



Lennar Corporation

When Rates Fall, Lennar Rises

Following a difficult two-year period for U.S. homebuilders driven by elevated mortgage rates and affordability issues, Lennar Corporation is well positioned to benefit from the Federal Reserve’s pivot towards rate cuts. Lennar’s transition to a light-land strategy have strengthened its balance sheet and positioned it to expand margins. **We initiate with a BUY rating and a one-year PT of \$149.**

Thesis Point 1

Since 2022 the rise in mortgage rates have been the biggest headwind for homebuilders, forcing builders like Lennar to have home sales gross margin fall to 17.5% in Q3, down from 22.5% the prior year. However, the Fed’s recent policy to pivot towards rate cuts is expected to ease mortgage rates and LEN was already seeing the benefit late Q3. In their Q3 earnings call Lennar talked on their optimism of affordability improving in the fourth quarter and how even modest declines in mortgage rates generated stronger new trends in the quarter, with orders up 12% year-over-year.

Thesis Point 2

Historically Lennar has been a land-heavy builder, with significant capital in land holdings. However, with the completion of the Millrose spin-off in early '25 LEN has accelerated its transition into its land-light strategy which will help reduce capital intensity and put the focus on efficient homebuilding. This shift has allowed LEN to deliver gains in operational efficiency. In Q3 the company reported an inventory cycle of 126 days, the fastest in their history. Additionally, management highlighted balance sheet strength with a 13.5% homebuilding debt-to-equity ratio. These initiatives position LEN to protect margins during slowdowns while also magnifying return when demand increases.

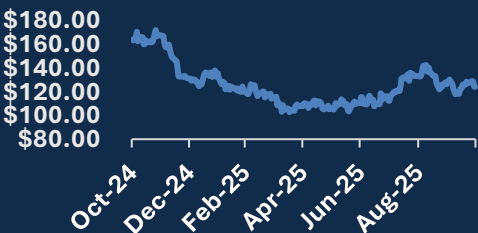
Company Overview

Founded in 1954, Lennar Corporation is a leading U.S. homebuilder that specializes in residential construction and related financial services. They primarily focus on business to consumer transactions, where they build and sell single-family homes, townhouses and condos across 30 states. LEN primarily generates revenue from its homebuilding segment (93.7%) supported by financial services (3.6%) and Multifamily/Investments (2.7%). The company recently moved on its light-land strategy with the spin-off Millrose Properties and expanded its footprint in the South-Central region with its acquisition of Rausch Coleman Homes.

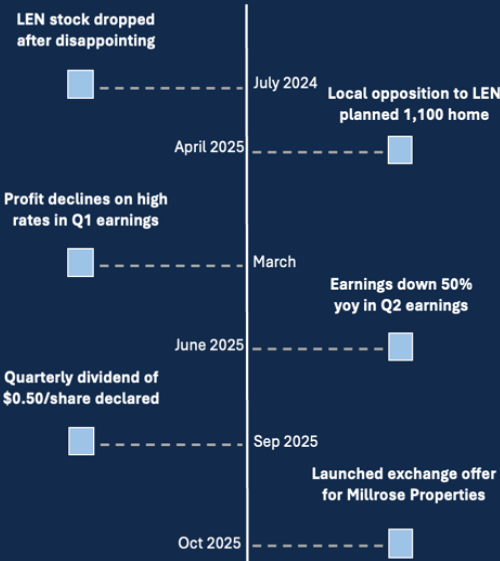
LENNAR®

TICKER:	\$LEN
RATING:	BUY
PRICE:	\$124.13
PRICE TARGET:	\$149.63
MARKET CAP:	\$31.5b
52-W RANGE:	\$98.42 - \$173.08
P/E:	12.7x
IMPLIED UPSIDE:	20.54%

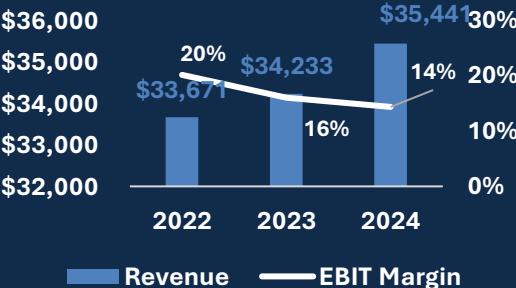
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1

The timing and magnitude of rate cuts remain uncertain, if inflation is more persistent or the Fed delays monetary policy mortgage rates could remain elevated. Sustained rates would continue to pressure affordability leading to slower growth and a greater reliance on incentives to drive sales for LEN. This could prolong margin compression and lessen the recovery of LEN's gross margin, which had fallen from 22.5% to 17.5% in their most recent quarter.

