

Reggie Middleton's Analysis of Lennar Corp.

See more analysis and opinion at my Boom, Bust & Boom Blog – <http://reggiemiddleton.typepad.com>

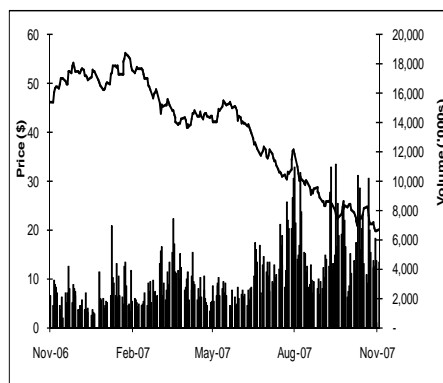
November 19, 2007

Price:	19.24
52 Week range:	56.54
Shares Outstanding:	160
Float:	125
Shareholder's equity:	5,701
Market Cap :	3,082
EV:	6,067
WACC:	10.2%
Beta:	1.53
Debt to Equity:	66.0%

Price performance (%)	1 m	3 m	12 m
Absolute	(17.2)	(34.2)	(56.7)
Relative to SPX	(9.4)	(33.7)	(60.7)

	2006	2007	2008
Revenues (\$ bn)	16.3	10.0	6.7
EBITDA (\$ bn)	1.0	-1.7	-1.3
EPS	3.7	-7.8	-5.0
EV/ EBITDA	6.4	NM	NM
Debt - Capital	66.0%	64.5%	69.2%
P/E	5.7	NM	NM
P/B	0.6	0.7	0.8
Z-Score	3.0	2.2	2.0

Price volume chart



Investment Summary

Lennar's financial performance continues to be thwarted by the continuing slowdown in the US residential housing sector. The company's EPS continued its downward momentum in the sixth consecutive quarter, falling to a loss per share of \$3.25 in 3Q2007 from \$3.57 in 2Q2006. As declining consumer confidence and tightening credit conditions continue to hamper the housing demand and pricing, the prospects of near-term recovery in the homebuilding sector are currently bleak. Going forward, investor confidence in the sector can only be expected to worsen as disclosures are made of the hitherto concealed off-balance sheet liabilities of homebuilding companies. Lennar's is a case in point with the company's recent 8K filing highlighting the company's exposure to around \$1.0 billion of its unconsolidated joint ventures (JV) debt with potential exposure to almost 100% of the latter's additional \$4.5 billion liabilities.

Key Points

- \$5.5 billion of hidden debt** - As of August 31, 2007, Lennar's hidden debt through JV's stood at a staggering \$5.5 billion. Including reimbursement agreement with partners, Lennar's maximum recourse exposure stands at a \$1.0 billion. Additionally, Lennar has approximately \$0.25 billion of debt in form of recourse through reimbursement agreements and \$0.68 billion as joint and several recourse debts. Besides these, the JVs also have \$3.7 billion of non-recourse debt. Aply in response to this mounting debt in November 2007, S&P had lowered Lennar's debt rating as junk to BB+ from BBB- earlier. Earlier in October 2007, Moody's had downgraded Lennar's debt ratings to junk status.
- Falling backlogs and rising inventory** - With declining consumer confidence in the residential housing market and tight credit supply triggering waves of home booking cancellations, homebuilders including Lennar, are facing declining backlogs and rising inventory levels. We expect Lennar's order backlog to decline as new order volumes continue to fall. Lennar's operating days backlog fell to 91 days as on August 31, 2007, from 104 as on August 31, 2006 and we expect this to further decline to 85 days as on February 28, 2008. To lower its inventory levels, the company is offering price incentives on home sales while also doing away with land options in hand. For nine months ended August 31, 2007, the company incurred \$343.3 million expense relating to option deposits and pre-acquisition costs on land options it does not intend to purchase, reflecting company's reluctance to build up further inventory. In 3Q2007, Lennar's controlled home-sites and total home-sites declined 42.3% and 32.8%, respectively, over 3Q2006.
- Pressure on margins** - In order to reduce standing inventory, homebuilders across the industry are re-pricing existing home prices to reduce their order backlog. Heavy discounting coupled with use of incentives and incentivized brokerage fees is driving Lennar's realized prices downward. The company's gross margin excluding FAS144 adjustments has declined from 26.0% in 2006 to 18.4% in 2006 and further declined to 14.4% for nine months ending August 2007, while its net margin declined from 14.0% in 2005 to 6% in 2006. For nine months ending August 31, 2007, net margins declined to a negative of 12.3%. As Lennar continues to adjust its pricing to meet current market conditions, we expect a further deterioration of the company's net margins. We expect Lennar's operating margin to decline to turn negative of 16% and 18% in 2007 and 2008, respectively.
- Higher levels of inventory impairments** - To reflect the deteriorating market conditions, Lennar is on land impairment and write-off spree. In 3Q2007, the company reported total valuation adjustments of \$856 million related to the valuation adjustments, write-offs of option deposits and pre-acquisition costs, goodwill and notes receivable. As the company adjusts its balance sheet to reflect current market conditions, we expect inventory impairments to continue till 2010 to reflect expected downward trend in prices.
- High exposure to overheated markets** - In 2006 Lennar derived 36.8% of its revenues from Western markets including California and Nevada, and 31.3% from Eastern markets including Florida, Maryland, New Jersey and Virginia. Lennar's high exposure to over-heated markets including Florida and California prove to be a drag on the earnings of the company in the near-to-medium term, in our view.
- Muted 3QFY2007 results** - Lennar reported a net loss of \$513.9 million, or \$3.25 per diluted share in 3Q2007, compared with net earnings of \$206.7 million, or \$1.30 per diluted share, in 3Q2006. Revenues from homebuilding declined 44.2% to \$2.2 billion in 3Q2007 from \$4.0 billion in 3Q2006, primarily off a 41.4% decline in home deliveries and a 5.1% decline in average sales price. As a result of declining consumer confidence and stringent lending standards, Lennar's new home orders declined 47.5% to 5,084 million in 3Q2007 from 11,056 million in 2Q2007 with an order backlog of 6,367 million as of August 31, 2007.

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

Lennar's homebuilding volumes:

For new orders' estimates, we have used data pertaining to building permits from State of the Cities Data Systems (SOCDS), new housing starts and new home sales from US Census Bureau, and have identified key representative states/ cities in which Lennar operates.

Region	Source	Representative states/ cities
East	• SOCDS – Building permits	• Maryland, Florida
	• US Census Bureau Housing starts and new home sales	• Northeast - Florida, Maryland and New Jersey • South - Virginia
Central	• SOCDS – Building permits	• Texas
	• US Census Bureau Housing starts and new home sales	• West - Arizona and Colorado • South – Texas
West	• LAECD	• California
	• SOCDS – Building permits	• California and Nevada
	• US Census Bureau Housing starts and new home sales	• West - California and Nevada
Other	• SOCDS – Building permits	• Illinois, Minnesota, North Carolina and South Carolina
	• US Census Bureau Housing starts and new home sales	• Midwest - Illinois, Minnesota • South - North Carolina, South Carolina, Alamba • Northeast - Pennsylvania, New York, Delaware and Massachusetts

The above sources have been assigned weights; higher weights assigned to SOCDS building permits data since it tracks the trend state-wise and reflects the expected new construction activity, in turn indicating the new orders received.

Region/ Year	New orders (y-o-y growth)					
	2007	2008	2009	2010	2011	2012
East	-27.9%	-19.5%	1.9%	1.9%	2.9%	5.0%
Central	-42.5%	-19.1%	3.8%	4.2%	4.2%	4.2%
West	-38.5%	-21.2%	-6.4%	-0.3%	0.5%	3.3%
Other	-13.2%	-11.7%	3.4%	4.7%	3.8%	3.1%
Overall	-35.0%	-18.9%	0.8%	2.6%	3.0%	4.1%

We expect Lennar's Western regions to experience the steepest decline in new orders followed by Eastern and Central regions. Overall we expect Lennar to post a decline in new orders by approximately 35% and 19% for 2007 and 2008, respectively. However from 2009 onwards, we expect new orders growth to pickup in all the regions except west which would continue to be a drag on overall volume growth till 2010.

