

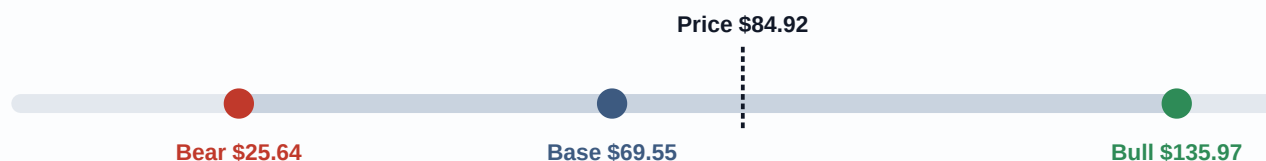
Initiated 2026-10-25 · Price \$84.92 (Class A, as of 2026-10-23 close, stockanalysis.com) · Mkt cap \$20.20bn · Consumer discretionary / homebuilding · Model: verified

Rating: Sell — Conviction: Low

Lennar is buying volume with price, and margins are still falling. Q3 FY2026 home-sale gross margin was 15.8% with incentives at ~12% of price, the Q4 guide is 15.5–16.0%, and full-year deliveries have been cut from ~85,000 to 80,000–81,000. At 0.94x book the stock looks cheap, but that book earns a ~6% ROE against a ~11.9% cost of equity. Both valuation methods put the base case below the price. Only the bull case, a margin recovery the rate backdrop doesn't yet support, clears it.

Conviction tests (3a-v-c): T1 fail (Sell → Hold at -1pp: Base midpoint -9.0%) · T2 pass · T3 pass · T4 pass

MODEL VALUE RANGE VS PRICE



Business overview

Lennar is the largest US homebuilder by deliveries: 82,583 homes in FY2025 (year to November) at an average \$391,000, on \$34.19bn of revenue. Most homes are entry-level and first-move-up, priced to sell through. FY2025 segment operating earnings were \$3.02bn from homebuilding and \$612mm from financial services, with small losses in Multifamily and Lennar Other. Since the February 2025 Millrose Properties spin-off it runs "land-light", taking lots on option instead of owning land (\$7.33bn of deposits and pre-acquisition costs). Earnings turn on three things: incentive levels (price), deliveries per community, and land-option cost in cost of sales. Mortgage rates drive the first two.

Competition

Lennar competes on price with D.R. Horton, PulteGroup, NVR, KB Home and resale listings, and by holding volume it sits at the bottom of the margin range. D.R. Horton's home-sale gross margin was 20.7% in its June 2026 quarter (Q3 FY2026, via search summary of its results). Lennar's was 15.8% in the quarter to August, and KB Home's 16.5%. The market already prices the gap. D.R. Horton and Pulte trade at 1.74x and 1.71x book. NVR, whose option-based lot model Lennar's land-light structure resembles, trades at 4.61x on a 28% ROE. Lennar and KB Home are at 0.94x and 0.75x (stockanalysis, 2026-10-23).

Bull case

- Margins recover from a trough.** Home-sale gross margin was 17.7% in FY2025 and 23.3% in FY2023. Incentives easing from ~12% toward the mid-single digits would take EBITDA margin back toward ~12.5%. Plays out if 30-year mortgage rates fall well below the

~6.8% the CEO cited at quarter end. *Model: ebitda_margin, exit_ev_ebitda*

2. **Scale converts to share.** 1,713 active communities (+3%) and ~80,000 deliveries a year at the lowest price points of any large builder. Deferred demand would land first on the builder already priced for affordability. Plays out if orders, -9% in Q3, return to growth. *Model: rev_growth*
3. **Land-light turns into cash.** With land on option, inventory should turn faster than at a land-owning builder. Bringing NWC back from 54% of revenue at Q3 to the post-spin ~43% would release ~\$3bn. Plays out if owned inventory (\$11.5bn, up from \$9.9bn) stops growing. *Model: nwc_pct_rev*

