

## Equity | US | Real estate - Homebuilders

## Share Statistics

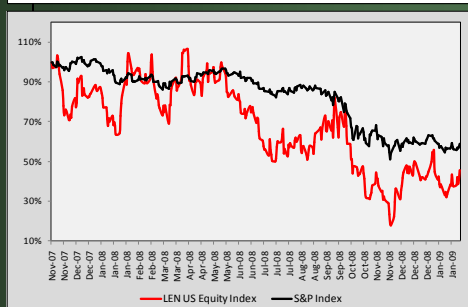
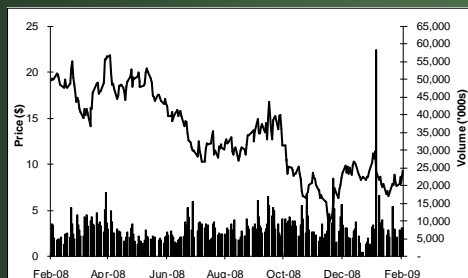
Current Price – \$9.30

Market Capitalization – \$1,493 mn

52 Week High/Low – \$22.73 / \$3.42

Bloomberg Code – LEN US Equity

Reuters Code – LEN.N



	2008	2007
<b>Key Metrics (US\$ mn)</b>		
Total Revenues	4,575	10,187
EBITDA	(529)	(3,027)
NOPAT	(1,109)	(1,941)
Earnings before taxes	(562)	(3,081)
Net Income	(1,109)	(1,941)
EPS (in US\$)	(7.01)	(12.31)
Total Assets	7,425	9,103
Shareholders' Equity	2,623	3,822
BVPS (in US\$)	16.6	24.2
<b>Financial Ratios (%)</b>		
Return on assets	-13.4%	-18.0%
Return on equity	-34.4%	-40.8%
Leverage	51.4%	42.6%
<b>Valuation Ratios</b>		
Price-to-Earnings	NM	
Price-to-Book Value	0.56	
Price-to-Tangible Book Value	NM	

## Lennar (LEN)

## Investment Summary

The downturn in the US housing markets which commenced in 2006 continues to linger unabated even as the US economy crawls through one of its worst recessionary conditions in decades. The US housing prices have declined for 28 months in succession and are showing no signs of reversal yet. Tight credit flow, mounting job losses and contracting US economy are further prolonging the housing slump and amplifying the problems for homebuilders including Lennar. In FY07 and FY08, Lennar reported a 37% and 55% decline, respectively, in its revenues on back of 33% and 53% drop in deliveries and 4% and 7% drop in average sale price, for FY07 and FY08. As new orders continued to plummet rapidly, Lennar's orderbook has shrunk significantly to about 1/10th of FY06 levels with order backlog days at just 51 as at November 30, 2008. With no near-to-medium term prospects of a recovery in the housing markets, Lennar's operating results would continue to be impacted by shrinking orderbooks, waning new orders and declining sale prices in the near-to-medium term, significantly inhibiting Lennar's bottom line, in our view. Besides headwinds from the US housing slump, the company is also exposed to huge off-balance sheet risks through its unconsolidated joint ventures (which together have \$4.1 bn debt of which Lennar's maximum recourse debt obligation stands at \$0.5 bn, or 20% of its shareholders' equity) placing Lennar as one of the most vulnerable home builders in the residential real estate space.

## Key Highlights

**Downturn in the US housing markets is nowhere near its ebb**

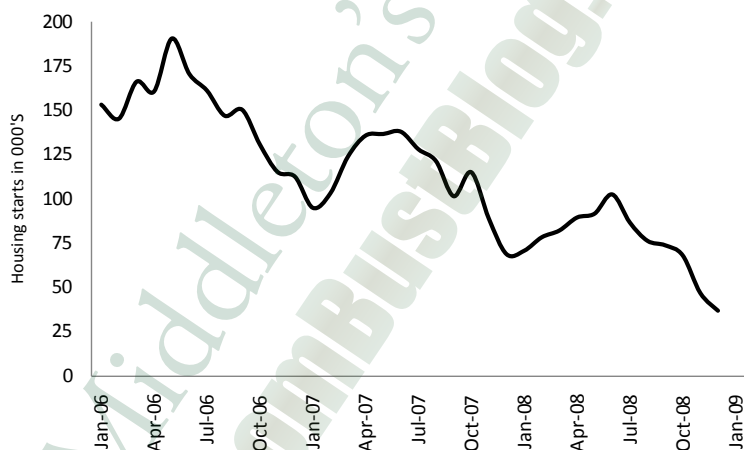
As the US economy weeds through a prolonged recession, the downturn in the US housing markets continues to worsen beyond expectations. Tight liquidity conditions, rising unemployment rates, expectations of further correction in the housing markets, and an increased wave of foreclosures, all under the ambit of a weakening economy, have all but eliminated the demand for US housing. Resultantly, housing starts, a leading indicator of housing activity, continued to fall unabated, witnessing a consecutive year-on-year (y-o-y) decline for the past 33 months. Overall, US housing starts declined 13%, 25% and 33% in 2006, 2007 and 2008, respectively; while new home sales declined 18%, 26% and 38%, respectively. Furthermore, the pace of decline has intensified significantly over the past few months, with an average 45% y-o-y decline in US housing starts over the last three months (October 2008 – December 2008), reinforcing the fact that the housing downturn is nowhere near its trough. With huge inventory of housing stocks still piled up, the slowdown in the housing markets is expected to continue through 2009 and into 2010, further prolonging the pain for home builders and other associated sectors, and will continue

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to have far reaching implications for the economy already plagued by recession.

Amid persisting hard-hitting conditions, Lennar's new orders declined 48% y-o-y to 13,391 units in FY08 from 25,753 units in FY07 (y-o-y decline of 39%) and 42,212 units in FY06 (y-o-y decline of 3%). As housing slump continues, we expect Lennar's new orders to continue declining at least for the next two years, shrinking 10% and 2% to 12,115 units and 11,856 units in FY09 and FY10, respectively.

