

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

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

Chairman, CEO, and President. Sir, you may begin.

Stuart Miller: Very good. Thank you. Good morning, everyone, and thanks for joining us today. I'm in Miami today, together with Diane Bessette, our Chief Financial Officer, David Collins, our Controller and Vice President, who you just heard from, Katherine Martin, our Chief Legal Officer, Jim Parker, our Chief Operating Officer, and David Grove, our Executive Vice President for Homebuilding.

Similar to last quarter, Jim and David, who jointly oversee our operations across the country, are here with me and will participate in our question-and-answer period. As usual, I'm going to give a macro and strategic overview of the company, and Diane is going to give a detailed financial overview and guidance for the fourth quarter of 2026. Then we'll open it up for questions, and as always, please limit to one question and one follow-up.

So, let me begin by saying that we believe our third quarter 2026 results represent continued and consistent operational execution in a market that has, if anything, gotten more difficult since we last spoke in June. I think that our press release pretty much covers the summary of the quarter, but I'm going to try to give some additional color.

As noted in the release, we delivered 20,840 homes, within our guidance range of 20,500 to 21,500. We generated 20,879 new orders, just below our range of 21,000 to 22,000. Our gross margin improved sequentially to 15.8%, as our sales incentives rate on deliveries came down to 12%, our net margin improved to 6.6%, and our earnings per share came in at \$1.19 on a GAAP basis, and \$1.23 excluding one-time items. Nevertheless, interest rates and consumer confidence constrained the improvement that we anticipated going into the quarter.

So, let me briefly discuss the overall housing market. Generally speaking, the housing market remains constructive as the housing shortage that has persisted for the past decade plus continues to limit availability and drive the need for more supply. While market conditions are certainly not terrible, as can be seen from our rather strong volume, the market becomes more difficult as interest rates test affordability, particularly within our price ranges.

During our third quarter, interest rates moved in the wrong direction. At our last call, the 30-year fixed rate was sitting between 6.4% and 6.5%. Today, it is at approximately 7%, with the 10-year treasury hovering right around 5%. So, the modest relief we saw earlier in the year has reversed, and the buyer at median family income is stretching well past 30% of gross income to carry a home. Fewer families can afford to both produce a down payment and qualify for a mortgage, as in many of our markets, almost 50% of our visitors cannot immediately qualify. Buyers are clearly stretching to try to afford the stability of a home. And of course, we are adjusting our price and incentives in order to enable them.

Second, the driver of rate moves is inflation, and the current driver of inflation is energy. Of course, everyone knows that the conflict in Iran has kept oil supply disrupted, and it doesn't look like there's an imminent end in sight. And as we heard from the Fed yesterday, the data suggests that inflation is not subsiding.

Inflation, of course, is a double-edged sword in that it both increases the basic cost of living while also driving up interest rates. When families are paying more at the pump and more for electricity, their willingness to make the largest financial commitment of their lives moderates, even when their underlying desire to own has not changed at all. Accordingly, consumer

confidence has been moderating as both interest rates test the boundary of affordability while inflation increases the cost of living.

Third, the Federal Reserve's assistance is clearly off the table for practical purposes and not a near-term source of relief. While this was clearly the hope of some, yesterday's rate hike clearly demonstrates that the Fed will continue to be data-driven. Rate cuts, when they eventually come, will be a meaningful tailwind for our business, but we are not holding our breath or waiting for them, and we are not building our business plan around those rate cuts.

Fourth, the resale seller has become a more aggressive competitor for a customer, especially at our price range. Resale supply has continued to rebuild and is now very competitive in price. Active listings nationally are back above historic levels. In Texas and in Florida, they are particularly high. Those are our two largest markets and states. When a resale seller cuts price, they are competing directly for our customer, and we respond, which is a meaningful part of the incentive and pricing dynamic you see in our South Central and Southeast markets.

On the cost side of our world, while we continue to perform extremely well, labor availability has started to become more of an issue. Immigration enforcement and enthusiastic data center construction continue to create tightness in certain geographies. While we've been able to offset labor cost increases with efficiencies from scale, the pressure on cost is certainly building.