Lennar's homebuilding price:

To forecast average price for building, we have used key US home prices indices - Home Price Index (HPI) sourced from Office of Federal Housing Enterprise Oversight (OFHEO), S&P/Case-Shiller Home Price Index reported by Standard and Poor's (S&P), Home Asking Prices from Housing Tracker and Condor Prices from Radar Logic. For each region, we have identified states/ cities, whose price indices are available, as follows -

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

Region	Source	Representative states/ cities
East	OFHEO	Florida, New Jersey, Maryland, Virginia
	S&P	Florida – Miami, Tampa
	Housing tracker	Florida – Miami, Tampa
	Radar Logic	Florida – Miami, Tampa
Central	OFHEO	Arizona, Colorado, Texas
	S&P	Arizona - Phoenix, San Diego, San Francisco Colorado – Denver Texas – Dallas
	Housing tracker	Arizona – Phoenix, San Diego Texas – Dallas
	Radar Logic	Arizona - San Diego, San Francisco Colorado – Denver
West	OFHEO	California, Nevada
	S&P	California - Los Angeles Nevada - Las Vegas
	Housing tracker	California - Los Angeles Nevada - Las Vegas
	Radar Logic	California - Los Angeles Nevada - Las Vegas
Other	OFHEO	Illinois, Minnesota, New York, North Carolina, South Carolina, Alabama, Pennsylvania , Delaware and Massachusetts
	S&P	Illinois - Chicago Minnesota - Minneapolis North Carolina - Charlotte Massachusetts - Boston
	Housing tracker	Illinois - Chicago Minnesota - Minneapolis
	Radar Logic	Illinois - Chicago Massachusetts - Boston

The above sources have been assigned weights to forecast pricing growth at each of Lennar's operating regions. For S&P/Case-Shiller Home Price Index we have used forecasted values from S&P. We have computed historical spread for Housing tracker and Radar Logic with Case-Shiller Home Price Index to computed forecasted values for Housing tracker and Radar Logic. Currently we have assigned higher weights to S&P/Case-Shiller Home Price Index since they represent forecasted values.

Region/ Year	Pricing Assumptions (y-o-y growth)					
	2007	2008	2009	2010	2011	2012
East	-5.4%	-6.1%	-4.6%	-1.9%	0.0%	0.0%
Central	-0.7%	-3.0%	-5.7%	-3.6%	1.3%	1.0%
West	-4.5%	-6.4%	-5.9%	-3.0%	-1.3%	1.7%
Other	-7.3%	-2.9%	-2.3%	-1.6%	1.0%	1.5%
Overall	-5.1%	-5.2%	-4.9%	-3.1%	0.1%	0.4%

Housing price in US continues to deteriorate owing to excess supply as there is a very big push to reduce standing inventory across the industry. Existing home builders are re-pricing their existing inventory in order to sell their order backlog. Excess supply situation further fuelled by flat to down housing demand coupled with use of incentives, price reductions, and incentivized brokerage fees is putting downward pricing pressure. Overall we expect average home price to decline 5.1% and 5.2% in 2007 and 2008, respectively. We expect Lennar's home price to continue to decline till 2010.

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me
 via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

Lennar's Homebuilding revenues:

We expect Lennar's homebuilding revenues to witness a decline of 39.3% and 32.9% in 2007 and 2008, respectively, to reach \$9.49 billion and \$6.37 billion in 2007 and 2008. We expect revenues to continue to decline till 2009 (8.6%). For 2010 we expect revenues to remain nearly flat. For 2011 and 2012, we expect Lennar's homebuilding revenues to increase by 3.3% and 6.3%, respectively.

Region/ Year	Revenues - Homebuilding					
	2007	2008	2009	2010	2011	2012
East	-43.5%	-31.6%	-7.6%	0.2%	4.9%	-3.7%
Central	-35.3%	-33.4%	-5.7%	2.9%	5.1%	11.8%
West	-41.6%	-37.4%	-10.2%	-3.0%	0.1%	4.0%
Other	-23.2%	-19.0%	-12.6%	3.3%	4.4%	6.3%
Lennar (\$ bn)	9.49	6.37	5.82	5.82	6.02	6.39
- y-o-y growth	-39.3%	-32.9%	-8.6%	0.1%	3.3%	6.3%

Lennar's Homebuilding cost of sales:

Region/ Year	Cost of sales - Homebuilding (excluding impairment - y-o-y growth)					
	2007	2008	2009	2010	2011	2012
East	-3.5%	2.1%	2.8%	1.5%	-2.0%	-3.0%
Central	1.8%	1.8%	3.4%	1.0%	-2.0%	-3.0%
West	7.4%	4.1%	3.5%	1.5%	-2.0%	-3.0%
Other	1.6%	3.0%	3.5%	1.0%	-2.0%	-3.0%
Unit cost of sales (excl impairment)	1.9%	2.3%	2.8%	0.5%	-2.3%	-3.6%
Unit cost of sales (incl impairment)	8.1%	-0.9%	2.5%	-0.6%	-3.6%	-3.6%
Total cost of sales (incl impairment)	-28.8%	-30.3%	-1.4%	2.7%	-0.4%	2.2%

We expect Lennar's per cost of sales excluding impairment to grow at a modest pace of 1.9% and 2.3%, in 2007 and 2008, respectively. To reflect the deteriorating market conditions, Lennar is on land impairment and write-off spree. For nine-months ending August 31, 2007, Lennar reported valuation adjustment of \$1.2 billion. We expect Lennar to write-down its inventory till 2010 as we expect home prices to continue to fall till 2010. However, we believe Lennar to write-down most of its inventory in 2007. Resultantly, we expect Lennar's unit cost of sales including impairment to increase by 8.1% in 2007. However owing to significant decline in deliveries, Lennar's total cost of sales are expected to decline by 28.8% and 30.3% in 2007 and 2008, respectively.

Lennar Financial service revenues:

In addition to increasing interest liabilities on warehouse lines of credit increase, growing disability to re-sell their mortgages in the secondary market is posing a challenge for most homebuilders in the US who offer mortgage financing to its buyers. This should have an adverse effect on Lennar's financial services segment as well as on its loan originations.

Region/ Year	Financial services					
	2007	2008	2009	2010	2011	2012
Mortgages originated	-27.5%	-28.3%	-3.5%	3.3%	3.2%	6.0%
Mortgages originated	93%	95%	95%	95%	95%	95%
Value of per unit of mortgage	-5.6%	-4.0%	-4.2%	-2.2%	0.1%	0.2%
Revenues (\$ bn)	0.47	0.33	0.31	0.32	0.35	0.37
- y-o-y growth	6.5%	6.7%	6.8%	7.0%	7.3%	7.3%
Margin	4.4%	-9.0%	-10.6%	-3.1%	3.9%	7.3%

