

LENNAR CORP
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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 and CEO. Sir, you may begin.

Stuart Miller: Very good. Good morning, everybody, and thanks for joining today on this interesting day with the SpaceX IPO at the same time. So, I'm in Miami today together with Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, Katherine Martin, our Chief Legal Officer, and Jim Parker, our newly promoted and appointed Chief Operating Officer, congratulations, Jim, and David Grove, our newly promoted and appointed Executive Vice President for Homebuilding. Congratulations, David.

Jim and David jointly oversee our operations across the country, and while they will not be giving opening remarks today, they will participate in our question-and-answer period. And as usual, I'm going to give a macro and strategic overview of the company, although abbreviated, and Diane will give a detailed financial overview and guidance for the third quarter of 2026. Then we'll open it up for questions, and as always, please limit yourself to one question and one follow-up.

Before we begin, I'd also like to reiterate, so that all of you know, that we have now posted our new investor deck on our website today at investors.lennar.com, in conjunction with this earnings release. This deck was created in an effort to give investors, analysts, and interested parties a clear view of the Lennar transformation and strategy that we've described consistently on these calls over the past years.

From our volume-based operating strategy, to our asset-light manufacturing model, and from our technology platform and initiatives, to our path-to-margin recovery and long-term value creation, we've tried to tie it all together for your review and comments. We believe it provides important context for

understanding where we are, where we're going, and why.

With that said, let me begin by saying that we're pleased to report Lennar's second quarter 2026 results that we believe represent strong operational execution, even as the macro backdrop has grown more complicated and sometimes erratic since our last earnings report. In the second quarter, we delivered 20,519 homes, around the midpoint of our guidance, and we generated 21,749 new orders, near the high end of our guidance.

Our gross margin improved sequentially to 15.6%. Our net margin increased to 6.4%, and our earnings per share came in at \$1.31, excluding mark-to-market items. Notably, our sales incentive rate on deliveries was 12.9% this quarter, down from 14.1% in Q1, and down from 14.5% in Q4 2025. After three years of incentive levels that have been generally increasing, we're starting to see the first real and potentially sustainable decline. While this decline may be a leading indicator of margin recovery, the overall market remains choppy as economic and geopolitical crosscurrents mark the way forward.

Against this backdrop, let me briefly discuss the overall housing market. The macro economy has grown more complex since the first quarter earnings call, and I want to spend a few minutes reviewing the specific dynamics shaping the market right now. First, mortgage interest rates have remained stubbornly elevated in the mid-to-upper 6% range throughout our second quarter.

The 30-year fixed rate sits between 6.4% and 6.5% today, modestly better than a year ago where rates were closer to 7%, but still at a level that keeps affordability challenged. At 6.5%, the buyer at the median family income is spending above 30% of gross income on their housing needs. Buyers are

stretching, and our incentives are enabling purchase. The fact that incentives are declining, although slowly, is an encouraging signal, even though the math has not yet changed meaningfully yet for the buyer.

The inflation picture has also become more complicated. The May CPI report released recently showed headline inflation at 4.2% year-over-year, up from 3.8% in April, and the highest reading since early 2023. The primary driver was energy, as gasoline prices increased 7% in May, and are up over 40% year-over-year, driven by disruptions to oil supply tied to the Iran conflict.

While this is possibly just an energy-driven spike, as core CPI came in at 2.9%, and actually decelerated on a monthly basis, higher energy prices touch every part of the American household budget and tend to depress consumer confidence. When families see gasoline at the pump and electricity bills climb, their willingness to make major financial commitments, including purchasing a home, moderates, even when their underlying desire to own has not changed.

This inflation backdrop most likely has taken the Federal Reserve off the table as a near-term source of relief. The federal funds rate remains at 3.5% to 3.75%, and there is little probability of a cut in the immediate future. Rate cuts, when they eventually do come, can be meaningful tailwinds for our business, but we are not waiting for them. We are building and executing to the market as it currently exists.

On the employment side, the economy remains solid on the surface, but consumer psychology is being affected by anxieties about the long-term security of jobs at a time of rapid technology change. The advance of artificial intelligence is raising questions about the future of employment across a wide range of the workforce.