#### Housing Starts in United States continue to plummet



Source: U.S Census Bureau

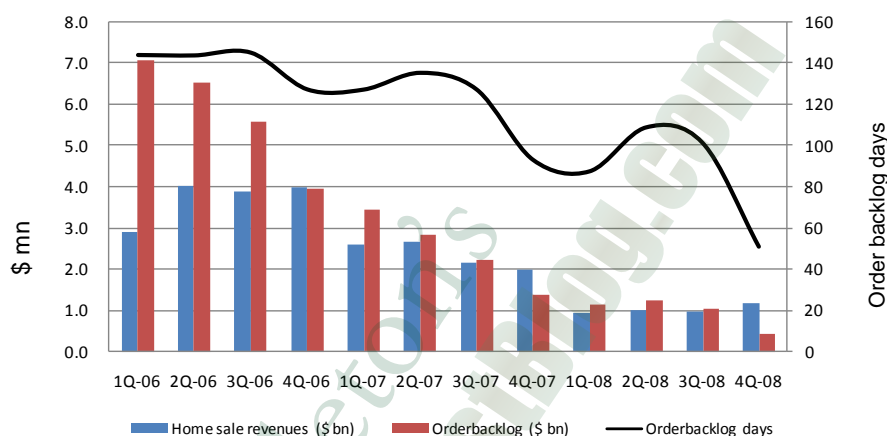
#### Lennar runs off its order book, indicating significant challenges ahead

The downturn in the US housing markets has significantly impacted Lennar's operating performance. For the third consecutive year, Lennar's new order sales plummeted with a y-o-y decline 48% in FY08, following a 39% and 3% drop in FY06 and FY07, respectively. While the company's deliveries also declined significantly, the decline in new orders was sharper than that in deliveries, as a result of which Lennar's order backlog extinguished rapidly. In 4QFY08, the company's new orders declined 46% y-o-y, while its deliveries declined a lower 36%. Consequently, Lennar's order book slumped 60% to 1,599 units at the end of 4QFY08 with operating backlog days down to just 51. As of November 30, 2008, order backlog value declined to \$0.5 bn, down from \$1.4 bn, \$4.0 bn and \$6.9 bn at the end of FY07, FY06 and FY05, respectively. With Lennar's new order book drying up fast, and the company's existing order backlog expected to run out in about 2 months, its future revenue stream is in danger.

In 4QFY08, Lennar reported delivery of 4,518 units while its backlog homes stood at 1,599 units, as compared to delivery and backlog of 7,044 units and 4,009 units, respectively, in 4QFY07. With a fast depleting order book, Lennar's deliveries, and consequentially its homebuilding revenues, are expected to fall substantially. We expect a 37% and 12% decline in the company's home sales revenues to \$2.6 bn and

\$2.3 in FY09 and FY08, respectively.

#### Lennar's future revenue visibility in jeopardy off sluggish orderbook

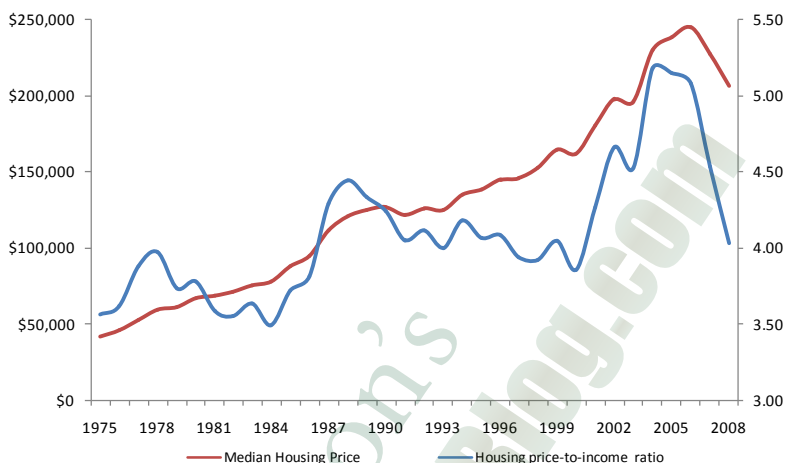


Source: Company reports and filings

#### Unrelenting fall in housing prices to drive down operating margins

Housing prices continue their downward trajectory with S&P Case Shiller Index declining for 28 months in succession since August 2006. The Index has lost 25% of its value ever since the housing correction has started (August 2006). Despite this sharp correction the housing prices are yet to reach their equilibrium as measured by price-to-income ratio. The price-to-income ratio currently is at 4.03x against long term historical average of 3.92x (from 1975 to 2000) indicating that the prices would have to fall another 3% to bring them into equilibrium. Further, considering the fact that average household income caused by mounting job losses and economic slowdown is declining at a rapid pace, the housing prices might have to fall substantially to reach equilibrium. Average sale price on Lennar's home sales declined 0.1%, 3.8% and 6.9% in FY06, FY07 and FY08, respectively, and is expected to decline by another 12.4% in FY09. Declining housing prices would continue to negatively impact Lennar's gross margins. Although moderating commodity prices would partially offset the margin decline, the pace of decline in housing prices is expected to outpace the softening commodity costs. In FY08, Lennar's cost of sales of home units excluding impairment stood at 100.5%. Going forward, in FY09 we expect this ratio to raise to 101.3% with decline in commodity costs expected to slow down while the downward journey of housing prices continues.

**Price to income ratio is still high compared to historical long term average**

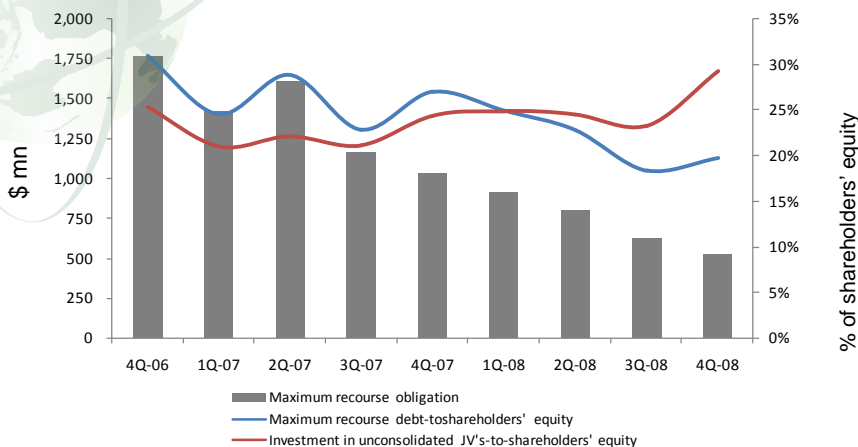


Source: U.S Census Bureau

**Lennar and the voodoo accounting – the impact of unconsolidated JVs**

Despite Lennar's efforts to reduce its exposure towards unconsolidated joint ventures (primarily to stay in compliance with its loan covenants), it carries significant risk from its exposure to unconsolidated JVs. During 2008 Lennar reduced its number of unconsolidated joint ventures to 116 as of November 30, 2008, versus 261 a year ago (Lennar reduced its equity in these unconsolidated entities to 29%, down from 34% as of November 30, 2007). Total investments in the unconsolidated JVs stood at \$767 mn, or 29% of the company's shareholders' equity at the end of 4QFY08, compared with \$934 mn, or 25% of the shareholders' equity as of November 30, 2007. Lennar was also exposed to unconsolidated debt in these JVs with maximum recourse obligations of \$520 mn and net recourse debt of \$392 mn at 20% and 15% of the shareholders' equity, respectively, as of November 30, 2008, versus 27% and 21% of the shareholders' equity as of November 30, 2007.

