

LENNAR CORP

Moderator: GRACE SANTAELLA
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11:00 am

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

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

Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in our earnings release and our SEC filings, including those under the caption Risk Factors, contained in Lennar's annual report on Form 10-K,

most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

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

Stuart Miller: Very good. Good morning everybody, and thank you for joining us today. I'm in Miami today together with Jon Jaffe, our Co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, and Katherine Martin is here. She's our new Chief Legal Officer. Welcome, Katherine. And Bruce Gross, CEO of Lennar Financial Services along with a few others as well.

I do want to note that Mark Sustana, our 20-year General Counsel, is not here today, and he's sorely missed. I don't believe that Mark has missed an earnings call in his 20 years with the company, and his service to and with the company has been truly remarkable. While Mark recently retired, and we have Katherine here as our Chief Legal Officer, Mark will remain a strategic advisor and consultant to the company, and we're sure that Mark can't help but listen today. So Mark, you're definitely here in spirit.

As usual, I'm going to give a macro and strategic overview of the company. After my introductory remarks, Jon is going to give an operational overview updating construction costs, cycle time, some of our land strategy and positions. As usual, Diane is going to give the detailed financial highlight, along with some guidance for the fourth quarter. 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, one follow-up, so that we can accommodate as many as possible. So let me begin.

We are pleased to review Lennar's third quarter 2025 results against the backdrop of what might be the beginnings of an improving economic landscape for the housing market. With that said, our third quarter results reflect the continued softening of market conditions and affordability through our third quarter. Sales volume was difficult to maintain and required additional incentives in order to achieve our expected pace and to avoid building excess inventory.

While our deliveries were just below our goal for the quarter, and while we sold more homes than expected during the quarter, these accomplishments came at the expense of further deterioration of margin which came down to 17-1/2%. Accordingly, we're going to begin to ease back our delivery expectations for the fourth quarter and full year in order to relieve the pressure on sales and deliveries and help establish a floor on margin. We will reduce our delivery expectations for the fourth quarter to 22,000 to 23,000 homes. And we will reduce our full year expectation to 81,500 to 82,500 for the full year.

For Lennar, this is an opportune time to pause and let the market catch up a little bit. Even though mortgage rates began to trend downward towards the end of the quarter stronger sales have not yet followed. We have certainly begun to see early signs of greater customer interest and stronger traffic entering the market. With lower mortgage rates purchasers are showing greater interest in considering their home purchase, and this is generally an early signal of stronger sales activity to follow assuming rates remain lower. And if interest rates continue to fall, we're quite optimistic that this all will happen soon.

The extended period of higher interest rates for longer than expected forced us, however, to adjust construction costs in order to enable sales in difficult

market conditions. Our lower construction cost structure, together with reduced margins, enabled us to meet affordability and support the supply and demand balance. We drove sales pace to match production pace, and we fortified our market share and position in each of our strategic markets. We are now situated with a lower cost structure, efficient product offerings, and strong market positions to accommodate pent-up demand as rates moderate and confidence ultimately returns. As I said before, this is just the right time for us to pull back just a little bit.

We believe that we've gotten ahead of the current market realities, and we have built what we believe is a stronger, long-term margin-driving platform. We know that this has taken some time as the market has remained weaker for longer, but we also know that our strategy has helped build a healthier housing market and has positioned Lennar for strong cash flow and bottom-line growth in the future.

We are optimistic that if mortgage rates approach the 6% level, or even lower, we will soon see some firming in the market, and we will benefit from stronger affordability and therefore demand. Accordingly, we'll remain focused on volume and even flow production, although at just a little slower pace. We will maintain responsible volume to maintain an affordable cost structure. And we will find the floor and rebuild our margin as the overall housing market continues to remain short on supply.

So let me turn quickly to a quick macro overview of the housing market. Consistent with last quarter's earnings call, the macroeconomy remained challenging throughout our third quarter. Mortgage interest rates remained higher, and consumer confidence remained challenged by a wide range of uncertainties both domestic and global. Across the housing landscape, actionable demand remained diminished by both affordability and

consumer confidence, and therefore the market continued to soften as we moved through the quarter. Nevertheless, as we came to the back half of the quarter interest rates began to drift downward, and that drift began to accelerate as we came to the end of the quarter and into the fourth.

Today, we are possibly getting closer to a 6% mortgage rate. That's fluctuating a little bit. And we're just beginning to see consumers return to the market. Against that backdrop, supply remains constrained in most markets driven by years of underproduction. New construction has slowed as builders have pulled back on production due to slow sales and affordability concerns, therefore exacerbating the chronic supply shortage. Demand is still high as people want and need homes, but affordability and waning confidence around buying now have been constraining that demand.