We see this in buyer behavior. Traffic is inconsistent, intent is high, but urgency to close is still measured and deliberate rather than confident and energized. We continue to make homeownership achievable and attractive through value-oriented pricing, compelling financing, and the speed and quality of our customer engagement. While currently, urgency is lacking, we continue to build the platform to serve buyers even better in a normalized market.

On the cost side of our world, a broad range of commodities and building products continue to create headwinds across the industry. We have managed these pressures effectively as construction costs per square foot improved to \$81 this quarter, down 7% from a year ago, but the cost environment remains fluid and bears close attention.

Additionally, labor costs require oversight as well. Labor availability has improved modestly in some markets as multifamily construction has slowed, providing some relief, although immigration policy and enthusiastic data center construction continues to create tightness in other geographies. Our record cycle time of 121 days, though, is evidence that we're managing these dynamics effectively well also.

On a positive note, the federal government's engagement with the national housing crisis continues to deepen. While the legislative vehicles moving through Congress are likely to have little impact on supply and demand components, housing affordability is still a focal point of both the administration and the legislature.

The level of attention being paid at the highest levels of government to housing affordability is genuinely unprecedented in my experience, and I

remain confident that meaningful federal action is closer than the market currently believes. If and when government action does come, and depending on its content, it can be a significant tailwind for the industry.

One component of our attention on this matter we continue to watch closely is the legislative and regulatory effort at both state and federal levels to contain or constrain institutional and investor purchases of single-family homes. Several states have passed or are advancing restrictions on large-scale investor acquisitions, and federal attention is growing to this issue as well. We view this initiative as a concerning long-term development for housing as it is recalibrating demand dynamics in a number of local markets, and might have the effect of reducing production of housing and reducing much-needed supply.

So, in summary, rates remain elevated, a fresh inflation spike is complicating the consumer picture, and the Fed is on hold. But underlying demand is real and growing, supply is structurally short, our own incentives are slowly declining for the first time in three years, and the government is focused on affordability. Crosscurrents, yes, but on balance, optimistic.

Against this backdrop, let me briefly turn to our operating strategy. Our strategy has not changed, and consistency of strategy, especially through a difficult cycle, is what builds confidence through our company, and we believe an enduring competitive edge in the market. We remain focused on two strategic priorities. First, driving consistent, even-flow production and volume, and second, continuously refining our asset-light, land-light balance sheet model to generate strong and growing cash flow and returns.

As to the first, across the Lennar platform, we have clarity that we price to market and maintain volume in order to meet demand at affordability. We

offer the incentives that our customers need to achieve the value they can afford, and we maintain consistent volume even as the market adjusts. We have remained steadfast in our execution, and our results reflect that conviction.

We continue to believe that our focused strategy has built consistency through the Lennar platform, which is creating a real competitive edge in the market. This focus has enabled us to drive down construction costs per square foot to \$81, as I said, down 13% from two years ago, and cycle time is down to 121 days, which is a record low, a direct driver of inventory turn improvement to 2.5x from 1.8x a year ago.

On the asset-light side, we continue to make excellent progress on an ever more seamless and sustainable asset-light model. Less than 5% of our land is on balance sheet. Total homebuilding inventory has declined to \$10.9 billion this quarter from \$11.4 billion a year ago. Our land banking partnerships continue to function extremely well and are getting increasingly more efficient while providing just-in-time homesite delivery at an 86% delivery rate.

In addition, we inject modern technology in every aspect of our land-light execution, and we expect that by year-end, we will have an extremely efficient land operating system and process that will reduce cost structure while enhancing our land acquisition, diligence, and review. Simply put, our land-light model will enable us to be significantly more efficient and effective as a land buyer, as a land developer, and land administrator at a significantly lower overall cost of capital. By strategically focusing on volume and asset-light, we are becoming a materially better and singularly focused homebuilder/manufacturer. This enables us to spend more time and attention to drive quality and value in our Homebuilding operations.

Quality always comes first at Lennar. We remain continuously focused on improving the quality of every home we build, with a world-class customer experience for our customers, and with safety first for our building partners. Lennar's excellent but always improving customer experience program starts at the time we first meet our customers through our digital marketing funnel, and never stops through the signing of the contract, to the closing of the contract, to the engagements with our customers after they close.

We are focused on embracing and engaging our technology platform to enrich and expand Lennar's customer experience as we build a customer for life. Additionally, we continuously improve the Lennar value proposition. We are using our market share, land access, and cost advantages to enhance the value proposition embedded in each home offering to our customers.