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

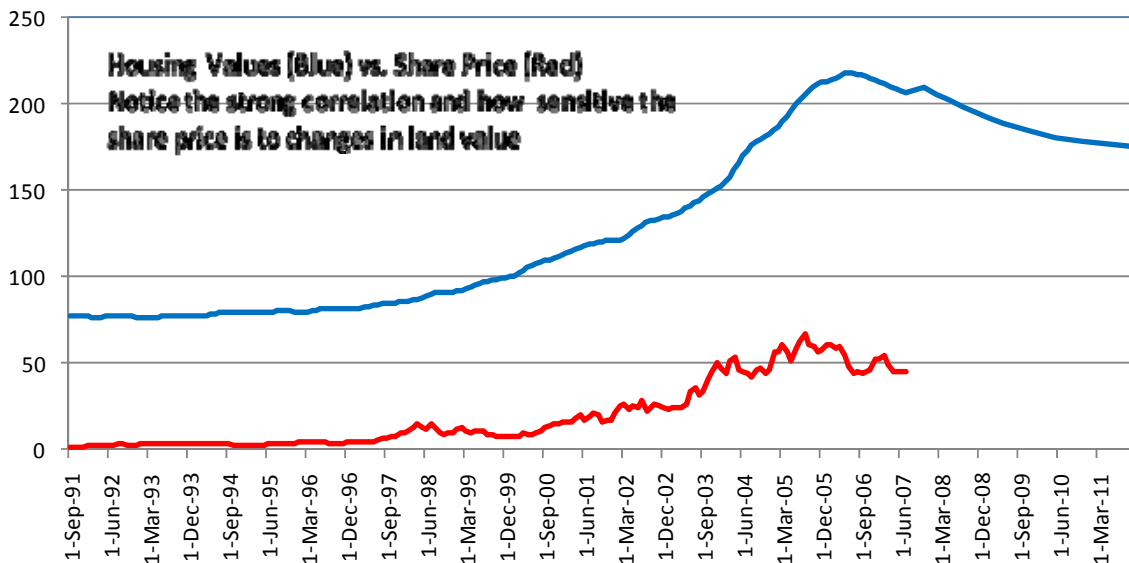
During 2006, Lennar originated approximately 41,800 mortgage loans of approximately \$10.5 billion. Substantially all of the loans the Financial Services segment originates are sold in the secondary mortgage market on a servicing released, non-recourse basis; however, the Company remains liable for certain limited representations and warranties related to loan sales.

We believe that difficult conditions in the credit market will impact the spreads for Lennar. Consequentially, we expect Lennar's margins in the financial segment to further deteriorate from the existing levels. We expect Lennar's gross margin in the financial segment to decline from 4.4% in 2007 to a negative of 10.6% in 2009. However with pick-up in new orders starting 2009 and a consequential increase in mortgage origination, we expect margins to stabilize. Going forward for 2011 and 2012, we expect Lennar's margins for Financial services at 3.9% and 7.3%, respectively.

Reggie Middleton's Boom, Bust & Bling Blog

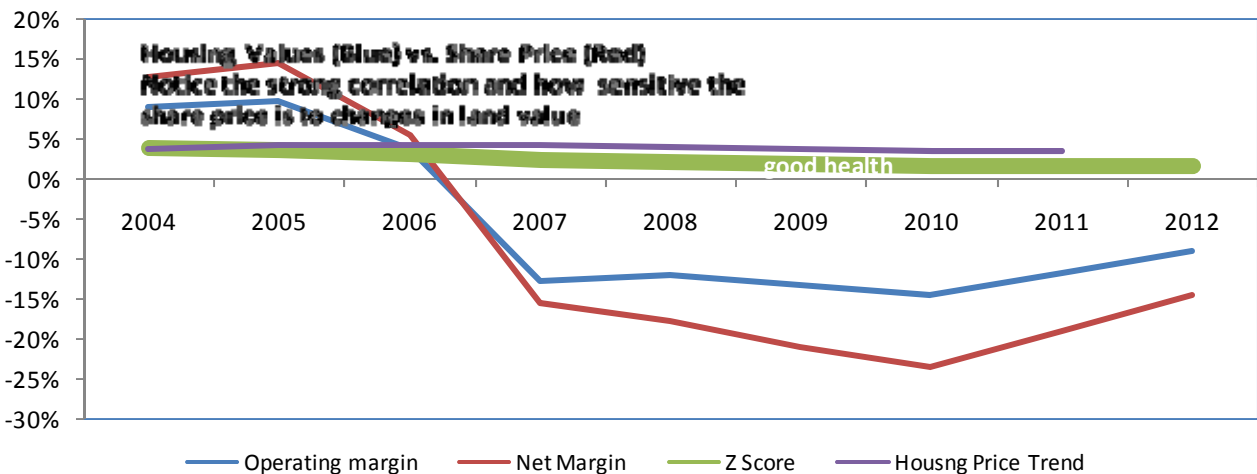
I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Lennar's share price vis-à-vis U.S housing index



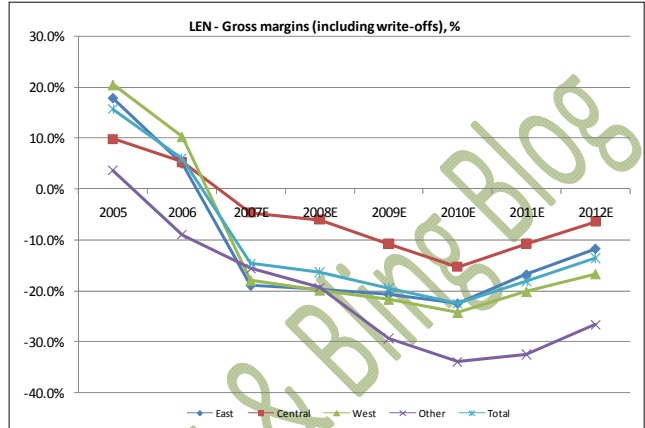
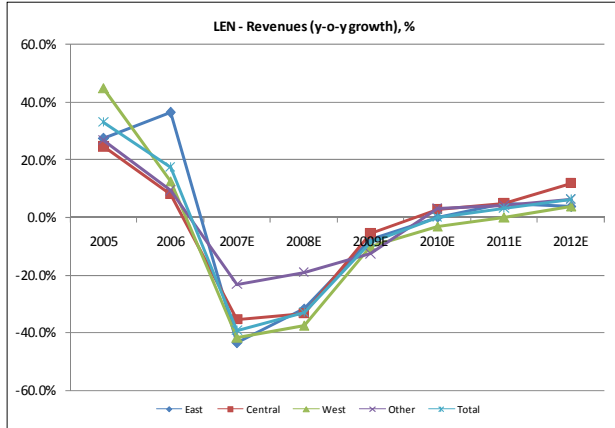
Lennar's share price has shown a high degree of correlation with the US housing prices. Lennar's share price has immensely benefited during the boom in the US housing market driven by significant growth in housing prices. Between January 2000-2007 Lennar's share price has yielded 598% returns to its shareholders. During the corresponding period housing prices increased 807%. However with decline in land prices starting mid-2006, and expected to continue into next few years, we envisage Lennar's share price to remain under pressure. Owing to declining trend in US home price, Lennar's operating margin has declined from a peak of 10% in 2005 to 4% in 2006 and is expected to turn to a negative of 13% and 12% in 2007 and 2008, respectively. Lennar's Z-score has declined from 3.73 in 2004 to 3.03 in 2006 and we expect it to decline further to 2.24 in 2007 and 2.02 in 2008, indicating warning signals towards bankruptcy. However, 2009 onwards we expect Lennar to be in serious financial trouble with high probability of bankruptcy with its Z-score falling to 1.76.

Impact of housing price on Lennar's solvency



Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

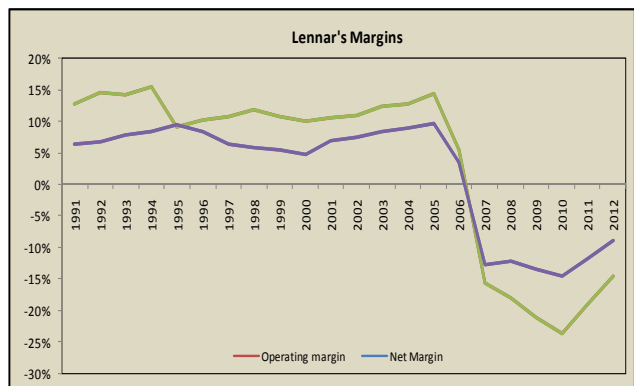
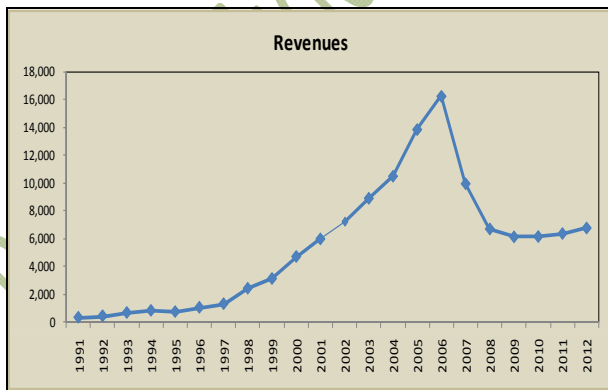
Deterioration of Lennar's revenues and gross margins:



