Favor LEN & TOL as Cure for June Gloom?

Initiating Coverage of Homebuilders

Summary

Homebuilders have outperformed the S&P by 1200+bps YTD and we think a favorable macro backdrop and a robust Spring selling season are priced into the stocks at current valuation levels. While we are positive on the near-term housing outlook, we see potential mid-year risk as the seasonal trade unwinds and the sector prices in slowing growth ahead. As such, we are launching coverage with a balanced near-term view and see the best relative value in LEN and TOL.

Company	Symbol	Price (5/15)	Rating Prior	Rating Curr	PT
D.R. Horton, Inc.	DHI	$33.45	–	Neutral	$32.00
KB Home	KBH	$21.29	–	Neutral	$20.00
Lennar Corp	LEN	$51.03	–	Buy	$59.00
Pulte Group, Inc.	PHM	$22.94	–	Neutral	$22.00
Toll Brothers, Inc.	TOL	$37.44	–	Buy	$44.00

Source: Bloomberg and Mizuho Securities USA

Key Points

Supportive Macro Backdrop. Our economist's macro forecast for 2017, the basis for our Homebuilder industry macro call, calls for housing demand to outpace new supply again in 2017, supporting new single-family housing sales (+5%) and starts (+12%) in 2017. That said, rising costs (land, labor and materials), single-family home affordability and Trump policy risk (mortgage / lending standards) are key headwinds to monitor.

Valuations Look Fair - Beware of June Gloom? We are initiating coverage of the Homebuilding industry with a balanced view as: 1) the stocks trade at the upper end of long-term PTB range and PTB multiples and may be at risk near-term as we exit the Spring selling season; 2) our bottoms-up approach implies +11% orders growth for FY17e for our coverage group (vs +13% in '16), a level we think looks appropriate given current PTB (1.6x). While we think PTB matters more over the long run, bulls may point to lower P/E multiples and improved ROEs to support the stocks.

Favor LEN / TOL. Despite our view near-term, we see pockets of relative mispricing in two proven platforms, LEN and TOL, trading at 1.5x / 1.4x PTB, 11.3x / 11.9x '17e P/E and 14.8% / 12.7% ROE vs 1.6x / 11.7x / 14.3% sector average. We forecast +16% upside to our PTs for our Buys vs -4% for our non-Buy rated names.

Risks to our outlook include: 1) post-Spring selling season softer demand; 2) potential Trump policy tail / headwinds; 3) higher interest / mortgage rates; 4) a dramatic increases in labor or material costs (margin weakness); and 5) general economic weakness.

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Exhibit 1: Summary of Mizuho's Key Calls

Company	Rating	Price Target	Upside to PT	Investment Thesis
Lennar Corp (LEN)	BUY	$59	16%	• We rate LEN Buy given 15% upside based on our sum-of-the-parts value of $59/sh utilizing a 1.7x TBV multiple for the homebuilding segment of the company, in line with PHM, as Lennar's strong margins of 13.1% exceed our coverage universe of 12.1% and lead to a strong and consistent return on equity. •LEN operates a traditional homebuilding and financing business as well as a CRE lending platform (Rialto), a multi-family division and owns approximately 41% of Five Point Holdings (FPH), a land development company that completed an IPO last week. These business divisions allow LEN to take advantage of dislocations across the real estate asset class which can result in significant value creation. • The downside to operating numerous unique businesses is it makes the company more difficult to value as investors have to spend more time and resources valuing each segment separately. With the recent IPO of FPH and an expected spin-out of Rialto in the next 12-24 months we believe valuation will become more apparent to the market.
Toll Brothers, Inc (TOL)	BUY	$44	18%	• We think the market is "over-penalizing" TOL for its NYC / luxury exposure, Coastal California exposure, and concerns over its 12% ROE target. We are Buy rated on shares of TOL based on a below sector average valuation (1.3x TBV vs. 1.6x TBV sector average). Our $44.00 price target reflects 1.6x TBV and implied 18% upside. • TOL is an industry leading production platform catering to a luxury segment benefitting from affluent buyers who have experienced increasing wealth given strong personal investment returns across equities and a sharp recovery in home equity values as most purchasers of Toll Brothers homes already own an existing residence. With ~30% of TOL buyers paying cash for their homes, movement in mortgage rates have little impact on their client's decision to purchase a home, reducing the volatility of demand and limiting cancellations. TOL's high price point helps generate and sustain above-average gross margins. • We do not apply a higher tangible book value multiple to TOL due to its lower expected return on equity (12.7%) vs. DHI and LEN at closer to 15% ROE. The lower ROE is driven by TOL's well located land resulting in a longer permitting process and therefore longer holding period, dragging down ROE. TOL currently controls an estimated 7.7x years of land supply vs. the coverage universe average of 6.1x years. We believe TOL's current valuation is driven by overblown fears regarding NYC exposure (City Living division) as well as exposure to foreign buyers through the company's concentration in California. TOL's Western Division (includes California) represents ~42% of the dollar value of TOL's backlog, while TOL's City Living division backlog is ~8% of total backlog. Demand remains robust in California while City Living makes up a small portion of the company despite attracting significant attention.
D.R. Horton, Inc (DHI)	NEUTRAL	$32	-4%	• We are Neutral rated on shares of DHI given current valuation of 1.75x forward tangible book value, near the high end of its LT average and above the sector average of 1.6x. Our price target of $32 reflects 1.7x forward tangible Book value reflecting no upside at the current share price. • DR Horton has an outstanding platform with excellent cost controls resulting in ~20% gross margins and sector leading expected return on equity (15.3%) due to strong inventory management. A focus on a lower price point, ASP of $295k in 2Q17, attracts entry level buyers and allows DHI to operate with significant speculative inventory as customers do not expect a custom home. • The potential downside to focusing on entry level customers and building speculatively is an increased sensitivity to interest rates and market conditions as buyers typically do not have the same ability to weather an economic storm as builders focused on higher price points. Buyers are more price sensitive at this level and a small change in monthly payments can result in an abrupt slowdown in demand.
KB Home (KBH)	NEUTRAL	$20	-6%	• We are Neutral rated on shares of KBH given the company is currently trading at 1.6x TBV, similar to our coverage universe. • KBH is experiencing strong order and absorption growth catering towards entry-level buyers (51%), the highest level in our coverage universe. While demand is strong we believe KBH is undersized for their business model of selling homes at a lower price point ($367k ASP in 1Q17). DHI, who also has a strong entry-level presence delivers almost 50,000 homes per year while KBH is expected to deliver slightly less than 11,000 homes in 2017 according to our estimates. • At this size we believe KBH is unable to gain significant operating leverage which results in gross margins of approximately 16%, substantially below DHI's gross margins of approximately 20%. The lower gross margins results in lower ROE (an estimated 8.9% in 2017 vs. our coverage average of 14.3%. Despite strong demand we believe the current valuation fully reflects KBH's near term potential given the lower return metrics vs. peers.
PulteGroup, Inc (PHM)	NEUTRAL	$22	-4%	• We are Neutral rated on shares of PHM given a forward TBV multiple of 2.0x. Given the substantial $1 billion share repurchase expected to be executed in 2017 as well as strong ROE metrics, we derive a $22.00 per share price target using a 50% weighting on a 1.6x TBV and a 50% weighting on 12x EPS multiple (given the large repurchase program). • PHM is driving substantial returns on equity through a focus on SG&A, shortening the holding period of their land and repurchasing shares of the company. • PHM is trading at the highest TBV multiple in our coverage and buying back shares well above book value only increases the disparity. Community absorption levels were negative in the most recent quarter. Given the high ROE (15.7% in 2017) and low EPS multiple, we remain neutral on the shares.

Source: Mizuho Securities USA.

Exhibit 2: Qualitative Assessment of Mizuho's Homebuilder Universe Operating Strategies

Company	Strategy	Our Assessment
DHI	**Scale and Spec Focus**: DHI is a volume / production-focused builder that operates on a decentralized platform in w hich most homebuilding decisions are managed at the local level, w ith centralized oversight. DHI is the largest homebuilder by volume and uses its size to drive discounts w hen negotiating w ith its subcontractors, materials suppliers and land developers. DHI's production and volume focus entails a higher level of speculative development relative to peers.	DHI is clearly driving operating efficiency through scale and its production focus. DHI's spec strategy requires careful underw riting and a correct assessment of future home buying demand. For example, in 2014 buyer demand did not meet expectations and DHI raised incentives to sell inventory, w hich caused margins to decline. For 2017, w e do not expect the same scenario to occur based on our n/t outlook and management's initial view s on 2017 demand / pricing. How ever, should demand fall short, DHI's margins w ould be at risk.
KBH	Announced in 2012, KBH announced a "Going of Offense" strategy to increase land spend to refocus its portfolio into land-constrained areas in coastal CA, TX and CO improved operating efficiencies, and changed its product mix to target move-up buyers by building larger homes w ith more design options. More recently, KBH introduced its **KB2020** plan to 1. increase scale; 2. enhance profitability; and 3. strengthen cash flow . On the production side, KBH is currently w orking on standardizing its design process, w hich it believes w ill be the next step in improving operating efficiency.	KBH's "Going on Offense" strategy repositioned KBH into more attractive, infill markets and has helped improved gross margin. Increasing market share in new markets that met KBH's hurdles required raw land acquisitions, not a historical investment strategy. As a result, KBH experienced delays opening new communities due to entitlement delays and issues w ith utilities. The strategy has also required KBH to hire management in new markets, a drag on SG&A. We have a more optimistic view on KBH's new **KB2020** strategy, but are employing a "w ait and see" approach given the challenges KBH faces in improving scale given low er volumes and a less flexible balance sheet compared to peers.
LEN	**Everything is Included (EI) Program:** LEN conducts research into consumer preferences and designs homes in its communities that include w hat they believe to be luxury options as standard features. LEN streamlines homebuilding production by standardizing floor plans and eliminating options. Bulk order materials and appliances reduces costs. The net results is that LEN can build a more premium product targeting a more affluent consumer at a productions builder's pace. LEN is now actively leveraging technology and implementing cost efficiencies to benefit SG&A margins, a tacit reflection w e think of a late cycle mindset.	LEN's superior gross margins, absorption rates and backlog conversion rates (vs peers) point to the success of its "EI" program. LEN's market research appears to be successfully capturing consumer preferences, w hich w ould otherw ise necessitate the use of options.
PHM	**Commonly Managed Floor Plan and Shift to Build to Order:** PHM began implementing the common managed floor plan and build-to-order strategy in 2011. In the commonly managed floor plan approach, PHM designs several floor plans per region, based on consumer research, rather than allow regions to design a number of custom floorplans. PHM also shifted to build-to-order, option-heavy homes, from spec building, to drive pricing pow er. Today, ~3% of PHM's home are spec homes (perhaps a disadvantage today?), w hile 75% of its homes deliveries are via commonly managed floor plans (vs 50% i. 4Q14). The net results is a more centralized planning and production process and improved efficiency / margins.	PHM's commonly managed floor plan strategy is similar to LEN's EI strategy, in that it enables PHM to streamline the production process and bulk order materials and appliances. PHM differs from LEN (EI) on its built to order approach, w hich focuses on using options to drive margin grow th. We think PHM is offering a differentiated strategy that fits its customer's preferences and believe PHM can continue to benefit from both aspects of its strategy as implementation continues (75% complete).
TOL	**Toll Integrated Systems (TIS):** TOL's focus on luxury home buyers requires offering a number of floor plans and options w hich results in heavily customized, built-to-order homes. TOL controls the productions process through TIS, a netw ork of 4 manufacturing plants that supply TOL's various operating segments. The plants control the manufacturing and design process, build the skeleton of the home (i.e., w all panels, roof and floor trusses) and ship to the home site w hen the subcontractors arrive and negotiate w ith materials vendors. The plants streamline TOL's complex production process and reduce costs through the centralization and bulk purchase of materials.	We view TIS favorably, as it enables TOL to streamline a production process that is complex relative to other builders due to its price point and focus on the luxury buyer.

Source: Company reports, SNL Financial, Mizuho Securities USA.

Executive Summary

Summary of Our Stock Calls

We are initiating coverage of the Homebuilding industry with a balanced view as we think the group's valuation, at 1.6x P/Book (PTB) fairly reflects our +11% bottoms-up average orders growth for our coverage group. That said, the group looks more interesting on P/E multiples (11.7x) and 14% ROE potential (EPS and book value growth) by YE2017.

Our initial coverage universe of five homebuilders (DHI, KBH, LEN, PHM, TOL) is larger cap in nature, with a ~$10B weighted- average market cap vs. ~$5B for our non-covered names in the sector. Our ratings skew, reflected in our stock picks, favors mature, production-driven platforms that we think are better positioned to benefit from improving demand against a still-low supply, but slowing orders growth backdrop, trading at relatively reasonable valuations (LEN, TOL); our Buy-rated names offer 16% average upside to our PTs.

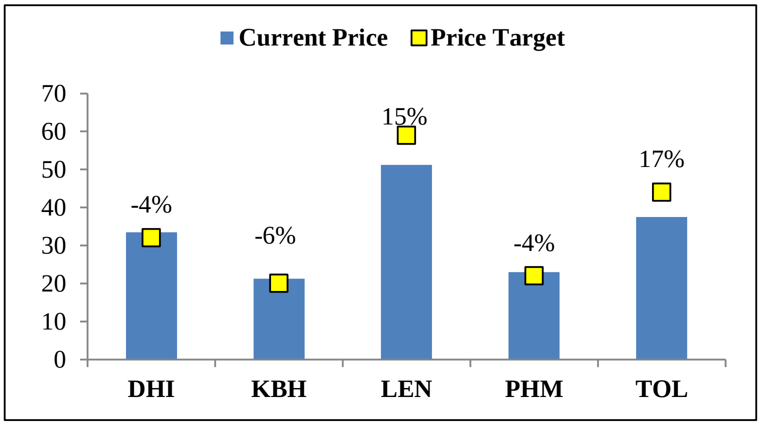
We rate DHI, KBH and PHM Neutral and estimate 4% downside to our PTs. We acknowledge the platform strength of DHI, reflected its consistent gross margins and above-average production volumes and ROE, but see its valuation appropriately reflecting these advantages. Lastly, we see transition-related headwinds (slower growth, lower margins, lower ROE) near-term for KBH and valuation-related headwinds for PHM. We think investors can find better risk-adjusted returns in our other coverage names for now, especially given YTD performance.

Mizuho PT and stock rating methodology comments. Our price targets are derived using a price to tangible book (PTB) multiple approach (tangible book reflects book value, net of deferred tax assets and goodwill); LEN and PHM are the exceptions (we use S-O-T-P analysis for the former and a 50/50 blend of PTB and P/E for the latter). Homebuilders have historically traded in a PTB range of 1.0-2.0x, breaking out of that range during the housing boom (2004-06).

We also note that the Mizuho Securities' stock rating system is based on the following parameters: 'Buy' rated stocks are expected to generate 10% price returns over the next year (excluding dividends), while Underperform rated stocks are expected to generate -10% or lower return over the same time period; Neutral ratings lie in between (<+10% and >-10%).

Report Outline. We have divided this report into the following sections: Housing macro; Key Debates / Risks; Valuation; Individual mini-company reports; and Appendix. We also want to highlight Exhibits 1-4 for a summary of our ratings, price targets and earnings estimates, as well as pp 34 – 68 for individual company snapshots, providing key portfolio and operating measures for each company.

Exhibit 3: Mizuho Homebuilder PTs vs Current Price



`Source: SNL Financial, Mizuho Securities USA estimates.

Exhibit 4: FY2017 Mizuho Homebuilder Universe - Key Assumptions

Mizuho Estimates

2017 Estimates	Est. Order Growth	Est. Revenue Growth	Est. Closings Growth	Est. ASP Growth	2017 EPS Growth	2018 EPS Growth
DHI	9%	15%	12%	3%	16%	11%
PHM	11%	15%	7%	8%	27%	12%
LEN	13%	15%	12%	2%	14%	3%
TOL	14%	9%	15%	-6%	45%	12%
KBH	9%	18%	8%	7%	45%	21%
Wtd. Avg.	**11%**	**14%**	**11%**	**2%**	**23%**	**9%**

Source: Company reports, Mizuho Securities USA estimates.

Exhibit 5: Mizuho Homebuilder Universe Comp Table

Company Name	Ticker	Closing Price ($) 5/15/2017	Rating	Price Target	Upside to PT	Market Cap ($M)	Price-to-Tangible Book Ratio (x)	EPS Estimates 2016	EPS Estimates 2017	EPS Estimates 2018	EPS Growth 2017	EPS Growth 2018	Price to EPS Estimate Ratio (x) 2017	Price to EPS Estimate Ratio (x) 2018	Total Return YTD	Implied ROE	Net Debt/ Net Cap
D.R. Horton Inc.	**DHI**	**33.45**	**Neutral**	**$32.00**	**-4%**	**12,420**	**1.8**	**$2.36**	**$2.74**	**$3.03**	16%	11%	12.2	11.1	**21.8%**	**8.2%**	**15%**
Lennar Corp.	**LEN**	**51.03**	**Buy**	**$59.00**	**16%**	**11,556**	**1.5**	**$3.95**	**$4.50**	**$4.62**	14%	3%	11.3	11.0	**17.6%**	**8.8%**	**34%**
PulteGroup Inc.	**PHM**	**22.94**	**Neutral**	**$22.00**	**-4%**	**7,178**	**2.0**	**$1.76**	**$2.23**	**$2.50**	27%	12%	10.3	9.2	**24.3%**	**9.7%**	**29%**
Toll Brothers Inc.	**TOL**	**37.44**	**Buy**	**$44.00**	**18%**	**6,018**	**1.4**	**$2.17**	**$3.15**	**$3.54**	45%	12%	11.9	10.6	**19.6%**	**8.4%**	**35%**
CalAtlantic Group Inc	CAA	36.71	NR	NR	n/a	4,149	**1.3**	$3.60	$3.50	$4.03	-3%	15%	10.5	9.1	6.6%	9.5%	45%
TRI Pointe Group Inc	TPH	12.63	NR	NR	n/a	1,980	**1.2**	$1.21	$1.28	$1.44	6%	12%	9.9	8.8	8.6%	10.1%	39%
KB Home	**KBH**	**21.29**	**Neutral**	**$20.00**	**-6%**	**1,783**	**1.6**	**$1.10**	**$1.60**	**$1.94**	46%	21%	13.3	11.0	**32.6%**	**7.5%**	**55%**
MDC Holdings Inc.	MDC	35.63	NR	NR	n/a	1,809	**1.4**	$2.00	$2.52	$2.78	26%	10%	14.1	12.8	39.1%	7.1%	25%
Meritage Homes Corp.	MTH	41.05	NR	NR	n/a	1,621	**1.1**	$3.55	$3.69	$4.23	4%	15%	11.1	9.7	15.5%	9.0%	40%
Taylor Morrison Home Co	TMHC	23.35	NR	NR	n/a	2,762	**3.1**	$1.69	$1.89	$2.18	12%	15%	12.3	10.7	20.0%	8.1%	18%
Homebuilder total / Weighted Average						**51,276**	**1.6**				**19%**	**13%**	**11.7**	**10.4**	**20.6%**	**8.6%**	**34%**

Sources: Company reports, Bloomberg & MSUSA estimates.