On the policy front, the federal government's engagement with housing affordability continues, and I'll repeat what I said in June, the level of attention being paid at the highest levels of government to this issue is unprecedented in my experience. Affordability has become a critical political

issue. I continue to believe that meaningful federal and/or states action is likely, although I'd also say that it's taken longer than I would have liked.

And we are pleased to see that the state and federal efforts to constrain institutional and investor purchases of single-family homes, both as single-family for rent and build-to-rent communities, seem to have been resolved in recent legislation. We continue to view those avenues of supply as long-term positives for housing and for the buying public because they accommodate demand in local markets in ways that ultimately produce the very supply that this country is short of.

So, in summary, interest rates moved up, inflation is driving rates up and consumer confidence down, the Fed is focused on data, the resale supply is competing harder. Additionally, even while our incentives are down and our margin is up, our cost structure is beginning to see pressure from short labor supply. While this is a difficult landscape, we are doing what we said we would do in a market that is just not helping.

Against that backdrop, let me turn to our operating strategy. Our strategy has not changed. We remain focused on two priorities. First, driving consistent even-flow production and volume in order to effectively manage our cost structure and in order to monetize land that was underwritten in different market conditions. And second, continuously refining our asset-light, land-light balance sheet model to ultimately generate strong and growing cash flows 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 our customers need to achieve the value they can afford, and we hold our production pace through the adjustment. That means we are

compromising margin in order to maintain volume. Of course, we understand that this is a choice. It is deliberate, and it is not something the market is doing to us. And it is not the choice that we made only to add needed supply to the supply-constrained market. It is also a strategic choice that has enabled us to drive construction costs down and to financially transform our business model and our balance sheet.

Here is why we believe and continue to believe it is the right choice. If you go back to 2023 as a baseline, our revenue per square foot is down 13%. Our construction cost per square foot, in the same timeframe, is down 14%. On the vertical side of this business, labor, material, product design, cycle time, and overhead per unit, we have fully offset price with cost. That work is done, and it will continue to benefit the future of our business.

Construction costs per square foot have continued to improve and improved again this quarter to approximately \$80 per square foot. That is down 6% from a year ago and down 14%, as I said before, from our fourth quarter of 2023. Our record cycle time of 116 days is down from 121 days last quarter and 126 days a year ago, and that is evidence that we're managing those dynamics very well. And our carefully managed inventory level of 1.8 homes per active community reflects a well-balanced program, with our starts pace and sales pace both at 4.1 homes per community per month.

Over the same period, our land cost per homesite is up approximately 6%, and option maintenance fees have grown to reflect a true cost of capital across our asset base and for the duration that that capital is deployed. That is the entire margin gap. It's not labor. It's not materials. It's not overhead. It is land, land that was identified, underwritten, and committed to in very different market conditions. And land is the one input that we cannot re-engineer. We can only deliver through it. Every home we close retires a homesite that was priced for

a market that no longer exists, and frees us up to replace it with a homesite priced for the market that we actually have.

So, when we accept a 15.8% margin rather than holding out for something better, we are buying two things. We are buying volume, and volume is what converts expensive land into cash while we still produce positive margins. And we are buying time because every quarter we move through that land at a lower margin is a quarter closer to normalized land basis.

The alternative, holding price and selling fewer homes, leaves us carrying the same expensive land for longer and generating less cash, or perhaps writing off deposits with the same problem and less runway. We made the decision deliberately. We have been consistent about it every quarter. And consistency of strategy, especially through a difficult cycle, is itself the point. It is what builds confidence throughout our company, and we believe an enduring competitive edge in any market.

On the asset-light side, we continue to make excellent progress toward an ever more seamless and sustainable model. We own roughly 2% of our homesites and control the rest through third parties. That is approximately 11,800 homesites owned against 476,000 controlled, or about six years of supply in total. 86% of the homes we delivered this quarter came from land banked land, which is the model working exactly as designed. Deposits and pre-acquisition costs ended the quarter at \$7.3 billion, up \$265 million sequentially, which, as Diane has walked through before, reflects the natural imbalance of standing up a multi-year option pipeline while relieving one year's worth of homesites at a time. This imbalance will equalize.