Risk 2

Persistent inflation in construction materials and labor could weigh on LEN's profitability even if demand conditions improve. Concrete, lumber and other construction materials remain volatile, and labor shortages in southern regions have kept wages elevated. If Lennar has input costs rise faster than selling prices, they may absorb higher expenses, putting more pressure on gross margins and cash flow generations.

Catalysts

One major near-term catalyst for LEN is mortgage rates declining following the Fed's policy pivot towards rate cuts. Housing affordability has been the largest constraint on buyer demand the past several years, with even modest rate improvements yielding solid improvement. In Q3 Len reported small movements in mortgage rates drove stronger sales activity, new orders rising 12% yoy.

Valuation

DCF Analysis (\$mm)							
	FY2024 12/31/2024	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	35,441	34,766	36,852	38,971	41,115	43,273	45,437
Revenue Growth	4%	-2%	6%	6%	5%	5%	5%
United States	35,441	34,766	36,852	38,971	41,115	43,273	45,437
EBIT	5,095	3,521	4,422	4,725	5,037	5,355	5,680
EBIT Margin	14%	10%	12%	12%	12%	12%	13%
Tax Expense	1,217	879	1,061	1,134	1,209	1,285	1,363
Effective Tax Rate	24%	25%	24%	24%	24%	24%	24%
NOPAT	3,877.36	2,642.96	3,360.92	3,591.19	3,827.77	4,069.84	4,316.49
D&A	116	118	118	127	136	145	154
Capex	172	150	258	283	308	335	363
Changes in NWC	(500)	400	2,211	1,559	822	0	(909)
UFCF	4,321	2,211	1,010	1,876	2,833	3,879	5,016
PV of FCF		2,196	953	1,619	2,235	2,798	3,309

Our base case DCF assumes a 6.0x EV/EBITDA exit multiple, a revenue CAGR of 3.8% through FY2030, and EBIT margins stabilizing near 13%, below pre-2022 numbers. The 6.0x multiple represents a discount to Lennar's five-year historical average and peers such as D.R. Horton and Toll Brothers, reflecting the cyclical nature of homebuilding and the uncertainty concerning rate cuts. These projections include a gradual housing market recovery beginning FY2026, supported by lower mortgage rates and improving affordability. Refer to the bottom of the appendix for our upside and downside DCF projections.

Conclusion

We rate Lennar Corporation a BUY, given the Federal Reserve's pivot to rate cuts and its transition to a light-land strategy. However, persistent inflation and the uncertainty around the magnitude and timing of rate cuts remain. **We initiate \$LEN with a buy rating, and a PT of \$149.**

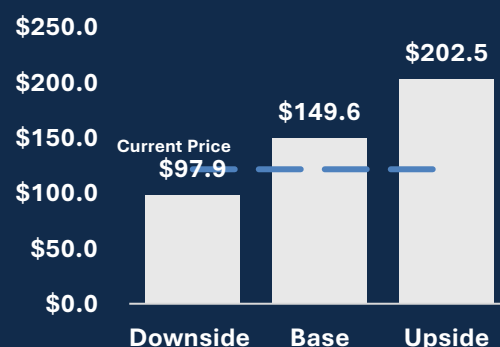


Terminal Value	
EV/EBITDA Exit Multiple	6.0x
Terminal Value	\$35,004
PV of Terminal Value	\$23,205
PV of Projection Period	\$13,141
PV of Terminal Value	\$23,205
Implied TEV	\$36,346
(-) Debt	\$5,663
(+) Cash	\$7,459
Implied Equity Value	\$38,141
Diluted Shares Outstanding	255
Implied Share Price	\$149.56
Upside/Downside	21.0%