Bear case

1. **Volume-first pricing keeps margins at the trough.** Gross margin fell to 15.8% from 17.5% and SG&A rose to 9.2% from 8.2%, leaving a 6.6% net margin on home sales. The Q4 guide (15.5–16.0%) shows no turn, and the delivery guide has been cut again. Plays out if mortgage rates stay near 7% with the 10-year at ~5%. *Model: ebitda_margin, rev_growth*
2. **Land-light hasn't lightened the balance sheet.** Homebuilding cash fell to \$1.15bn from \$3.44bn in nine months. Debt rose to \$4.30bn, including \$650mm drawn on the revolver, and \$600mm of new notes followed in October. Owned inventory and deposits rose \$2.5bn while deliveries fell; Millrose option fees now sit in cost of sales. Plays out if deposits and owned inventory keep climbing into the spring. *Model: nwc_pct_rev; FY0 market.cash, credit.debt*
3. **Sub-cost-of-capital returns earn a sub-book multiple.** ROE is 5.96% and ROIC 5.18% (stockanalysis TTM). Until returns clear the ~11.9% cost of equity, book is a ceiling on the multiple, not a floor. Plays out if Lennar keeps trailing D.R. Horton and Pulte on margin. *Model: exit_ev_ebitda, wacc*

Valuation & balance sheet

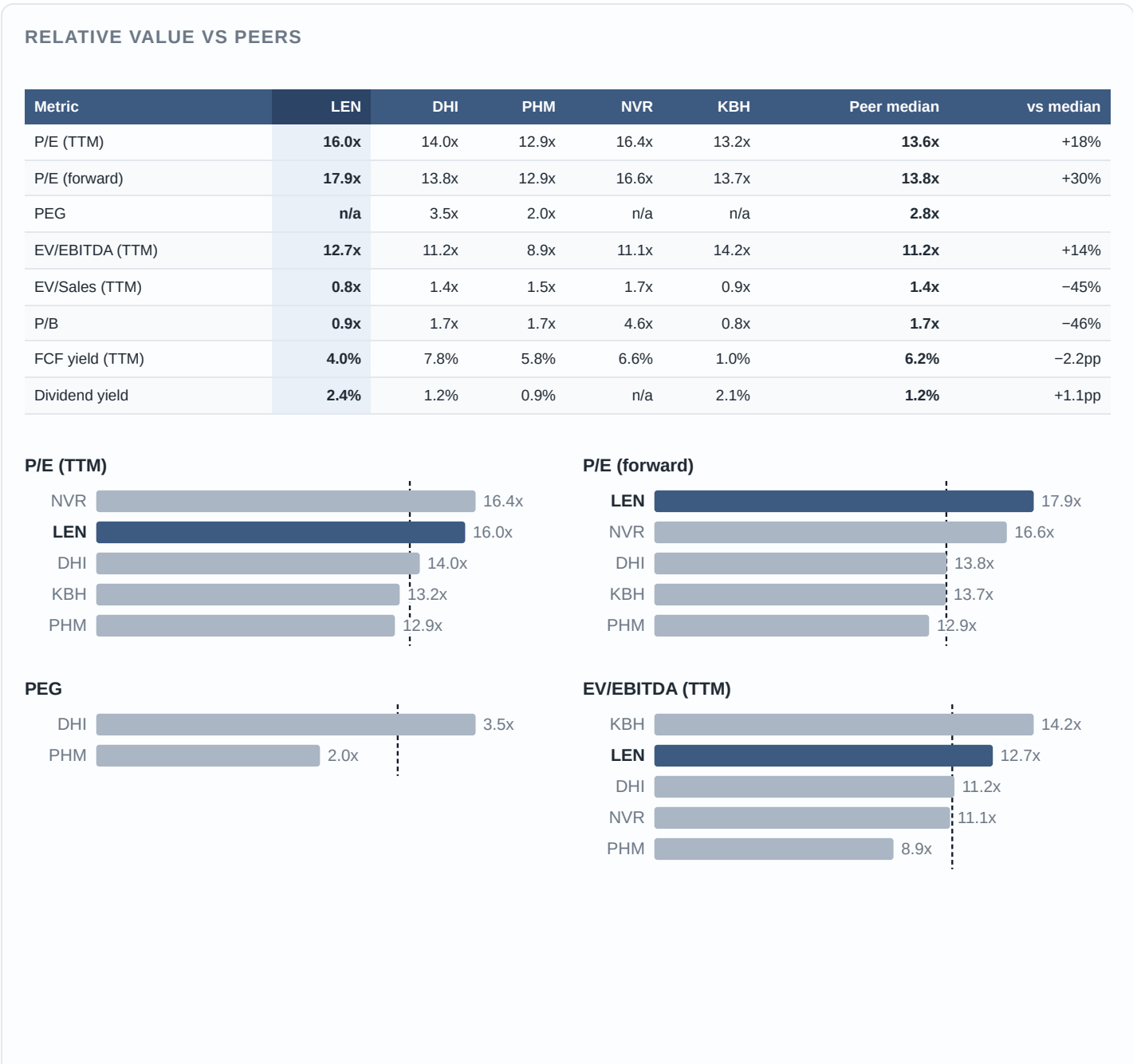
Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
P/B (book \$90.62/sh)	0.94x	n/a (unverified)	DHI 1.74x · PHM 1.71x · NVR 4.61x · KBH 0.75x	stockanalysis.com, 2026-10-23
Forward P/E (stockanalysis consensus)	17.9x	n/a (unverified)	DHI 13.8x · PHM 13.0x · NVR 16.6x · KBH 13.7x	stockanalysis.com, 2026-10-23
EV/EBITDA, aggregator TTM (EV includes financial-services debt)	12.7x	n/a (unverified)	DHI 11.2x · PHM 9.0x · NVR 11.1x · KBH 14.2x	stockanalysis.com, 2026-10-23
EV/EBITDA, model basis (EV \$23.49bn = mkt cap + \$4.30bn homebuilding debt + \$137mm NCI – \$1.15bn cash; EBITDA = company EBIT + D&A)	7.6x FY2025 (\$3.09bn); ~11.9x TTM (stockanalysis EBITDA \$1.98bn)	FY2022–25 EBITDA \$6.38bn → \$3.09bn	n/a (peers not restated)	model-inputs.json ; releases
FCF yield (TTM)	4.0%	n/a (unverified)	DHI 7.8% · NVR 6.6% · PHM 5.8% · KBH 1.0%	stockanalysis.com, 2026-10-23