Exhibit 6: Mizuho Homebuilder Universe - Comparative Margins & ROE Summary

Gross Margin, ex items

	2010Y	2011Y	2012Y	2013Y	2014Y	2015Y	2016Y	2017E
DHI	17.3%	16.1%	17.7%	20.8%	21.3%	19.7%	20.0%	20.0%
KBH	18.6%	15.4%	13.5%	18.4%	18.6%	16.8%	16.2%	16.2%
LEN	21.4%	21.3%	23.1%	25.0%	25.1%	24.3%	23.0%	22.3%
PHM[1]	17.3%	18.0%	21.0%	25.3%	23.6%	23.2%	25.0%	24.5%
TOL	11.9%	18.1%	19.3%	20.4%	23.1%	22.9%	23.0%	23.0%

SG&A Margin, ex items

	2010Y	2011Y	2012Y	2013Y	2014Y	2015Y	2016Y	2017E
DHI	-12.2%	-13.3%	-12.5%	-10.8%	-10.7%	-9.6%	-9.3%	-9.0%
KBH	-18.2%	-19.5%	-14.6%	-12.8%	-12.2%	-11.4%	-10.9%	-10.3%
LEN	-14.3%	-14.7%	-12.4%	-10.6%	-10.5%	-10.0%	-9.4%	-9.3%
PHM[1]	-12.5%	-13.0%	-11.3%	-10.2%	-10.6%	-10.1%	-12.8%	-12.0%
TOL	-17.5%	-18.1%	-15.7%	-12.8%	-10.9%	-10.9%	-10.4%	-10.6%

Pre-Tax Margin, ex items

	2010Y	2011Y	2012Y	2013Y	2014Y	2015Y	2016Y	2017E
DHI	3.4%	1.4%	5.0%	10.0%	11.0%	10.1%	10.7%	11.0%
KBH	-4.4%	-9.9%	-5.0%	2.9%	5.3%	5.4%	5.3%	5.9%
LEN	5.6%	5.5%	7.7%	13.6%	14.4%	14.3%	13.6%	13.0%
PHM	-13.8%	-6.0%	4.4%	10.0%	12.8%	13.1%	12.2%	12.5%
TOL	-3.6%	3.8%	5.4%	8.7%	13.5%	12.0%	12.6%	12.4%

ROE, ex items

	2010Y	2011Y	2012Y	2013Y	2014Y	2015Y	2016Y	2017E
DHI	3.8%	1.1%	7.1%	11.3%	12.6%	14.7%	15.0%	15.3%
KBH	-4.0%	-9.9%	-4.2%	4.6%	6.9%	6.2%	5.3%	8.9%
LEN	2.9%	3.6%	6.4%	9.7%	12.6%	16.6%	16.1%	14.8%
PHM	-7.5%	-1.7%	5.7%	10.4%	10.1%	10.2%	12.7%	15.7%
TOL	2.8%	3.7%	3.4%	4.7%	9.9%	9.4%	9.0%	12.7%

1. PHM removed selling commissions from its gross margins calculation in 2016, now reflected in SG&A margins.

Source: Company reports, SNL Financial, Mizuho Securities USA estimates.

Summary of Our Macro Housing View

At a high level, we think the U.S. Housing market is healthy ("middle innings," per management teams, though slowing growth and transition to "land light" strategies suggests more "late-middle" innings to us) and expect housing to continue its slow, steady grind higher the next few years. Our 2017 forecast reflects our view that an improving economy, increased demand and rising home inventory levels will lead new home sales higher in 2017 (+5% per our economist, though at a slower year-over-year growth rate than in 2016 (12%).

We see more upside than downside risk to our Homebuilder coverage group's +11% orders outlook (+4% community count growth / +6% absorption rate improvement) for our coverage universe given: 1) Robust Spring season demand and pricing (affirmed on recent earnings calls); 2) Pent-up demand of recent under supply / below-average 3) Potential policy-driven "wildcards," though we see fewer near-term chances for a tax policy or regulation-driven tailwinds that would ease lending / spur demand, given uncertainty over the implementation and implications of Trump's healthcare and tax policy proposals.

The most recent (March 2017) housing data was robust in our view, as follows:

- New single family home sales (per the U.S. Census Bureau) grew 5.8% M/M (to 621k annual rate) and +15.6% year-over-year.
- New home starts (also per the U.S. Census Bureau) declined 6.2% M/M (to 821k) and grew +9.3% year -over-year.
- Home price appreciation averaged 5.6% in 2016, per the Case-Shiller Index. Median sales price of a new single-family home averaged $315,100, +1.2% year-over-year.

Looking ahead, our "House" 2017 forecasts are:

- **New Home Sales of 590k, +5% vs FY16**.
- **Single Family Home Starts of 830k, +9% vs FY16.**
- **See Appendix A** for more detail on our housing view, as well as historical data.

A Quick Word on Rates. Recently, the 10-year has been stuck between 2.3%-2.6%, reflecting a more dim view of Trump's aforementioned inability thus far to enact policy / legislation (health care, taxes) to spur further economic growth**.** As a result, our economist Steve Ricchiuto projects the 10-year yield will likely remain range-bound (mid-2%), after running from 1.8% to 2.6% on the reflation trade following Trump's victory; the 30-year fixed mortgage rate averaged 4.17% in January, +2bps M/M and +51bps year-over-year.

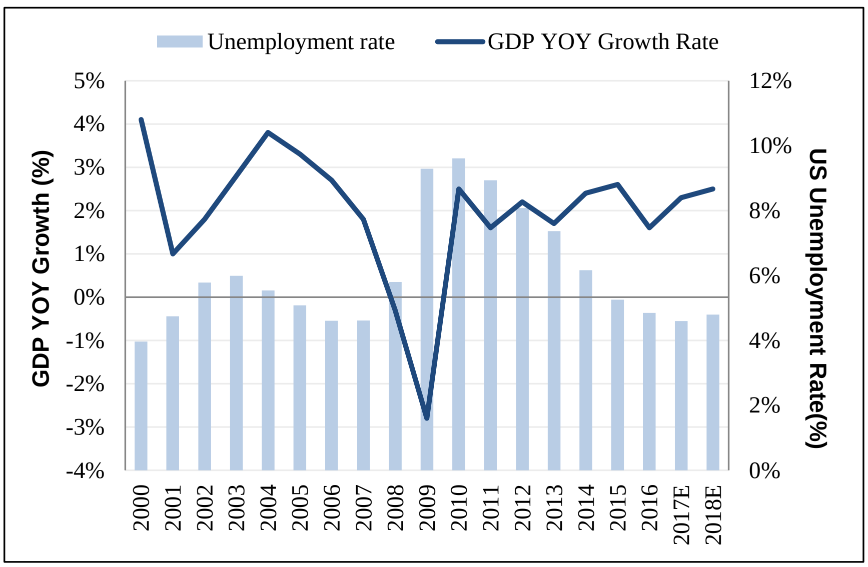
2017 Homebuilder Outlook

Favorable Demand / Supply Outlook

In our view, the near-term demand for single-family housing can be supported at the macro level by an improving economy and labor market (+211K jobs in April), higher consumer confidence, growing household formations and improved mortgage accessibility to a lesser extent. Similarly, demand within our coverage names is growing, evidenced by improvements in orders and absorption (a same-store sales type measure, measuring pace of homes sold per community). Demand remains somewhat constrained by mortgage credit availability (improved, but still well below pre-recession levels) and a secular shift towards renting.

Improving Economic Conditions. Stronger economic conditions, including lower unemployment, sustained wage growth and growing consumer confidence, should encourage consumers to form new households, and to rent and purchase homes.

Exhibit 7: Improving Underlying Economy



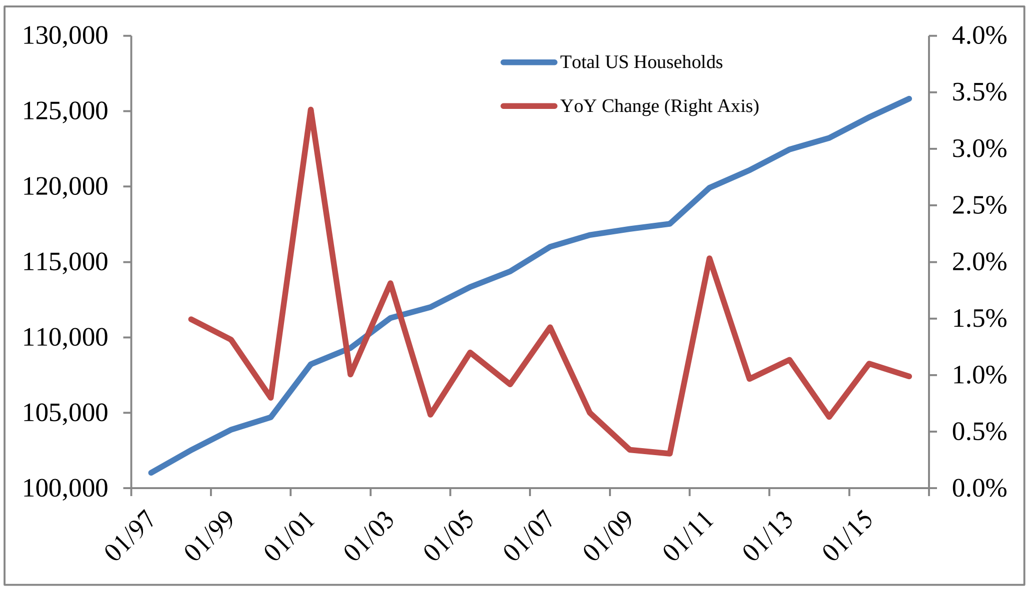
Source: Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Mizuho Securities USA.

Growing Household Formations. Household formations averaged ~600k from 2007-2016, according to the Housing Vacancy Survey (HVS), well below the long-term average of 1.2M, as new household formations slowed to a crawl during the recession and in its immediate aftermath, However, formations finally broke above 1M in 2014 and remained above 1M in 2015-2016.

For FY17, household formations are expected to approximate 1.4M, per our economist, above the total single family rental and for-sale housing starts this year (1.2M). However, keep in mind that household formations growth has equaled or outpaced new housing supply every year since 2011, with this cumulative undersupply approximating ~2.8M units. This "undersupply," along with improving job growth, population and rising confidence should help unlock incremental and pent-up demand (from the recession / post-recession period).

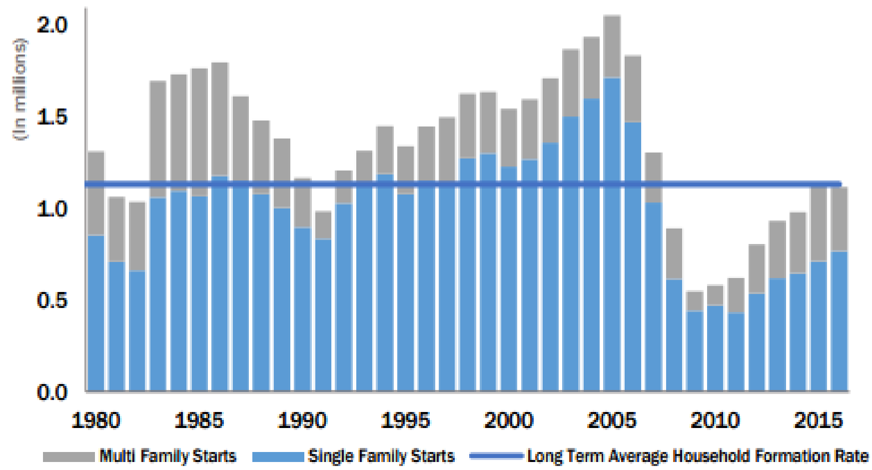
Looking ahead, The Harvard Joint Center for Housing Studies (JCHS) forecasts 1.2M-1.3M annual formations from 2015-2020, a clear positive for housing demand, though somewhat tempered by the slowing in the decline of the homeownership rate (likely finding equilibrium around 63% near-term), implying formations should continue to mostly be from current renters in the near-term, but also implying stabilized demand in the for sale segment.

Exhibit 8: Household Formations Up Post-Recession



Source: Mizuho Securities USA, U.S. Census, FRED

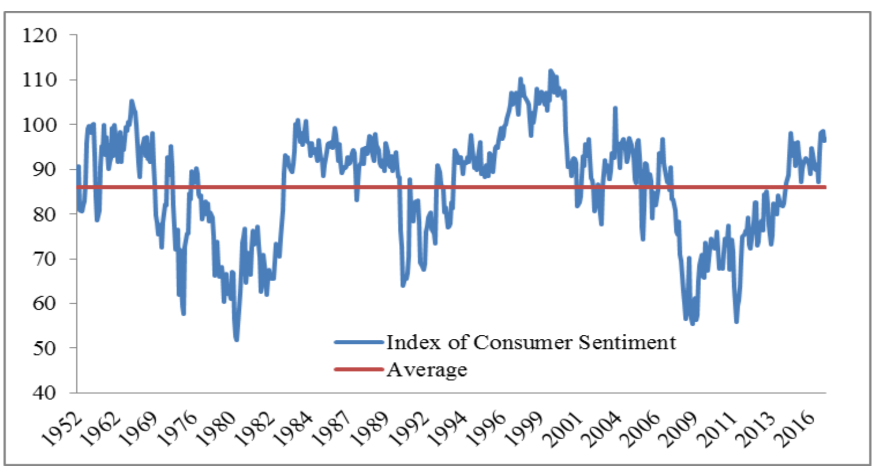
Exhibit 9: Household Formations Has Outpaced New Supply



Source: Mizuho Securities USA, U.S. Census, FRED

Improved Consumer Confidence / Sentiment. The University of Michigan Consumer Sentiment Index has improved in recent years, as the economy has improved, with the index up 5% year-over-year in February 2017 to 96.3 (91.7 at February 2016 and 98.5 at January 2017), though still 15% below its pre-crisis high of 111.9 (see Exhibit 10); 2017's levels are at the highest levels since 2004.

Exhibit 10: University of Michigan Consumer Sentiment Index Up

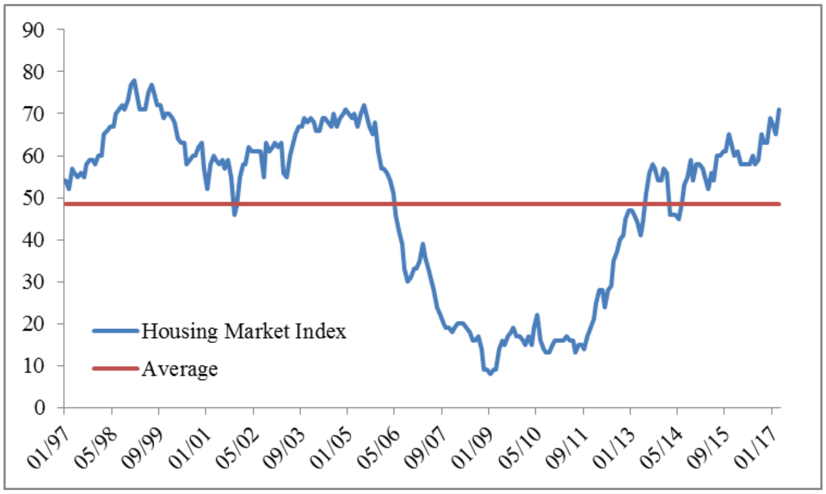


Source: Michigan Consumer Sentiment Index (MCSI), Mizuho Securities USA estimates.

Looking at the National Association of Home Builders (NAHB) Sentiment Index reveal similar improvement in sentiment. The NAHB Index fell to 65 in February 2017 from 67 in January 2017, but still well above the 58 reading in February 2016.

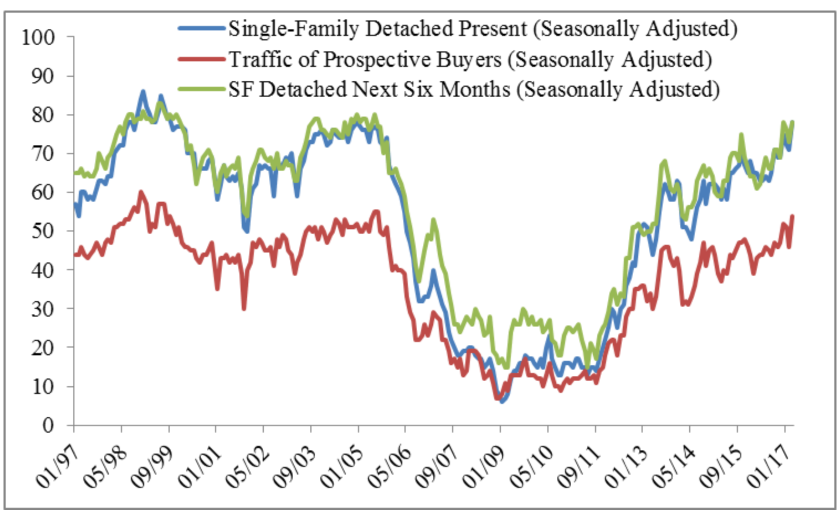
Lastly, the percentage of respondents expecting to buy a new home in the next six months (reflected in 'traffic of prospective buyers' in Exhibit 12) has improved dramatically from recession lows (see Exhibit 11).

Exhibit 11: National Association of Home Builders (NAHB) Homebuyer Index Trending Higher As Well



Source: National Association of Home Builders (NAHB) Housing Market Index (HMI), Mizuho Securities USA.