The other half of keeping the balance sheet clean is keeping finished homes off of it. As I noted earlier, completed unsold inventory came down again to

1.8 homes per community from 2.1 last quarter and 3.0 in the first quarter. I want to be clear that we are managing both of these components at the same time, low land inventory and low finished home inventory, because that combination is precisely what we believe protects our balance sheet in a market like the one that we're in. We will build inventory when we can see a selling season in front of us, and we will work it down when we cannot. We are not going to carry standing homes into a soft market, and we are not going to carry land on our balance sheet.

Our land banking partnerships continue to function extremely well, and we continue to work on those structures every day. We recognize that deal duration has extended as we've moderated our growth, and that extension is what is driving option maintenance fees higher. It is a real cost. It is front, center, and visible, and it is a core focus of our management team.

In addition, we continue to inject modern technology into every aspect of our land-light execution. As I said in June, we expect that by year-end, we will have an extremely efficient land operating system and process that reduces our cost structure while enhancing our land acquisition, diligence, and review. Simply put, we will be a materially better land buyer, land developer, and land administrator at a significantly lower overall cost of capital. That remains a laser focus, and it remains one of the largest single opportunities inside of our company.

Let me turn to quality. Quality always comes first at Lennar. We remain continuously focused on improving the quality of every home that we build with a world-class customer experience and with safety first for our building partners. That program starts with the first time we meet a customer through our digital marketing funnel and never stops through contract, through closing, and through every engagement after they move in.

Quality also means that we continuously improve the Lennar value proposition. Our Everything's Included platform remains both a competitive differentiator and an affordability lever. By standardizing features at scale, we capture purchasing efficiency, offset cost pressure, protect margin, and put more value into each home that we deliver for less money while keeping the process simple and transparent. And our targeted financing programs, rate buy-downs and closing cost assistance, allow us to solve to an affordable monthly payment for the large share of our buyers who qualify on payment rather than on price. Our mortgage capture rate was 83% this quarter, and that internal relationship is the mechanism that makes these programs work.

So, now let me briefly turn to our quarter results, and I know I'll be somewhat repetitive. As I said earlier, we delivered 20,840 homes and generated 20,879 new orders against a strong 23,000 in the prior year. We started just under 21,000 homes at a start pace of 4.1 homes per community per month, with a sales pace of 4.1 per community per month across 1,713 active communities, and that is 3% more communities than a year ago. Starts, sales, and deliveries all came within a couple of hundred homes of one another, which is exactly the even-flow machine we have been building.

Our average sales price came in at \$372,000, modestly below guidance, with sales incentives on deliveries of 12%. Gross margin was 15.8%, up from 15.6% last quarter, and just below the approximately 16% we guided to. SG&A was 9.2%, above our expected range of 8.8% to 9%. Roughly half of that is simply less revenue to leverage on a lower average sales price, and another large part is sales with higher brokerage commissions.

While I'm not satisfied with the 9.2% SG&A, divisional headcount is down approximately 12% year-over-year, and deliveries per corporate associate are

up 12%. So, the fixed base is coming down, and you should expect SG&A to improve as fourth quarter volume alone should produce leverage. Net margin was 6.6%, producing net earnings of \$284 million, and earnings per share of \$1.19 on a GAAP basis, or \$1.23 excluding one-time items. Financial services produced \$129 million, above our guidance, but helped by a one-time net gain in our title business.

Relative to our balance sheet, we ended the quarter with \$1.2 billion of cash, and a homebuilding debt-to-total capital ratio of 16.6%. We had \$650 million drawn on our revolver at quarter-end, reflecting seasonal working capital as we build towards a heavier fourth quarter delivery schedule. Our inventory turn was 2.4x, and return on inventory was 13.2%. We paid down \$400 million of senior debt, repurchased 3 million shares of stock for \$256 million, and paid \$119 million in dividends for the quarter.

As we look ahead to the fourth quarter, we expect to generate new orders of approximately 19,500 to 20,500, and to deliver 22,000 to 23,000 homes, with a gross margin between 15.5% and 16%. Of course, these expectations are dependent on market conditions and how the quarter evolves. So, I'll leave the financials there. Diane will cover the balance sheet in detail, along with our fourth quarter guidance and expectations.