Our Everything's Included platform and program continues to serve as an important competitive differentiator and affordability lever. By standardizing features at scale and offering more for less, we capture purchasing efficiencies, offset cost pressures, protect margin, and deliver meaningful value to buyers, all while keeping the buying process simple and transparent. Additionally, our targeted financing programs, rate buy-downs and closing cost assistance, allow us to solve to an affordable monthly payment for buyers who are qualifying on payment rather than price, which describes a large share of our buying population in the current rate environment.

Now, let me turn briefly to our Q2 2026 results. In the second quarter, we delivered 20,519 homes and generated 21,749 new orders. Both reflect the continued underlying demand for new homes and the effectiveness of our pricing strategy. Our average sales price came in at \$371,500, and our sales incentives rate on delivery trended down to 12.9%, as I said, compared to

14.1% in Q1 and 14.5% in Q4 2025. I would reiterate that this is starting to look like a trend.

Our gross margin was 15.6%, while SG&A was 9.2%, reflecting continued investment in our digital marketing and technology platforms. Net margin was 6.4%, producing net income of \$305 million and earnings per share of \$1.24 on a GAAP basis, or \$1.31, excluding mark-to-market losses on technology. We are currently expecting to continue the trend of margin improvement.

Relative to our balance sheet, we ended the quarter with \$1.8 billion in cash, as our homebuilding debt-to-total capital ratio was 15.8%. Our inventory turn of 2.5x and return on inventory of 15.3%, reflect efficiency gains in our manufacturing model. We continue to focus on cash generation and improving returns. I will leave it here for now, as Diane will cover our guidance and our third quarter expectations.

So, let me conclude by returning to where I started at the opening of the call, the new investor deck that we have now posted at investors.lennar.com. We have spent some time putting together a presentation that we believe gives investors a clear view of our consistently articulated strategy, the mechanics of our asset-light model, the technology investments we are making, and the path to margin recovery. And we expect to continue to add to and refresh this presentation as we continue to advance our program. But overall, we have made the hard decisions, built the right platform, and we believe that we will continue to see that work mature into real bottom-line results.

After over three years of navigating a rather difficult and complicated housing market, we believe that we are well-positioned for market conditions as they unfold. In the current market, incentives are declining, margins are starting to improve, and our sales and marketing machine is generating stronger leads,

faster engagement, and better conversion.

Our operational platform, cost, cycle time, inventory turn continues to improve on every dimension. And our market position is very strong in the vast majority of our markets, which gives us the scale and influence to drive that recovery intentionally rather than waiting for it. We are building towards that with clarity, discipline, and confidence.

We simply could not be prouder of the extraordinary work driven by Lennar Associates across this company. They are all aligned in mission and strategy as they have executed through this extended period of difficulty, building new capabilities, driving down costs, shortening cycle times, and never losing sight of our mission to provide affordable, high-quality homes to families across America. With that, let me turn it over to Diane.

Diane Bessette: Thank you, Stuart, and good morning, everyone. Stuart's comments, combined with our earnings release, provide a comprehensive overview of our second quarter operating results. Therefore, I'm going to focus on balance sheet highlights, and then provide estimates for the third quarter. So, this quarter, once again, we were highly focused on generating cash by pricing homes to meet affordability. As Stuart noted, we ended the quarter with \$1.8 billion of cash and total liquidity of \$4.9 billion.

During the quarter, we started approximately 20,600 homes, and ended the quarter with approximately 38,600 homes in inventory, which included about 3,500 completed unsold homes or just above two homes per community. This is a meaningful reduction from three homes per community or 5,100 homes in Q1. Our construction cycle time improved to 121 days, our lowest cycle time in history, reflecting the impact of our production efficiencies.

With respect to land, we own 2% on our balance sheet and control 98% through third parties. This configuration significantly lowers our balance sheet risk, especially in challenging markets. We ended the quarter owning 11,000 homesites and controlling 484,000 homesites. We believe our land portfolio of primarily optioned homesites, provides us with a strong competitive position to continue to grow market share in a capital-efficient way.