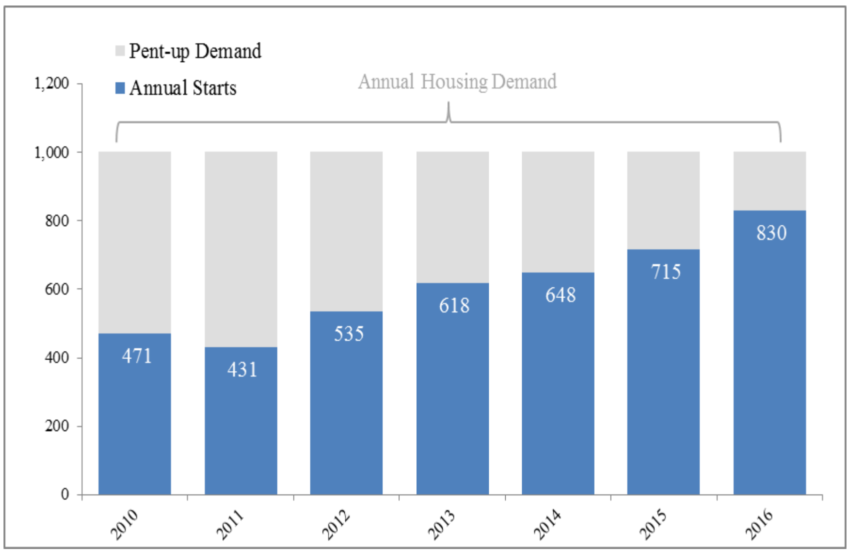
Exhibit 12: Prospect / Buyer Traffic Also Improving



Source: National Association of Home Builders (NAHB), Mizuho Securities USA.

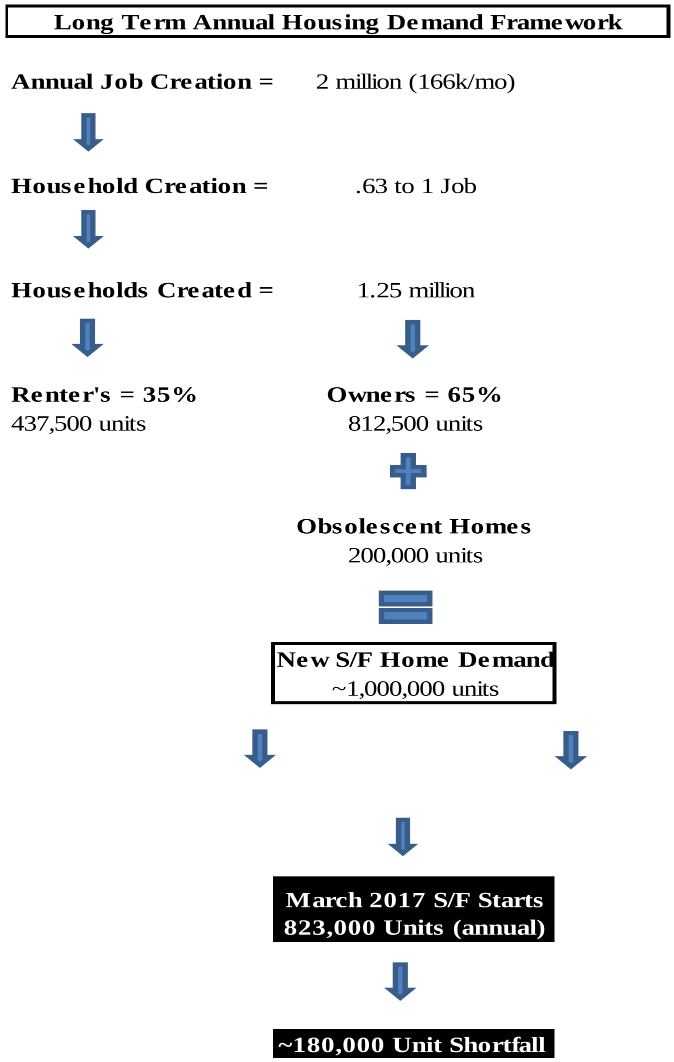
New Single Family Starts Up, But Short of "Natural" Demand and Long-Term Average. New single-family home starts were ~830k in 2016 (+16% year-over-year) and our Economist forecasts 930k for 2017 (+9%). We estimate approximately 1 million single family units need to be started annually to meet demand. While starts have bounced back substantially from the bottom in 2009, they have not yet reached the 1 million level, creating pent-up demand. This steady, sustained growth pace of starts is favorable for homebuilders as it limits supply and leads to increasing home prices. When combining a low level of annual starts as well as low existing supply creates a supportive backdrop for the public homebuilders.

Exhibit 13: Single Family Housing Starts Up, But Short of Long-term Demand



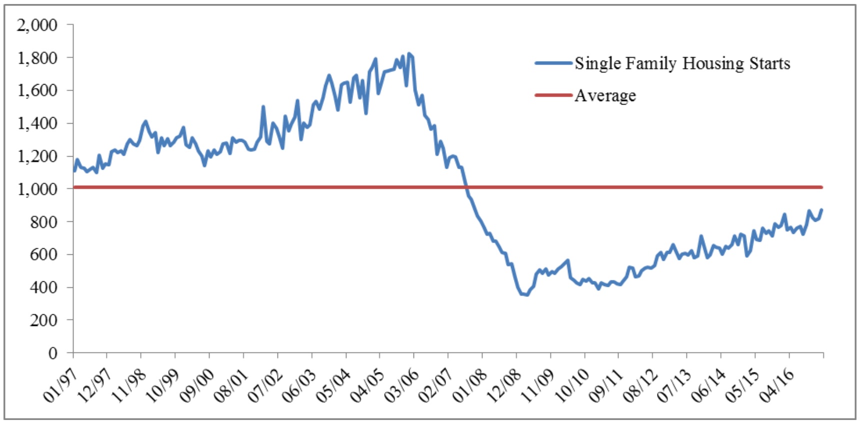
Source: Federal Reserve Economic Data, Mizuho Securities USA.

Exhibit 14: Long—Term Housing Demand ~1M Units / Year



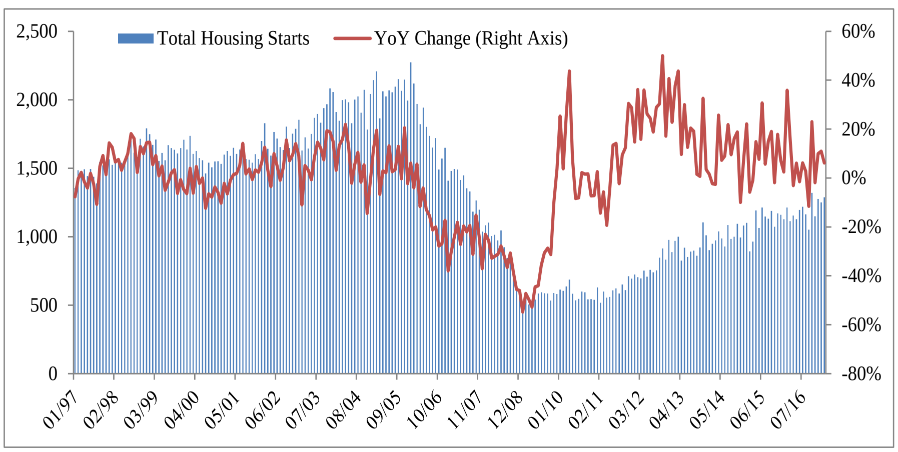
Source: Company reports, Mizuho Securities USA.

Exhibit 15: Single Family Starts Below Long-term Average



Source: Federal Reserve Economic Data, Mizuho Securities USA.

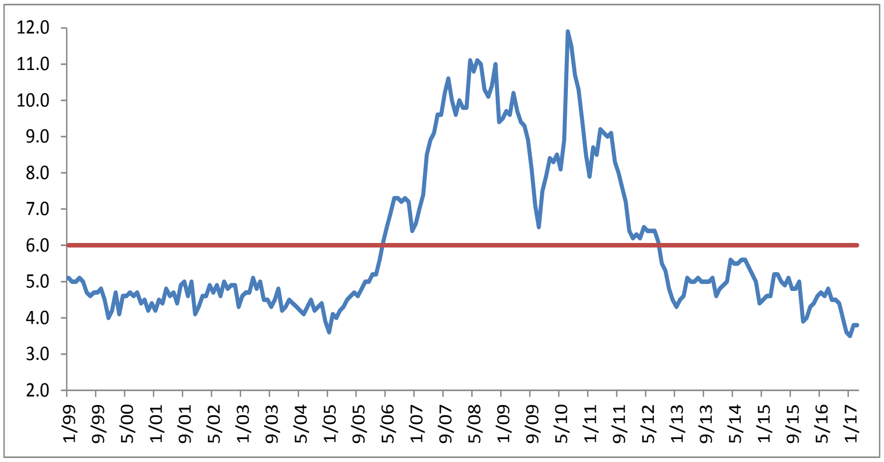
Exhibit 16: …But Improved In Post-Recession Period



Source: Company reports, SNL Financial, Mizuho Securities USA.

Below-Average Existing Home Inventory. The total inventory of existing homes for sale, measured by the month's supply of existing homes for sale, has averaged ~6 months from 1999 to present with a high of 11.9 months in 2010 and a low of 3.5 months at the beginning of 2017. As of March, the number of month's supply of existing homes for sale was just 3.8 months, significantly below the long term average and near all-time lows. Given the lack of supply on the market, homebuilders have seen robust demand with most growing orders by double digits year-over-year. Until the overall supply of homes on the market reverts to the historical average, we expect reasonably strong demand for new homes, all else being equal.

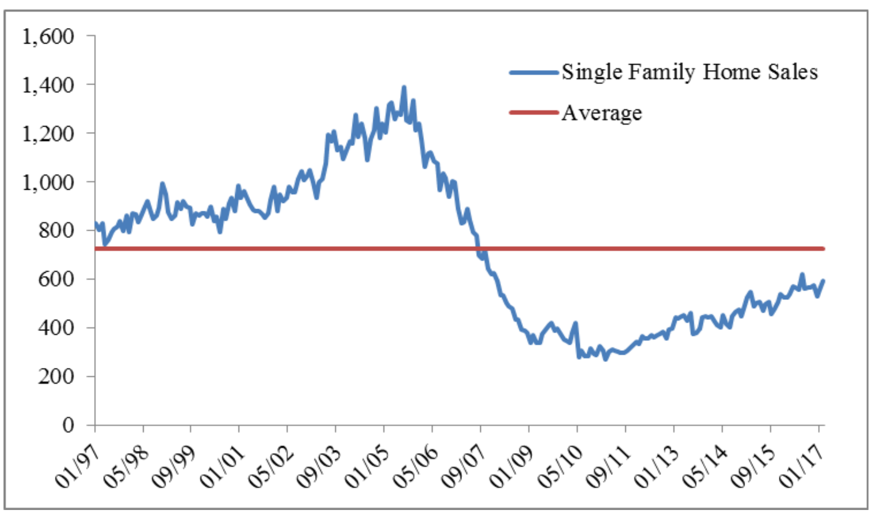
Exhibit 17: Single-Family Home Inventory Below Long-Term Average



Source: Federal Reserve Economic Data, Mizuho Securities USA.

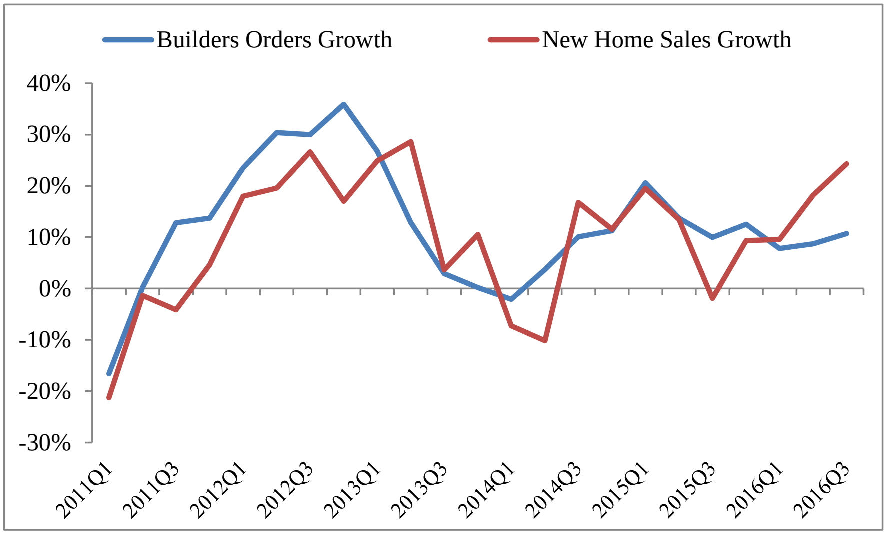
Driving New Homes Sales / Orders Growth was ~560k in 2016 (+12% year-over-year) and representing ~10% of total U.S. residential sales, per the National Association of Home Builders (NAHB). For 2017, our economist Steve Ricchiuto is forecasting new single family home sales of 590k (+9%), while the NAHB is forecasting 626k (+11%). The public homebuilders are also experiencing above-average demand with 11% average orders growth expected for FY17 (for our coverage universe), though below the ~13% growth in 2016. The recent first quarter earnings conference calls from the five publicly-traded homebuilders that we cover have been consistently positive in terms of demand and orders growth outlooks for 2017; see "Recent Management Comments" section for more discussion.

Exhibit 18: New Home Sales Up, but Still Below Long-term Average



Source: Federal Reserve Economic Data, Mizuho Securities USA.

Exhibit 19: Tight Relationship between Homebuilders Orders and New Home Sales Nationally

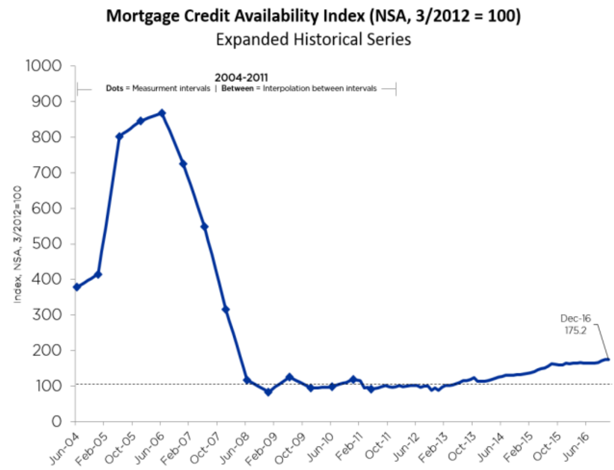


Source: Federal Reserve Economic Data, Mizuho Securities USA.

Mortgage Credit Availability Slowly Improving. The Federal Housing Administration (FHA) and Federal Housing Finance Administration (FHFA) have made a number of changes in recent years to help improve affordability and availability, including changes in the GSE scorecard weighting, particularly for the first time buyer, including reintroducing 97% LTV mortgages. We note the sustained improvement in mortgage credit availability since 2011 (see Exhibit 20), though availability remains well below its 2006 highs, per the Mortgage Bank Association.

Separately, in 2015, the Obama Administration cut the mortgage insurance premium (MIP) by 50bps, benefitting first-time buyer debt-to-income levels. However, soon after the inauguration, the new Trump administration announced that it was canceling a planned 25bps cut in FHA mortgage insurance premiums, which had been announced by the Obama Administration less than two weeks earlier, but had yet to be implemented. While this initial move by the new administration was not viewed positively to housing demand / affordability and raised concerns in some corners on Trump’s potential view on housing, our economist expects Trump to be constructive towards housing, given its vital role the plays in the overall economy and in meetings Trump’s 4% annual GDP target; see “Key Debates” for more discussion.

Exhibit 20: Mortgage Availability Rising, But Only to a Fraction of Pre-Crisis Level



Source: Mortgage Bank Association, Mizuho Securities USA.

Recent Management Comments Confirm Strong Spring Season

Homebuilders have outperformed the broader market YTD (+20% vs S&P500 +7%), drafting off of very encouraging results on orders growth, absorptions pace and average sales price (ASP) growth. The growing demand for single-family homes broadly and the homebuilders' ability to capture of a greater share of housing demand given falling existing housing inventory, have been key drivers (said another way, demand is outpacing new supply). The resulting ASP growth and faster absorption growth could ease pressure on homebuilders' gross margins a bit in the near term, but could cause affordability concerns in the medium and longer term.

See below for comments on early 2017 demand and pricing trends from homebuilder management teams from their recent earnings calls.

Exhibit 21: Homebuilder Management Commentary from Recent Earnings Calls

DHI – *But right now, in the markets that are producing at the top for us, there is more demand and less options or inventory out there than at any point that I have been in this business.- David V. Auld, CEO and President, 2Q17 Earnings Call*
KBH - *We grew deliveries by 14% with increases across all four of our operating regions, led in particular, by strength in the West Coast. Our results for the quarter in deliveries, revenue, and net orders show what is possible through the effective execution of our core KB2020 strategy, which includes increasing the scale of our business within our existing geographic footprint* . – Jeff Mezgher, CEO, 1Q17 Earnings Call *This underscores the strength of our strategy and offering consumers a compelling combination of affordability, choice, and personalization and operating in the right markets. Our build-to-order model enables us to build the home the customer wants, with features that they value. As a result, we sustained one of the highest absorption rates per community in the industry. During the first quarter, we achieved 3.6 net orders per community per month, an increase in absorption of 16% year over year with improvements in all four of the regions.* – Jeff Mezgher, CEO, 1Q17 Earnings Call
LEN - *While our first-quarter operating results, particularly gross margins, reflect some of the sluggishness seen at the end of last year, our sales results went from tepid to better to strong as the quarter progressed. Limited supply and production deficits are now intersecting with land and labor shortage and this suggests, though not yet seen, but suggests, that pricing power is on the horizon as we move through the year. Stuart Miller, CEO, 1Q17 Earnings Call* *The injection of some market optimism and what we saw in our sales pace as we went through the quarter really gives me reason to believe that as we look out ahead a couple of quarters, we are going to start to see prices move just as we would expect with a demand and supply imbalance, with demand increasing and supply somewhat constrained. So that's kind of where we are on that. Our guidance was really rooted in where we've seen things on more current basis.* – Stuart Miller, CEO, 1Q Earnings Call
PHM - *While we are only a few weeks into the new year, we are pleased with the overall demand conditions which suggest that higher rates are not dampening buyer interest, and that 2017 can be another year of growth for the industry. Given the good start we are seeing, we are excited to get into the spring selling season* . – Ryan Marshall, CEO, 4Q16 Earnings Call
TOL - Home buyers are beginning to realize gains on the sales of their homes which gives them the confidence, flexibility and down-payment money to trade up into one of our homes. This increased home equity, gains in the stock market, the prospects of potentially lower tax rates and less sensitivity towards mortgage interest rates due to generally larger down payments and stronger personal balance sheets seems to be contributing to increased demand for our homes.. – Doug Yearly, CEO, 1Q17 Earnings Call

Source: Company reports, Mizuho Securities USA.