Lennar's homebuilding revenues witnessed an increase of 33.0% and 17.4%, in 2005 and 2006. However for nine-months ended August 31, 2007, Lennar's revenues declined 33.7% owing to deterioration in U.S housing markets. Consequentially for 2007, we expect Lennar's homebuilding revenues to decline 39.3% to \$9.5 billion owing to 34.1% decline in deliveries and 5.1% decline in average home price. We expect revenues to continue to decline in 2008 (32.9%) and 2009 (8.6%). However post 2009, we expect slowdown in US housing markets to ease off and resultantly we expect a nominal 0.1%, 3.3% and 6.3% increase in homebuilding revenues for 2010, 2011 and 2012, respectively. Lennar's west and east markets which include operations in California and Florida, respectively, are expected to be the worst effected regions and hence we expect Lennar's homebuilding revenues in west and east markets to fall 41.6% and 43.5%, respectively in 2007. Further in 2008 we expect revenues from these two regions to fall further by 37.4% and 31.6%, respectively.

To accurately reflect the current market conditions, Lennar wrote-off significant impairments in its inventory. For 2Q2007 and 3Q2007, Lennar reported a total valuation adjustment of \$857 million including \$303 million valuation adjustment relating to finished homes, CIP and land on which the Company intends to build homes, and \$242 million pertaining to option write-offs and pre-acquisition costs on land options. Lennar's homebuilding gross margin including impairment charges declined from 15.7% in 2005 to 6.1% in 2006 and is expected to decline further to a negative 14.6% in 2007 and a negative 16.3% in 2008.

Historical trends in revenues and gross margin:



During the US housing boom, Lennar's revenues increased more than three folds to \$16.3 billion in 2006 from \$4.7 billion in 2000. However following the recent slowdown in US housing markets, revenues for nine months ended August 31, 2007 declined 33.3% to \$8.0 billion from \$12.0 billion over corresponding period last year. We expect the decline in Lennar's revenues to persist in 2008 and 2009 with 2007 and 2008 revenues falling significantly by an expected 38.8% and 32.7%, respectively, to \$10.0 billion and \$6.7 billion. This represents a realistic 4.5% long-term CAGR 2000-2008, against the growth trajectory witnessed during 2000-2006 at a CAGR of 23.0%, which is highly unsustainable.

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

Hidden liabilities via consolidated JV's:

According to recent 8-K filed by Lennar on November 6, 2007, total debt of unconsolidated JV's stood at \$5.5 billion. Out of this \$1.2 billion is in the Lennar's maximum recourse exposure. Including a \$0.26 billion reimbursement agreements with partners, Lennar's net recourse exposure is approximately \$1.0 billion. We believe that since this debt is recourse in nature, the Company is directly accountable in case of default. As a result, we have consolidated the entire debt of \$1.0 billion including effect of interest payments on financial statements of Lennar.

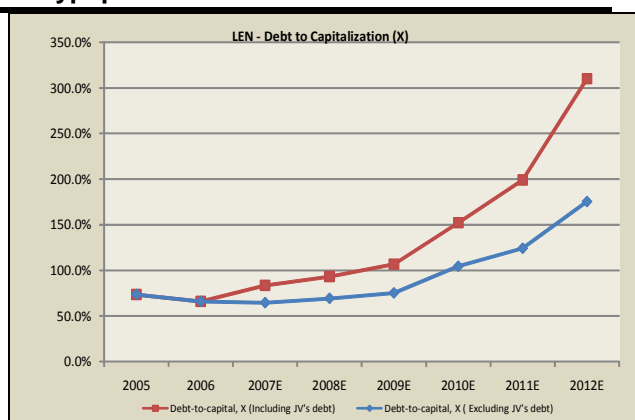
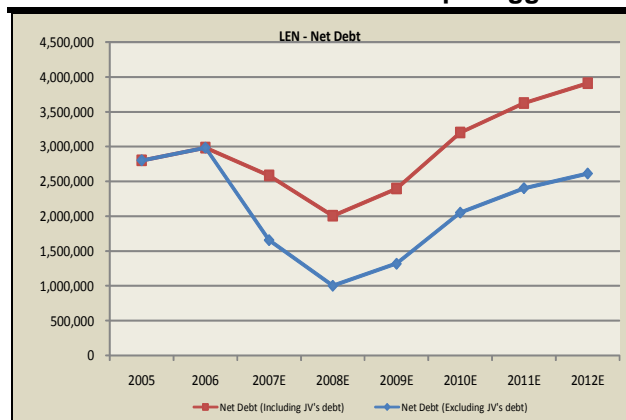
In addition to this, Lennar also has \$0.67 billion in form of partner's several recourse and \$3.7 billion of non-recourse debt. Since this debt is non-recourse in nature, we have currently excluded the impact of non-recourse debt on Lennar's financial statement.

Lennar's balance sheet including JV's debt (including recourse debt and 0% of non-recourse debt):

	B	D	E	F	G	H	I	J	K
	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	
212	ASSETS								
213	Homebuilding:								
214	Cash	910	662	738	906	564	255	(88)	(131)
215	Restricted cash	23	25	38	38	38	38	38	38
216	Receivables	299	159	141	115	114	110	113	120
221	Total inventories	7,864	7,831	5,250	3,997	3,982	3,970	3,955	4,040
222	Investments in unconsolidated entities	1,283	1,447	1,978	1,918	1,898	1,899	1,901	1,903
223	Goodwill	195	197	174	174	174	174	174	174
224	Other assets	267	474	1,038	978	922	866	813	763
225	Homebuilding	10,840	10,795	9,358	8,125	7,692	7,312	6,905	6,907
227	Financial services:								
228	Cash	150	117	710	870	542	245	(85)	(126)
229	Receivables	676	633	295	256	258	261	279	297
230	Loans held for sale	563	484	232	251	272	285	299	314
231	Loans held for investment	147	190	145	145	145	145	145	145
232	Title plants	-	-	-	-	-	-	-	-
233	Investments held for maturity	32	60	69	69	69	69	69	69
234	Goodwill	58	61	61	61	61	61	61	61
235	Other	76	70	57	54	51	48	45	42
236	Financial services	1,702	1,613	1,569	1,707	1,399	1,115	815	803
237		-	-	-	-	-	-	-	-
238	Total assets	12,541	12,408	10,927	9,832	9,091	8,426	7,720	7,711
239	LIABILITIES AND STOCKHOLDERS EQUITY								
241	Homebuilding:								
242	Accounts payable	877	751	278	212	231	221	220	225
243	Liabilities related to consolidated inve	306	334	390	390	390	390	390	390
244	Senior notes and other debts payable	2,593	2,614	3,483	3,483	3,204	2,904	2,654	2,654
245	Other liabilities	1,998	1,591	1,176	1,176	1,176	1,176	1,176	1,176
246	Homebuilding	5,774	5,289	5,327	5,260	5,000	4,690	4,440	4,445
247	Financial services:								
249	Notes and other debts payable	1,270	1,149	552	300	300	800	800	1,000
250	Other	168	213	207	207	507	507	757	1,107
251	Financial services	1,438	1,362	759	507	807	1,307	1,557	2,107
252		-	-	-	-	-	-	-	-
253	Total Liabilities	7,212	6,652	6,086	5,767	5,807	5,997	5,996	6,551
255	Minority interest	78	55	18	10	3	(4)	(12)	(19)
257	Stockholders equity:								
258	Class A common stock	13	14	14	14	14	14	14	14
259	Class B common stock	3	3	3	3	3	3	3	3
260	Additional paid-in capital	1,487	1,754	1,917	1,917	1,917	1,917	1,917	1,917
261	Retained earnings	4,047	4,539	3,500	2,732	1,957	1,111	412	(145)
262	Deferred compensation plan	(4)	(2)	(0)	(0)	(0)	(0)	(0)	(0)
263	Deferred compensation liability	4	2	0	0	0	0	0	0
264	Treasury stock, at cost	(293)	(606)	(610)	(610)	(610)	(610)	(610)	(610)
265	Accumulated other comprehensive loss	(5)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
266	Total Shareholders Equity	5,251	5,701	4,823	4,055	3,281	2,434	1,735	1,179
267	Total liabilities and stockholders equity	12,541	12,408	10,927	9,832	9,091	8,426	7,720	7,711

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me
 via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>



Even with the most conservative approach after considering only the recourse debt of \$1 billion (to which the company remains liable by way of recourse debt) out of total debt from JV's worth about \$5.5 billion, Lennar's 2007 debt to capitalization jumps to 83.7%. For 2010, Lennar's debt to capitalization would be 152.2% which is further expected to worsen to 199.1% by 2011.