**Lennar's off-balance sheet exposure**



In its recent 10K filing, Lennar declared having sold a few of its joint ventures, however, backing into the numbers suggests that the value of these transactions has not been significant. As of November 30, 2007, Lennar had \$934 mn of investment in unconsolidated JVs which dropped to \$767 mn as at November 30, 2008, a reduction of \$167 mn which is even less than the write-down of \$173 mn on its investments under APB 18 valuation adjustments. Although the company is taking steps to downsize its JV investments, it would be a gradual process and in the meantime, the company may have to materially write-down its investments in JVs to reflect their fair values. In addition to the aforementioned the housing market is expected to deteriorate significantly more, impeding the financial viability of some of Lennar's JVs. As example is the case of Landsource, an unconsolidated joint venture, in which Lennar originally had a 50% stake, later brought down to 16%, which commenced Chapter 11 bankruptcy proceedings in June 2008 and underscores the risks associated with exposure to these JVs. Impairments relating to investments in these unconsolidated entities can be expected to rise in the coming quarters. In FY08 Lennar recorded valuation adjustment related to investments of unconsolidated entities of \$173 mn, or 20% of its JV investments, and a 31% increase over FY07. In FY09 and FY10 we expect the company to record another \$175 mn and \$89 mn valuation adjustment related to investment in unconsolidated entities (26% and 15% of investment in JV's), respectively.

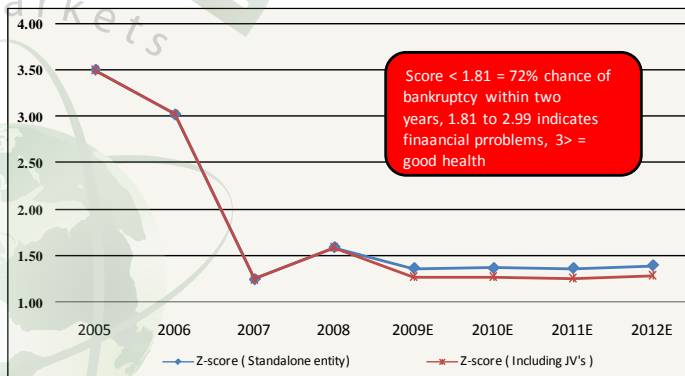
**Falling housing prices will require Lennar to continue recording impairment charges, albeit at a slower pace**

Due to an unprecedented fall in the US housing prices, Lennar's inventory and investment in unconsolidated entities has been subject to significant impairment charges in the last few quarters. However, since the company had recorded significant valuation adjustments in FY07, the amount of write-down in FY08 was substantially below the FY07 levels. As the company revaluated its assets, it recorded a total valuation adjustment of \$3,160 mn and \$598 mn, respectively, in FY07 and FY08. In FY08, Lennar recorded \$195 mn FAS144 valuation adjustments relating to finished homes, CIP and land on which the company intends to build homes and \$32 mn and \$173 mn valuation adjustments relating to assets, and investments in unconsolidated entities, respectively. Additionally, for the first time the company recorded a \$25 mn write-off on its notes receivables signaling that the company's receivables are under increased stress levels (receivables, net of allowances, stood at \$94 mn, or 3.6% of shareholders' equity as of November 30, 2008). As housing prices continue to fall leading to increased stress levels on the company's inventory portfolio which together with expected deterioration in the financial viability of its unconsolidated joint ventures would subject the company to make additional write-downs over the coming quarters. Although, we expect Lennar's valuation adjustment to decline to \$415 mn in FY09 from \$598 in FY08 and \$3,160 mn in FY07, at 20% of the company's shareholders' equity, it could still pose a challenge to Lennar's financial agility.

### Falling Z-score signifies a possible state of insolvency for Lennar

As of November 30, 2008, Lennar's debt-to-asset ratio (excluding unconsolidated entities) stood at 51.4%, up from 42.6% a year ago. In FY08 Lennar's Z-score was significantly low at 1.58x, down from 3.03x in FY06, implying that the financial condition of the company had tumbled remarkably following the US housing crisis. In 4Q08, Lennar had total debt of \$2.8 bn and considerable off-balance sheet exposure in the form of several recourse and non-recourse debts of its unconsolidated JVs. The total debt of these unconsolidated JVs was at \$4.1 bn as of November, 2008 of which the company's maximum recourse exposure was \$0.50 bn while net recourse exposure was \$0.40 bn. Including the impact of the unconsolidated debt obligations, Lennar's financial strength appears much weaker. We expect Lennar's leverage to increase and Z-score (excluding unconsolidated JVs) to deteriorate further with FY09 to 54.3% and 1.37x, respectively. However, when including the net recourse obligation, Lennar's leverage and Z-score deteriorate to 58.3% and 1.28x, respectively. Including the entire recourse and non-recourse portion, the ratios further worsen to 78.7% and 0.76x, respectively, signaling a state of insolvency for Lennar. Z-scores less than 1.81 indicates a 72% likelihood of bankruptcy over the next two years. Z-scores less than 1.81 indicates a 72% likelihood of bankruptcy over the next two years.

### Lennar's future revenue visibility in jeopardy off sluggish orderbook



Source: Company reports and filings, Boombustblog estimates

	4Q2008	2009e	2010e	2011e
<b>Covenants</b>				
Leverage ratio	55.0%	55.0%	52.5%	52.5%
Tangible Net Worth (\$ bn) - Desirable	\$1.60	\$1.60	\$1.60	\$1.60
Tangible Net Worth (\$ bn) - Min	\$1.30	\$1.30	\$1.30	\$1.30
<b>Incl JV's</b>				
Leverage		58.3%	57.5%	56.0%
Tangible Net Worth (\$ bn)		\$2.06	\$1.91	\$1.83
<b>Stand Alone</b>				
Leverage	51.4%	54.3%	52.6%	50.2%
Tangible Net Worth (\$ bn)	\$2.62	\$2.10	\$1.97	\$1.92