Key Debates / Risks for 2017

We see several key opportunities and risks for the homebuilders this year, including a few "wild cards" that we're actively monitoring. On the potential positives side, the most prominent is the potential easing of financial de-regulation, which could spur increased lending and improved consumer confidence, which we see as a key driver of home purchase decisions. Potential easing of lending standards and improved consumer confidence are particularly important, especially for the entry-level buyer; more builders are focusing more on the first time buyer given pent up demand and the importance that first time buyers play in the entire housing spectrum, including spurring demand for move-up homes. Further, for the Trump Administration to achieve its 4% GDP growth target, housing must play a key role given weak growth elsewhere in the economy. We also highlight risks including gross margin degradation and affordability headwinds, given higher input costs (land, labor, lumber), growing first-time buyer and rising mortgage rates.

Below, we outline some of the larger debates and our view on the potential winners and losers in our builder coverage universe.

- **Policy Risk?** In terms of possible Trump-driven policy changes that could benefit housing demand, we currently see the following as most relevant:

    - Financial deregulation, which may have positive mortgage demand implications;

    - Lower personal tax rates, which could "free up" additional cash flow for potential buyers;

    - Corporate tax policy, with particular importance for i) cash tax payments (and bottom lines); ii) DTA impact (lower tax rates extend the DTA "earn-back" period; and iii) potential rules changes on interest expenditures;

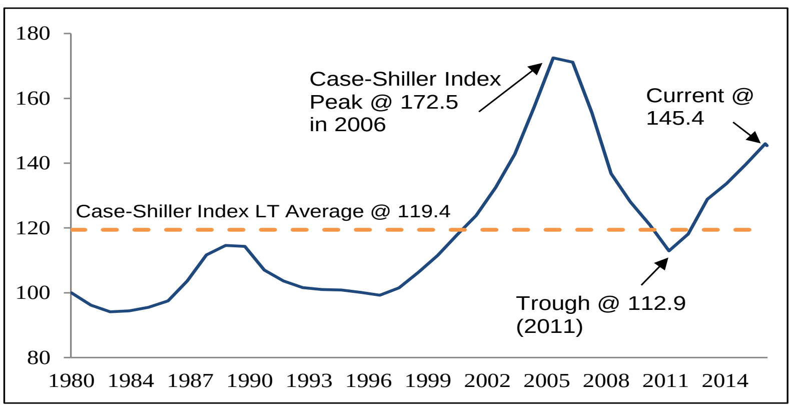
    - Immigration (less labor availability) and broad infrastructure plans (labor competition), both of which we believe could add wage and cost pressure to already difficult labor market conditions for homebuilders.

- **Affordability.** Affordability continues to be a key area of focus and mortgage rate fluctuations must be watched closely in our view. While mortgage rates appear to have been a top of mind concern entering 2017, given the large movement in mortgage rates in 2H16 / early 2017, the subsequent reversal in the 10-year yield (given the uncertainty of implementation of key Trump initiatives on healthcare and tax reform) has eased that concern for now.

Also, despite a meaningful growth in home price appreciation since 2010, the National Association of Realtors household affordability index suggests that home price affordability remains at a reasonable level. The latest reading of 162 was slightly below the trailing 5-year average reading of 170. Further, the February 2017 release for the S&P CoreLogic Case-Shiller U.S. Home Price Index stood at 185.6, above the long-term average (index since 1980) of 119.4, though still almost 30 points below its 2006 peak; see Exhibit 22 and Exhibit 23 for more details.

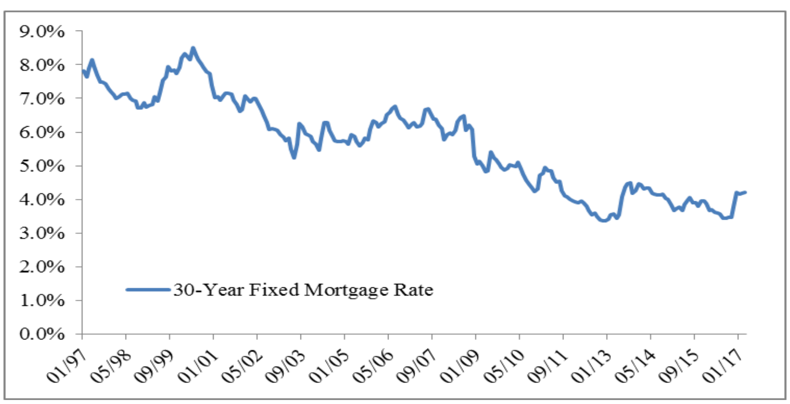
We also want to highlight that higher mortgage rates typically do not have an adverse effect on new home sales, especially given the improved economic conditions that tend to accompany higher rates, as well as improved consumer confidence and credit availability that tends to accompany rising rates and also if the magnitude and speed of the changes are not meaningful.

Exhibit 22: Single-Family Home Values Above Long-Term Average



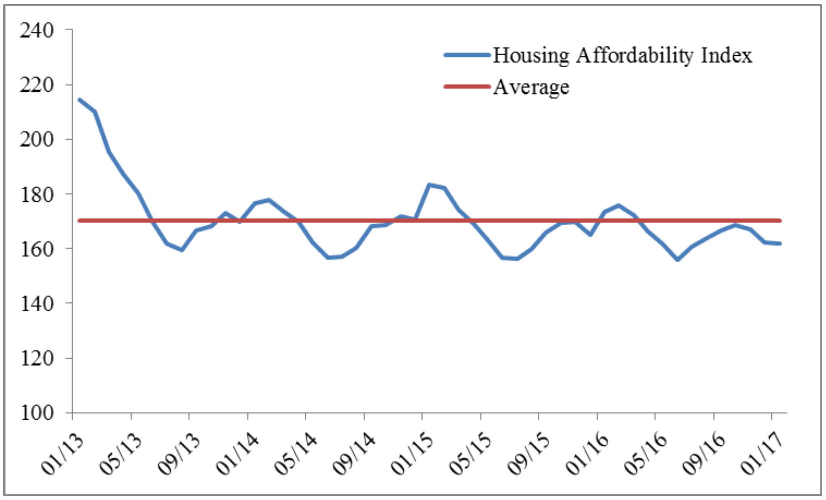
Source: Case-Shiller Home Price Index, Mizuho Securities USA.

Exhibit 23: But Mortgage Rates Near Historic Lows



Source: Freddie Mac, Mizuho Securities USA

Exhibit 24: Rise in Home Values Has Made Affordability Less Compelling In Recent Years



Source: Federal Reserve Economic Data, Mizuho Securities USA.

- **Margins - How Resilient Will They Be in 2017?** Cost inflation and its impact on gross margins, a key measure of operating efficiency, will likely continue to be a key topic of interest for investors in 2017, in our view. And while we suspect that investors are prepared for lower gross margins this year vs. 2016, but negative surprises on this measure would add pressure to the stocks, in our view. That said, we currently think investors are increasingly more focused on top-line growth (orders growth) and the ability of the homebuilder stocks to leverage platform efficiency and costs management to sustain SG&A margin levels (SG&A margins, EPS and ROE growth).

  Despite most builders increasing average sales prices as well as the number of closings (generally showing double digit year/year growth in since 2014/15), most builders are experiencing margin erosion as higher land prices, labor shortages and higher material costs (lumber in particular) and a growing focus on first-time homebuyers are pressuring margins.

  While land prices seem to have started to plateau, expense pressure from labor and materials appears to continue to weigh on gross margin growth. Input costs are something we will be keeping an eye on as the year progresses. For their part, the homebuilding companies have employed a greater focus on cost control (SG&A margins), as well as reduced land, both prudent, risk-management decisions; see below for more discussion.

1. **Growing Focus on First Time Homebuyers.** In 2016, more builders began to announce or plan an expansion of their reach into the first-time buyer market given improved demand at this lower price segment of the housing spectrum. Today, first time homebuyers comprise a sizable share (30-50% for our group, ex TOL which does not focus on the segment) of closings for most of our builders under coverage (excluding TOL).

As such, we believe that absorption, margins and returns guidance from builders are worth watching as "success" in the lower price-point first time buyer segment may come at the cost of lower margins and ASPs; However, we note that the impact of higher demand / orders on gross margin might be offset by operating margin and SG&A margin expansion, as well as EPS growth and improved ROEs. Further, improved demand on the first time segment should drive greater demand for move-up homes, the "bread and butter" for most homebuilders. Lastly, we see DHI as being best able to sustain potential first-time buyer margin pressure given the scale / leverage of its operating platform, as well as the early success it has already had in managing margin erosion; DHI initiated its first time buyer (Express) brand in 2014 and has seen gross margins stickiness around 20% since then.

Exhibit 25: First Time Homebuyers an Important Cohort

Buyer Profile

	1st Time Home Buyer	Move-Up / Other
TOL	N/A	100%
PHM	30%	70%
LEN	40%	60%
DHI	45%	55%
KBH	51%	49%

Source: Company documents, Mizuho Securities USA.

2. **Increased Focus on SG&A Cost Controls.** Given builders' struggle to expand gross margins, in order to continue to grow earnings they have become laser-focused on minimizing SG&A through the use of technology to drive efficiency. As said earlier, we see this being an area to offset gross margin and orders growth deceleration. PHM noted a significant corporate office staff reduction on its 1Q17 conference call as the driver behind improved SG&A, while LEN has noted a significant focus on reducing SG&A as well as it implements operating initiatives to reduce costs / benefit margins. See Exhibit 5 for details on SG&A margin trends / forecasts for our coverage group.

*"Fueled by our digital marketing efforts, and other initiatives as well, we continue to focus on operational efficiency as **our SG&A is***

***at an historic low for our first quarter**. Again, interestingly, our marketing and advertising spend is now down year-over-year for nine consecutive quarters. We continue to operate at a very high level of efficiency and we are improving." – Stuart Miller, CEO, Lennar*

"With our reported SG&A, including the $15 million insurance charge, being down $6 million and 250 basis points as a percentage of revenues, it's clear that the actions we took last year were successful in lowering costs, and driving growth -- greater overhead leverage as we work to enhance our operating margin. Given the success of actions taken to lower overheads, we now expect our full year SG&A in 2017 to be in the range of 12% to 12.5% of revenues compared with our previous guidance of 12.5% of revenues." - *Robert T. O'Shaughnessy, CFO, Pulte*

Please see Exhibits 5 for historical gross margins and historical SG&A margins for the homebuilders.

3. Revised Land Strategy – "Shifting to Land-Lighter" Models. Another key focus of homebuilder management teams of late has been a focus on reducing the proportion of owned land vs. optioned land. The change in tone / strategy is not surprising, given the significant rise in land costs in recent years, along with moderating growth outlook and the tacit reflection of mid-to-later cycle risk on operating strategy (margins & ROE implications). For instance, LEN outlined in recent presentations that its "soft pivot" on its land strategy reflects prioritization towards cash flow and a desire to further strengthen its sheet. Below we outline the owned and optioned land sites by the companies under our coverage, as well as our assessment of pros and cons to land vs option approach.

Positive Aspects of Owning Land:

1. Take advantage of increasing land prices during the rising part of a cycle, driving profits.

2. Easier to acquire land by outright purchasing the property vs. attempting to negotiate options.

3. No time pressure regarding the expiration of options.

Positive Aspects of Controlling Land via Options:

1. Typically significantly higher internal rates of return due to a much lower capital outlay early in the development process.

2. Ability to walk away with minimal losses if the market cycle ends before a builder can deliver homes.

3. Stronger balance sheet providing more flexibility.

Exhibit 26: Builders Shifting to Land "Lighter" Strategy to Improve Risk-adjusted Returns

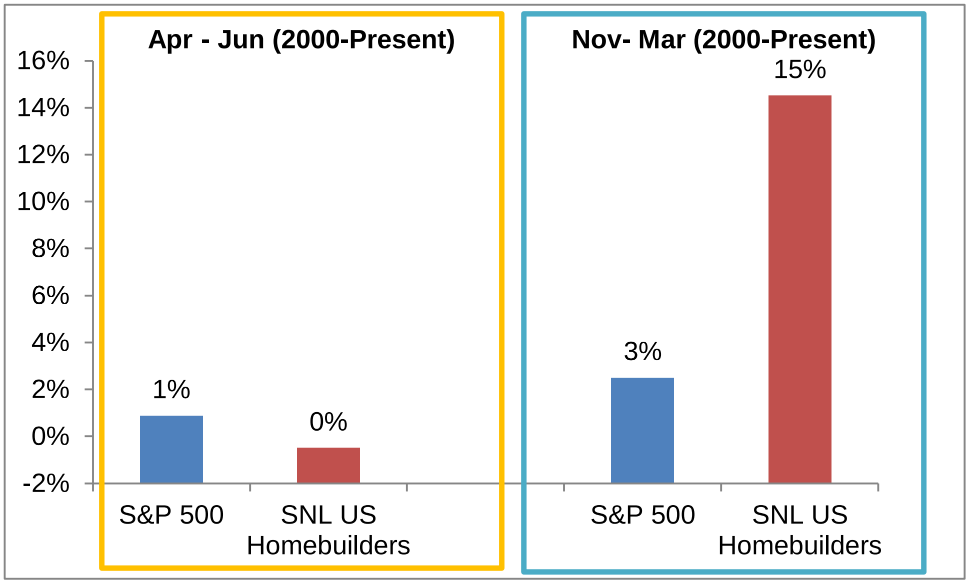
Land Supply	Lots Owned	Lots Optioned	Total Lots	% Optioned Lots	TTM Closings	2014 Est. Year's Supply	Current Est. Year's Supply	2017 to 2014 % Change in Year's Supply
TOL	33,800	14,000	47,800	29%	6,226	8.7x	7.7x	-12%
PHM	94,978	41,752	136,730	31%	20,231	7.6x	6.8x	-11%
LEN	136,989	29,514	166,503	18%	27,121	7.8x	6.1x	-22%
DHI	118,500	108,800	227,300	48%	43,075	6.4x	5.3x	-18%
KBH*	35,310	9,161	44,471	21%	10,100	7.2x	4.4x	-39%
Simple Average				29%		7.6x	6.1x	-20%

*KBH based on estimate using 4Q16 ratio of owned vs. optioned

Source: Company reports, Mizuho Securities USA estimates.

Hope Trade Unwind Risk? Lastly, we wanted to highlight that annual historical trading patterns (since 2000) suggests the homebuilders have tended to underperform the S&P during the late Spring / Summer months, reversing some of the gains derived through the late Fall / Winter months when the market begins to price in expected gains from the upcoming Spring Season, otherwise known as the "Hope Trade." From 2000 until the present, the homebuilding index returned 15% a year on average from November through March. From April through June of each year the index returned 0% annually, on average. This potential near-term seasonal pricing risk along with YTD outperformance of the homebuilder index of 21% (vs 7.3% for S&P) and full valuations are key underpinnings of our In-Line view on the sector.

Exhibit 27: Historical Trading Patterns Suggest Risk of June Gloom Ahead?



Source: Company reports, Mizuho Securities USA estimates.

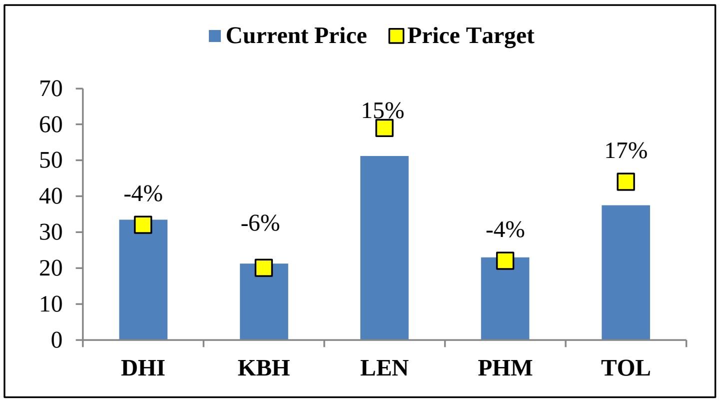
Valuation

Within the homebuilder sector, we prefer builders with proven platforms and formidable balance sheets, poised to capture share of growing demand. While we broadly see the sector as fairly valued, we do see select pockets of opportunity, with LEN and TOL, in particular, appearing to be mis-priced and / or with identifiable upcoming catalysts.

- First, LEN trades slightly below peers on a PTB basis despite consistently delivering leading margins, ROEs, growth in orders and closings, and with upcoming catalysts. We also do not believe that the standard PTB valuation approach fully captures the potential upside in LEN given the recent successful Five Point spin-off (IPO prospectus filed **here**) on May 10th, as well as LEN's potential future monetizations of its specialty finance (Rialto) and multifamily platforms.

- We also favor TOL as we don't think the market appreciates the high visibility into TOL's 2017 earnings. We further believe that the market appears to be over-penalizing the company (trading below peers' PTB average) over concerns over regarding its luxury / NYC condo product (facing slower demand / pricing power erosion), its Coastal CA exposure (risk of falling foreign demand) and its ability to hit its FY17 ROE targets.

Exhibit 28: Mizuho Homebuilder PTs vs Current Price



Source: SNL Financial, Mizuho Securities USA estimates.

Exhibit 29: FY2017 Mizuho Coverage Universe - Homebuilder Operating Forecasts

Mizuho Estimates

2017 Estimates	Est. Order Growth	Est. Revenue Growth	Est. Closings Growth	Est. ASP Growth	2017 EPS Growth	2018 EPS Growth
DHI	9%	15%	12%	3%	16%	11%
PHM	11%	15%	7%	8%	27%	13%
LEN	13%	15%	12%	2%	14%	3%
TOL	14%	9%	15%	-6%	45%	12%
KBH	9%	18%	8%	7%	45%	21%
Wtd. Avg.	**11%**	**14%**	**11%**	**2%**	**23%**	**10%**

Source: Company reports, Mizuho Securities USA estimates.