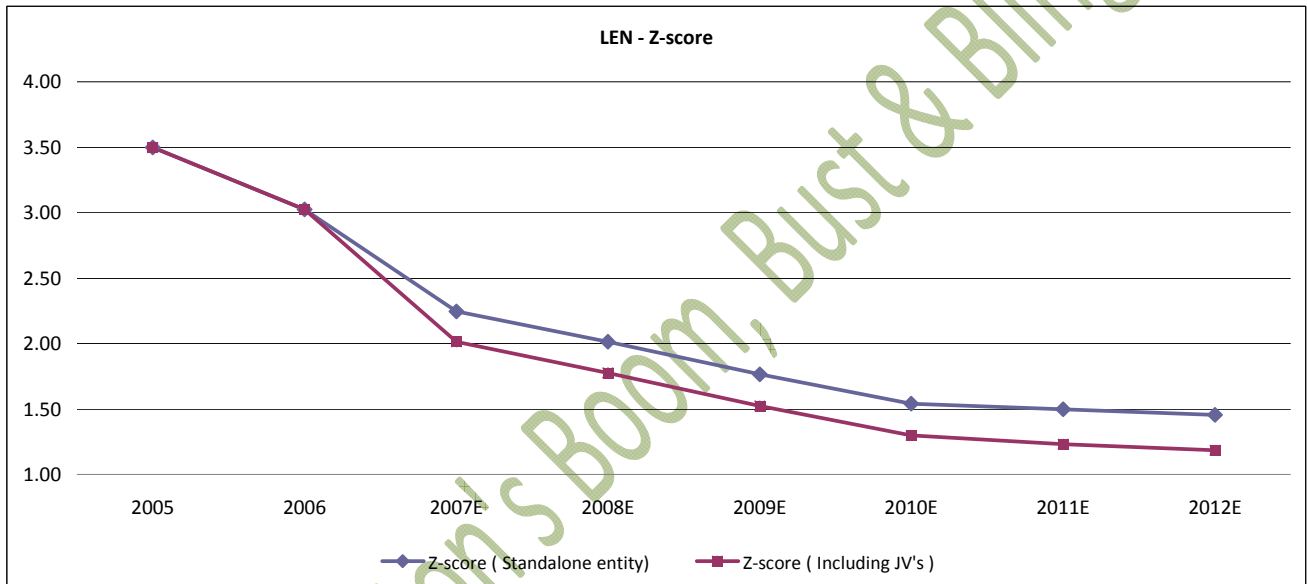
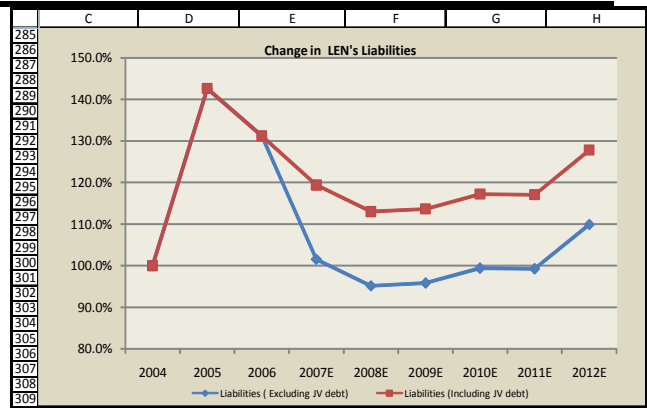
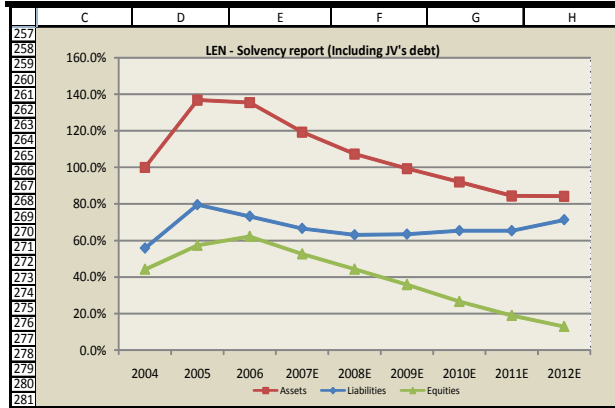
Drop in credit ratings:

Debt Rating (Stand alone entity)	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Working Capital / Total Assets	0.57	0.55	0.55	0.55	0.52	0.45	0.41	0.33	0.29
Retained Earnings / Total Assets	0.30	0.32	0.37	0.35	0.31	0.25	0.17	0.10	0.03
EBIT (trailing 12 months) / Total Assets	0.15	0.16	0.07	(0.15)	(0.13)	(0.15)	(0.19)	(0.17)	(0.14)
Market Value of Equity / Book Value of Total Liabilities	1.65	1.26	0.50	1.02	1.08	1.08	1.04	1.04	0.94
Sales (trailing 12 months) / Total Assets	1.15	1.11	1.31	0.99	0.74	0.73	0.79	0.89	0.94
Z-score (Standalone entity)	3.73	3.50	3.03	2.24	2.02	1.76	1.54	1.50	1.45
Debt rating	CCC+	CCC+	CCC	CCC-	CCC-	CCC-	D	D	D

Debt Rating (Including JV's)	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Working Capital / Total Assets	0.55	0.55	0.50	0.47	0.39	0.35	0.27	0.22
Retained Earnings / Total Assets	0.32	0.37	0.32	0.28	0.22	0.13	0.05	(0.02)
EBIT (trailing 12 months) / Total Assets	0.16	0.07	(0.14)	(0.12)	(0.14)	(0.17)	(0.16)	(0.13)
Market Value of Equity / Book Value of Total Liabilities	1.26	0.50	0.86	0.91	0.91	0.88	0.88	0.81
Sales (trailing 12 months) / Total Assets	1.11	1.31	0.91	0.68	0.67	0.73	0.82	0.88
Z-score (Including JV's)	3.50	3.03	2.02	1.77	1.52	1.30	1.23	1.18
Debt rating	CCC+	CCC	CCC-	CCC-	D	D	D	D

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>



On standalone basis excluding the impact of JV's debt, Lennar's Z-score is expected to worsen with further deterioration in the housing sector. While the company's Z-score (excluding the impact of debt from unconsolidated JVs) declined from 3.73 in 2004 to 3.03 in 2006, we expect this to further fall to 2.24 in 2007 indicating warning signals about potential financial problems. The company's Z-score may worsen to 1.76 in 2009 with industry conditions remaining unfavorable and in the absence of any committed initiatives by the company to recover from its current problems. Considering the full impact of recourse debt with 0% non-recourse debt, Lennar's Z-score further falls to 2.02 for 2007 and to 1.77 in 2008, Indicates serious financial trouble and a high probability of bankruptcy.

In November 2007, S&P had lowered Lennar's debt rating as junk to BB+ with a negative outlook from BBB- earlier. As per S&P, the prime reason for the rate cut was "weakened credit measures, Lennar's concentration in highly competitive and oversupplied housing markets, and the company's considerable investment in off-balance-sheet joint ventures." In October 2007, Moody's had downgraded Lennar's debt ratings to junk status.