This has been a difficult cycle as low supply fuels high prices and high prices lock out many of our buyers. As I've said before mayors and governors around the country continue to list the housing shortage as a priority concern and point to affordability or attainability as a priority. I do suggest that if you want to better understand the conundrum of the housing market, read the book "Abundance" by Ezra Klein to better understand that housing has a long-term future defined by both structurally short supply and not just growing demand but growing need for housing as well. The current environment is all about recognizing that short supply is keeping prices higher and that only lower prices enabled by lower cost structures will achieve affordability.

Turning to our results, in our third quarter we started approximately 21,500 homes, we delivered approximately 21,500 homes, and sold just over 23,000 homes. While we were just short of delivery expectations, we exceeded our sales expectations and we were able to grow our community count positioning us better for the remainder of the year.

As mortgage interest rates remained higher, and consumer confidence declined, we continued to drive volume with our starts while we incentivized sales to enable affordability and limit inventory build. We have successfully focused on maintaining inventory within our two completed unsold homes per community level that has been reflected historically.

As a result, during the third quarter sales incentives rose to 14.3% reducing our gross margin to 17.5%, which was lower than expected on a lower than expected average sales price of \$383,000. Our SG&A came in at 8.2%, which produced a net margin of 9.2%.

As we look ahead to the fourth quarter, we expect that our margins will come in at approximately 17.5%, consistent with last quarter, of course, depending on market conditions. We expect to sell between 20,000 and 21,000 homes, and deliver between 22,000 and 23,000 homes. We expect our average sales price to be between \$380,000 and \$390,000 as we expect to somewhat alleviate pricing pressure on homes that will be sold during the quarter as a result of taking some pressure off of our sales pace. And as I noted earlier, we expect to deliver between 81,500 and 82,500 homes for the year 2025.

We expect our overhead in the fourth quarter to continue to run between 7.8% and 8% as we continue to invest in and evolve various Lennar technology solutions that will define our future. These initiatives, as I've said before, have been and will continue to add to SG&A as well as corporate G&A for some time to come as they represent a significant investment in our differentiated future.

So, in conclusion, let me say that while this has been another difficult quarter in the housing market it is another constructive quarter for Lennar. While the

short-term road ahead might seem a little choppy, we are very optimistic about our future. We are well aware that our numbers aren't where we would like them to be, but neither are market conditions. We are well situated with a strong and growing national footprint, growing community count and growing volume. We have continued to drive production to meet the housing shortage that we all know persists across our markets.

And as we have driven growth, production, and volume we have positioned our company to evolve and create efficiencies and technologies that will make us a better company built for the future. Perhaps most importantly, our strong balance sheet and even stronger land banking relations afford us flexibility and advantaged opportunity to consider and execute on strategic growth for the future as well. In that regard, we will focus on our manufacturing model and continue to use our land partnerships to grow. And we will lean into reshaping our business by developing and using modern technologies with a focus on cash flow and high returns on capital in order to drive long-term shareholder value.

So before I end, I can't help but note how inspired I am by the resurgence of a technology company that Lennar has supported for many years. We are quite confident that Opendoor, with its new CEO, Kaz, that's how he's referred to, will be a contributing force and partner in Lennar's technology journey and evolution. Kaz joined Opendoor after six years at Shopify, where he is mission-driven as he takes the helm of a company that has the ability and the ambition now to bring modern technology to change the homeownership market forever.

I have always said that the Opendoor platform, functioning properly, will add significant bottom line to Lennar while creating convenience and joy for our customers. As Kaz took the CEO position he sent out a note on why he joined

Opendoor and left a flourishing career behind at Shopify. This is what he said in part. "It is incredibly important that we use all of our energy and modern tools at our disposal to build products that make homeownership easier. We must make the process of buying and selling a home less frictional so more people do it. Homeownership isn't about a house. It's about families and community, and that is why I am so incredibly proud that I get to support this team in our mission to use every tool at our disposal to make selling, buying, and owning a home easier."

"AI gives us the chance to accelerate this work in ways never before thought possible. From simplifying the process of buying and selling to unlocking personalized pathways to ownership, AI can help millions of families access homes more efficiently, more affordably and more transparently than ever before. This is a once in a lifetime opportunity to redefine what's possible in real estate."

That is the message from Kaz, we can all do better, we can all be better, our mission is worthy. Lennar is on that same mission. And we are connected to the success of Opendoor as well. We are extremely well positioned for our future, and we look forward to keeping you up to date on our progress. And with that, let me turn it over to Jon.

Jon Jaffe: Good morning, everyone. As Stuart described, we remain intensely focused on executing our core strategy, maintaining consistent high-volume production while leveraging advanced technology throughout our home building operations. This is all about driving efficiencies to position us as the leading technology-enabled, low-cost home building manufacturer.