Exhibit 30: Mizuho Homebuilder Universe Comp Table

Company Name	Ticker	Closing Price ($) 5/15/2017	Rating	Price Target	Upside to PT	Market Cap ($M)	Price-to-Tangible Book Ratio (x)	EPS Estimates 2016	EPS Estimates 2017	EPS Estimates 2018	EPS Growth 2017	EPS Growth 2018	Price to EPS Estimate Ratio (x) 2017	Price to EPS Estimate Ratio (x) 2018	Total Return YTD	Implied ROE	Net Debt/ Net Cap
D.R. Horton Inc.	**DHI**	**33.45**	**Neutral**	**$32.00**	**-4%**	**12,420**	**1.8**	**$2.36**	**$2.74**	**$3.03**	16%	11%	12.2	11.1	**21.8%**	**8.2%**	**15%**
Lennar Corp.	**LEN**	**51.03**	**Buy**	**$59.00**	**16%**	**11,556**	**1.5**	**$3.95**	**$4.50**	**$4.62**	14%	3%	11.3	11.0	**17.6%**	**8.8%**	**34%**
PulteGroup Inc.	**PHM**	**22.94**	**Neutral**	**$22.00**	**-4%**	**7,178**	**2.0**	**$1.76**	**$2.23**	**$2.50**	27%	12%	10.3	9.2	**24.3%**	**9.7%**	**29%**
Toll Brothers Inc.	**TOL**	**37.44**	**Buy**	**$44.00**	**18%**	**6,018**	**1.4**	**$2.17**	**$3.15**	**$3.54**	45%	12%	11.9	10.6	**19.6%**	**8.4%**	**35%**
CalAtlantic Group Inc	CAA	36.71	NR	NR	n/a	4,149	**1.3**	$3.60	$3.50	$4.03	-3%	15%	10.5	9.1	6.6%	9.5%	45%
TRI Pointe Group Inc	TPH	12.63	NR	NR	n/a	1,980	**1.2**	$1.21	$1.28	$1.44	6%	12%	9.9	8.8	8.6%	10.1%	39%
KB Home	**KBH**	**21.29**	**Neutral**	**$20.00**	**-6%**	**1,783**	**1.6**	**$1.10**	**$1.60**	**$1.94**	46%	21%	13.3	11.0	**32.6%**	**7.5%**	**55%**
MDC Holdings Inc.	MDC	35.63	NR	NR	n/a	1,809	**1.4**	$2.00	$2.52	$2.78	26%	10%	14.1	12.8	39.1%	7.1%	25%
Meritage Homes Corp.	MTH	41.05	NR	NR	n/a	1,621	**1.1**	$3.55	$3.69	$4.23	4%	15%	11.1	9.7	15.5%	9.0%	40%
Taylor Morrison Home Co	TMHC	23.35	NR	NR	n/a	2,762	**3.1**	$1.69	$1.89	$2.18	12%	15%	12.3	10.7	20.0%	8.1%	18%
Homebuilder total / Weighted Average						**51,276**	**1.6**				**19%**	**13%**	**11.7**	**10.4**	**20.6%**	**8.6%**	**34%**

Source: Company reports, SNL Financial, Mizuho Securities USA estimates.

Exhibit 31: FY2017 Mizuho Coverage Universe - Homebuilder Guidance

Guidance Comparison

	Gross Margin	SG&A % of Revenue	Operating Margin	2017 Est. Closings	Implied Yr/Yr Closings Growth	Share Price	4Q17 Est. Book Value*	4Q17 Est. Tangible Book Value*	P/BV	P/TBV	2017 ROE (Beginning 2017 Equity)*
DHI	20.0%	9.0%	11.0%	44,500-46,000	12%	$33.45	$20.45	$19.05	1.64x	1.76x	15.3%
PHM	24.50%	12.3%	12.3%	21,400*	7%	$22.94	$14.93	$11.32	1.54x	2.03x	15.7%
LEN	22.25%	9.20%	13.1%	29,500-30,000	12%	$51.03	$34.52	$34.23	1.48x	1.49x	14.8%
TOL	25.10%	10.6%	14.5%	6,700-7,500	15%	$37.44	$28.31	$27.47	1.32x	1.36x	12.7%
KBH	16.25%	10.2%	6.1%	10,400-10,900	8%	$21.29	$19.56	$13.23	1.09x	1.61x	8.9%
Wtd. Avg.	22.1%	10.0%	12.1%		11.4%				1.49x	1.66x	14.5%

*Mizuho Estimate

Source: Company reports, Mizuho Securities USA estimates.

We value homebuilders primarily using a price to tangible book multiple (PTB), which we construct using both historical trading ranges and our estimates of 2017 ROE. We look at spot PTB, which includes DTA valuation allowances where applicable, to gauge appropriate trading ranges.

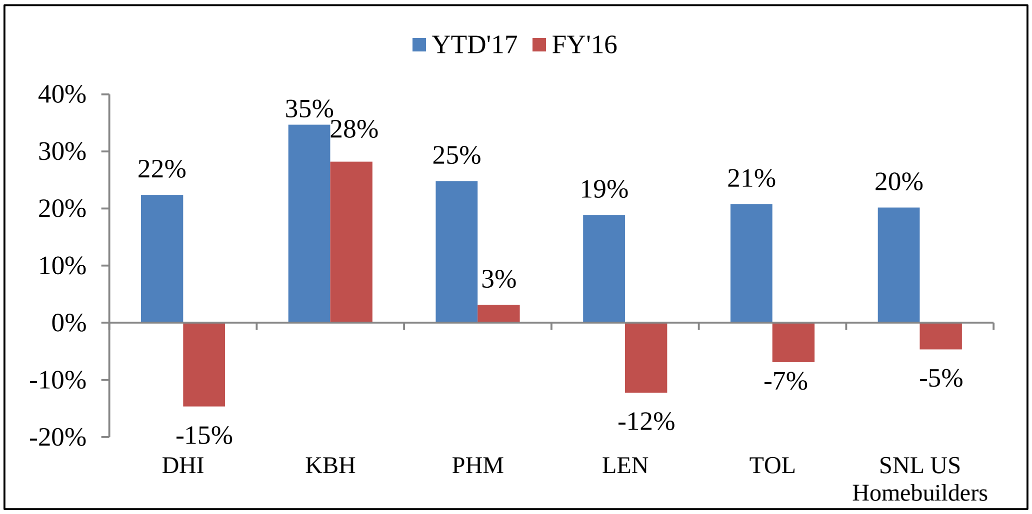
From 2001-03 homebuilders generally traded in a range of 1.0-2.0x tangible book before breaking out of that range during the housing boom. In 2014-16, builders traded around 1.5 – 2.0x book value as a growing economy put a floor on valuation despite slow, sometimes sluggish demand for housing. The sector is currently trading at 1.6x YE2017e PTB, with PHM trading at 2.0x at the upper end and TOL at 1.4x at the lower end.

We also took a look at PTB vs. orders growth and sentiment vs the S&P homebuilder index (see Exhibits 33 & 34). In the case of PTB vs orders growth, we found that while the correlation is relatively weak since 2010 (R^2 = 0.34), the correlation is much stronger since 2014 (R^2=0.51), supporting our view that at prevailing stock prices and valuations, the builder stocks appear fairly valued vs their long-term historical valuations and relative to their near-term orders growth outlook.

We support our PTB valuation with an analysis of forward P/E multiples. Builders sustained heavy losses during the housing crash, which rendered P/E multiples meaningless for valuation. However, since 2015 P/E multiples have returned as a useful valuation metric in recent years as builder earnings have normalized. The sector currently trades at 11.7x forward P/E, with KBH at 13.3x at the upper end and PHM at 10.3x at the lower end; see Exhibit 36 for more detail.

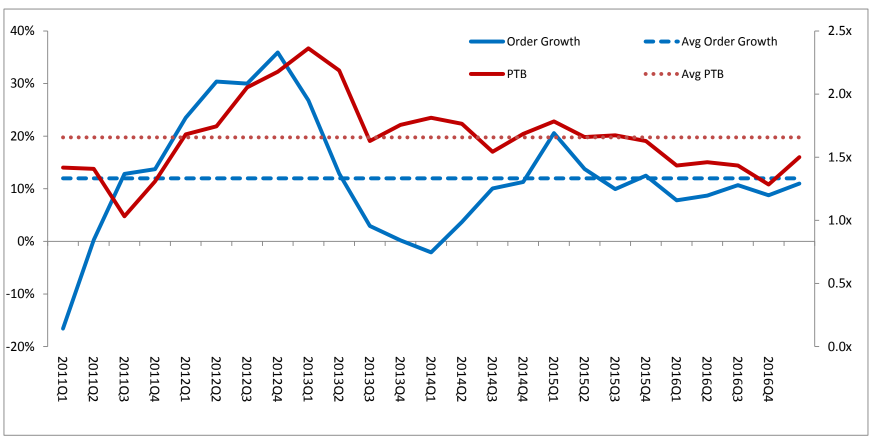
Last, implied ROE (EPS / Share Price) is another key measure we use to assess the stocks. We see the metric as an effective measure of a homebuilders' inventory efficiency, or otherwise said, how quickly a builder is able to "turn" its inventory and how much EPS a builder is able to manufacture from that (primarily land) inventory; by virtue of a greater focus on higher priced condo units in pricey coastal real estate markets (NYC, San Fran) and the longer required lead times (more difficult to acquire and entitle), TOL's ROE has generally been lower than peers. The sector currently trades at an average implied ROE of 8.6%, with PHM at 9.7% and LEN / KBH at 7.5%.

Exhibit 32: 2016-2017 Homebuilders Stock Performance



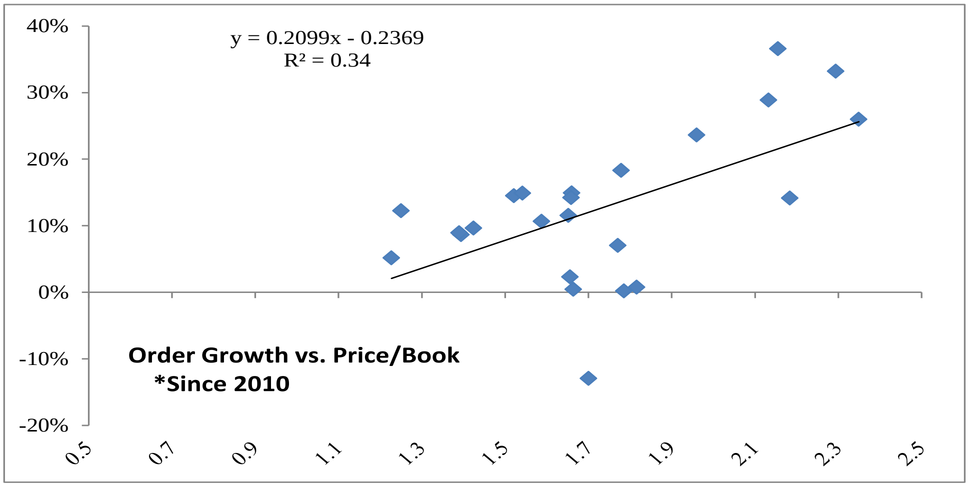
Source: SNL Financial, Mizuho Securities USA.

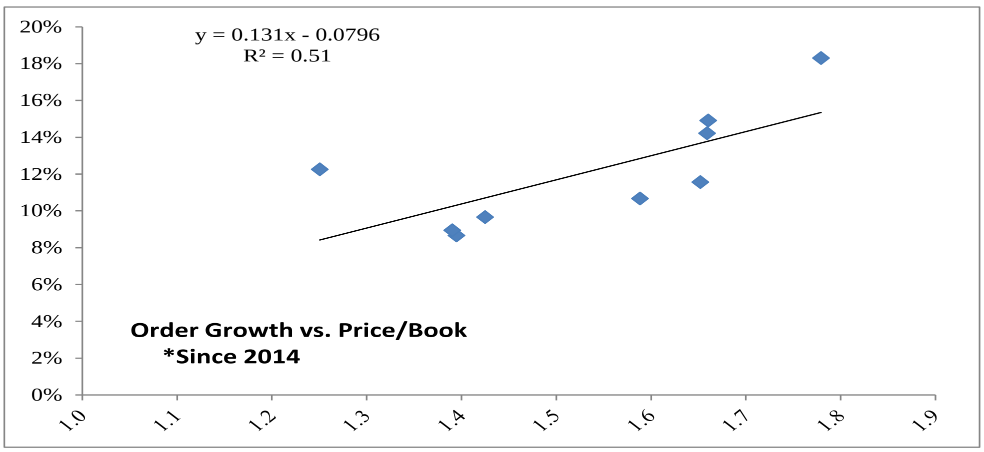
Exhibit 33: PTB vs Orders Growth Reveals a Close Relationship



Source: Company reports, SNL Financial, Mizuho Securities USA.

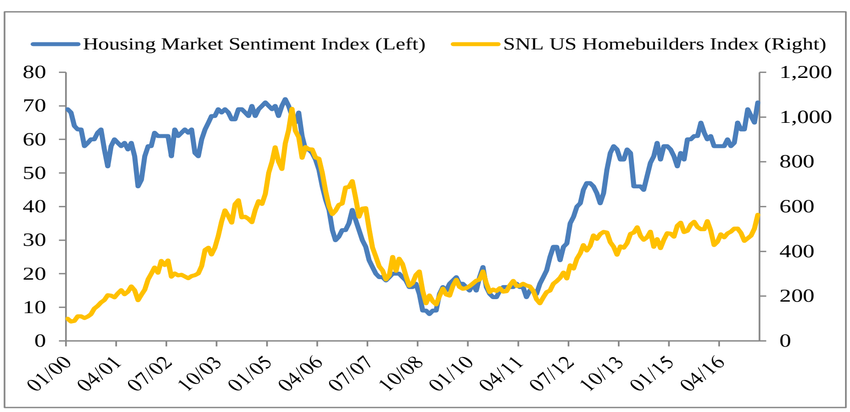
Exhibit 34: PTB vs Orders Growth Correlation





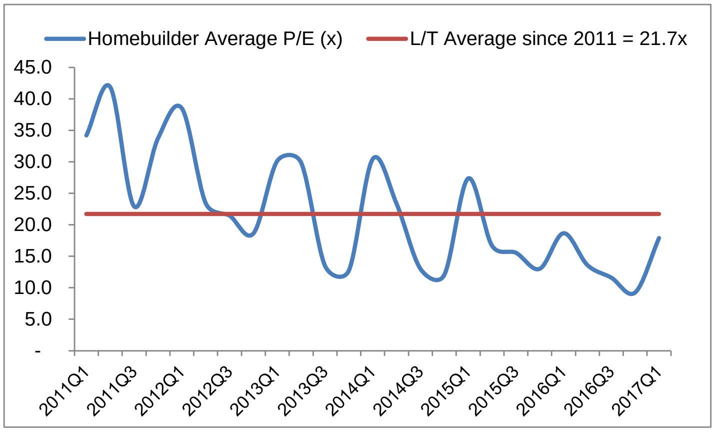
Source: Company reports, SNL Financial, Mizuho Securities USA.

Exhibit 35: Sentiment Matters Too, Though a Bit Less Lately



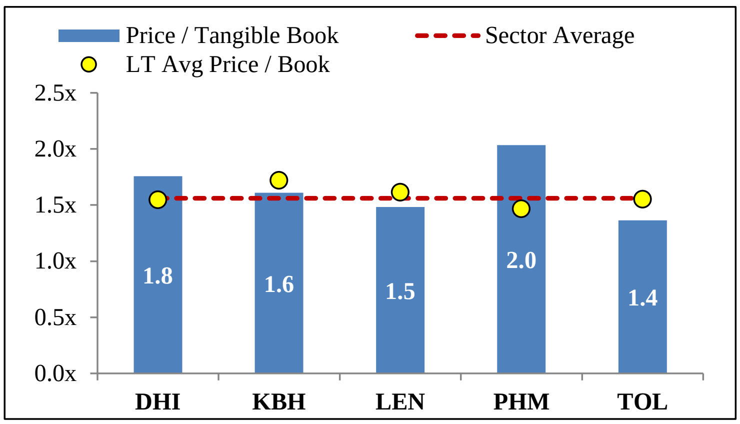
Source: Company reports, SNL Financial, Mizuho Securities USA.

Exhibit 36: Historical P/E Multiples



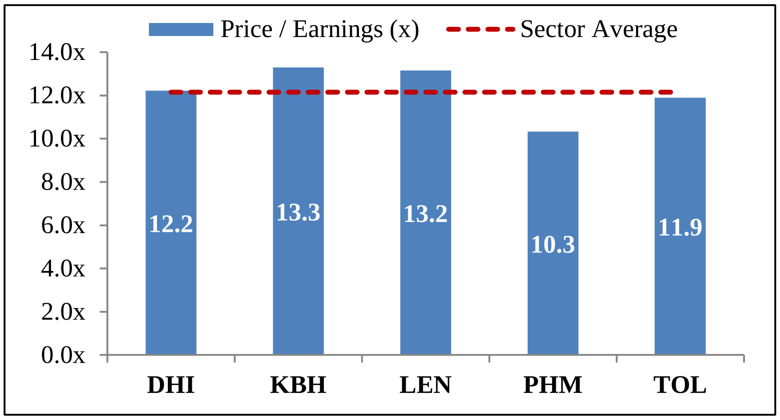
Source: Company reports, SNL Financial, Mizuho Securities USA.

Exhibit 37: Price to Tangible Book



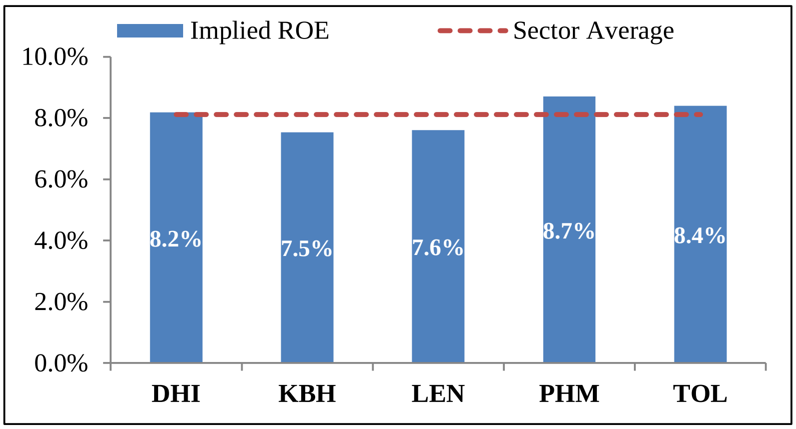
Source: Company reports, SNL Financial, Mizuho Securities USA.

Exhibit 38: P/E Multiples



Source: Company reports, SNL Financial, Mizuho Securities USA.

Exhibit 39: Implied ROE



Source: Company reports, SNL Financial, Mizuho Securities USA.

