of that has been directional in terms of the work that we've done on building both core plans and reducing our construction costs as we have continued to build volume and continued to consistently address a somewhat volatile market.

We have earned, not only the respect, but cooperation of our trade partners and understanding that they can depend on production, and we have used that cooperation to be able to build a more efficient program. It takes some time for some of those savings to flow through. We do have visibility as to what those savings are and how they're flowing through.

And as I said, some of that improvement in margin is embedded in our backlog. Of course, as the market ebbs and flows, some of it's driven by interest rates, some by consumer confidence, we'll have to see how sales and pricing resolve as we go through the remainder of the year, and we'll leave that open, and we'll see that together as market conditions present. Diane, would you like to add to that?

Diane Bessette: Yes. So, Steve, the other thing is, as you know, we expense field expense, so that in and of itself, generally if you look back last year, for example, from Q3 to Q4, we had about a 40 basis point benefit just from the field. So, that 40, 50 basis points is pretty consistent lift that we get from Q3 to Q4 just from field expenses.

Stephen Kim: Okay, great. That's helpful. So, just to make sure I understand, it sounds like the seasonal aspects, which might be the field expenses, is a fairly minor benefit to your 4Q. And so, it sounds like you're attributing more of the stronger 4Q gross margin to actually your scale advantages that you've been

building up. That sounds like something that's more persistent and not necessarily something that is particularly to a fourth quarter per se, right? And so, this sort of gives us a thought process that your margins are generally improving as you've been improving your scale, and that's the message that we should take back for this 4Q lift in gross margins?

Stuart Miller: So, I think that's a good takeaway, and I think that in many ways, this is structural and durable for the future. So, a lot of what we've been doing, on the one hand, has been muted by the fact that market conditions have moved around quite a bit, as I noted, interest rates moving up through this last quarter testing edges.

But on the other hand, the cost savings and the way that we are, number one, configuring production in the field, and number two, re-engineering our product lines to be much more consistent with core products that are repeatable from market to market and across individual markets, is creating durable efficiency that will be with us for years to come. So, yes, I think that this will be sticky and stay with us as we move forward.

Stephen Kim: Perfect. Thanks so much guys. Appreciate all the help.

Stuart Miller: You bet.

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

Carl Reichardt: Thanks. Good morning, everyone. Thanks for taking my questions. Jon, you mentioned differentiating among markets that have pricing power versus the need to increase incentives. Can you talk a bit about what those markets are or were in second quarter? And then in particular, I'm interested in Florida, with existing home inventory higher, some evidence of vacant capacity from the

rental market coming back to for sale, second homes, can you talk maybe specifically about those metros too? Thanks.

Jon Jaffe: Hey, Carl. We saw in most of Florida markets continued strength, particularly from southeast Florida up the eastern coast of Florida, we saw very strong year-over-year growth in our pace, which indicates that the underpinnings of the market demand are there. I would say we saw more of a return to seasonality in southwest Florida this year.

So, see strengthen in that market, but, yes, definitely saw that occur. Saw real strength up through the Carolinas, Atlanta, and up into the mid-Atlantic. And then in Texas, saw the ability to continue at a pace that match our production, which is, again, supported by the underlying demand.

Out west, strength is seen in some of the mountain areas, in Denver and Salt Lake City, and then up in California, really led by the affordability in Inland Empire and just ongoing supply-demand imbalance in the Bay Area.

Carl Reichardt: Thank you for that, Jon. And then I have sort of a broader question. As you at Lennar and some others have kind of transitioned away from, I guess, what you could call a land speculation type of business model years ago, to more of a vertically integrated manufacturer-retailer building more spec, pricing more aggressively. Stuart, do you think the consumer is becoming conditioned to expect discounts in the market, especially seasonal ones, the same way we've seen it in other sort of big ticket retail businesses?

And I ask in part because pricing and changing in base pricing has been a bit of an issue in this business given that homes are also investments as opposed to simply consumer products. And so, stability in price is of value to some degree. So, maybe you can talk about how the consumers responding or might

respond in the long run if their views are changing on when they buy, how they buy, and what they ask for secularly. Thanks.

Stuart Miller: So, I think, Carl, I think we're looking at a moment in time where on the one hand there is a supply shortage, but on the other hand, the consumer out of necessity is looking for elements of incentives or discounts to be able to afford, to be able to access the housing stock that they need.

I don't think that we can draw long-term conclusions about discounting from this moment in time. And I think it's very differentiated from the broader retail world in that we have a structural and chronic supply shortage. There will be a moment in time where affordability is less challenged. At that moment in time, the supply shortage will be a more dominant theme.