Our ongoing strategy has resulted in greater efficiencies, evidenced by improvements in our cycle time, inventory turn and overall cost. In this

update, I will discuss our third quarter performance concerning sales pace, cost reductions, cycle time improvement and the execution of our asset-light land strategy.

For the third quarter, we achieved a sales pace of 4.7 homes per community per month, which aligns with our sales plan. To reach this goal we utilized the Lennar machine beginning with attracting qualified leads through our digital funnel. We then focused on rapid response with each customer along with the quality of engagement. Notably, our average response time to leads improved by 53% from our second quarter, reducing it to just 46 seconds. This means that when a lead submits a request for information, they typically receive a call or text within 46 seconds.

Supporting our sales process, our Internet sales consultants benefit from real-time analytics for coaching immediately after each interaction thanks to proprietary software. This technology-driven approach results in an 8% quarter-over-quarter increase in appointments. Additionally, we utilize our dynamic pricing tool that matches home prices to real-time supply and demand inputs helping us reach our targeted sales goals.

Our pricing technology continues to evolve using the feedback and data from our results. The successful execution of the Lennar machine has enabled us to sell the right homes at current market prices keeping our inventory well-positioned with an average of under only two completed unsold homes per community.

Affordability continues to challenge customers throughout all of our markets in the quarter, as incentives increase by approximately 100 basis points to achieve our sales target. It is this ongoing affordability challenge that drives our focus on a production-first strategy. As the foundation to this strategy we

delivered a consistent starts pace of 4.4 homes per community per month in the quarter. This sustained volume benefits the supply chain allowing us to leverage volume to reduce both cost and cycle times.

Consistent volume supports ongoing negotiations with our trade partners, resulting in lower costs. Over the last 11 quarters we have achieved cost reductions in ten of them, the average decrease for each of the 11 quarters is \$1.50 per square foot. Direct construction costs for the third quarter were down approximately 1% from the second quarter, and about 3% year-over-year reaching the lowest construction costs for our company since the third quarter of 2021. This trend of decreasing direct construction costs will continue into our fourth quarter.

We have now achieved cycle time reductions for 11 consecutive quarters with a six-day sequential decrease from Q2 bringing the average cycle time for single family detached homes down to 126 calendar days. This represents a 14-day or 10% year-over-year reduction and marks the lowest cycle time in our company's history. Technology continues to drive these improvements by providing our construction teams with real-time information, displayed in user-friendly dashboards, facilitating better scheduling and field problem-solving.

Improved cycle times and technology-driven quality assurance processes have also contributed to higher home quality evidenced by fewer work orders and a reduced warranty spend, down about 35% year-over-year. Our focus on efficiency and cost reduction extends to land development where we apply similar volume-based strategies to negotiate lower costs with trade partners in the slowing land market. In the third quarter we began to see meaningful progress in these efforts and expect further improvements in the coming quarters. Land acquisitions are strategically structured to be just-in-

time, utilizing our land-bank relationships and phased takedowns to minimize carrying cost.

Regarding our asset-light strategy, we concluded the quarter with improved metrics. Our supply of owned home sites decreased to 0.1 years from 1.1 years a year ago. And the percentage of controlled home sites increased to 98% from 81% a year ago. Together, these operational improvements have led to an increased inventory turn in the third quarter now at 1.9 versus 1.6 last year representing a 19% improvement.

In the fourth quarter, our team will continue to focus on executing the strategy of maximizing efficiencies to drive down costs across our operating platform. And now I'll 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 home building operations, so therefore, I'm going to provide a quick summary of our financial services operation, summarize our balance sheet highlights, and then provide guidance for the fourth quarter.

So, starting with Financial Services, for the third quarter our financial services Team had operating earnings of \$177 million. The strong earnings were primarily driven from our mortgage business and were driven by a higher profit per loan as a result of higher secondary margins. Once again, our Financial Services Team worked in partnership with our Home Building Teams with the goal of providing a great customer experience for each home buyer.

Turning to our balance sheet, this quarter once again, we were highly focused on generating cash by pricing homes to market conditions. The result of these

actions was that we ended the quarter with \$1.4 billion of cash and total liquidity of \$5.1 billion. As Jon noted, consistent with our land light, lower-risk manufacturing model, our year's supply of owned homesites was 0.1 years and our homesites controlled percentage was 98%. We ended the quarter owning 11,000 homesites and controlling 512,000 homesites for a total of 523,000 homesites.