The total balance of deposits and ACORE, and ACORE is pre-acquisition costs on real estate, was \$7.1 billion at quarter-end, an increase of \$237 million sequentially. The deposit component of this balance remained flat with Q1, which is consistent with a relatively flat number of homesites controlled. The ACORE balance increase was primarily driven by a net increase in capitalized option maintenance fees.

We pay current pay option maintenance fees to land banks based on the capital deployed on a multi-year pipeline of communities. Those fees are capitalized into ACORE. ACORE is then reduced as we purchase homesites from land banks and the cost becomes part of our land basis. So, in summary, ACORE increases by fees paid on multi-year land, and ACORE decreases by homesites purchased one at a time. Our inventory turn was 2.5x, and our return on inventory was just over 15%. We maintain our focus on increasing asset turns, which will enable us to capture more return upside as margins normalize.

Turning to our debt position, homebuilding debt to total cap was 15.8 at quarter-end. We ended the quarter with no outstanding borrowings under our revolving credit facility and \$1.7 billion outstanding under our term loan. Note that \$400 million of 5.25% senior notes matured on June 1st. We used cash to redeem the notes. Our next maturity is June 2027.

Consistent with our commitment to increasing total shareholder returns, we repurchased 5 million shares for \$447 million, and we paid dividends totaling \$123 million. Our stockholders' equity was approximately \$22 billion, and our book value per share was approximately \$90. In summary, the strength of our balance sheet provides us with confidence and financial flexibility as we progress through the second half of the year.

So, with that brief overview, I'd like to provide guidance estimates for Q3, starting with new orders. We expect Q3 new orders to be in the range of 21,000 to 22,000 homes, with continued focus on matching start and sales pace. We anticipate our Q3 deliveries to be in the range of 20,500 to 21,500, as we maintain even flow production and turn inventory into cash. Our Q3 average sales price on those deliveries should be between \$375,000 and \$380,000.

Gross margins should be approximately 16%. As we noted last quarter, we expect sequential margin improvement quarter to quarter as the year progresses. Our SG&A percentage should be in the range of 8.8% to 9%. And all of these metrics, of course, are dependent on market conditions. We anticipate our Financial Services earnings to be between \$95 million and \$100 million. And for our multifamily business, we expect a loss of approximately \$15 million.

For our Lennar Other segment, we expect a loss of approximately \$20 million, excluding the impact of any potential mark-to-market adjustments. For the combined Homebuilding Joint Venture, Land Sales and Other categories, we expect a loss of approximately \$15 million. We expect our Q3 tax rate to be approximately 28%, and the weighted average share count should be approximately 238 million. And so, on a combined basis, these estimates should produce an EPS range of approximately \$1.20 to \$1.40 for the quarter.

And finally, as Stuart indicated, we're adjusting our annual delivery guidance to 82,000 to 83,000 homes, given current pressures on interest rates and continued macro uncertainty. 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 Susan Maklari from Goldman Sachs. Please go ahead.

Susan Maklari: Thank you. Good morning, everyone. Thanks for taking the questions. I wanted to talk about the cash flows of the business and how you're thinking of the ability to generate cash as you continue to leverage the standard product and the inventory turn improvement that we've seen.

Diane Bessette: Core product. You wanted to talk about core product? Susan, is that what you meant, the impact of the core product?

Susan Maklari: Yes.

Diane Bessette: I'll turn it to David and Jim, but I think there's an increasing percent of our deliveries that are trending towards core product. It's very efficient. I think the real impact is the returns that we get on that because they're smaller product, easier to build, lower cost. So, while I think there's cash benefit, I think the real benefit is on the return side, but Jim?

Jim Parker: Yes. I'd say we're continuing to optimize the product across the whole

company. We're taking different divisions and different geographies, seeing what works the best, what cost structure is the best, and really using those across more communities, which I think is really going to have a long-term effect on costs and on selling.

Stuart Miller: At the end of the day, as we migrate towards more of our core product, we're going to continue to see reductions in both cycle time and our cost per square foot. And we think this is a real strategic advantage as we go forward. And as we reduce cycle time and cost per square foot, we're going to see increases in inventory turn. We think there's still room for improvement there. And this, of course, directly impacts cash flows.

Susan Maklari: Yes. Okay. All right, that's helpful. And then, thinking about a lot of these cost savings that you've been focused on, generating returns from those tech investments, those kinds of benefits, can you just give us an update on how some of that is evolving in there and how we should think about the ultimate savings that you can realize, and what that will mean for profitability and cash generation over time?

