

## Lennar Corporation

## F4Q23 earnings, orders beat; Gross margins should recover after F1Q

Reiterate Rating: NEUTRAL | PO: 156.00 USD | Price: 149.28 USD

## F4Q beats on deliveries; outlook mixed vs. expectations

LEN reported adj. F4Q23 EPS of \$5.17 (GAAP \$4.82), well ahead of our \$4.63 estimate and \$4.60 consensus driven by stronger homebuilding revenue (+8% YoY vs. +1% forecast). Gross margin of 24.2% was slightly below our 24.5% forecast. Order and delivery guidance were better-than-expected, but F1Q gross margin and average selling price (ASP) outlook were below our forecast.

## LEN dynamic pricing strategy drives order upside

Net orders increased 31.6% YoY in F4Q (-11.7% QoQ), which was slightly ahead of the high-end of guidance despite the spike of mortgage rates during F4Q. Order average selling prices declined (4.5%) QoQ as Lennar leveraged its dynamic pricing model to drive sales and maintain high inventory turns. F1Q order guidance implies slightly better than normal seasonality, supported by the recent decline in mortgage rates.

## Gross margin should recover after F1Q headwinds

LEN expects F1Q gross margin to be down approximately 295-320bps QoQ driven by seasonality, higher incentives (most homes delivered in F1Q were sold in F4Q when interest rates spiked) and ongoing shift to higher cost finished lots. In F2024, LEN expects flattish YoY gross margin (implies gross margin up YoY in F2Q-F4Q) partially supported by a decline in incentives from current levels.

## LEN will use cash for growth, debt reduction and buybacks

LEN finished the year with \$6.2bn of cash (~\$3.5bn of net cash). LEN plans to invest in growth while reducing debt and returning cash to shareholders, including at least \$2 billion of repurchases in F2024 (vs. \$1.2bn in F2023). We expect LEN's cash position to grow in F2024, which will be a slight drag on ROE, but LEN management ruled out large-scale M&A or investments in "out-of-the-box" growth programs.

## Raise PO; Reiterate Neutral

We are lower our F2024E estimate by <1% and raise our F2025E estimate by 4% (lower share count). We also raise our PO to \$156 (from \$150), based on 1.6X price-to-tangible book value (same multiple on higher book value). We reiterate our Neutral rating; we see more upside in other homebuilder stocks with higher ROE profiles trading at similar or cheaper valuations or more aggressive capital return to shareholders.

Estimates (Nov) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	15.72	13.72	14.73	16.64	17.78
GAAP EPS	17.56	14.11	14.73	16.64	17.78
EPS Change (YoY)	10.1%	-12.7%	7.4%	13.0%	6.9%
Consensus EPS (Bloomberg)			14.65	16.45	NA
DPS	1.50	1.50	1.50	1.50	1.50
Valuation (Nov)					
P/E	9.5x	10.9x	10.1x	9.0x	8.4x
GAAP P/E	8.5x	10.6x	10.1x	9.0x	8.4x
Dividend Yield	1.0%	1.0%	1.0%	1.0%	1.0%
EV / EBITDA*	6.8x	8.4x	8.4x	7.9x	7.8x
Free Cash Flow Yield*	7.0%	16.7%	5.7%	7.4%	7.2%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 5.

18 December 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	150.00	156.00
2024E EPS	14.85	14.73
2025E EPS	15.94	16.64
2026E EPS	17.09	17.78

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## Stock Data

Price	149.28 USD
Price Objective	156.00 USD
Date Established	18-Dec-2023
Investment Opinion	B-2-7
52-Week Range	88.42 USD - 156.01 USD
Mrkt Val (mn) / Shares Out (mn)	45,771 USD / 306.6
Free Float	97.8%
Average Daily Value (mn)	310.75 USD
BofA Ticker / Exchange	LEN / NYS
Bloomberg / Reuters	LEN US / LEN.N
ROE (2024E)	15.2%
Net Dbt to Eqty (Nov-2023A)	0%
ESGMeter™	Low

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Timestamp: 18 December 2023 01:44AM EST

# iQprofile<sup>SM</sup> Lennar Corporation

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	19.5%	15.1%	13.7%	13.5%	13.1%
Return on Equity	21.1%	16.6%	15.2%	14.7%	13.9%
Operating Margin	20.0%	15.7%	15.2%	15.3%	14.7%
Free Cash Flow	3,208	7,628	2,616	3,409	3,291