We believe this portfolio of homesites provides us with a strong competitive position to continue to grow market share and scale in a capital-efficient way. With our focus on turning inventory, our inventory turn increased to 1.9 times and our return on inventory was 24%. During the quarter we started about 21,500 homes and ended the quarter with approximately 42,500 homes in inventory. As Stuart mentioned, we carefully managed our inventory levels ending the quarter with fewer than two completed unsold homes per community which is within our historical range.

And then turning to our debt position, we ended the quarter with \$1.1 billion outstanding on our revolving credit facility, and our home-building debt-to-total cap was 13.5%. We had no redemptions or repurchases of senior notes this quarter. Our next debt maturity of \$400 million is not due until June of 2026. Consistent with our commitment to increasing total shareholder returns we repurchased \$4.1 million of our outstanding shares for \$507 million, and we paid dividends totaling \$129 million. Our stockholder's equity was just under \$23 billion, and our book value per share was about \$89.

In summary, the strength of our balance sheet provides us with confidence and financial flexibility as we progress through the remainder of 2025. So with that brief overview, I'd like to turn to Q4 and provide some guidance estimates. Starting with new orders, we expect Q4 new orders to be in the range of 20,000 to 21,000 homes as we match production and sales paces.

We anticipate our Q4 deliveries to be in the range of 22,000 to 23,000 homes with a continued focus on turning inventory into cash. Our Q4 average sales price on those deliveries should be about \$300,000 to \$390,000 and gross margins should be approximately 17.5% consistent with the prior year. And our SG&A percentage should be in the range of 7.8% to 8%.

All these metrics, of course, are dependent on market conditions. For the combined Homebuilding, Joint Venture, Land Sales, and Other categories we expect earnings of approximately \$50 million. We anticipate our financial services earnings to be approximately \$130 to \$135 million. For our multifamily business, we expect a loss of about \$30 million as we continue to strategically monetize assets to generate higher returns.

Turning to Lennar other, we expect a loss of \$35 million, excluding the impact of any potential mark-to-market adjustments to our public technology investments. Our Q4 corporate G&A should be about 1.9% of total revenues, and our foundation contribution will be based on \$1000 per home delivery. We expect our Q4 tax rate to be approximately 23.5%, and the weighted average share count should be approximately 253 million shares. And so on a combined basis these estimates should produce an EPS range of approximately \$2.10 to \$2.30 per share for the quarter. With that, let me turn it over to the operator.

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

from Alan Ratner from Zelman & Associates. Please go ahead.

Alan Ratner: Hey, good morning. Thanks for all the detail as always. Appreciate it.

Stuart Miller: You bet.

Alan Ratner: Stuart, you know, obviously I think a lot of people want to dig into the pivot here on strategy a little bit and understand, you know, whether this is a little bit more short-term in nature or just a change in the way you're thinking about the longer term. I guess, you know, from an incentive standpoint, I'm just curious, have you already started to dial back some of the incentives? And if so, you know, what has the response been in terms of order pace, or margin, or any color you can give there?

Stuart Miller: So, I wouldn't really look at it as a change in strategy I would look at it more that we are making adjustments as we go forward. We're still very focused on volume. We're maintaining a very, very strong volume. I think we're taking the edge off as the market has continued to become a little bit more stressed. And I think that as we went through our third quarter, and interest rates were trending more towards the 7% range than what ultimately took place at the end of the quarter and into the fourth, we just felt that it was an opportune time to take a step back particularly as perhaps interest rates are starting to moderate a little bit. They're a little up and down still. We thought it was a good time to let the market catch up a little bit.

In terms of "have we already started", the answer is no. That is something that Jon will be directing and focusing on over the next few weeks. But we're just recalibrating to make sure that we're not pushing too hard on a market that really doesn't want to be pushed.

Alan Ratner: Got it. No, that's helpful color. The second question, you know, relates to the land strategy, you know, in relation to this. This isn't my view, but it's one I hear from investors that, you know, given the spin to Millrose, and given the fact that now you're 100% off balance sheet with option contracts that are tied to some certain takedown schedule, I know there's been some concern that maybe you don't have the flexibility to meaningfully change the start pace or the takedown pace.

So I'm curious, you know, I know this is a fairly modest pullback in start activity, so it probably doesn't affect things too much. But is there any adjustment that's also going on, on the land side to account for this slower start pace, meaning have you adjusted the takedown schedules or paused in any cases? Or, you know, on the flip side would land begin to then accumulate on the balance sheet potentially if you don't reaccelerate those starts in '26?

Stuart Miller: Yes, thanks Alan. I've heard that question a number of times. The answer is we are not constrained in any way by our land relationships or the reconfiguration of land. To the contrary, we were very deliberate about injecting the ability to pause as market conditions change and adjust. And additionally, we have the ability, though it is expensive, to walk away from programs that we have in place.