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$25.64 · Base \$69.55 · Bull \$135.97 per share, i.e. implied returns of -69.8% / -18.1% / +60.1% vs \$84.92. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits between Base and Bull, closer to Base. The market is paying for a margin recovery the guide doesn't show. Base `value_a` (\$63.01) and `value_b` (\$76.08) differ by 21%. The exit-multiple method is the higher one, so it embeds a richer terminal multiple than the Gordon method's 2.5% growth: treat that gap as a re-rating, not noise. The Base exit multiple of 8.0x is ~5% above today's 7.6x on FY2025 EBITDA, though well below ~11.9x on depressed TTM EBITDA. No tail sensitivity was run: no product or customer reaches 50% of revenue, and the bear case is already a break (EBITDA margin 4.5–6.0%, 6.0x exit), not a plateau.

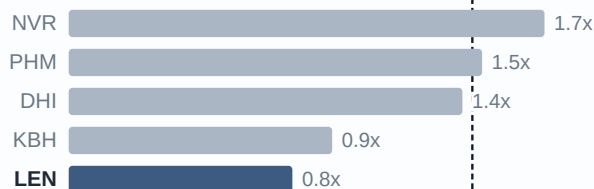
Balance sheet: net leverage 1.02x FY2025 EBITDA (model; 1.84x on Base Y1), EBITDA/interest 13.7x. Homebuilding debt-to-capital 16.6% (net 12.7%). Liquidity ~\$3.6bn (\$1.15bn cash plus ~\$2.45bn undrawn on the \$3.1bn revolver, before letters of credit). Nearest material maturity: the 5.00% and 4.75% notes due 2027 (amounts n/a (unverified)). Ratings: n/a (unverified).

Model note: tier **full** , status **built** , verification **verified** (3,207 formula cells matched in LibreOffice). Unverified inputs: none. Assumptions without basis: none. Scenario consistency **OK** on all 14 rows.

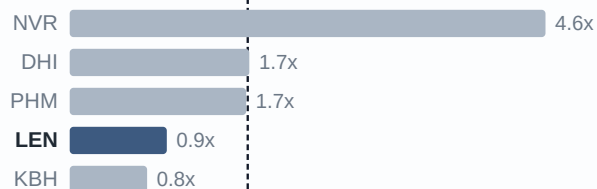
- Data path.** Revenue and D&A come from EDGAR XBRL. EBIT, interest and the balance-sheet lines come from the Q4 FY2025 and Q4 FY2023 releases (8-K ex. 99.1). Current cash, debt, NCI and share count come from the Q3 FY2026 release and 10-Q. FY2025 EBITDA includes a \$156mm Millrose exchange loss and \$130mm of technology mark-to-market gains.
- Scope.** Financial-services debt (\$1.58bn, funding loans held for sale) is operating and kept out of EV. The October notes are excluded (proceeds held as cash). Capex is a judgment (PP&E spend not retrieved).
- Working capital.** FY0 net debt is at 2026-08-31, after the nine-month build, so Y1 NWC is set so that Y1 FCF reflects only Q4.
- EPS.** No EPS guidance. Base Y1 EPS of \$5.21 implies Q4 ~\$1.85 (9M \$3.36) vs a rough guide-implied ~\$1.70; the model excludes technology mark-to-market losses.