Stuart Miller: So, let me start with that and say that our savings are going to come from a number of items. As I just noted, cycle time is one and cost per square foot is another. But as we continue to improve, number one, our foundational technologies that are basically the engine for efficiencies, we're going to start to see our SG&A start to go down together with our corporate G&A.

The efficiencies are coming through basically a system that has required an awful lot of updating. Our technology systems at the foundation level have required a lot of work. And we've had some missteps along the way in that regard. As we really get our new systems entrenched, it's going to enable us to bring costs down. And of course, the efficiencies that we'll see through our

operating systems we think can be very strong. So, I don't know that we can quantify either the amount or the timing, but we know that the cost reductions are going to be quite substantial as we go forward, particularly in some of our corporate and SG&A costs.

Susan Maklari: Okay. Thank you for the color.

Stuart Miller: David, you want to say anything on that?

David Grove: I think what's interesting about both of those is that our core product and our technology are also very focused on our customer and our customer experience. So, as we create a better customer experience utilizing technology and also in our core product as we continue to refine it to meet the customers' needs and provide them what they expect and more than they expect with our Everything's Included model, we both have cost efficiencies and cost savings on our side, but we also are going to market with a better product and a better experience for our customers.

Susan Maklari: Okay. All right. Thank you.

Stuart Miller: Great. Next question.

Coordinator: Next, we'll go to Alan Ratner from Zelman and Associates. Please go ahead.

Alan Ratner: Hey, guys. Good morning. Thanks for all the color and the presentation. Appreciate it. First question, would love to drill in a little bit on the incentive and volume interplay. It's encouraging to see the trend moving lower on incentives. At the same time, you did slightly reduce the volume expectations. And I'm just curious, I know this is community by community, but in the field as you're out there trying to dial back some of those incentives, are you seeing

an immediate negative impact on your sales pace and absorptions that's translating to that reduced guidance? Or should we think about it more the other way in that you're expecting to see maybe volume pull back a little bit as you try to reduce incentives and, therefore, you're reducing your start pace commensurate with that? I'm just curious how you're seeing that in the field.

Stuart Miller: Go ahead, David.

David Grove: I think we've done a good job through the quarter, a really excellent job, actually, of both maintaining a sales pace, a very respectable sales pace of 4.3 sales per community per month while reducing our incentives. And I think that's a combination of core product execution. I think it's a combination of our presentation and the way we engage with our customers. And it's a result of our improving sales and marketing funnel leading to more appointments kept that we can then convert at a higher rate.

Jim Parker: Yes, I think that's right. I think that even sales is the biggest. If you look not just weekly, almost daily is how we measure it. And it takes away from the pressure on the weekends. So, I think keeping that cadence, if you look at our last quarter, every week lines up. Similar sales number every Friday, similar percentage. So, I think keeping that really allows us to lower those incentives.

Stuart Miller: And I think just layering on top of that, what you've seen is a disciplined approach to both sales pace and production pace to alleviate some of the drive and pressure so that we can allow some of the incentive reductions and pricing to kind of catch up with pace. The market has been under stress. The market overall has been somewhat erratic. And so, we've taken some pressure off of pushing into the market in order to let some of those incentive reductions mature.

Alan Ratner: Great. That makes a lot of sense. I appreciate that. Second, and bear with me for a second here, I just was hoping to get a little bit of clarification on some of the numbers in your investor presentation. So, you have a number in here, \$18.5 billion of inventory controlled. What I'm assuming that is, is kind of like the cost basis, if you will, of all the land that you control, either through options or land banking. I'm guessing that's not a finished lot value because if it was, that would seem pretty low per unit. So, first, can you just confirm that that's correct, that that's kind of like the current cost basis of all of your 400,000-plus optioned lots?

Diane Bessette: Yes. I'll say it differently, Alan. It is the total amount outstanding. So, it's the total amount of capital deployed by our land banks at that point in time. So, that would be acquisition dollars that they paid, as well as development dollars that they have incurred. And so you're right, it's not the finished price. And it relates just to the land bank population. So, you are right, just wanted to tweak the words a little bit.

Alan Ratner: Okay. So, that's just land banks.

Diane Bessette: That's right.

Alan Ratner: So, of the 480,000 lots that are kind of controlled through third parties, only a portion of that relates to this number.