So, let me conclude. This was a quarter of execution within a market that moved against us. Rates went up. Inflation ran hotter than hoped. Resale supply got heavier. And through all of that, we delivered inside our range, improved gross margin, brought incentives down, set another cycle time record, and reduced standing inventory while owning almost none of our land.

I want to be very clear about where we are in this process. We are not waiting for the market to rebuild our margin. We are working through a land basis that

was set in another market condition. And one quarter at a time, at a pace we control, we are replacing it with land priced for this market condition. That process is not finished, and it will not finish quickly. The land headwind is still in front of us for a while, but it is finite, it is visible, and every quarter of volume shortens it. That is the trade we made, and we would make it again.

Meanwhile, the fundamental shortage of housing in America has not yet been solved. It has not yet subsided. Demand is real, it is deferred, and it is building. When affordability returns through rates, through wages, or through serious national action on the entitlement and regulatory barriers that constrain supply, we will be well positioned to capture it with the lowest cost structure, the fastest cycle time, the leanest finished inventory, and the cleanest land basis. We keep in mind that sometimes the best companies are called on to defy gravity for some period of time. We are becoming a materially better positioned builder, one quarter at a time, and this quarter was another one.

Let me finish where I have finished so many times before. We simply could not be prouder of the extraordinary work driven by Lennar associates across this company. I thank them all. They are aligned in mission and strategy, and they have executed through an extended period of real 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 third quarter operating results. Therefore, I'm going to focus on a few balance sheet highlights. Some, Stuart has already mentioned, but I'll repeat to tie it all together, and then provide estimates for the fourth quarter.

So, once again, this quarter, we were highly focused on generating cash by pricing homes to meet affordability. As such, we ended the quarter with \$1.2 billion of cash and total liquidity of \$3.6 billion. During the quarter, we started approximately 21,000 homes, and ended the quarter with approximately 38,800 homes in inventory. It included about 3,100 completed unsold homes, or 1.8 homes per community. This is a reduction from approximately 3,500 homes, or 2.1 homes per community in Q2, as we continue to carefully monitor our inventory levels. Our construction cycle time improved to 116 days, our lowest cycle time in history, reflecting the continued impact of our production efficiencies.

Turning to land, we owned 2% and controlled 98% through third parties. This configuration significantly lowers our balance sheet risk, especially in challenging markets. We ended the quarter owning 11,800 homesites and controlling 476,000 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, which are pre-acquisition costs on real estate, was \$7.3 billion at quarter-end, an increase of \$265 million sequentially. The deposit component of this balance remained flat with Q2, which is consistent with a relatively flat number of homesites controlled. The ACORE balance increase was primarily driven by an increase in reimbursements to be received from municipalities for completed land development, as well as a smaller net increase in capitalized option maintenance fees. Our inventory turn was 2.4x, and our return on inventory was 13%. We maintain our focus on increasing asset returns, which will enable us to capture more return upside when margins normalize in the future.

And then turning to our debt, homebuilding debt-to-total capital was 16.6% at

quarter-end. We ended the quarter with \$650 million of outstanding borrowings under our revolving credit facility, and \$1.7 billion outstanding under our term loan. Note that during the quarter, we used cash to redeem \$400 million of senior notes that matured on June 1st. Our next maturity is in June of 2027. Consistent with our commitment to increasing total shareholder returns, we repurchased 3 million shares for \$256 million and paid dividends totaling \$119 million. Our stockholders' equity was approximately \$22 billion, and our book value per share was approximately \$91. In summary, the strength of our balance sheet provides us with confidence and financial flexibility as we progress through the end of the year.

And so, with that brief overview, I'd like to provide guidance estimates for Q4, starting with new orders. We expect Q4 new orders to be in the range of 19,500 to 20,500 homes, with continued focus on matching starts and sales pace. We anticipate our Q4 deliveries to be in the range of 22,000 to 23,000 as we maintain even-flow production and turn inventory into cash. Our Q4 average sales price on those deliveries should be between \$370,000 and \$380,000. Our gross margins should be in the range of 15.5% to 16%, and our SG&A percentage should be in the range of 8.7% to 9%, as we continue to navigate this uncertain environment. All of these metrics, of course, are dependent on market conditions.