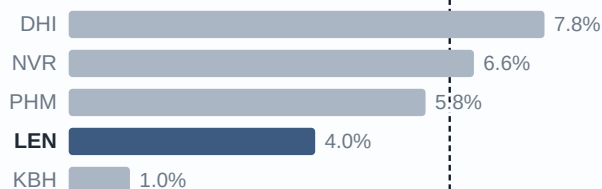
EV/Sales (TTM)



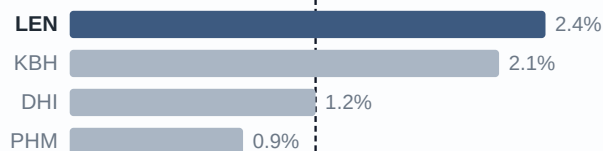
P/B



FCF yield (TTM)



Dividend yield



As of 2026-10-25. One source and one definition for every company: TTM multiples, forward P/E on stockanalysis consensus, EV/EBITDA on stockanalysis EV (includes financial-services debt) and EBITDA. Not the model's own EV basis. Quotes are 2026-10-23 closes, fetched 2026-10-25 (weekend). Dashed line = peer median. Source: stockanalysis.com /stocks/<ticker>/statistics/, fetched 2026-10-25.

Notes. stockanalysis shows no PEG for LEN, NVR or KBH; DHI and PHM values are the source's own. NVR pays no dividend.

Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

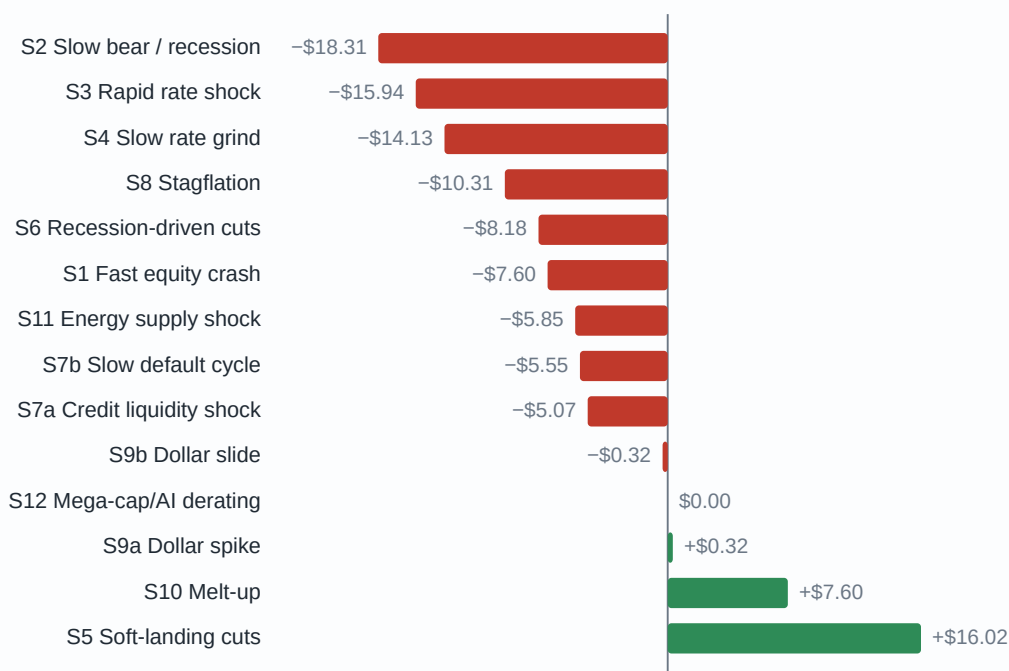
Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	-	Beta-1.38, 8%-shorted cyclical de-rates; no operating channel over weeks	Med	-\$7.60
S2 Slow bear / recession	-	Orders fall with jobs; Lennar defends volume with incentives, so margin absorbs it. Milder than Base – Bear (\$43.91) on purpose: two years, not permanent, and optioned land can be walked away from	High	-\$18.31
S3 Rapid rate shock	-	Mortgage rates spike; buydowns cost margin; higher discount rate	High	-\$15.94
S4 Slow rate grind	-	Same channels, compounding over years	High	-\$14.13
S5 Soft-landing cuts	+	Lower mortgage rates cut incentive cost and release deferred demand	High	+\$16.02
S6 Recession-driven cuts	-	Rate relief arrives with job losses; incentives dominate	Med	-\$8.18
S7a Credit liquidity shock	-	Investment-grade builder de-rates with risk assets; low leverage limits funding risk	Low	-\$5.07
S7b Slow default cycle	-	Tighter mortgage and land-banking credit; Millrose-style option financing costs rise	Med	-\$5.55
S8 Stagflation	-	Materials and labor inflate while higher rates cap price	Med	-\$10.31
S9a Dollar spike	+	Cheaper imported materials; revenue all US	Low	+\$0.32
S9b Dollar slide	-	Mirror of S9a	Low	-\$0.32
S10 Melt-up	+	Risk appetite re-rates a below-book, heavily shorted cyclical	Med	+\$7.60