And I think you'll quickly see a snap back to where demand will come to market, outstrip the supply, and some of the discounting, a lot of the discounting, will kind of snap back to normal levels. So, I think it would be overly aggressive to try to draw conclusions as to the way the market will evolve in the future from today's current configuration.

Carl Reichardt: I appreciate your thoughts. Thanks, Stuart. Thanks, all.

Stuart Miller: You bet.

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

Susan Maklari: Thank you. Good morning, everyone. I want to focus a bit on the cash flows and thinking about the capital allocation. Stuart, in the past you've mentioned getting net income and free cash flow closer to being in line together. As you

think about a lot of the initiatives that you're putting in place and the progress you're making there, can you talk about how far out you think you are from achieving that, and what are the roadblocks that perhaps still exist to getting there?

Stuart Miller: Yes. I'll pass that to Diane for a second.

Diane Bessette: Sure. I'll jump in. I think with each quarter that goes by, we're getting closer to closer, and sometimes we exceed. If you look at this quarter, for example, our net earnings are, let's just call it \$950 million, and our capital allocation, when you combine the share repurchases and the debt paydowns, was in excess of that, right, at about \$1.1 billion.

So, it ebbs and flows a little bit. Sometimes it's a little short, and sometimes it's a little over. But I think the important thing is that as we continue to really focus on being the manufacturer and have even flow really become even more prominent in our business and purchasing on a just-in-time basis, I think you're going to see those two much more consistently aligned.

Susan Maklari: Okay, that's helpful. And then as you do think about the business further out and, as I said, the initiatives that you're going through, what is the level of cash balance that you will eventually feel comfortable holding on the balance sheet? How much will you need to sort of maintain the business, and how do you think about the allocation of the amount that comes in above that level?

Stuart Miller: It's a fair question, it's a good question, and I think that we are not quite there in being able to project out exactly how to think about that. As we go through and have gone through some of the reconfigurations, we have been, I want to say surprised, but surprise is too aggressive a word, to the upside and to the downside as to exactly how cash flows from quarter to quarter through the

year.

And the answer to your question is going to be directly tied to how our cash ebbs and flows as sticks and bricks flow through the operational manufacturing machine that we have. I think that we are leaving ourselves some latitude to develop some real-time understanding and expertise in how those dollars will flow in and out, hence why we've been a little stubborn on using our cash a little bit more aggressively, particularly as we craft the spin company. It adds complication to some of these calculations, and these structural changes make it a little bit complicated. Diane, do you want to add to that?

Diane Bessette: Yes. I think the only other thing I'd say that's really just in support of that is, if you look at the statistic that I mentioned, which is when you look at the deliveries this quarter, 60% of the deliveries had homes that were purchased on a finished basis.

And so, I think as we see that migrate higher, that does get us to a more consistent, predictable and visible cash flow. And then when we get to that point, I think we can really start to have a conversation about what's that balance, because that consistency and visibility has now come into more focus.

Susan Maklari: Yes. Okay, thank you for those thoughts. I appreciate it. Good luck with everything.

Stuart Miller: Susan, let me just say one more thing. There's another element to that, and that is appropriate capital for growth. So, it's something that's another part of the equation. We remain growth-minded as we build structures for the future. So, that's another variable that goes into that question about how much cash do we

retain. So, just to mention that.

Susan Maklari: Yes. Okay. No, that makes sense, Stuart. Thank you.

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

Alan Ratner: Hey guys, nice quarter and congrats on all the behind-the-scenes work on pivoting towards just-in-time. I think it's going to be exciting to see it all done in the quarters and years ahead. Stuart, first question, last quarter, you guys kind of referenced a little bit of, I guess, a weakening in that the overall quality, the credit quality of the consumers you were seeing by the potential buyers in your communities, maybe some higher credit card debt, lower credit scores.

And I think at the time, you were kind of the first to kind of address that, and we've since heard some more anecdotes about that, both from homebuilders as well as other industries. So, just curious, my first question, what you are seeing from the consumer today? Are you seeing more kind of yellow flags or red flags unfolding or have things been pretty stable since then?

Stuart Miller: Yes, thanks, Alan. You're right, we did detail that in the last quarterly call. I felt it was important to put out there at the time. Since that time, it has been much better documented. And so, I think it's fairly well known that there has been some movement upward in consumer debt and the debt of some of our customers.