Diane Bessette: It's the majority. Yes, it's the majority, though. We do have some with land developers, but it's the majority.

Alan Ratner: Okay. So, then of that \$18.5 billion that it sounds like, should we think of all of that being relevant to your ACORE, meaning if you're assuming a 10% cost of capital on \$18.5 billion, should we think about \$1.8 billion being kind of

the check you're writing every year to maintain those land banking? Or are some of those structured more on PIKs on the back end? I'm just trying to figure out the cash flow impact of that cost of capital.

Diane Bessette: Yes, that's exactly right. Most of the land banks have a current pay, but we do have some that are deferred payments. That's right.

Alan Ratner: Okay. So, do you have a number in mind that we should think about as far as what the ongoing maintenance is on an annualized basis, assuming some of those are PIKs? I mean, it's going to be less than \$1.8 billion, I presume, but I'm just trying to figure out how much less.

Stuart Miller: Well, listen, the way we think about it, Alan, and it moves around a little bit, so, what you have here is kind of a static moment. But what you have is as land is coming on either one platform or another, you're adding to. And with each home delivered, you're relieving from. So, you've got an input and an output on a regular basis.

Now, remember that while we're catching up to the starting point, we have more going on land banks than coming off through deliveries. But, I think that when you get down to it, I don't know what the percentages are of front pay versus amortized or ...

Diane Bessette: The majority are current pay.

Alan Ratner: Got it. Okay. No, that's really helpful. I appreciate it.

Stuart Miller: We don't have a number for you right now.

Diane Bessette: Yes, we don't have a number right now.

Alan Ratner: Okay, perfect. Thank you, guys.

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

Michael Rehaut: Thanks for taking my question. Good morning, everyone. First question, I have one question on the direction of the 3Q gross margin. But I wanted to start off with a question just around kind of more broadly volume versus price, because I think in the last couple of years, you've certainly kind of put a stake in the ground in saying you're a volume-driven company and you use price or margin as the lever to maintain a good volume number. And that number theoretically being 5% or 10% gross every year. Obviously, this year is a challenging environment, but I'm just curious on the thought process behind lowering the closings guidance as you did this quarter by 2,500 homes at the midpoint instead of further lowering your margin or price to maintain the prior 85,000. It would seem that it's almost that you're kind of saying, hey, we really don't want the gross margin to go below this level. But correct me if I'm wrong, and just any insights into that shift for this year at least.

Stuart Miller: So, the answer, Mike, is that we're dealing right now with a constantly changing macro environment. And this past quarter has been particularly awkward. You have geopolitical uncertainty that's driving elements of, whether it's interest rate expectations or certainly inflation expectations. And we just felt that as we manage sales and starts pace, and as we are managing carefully our inventory levels, what we didn't want to do is kind of go headstrong into a clearly uncertain environment with just a conviction with a market that's just moving around too much.

So, we felt that the prudent thing to do in managing our business is to focus on the absorption rate that we felt was comfortable for the system so that we can

manage inventory levels. And you've seen the critical part of our narrative here is that our inventory has come down from three homes per community to 2.1 homes per community, which is kind of our comfort zone. We articulated last quarter that we've built up inventory looking forward to a more robust selling season. That didn't really materialize in force. And at the same time, the uncertainties in the geopolitical world just said, let's err on the side of prudence. That's where the calculus came from.

Michael Rehaut: Okay. No, I appreciate that, and it certainly makes sense. Every policy needs flexibility for extenuating circumstances theoretically. Secondly, I just wanted to circle back to the third quarter gross margin guidance and kind of understand a little better. So, you're looking at about a 40 bps sequential improvement. How much of that is from the incentives coming down a little bit? And I'm curious, I believe it's 12.9% on the homes closed in the second quarter, what you're expecting that to be for the third quarter and what other drivers might be behind the sequential improvement, be it a little bit more volume or lower construction costs?

Stuart Miller: We're not really guiding to, nor are we injecting a projection as to where incentives might decline. Our increase in margin is more an expectation relative to inclusion of more core product, continuous improvement in our cost structure and some of the more operational sides of our business. So, we really don't have an expectation right now for where incentives are going to migrate to. That could potentially be additional offsets. But remember in my remarks, I was clear to say that incentives are coming down, but I said it a couple of times, though slowly, which is a positive thing because they're not going up. But that migration down is slow and looking to present itself as somewhat of a trend. So, we're going to see, and we're not projecting something, but embedded in our margin improvement, our expectation from the operational execution that we're seeing and able to look forward to.