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S11 Energy supply shock	-	Oil shock feeds inflation and rates; buyer confidence falls	Med	-\$5.85
S12 Mega-cap/AI derating	0	no material effect, not modeled	Low	\$0.00

Currently active/on watch per the playbook:

- S3 (partially active): the 10-year is back at 5.00% (macro log, 2026-10-23). S3 and S4 are among this name's largest downside rows.
- S8, S10 and S11 are on watch. S11 is near (Brent ~\$117 in the 2026-10-24/25 weekend log), and its channel here runs through rates.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if:

- Home-sale gross margin turns up (above ~17%) with incentives below ~10%; or
- Owned inventory and option deposits fall while deliveries hold, and homebuilding cash rebuilds above ~\$2.5bn.

Downgrades if: already Sell. Conviction would rise if:

- FY2027 guidance implies flat-to-lower deliveries at a gross margin below 16%; or
- Homebuilding debt-to-capital rises above ~20% without a matching rise in deliveries.

Watch items

- **W1:** Q4 FY2026 home-sale gross margin against the 15.5–16.0% guide, and the incentive level against ~12%. Source: Q4 release, ~mid-December 2026. *Model: ebitda_margin*

- **W2:** Q4 deliveries against 22,000–23,000 and orders against 19,500–20,500, plus FY2027 delivery guidance. Source: Q4 release. *Model: rev_growth*
- **W3:** Year-end owned inventory against \$11.5bn, deposits against \$7.33bn, and homebuilding cash against \$1.15bn. Source: Q4 release / FY2026 10-K. *Model: nwc_pct_rev*
- **W4:** FY2026 10-K (~late January 2027). It rolls FY0 and gives the 2027 maturity amounts and PP&E spend. Source: EDGAR. *Model: none (trigger)*

Sources

- SEC EDGAR XBRL companyconcept, CIK 0000920760, Revenues — <https://data.sec.gov/api/xbrl/companyconcept/CIK0000920760/us-gaap/Revenues.json> — accessed 2026-10-25
 - SEC EDGAR XBRL companyconcept, CIK 0000920760, DepreciationAmortizationAndAccretionNet — <https://data.sec.gov/api/xbrl/companyconcept/CIK0000920760/us-gaap/DepreciationAmortizationAndAccretionNet.json> — accessed 2026-10-25
 - Lennar Q3 FY2026 earnings release (8-K ex. 99.1) — <https://www.sec.gov/Archives/edgar/data/920760/000162828026062287/ex991-2026831x8kq3.htm> — accessed 2026-10-25
 - Lennar Form 10-Q, quarter ended 2026-08-31 — <https://www.sec.gov/Archives/edgar/data/0000920760/000162828026064557/len-20260831.htm> — accessed 2026-10-25
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 - D.R. Horton Q3 FY2026 results (home-sales gross margin 20.7%), via search summary of Chartmill/Zacks coverage — <https://www.chartmill.com/news/external/85425/d-r-horton-s-q3-earnings-beat-on-higher-closings-stock-up> — accessed 2026-10-25
 - Daily macro log (10Y, S3/S11 status), `logs/macro-2026-10.md`, 2026-10-23 to 2026-10-25 entries
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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.