We anticipate our financial services earnings to be in the range of \$90 million to \$95 million, and for our multifamily business, we expect a loss of approximately \$25 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 earnings of approximately \$10 million. We expect our Corp G&A to be approximately 1.7% of total revenues, our tax rate to be approximately 25%, and the weighted average share count should be

approximately 235 million. And so, on a combined basis, these estimates should produce an EPS range of approximately \$1.30 to \$1.65 for the fourth quarter. And with that, let me turn it over to the operator.

Operator: Thank you. We will now begin the question-and-answer session of today's conference call. We ask that you limit your questions to one question and one follow-up 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. And our first question comes from Susan Maklari from Goldman Sachs. Please go ahead.

Susan Maklari: Thank you. Good morning, everyone, and thanks for taking the questions. I want to start by talking about the inventory turns. It's impressive to see how they're continuing to improve in spite of the environment and the headwinds that you talked through. Can you talk about where that can go over time, especially given the world we're in, and how that's contributing to your efforts to better balance the land bank and to gradually rebuild that pipeline?

Stuart Miller: So, in terms of inventory turn, I think that if you look over the past few quarters, we've been hovering around basically the same general range. And I think that we're probably going to maintain at about that range for the time being. I think it can go higher, but it's going to take significantly better market conditions to enable us to really stretch our legs and be able to run. If you think about just our volume, we had anticipated that our volume would grow through the past few years. And instead, our volume has kind of maintained a stable trajectory. And I think that's a limiting factor in that regard.

But in terms of maintaining volume and maintaining the volume that we've had, and at least maintaining that and perhaps growing it as we go forward,

that's what enables us to really keep the machine relative to land turning and spinning. And that's just as important as the vertical construction component and being able to maximize efficiency around our scale.

Susan Maklari: Okay, that's helpful. And then maybe turning to the balance sheet and the cash generation side of the business, you're obviously still in a very strong capital position. Given the world that we're in, can you talk about the level of cash that you feel comfortable holding and how you're thinking about the uses of cash and maybe especially thinking about shareholder returns and buybacks just given the valuation versus the longer-term outlook for the business?

Stuart Miller: So, as Diane, I'm sure, would tell you that as we go through quarters, our cash vacillates through the quarter. So, you're getting a snapshot at the end of each quarter. We maintain a healthy cash position in order to even out the peaks and valleys. In terms of how we will use capital, if you look at this past quarter, it's split between debt reduction, stock buyback, and dividend payment. You're going to continue to see a balance between those as we go forward. We think that as we move ahead into next year and beyond, we're going to be able to generate more cash. And as we do, we'll make that evaluation as we go. I really don't want to make a prediction at this point given the volatility of the market.

Susan Maklari: Yes, okay, thank you.

Diane Bessette: And Susan, the only other thing I would add is if you think about cash balances, so much of the cash that we generate comes in at the end of the quarter. But we have a \$3.1 billion credit facility, so we try to manage to a lower cash balance when possible because we've got availability at a moment's notice. It's really the cash generation that's the focus. But as far as the balance goes, we'd rather keep that cash invested in earning even small

dollars of interest income because we've got a large revolver available immediately.

Stuart Miller: But don't think it hasn't escaped our attention that our stock price is on sale.

Diane Bessette: No, that's right. And, as we've mentioned, we are opportunistic through the quarters, and we continue to buy this quarter as our stock price continues to decline. So, always focused on that, of course.

Susan Maklari: Okay. Well, thank you both for the color. Good luck with the quarter.

Stuart Miller: You bet.

Operator: Next, we'll go to the line of Trevor Allinson from Wolfe Research. Please go ahead.

Trevor Allinson: Hi, good morning. Thank you for taking my questions. I want to ask about your comments around labor availability. Your cycle times continue to make really good progress, but as you guys alluded to, there have been reports of labor becoming more constrained. With that in mind, what is your expectation for your ability to continue seeing sequential cost savings via concessions from your trades moving forward, and then any markets to call out where you're seeing specific pressure on labor availability?