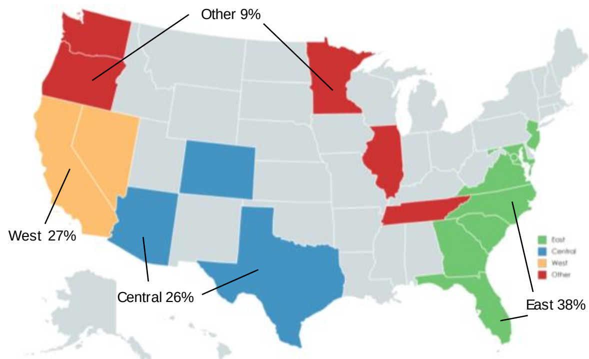
Company Reports & Models

Exhibit 40: Initiating Coverage of Lennar Corp (LEN); Buy / $59 PT

Tearsheet

Lennar Corporation (LEN) **PT: $59** **Closing Price: $51.03 as of 5/15/2017** **Market Cap ($000): $11,556**

End Market (% of 1Q17 Homebuilding Revenue)



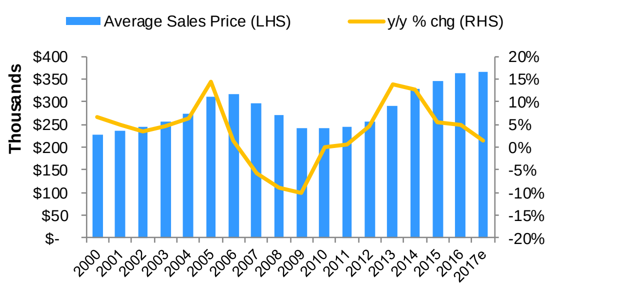
Company Description

Lennar Corporation (LEN), founded in 1954, is one of the nation's largest builders of quality homes for all generations. The Company builds affordable, move-up and retirement homes primarily under the Lennar brand name. Lennar's Financial Services segment provides mortgage financing, title insurance and closing services for both buyers of the Company's homes and others. Lennar's Rialto segment is a vertically integrated asset management platform focused on investing throughout the commercial real estate capital structure. Lennar's Multifamily segment is a nationwide developer of high-quality multifamily rental properties. LEN's fiscal year ends November 30.

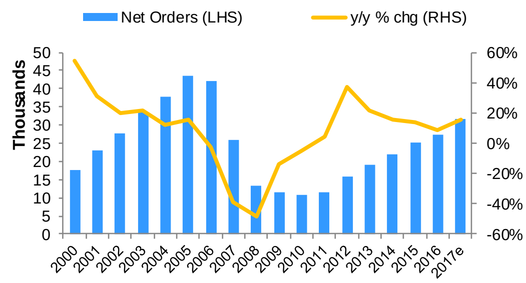
Most Recent Fiscal Quarter (1Q17) Key Operating Metrics

Closings (units): 5,453; 13% y/y
Average Sales Price: $362k; 5% y/y
Net Orders (units): 6,483; 12% y/y
Baklog (units): 9,017; 18% y/y
Cancellation Rate: 16%

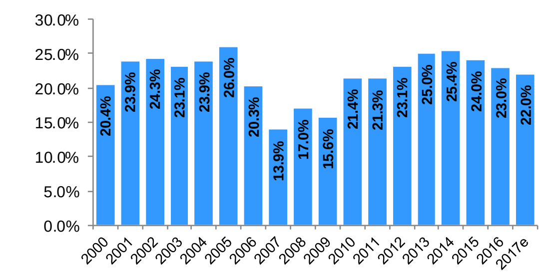
Average Sales Price (Full Fiscal Year)



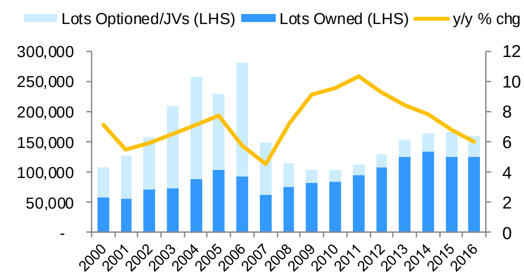
Net Orders (Full Fiscal Year)



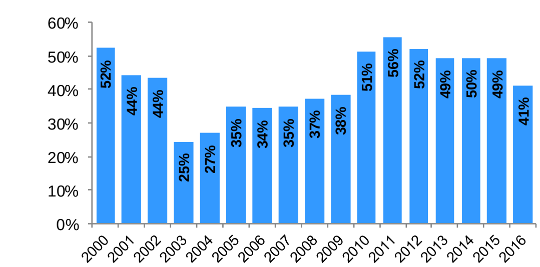
Homebuilding Gross Margins (Full Fiscal Year)



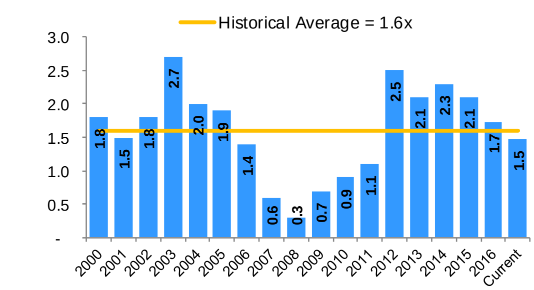
Land Supply (End of Reporting Period)



Net Debt to Cap Ratio (EOP)



Price-to-Book (End of Reporting Period)



Source: Company reports and Mizuho Securities USA.

Lennar Corporation (LEN) / Buy / $59 PT

Investment Thesis. Lennar is the second-largest homebuilder in the U.S. LEN builds homes for first-time (40%), move-up (50%) and active adult buyers (10%) in 16 states (as of the end of 2016). In 1Q17, LEN purchased WCI Communities in order to bolster its exposure to the coastal Florida housing market and enhance its already formidable land position. Note that LEN and WCI land pipelines / communities have significant overlap in Florida, suggesting LEN was the most logical buyer and be in a position to generate meaningful cost / platform synergies, which should enhance future returns.

LEN also operates several non-homebuilding divisions, including its land platform (Five Points), which successfully executed a long-awaited IPO last week (5/10/17). Also, through its Rialto unit, LEN provides financial services and manages funds that invest across real estate assets including commercial mortgage securitizations. Lastly, LEN also owns a significant multifamily portfolio consisting of 74 properties owned predominantly with joint venture partners or through fund structures. We believe the successful completion of the Five Points IPO dramatically improves visibility into and simplifies the analysis required to value LEN. We continue to believe LEN's share price undervalues the entirety of its platform once the fair value of these unique businesses and ownership stakes is considered.

Looking ahead, we expect LEN to sustain better profitability than most peers given its higher average selling prices (ASP) and reduced SG&A targeted in FY 17 that is expected to offset further expected rises in construction and other operating costs. **We are initiating with a Buy rating / $59 PT (16% upside)** given its attractive risk-adjusted growth profile as we think LEN is undervalued on a SOTP approach, though more fairly valued on traditional P/Book and ROE measures.

Best-in-Class Platform. LEN operates a best-in-class platform, evidenced by industry-leading gross and operating margins, and low-teens ROE. With its land needs locked up through **2023** (enhanced by its recent acquisition of WCI Communities), LEN has sufficient land to support near-term margins; in recent discussions with management, LEN confirmed that land costs remain high (and rising, though at a more moderate pace, but that it is not putting material pressure (yet) on community gross margin performance. LEN is also well positioned in the 1st time and move-up segments (enhanced by its recent WCI acquisition).

How is LEN Positioned into 2017? (Above-Average, in our view) Detailed guidance management released (see below) supports our view that LEN will once again be among the industry leaders in gross margins and ROE in 2017.

- **Attractive Growth Profile.** For FY17, we estimate LEN will generate 13% orders growth, 22% gross margins, 13% operating margin and 14.8% ROE in 2017 (excluding $140 million 1Q charge), at or near the top of our coverage list on all accounts. Our 2017 operating assumptions drive 2017 EPS estimate of $3.89 ($4.50 excluding one-time charges), reflecting +14% year-over-year growth, and 13% tangible book value growth.

- **Steadier Margins than Most.** Gross margin in 1Q17, its last reported quarter, was 20.8% vs. 20.9% for our coverage average, while operating margin was 10.8% vs. 9.4% for our coverage average. These levels are fairly consistent with 2016 levels (reflecting LEN's disciplined balance of "price vs pace" the past few years); see Exhibit 40 for more detail on LEN's historical margins. On the SG&A margin side, LEN is actively implementing technology and efficiency initiatives at the operating level to stem the SG&A margin pressure, if absorption pace does not improve materially. At risk of stating the obvious, we see favorable implications for EPS and ROE prospects should SG&A margin hold steady / improve.

- **Trimming Land Holdings.** LEN aims to reduce owned land supply to just 3.5 years over time from approximately 5.0 years using TTM closings, significantly below the company's historic levels. We think LEN is pulling back on land inventory levels to not only enhance ROEs, but also to prepare its balance sheet to take advantage of any cyclical weakness and potential opportunistic acquisitions (like its recent WCI acquisition).

- See Exhibit 40 at the start of this section on LEN for more detail on LEN's portfolio, operating history and metrics.

Key 2017 Guidance Items:

- Gross margins of 22.0% to 22.5% vs. 23.0% in FY16 vs. our estimate of 22.0%

- SG&A of 9.1% to 9.3% vs. 9.2% in FY16 and our estimate of 9.3%

- Operating margins of 12.7% to 13.4% vs. our estimate of 12.7%

- Closings of 29.5k to 30k units, indicating growth of approximately 11%-13% year over year vs. our estimate of 30k

- 8.5% community count growth vs. our estimate of 8.5%

MSUSA Estimates (Homebuilders do not provide Earnings Guidance):

- 2017 EPS Estimate: $3.89 ($4.50 excluding one-time charges)

- 2018 EPS Estimate: $4.62
- 2017 Estimated ROE: 14.8%
- 2017 Estimated Ending Tangible Book Value Per Share: $34.23

Balance sheet supports growth and ROE expansion. LEN's leverage currently stands at 34% net debt to net cap with $3.2B liquidity. Our model projects LEN will generate 14.8% / 13.4% ROE in 2017 / 2018 (vs peers' 14.5% / 14.2%). We believe LEN's balance sheet can support further ROE expansion through incremental acquisitions and/or organic community count growth.

Traditional P/Book Valuation Suggests Stock is Fairly Valued. For 2017, we expect LEN to generate ROE slightly above peers at 14.8%. Further, the stock appears fair-to-attractively valued at 1.5x tangible book, below peer DHI.

But Sum-of-the-Parts Analysis Spotlights Additional Value. LEN consists of a number of unique businesses, including a traditional homebuilding and financial services operation, as well as an apartment platform and a 41% ownership of Five Point Holdings (FPH) a California focused land / development company that began trading as a separate, independent public company on May 10. The collective embedded value of these divisions is a key part of our positive view on the company. By our estimates the divisions are worth a collective ~$15.00/sh, outlined in Exhibit 41 below, with LEN's core homebuilder operations implied valuation ~$44/sh (assuming similar PTB multiple to large cap peer, DHI). We believe the successful completion of this IPO dramatically improves visibility into and simplifies the analysis required to value LEN. We continue to believe LEN's share price undervalues the entirety of its platform once the fair value of these unique businesses and ownership stakes is considered.

Initiate BUY / $59 PT. Using our SOTP approach, we arrive at a $59 PT. Our PT implies 16% price upside from current levels. As such, **we rate LEN Buy.**

LEN's non-homebuilding divisions are as follows:

- Rialto ($3.07/sh): An opportunistic lending and investing platform managing a variety of investment strategies across six different managed investment funds amounting to approximately $2.7 billion in equity. Rialto invests in distressed debt, mezzanine, CMBS and other opportunistic areas. The company sold $478 million of loans in three different securitizations during the most recent quarter. We expect Lennar to eventually sell the Rialto operation to a commercial mortgage REIT or other alternative asset manager over the next 1-3 years.

- Multifamily ($2.61/sh): Through joint ventures, LEN operates a multifamily development platform; LEN has invested ~$250 million of equity into the ventures. At ~ $8B, LEN's multifamily unit owns one of the largest apartment development pipelines in the U.S. Looking ahead, LEN continues to maintain optionality around future plans for its Multifamily unit, with options including running it in tandem with its core homebuilding operation or spinning it out (or selling) at a future time. For now, LEN continues to leverage its Multifamily division to help identify and leverage well-located land positions that can be used collaboratively with the core single-family business.

- Five Point Holdings ($4.06/sh): A California master planned community owner, consisting of three different geographic regions, Irvine, Valencia and San Francisco. By our estimates, Five Point owns 40,000 home sites and 20 million square feet of commercial real estate entitlements in irreplaceable California locations. Five Point Holdings completed its IPO on May 10. According to filings LEN will retain a 41% ownership stake. This ownership stake results in 57.4 million shares of FPH, most recently trading at $16.45 per share, a value of $944 million.

- Financial Services ($5.61/sh): Similar to other public homebuilders LEN operates a financial services firm offering mortgages to new prospective homebuyers. We expect this division to generate approximately $163 million of earnings in 2017. For our sum-of-the-parts analysis we apply an 8.0x multiple to this earnings stream.

Exhibit 41: LEN Sum of the Parts Analysis

Segment	Base Case	Multiple	Value	Per Share
Rialto				
Assets		1,228,874		
Liabilities		680,120		
Book Value		548,754		
Total Rialto Value		**1.3x**	713,380	$3.07
Financial Services				
Est. FY17 Earnings		162,761		
Total Financial Services Value		**8.0x**	1,302,092	$5.61
Multifamily				
Assets		610,161		
Liabilities		105,560		
Book Value		504,601		
Total Multifamily Value		**1.2x**	605,521	$2.61
Five Point Holdings				
Total FPH Shares Outstanding		139,914		
Shares owned by LEN**		57,365	**41%**	
FPH Share Price		$16.45		
LEN Five Point Ownership		**$943,649**		**$4.06**
Total ex homebuilding				**$15.35**
Est. FY17 Fwd. Homebuilding Book Value*	**6,048,569**	**1.70x**	**10,282,567**	**$44.28**
Noncontrolling Interest			(149,722)	-$0.64
Total				**$59.00**

*Less $368 million FPH book value; **Based on FPH S-11 filed 5-11-17

Source: Company reports, SNL Financial, Mizuho Securities USA estimates.

Exhibit 42: Earnings Model – Lennar Corp (LEN)

LENNAR CORPORATION
Income Statement
($ in Thousands, Except per Share Amounts)