Lennar was in compliance with its debt covenants as at November 30, 2008. We

expect Lennar to comply with its covenants in 2009 also. However including JVs debt (net recourse) Lennar's leverage ratio is expected to increase to 58.3% and cross the minimum threshold limit of 55% set forth in covenants in 2009



## Valuation

Company	Market Cap (US\$ mn)	EV/EBITDA			P/E			P/B		
		2008	2009e	2010e	2008	2009e	2010e	2008	2009e	2010e
Lennar Corp	1,493	NM	NM	NM	NM	NM	NM	0.56	0.70	0.75
D.R. Horton	2,894	1,227	NM	177	NM	NM	91.4	1.02	1.00	0.82
Pulte Homes	3,177	NM	79	26	NM	NM	26.8	1.02	1.12	0.87
KB Home	1,254	NM	NM	41	NM	NM	22.6	1.31	0.93	0.92
M.D.C. Holdings	1,651	NM	NM	33	NM	NM	51.4	1.55	1.83	
RYL Group	855	NM	NM	65	NM	NM	NM	1.18	1.27	1.38
<b>Industry Average</b>		<b>1,227</b>	<b>NM</b>	<b>68</b>	<b>NM</b>	<b>NM</b>	<b>48.0</b>	<b>1.22</b>	<b>1.23</b>	<b>1.00</b>

We have arrived at Lennar's valuation through weighted average valuation approach with 50% weight to the DCF and 50% weight to P/B based valuation technique, respectively. Based on weighted average valuation, we have arrived at a fair value of \$9.0 per share, a 3.6% downside from the current price of \$9.3.

Lennar Valuation	Price	Weights	Upside (Downside)
P/B Based Valuation	10.0	50%	7.1%
DFC Based Valuation	8.0	50%	-14.3%
<b>Weighted avg share price</b>	<b>9.0</b>		<b>-3.6%</b>

## P/B Based valuation

Based on the 2010 book value of \$12.5 per share and 2010 P/B of 0.80x (P/B of 1.00x and 20% discount), we have arrived at a valuation of \$10.0 per share, which represents an upside of 7.1% from the current price of \$9.30, as of February 6, 2009.

Relative P/B Valuation	
<b>Lennar Corp</b>	<b>2009</b>
Book value per share	12.5
2010 P/B	0.80
<b>Target Stock Price (US\$)</b>	<b>10.0</b>

## DCF valuation

Based on DCF valuation technique we have arrived at a valuation of \$8.0 per share, which represents a downside risk of 14.3% from the current price of \$9.30, as of February 6, 2009.

**I. Note pertaining to covenant maintenance.**

We had looked into loan covenants for Lennar as per the latest amendment filed on November 7, 2008 (highlighted by the company on page 36 of its recent 10K filing). In the latest amendment there were some amendments with respect to credit limit which was reduced to \$1.1 bn from \$1.5 bn previously, and relaxation of leverage ratio to a maximum of 55% from 60% previously.

As of November 30, 2008 Lennar was in compliance with all its debt covenants. Also its worthwhile to mention that as at November 30, 2008 the company didn't have any borrowings outstanding under its credit facility, and the company is also not expected to fully utilize its credit facility (the company had cash and cash equivalents of \$1.2 bn as of November 30, 2008). We have highlighted few key clauses as per the third and most recent amendment.

<http://www.sec.gov/Archives/edgar/data/920760/000119312508234712/dex101.htm>

In the latest report we highlighted the key aspects of the covenants (in form of table) as follows –

- As per the latest amendment (November 7, 2008) the company is required to maintain a leverage ratio of 55% in 4Q08 and FY09 and a leverage ratio of 52.5% in 2010 and 2011 (as against 60% previously)
  - Lennar as a standalone entity is expected to comply with its covenants. However, including the JVs maximum recourse obligations the company's leverage ratio exceeds the minimum desirable ratio set forth in the covenant.
- The amendment also highlights that under no circumstances, the company's minimum tangible net worth could fall below \$1.3 bn. However, if minimum tangible net worth declines below \$1.6 bn the Credit Facility would further be reduced to \$0.9 bn from \$1.1 bn.
  - We expect Lennar's tangible net worth to exceed the minimum tangible net worth criteria set forth in the covenant (in both cases - including JVs and as a standalone entity)

In addition to these key highlights, there were certain other points in the third amendment that drew our attention relating to reduction of JV recourse obligations, which were not explicitly highlighted in our report specifically. Although, we highlighted that Lennar would be required to reduce its exposure in JVs to comply with its covenants, we had not highlighted the covenants specifically which was as follows.

- The third amendment states that Lennar would have to bring down its maximum recourse obligation to a maximum of \$585 mn by FY09 and reduce it further to \$395 by FY10 and reduce it to a maximum of \$275 mn by May 2011.
- In the absence of any specific information collaborating investment in specific JVs to recourse obligation, we have assumed recourse obligation to be constant in the financial model. However, as highlighted in the report we have built impairments relating to investments in unconsolidated JVs.