Stuart Miller: So, the question of labor is definitely one of geography. I'm going to let David and Jim weigh in on this a little bit. But let me just say that labor is an evolving story. It is data centers. It is also immigration crackdowns that are happening sporadically in different locations. And I don't think we want to be too specific on those geographies, but it is very geography-specific. And I say I don't want to be specific because it moves around.

The other thing is tariffs are having their impact. And your base question is, what does that mean in terms of bringing down costs and bringing down cycle time as we look ahead to next quarter and next year? And the fact is, we're going to be a participant in the broader market. If the overall market is going up in price or if availability of labor is going down, we're going to do better than the rest of the market given our scale and our focus on consistency. And if it basically remains steady, then we'll be able to continue to reduce costs and reduce our cycle time. Jim?

Jim Parker: Yes, I think our purchasing teams, they've done a great job working with our trade partners, and this is when that partnership really pays off. Not only are we able to keep our costs under control, but we have tremendous visibility with our partners, with labor, and they're able to really step up to the plate and allocate their crews to where we need them so we really can get ahead of it. And we lay this out three, four months out at a time.

Stuart Miller: David, anything to add?

David Grove: I would say we've got great visibility. The pressure on immigration and labor is definitely market specific. I'd say roughly 20% of our divisions right now are seeing greater pressure, in some cases, we have little to no impact. But for us, our foundation that's keeping these pressures at bay is our favored position with our trade partners and our ability to maintain our strategy. When they have a decision to make where to send their labor, they send it to us. They're also working with us to absorb some of the cost pressures.

Stuart Miller: Yes, and as David was speaking, it does occur to me that, especially with labor, the pressure on immigration is sporadic and happening kind of on an ad hoc basis, or at least as far as we're concerned. The relationship that we have

in the marketplace is enabling us to keep the wheels on the tracks and to keep going forward, because we see, particularly in certain trades, landscaping being an example, others being good examples, all of a sudden, we've got trade partners that have no crews. And so, being able to source additional labor from other places enables us to keep migrating as we have with efficiency.

Trevor Allinson: Thank you for all that color. Very helpful. Second one's on SG&A. You guys have made a lot of investment in various technological initiatives. Some of those require some heavier upfront spending. I think in the past, you've talked about a potential for some of those upfront costs to roll off. Where are you in the stage of that investment, and how should we think about the timeline until we start to see the benefits of that start to come through in your financials? Thank you.

Stuart Miller: So, we've definitely made exactly that statement, and we have made significant investments. Some of those investments have been false starts, and some of those investments have been core to where we're going over the next year. Some of those costs are already getting reduced in real time. It's not immediately visible. It will happen slowly and over time, and I think that we'll see some normalization as we go through 2027.

Trevor Allinson: Thanks for all the color and good luck moving forward.

Stuart Miller: Thank you.

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

John Lovallo: Good morning, guys. First question is just on the gross margin bridge from the third quarter of 15.8% to the fourth quarter of 15.5% to 16%, given what, at

the midpoint, is about an 8% quarter-over-quarter increase in deliveries. So, I guess the question is, what level of incentives, kind of land costs, and stick and brick are contemplated sequentially?

Stuart Miller: Jim?

Jim Parker: I think when you look at it right now, I don't see a big difference right now with what we're having to do in the market. I think we're doing a great job, actually, at making sure we're right-priced in certain communities, and in some cases, our incentives actually go down because we get the pricing right, and we're able to hold the line more with what we're actually getting for the home. So, I think moving forward, I feel good about where we're at. I think our teams are spending a lot of time being strategic on how to price, how to differentiate different homes. I see nothing but enthusiasm out there to really work the pricing.

Stuart Miller: So, let me just add to that and say that we started this quarter, the third quarter, with a lot of enthusiasm and a lot of certainty. But the market has the ability to throw us a curveball. And I just want to caveat that the way that we feel today is we feel a great deal of confidence given the landscape that exists, but that landscape is shifting, and we recognize that it is, and therefore, we're reluctant to get over our skis. We don't like missing. We missed this quarter. It didn't feel good. The landscape shifted. We're going to keep focusing on the same program of adjusting to the market as it is. David, anything you'd add?