It has not spiked since then. It has not changed materially to the negative. But there's no question that given inflation rates and the cost of living expenses, the consumer is definitely feeling a little bit more stressed, and we are starting

to see a little bit more credit challenge as customers come through. But that's consistent with what we were seeing last quarter.

And, of course, that makes the interest rate movement all the more - it creates more sensitivity. So, as interest rates have started to subside a little bit, it will be interesting to see how that ripples with the current state of the consumer, and we're looking forward to addressing market conditions as they present.

Alan Ratner: Great. I appreciate that update on that and encouraging to hear at least it's not accelerating, or the deterioration is not getting worse. Second, I'd love to spend a minute just talking about the SG&A and the corporate expense line, because I think that was the one area on the model that maybe was a little bit worse than guided for, and I think in general it's been trending higher than a year ago. And I know there's a lot that could potentially be driving that.

Obviously, broker commissions and things like that could be a function of where demand is. But I know you've got a lot of stuff going on behind the scenes as well with SpinCo and apartments. And I was hoping you could just spend a minute or two talking about what's going on with the SG&A, where you see that going forward beyond the third quarter and, kind of pick apart the pluses and minuses there.

Stuart Miller: We probably didn't spend enough time on SG&A. I thought about that as I was writing my remarks. SG&A is not the tight programming that we've had historically, simply because we are working on so much, and recalibrating the way that the business actually operates.

And if you think about the fact that over the past few years, we've probably migrated about \$20 billion of land to off-balance sheet kind of programming in favor of a just-in-time delivery system, and the development of that

delivery system in and of itself is a reorganization of the entire platform and comes with some cost ebbs and flows that are flowing through SG&A.

And in particular, as we now start building an additional subsidiary kind of program in that regard, meaning a large part of the other land that we own and building the SpinCo, you can imagine that some of the ebbs and flows of SG&A will be altered from its normal course by some kind of anomalous additions that are flowing through. So, Diane, maybe you can give a little bit more color on that.

Diane Bessette: I think that's right. I think you've seen the incredible progress and transformation of our balance sheet with regard to the years owned and the percent of land that we control. And so, therefore, there has been more expenses with those transactions to accomplish that greater goal. So, I think that's a little more color that corresponds with what Stuart was mentioning.

Also, I think additionally, if you just remember that, and I know everybody's experiencing this, but insurance costs have gone up. So, as we think about our insurance policies and our deductibles and things like that there's a little bit of that. Also, incredibly focused on generating non-broker leads. And so, sometimes, depending on market conditions, that requires a little bit more digital marketing and advertising spend. So, those all came together.

The one thing I would note, though, is that the increase was not related to higher broker spend. We've been really focused on keeping that at lower levels, so, however, the offset to that is perhaps a little bit more digital spend so that you are creating those non-broker leads.

Stuart Miller: Yes, , look, I'm just going to add to this and say that we can't really break it down and compartmentalize the costs that are flowing through. It's a little bit

of a jumbled picture. But if you look at the base operation and every part of our operation from construction costs and all the way through SG&A, we are getting more and more efficient.

And as we go through these next quarters, there will be a little bit of cloudiness in some of that, but as we break through to the other side, I think we're building a much better efficiency model that is going to work much better in terms of capital deployment, capital positioning, and capital allocation that will work to the long-term benefit of the company.

Diane Bessette: As I think about it, as we talk about the benefits, the operational benefits from maintaining production on an even flow, the same relates to this as we continue to maintain the levels of off-balance sheet transactions to generate the cash flow and the returns that it has been, we will also become more efficient with managing those costs.

Alan Ratner: Understood. I appreciate you running through all of that detail. So, thanks a lot, guys.

Stuart Miller: Okay, you bet.

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

Michael Rehaut: Good afternoon. Thanks for taking my questions. Wanted to just circle back to - covered a lot of ground and obviously appreciate all the detail. Just wanted to circle back, if I could, try to get a little more clarity on the 4Q gross margins. And appreciate your comments earlier, Diane, around the 40 or 50 bps of kind of operational leverage. Just wanted to make sure I'm understanding it correctly. I believe earlier, Stuart, you said that it was in part

based on backlog, part based on what you expect to do, market conditions, et cetera.

On the point of backlog versus market conditions, I was kind of curious on, if that 25%-ish type gross margin, if that is, in fact, what you're seeing in a part of your backlog today, because obviously part of that backlog would be delivered in the upcoming quarter at 23% gross margins, how much of the 25% is based off of the backlog versus perhaps as rates have come down over the last month, we're also thinking that maybe there's a little less incentives out there today, and wondering about current orders, if that's also kind of a better margin today and I don't know if mix is a part of it as well, but just trying to get a little more granular on the drivers of that 4Q improvement versus 3Q.