So it is not the constraint of our land relationships that define our strategy at all. To the contrary, it is much more about the recognition that we're going to have to find, frankly as an industry, a way to build and deliver homes at a more affordable level, and that is all going to derive from cost structure, all the way from land to land finance costs, all the way through to vertical construction and horizontal construction and SG&A.

It's why we're so focused on a differentiated way forward relative to modern

technologies. We have to get more efficient and effective. And unfortunately the road to get there is one of volume, running volume through the system, and working with our trade partners to deal with logistics and cost structures and also building new technologies that are expensive to do. The SG&A goes up before it goes down. But to bring this back to land would be a mistake because land was carefully crafted to not be a factor in strategy, but instead to be a stepping stone of the strategy for going forward.

Alan Ratner: Appreciate it. Thanks very much.

Stuart Miller: You bet.

Coordinator: Next, we'll go to the line of Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Yes, thanks very much guys. And yes, thanks for that commentary, Stuart. I'm just going to follow-on Alan's question there with respect to the duration of this pause. Could you give us a sense or do you see this planned slow down in your sales production as maybe like a one to two quarter pause, you know, several months kind of a thing ahead of what is hopefully a better spring selling season, or do you see this as a more lasting recalibration of your Lennar machine to a lower level of volume? And I guess you could say, you know, address that both in terms of the housing production as well as the land.

Stuart Miller: So, our strategy remains very focused on volume and delivering supply to markets that need it. It is very focused on how do we, and we're working on it every day, , how do we bring our cost structure down so that we can drive margin even in the slowing market? It's not an easy thing to do. It's not a linear kind of program, this is how you get there, it's a rocky road.

So the answer to your direct question is, is this a change in strategy or a

slowdown that's more permanent? We don't see it that way at all. The focus of our strategy is to maintain volume, to use volume to enable us, our trade partners even our land partners, to find ways to be more efficient and effective as we try to meet the growing need of our communities and of our population that needs more affordable housing.

Stephen Kim: Okay. But you have indicated that you are looking to slow your volume versus let's say, maybe what you had thought, you know, or thought about three months ago. And I guess the nature of my question is, is this slowdown, however you characterize it or this adjustment, is it something that you see as, you know, measured in, you know, a few months?

And then you're on the other side of that, there's going to be sort of a reacceleration, are you sort of like pushing things off? Or is this something where you are sort of just lowering your overall or recalibrating to an overall lower level of volume than what you may have thought three to four months ago let's say?

Stuart Miller: So, look I think we're living in a fluid world right now. We're going to have to see how the market evolves. But the way that I would think about what we're doing is we're running a marathon and partway through we're just taking a moment to take a breath to let our body catch up to where we are. And we're on a mission to move forward and to keep pursuing the strategy that we have in place.

Stephen Kim: Got you. Okay. That's helpful. And then I was wondering if you could help me with, just, I wanted to run some math by you a little bit on the margin. I mean, just very simplistically, if we were to say that mortgage rates, you know, stay around 40 basis points or so lower than they were earlier in this year, then I'm guessing that the cost of a rate buy-down should basically go

down by, or add 100 basis points, or maybe even a little more to your gross margin, just given what I think the cost of a rate buy-down is.

And then on top of that, if you're, you know, slowing your volume while rates drop I would think that that would improve the supply and demand relationship and thus improve your pricing power. And so that would be additionally additive to your gross margin. So I'm wondering, is this a reasonable framework to think about the kind of or the magnitude of margin leverage that we might be able to see going forward or is there something that would - you think needs to be corrected in that?

Stuart Miller: I think that the pieces are correct, and the timing is not going to be, you know, directly translatable. It'll be somewhat of a rocky road to get there, too. But I think the pieces and the way that you're thinking about it are correct.

Stephen Kim: Okay, excellent. Thanks so much, guys.

Diane Bessette: Okay, thank you.

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

Michael Rehaut: All right, thanks. Good morning everyone. Thanks for taking my question.

Stuart Miller: Sure.

Michael Rehaut: I don't - certainly don't want to beat a dead horse here, but I just wanted to try and put a perhaps a finer point on, you know, this kind of shorter-term adjustment in approach, you know, given the challenging market. And I'm wondering, you know, on kind of a bottom-line basis if, you know, you guys just felt like you didn't want to go below 17.5% margin, and, you know, the

cost was too high to drive that volume where you hoped it was, you know, where you wanted it three months ago?

Or, is there also, in your view, sort of an elasticity of demand issue where, you know, part of the problem here is that, you know, even if you were to drop margins or, you know, raise incentives to keep that, you really wouldn't ultimately even be successful in what you needed from a volume perspective. And so, you know, with that, you know, maybe demand becoming more inelastic just, you know, a lack of demand in the marketplace it just didn't make sense to drop that gross margin below where you're looking in the back half of this year, currently.