Michael Rehaut: Great. Thank you.

Stuart Miller: Okay. You bet.

Coordinator: Next, we'll go to John Lovallo from UBS. Please go ahead.

John Lovallo: Thanks guys for taking my questions. I wanted to go back to sort of the ACORE comments. And it seems like the implied option maintenance expense was maybe \$270 million or so greater than what was expensed in the quarter. A, is that correct? And if so, is that implying that 2Q EBIT is overstated by \$270 million? And I guess, along the same lines, what's the expectation in the third quarter for the option maintenance expense?

Stuart Miller: Say the question one more time. I want to make sure I'm answering the right question.

John Lovallo: Yes, sure. So, the implied option maintenance expense, it seems like it was \$270 million greater than what you expensed in the quarter. So, I'm curious are earnings actually overstated in the second quarter because of this? And then I also was curious what you expect it to be.

Stuart Miller: No, John, that's a good question. And I want to make sure that I was understanding it right. So, what you've seen and what you are seeing is as we have stood up our asset-light strategy, remember that you are recovering one year's worth of homesites, and you are starting an ACORE accumulation or capitalization of the option maintenance fees for a broader range of land assets that are covering two, three, four years, maybe five years in some instances, of land accumulating ACORE on the platform.

So, for a period of time, there will be that imbalance, and that is a natural ebb and flow of capital. It's why we've been more conservative on things like cash and stock buyback over time because we knew that there would be this imbalance for an extended period of time. It will ultimately equalize. And so, the answer is no, that's not an overstatement of earnings or anything else. It's a natural migration from an on-book balance sheet with land embedded, or the way we think about it, a land company that happens to build homes, to an off-balance sheet, asset-light approach where we become a manufacturing platform, and that migration will have that imbalance for some period of time.

Diane Bessette: Yes, and John, I would just add on a positive note, so if you think about what Stuart's saying, right, most of our land banks are getting closer to kind of that equilibrium because think about the fact that most of our land banks are close to kind of like a maturity, if you will. Millrose is the one that is still on the journey, right? We formed Millrose a year and a half ago. So, that's the one that has a little bit longer to go to get to that point where you're matching the two sides, if that's helpful.

John Lovallo: Yes, thanks, guys. Second question is, and maybe I'm just looking too deeply into this, but it seems like the wording of how you guys describe the incentives over the past two quarters in the press release changed a bit, so I just want to clarify. The incentive load of 12.9% versus the 14.1%, part A, I mean, does that include the base price adjustments in that number? And if so, I guess the question is why didn't we see a bigger impact sequentially in gross margin from 120 basis points of reductions in incentives?

Diane Bessette: John, you're talking ...

Stuart Miller: Go ahead, Diane.

Diane Bessette: Q4 to Q1, is that what you're asking?

John Lovallo: I'm asking, does the 12.9% include base price adjustments, or is that just buy-downs is the first part?

Diane Bessette: It does. Yes.

John Lovallo: So, that's all in?

Diane Bessette: It does include those.

John Lovallo: Okay, great.

Diane Bessette: Yes.

John Lovallo: Fantastic. And then just, with that in mind, if that's an all-in number, we saw a 120 basis points reduction sequentially, so if we think quarter-over-quarter, I'm just curious why there wasn't more of a gross margin good guy, if you will.

Diane Bessette: It's a function of a few other items, John. And I guess the one thing I'd say is, generally, if you think about incentives, it does get a little convoluted, because sometimes you change your base price on a community, for example, and because it's the whole community, it's not an individual home price reduction. So, it does get a little confusing as to what you're measuring against when you're looking at your base price versus your net price. Does that make sense, John?

Stuart Miller: And additionally, you're opening new communities that have different pricing, so it's not even necessarily a price reduction.

Diane Bessette: That's right.

Stuart Miller: It's maybe a change in community, community A versus community B, and you open up at a lower price. We've seen our average sales price come down at the same time, so there is some mixing and matching in all of this.

Diane Bessette: Yes.

John Lovallo: Understood. I appreciate it, guys.