Stuart Miller: Hi, good morning, Mike. Thanks for the question. So, this is an imperfect calculation. It is always imperfect to flow through production cost reduction. And so, giving more detail is a little bit complicated. Some of that and some of the higher margins will flow through our third quarter. Some of it will flow through the fourth quarter and some into the next year. It's hard to know exactly where those numbers will flow through.

And so, there's not a lot more detail that we can give. It's just that directionally we understand margin is in part driven by the price that we get for a home. It's in part driven by the cost we pay for the building of that home. As we have been focusing on volume at a time where there is variability in the marketplace, we've been able to rethink not only our product lines and our core products, but also the cost structure that we work with, with our trade partners.

And so, it's in part flowing through the revenue side, in part flowing through

the cost side of the equation. And we're going to see how that evolves as we go through. And while all of that is happening, we are still continuing to sell homes in the current market conditions as it ebbs and flows. So, it's a little hard to put the pieces together, but those are the pieces that we see coming together as we give guidance and as we try to do the best we can to tell you what we see ahead.

Of course, the part that is in backlog, we understand components of it, but we're not sure which homes will close in the third and the fourth quarter and into the first. And as for the homes that we will sell over the next months, we're going to have to wait and see how the market evolves in a volatile market condition as we've been in. I don't know if that's helpful, but I wish I could give it to you in more granular form.

Michael Rehaut: Yes.

Diane Bessette: So, what I think that you alluded to is incentives. And as you think about the continual increase in interest rates for most of Q2, of course that impacts the closings in Q3. And so, if we see some stability, and we don't have a crystal ball on that, but if we see some stability with rates instead of the increase that we saw last quarter, that will also be helpful to margins. So, what we sell in Q3, of course, we deliver in Q4.

Michael Rehaut: Right. Thank you for that, Diane. Maybe my second question, I just wanted to focus on more maybe kind of month-to-month trends. And you kind of alluded to this earlier that earlier in the quarter, you were dealing with a little bit of higher rates, perhaps using more incentives. Just wanted to get a sense - and then, obviously, more recently, rates coming in a little bit.

I just wanted to try to get a sense, if possible, around how that impacted

incentives as a percent of sales throughout the quarter, and if there was a high watermark perhaps earlier in the quarter. And just trying to get a sense of where you might be relative to that higher watermark, let's say a couple of months ago, in terms of trying to gauge pricing power and level of incentives in the marketplace today versus when rates were 30, 40 bps higher, let's say.

Stuart Miller: Well, let me start, and maybe Diane will give us some additional color, but remember, as I said in my remarks, that when we started the quarter, the rates were at about 6.75%. As we went through the quarter, it migrated up to about 7.3%. It wasn't really until right at the end of our quarter that interest rates kind of took a sudden turn in the opposite direction. So, that didn't really reflect itself through our quarter, certainly not in any of the deliveries in our quarter.

So, what we have found is that the current market condition is pretty sensitive to interest rate movements. And there is a relationship and a very direct one between interest rates migrating higher and the need for higher incentives to offset some of those interest rates, it became a little more difficult as interest rates migrated to the 7.3% kind of range, and there were higher incentives that went along with interest rates at that level.

And I think that that's something that we can kind of expect is going to continue. As rates trend up, there will be a little bit more incentive. As rates trend down, it seems that some of the incentives come off. And we'll have to see if that continues to hold up, continues to be the consistent pattern. And order of magnitude, it's an everyday kind of assessment that moves around a little bit.

I don't think I can peg for you that 25 basis points in interest rate translate into X number of incentive dollars spent in one area or another. It's very market by

market, and the consumer base is very different in different markets. Diane, anything you'd add?

Diane Bessette: Yes, I think that's right. And to answer your question, Mike, so as we looked at the incentives given in March, April, and May, each month those incentives as a percent did increase, which is very consistent with what Stuart said. It really mirrors with the direction of interest rates. So, as they've moderated, it would be our hope that the levels that we saw in May would also moderate.

Michael Rehaut: Great. Thanks so much.

Stuart Miller: Okay, thanks, Mike, and let's take one more question, please.

Coordinator: And for our final question, we'll go to the line of Kenneth Zener from Seaport Research Partners. Please go ahead.