Stuart Miller: I'm not sure that we've gotten quite that philosophical, but I think that we are responding real-time to what we see as market conditions. And we just felt, and I said it clearly, Michael, that we just felt it was a good time to take a little pressure off. You know, we have some tremendous athletes that are working on our marketing and sales programs across the company, and they've just done terrific work to pull us through some really challenging times.

We felt that this was a good moment for us to take a little pressure off of that part of our program and recalibrate as we go forward and think about what is our next step, but our base strategy remains the same. We're focused on building volume, supplying the market with affordable, attainable product. Jon, you want to weigh in on that?

Jon Jaffe: Yes, I would agree Stuart. And it's really hard to answer your question, Michael, because it's market by market and even community by community. So it is just, as Stuart said, it's taking some of that edge off so we can better fine tune exactly how we would price in that market by market analysis and community by community analysis.

Michael Rehaut: No, I appreciate that. And I understand it's probably a bottoms-up analysis to really fully answer that question, I suppose. But...

Stuart Miller: Exactly.

Michael Rehaut: ...I think ultimately though, you know, this idea around elasticity is really important. And, you know, maybe just as a second question, follow-up question, you know, we did see rates come down, you know, mortgage rates that is maybe 20, 30 basis points in August. And so far in September another 20 or 30 basis points.

I'm curious, you know, amid that type of, you know, that's a net 50 basis points roughly, but kind of gradually seeping into the market, I'm curious if you could comment on, you know, if you did see any impact on demand trends across your markets, perhaps which ones, if that's the case? And, you know, all else equal would this potentially reduce pressure on gross margins or, you know, incentives or are you just at a point right now where, you know, given what you've done during the quarter that you expect the incentives that, you know, you've laid out to effectively remain in place, you know, throughout the fourth quarter?

Jon Jaffe: So, I think Michael, as Stuart laid out, you know, it does help reduce the cost of those mortgage rate buy-downs. But as Stuart responded, it's not exactly linear. It's each market. It's each community, how they're used and what the buyer demand is, and the affordability stressors that exist.

Stuart Miller: I think the way that I would think about it Michael, is when we think about elasticity, I think that's more of a news report looking backwards. And when we think about what we're doing, it is, as you described, a bottoms-up

approach. I think Jon just said, you know, it is community by community. And we're responding and pulling the levers as a company to be reflective of what we see our best and brightest doing in each market across the country.

You know, and I think that, you know, in terms of 30 basis points in August, 20 to 30 in September, there are fluctuations in the 10-year. Right now it's, you know, maybe migrating up a little bit. We'll have to see. I think the volatility in it, you know, impacts consumer confidence, so we're going to have to see how it plays out. At the end of the day when we look back at our third quarter and as I noted in my remarks, we did not yet see sales impact. But we did see a little bit of kick in the consumer's engagement.

And as we've gone into the fourth quarter we generally don't comment on, you know, what we're seeing so far in this quarter. But I will, and say that as we come into the fourth quarter we've seen, you know, a little bit more interest. But we're pretty confident that if interest rates really do go down and stay down as you get to 6%, closer to 6%, as you go below 6%, we think you're going to see some real optimism in the marketplace and people who have need really activating because they can afford to.

Michael Rehaut: Great, thank you. Appreciate it.

Stuart Miller: You bet.

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

Susan Maklari: Thank you. Good morning, everyone.

Stuart Miller: Good morning.

Susan Maklari: My first question is on the inventory turns. Can you talk through how some of these company specific efforts are continuing to come through even as you moderate or adjust the strategy, and how we should think about the upside to those inventory turns in this kind of an environment and long-term the ability to get to three times as you do think about the setup on the ground?

Stuart Miller: So, I will tell you that Jon and I at the end of each quarter we go out, and we do what we call operations reviews. And we sit with our division management teams and really go through their operations and strategies. And what has been fascinating to me is to sit and watch our divisions focus on their inventory turn, which to me, and I think to Jon as well, is really an indication of, are we focusing on effectiveness and efficiencies and really working on using the things that we're doing to become more efficient and drive costs down to build affordability?

The answer to your question is, I was sitting in one of those ops reviews this week with a team that is actually getting closer to exactly that three times inventory turn. As a company it will be - we'll be adding together all the divisions, and you'll see averages. But at the local level that kind of North Star is very much a part of the discussion. As we get cycle times down, Jon talked about the fact that these are the lowest cycle times as an average that we've seen as a company, that is directionally where we're headed. But don't measure us against three times because that's a pretty hard hurdle to get to. Go ahead, Jon.