Stuart Miller: Okay, you bet.

Coordinator: Next, we'll go to Jay McCanless from Citizens Bank. Please go ahead.

Jay McCanless: Hey, thanks for taking my questions. First question I had, if we look at the backlog at the end of 2Q, roughly 16,000 homes should be about 80% of the closings that you're projecting for third quarter. Could you talk about what the backlog incentive looks like right now, maybe just as a directional, for what gross margins and incentives might look like in the third quarter?

Stuart Miller: Nah. I don't know. David, why don't you take that? Go ahead.

David Grove: Backlog incentives?

Stuart Miller: Yes.

David Grove: I think right now we're sitting right at about that same 12.5% on sales from Q2 that feed into Q3 closings.

Stuart Miller: Yes. I think they're flat to down a little bit right now, and I think that you said 12.5% versus 12.9%.

David Grove: 12.5% versus 12.9%.

Stuart Miller: And just so you know, to our operators, 40 basis points is almost flattish, but to some of us, every 10 basis points matters, right? So, they're coming down a little bit, and we really don't put that number out there because as you go through the quarter some of the backlog gets delivered in the next quarter, some of it gets delivered in a quarter after that, and it gets mixed with homes that are going to be sold during the quarter. So, it's a mixture, and it's not necessarily a good indicator. That's why my initial reaction was to say, eh, we probably don't want to give that information.

Jay McCanless: Okay. Well, thank you for answering it. The second question I had, and thank you guys for putting this deck together, is there opportunities over time to improve that WACC further to something lower than 11%, or do you think you've maxed out for now? And also, I know you said Millrose has some more time to develop. Is that going to be something that could also help that WACC move lower over time?

Stuart Miller: Go ahead.

Diane Bessette: Great question. I think absolutely because Stuart hinted to it, but you might not have caught it. There's continual work with regard to the land bank structures that we have, and every day we're refining and making them better. So, I do think that there is opportunity. We tried to give you just an illustrative example of how that cost has decreased, but I think there's a great amount of opportunity there as we continue to partner with our land banks.

Stuart Miller: Yes. I think this is one of the big opportunities for the company going forward. It's a laser focus of ours right now. Making the migration, the transformation, which is a financial transformation from on-book to asset-light, took a lot of work, a lot of focus, and we had to bring capital to a market that really didn't exist. Now that we are established, every day within the company we're looking at cost of capital, cost of execution, and refining the model so that costs come down. It's another area of big and sizable opportunity within the company, and I think you'll see movement here over the next two quarters. All right, from there, why don't we take one more question, please?

Coordinator: Next, we'll go to the line of Buck Horne from Raymond James. Please go ahead.

Buck Horne: Hey, thanks, everybody, and appreciate you sneaking me in. I was just wondering if you could elaborate a little bit on maybe your conversations that you've been having in Washington D.C. and the comment that you believe some meaningful federal action is closer than the market may be believing. I'm wondering, does that relate to something that may be beneficial for builders in particular beyond what's in the current housing bill that's still kind of being negotiated, or to the extent you're willing to elaborate on that comment, what levers could be pulled further that would be beneficial for the industry?

Stuart Miller: So, I think that all of the builders have seen and been engaged in various discussions in D.C., and while it would be inappropriate and probably not meaningful to talk about those conversations with specificity, because you don't know where they're going to end up, and I don't mean to create false optimism or anything like that, but the focus and attention has been something that I haven't seen in my career. That's meaningful. It indicates that the

affordability question in and around housing is something that is significant and something that has the attention of this administration.

Now, if you look over the past quarter, they might have been distracted on some other things. And so, things that might be on the agenda are maybe overshadowed by other parts of the attention of the administration. But I can say that the attention has been consistent, and I think that the affordability question is front and center, and housing is an important part of that.

Where the discussions will end up and what kind of programs the administration might choose to pursue is something that we'll just all have to wait and see on. I bring it up only because many think that there was a flash in the pan and an interest, and that it subsided. I just think that other things have taken the place of current thinking, but it's going to come back. It feels to me like it's going to come back as a front and center consideration. Affordability matters.

Buck Horne: All right. Thanks very much. That's perfect. Appreciate it.

Stuart Miller: Okay. That's a good place to end. I want to thank everyone for joining, and we'll get back with you in a quarter. Have a nice day.

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

END