## Income Statement

LENNAR CORP								
Projections (All figures in US\$ million except per share data)								
Income Statement	2005	2006	2007	2008	2009E	2010E	2011E	2012E
<b>Revenues:</b>								
Homebuilding	13,305	15,623	9,730	4,263	2,708	2,403	2,631	3,064
Financial services	562	644	457	312	159	154	173	196
<b>Total revenues</b>	<b>13,867</b>	<b>16,267</b>	<b>10,187</b>	<b>4,575</b>	<b>2,867</b>	<b>2,557</b>	<b>2,804</b>	<b>3,260</b>
<b>Costs and expenses:</b>								
Homebuilding	11,215	14,678	12,189	4,542	2,939	2,390	2,574	2,953
Financial services	458	494	450	343	179	157	165	180
Corporate general and administrative	187	193	173	130	73	65	71	83
<b>Total costs and expenses</b>	<b>11,860</b>	<b>15,365</b>	<b>12,813</b>	<b>5,015</b>	<b>3,192</b>	<b>2,612</b>	<b>2,811</b>	<b>3,216</b>
Equity in earnings (loss)	134	(13)	(363)	(59)	(188)	(76)	(14)	0
Management fees and other income, net	99	67	(76)	(200)	(240)	-	-	-
Minority interest expense, net	(45)	(13)	(2)	4	(20)	(20)	(20)	(20)
Onetime expenses	(35)	-	(14)	133	-	-	-	-
<b>Earnings from continuing operations</b>	<b>2,160</b>	<b>943</b>	<b>(3,081)</b>	<b>(562)</b>	<b>(773)</b>	<b>(151)</b>	<b>(40)</b>	<b>25</b>
Provision for income taxes	815	349	(1,140)	548	(270)	(53)	(14)	9
<b>Net earnings from continuing operations</b>	<b>1,344</b>	<b>594</b>	<b>(1,941)</b>	<b>(1,109)</b>	<b>(502)</b>	<b>(98)</b>	<b>(26)</b>	<b>16</b>
<b>Discontinued operations:</b>								
Earnings from discontinued operations	17	-	-	-	-	-	-	-
Provision for income taxes	7	-	-	-	-	-	-	-
Net earnings from discontinued operations	11	-	-	-	-	-	-	-
<b>Net earnings</b>	<b>1,355</b>	<b>594</b>	<b>(1,941)</b>	<b>(1,109)</b>	<b>(502)</b>	<b>(98)</b>	<b>(26)</b>	<b>16</b>
<b>Basic weighted shares outstanding</b>	<b>155</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>
<b>Diluted weighted shares outstanding</b>	<b>166</b>	<b>161</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>	<b>158</b>
<b>EPS</b>								
<b>Basic earnings per share:</b>	<b>8.72</b>	<b>3.76</b>	<b>(12.31)</b>	<b>(7.01)</b>	<b>(3.17)</b>	<b>(0.62)</b>	<b>(0.16)</b>	<b>0.10</b>
<b>Diluted earnings per share:</b>	<b>8.23</b>	<b>3.69</b>	<b>(12.31)</b>	<b>(7.01)</b>	<b>(3.17)</b>	<b>(0.62)</b>	<b>(0.16)</b>	<b>0.10</b>
<b>Dividends (Class A and Class B common shares)</b>	<b>0.55</b>	<b>0.62</b>	<b>0.64</b>	<b>0.52</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>
<b>Ratios</b>								
<b>Stand alone entity</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Net Debt	2,803	2,984	2,042	1,567	1,479	668	388	31
Leverage, X	42.4%	39.8%	42.6%	51.4%	54.3%	52.6%	50.2%	50.4%
Working Capital / Total Assets	0.55	0.55	0.45	0.63	0.62	0.57	0.52	0.50
Retained Earnings / Total Assets	0.32	0.37	0.27	0.17	0.11	0.10	0.09	0.08
EBIT (trailing 12 months) / Total Assets	0.16	0.07	(0.29)	(0.06)	(0.05)	(0.01)	(0.00)	0.01
Market Value of Equity / Book Value	1.26	0.50	0.26	0.29	0.31	0.30	0.30	0.29
Sales (trailing 12 months) / Total Assets	1.11	1.31	1.12	0.62	0.44	0.39	0.43	0.49
<b>Including JV's</b>								
Net Debt	2,803	2,984	2,042	1,567	1,903	1,122	873	546
Leverage, X	42.4%	39.8%	42.6%	51.4%	58.3%	57.5%	56.0%	56.6%
Working Capital / Total Assets	0.55	0.55	0.45	0.63	0.58	0.53	0.49	0.47
Retained Earnings / Total Assets	0.32	0.37	0.27	0.17	0.10	0.08	0.07	0.06
EBIT (trailing 12 months) / Total Assets	0.16	0.07	(0.29)	(0.06)	(0.05)	(0.01)	(0.00)	0.01
Market Value of Equity / Book Value	1.26	0.50	0.26	0.29	0.29	0.28	0.28	0.26
Sales (trailing 12 months) / Total Assets	1.11	1.31	1.12	0.62	0.42	0.38	0.41	0.47

## Balance Sheet

ASSETS	2005	2006	2007	2008	2009E	2010E	2011E	2012E
<b>Homebuilding:</b>								
Cash	910	662	642	1,091	916	1,229	1,253	1,542
Restricted cash	23	25	35	9	9	9	9	9
Receivables	299	159	208	95	93	68	74	87
Total inventories	7,864	7,831	4,500	4,500	4,029	3,642	3,595	3,463
Investments in unconsolidated entities	1,283	1,447	934	767	581	483	486	490
Goodwill	195	197	-	-	-	-	-	-
Other assets	267	474	1,745	355	333	310	289	269
<b>Homebuilding</b>	<b>10,840</b>	<b>10,795</b>	<b>8,065</b>	<b>6,817</b>	<b>5,962</b>	<b>5,740</b>	<b>5,706</b>	<b>5,860</b>
<b>Financial services:</b>								
Cash	150	117	153	112	94	292	298	367
Restricted cash								
Receivables	676	633	281	134	77	70	79	89
Loans held for sale	563	484	293	190	206	216	227	238
Loans held for investment	147	190	138	58	58	58	58	58
Title plants	-	-	-	-	-	-	-	-
Investments held for maturity	32	60	62	19	19	19	19	19
Goodwill	58	61	61	34	34	34	34	34
Other	76	70	51	39	36	34	32	29
<b>Financial services</b>	<b>1,702</b>	<b>1,613</b>	<b>1,038</b>	<b>608</b>	<b>546</b>	<b>746</b>	<b>769</b>	<b>857</b>
<b>Total assets</b>	<b>12,541</b>	<b>12,408</b>	<b>9,103</b>	<b>7,425</b>	<b>6,508</b>	<b>6,485</b>	<b>6,475</b>	<b>6,717</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>								
<b>Homebuilding:</b>								
Accounts payable	877	751	376	247	158	129	139	160
Liabilities related to consolidated inventory not owned	306	334	719	593	593	593	593	593
Senior notes and other debts payable	2,593	2,614	2,295	2,545	2,264	1,963	1,714	1,714
Other liabilities	1,998	1,591	1,130	835	835	835	835	835
<b>Homebuilding</b>	<b>5,774</b>	<b>5,289</b>	<b>4,520</b>	<b>4,219</b>	<b>3,850</b>	<b>3,520</b>	<b>3,280</b>	<b>3,301</b>
<b>Financial services:</b>								
Notes and other debts payable	1,270	1,149	541	226	226	226	226	226
Other	168	213	190	191	191	641	941	1,191
<b>Financial services</b>	<b>1,438</b>	<b>1,362</b>	<b>732</b>	<b>417</b>	<b>417</b>	<b>867</b>	<b>1,167</b>	<b>1,417</b>
<b>Total Liabilities</b>	<b>7,212</b>	<b>6,652</b>	<b>5,252</b>	<b>4,636</b>	<b>4,266</b>	<b>4,387</b>	<b>4,447</b>	<b>4,718</b>
<b>Minority interest</b>	<b>78</b>	<b>55</b>	<b>29</b>	<b>166</b>	<b>146</b>	<b>127</b>	<b>107</b>	<b>87</b>
<b>Stockholders equity:</b>								
Class A common stock	13	14	14	14	14	14	14	14
Class B common stock	3	3	3	3	3	3	3	3
Additional paid-in capital	1,487	1,754	1,920	1,945	1,945	1,945	1,945	1,945
Retained earnings	4,047	4,539	2,497	1,273	746	622	571	562
Deferred compensation plan	(4)	(2)	(0)	-	-	-	-	-
Deferred compensation liability	4	2	0	-	-	-	-	-
Treasury stock, at cost	(293)	(606)	(610)	(612)	(612)	(612)	(612)	(612)
Accumulated other comprehensive loss	(5)	(2)	(2)	-	-	-	-	-
<b>Total Shareholders Equity</b>	<b>5,251</b>	<b>5,701</b>	<b>3,822</b>	<b>2,623</b>	<b>2,095</b>	<b>1,972</b>	<b>1,921</b>	<b>1,912</b>
<b>Total liabilities and stockholders equity</b>	<b>12,541</b>	<b>12,408</b>	<b>9,103</b>	<b>7,425</b>	<b>6,508</b>	<b>6,485</b>	<b>6,475</b>	<b>6,717</b>