David Grove: No, I'd just say we have to pay attention to, as rates increase, I think some pressure on incentives, as per your question, might come in the form of the cost of our rate buy-down. We continue to make sure that we meet the affordability amount.

Stuart Miller: And we're certainly seeing some of that movement in the 10-year, came down a little bit today, but it was up a little bit yesterday. And the Fed decision, while it doesn't directly affect, it definitely sends some vibration. So, we're injecting a little bit of conservatism, but that's what we see right now.

John Lovallo: Understood. And then, Stuart, I wanted to dig in on one of your comments, and that was also in the press release, on just further deterioration in the housing market. I mean, I get the fact that rates have gone up quite a bit over the past few weeks. Consumer confidence is challenged. Iran is out there. But I can tell you, in all of our checks across the housing complex, and as recently as yesterday with a very large builder, the feeling we're getting is that the market has moved from a state of correction to maybe early signs of stabilization. And I'm curious what you're seeing that might be different than that.

Stuart Miller: Yes, I think that you have differentiation around or delineated by product type and price point. Certainly at the higher end there's a lot less impact from what the affordable end is feeling right now. We're operating more at the affordable end of the market, that customer is far more sensitive to what's happening, both in terms of cost of living and the signal that is sent by interest rates. And recognize that interest rates might go up, but we're buying them down. The cost of our buy-down is becoming more expensive.

So, it might be that you're living in a world of a tale of two cities where you're seeing different builders with different product mix, even different geographies having a very different experience. We can only tell you what we're seeing from our approach. Any thoughts, guys?

John Lovallo: Thank you.

Stuart Miller: No? Good. Okay. You're welcome.

Operator: Thank you. Our next question comes from Stephen Kim from Evercore ISI. Please go ahead.

Stephen Kim: Yes, thanks a lot, guys. Appreciate all the color so far. I had a couple of questions here on the inventory. If I look at your finished homes and construction in progress, on a per-unit basis, the value per unit appears to have risen pretty significantly again this quarter. I'm looking as a percentage of ASP like kind of 74% up from almost like maybe 60% last year. And I'm wondering what's behind that rise. Is that primarily due to land costs per lot, which are included in this inventory line? And when we think about the whole finished homes and construction in progress line, should we expect that to at least seasonally drop meaningfully in 4Q and be a driver to cash flow like it often is?

Stuart Miller: So, in terms of land and land costs, it's as I said earlier, a lot of our land and land deals were negotiated at a different time to a different price range. And that is flowing through, and you're seeing some of that move up. You also have a duration question, and that is our option maintenance fees are accumulating for longer periods of time because we have moderated our growth. We've actually eliminated our growth, which was part of the underwriting of the land deals that we had. And so, that's being injected into some of those land costs. Steve, could you repeat the second part of that question?

Stephen Kim: Yes, the second half of that question was that just, I'm trying to get a sense for how free cash flow may show up in the fourth quarter. Obviously, we know that's usually a very strong cash flow quarter for you. And I'm wondering, should we be expecting a drop in your finished homes and construction and

progress inventory line that would drive that in 4Q, or is there something that might moderate that this year?

Stuart Miller: So, we do think that there's going to be a drop in our inventory level. Again, we're managing our business very carefully. And in terms of cash flow, that is going to depend on the volume. And again we were a little bit surprised at the volatility in the market through the third quarter that didn't work to our benefit. We're a little bit skeptical as to what the fourth quarter might or might not look like, but we think that the cash flow will be better in the fourth quarter as it normally is. Diane?

Diane Bessette: Yes, I think that's right. The volume will be what really determines that number, Steve. It's always our largest delivery quarter, but with so much uncertainty out there, it's going to make a big swing.

Stephen Kim: No, I appreciate all that. And Stuart, you actually led directly into my second question, which was related to your pausing of maybe some land bank takedowns or extending the terms, if you will. Am I right in thinking that in a typical land bank deal, if you extend it six months it drives a roughly 100 to 150 basis point hit at the project level? And roughly what percent of deals would you say that you have paused land bank takedowns? Yes, that's basically the second question.