Jon Jaffe: I'd just add Stuart is, as we've discussed in prior quarters as well, this ongoing focus on efficiency, so just-in-time into our land banks, just-in-time out of our land banks where we're ready to start production, all of this is a constant tweaking and refinement of processes to do just that, to continue to drive that

metric which as you've seen is what we've been making good progress on.

Stuart Miller: And every one of these programs, thinking processes, you know, Jon talks about land into the land bank, land out of the land bank, and those efficiencies, all of these tie to modern technologies that are partners of what we're trying to do. And as we get those technologies working those efficiencies are going to amp up.

Susan Maklari: Yes, okay that's very helpful color. And then maybe taking that one step further, as we do think about the inventory turns and these efforts coming through, can you talk about the cash generation of the business and how you're thinking about the uses of that cash, especially in this sort of an environment that we're in, and any updates on the M&A environment, those kinds of strategic efforts?

Stuart Miller: Well, as far as we're concerned everything is on the table. We are certainly focused on total shareholder return. That is sometimes defined by how we grow and what kind of M&A strategy we might inject into our business as we go forward. We are looking at everything. And as I've said, the use of our land banking program is something that enables more of that focus. At the same time we're focused on returning capital to shareholders. You've seen that we've had a pretty steady program of doing exactly that. And we are very, very focused on driving cash flow.

Now, there's been an adjustment period in the wake of Millrose and, you know, getting the pieces working exactly together. It takes a little bit of time, but our program is laser-focused on how do we get to that total shareholder return? How do we use cash effectively? How do we drive growth effectively? And look, you know, at the end of the day the focus of this company is how do we become something different in the future from what we've been in the

past? And a big part of that is our capital allocation.

Susan Maklari: Okay, thank you.

Stuart Miller: Diane, do you want to say anything on it? Wait, hold on.

Diane Bessette: I agree with Stuart. I think that there's no change in our strategy from quarter to quarter, you know, given the incentive levels because of our push on volume. Cash moves around a little bit, and this was an unusual year with Millrose. But the trajectory is to really keep the focus on cash generation which is definitely benefited by the efficiencies that we're focused on.

Susan Maklari: Yes. Okay. Thank you all for the color and good luck with the quarter.

Diane Bessette: Thank you, Susan.

Stuart Miller: Thank you.

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

John Lovallo: Good morning, guys. Thanks for taking my questions as well. The first question is, you know, orders were obviously very solid and, you know, a little bit ahead of expectations. You guys are working at the lowest cycle times in a very long time, if not in history. What caused sort of the slight miss in the third quarter deliveries given those factors?

Jon Jaffe: So it really is just timing. And, you know, relative to when sales occur, getting through the mortgage approval process. Nothing more than that.

John Lovallo: Okay, understood. And, you know, I guess, you know, we've heard from several of your peers, and from some other companies through the value chain, that Florida inventory levels are beginning to stabilize, maybe even improve a bit. Obviously, there's a lot of markets in Florida, but, you know, in some of the key markets, maybe the I-4 corridor, if you could talk about, I mean, is this consistent with what you're seeing on the ground?

Jon Jaffe: Yes that, you know, Tampa, Orlando markets along the I-4 as I commented, we have always remained very laser focused on inventory levels. It's part of our strategy, even flow production, sales pace. You know, with respect to other builders, you know, we did see some buildup, but I would agree with that in general we're starting to see some stabilization.

Stuart Miller: Yes and remember that the size of inventories across the competitive landscape meaning existing homes and new homes, is a big part of what defines, you know, the stress on the sales process. And in Florida that has been, you know, a factor. Inventories have been high both across existing and the new home market. They have been moderating, and that has started to build a more stable environment which we fill.

John Lovallo: That's helpful. Thank you, guys.

Stuart Miller: You bet.

Coordinator: Next, we'll go to the line of Matthew Bouley from Barclays. Please go ahead.

Matthew Bouley: Good morning, everyone. Thank you for taking the questions. One on incentives, I guess sort of another philosophical question. But, I mean, I guess going forward, you know, depending on where the rate environment goes, I mean, do you anticipate kind of maintaining some level of these buy-downs as

kind of a competitive advantage sort of structurally versus the resale market or, you know, as you do get to - if we do get to 6% or lower, I mean, is there some level where you really do foresee, you know, a kind of a more material pullback on those incentives? Thank you.

Stuart Miller: So interesting question. You know, a number of people have asked why you focus on interest rates coming down, you're buying them down anyway and so the market has access to the lower interest rate. The reality is, it is the stall that's embedded in the existing home market that is relevant because as the existing home market starts to unlock a little bit, it enables people to activate the process of going from a first-time home to a move-up home, and a move-up home to a second move-up home, and that just unlocks an awful lot in and around the ability of people to engage in the housing market. So, you know, that – yes, the homebuilders are generally providing that lower interest rate by buying down. And it is impactful to margin, but unlocking the rest of the housing market has a flywheel kind of effect, and that effect unlocks a lot of activity for the entirety of the ecosystem.