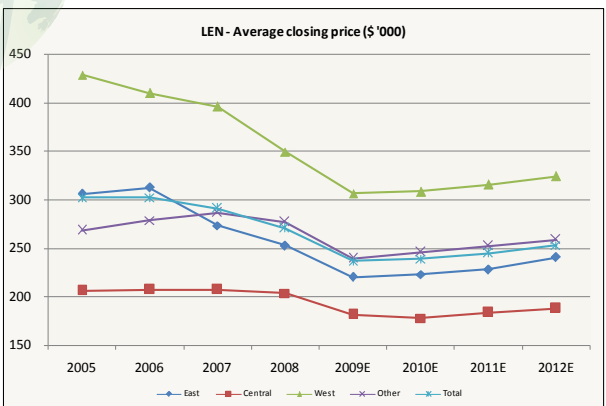
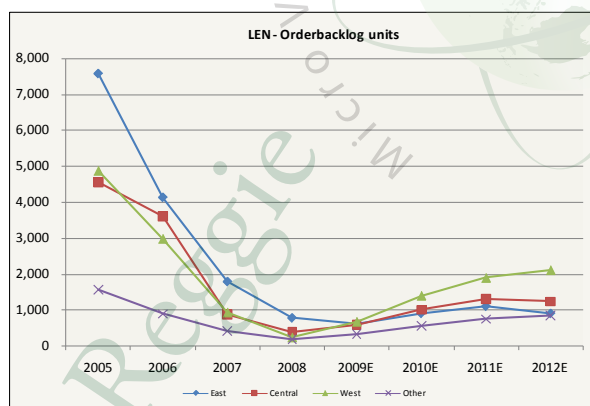
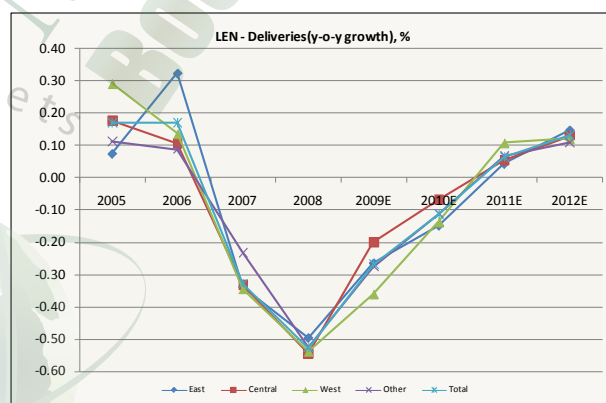
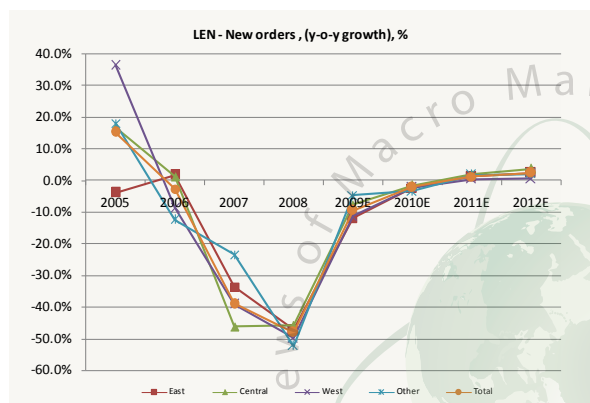
## Cash Flow