Source: LEN company documents, Mizuho Securities

Years Ended November 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Total Revenues	**7,779,812**	**9,474,008**	**1,993,664**	**2,745,815**	**2,833,894**	**3,376,626**	**10,949,999**	**2,337,428**	**2,801,502**	**3,503,198**	**3,859,617**	**12,501,744**	**2,618,808**	**3,197,935**	**3,998,542**	**4,402,975**	**14,218,261**
Home sale revenue	6,839,642	8,335,904	1,754,691	2,429,568	2,443,337	2,930,921	9,558,517	1,983,788	2,478,236	3,115,250	3,437,954	11,015,227	2,280,370	2,848,732	3,580,979	3,951,928	12,662,010
Land sale revenue	185,488	131,041	31,790	21,317	53,632	76,081	182,820	34,906	16,788	62,150	82,367	196,210	35,564	13,600	64,280	86,777	200,220
Homebuilding revenue	**7,025,130**	**8,466,945**	**1,786,481**	**2,450,885**	**2,496,969**	**3,007,002**	**9,741,337**	**2,018,694**	**2,495,023**	**3,177,400**	**3,520,321**	**11,211,438**	**2,315,934**	**2,862,332**	**3,645,259**	**4,038,705**	**12,862,230**
Cost of home sales	(5,099,836)	(6,331,703)	(1,355,745)	(1,868,045)	(1,891,661)	(2,247,402)	(7,362,853)	(1,564,623)	(1,952,107)	(2,423,691)	(2,649,125)	(8,589,546)	(1,802,837)	(2,249,315)	(2,792,698)	(3,052,454)	(9,897,304)
Home inventory valuation adjustments	(3,573)	(1,147)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of land/lot sales	(142,927)	(86,665)	(22,612)	(19,468)	(44,239)	(51,792)	(138,111)	(32,924)	(15,331)	(51,265)	(56,071)	(155,592)	(33,544)	(12,420)	(53,022)	(59,073)	(158,060)
Land valuation adjustments and option/pre-acq cost write-offs	(870)	(14,274)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Homebuilding cost of sales	**(5,247,206)**	**(6,433,789)**	**(1,378,357)**	**(1,887,513)**	**(1,935,900)**	**(2,299,194)**	**(7,500,964)**	**(1,597,547)**	**(1,967,438)**	**(2,474,956)**	**(2,705,196)**	**(8,745,138)**	**(1,836,381)**	**(2,261,736)**	**(2,845,719)**	**(3,111,527)**	**(10,055,364)**
Home sale gross profit	1,739,806	2,004,201	398,946	561,523	551,676	683,519	2,195,664	419,165	526,129	691,559	788,829	2,425,682	477,533	599,417	788,282	899,474	2,764,705
Home inventory valuation adjustments	(3,573)	(1,147)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Land/lot sale gross profit	42,561	44,376	9,178	1,849	9,393	24,289	44,709	1,982	1,456	10,885	26,296	40,619	2,019	1,180	11,258	27,704	42,160
Land valuation adjustments and option/pre-acq cost write-offs	(870)	(14,274)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Homebuilding gross profit	**1,777,924**	**2,033,156**	**408,124**	**563,372**	**561,069**	**707,808**	**2,240,373**	**421,147**	**527,585**	**702,444**	**815,125**	**2,466,300**	**479,553**	**600,596**	**799,540**	**927,177**	**2,806,866**
Selling, general and administrative expense	(714,823)	(831,050)	(189,848)	(224,775)	(228,127)	(256,167)	(898,917)	(204,014)	(234,234)	(287,746)	(297,045)	(1,023,039)	(232,234)	(266,403)	(327,183)	(337,501)	(1,163,322)
Homebuilding operating profit	**1,063,101**	**1,202,106**	**218,276**	**338,597**	**332,942**	**451,641**	**1,341,456**	**217,133**	**293,351**	**414,698**	**518,080**	**1,443,262**	**247,318**	**334,193**	**472,356**	**589,676**	**1,643,544**
Equity in earnings in unconsolidated entities	(355)	63,373	3,000	(9,633)	(18,034)	(24,608)	(49,275)	(11,534)	(20,080)	(18,315)	23,580	(26,349)	(13,137)	(22,875)	(20,862)	26,839	(30,036)
Management fees and other incomes, net	7,526	18,616	519	14,925	30,947	10,986	57,377	5,739	12,931	34,399	12,602	65,671	1,590	8,047	(8,054)	2,550	4,134
Other interest expense	(36,551)	(12,454)	(1,157)	(1,193)	(973)	(1,303)	(4,626)	0	(436)	(460)	(480)	(1,376)	(489)	(500)	(503)	(508)	(2,001)
Minority interest, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss on redemption of 9.95% Senior notes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Homebuilding pretax income	**1,033,721**	**1,271,641**	**220,638**	**342,696**	**344,882**	**436,716**	**1,344,932**	**211,338**	**285,766**	**430,322**	**553,782**	**1,481,207**	**235,282**	**318,865**	**442,937**	**618,557**	**1,615,641**
Financial Services:																	
Revenues	454,381	620,527	123,956	175,940	191,444	195,915	687,255	148,043	160,878	181,786	195,428	686,134	167,895	182,080	205,382	220,692	776,049
General and administrative expenses	(374,243)	(492,732)	(109,025)	(131,852)	(138,196)	(144,565)	(523,638)	(127,379)	(120,564)	(131,224)	(144,205)	(523,372)	(144,460)	(136,453)	(148,257)	(162,848)	(592,019)
Financial services operating profits	**80,138**	**127,795**	**14,931**	**44,088**	**53,248**	**51,350**	**163,617**	**20,664**	**40,314**	**50,562**	**51,222**	**162,761**	**23,435**	**45,627**	**57,125**	**57,844**	**184,030**
Rialto Investments:																	
Rialto Investments revenues	230,521	221,923	43,711	44,838	63,885	81,532	233,966	82,006	56,029	53,545	52,496	244,076	42,693	60,315	53,760	48,496	205,264
Rialto Investments costs and expenses	(249,114)	(222,875)	(42,907)	(50,203)	(62,306)	(74,353)	(229,769)	(66,913)	(55,646)	(37,363)	(43,007)	(202,929)	(31,533)	(58,078)	(38,882)	(44,807)	(173,301)
Rialto Investments equity in earnings from unconsolidated entiti	59,277	22,293	1,497	6,864	5,976	4,624	18,961	722	5,167	8,182	6,411	20,482	5,000	5,000	5,000	5,000	20,000
Rialto Investments other income (expense), net	3,395	12,254	(691)	(19,585)	(7,612)	(11,962)	(39,850)	(16,658)	0	4,000	4,000	(8,658)	0	0	0	0	0
Rialto Investments operating profits	**44,079**	**33,595**	**1,610**	**(18,086)**	**(57)**	**(159)**	**(16,692)**	**(843)**	**5,550**	**28,363**	**19,900**	**52,970**	**16,160**	**7,236**	**19,879**	**8,689**	**51,964**
Lennar Multifamily:																	
Lennar Multifamily revenues	69,780	164,613	39,516	74,152	81,596	92,177	287,441	88,685	89,572	90,468	91,372	360,097	92,286	93,209	94,141	95,082	374,718
Lennar Multifamily costs and expenses	(95,227)	(191,302)	(47,020)	(73,217)	(84,007)	(97,542)	(301,786)	(92,649)	(92,649)	(92,649)	(92,649)	(370,596)	(94,965)	(94,965)	(94,965)	(94,965)	(379,861)
Lennar Multifamily equity in loss from unconsolidated entities	14,454	19,518	19,686	14,008	5,060	46,765	85,519	23,147	7,989	22,175	33,997	87,308	22,175	22,175	22,175	22,175	88,701
Lennar Multifamily operating loss	**(10,993)**	**(7,171)**	**12,182**	**14,943**	**2,649**	**41,400**	**71,174**	**19,183**	**4,911**	**19,994**	**32,721**	**76,809**	**19,496**	**20,419**	**21,351**	**22,292**	**83,558**
Corporate general and administrative expenses	(177,161)	(216,244)	(47,668)	(55,802)	(61,164)	(67,928)	(232,562)	(60,699)	(56,934)	(75,610)	(77,644)	(270,887)	(62,768)	(58,594)	(78,304)	(79,769)	(279,436)
Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Items	0	0	0	0	0	0	0	(140,000)	0	0	0	(140,000)	0	0	0	0	0
Total pretax income	**969,784**	**1,209,616**	**201,693**	**327,839**	**339,558**	**461,379**	**1,330,469**	**49,643**	**279,608**	**453,630**	**579,980**	**1,362,861**	**231,604**	**333,552**	**462,988**	**627,613**	**1,655,758**
Provision for income taxes	(341,091)	(390,416)	(56,241)	(103,801)	(106,427)	(150,909)	(417,378)	(19,969)	(95,067)	(154,234)	(197,193)	(466,463)	(81,062)	(116,743)	(162,046)	(219,665)	(579,515)
Net income from continuing operations	628,693	819,200	145,452	224,038	233,131	310,470	913,091	29,674	184,541	299,396	382,787	896,398	150,543	216,809	300,942	407,948	1,076,242
Income from discontinued operations (net of taxes)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net earnings (including net earnings (loss) attributable t	**628,693**	**819,200**	**145,452**	**224,038**	**233,131**	**310,470**	**913,091**	**29,674**	**184,541**	**299,396**	**382,787**	**896,398**	**150,543**	**216,809**	**300,942**	**407,948**	**1,076,242**
Net earnings (loss) attributable to noncontrolling interests	10,223	(16,306)	(1,372)	(5,569)	2,711	2,983	(1,247)	8,406	(1,568)	(2,295)	(3,828)	716	(2,516)	(1,842)	(2,307)	(4,079)	(10,744)
Net income	**638,916**	**802,894**	**144,080**	**218,469**	**235,842**	**313,453**	**911,844**	**38,080**	**182,973**	**297,101**	**378,959**	**897,113**	**148,027**	**214,967**	**298,635**	**403,869**	**1,065,498**
Adjustments to Net Income for Calculations:																	
Net earnings attributable to Lennar	638,916	802,894	144,080	218,469	235,842	313,453	911,844	38,080	182,973	297,101	378,959	897,113	148,027	214,967	298,635	403,869	1,065,498
Less: distributed earnings allocated to nonvested shares	(414)	(362)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less: undistributed earnings allocated to nonvested shares	(7,379)	(7,726)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	972	972	972	972	3,888	972	972	972	972	3,888
Net Income- Basic EPS	**631,123**	**794,806**	**144,080**	**218,469**	**235,842**	**313,453**	**911,844**	**39,052**	**183,945**	**298,073**	**379,931**	**901,001**	**148,999**	**215,939**	**299,607**	**404,841**	**1,069,386**
Plus: interest on notes	7,928	7,928	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Plus: undistributed earnings allocated to convertible shares	7,379	7,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less: undistributed earnings reallocated to convertible shares	(6,632)	(6,955)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on zero coupon notes, net of tax	0	(2,088)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Others	0	0	(437)	913	608	(1,432)	(348)	0	0	0	0	0	0	0	0	0	0
Net Income- Diluted EPS	**639,798**	**801,417**	**143,643**	**219,382**	**236,450**	**312,021**	**911,496**	**39,052**	**183,945**	**298,073**	**379,931**	**901,001**	**148,999**	**215,939**	**299,607**	**404,841**	**1,069,386**
							0					(0)					0
Basic earning per share	**$3.12**	**$3.87**	**$0.69**	**$1.02**	**$1.05**	**$1.39**	**$4.17**	**$0.17**	**$0.88**	**$1.43**	**$1.82**	**$4.20**	**$0.71**	**$1.04**	**$1.44**	**$1.94**	**$5.13**
Diluted earnings per share	**$2.80**	**$3.47**	**$0.63**	**$0.95**	**$1.02**	**$1.34**	**$3.95**	**$0.17**	**$0.80**	**$1.29**	**$1.64**	**$3.89**	**$0.64**	**$0.93**	**$1.30**	**$1.75**	**$4.62**
Recurring EPS	*$2.76*	*$3.50*	*$0.63*	*$0.95*	*$1.02*	*$1.34*	*$3.95*	*$0.77*	*$0.80*	*$1.29*	*$1.64*	*$4.50*	*$0.64*	*$0.93*	*$1.30*	*$1.75*	*$4.62*

Source: Company reports and Mizuho Securities USA.

Exhibit 43: Balance Sheet (2014-2016) – Lennar Corp (LEN)

LENNAR CORPORATION
Balance Sheet
($ in Thousands, Except per Share Amounts)

Source: LEN company documents, Mizuho Securities

Years Ended November 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A
Homebuilding							
Cash and cash equivalents	885,729	893,408	510,878	601,192	567,708	1,050,138	1,050,138
Restricted Cash	9,849	13,505	3,255	5,713	5,452	5,977	5,977
Receivables	93,444	74,538	61,229	45,000	78,986	106,976	106,976
Finished homes and CIP	3,082,345		4,234,536	4,269,767	4,335,302	3,951,716	
Land under development	4,601,802		5,113,493	5,245,422	5,193,420	5,106,191	
Consolidated inventory not owned	52,453		20,290	134,514	127,024	121,019	
Land held for development							
Total Inventory	7,736,600	8,740,596	**9,368,319**	**9,649,703**	**9,655,746**	**9,178,926**	9,178,926
Investments in unconsolidated entities	656,837	741,551	771,401	785,883	796,499	811,723	811,723
Operating properties and equipment, net	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0
Other assets	672,589	609,222	599,915	646,555	637,546	651,028	651,028
Homebuilding Assets	**10,055,048**	**11,072,820**	**11,314,997**	**11,734,046**	**11,741,937**	**11,804,768**	**11,804,768**
Rialto Investments							
R Cash and cash equivalents	303,889	150,219	112,305	103,622	133,103	148,827	148,827
R Restricted Cash	46,975	15,061	10,233	8,579	6,499	9,935	9,935
R Receivables	153,773	154,948	0	0	0	204,518	204,518
R Defeasance cash to retire notes payable	0	0	0	0	0	0	0
R Loans receivable, net	130,105	164,826	166,536	163,805	145,813	111,608	111,608
R Loans held-for-sale	113,596	316,275	243,230	199,415	228,931	126,947	126,947
R Real estate owned, held-for-sale	190,535	183,052	177,221	180,547	170,524	160,344	160,344
R Real estate owned, held-and-used, net	255,795	153,717	148,900	125,406	111,619	83,359	83,359
R Investments in unconsolidated entities	175,700	224,869	234,039	238,740	241,680	245,741	245,741
R Other assets	87,784	142,533	179,540	151,873	158,484	184,931	184,931
Rialto Investments Assets	**1,458,152**	**1,505,500**	**1,272,004**	**1,171,987**	**1,196,653**	**1,276,210**	**1,276,210**
Financial Services							
FS Cash and cash equivalents	90,010	106,777	91,214	105,596	110,164	123,964	123,964
FS Restricted Cash	0	13,961	9,235	13,625	13,910	17,053	17,053
FS Receivables	150,858	242,808	150,214	217,692	374,769	409,528	409,528
FS Loans held for disposition, net	738,396	843,252	684,406	862,289	800,139	939,405	939,405
FS Loans held-for-investment, net	26,894	30,998	31,223	30,671	29,704	30,004	30,004
FS Mortgage loans held for sale, net	0	42,827	45,180	49,083	51,535	53,570	53,570
FS Mortgage servicing rights	0	0	0	0	0	0	0
FS Mortgage loans, net	0	0	0	0	0	0	0
FS Investment securities held-to-maturity	45,038	40,174	39,268	35,307	34,746	41,991	41,991
FS Goodwill, net	38,854	38,854	39,439	39,439	39,838	39,838	39,838
FS Other	87,003	66,186	66,900	69,977	72,751	99,319	99,319
FS Limited purpose finance subsidiaries	0	0	0	0	0	0	0
Financial Services Assets	**1,177,053**	**1,425,837**	**1,157,079**	**1,423,679**	**1,527,556**	**1,754,672**	**1,754,672**
Multifamily							
MF Cash and cash equivalents	2,186	8,041	6,062	5,067	5,120	6,600	6,600
MF Land under development	120,666	115,982	145,917	142,921	148,241	139,713	139,713
MF Consolidated inventory not owned	5,508	5,508	5,508	24,008	18,500	0	0
MF Investment in unconsolidated entities	105,674	250,876	257,719	304,171	304,032	318,559	318,559
MF Operating Properties and Equipment	15,740	0	0	0	0	0	0
MF Other assets	18,240	34,945	35,902	41,922	56,681	61,259	61,259
Total Multifamily	**268,014**	**415,352**	**451,108**	**518,089**	**532,574**	**526,131**	**526,131**
Total assets	**12,958,267**	**14,419,509**	**14,195,188**	**14,847,801**	**14,998,720**	**15,361,781**	**15,361,781**
Homebuilding							
Accounts payable and other liabilities	412,558	475,909	442,905	451,517	459,183	478,546	478,546
Income taxes currently payable	0	0	0	0	0	0	0
Liabilities related to consolidated inventory not owned	908,264	951,246	768,992	950,912	975,810	951,455	951,455
Credit Facility	0	0	0	0	0	0	0
Senior notes and other debts payable	4,690,213	5,025,130	5,333,981	5,316,235	4,920,848	4,575,977	4,575,977
Homebuilding Liabilities	**6,011,035**	**6,452,285**	**6,545,878**	**6,718,664**	**6,355,841**	**6,005,978**	**6,005,978**
Rialto Investments							
R Notes payable	623,246	771,728	609,150	543,310	576,448	622,335	622,335
R Other	123,798	94,496	47,153	53,318	56,114	85,645	85,645
Rialto Investments Liabilities	**747,044**	**866,224**	**656,303**	**596,628**	**632,562**	**707,980**	**707,980**
Financial Services							
FS Notes and other debts payable	704,143	858,300	625,322	854,055	913,040	1,077,228	1,077,228
FS Other	192,500	225,678	212,929	225,443	227,175	241,055	241,055
FS Limited purpose finance subsidiaries	0	0	0	0	0	0	0
Financial Services Liabilities	**896,643**	**1,083,978**	**838,251**	**1,079,498**	**1,140,215**	**1,318,283**	**1,318,283**
Multifamily							
MF Accounts payable and other liabilities	48,235	62,943	57,300	74,220	95,346	117,973	117,973
MF Notes payable	0	0	0	0	0	0	0
MF Liabilities related to consolidated inventory not owne	4,008	4,007	4,007	15,857	11,850	0	0
Mulitfamily	**52,243**	**66,950**	**61,307**	**90,077**	**107,196**	**117,973**	**117,973**
Total Liabilities	**7,706,965**	**8,469,437**	**8,101,739**	**8,484,867**	**8,235,814**	**8,150,214**	**8,150,214**
Minority interest	424,282	301,128	273,335	244,568	217,371	185,525	185,525
Preferred stock	0	0	0	0	0	0	0
Common stock Class A	17,424	18,066	18,426	18,874	19,741	20,409	20,409
Common stock Class B	3,298	3,298	3,298	3,298	3,298	3,298	3,298
Additional Paid in Capital	2,239,704	2,305,560	2,341,502	2,429,317	2,628,398	2,805,349	2,805,349
Retained earnings	2,660,034	3,429,736	3,565,264	3,775,094	4,001,905	4,306,256	4,306,256
Unearned restricted stock	0	0	0	0	0	0	0
Unearned compensation	0	0	0	0	0	0	0
Deferred Compensation	0	0	0	0	0	0	0
Deferred Compensation liability	0	0	0	0	0	0	0
Treasury stock, at cost	(93,440)	(107,755)	(107,978)	(108,732)	(108,930)	(108,961)	(108,961)
Accumulated other comprehensive losses	0	39	(398)	515	1,123	(309)	(309)
Total stockholders' equity	**4,827,020**	**5,648,944**	**5,820,114**	**6,118,366**	**6,545,535**	**7,026,042**	**7,026,042**
Total Equity	**5,251,302**	**5,950,072**	**6,093,449**	**6,362,934**	**6,762,906**	**7,211,567**	**7,211,567**
	13.5%	13.3%					21.2%
Total liabilities and stockholders' equity	**12,958,267**	**14,419,509**	**14,195,188**	**14,847,801**	**14,998,720**	**15,361,781**	**15,361,781**

Source: Company reports and Mizuho Securities USA.