Football Field Valuation Range



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	35,441	34,766	36,852	38,971	41,115	3.8%
EBITDA	5,210	3,639	4,540	4,852	5,172	-0.2%
EBIT	5,095	3,521	4,422	4,725	5,037	-0.3%
NOPAT	3,877	2,643	3,361	3,591	3,828	-0.3%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	14.7%	10.5%	12.3%	12.5%	12.6%	12.5%
EBIT Margin	14.4%	10.1%	12.0%	12.1%	12.3%	12.2%
Revenue Growth	3.5%	-1.9%	6.0%	5.8%	5.5%	3.8%
EBIT Growth	-7.1%	-30.9%	25.6%	6.9%	6.6%	0.2%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	7.3x	14.2x	31.2x	16.8x	11.1x	16.1x
EV/Sales	1.2x	0.9x	0.8x	0.8x	0.7x	0.8x
EV/EBITDA	5.7x	8.2x	6.5x	6.1x	5.7x	6.5x
FCF Yield	13.7%	7.0%	3.2%	6.0%	9.0%	7.8%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
D.R. Horton, Inc. (NYSE:DHI)	\$46,281	\$51,837	12.4x	\$34,575	\$5,226
PulteGroup, Inc. (NYSE:PHM)	\$24,599	\$25,627	9.3x	\$17,695	\$3,631
Taylor Morrison Home Corporation (NYSE:TM)	\$6,189	\$8,243	7.2x	\$8,403	\$1,352
Toll Brothers, Inc. (NYSE:TOL)	\$12,944	\$15,179	9.9x	\$10,877	\$1,930
Lennar	\$31,001	\$29,387	12.0x	\$34,766	\$3,651

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth Rate LF
D.R. Horton, Inc. (NYSE:DHI)	9.9x	23.6%	15.1%	14.8%	(7.3%)
PulteGroup, Inc. (NYSE:PHM)	7.1x	27.8%	20.5%	20.0%	5.0%
Taylor Morrison Home Corporation (NYSE:TM)	6.1x	24.7%	16.1%	15.6%	13.8%
Toll Brothers, Inc. (NYSE:TOL)	7.9x	26.3%	17.7%	17.0%	3.3%
Lennar	8.0x	19.5%	10.5%	10.1%	(4.7%)

High	9.92x	27.8%	20.5%	20.0%	13.8%
75th Percentile	8.05x	26.3%	17.7%	17.0%	5.0%
Average	7.80x	24.4%	16.0%	15.5%	2.0%
Median	7.86x	24.7%	0.0%	15.6%	3.3%
25th Percentile	7.06x	23.6%	15.1%	14.8%	-4.7%
Low	6.10x	19.5%	10.5%	10.1%	-7.3%

Lennar

Implied Enterprise Value (25th Percentile)	\$	25,769
Implied Enterprise Value (Median)	\$	28,712
Implied Enterprise Value (75th Percentile)	\$	29,387

Implied Share Price (25th Percentile)	\$	108.09
Implied Share Price (Median)	\$	119.63
Implied Share Price (75th Percentile)	\$	122.28

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.36
Risk Free Rate	4.39%
Cost of Equity	8.72%
Weighted Average Cost of Debt	4.25%
Tax Rate	24.00%
Cost of Debt	0.49%
Total Equity	\$31,487
Total Debt	(\$1,795)
Equity/Total Capitalization	84.76%
Debt/Total Capitalization	15.24%
WACC	9.21%

Downside Case: For our downside case, we assume a 4.5x EV/EBITDA multiple. In this case we assume struggling revenue growth and worsening margins. This reflects a delayed Federal Reserve pivot, persistent inflation, and mortgage rates remaining above 6.5%.

Upside Case: In this case we assume a 7.0x EV/EBITDA multiple. This case assumes the Fed follows through with rate cuts, improving affordability and stronger new-home demand. Combined with a leaner balance sheet from its land-light strategy, these drives accelerated earning growth.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.