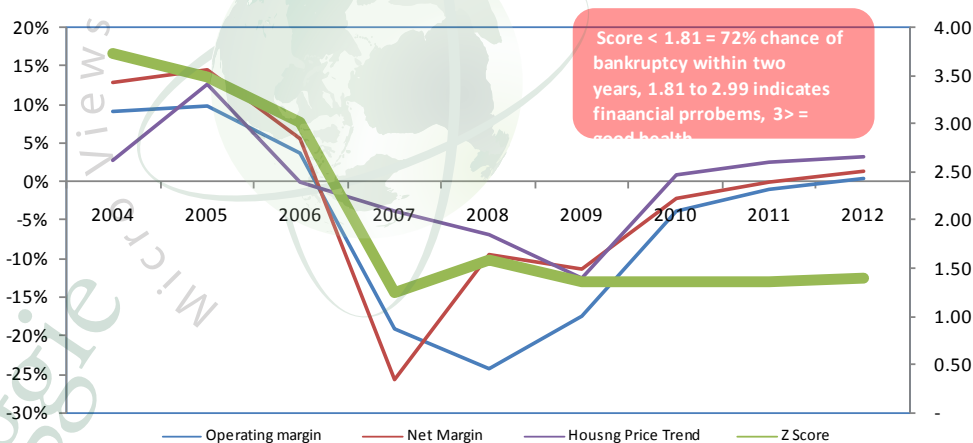
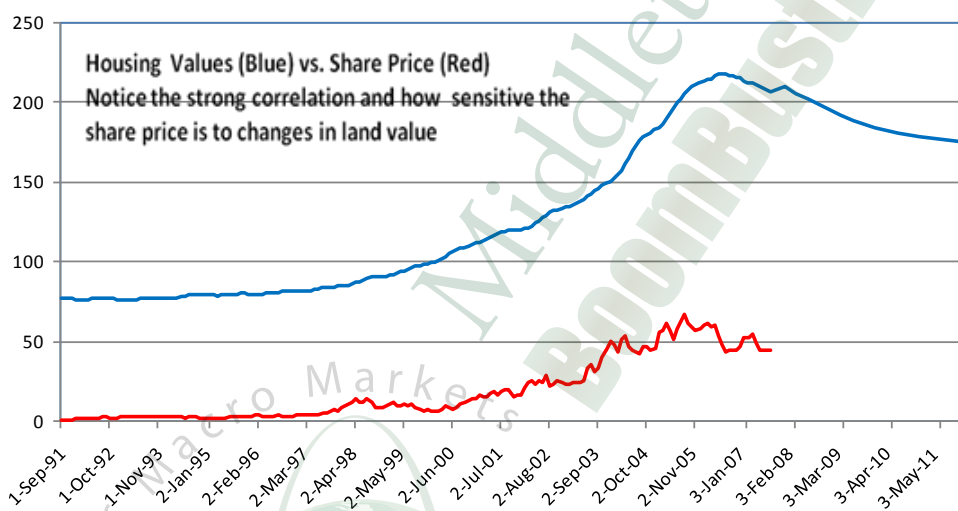
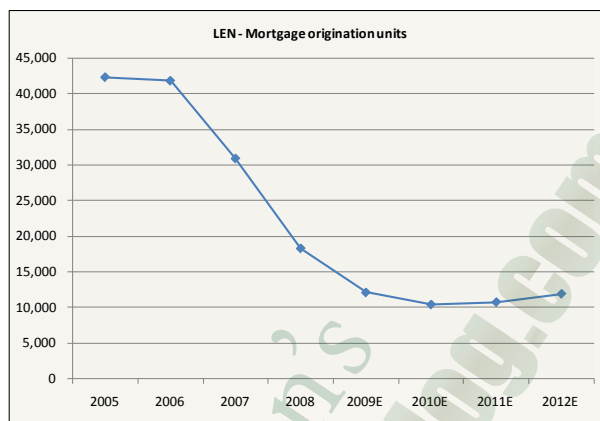
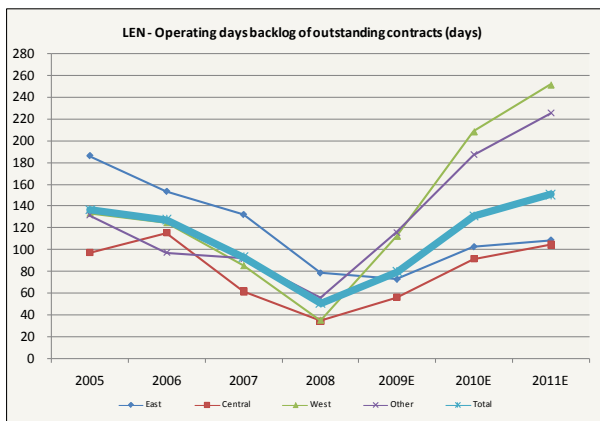
Cash Flow	2005	2006	2007	2008	2009E	2010E	2011E	2012E
<b>Cash flows from operating activities:</b>								
<b>Net earnings from continuing operations</b>	1,344	594	(1,941)	-	(502)	(98)	(26)	16
<b>Adjustments :</b>								
Depreciation and amortization	58	45	54	32	25	25	23	22
Amortization of debt	14	5	2	-	-	-	-	-
Gain on sale	-	(18)	-	-	-	-	-	-
Equity (earnings) loss from unconsolidated entities	(134)	13	363	-	-	-	-	-
Distribution of earnings from unconsolidated entities	221	175	107	-	-	-	-	-
Minority interest expense, net	45	13	2	-	(20)	(20)	(20)	(20)
Share-based compensation expense	7	37	35	-	-	-	-	-
Tax benefits from share-based awards	39	9	1	-	-	-	-	-
Deferred income tax provision (benefit)	10	(198)	(439)	-	-	-	-	-
One-time non-cash charges	35	-	(176)	-	-	-	-	-
Inventory write-offs	21	502	2,768	-	185	99	(3)	(4)
Changes in assets and liabilities, :								
(Increase) decrease in receivables	(221)	48	339	-	58	32	(15)	(23)
Increase in inventories	(1,708)	(371)	666	-	471	388	47	132
Write-offs and valuation adjustments	-	-	-	-	-	-	-	-
(Increase) decrease in other assets	(30)	9	(833)	-	-	-	-	-
(Inc) dec in loans held-for-sale	(115)	79	190	-	(16)	(10)	(11)	(11)
Inc (dec) in accounts payable	742	(386)	(684)	-	(89)	(29)	10	20
Net earnings from discontinued operations	11	-	-	-	-	-	-	-
Other adjustments	(17)	-	-	-	-	-	-	-
<b>Net cash provided by operating activities</b>	<b>323</b>	<b>555</b>	<b>455</b>	<b>1,101</b>	<b>113</b>	<b>386</b>	<b>5</b>	<b>133</b>
<b>Cash flows from investing activities:</b>								
(Increase) decrease in restricted cash	(11)	(2)	(11)	-	-	-	-	-
Additions to properties and equipment	(22)	(27)	0	-	-	-	-	-
Contributions to unconsolidated entities	(920)	(729)	(608)	-	-	-	-	-
Capital from unconsolidated entities	467	322	897	-	-	-	-	-
(Increase) decrease in financial services loans held-for-sale	(117)	71	18	-	-	-	-	-
Purchases of investment securities	(37)	(109)	(108)	-	-	-	-	-
Proceeds from sales of investments	36	82	108	-	-	-	-	-
Proceeds from sale of business	17	-	-	-	-	-	-	-
Proceeds from sale of insurance policies	-	19	-	-	-	-	-	-
Acquisitions, net of cash acquired	(416)	(33)	-	-	-	-	-	-
<b>Net cash used in investing activities</b>	<b>(1,004)</b>	<b>(406)</b>	<b>296</b>	<b>(266)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities:</b>								
Borrowings under financial services debt	373	(121)	(608)	-	-	-	-	-
Borrowings under revolving credit facility	-	-	-	-	-	-	-	-
Proceeds from senior floating-rate notes	-	-	-	-	-	-	-	-
Proceeds from senior floating-rate notes	-	-	(300)	-	-	-	-	-
Net proceeds from 5.125% senior notes	298	-	-	-	-	-	-	-
Net proceeds from 5.50% senior notes	-	-	-	-	-	-	-	-
Net proceeds from 5.60% senior notes	501	-	-	-	-	-	-	-
Net proceeds from 5.95% senior notes	-	249	-	-	-	-	-	-
Net proceeds from 6.50% senior notes	-	249	-	-	-	-	-	-
Redemption of senior floating-rate notes	-	(200)	-	-	-	-	-	-
Redemption of senior notes	(338)	-	-	-	(281)	(301)	(250)	-
Proceeds from other borrowings	53	2	32	-	-	450	300	250
Principal payments on other borrowings	(190)	(151)	(189)	-	-	-	-	-
Payments related to minority interests	(33)	(71)	408	-	-	-	-	-
Excess tax benefits from share-based awards	-	7	5	-	-	-	-	-
Common stock:								
Issuances	38	31	22	-	-	-	-	-
Repurchases	(289)	(323)	(4)	-	-	-	-	-
Dividends	(89)	(101)	(101)	-	(25)	(25)	(25)	(25)
<b>Net cash provided by financing activities</b>	<b>324</b>	<b>(429)</b>	<b>(735)</b>	<b>(427)</b>	<b>(306)</b>	<b>124</b>	<b>25</b>	<b>225</b>
<b>Net increase (decrease) in cash</b>	<b>(356)</b>	<b>(281)</b>	<b>17</b>	<b>408</b>	<b>(193)</b>	<b>510</b>	<b>31</b>	<b>357</b>
Cash at beginning of year	1,416	1,059	778	795	1,203	1,010	1,521	1,551
<b>Cash at end of year</b>	<b>1,059</b>	<b>778</b>	<b>795</b>	<b>1,203</b>	<b>1,010</b>	<b>1,521</b>	<b>1,551</b>	<b>1,909</b>
<b>Cash at the end of year - Homebuilding</b>	<b>910</b>	<b>662</b>	<b>642</b>	<b>972</b>	<b>816</b>	<b>1,229</b>	<b>1,253</b>	<b>1,542</b>
<b>Cash at the end of year - Financial Services</b>	<b>150</b>	<b>117</b>	<b>153</b>	<b>231</b>	<b>194</b>	<b>292</b>	<b>298</b>	<b>367</b>