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	2.0x	0.7x	0.8x	0.8x
Asset Replacement Ratio	0.7x	0.8x	1.7x	1.6x	1.6x
Tax Rate	22.7%	23.9%	24.5%	24.5%	24.5%
Net Debt-to-Equity Ratio	6.3%	-4.8%	-11.9%	-14.5%	-16.3%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	33,671	34,233	36,006	37,747	39,598
% Change	24.1%	1.7%	5.2%	4.8%	4.9%
Gross Profit	10,646	9,333	9,767	10,151	10,402
% Change	24.2%	-12.3%	4.7%	3.9%	2.5%
EBITDA	7,127	5,756	5,719	6,109	6,204
% Change	29.5%	-19.2%	-0.6%	6.8%	1.6%
Net Interest & Other Income	(707)	(164)	(121)	(16)	(16)
<b>Net Income (Adjusted)</b>	<b>4,556</b>	<b>3,887</b>	<b>4,037</b>	<b>4,336</b>	<b>4,395</b>
<b>% Change</b>	<b>4.1%</b>	<b>-14.7%</b>	<b>3.9%</b>	<b>7.4%</b>	<b>1.3%</b>

## Free Cash Flow Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,614	3,939	4,037	4,336	4,395
Depreciation & Amortization	87	114	108	113	119
Change in Working Capital	(2,321)	3,312	(1,565)	(991)	(1,164)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	886	360	217	136	136
Capital Expenditure	(57)	(96)	(182)	(186)	(194)
<b>Free Cash Flow</b>	<b>3,208</b>	<b>7,628</b>	<b>2,616</b>	<b>3,409</b>	<b>3,291</b>
<b>% Change</b>	<b>30.0%</b>	<b>137.8%</b>	<b>-65.7%</b>	<b>30.3%</b>	<b>-3.5%</b>
Share / Issue Repurchase	(1,039)	(1,176)	(2,000)	(2,000)	(2,000)
Cost of Dividends Paid	(438)	(430)	(411)	(391)	(371)
Change in Debt	409	(981)	0	0	0

## Balance Sheet Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,773	6,274	8,040	8,558	9,078
Trade Receivables	1,500	1,260	1,123	1,161	1,201
Other Current Assets	19,698	18,353	20,184	21,228	22,459
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	10,279	11,345	11,406	11,478	11,554
<b>Total Assets</b>	<b>36,251</b>	<b>37,232</b>	<b>40,752</b>	<b>42,425</b>	<b>44,292</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,802	4,352	4,481	4,572	4,679
Long-Term Debt	6,182	5,084	4,630	4,130	3,730
Other Non-Current Liabilities	3,759	3,097	3,097	3,097	3,097
<b>Total Liabilities</b>	<b>13,744</b>	<b>12,532</b>	<b>12,207</b>	<b>11,799</b>	<b>11,506</b>
<b>Total Equity</b>	<b>22,507</b>	<b>24,700</b>	<b>28,545</b>	<b>30,626</b>	<b>32,786</b>
<b>Total Equity &amp; Liabilities</b>	<b>36,251</b>	<b>37,232</b>	<b>40,752</b>	<b>42,425</b>	<b>44,292</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Homebuilders

## Company Description

Lennar is the second largest public homebuilder by closings in the US, delivering roughly 53k homes in FY2020. LEN is positioned in 21 states in 49 markets targeting first time, move-up, and active adult buyers. LEN reports its results under five distinct operating regions: East, Central, Texas, West, and Other. The company also owns a financial services business.

## Investment Rationale

We reiterate our Neutral rating. valuation is attractive, but we see more upside in other homebuilder stocks with higher return-on-equity profiles.