Stuart Miller: Okay, so I don't have an answer on the percentage where we have paused. Your math, I haven't looked at it on a six-month basis what the impact is, but let's assume you're approximately right. And the way we think about this is what we've done is we've basically taken the cost of capital attribution to equity, and we've made it a real-time, right-in-front-of-us calculation with option maintenance fees. And so, as we pause an underwritten duration, that underwritten duration has a real-time impact on margin and cost of the land

that we're actually engaging. It is a real view of what our capital is actually doing.

So, we're still kind of going through the numbers around this, but it is creating a really interesting focus for the company as we look at every land deal that we do brand new, and we think about the risk associated with pauses, duration, and fluctuation in market conditions, and all of that risk profile is being better injected in every new deal that we negotiate. And this is the topic of discussion every day in the company, and it's in large part because of the highlight that we've brought to bear on the cost of capital, both debt capital and equity capital.

Stephen Kim: Yes, thanks very much. I appreciate that. And I think the key word that you use is also negotiating because I don't think that this stuff is necessarily just a one-way conversation, right? I mean, there is definitely negotiation room and some leverage that you bring to the table as well, I would think, in the relationship. Thanks very much, guys. I appreciate it.

Stuart Miller: That is way understated, Steve, because if you look at what we're turning this into, we are renegotiating and negotiating every piece of the programming that we've got, and we're getting better every day. Why don't we take one more question?

Operator: And our final question comes from Jay McCanless from Citizens Bank. Please go ahead.

Jay McCanless: Hey, thanks for taking my questions. Good morning. You all talked a little bit about the cost of mortgage rate buy-downs moving up. Is there any way to quantify that, and maybe what are you seeing so far in September?

Stuart Miller: Diane?

Diane Bessette: It is a hard question to answer, and I'll tell you why. It depends on whether it's a fixed loan or an ARM. It depends on whether it's government or conventional. It depends on whether it's an ARM that's three years, five years, seven years.

Stuart Miller: It's a mix.

Diane Bessette: And of course saying the obvious, it also depends on where your beginning rate is and how much you have to buy it down. So, I don't mean to not really give you an answer, but it's a combination of so many variables that it is very difficult to give you a range on that.

Jay McCanless: Okay. The second question I had, Stuart, your comments about resale supply in Texas and Florida, I think that's new commentary that you put in the script. What have you seen? Is it across all the markets in Texas and Florida, or is it more concentrated where you guys are seeing this competition enough to where you felt like it was important to call it out in the earnings script?

Stuart Miller: It's interesting. It's part of a broader narrative, and it's something that we kind of fight every day. We have customers coming in, visiting with us. Some of them can't qualify. Some of them can. The resale market is becoming more and more of a competitive component in the game. It just makes it more difficult to hit the volumes that we expect. David, what are you seeing in Texas?

David Grove: Yes, I'd say you're starting to see the resale market, as the days on market increases, be willing to compromise their sales price more, and as they're willing to compromise that, it fuels more activity from the resale buyer.

Stuart Miller: Jim?

Jim Parker: I'll just add, I don't think it's always necessarily a negative. I think that as you see more activity in the resales, we see a whole lot more prospects that are ready to step up and buy a new home. So, sometimes this actually turns into a positive because it unlocks the market and really gets people out there and lets us have more targets.

Stuart Miller: Yes, it's a flywheel. When the resale market starts to ignite, every person that is selling a home needs to buy a home, and that's the flywheel that starts to move forward. So, it isn't necessarily a negative, but at least for the time being, we are seeing more competition than we've seen in a long time from the resale market. And remember, over the past years, the resale market had been on the sidelines. It had just been disengaged because the differential in interest rates was so big. But the need to move up, to move on, to move out, to make a change has been postponed for long enough to where that resale market is starting to negotiate now.

Jim Parker: Yes.

Stuart Miller: All right. I want to thank everyone for joining us. We look forward to sharing our progress as we go forward quarter by quarter, and we'll see you at the end of the fourth. Thank you.

Operator: 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.

END