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

Valuation:

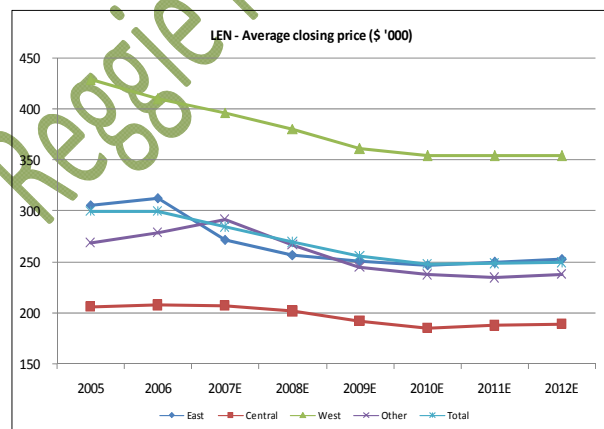
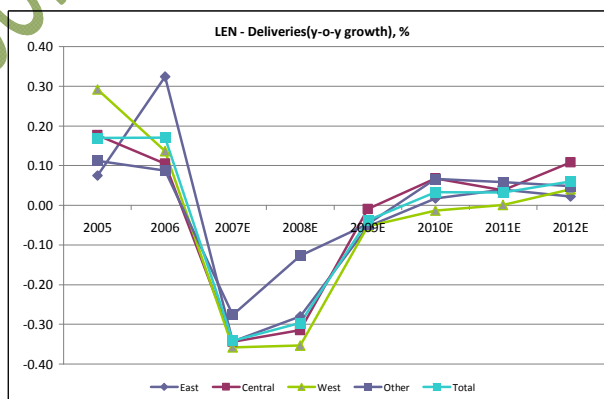
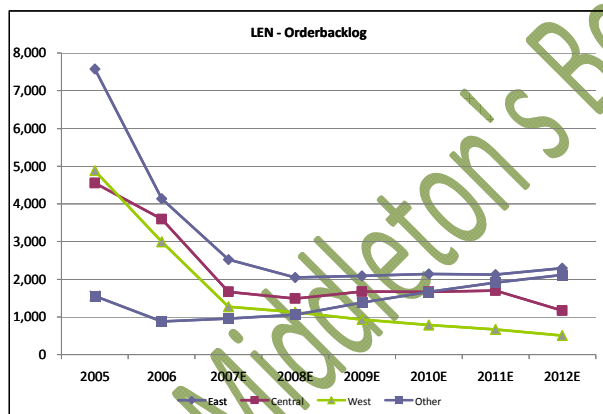
Relative:

Company	Market Cap (US\$ mn)	Net Debt (US\$ mn)	Current EV (US\$ mn)	EV/EBITDA			P/E			P/B			
				2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E	2009E
Lennar Corporation	3,384	2,984	6,368	6.4	NM	NM	5.7	NM	NM	0.60	0.70	0.82	0.99
D.R. Horton, Inc	3,912	4,960	8,872	3.9	NM	NM	3.2	NM	NM	0.60	0.71	0.71	0.72
Pulte Homes	3,502	3,375	6,877	5.4	NM	20.7	5.1	NM	15.0	0.53	0.68	0.67	0.63
KB Home	2,382	1,506	3,888	4.9	NM	NM	4.6	59.1	NM	0.70	0.80	0.87	NM
M.D.C. Holdings, Inc.	1,768	232	2,000	4.3	NM	36.5	8.3	NM	NM	0.81	0.94	0.97	0.90
RYL Group	1,151	1,042	2,193	3.5	17.2	40.6	3.5	25.5	12.6	0.77	0.90	0.91	0.77
Industry Average				4.4	17.2	32.6	4.9	42.3	13.8	0.68	0.81	0.82	0.75

Earnings approach:

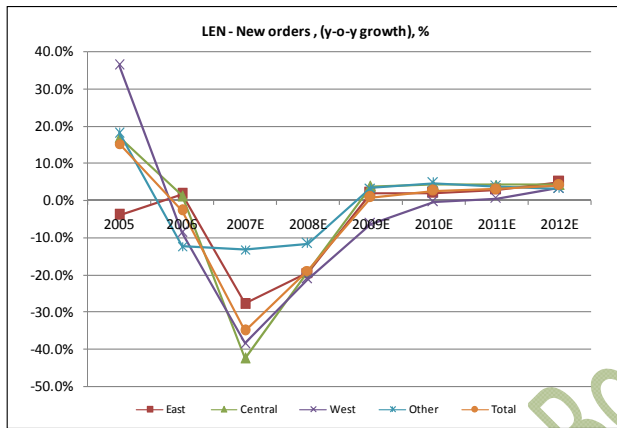
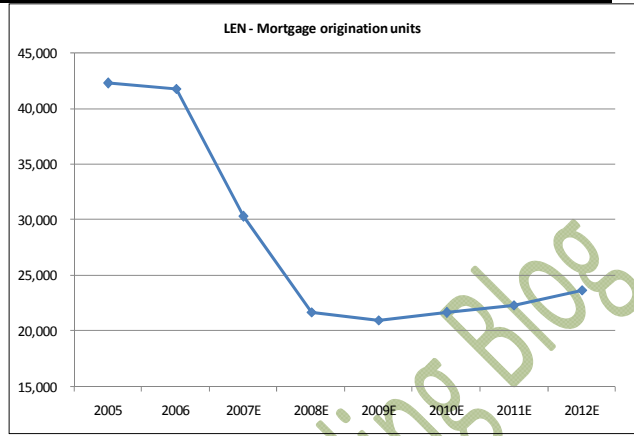
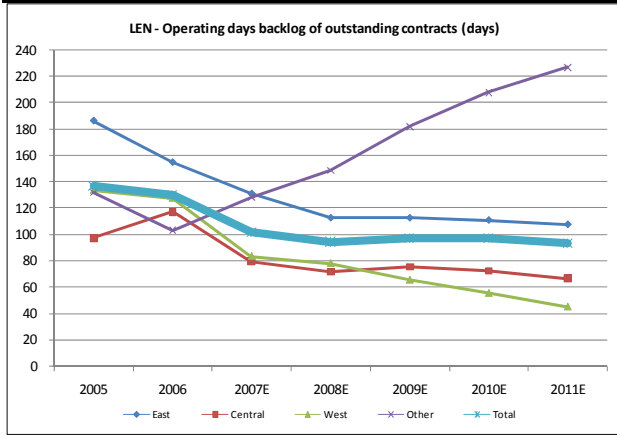
Value per share:	
Based on discounted cash flow (DCF)	(39.9)
Based on economic profit (EP)	(37.4)
Relative valuation	
Based on price/book value (P/B)	21.64

We believe that owing to volatility of earnings, earnings based valuation including DCF and EP is not appropriate for the housing sector. Based on relative valuation using P/B multiple we expect Lennar's share price is at \$20.43 against current share price of \$19.4.



I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog - <http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>



Lennar's order backlog is expected to decline from 11,608 million at the end of 2006 to 6,415 million by 2007-end from continued decline in new orders. Lennar's new orders are expected to decline by 35.0% and 18.9%, in 2007 and 2008, respectively. We expect volumes to stabilize 2009 onwards with new orders growth of 0.8%, 2.6% and 3.0% in 2009, 2010 and 2011, respectively.

At the 4Q2007 delivery rate, Lennar's operating backlog days stood at 95 against 104 as on 3Q2006-end indicating declining cash flows.