Matthew Bouley: Okay, fair enough. Thank you for the thoughts there, Stuart.

Stuart Miller: You bet.

Matthew Bouley: Secondly, yes secondly, the I guess sort of following on John's question, I think what he was alluding to around, you know, orders and deliveries into the next quarter. I'm just curious if you can update us on the cancellation environment a little bit? And, you know, I guess whatever the trend was kind of what you're reading into what you're seeing in cancellations today. Thank you.

Jon Jaffe: So it's, you know, it's really ran pretty consistent from second quarter through

third quarter in terms of order pace, cancelation pace. It's, as we said, we really didn't see any effect in the third quarter relative to interest rates coming down at the end of the quarter. And it directly, you know, ties in on that community-by-community basis of what do we need to do to support our customers as they're challenged by affordability. So bottom line is it's remained pretty consistent.

Matthew Bouley: Okay. Thanks, Jon. Good luck, guys.

Stuart Miller: Okay. Why don't we take one more?

Coordinator: Perfect. Our final question comes from Jade Rahmani from KBW. Please go ahead.

Jade Rahmani: Thank you very much. Can you say what quantity or percentage of year-to-date deliveries have come from Millrose?

Stuart Miller: Diane.

Diane Bessette: Yes, I want to say it's been about, correct me if I'm wrong, but 25%-ish in that zone.

Jade Rahmani: And so in terms of the gross margin outlook, looking beyond the fourth quarter, should we still expect the remaining 75%, you know, once you're at a steady cadence of Millrose to come through that interest cost on gross margin?

Diane Bessette: Yes, stating the obvious with the low cost that Millrose offers us the more that we have deliveries from that vehicle it's benefiting our margins.

Stuart Miller: But realistically, you know, across our land banking environment we're

focused on managing the option costs of those communities. And, you know, one of the things that benefits, you know, and this is an interesting flywheel within the land banking world, is our ability to build certainty within the land banking structures, and that is certainty of close, certainty of execution, enables us to maintain a more moderated cost structure within those systems and to actually bring down costs.

And therefore, you know, when we talk about does land banking drive our business? In one sense we have the ability to walk away from deals if we need to, but the reality is we are highly, highly incentivized to keep each of our structures whether it's vertical construction, horizontal construction, or whether it's land banking, operating in a smooth, effective way because that's how we get to the best cost structure and therefore produce affordability. And all of this kind of ties together as to why our strategy relative to volume.

Jon Jaffe: I think that's well said, Stuart. For us, it's a manufacturing approach meaning even flow from beginning to end. So it starts with land into our land banks, as I said, just-in-time, coming out predictably just-in-time from the land banks, to a production team that's focused on bringing cycle time and cost down, and it's an ecosystem that's all the way through.

So the more effective we are in doing that, as we've noted, we bring down our construction costs. But as Stuart's highlighting now the more effective we are in creating stability and reliability in the land bank world, the more that that capital cost comes down. So they all have our laser focus on how do we become more efficient, more durable, and bring value to our partners.

Stuart Miller: So even while we might have the ability to, as a risk mitigator, to walk away or to do something else, our whole strategy is focused on building certainty and across our land banking system bringing down costs and option costs in

each of our land banks to help with the affordability factor. I'm not sure if that's answered your question, but I think that's what you're getting at, is when you talk about 25% for Millrose, and advantage cost, the question is, can we get more advantage costs across the whole spectrum?

Jade Rahmani: Okay. Thanks for that. I was trying to understand as the 25% grows toward 100% shouldn't that, I think the market's assuming that would be a negative, an incremental headwind because that \$560 million of annual interest costs is not yet fully reflected in gross margin?

Stuart Miller: You know, while I have tremendous affection for Millrose, and Darren, and the group there, and we want to do a lot of business with them, we think that our business is best configured with a range of participants that are providing low-cost capital to enable us to be the best version of ourselves. With that diversity of engagement I think we get the best out of everybody, and we really have been migrating towards building, enabling, participating in an industry solution, not just a myopic one for Lennar.

Jade Rahmani: Thanks very much.

Stuart Miller: All right, thank you. With that said I want to thank everybody for joining us. And we look forward to reporting back on consistent and focused progress as we go forward. Thanks, everybody.

Coordinator: That concludes Lennar's Third Quarter Earnings Conference call. Thank you all for participating. You may disconnect your line, and please enjoy the rest of your day.

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