## Key Charts

Debt Rating (Stand alone entity)	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Working Capital / Total Assets	0.58	0.55	0.55	0.45	0.63	0.62	0.57	0.52	0.50
Retained Earnings / Total Assets	0.30	0.32	0.37	0.27	0.17	0.11	0.10	0.09	0.08
EBIT (trailing 12 months) / Total Assets	0.15	0.16	0.07	(0.29)	(0.06)	(0.05)	(0.01)	(0.00)	0.01
MV of Equity / BV of Total Liabilities	1.65	1.26	0.50	0.26	0.29	0.31	0.30	0.30	0.29
Sales (trailing 12 months) / Total Assets	1.15	1.11	1.31	1.12	0.62	0.44	0.39	0.43	0.49
<b>Z-score ( Standalone entity)</b>	<b>3.74</b>	<b>3.50</b>	<b>3.03</b>	<b>1.25</b>	<b>1.59</b>	<b>1.37</b>	<b>1.37</b>	<b>1.36</b>	<b>1.40</b>
<b>Debt rating</b>	<b>CCC+</b>	<b>CCC+</b>	<b>CCC</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>

Including JV's		2005	2006	2007	2008	2009E	2010E	2011E	2012E
Debt Rating (Including JV's)									
Working Capital / Total Assets		0.55	0.55	0.45	0.63	0.58	0.53	0.49	0.47
Retained Earnings / Total Assets		0.32	0.37	0.27	0.17	0.10	0.08	0.07	0.06
EBIT (trailing 12 months) / Total Assets		0.16	0.07	(0.29)	(0.06)	(0.05)	(0.01)	(0.00)	0.01
Market Value of Equity / Book Value of Total Liabilities		1.26	0.50	0.26	0.29	0.29	0.28	0.28	0.26
Sales (trailing 12 months) / Total Assets		1.11	1.31	1.12	0.62	0.42	0.38	0.41	0.47
<b>Z-score ( Including JV's )</b>		<b>3.50</b>	<b>3.03</b>	<b>1.25</b>	<b>1.59</b>	<b>1.28</b>	<b>1.27</b>	<b>1.26</b>	<b>1.29</b>
<b>Debt rating</b>		<b>CCC+</b>	<b>CCC</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>





## Assumptions

Region/ Year	New orders (y-o-y growth)				
	2008	2009e	2010e	2011e	2012e
East	-40%	-12%	-2%	1%	2%
Central	-38%	-8%	-2%	2%	4%
West	-45%	-11%	-2%	0%	1%
Other	-42%	-5%	-3%	2%	2%
Overall	-48%	-10%	-2%	1%	2%

Region/ Year	Pricing Assumptions (y-o-y growth)				
	2008	2009e	2010e	2011e	2012e
East	-22%	-16%	1%	2%	3%
Central	-13%	-12%	-2%	3%	3%
West	-7%	-16%	3%	2%	3%
Other	-20%	-14%	1%	2%	6%
Overall	-7%	-12%	1%	2%	3%

Region/ Year	Deliveries (y-o-y growth)				
	2008	2009e	2010e	2011e	2012e
East	-49.6%	-26.4%	-14.8%	4.3%	14.8%
Central	-54.6%	-20.1%	-6.9%	5.3%	12.9%
West	-53.9%	-36.1%	-13.8%	10.8%	12.1%
Other	-52.5%	-27.6%	-11.2%	6.8%	10.8%
Overall	-52.7%	-26.9%	-11.4%	6.4%	13.1%

Region/ Year	Order backlog (in days)				
	2008	2009e	2010e	2011e	2012e
East	79	73	103	109	N/M
Central	35	56	91	104	N/M
West	35	112	209	252	N/M
Other	56	116	187	225	N/M
Overall	51	79	131	151	N/M

Region/ Year	Revenues - Homebuilding				
	2008	2009e	2010e	2011e	2012e
East	-54%	-36%	-13%	7%	21%
Central	-56%	-29%	-9%	9%	16%
West	-59%	-44%	-13%	13%	15%
Other	-53%	-31%	-7%	9%	12%
Lennar (\$ bn)	4.3	2.7	2.4	2.6	3.1
- y-o-y growth	-56%	-36%	-11%	9%	16%

Region/ Year	Financial services				
	2008	2009e	2010e	2011e	2012e
Mortgages originated	-40.8%	-33.8%	-13.9%	3.2%	10.8%
Mortgages originated	103%	105%	102%	99%	97%
Value of per unit of mortgage	-6.4%	-9.4%	0.5%	1.5%	2.0%
Revenues (\$ bn)	0.31	0.16	0.15	0.17	0.20
- y-o-y growth	0.0%	0.0%	0.0%	0.0%	0.0%
Margin	-9.9%	-12.9%	-2.1%	4.7%	8.1%

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