Reggie Middleton

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

	B	D	E	F	G	H	I	J	K
1	LENNAR CORP								
2	Projections (All figures in US\$ million except per share data)								
3		2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
4									
5	Revenues:								
6	Homebuilding	13,305	15,623	9,488	6,365	5,816	5,824	6,017	6,394
7	Financial services	562	644	467	331	310	324	347	369
8	Total revenues	13,867	16,267	9,955	6,696	6,126	6,149	6,364	6,763
9									
10	Costs and expenses:								
11	Homebuilding	11,215	14,678	10,876	7,403	6,947	7,134	7,107	7,259
12	Financial services	458	494	446	361	342	334	334	342
13	Corporate general and administrative	187	193	180	133	129	130	134	143
14	Total costs and expenses	11,860	15,365	11,502	7,897	7,419	7,598	7,574	7,744
15									
16	Equity in earnings (loss)	134	(13)	(182)	(65)	(18)	2	3	5
17	Management fees and other income, net	99	67	(22)	(49)	(15)	-	-	-
18	Minority interest expense, net	(45)	(13)	(5)	(7)	(7)	(7)	(7)	(7)
19	Loss on redemption of 9.95% senior notes	(35)	-	-	-	-	-	-	-
20									
21	Earnings from continuing operations	2,160	943	(1,756)	(1,322)	(1,333)	(1,455)	(1,214)	(983)
22	Provision for income taxes	815	349	(491)	(511)	(515)	(563)	(469)	(380)
23	Net earnings from continuing operations	1,344	594	(1,266)	(811)	(818)	(893)	(745)	(603)
24									
25	Discontinued operations:								
26	Earnings from discontinued operations	17	-	-	-	-	-	-	-
27	Provision for income taxes	7	-	-	-	-	-	-	-
28	Net earnings from discontinued operations	11	-	-	-	-	-	-	-
29									
30	Net earnings	1,355	594	(1,266)	(811)	(818)	(893)	(745)	(603)
31									
32									
33	Basic weighted shares outstanding	155	158	158	158	158	158	158	158
34	Diluted weighted shares outstanding	166	161	161	161	161	161	161	161
35									
36	EPS								
39	Basic earnings per share:	8.72	3.76	(8.01)	(5.13)	(5.17)	(5.65)	(4.71)	(3.81)
42	Diluted earnings per share:	8.19	3.68	(7.85)	(5.03)	(5.07)	(5.53)	(4.62)	(3.74)
43									
44	Dividends (Class A and Class B common shares)	0.55	0.62	0.64	0.64	0.64	0.64	0.64	0.64

	B	D	E	F	G	H	I	J	K
190									
191	Ratios								
192	Stand alone entity								
193	Net Debt	2,803	2,984	1,657	1,002	1,318	2,052	2,403	2,614
194	Debt-to-capital, X	73.6%	66.0%	64.5%	69.2%	75.2%	104.4%	124.1%	175.4%
195	Working Capital / Total Assets	0.55	0.55	0.55	0.52	0.45	0.41	0.33	0.29
196	Retained Earnings / Total Assets	0.32	0.37	0.35	0.31	0.25	0.17	0.10	0.03
197	EBIT (trailing 12 months) / Total Assets	0.16	0.07	(0.15)	(0.13)	(0.15)	(0.19)	(0.17)	(0.14)
198	Market Value of Equity / Book Value	1.26	0.50	1.02	1.08	1.08	1.04	1.04	0.94
199	Sales (trailing 12 months) / Total Assets	1.11	1.31	0.99	0.74	0.73	0.79	0.89	0.94
200									
201	Including JV's								
202	Net Debt	2,803	2,984	2,587	2,007	2,397	3,204	3,627	3,911
203	Debt-to-capital, X	73.6%	66.0%	83.7%	93.3%	106.8%	152.2%	199.1%	310.0%
204	Working Capital / Total Assets	0.55	0.55	0.50	0.47	0.39	0.35	0.27	0.22
205	Retained Earnings / Total Assets	0.32	0.37	0.32	0.28	0.22	0.13	0.05	(0.02)
206	EBIT (trailing 12 months) / Total Assets	0.16	0.07	(0.14)	(0.12)	(0.14)	(0.17)	(0.16)	(0.13)
207	Market Value of Equity / Book Value	1.26	0.50	0.86	0.91	0.91	0.88	0.88	0.81
208	Sales (trailing 12 months) / Total Assets	1.11	1.31	0.91	0.68	0.67	0.73	0.82	0.88

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me
 via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

	B	D	E	F	G	H	I	J	K
	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	
46	ASSETS								
47	Homebuilding:								
48	Cash	910	662	748	953	650	378	72	66
49	Restricted cash	23	25	38	38	38	38	38	38
50	Receivables	299	159	141	115	114	110	113	120
55	Total inventories	7,864	7,831	5,250	3,997	3,982	3,970	3,955	4,040
56	Investments in unconsolidated entities	1,283	1,447	1,066	1,006	987	988	989	992
57	Goodwill	195	197	174	174	174	174	174	174
58	Other assets	267	474	1,038	978	922	866	813	763
59	Homebuilding	10,840	10,795	8,456	7,261	6,866	6,523	6,154	6,193
61	Financial services:								
62	Cash	150	117	719	916	624	363	69	63
63	Receivables	676	633	295	256	258	261	279	297
64	Loans held for sale	563	484	232	251	272	285	299	314
65	Loans held for investment	147	190	145	145	145	145	145	145
66	Title plants	-	-	-	-	-	-	-	-
67	Investments held for maturity	32	60	69	69	69	69	69	69
68	Goodwill	58	61	61	61	61	61	61	61
69	Other	76	70	57	54	51	48	45	42
70	Financial services	1,702	1,613	1,578	1,753	1,481	1,233	968	992
72	Total assets	12,541	12,408	10,034	9,014	8,347	7,756	7,122	7,185
74	LIABILITIES AND STOCKHOLDERS EQUITY								
75	Homebuilding:								
76	Accounts payable	877	751	278	212	231	221	220	225
77	Liabilities related to consolidated inveni	306	334	390	390	390	390	390	390
78	Senior notes and other debts payable	2,593	2,614	2,571	2,571	2,292	1,992	1,743	1,743
79	Other liabilities	1,998	1,591	1,176	1,176	1,176	1,176	1,176	1,176
80	Homebuilding	5,774	5,289	4,415	4,349	4,089	3,779	3,528	3,533
82	Financial services:								
83	Notes and other debts payable	1,270	1,149	552	300	300	800	800	1,000
84	Other	168	213	207	207	507	507	757	1,107
85	Financial services	1,438	1,362	759	507	807	1,307	1,557	2,107
87	Total Liabilities	7,212	6,652	5,174	4,856	4,895	5,085	5,085	5,640
89	Minority interest	78	55	18	10	3	(4)	(12)	(19)
91	Stockholders equity:								
92	Class A common stock	13	14	14	14	14	14	14	14
93	Class B common stock	3	3	3	3	3	3	3	3
94	Additional paid-in capital	1,487	1,754	1,917	1,917	1,917	1,917	1,917	1,917
95	Retained earnings	4,047	4,539	3,519	2,825	2,125	1,351	725	241
96	Deferred compensation plan	(4)	(2)	(0)	(0)	(0)	(0)	(0)	(0)
97	Deferred compensation liability	4	2	0	0	0	0	0	0
98	Treasury stock, at cost	(293)	(606)	(610)	(610)	(610)	(610)	(610)	(610)
99	Accumulated other comprehensive loss	(5)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
100	Total Shareholders Equity	5,251	5,701	4,842	4,149	3,448	2,674	2,048	1,564
101	Total liabilities and stockholders equity	12,541	12,408	10,034	9,014	8,347	7,756	7,122	7,185

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me
 via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