Kenneth Zener: Hello, everybody. Well, I think we can avoid a lot of the gross margin comments if 1Q perhaps is just the bottom in gross margin versus the flat math we're doing. But I want to focus on gross margin seasonality separate from the fixed field cost, because that's kind of straightforward to model. Now, your incentives in 1Q are like 10.4%. Great disclosure in your Q. What was it in 2Q versus the kind of 5% to 6% level in 2018, 2019?

And I'm asking because it seems even flow, your model, which helps obviously cost, creates a little incentive seasonality, which I think separate from the macro and the rates, because when you build a house, the first half, less sales demand, so it's kind of like selling ice in the winter versus the second half, I believe, is your thinking based on past trends. And if you can kind of talk about that piece. I think that's what's missing in the even flow discussion a little bit, if you would. That was my first question.

Diane Bessette: So, Kenneth, you were asking specifically about the incentives on deliveries? Is that what you were referring to?

Kenneth Zener: Yes.

Diane Bessette: So, Q1 is 10.9%. Q2, they were 9.4%. Of course, there's perhaps some seasonality, but I really think it's a more direct correlation to the interest rate environment. I think that perhaps what you're really referring to on a broader basis is trying to punctuate that the gross margin on a go-forward basis should be more aligned with the changes that we've been talking about from an operational standpoint.

So, the sustainability and the durability of the efficiencies and the cost benefits that we're seeing in margin should be maintained on a quarter-to-quarter basis, with a little bit of seasonality mixed in, but you should see a very strong and sustainable gross margin as we become even more proficient with even flow. I think that's what you're probably trying to punctuate, that sometimes there'll be some fluctuations in margin relative to the environment, but there's a lot of durability and sustainability in what you're seeing.

Kenneth Zener: Good. Second question, I guess, Stuart, this is a little more for you in the sense of comparing ROI of your core homebuilding, which you're directionally going towards, timing is as much tied to unknown things, right, and no need to get into that. But your choice to have so many other assets, which are a third or 40% your total asset base, how do you think of - your ROI goes from 30% down to ROA kind of in the low teens there. But how is multifamily?

I know that land will improve your homebuilding returns, but do you really

need the multifamily? Is technology part of that core homebuilding, in your opinion? I'm just trying to see how philosophically you think about these other assets. I realize you can't address the timing, but that's like the biggest drag on you merging your ROI and your ROA. And I'm just seeing if we really need these other parts in your longer-term philosophy because it's not clear to me yet. Thank you.

Stuart Miller: Well, again, we're focused on being the very best homebuilder that we can be and doing our part in building a healthier housing market. The multifamily programming that we have in place is really quite adjacent to our core homebuilding business. We basically already build the same product, but the un-core product represents a for-sale market. Building it for a for-rent market is something that we can do at the division level because it is an adjacency to what we already built, and we'll build it in a third-party platform. So, we don't think that that will be impactful over the long term to ROI or ROA or any of those calculations.

In terms of technology, technology is a small component of the overall. It's a very important component of how we're building our business. Every element of our business is being modified, re-engineered, rethought in and around technology and in the way that we actually operate, from our machine, which we've talked about quite a bit, digital marketing, to dynamic pricing, and everything in between, that machine has been a game changer in the way it has been informed by the technology investments and engagements that we have worked through over these past years.

The constant flow of technology, imagination, and innovation through our company is going to keep us modern and relevant as we continue to be a better version of ourselves. So, we will continue to be engaged with technology programming as we go forward. But many of the asset-heavy

kinds of investments that have been part of our engagement in the past, those will be recalibrated out of the company and will be focused on things that are direct adjacencies to what we do, and that is build affordable housing and fill the supply deficit that exists across the country.

Diane Bessette: Yes, and Kenneth, obviously, it goes without saying, the spin-off will have a material impact, not only to ROI, but ROE. So, we're very focused on that. And just one other comment on multifamily. Not only is it important to us because the business is adjacent to our core business, but recall what Stuart mentioned that they were doing it in a very capital-efficient way using third-party capital.

So, we feel like it's a complementary business being funded in a very capital-efficient way. Notwithstanding that, though, we are monetizing the Fund I assets, and as Stuart mentioned, we're constantly looking at other assets. So, it's an enormous focus on the company, and I think you'll see improvement on a go-forward basis.

Kenneth Zener: Thank you very much.

Stuart Miller: So, thank you everyone. Okay, thank you, Ken, and thank you, everyone, for joining us today. We look forward to continuing to deliver and provide you further information on our progress as we move forward and build the best version of our company as we go forward. So, thank you for joining, and we'll see you next time.

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

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