## Stock Data

Average Daily Volume

2081,644

## Quarterly Earnings Estimates

	2023	2024
Q1	2.06A	2.19E
Q2	3.01A	3.85E
Q3	3.87A	4.63E
Q4	4.82A	4.10E

**Exhibit 1: Lennar F2Q23 variance table**

F2Q23 earnings beat on revenue and gross margin

	YoY Change			Variance vs BofAe		
	<u>F4Q22</u>	<u>F4Q23</u>	<u>YoY</u>	<u>BofAe</u>	<u>F4Q23</u>	<u>Δ</u>
Income Statement						
Home Sales (\$ in mms)	\$9,654	\$10,443	8%	\$9,749	\$10,443	7%
Homebuilding Gross Margin ex-impairments	24.8%	24.2%	-68 bps	24.5%	24.2%	-34 bps
Homebuilding SG&A % of revenue	5.8%	6.6%	75 bps	6.8%	6.6%	-21 bps
Homebuilding Operating Margin	19.0%	17.6%	-143 bps	17.7%	17.6%	-12 bps
Financial Services op. income	\$125	\$169	35%	\$133	\$169	27%
Multi-family op. income	\$15	(\$12)	(182%)	(\$20)	(\$12)	(39%)
Lennar Other income	(\$87)	(\$103)	18%	(\$38)	(\$103)	171%
Pre-tax Margin	17.3%	16.3%	-102 bps	16.7%	16.3%	-47 bps
Operating EPS (ex. mark to market)	\$4.55	\$5.15	13%	\$4.63	\$5.15	11%
GAAP EPS	\$5.02	\$4.82	(4%)	\$4.63	\$4.82	4%
Regional Results	<u>F4Q22</u>	<u>F4Q23</u>	<u>YoY</u>	<u>BofAe</u>	<u>F4Q23</u>	<u>Δ</u>
Deliveries (units)	20,064	23,795	18.6%	21,933	23,795	8.5%
Average Delivered Price (\$000s)	\$482.4	\$441.4	(8.5%)	\$444.5	\$441.4	(0.7%)
Total Orders (units)	13,200	17,366	31.6%	16,798	17,366	3.4%
Average Selling Price (\$000s)	\$419.2	\$419.4	0.1%	\$435.5	\$419.4	(3.7%)
East orders	5,091	5,344	5.0%	5,346	5,344	(0.0%)
Central orders	2,299	3,278	42.6%	3,449	3,278	(5.0%)
Texas orders	2,706	4,185	54.7%	4,059	4,185	3.1%
West orders	3,101	4,549	46.7%	3,938	4,549	15.5%
Other orders	3	10	233.3%	6	10	66.7%
Backlog Units	18,869	14,892	(21.1%)	16,186	14,892	(8.0%)
Backlog Value (\$ in mms)	\$8,741	\$6,634	(24.1%)	\$7,419	\$6,634	(10.6%)
Avg Price in Backlog	\$463.2	\$445.5	(3.8%)	\$458.4	\$445.5	(2.8%)
Backlog Conversion Ratio	78.0%	111.6%	3364 bps	102.9%	111.6%	873 bps

**Source:** Company data, BofA Global Research estimates

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## Price objective basis & risk

### Lennar Corporation (LEN)

Our PO of \$156 is based on 1.6x price to 2024E tangible book value, slight premium to LEN's historical average (1.4-1.5x price to tangible book value) given favorable demand trends.

Downside risks: 1) worsening affordability, 2) expectations for rising rates, 3) continued supply chain challenges, 4) capital allocation less shareholder-friendly than some peers, 5) executing ancillary business strategy, 6) elevated mgmt. ownership, 7) higher financial leverage than some peers, 8) rising land prices and input costs, 8) potential for local permitting delays, and 9) slowing US economy.

Upside risks: 1) continued improvement in the US homebuilding market, 2) favorable interest rates and moderating home price appreciation, 3) potential for a more shareholder friendly approach to capital allocation, 4) better than expected execution of its rental business.

## Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
<b>NEUTRAL</b>				
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
<b>UNDERPERFORM</b>				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

## **iQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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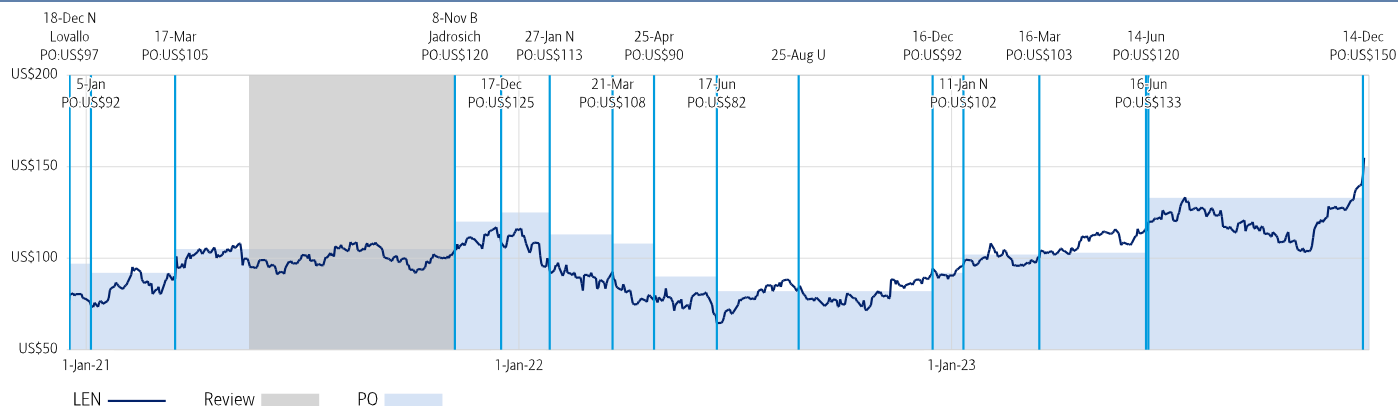
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### Lennar Corporation (LEN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Building Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	41	47.67%	Buy	23	56.10%
Hold	14	16.28%	Hold	8	57.14%
Sell	31	36.05%	Sell	9	29.03%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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