	B	D	E	F	G	H	I	J	K
	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	
104	Cash flows from operating activities:								
105	1,344	594	(974)	(811)	(818)	(893)	(745)	(603)	
106	Adjustments :								
107	58	45	54	63	59	59	56	52	
108	14	5	2	-	-	-	-	-	
109	-	(18)	(176)	-	-	-	-	-	
110	(134)	13	168	-	-	-	-	-	
111	221	175	99	-	-	-	-	-	
112	45	13	1	(7)	(7)	(7)	(7)	(7)	
113	7	37	33	-	-	-	-	-	
114	39	9	1	-	-	-	-	-	
115	10	(198)	(318)	-	-	-	-	-	
116	35	-	-	-	-	-	-	-	
117	21	502	1,106	60	19	(1)	(1)	(2)	
118	Changes in assets and liabilities, net of c								
119	(221)	48	390	65	(0)	1	(22)	(25)	
120	(1,708)	(371)	1,461	1,254	15	12	15	(85)	
121	-	-	-	-	-	-	-	-	
122	(30)	9	(265)	-	-	-	-	-	
123	(115)	79	252	(19)	(21)	(14)	(14)	(15)	
124	742	(386)	(756)	(66)	19	(10)	(1)	5	
125	11	-	-	-	-	-	-	-	
126	(17)	-	-	-	-	-	-	-	
127	323	555	1,080	538	(734)	(852)	(720)	(680)	
128	Cash flows from investing activities:								
129	(11)	(2)	(13)	-	-	-	-	-	
130	(22)	(27)	(5)	-	-	-	-	-	
131	(920)	(729)	(400)	-	-	-	-	-	
132	467	322	812	220	220	220	220	220	
133	(117)	71	12	-	-	-	-	-	
134	(37)	(109)	(85)	-	-	-	-	-	
135	36	82	76	-	-	-	-	-	
136	17	-	-	-	-	-	-	-	
137	-	19	-	-	-	-	-	-	
138	(416)	(33)	-	-	-	-	-	-	
139	Acquisitions, net of cash acquired								
140	(1,004)	(406)	398	220	220	220	220	220	
141	Cash flows from financing activities:								
142	373	(121)	(597)	-	-	-	-	-	
143	-	-	300	(252)	-	500	-	200	
144	-	-	-	-	-	-	-	-	
145	-	-	(300)	-	-	-	-	-	
146	298	-	-	-	-	-	-	-	
147	-	-	-	-	-	-	-	-	
148	-	-	-	-	-	-	-	-	
149	501	-	-	-	-	-	-	-	
150	-	249	-	-	-	-	-	-	
151	-	249	-	-	-	-	-	-	
152	-	(200)	-	-	-	-	-	-	
153	(338)	-	-	-	(279)	(300)	(250)	-	
154	53	2	40	-	300	-	250	350	
155	(190)	(451)	(113)	-	-	-	-	-	
156	(33)	(71)	(39)	-	-	-	-	-	
157	-	7	4	-	-	-	-	-	
158	Common stock:								
159	38	31	20	-	-	-	-	-	
160	(289)	(323)	(4)	-	-	-	-	-	
161	(89)	(101)	(101)	(103)	(103)	(101)	(101)	(101)	
162	324	(429)	(790)	(355)	(82)	99	(101)	449	
163	Cash at beginning of year								
164	Cash at end of year								
165	(356)	(281)	688	403	(595)	(533)	(600)	(11)	
166	1,416	1,059	778	1,467	1,869	1,274	741	140	
167	1,059	778	1,467	1,869	1,274	741	140	129	

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me
 via my blog -<http://reggiemiddleton.typepad.com>

Reggie Middleton's Analysis of Lennar Corp.
 See more analysis and opinion at my Boom, Bust & Boom Blog –
<http://reggiemiddleton.typepad.com>

Lennar Corp								
Key metrics								
	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Operating metrics								
Orderbacklog ('000)								
East	7,581	4,139	2,522	2,051	2,087	2,136	2,119	2,295
Central	4,547	3,598	1,669	1,491	1,674	1,669	1,698	1,171
West	4,883	2,991	1,267	1,123	929	788	667	507
Other	1,554	880	958	1,057	1,380	1,668	1,912	2,114
Total	18,565	11,608	6,415	5,721	6,070	6,260	6,396	6,086
New orders net of cancellations, (y-o-y growth)								
East	-3.9%	1.7%	-27.9%	-19.5%	1.9%	1.9%	2.9%	5.0%
Central	16.9%	1.2%	-42.5%	-19.1%	3.8%	4.2%	4.2%	4.2%
West	36.4%	-8.7%	-38.5%	-21.2%	-6.4%	-0.3%	0.5%	3.3%
Other	18.1%	-12.4%	-13.2%	-11.7%	3.4%	4.7%	3.8%	3.1%
Total	15.2%	-2.7%	-35.0%	-18.9%	0.8%	2.6%	3.0%	4.1%
Deliveries (y-o-y growth)								
East	7.5%	32.4%	-34.3%	-28.0%	-5.4%	1.8%	3.9%	2.2%
Central	17.7%	10.5%	-34.4%	-31.5%	-1.0%	6.8%	3.8%	10.8%
West	29.2%	13.7%	-35.8%	-35.4%	-5.3%	-1.3%	0.1%	4.0%
Other	11.2%	8.8%	-27.6%	-12.7%	-4.7%	6.6%	5.8%	4.8%
Total	17.0%	17.0%	-34.1%	-29.7%	-3.8%	3.3%	3.2%	6.0%
Average closing price (\$ '000)								
East	306	312	272	257	251	247	249	253
Central	206	208	207	202	192	185	188	190
West	429	410	396	380	361	354	354	354
Other	269	279	292	267	245	238	234	238
Total	300	300	284	269	256	248	248	249
Operating days backlog of outstanding contracts (days)								
East	186	155	131	113	113	111	108	
Central	97	117	79	72	75	72	66	
West	134	128	84	78	66	56	45	
Other	132	103	128	149	182	208	227	
Total	137	130	102	95	97	97	93	
Mortgage origination units								
	42,300	41,800	30,323	21,732	20,962	21,663	22,362	23,707
Financial metrics								
Homebuilding Revenues (y-o-y growth)								
East	27.4%	36.4%	-43.5%	-31.6%	-7.6%	0.2%	4.9%	3.7%
Central	24.6%	8.1%	-35.3%	-33.4%	-5.7%	2.9%	5.1%	11.8%
West	45.0%	12.6%	-41.6%	-37.4%	-10.2%	-3.0%	0.1%	4.0%
Other	26.8%	9.3%	-23.2%	-19.0%	-12.6%	3.3%	4.4%	6.3%
Total	33.0%	17.4%	-39.3%	-32.9%	-8.6%	0.1%	3.3%	6.3%
Total Revenues (y-o-y growth)								
Total	32.1%	17.3%	-38.8%	-32.7%	-8.5%	0.4%	3.5%	6.3%
Gross margins								
East	17.9%	5.1%	-18.9%	-19.7%	-20.7%	-22.5%	-16.8%	-11.7%
Central	9.9%	5.4%	-4.6%	-6.0%	-10.7%	-15.2%	-10.7%	-6.4%
West	20.5%	10.3%	-17.9%	-19.8%	-21.6%	-24.2%	-20.1%	-16.6%
Other	3.7%	-8.9%	-15.6%	-19.3%	-29.4%	-33.9%	-32.5%	-26.7%
Total	15.7%	6.1%	-14.6%	-16.3%	-19.4%	-22.5%	-18.1%	-13.5%
Gross margins (excluding impairment and write-downs)								
East	17.9%	5.1%	-10.4%	-15.5%	-16.6%	-20.3%	-16.8%	-11.7%
Central	9.9%	5.4%	-1.7%	-4.3%	-9.1%	-14.4%	-10.7%	-6.4%
West	20.5%	10.3%	-11.3%	-16.7%	-18.5%	-22.5%	-20.1%	-16.6%
Other	3.7%	-8.9%	-12.1%	-18.3%	-28.3%	-33.4%	-32.5%	-26.7%
Total	15.7%	6.1%	-8.7%	-13.5%	-16.7%	-21.0%	-18.1%	-13.5%
EBIT margin (Homebuilding)								
	15.7%	6.1%	-14.6%	-16.3%	-19.4%	-22.5%	-18.1%	-13.5%
EBIT margin (Total)								
	14.5%	5.5%	-15.5%	-17.9%	-21.1%	-23.6%	-19.0%	-14.5%
EPS, diluted (y-o-y growth)								
	44.9%	-55.0%	-313.2%	-35.9%	0.8%	9.2%	-16.6%	-19.1%
Debt to capital ratio								
	73.6%	66.0%	64.5%	69.2%	75.2%	104.4%	124.1%	175.4%

I am looking for strategic partners with strong capital and new media resources. Feel free to contact me
 via my blog -<http://reggiemiddleton.typepad.com>