Exhibit 44: Balance Sheet (2014-2018E) – Lennar Corp (LEN)

LENNAR CORPORATION
Balance Sheet
($ in Thousands, Except per Share Amounts)

Source: LEN company documents, Mizuho Securities

Years Ended November 30,	2014A	2015A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E
Homebuilding												
Cash and cash equivalents	885,729	893,408	1,050,138	640,816	1,260,876	211,756	859,395	859,395	211,756	2,178,850	211,756	1,268,062
Restricted Cash	9,849	13,505	5,977	12,850	12,850	12,850	12,850	12,850	12,850	12,850	12,850	12,850
Receivables	93,444	74,538	106,976	81,299	54,341	79,281	109,398	109,398	108,539	62,653	91,409	126,135
Finished homes and CIP	3,082,345			4,672,246								
Land under development	4,601,802			5,640,275								
Consolidated inventory not owned	52,453			156,155								
Land held for development												
Total Inventory	7,736,600	8,740,596	9,178,926	**10,468,676**	9,920,951	12,281,296	11,496,085	11,496,085	12,745,343	10,834,717	13,415,053	12,561,701
Investments in unconsolidated entities	656,837	741,551	811,723	910,084	890,004	871,689	895,269	895,269	882,131	859,256	838,394	865,233
Operating properties and equipment, net	0	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0	0
Other assets	672,589	609,222	651,028	1,045,645	1,051,533	1,052,289	1,059,006	1,059,006	1,069,916	1,075,804	1,076,560	1,083,277
Homebuilding Assets	**10,055,048**	**11,072,820**	**11,804,768**	**13,159,370**	**13,190,556**	**14,509,160**	**14,432,003**	**14,432,003**	**15,030,536**	**15,024,130**	**15,646,023**	**15,917,258**
Rialto Investments												
R Cash and cash equivalents	303,889	150,219	148,827	162,513	162,513	162,513	162,513	162,513	162,513	162,513	162,513	162,513
R Restricted Cash	46,975	15,061	9,935	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630
R Receivables	153,773	154,948	204,518	209,025	209,025	209,025	209,025	209,025	209,025	209,025	209,025	209,025
R Defeasance cash to retire notes payable	0	0	0	0	0	0	0	0	0	0	0	0
R Loans receivable, net	130,105	164,826	111,608	106,476	106,476	106,476	106,476	106,476	106,476	106,476	106,476	106,476
R Loans held-for-sale	113,596	316,275	126,947	44,939	179,565	146,771	183,162	183,162	183,162	183,162	183,162	183,162
R Real estate owned, held-for-sale	190,535	183,052	160,344	208,793	208,793	208,793	208,793	208,793	208,793	208,793	208,793	208,793
R Real estate owned, held-and-used, net	255,795	153,717	83,359	112,216	112,216	112,216	112,216	112,216	112,216	112,216	112,216	112,216
R Investments in unconsolidated entities	175,700	224,869	245,741	235,066	240,233	248,415	254,826	254,826	259,826	264,826	269,826	274,826
R Other assets	87,784	142,533	184,931	144,216	144,216	144,216	144,216	144,216	144,216	144,216	144,216	144,216
Rialto Investments Assets	**1,458,152**	**1,505,500**	**1,276,210**	**1,228,874**	**1,368,667**	**1,344,055**	**1,386,857**	**1,386,857**	**1,391,857**	**1,396,857**	**1,401,857**	**1,406,857**
Financial Services												
FS Cash and cash equivalents	90,010	106,777	123,964	119,308	119,308	119,308	119,308	119,308	119,308	119,308	119,308	119,308
FS Restricted Cash	0	13,961	17,053	10,380	10,380	10,380	10,380	10,380	10,380	10,380	10,380	10,380
FS Receivables	150,858	242,808	409,528	141,941	141,941	141,941	141,941	141,941	141,941	141,941	141,941	141,941
FS Loans held for disposition, net	738,396	843,252	939,405	682,029	682,029	682,029	682,029	682,029	682,029	682,029	682,029	682,029
FS Loans held-for-investment, net	26,894	30,998	30,004	32,180	32,180	32,180	32,180	32,180	32,180	32,180	32,180	32,180
FS Mortgage loans held for sale, net	0	42,827	53,570	55,841	55,841	55,841	55,841	55,841	55,841	55,841	55,841	55,841
FS Mortgage servicing rights	0	0	0	0	0	0	0	0	0	0	0	0
FS Mortgage loans, net	0	0	0	0	0	0	0	0	0	0	0	0
FS Investment securities held-to-maturity	45,038	40,174	41,991	48,104	48,104	48,104	48,104	48,104	48,104	48,104	48,104	48,104
FS Goodwill, net	38,854	38,854	39,838	59,838	59,838	59,838	59,838	59,838	59,838	59,838	59,838	59,838
FS Other	87,003	66,186	99,319	82,087	82,087	82,087	82,087	82,087	82,087	82,087	82,087	82,087
FS Limited purpose finance subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0
Financial Services Assets	**1,177,053**	**1,425,837**	**1,754,672**	**1,231,708**	**1,231,708**	**1,231,708**	**1,231,708**	**1,231,708**	**1,231,708**	**1,231,708**	**1,231,708**	**1,231,708**
Multifamily												
MF Cash and cash equivalents	2,186	8,041	6,600	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423
MF Land under development	120,666	115,982	139,713	161,317	161,317	161,317	161,317	161,317	161,317	161,317	161,317	161,317
MF Consolidated inventory not owned	5,508	5,508	0	0	0	0	0	0	0	0	0	0
MF Investment in unconsolidated entities	105,674	250,876	318,559	346,767	354,756	376,931	410,928	410,928	433,103	455,278	477,454	499,629
MF Operating Properties and Equipment	15,740	0	0	0	0	0	0	0	0	0	0	0
MF Other assets	18,240	34,945	61,259	95,654	95,654	95,654	95,654	95,654	95,654	95,654	95,654	95,654
Total Multifamily	**268,014**	**415,352**	**526,131**	**610,161**	**618,150**	**640,325**	**674,322**	**674,322**	**696,497**	**718,672**	**740,848**	**763,023**
Total assets	**12,958,267**	**14,419,509**	**15,361,781**	**16,230,113**	**16,409,081**	**17,725,248**	**17,724,890**	**17,724,890**	**18,350,598**	**18,371,367**	**19,020,435**	**19,318,846**
Homebuilding												
Accounts payable and other liabilities	412,558	475,909	478,546	473,802	466,148	582,143	551,659	551,659	544,636	535,876	669,352	634,520
Income taxes currently payable	0	0	0	0	0	0	0	0	0	0	0	0
Liabilities related to consolidated inventory not owned	908,264	951,246	951,455	1,148,211	1,148,211	1,148,211	1,148,211	1,148,211	1,148,211	1,148,211	1,148,211	1,148,211
Credit Facility	0	0	0	0	0	358,172	0	0	190,820	0	82,801	0
Senior notes and other debts payable	4,690,213	5,025,130	4,575,977	5,778,306	5,778,306	6,315,564	6,315,564	6,315,564	6,601,794	6,601,794	6,725,995	6,725,995
Homebuilding Liabilities	**6,011,035**	**6,452,285**	**6,005,978**	**7,400,319**	**7,392,665**	**8,404,091**	**8,015,434**	**8,015,434**	**8,485,460**	**8,285,881**	**8,626,359**	**8,508,726**
Rialto Investments												
R Notes payable	623,246	771,728	622,335	626,042	626,042	626,042	626,042	626,042	626,042	626,042	626,042	626,042
R Other	123,798	94,496	85,645	54,078	54,078	54,078	54,078	54,078	54,078	54,078	54,078	54,078
Rialto Investments Liabilities	**747,044**	**866,224**	**707,980**	**680,120**	**680,120**	**680,120**	**680,120**	**680,120**	**680,120**	**680,120**	**680,120**	**680,120**
Financial Services												
FS Notes and other debts payable	704,143	858,300	1,077,228	560,275	560,275	560,275	560,275	560,275	560,275	560,275	560,275	560,275
FS Other	192,500	225,678	241,055	228,064	228,064	228,064	228,064	228,064	228,064	228,064	228,064	228,064
FS Limited purpose finance subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0
Financial Services Liabilities	**896,643**	**1,083,978**	**1,318,283**	**788,339**	**788,339**	**788,339**	**788,339**	**788,339**	**788,339**	**788,339**	**788,339**	**788,339**
Multifamily												
MF Accounts payable and other liabilities	48,235	62,943	117,973	105,560	105,560	105,560	105,560	105,560	105,560	105,560	105,560	105,560
MF Notes payable	0	0	0	0	0	0	0	0	0	0	0	0
MF Liabilities related to consolidated inventory not owne	4,008	4,007	0	0	0	0	0	0	0	0	0	0
Mulitfamily	**52,243**	**66,950**	**117,973**	**105,560**	**105,560**	**105,560**	**105,560**	**105,560**	**105,560**	**105,560**	**105,560**	**105,560**
Total Liabilities	**7,706,965**	**8,469,437**	**8,150,214**	**8,974,338**	**8,966,684**	**9,978,110**	**9,589,453**	**9,589,453**	**10,059,479**	**9,859,900**	**10,200,378**	**10,082,745**
Minority interest	424,282	301,128	185,525	149,722	149,722	149,722	149,722	149,722	149,722	149,722	149,722	149,722
Preferred stock	0	0	0	0	0	0	0	0	0	0	0	0
Common stock Class A	17,424	18,066	20,409	20,411	20,411	20,411	20,411	20,411	20,411	20,411	20,411	20,411
Common stock Class B	3,298	3,298	3,298	3,298	3,298	3,298	3,298	3,298	3,298	3,298	3,298	3,298
Additional Paid in Capital	2,239,704	2,305,560	2,805,349	2,855,793	2,867,777	2,883,754	2,901,667	2,901,667	2,917,658	2,931,375	2,949,665	2,970,176
Retained earnings	2,660,034	3,429,736	4,306,256	4,334,936	4,509,573	4,798,339	5,168,724	5,168,724	5,308,415	5,515,046	5,805,346	6,200,879
Unearned restricted stock	0	0	0	0	0	0	0	0	0	0	0	0
Unearned compensation	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Compensation	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Compensation liability	0	0	0	0	0	0	0	0	0	0	0	0
Treasury stock, at cost	(93,440)	(107,755)	(108,961)	(109,048)	(109,048)	(109,048)	(109,048)	(109,048)	(109,048)	(109,048)	(109,048)	(109,048)
Accumulated other comprehensive losses	0	39	(309)	663	663	663	663	663	663	663	663	663
Total stockholders' equity	**4,827,020**	**5,648,944**	**7,026,042**	**7,106,053**	**7,292,675**	**7,597,417**	**7,985,715**	**7,985,715**	**8,141,397**	**8,361,745**	**8,670,335**	**9,086,378**
Total Equity	**5,251,302**	**5,950,072**	**7,211,567**	**7,255,775**	**7,442,397**	**7,747,139**	**8,135,437**	**8,135,437**	**8,291,119**	**8,511,467**	**8,820,057**	**9,236,100**
	13.5%	13.3%	21.2%					12.8%				
Total liabilities and stockholders' equity	**12,958,267**	**14,419,509**	**15,361,781**	**16,230,113**	**16,409,081**	**17,725,248**	**17,724,890**	**17,724,890**	**18,350,598**	**18,371,367**	**19,020,435**	**19,318,846**

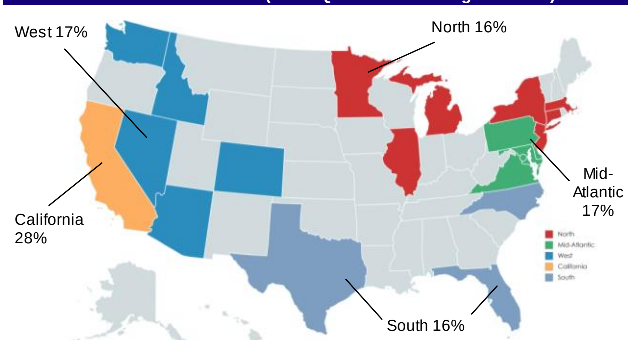
Source: Company reports and Mizuho Securities USA.

Exhibit 45: Initiating Coverage of Toll Brothers (TOL); Buy / $44 PT

Tearsheet

Toll Brothers, Inc. (TOL) **PT: $44** **Closing Price: $37.44 as of 5/15/2017** **Market Cap ($000): $6,018**

End Market (% of 1Q17 Homebuilding Revenue)



*** City Living 5%**

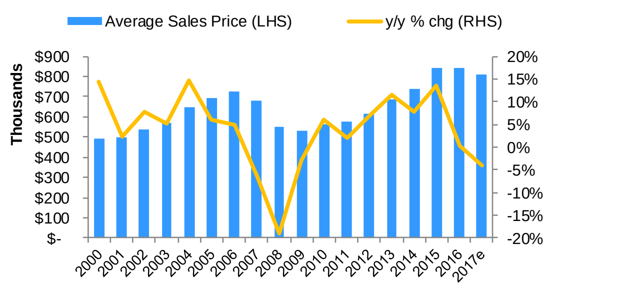
Company Description

Toll Brothers, Inc. (TOL), A FORTUNE 600 Company, is the nation's leading builder of luxury homes. The Company began business in 1967 and became a public company in 1986. The Company serves move-up, empty-nester, active-adult, and second-home buyers and operates in 20 states as well as in the District of Columbia. TOL's fiscal year ends October 31.

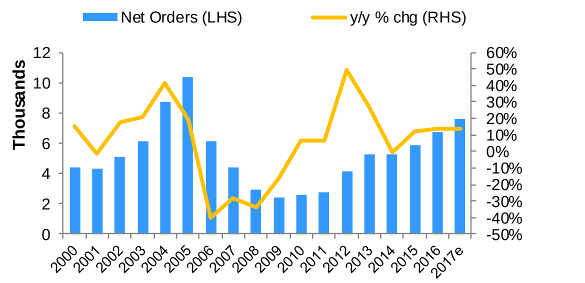
Most Recent Fiscal Quarter (1Q17) Key Operating Metrics

Closings (units): 1,190; 12% y/y
Average Sales Price: $817k; -7%
Net Orders (units): 1,522; 22% y/y
Baklog (units): 5,145; 21% y/y
Cancellation Rate: 5.8%

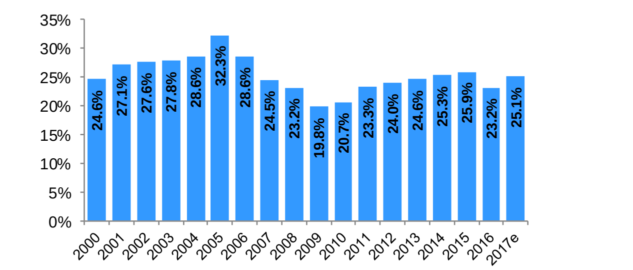
Average Sales Price (Full Fiscal Year)



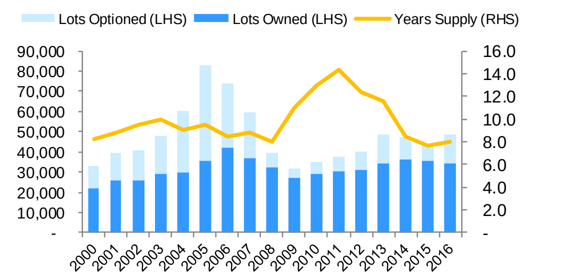
Net Orders (Full Fiscal Year)



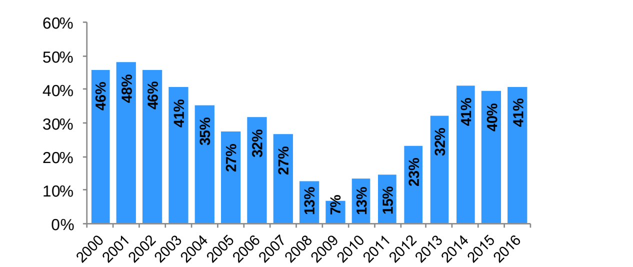
Homebuilding Gross Margins (Full Fiscal Year)



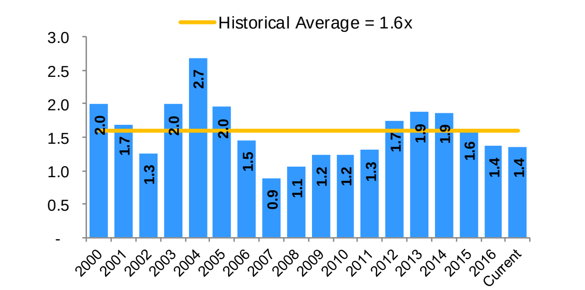
Land Supply (End of Reporting Period)



Net Debt to Cap Ratio (End of Reporting Period)



Price-to-Book (End of Reporting Period)



Source: Company reports and Mizuho Securities USA.

Toll Brothers (TOL) Buy / $44 PT

Investment Thesis. TOL is the largest luxury builder in the U.S. market. TOL operates an established, successful operating platform with a focus on a more affluent buyer (unique among our coverage), a key driver behind its above-average gross margins; TOL's ASP averages >$800k, significantly above the average of our coverage which is typically between $300k-$400k; excluding its higher price City Living condo product, TOL ASP averaged ~$818K in 2016. TOL also currently owns and operates a portfolio of multi-family properties with approximately 3,000 units occupied and 7,000 units under construction or being planned.

We think TOL will sustain margins and profitability with higher average selling prices (on a same product basis) and reduced SG&A targeted in FY17 to offset any potential rise in construction and operating costs. At recent pricing, we think TOL is undervalued on a PTB approach, we think reflecting NYC / CA concerns and its ability to meet its FY17 ROE target. **We are initiating on TOL with a Buy rating / $44 PT.**

Leading Luxury Builder. TOL stands out from peers with a very well-positioned land bank (enhanced by its 2013 acquisition of California-focused Shappell Homes) in higher barrier / higher cost submarkets resulting in strong gross margins. We consider TOL's land holdings in prime locations as more valuable than peers, and we note that TOL, unlike peers, shies away from speculative construction. We also see TOL gaining market share from private luxury builders, given their greater relative changes in acquiring well-located land.

Also, TOL's luxury focus, which requires a longer build cycle, gives it greater visibility than peers into NTM deliveries. For FY2017 (October 31 fiscal year-end), TOL is guiding to +11% deliveries (to 6,750), a growth rate in-line with FY 16.

We also see TOL as a beneficiary of improved demand from move-up buyers given improved household balance sheets and the recent run-up in the stock market (benefitting investment portfolios). More broadly, we also see luxury buyers as the greatest beneficiary of the dramatic increase in home prices over the last five years, as TOL customers typically own a home and benefit from increased home equity value as they trade up to a TOL home.

How is TOL Positioned Heading into 2017? (Above-Average) Detailed guidance management released (see below) supports our view that TOL is well positioned into 2017.

- **Better than Peer Average Growth.** TOL grew community count by 13% in 2014, 10% in 2015 and 8% in 2016 and FY17 guidance calls for opening another gross 94 communities; we are modeling 6% net year-over-year community growth.

- For FY17, we estimate TOL will generate 14% orders growth (vs 11.9% peer average), 25.0% gross margins, 14.4% operating margin and 12.7% ROE in 2017. Our 2017 operating assumptions drive 2017 EPS estimate of $3.15 (+45% year-over-year), along with 19% tangible book value growth.

- TOL margins benefit incrementally from the City Living division which typically generates gross margins above 35%.

- See Exhibit 45 for more detail on TOL's portfolio, operating history and metrics.

Key 2017 Guidance Items:

- Gross margins of 24.8% to 25.3% vs. 22.9% in FY16 and our estimate of 25.0%

- SG&A of 10.6% vs. 10.4% in FY16 and our estimate of 10.6%

- Operating margins of 14.2% to 14.7% vs. our estimate of 14.4%

- Closings of 6,700k to 7,500k units, indicating growth of approximately 10%-23% year-over-year, vs. our estimate of 6,700 units leaving room for an upside surprise

- Community count growth similar to 2016 (+8%) vs. our estimate of +6%

MSUSA Estimates:

- 2017 EPS Estimate: $3.15

- 2018 EPS Estimate: $3.54

- 2017 Estimated ROE: 12.7%

- 2017 Estimated Ending Tangible Book Value Per Share: $27.47

Balance Sheet Positioned to Support Growth and ROE Expansion. TOL's leverage currently stands at 35% net debt to adjusted cap with $1.2B liquidity as of the end of 1Q17. Our model projects that TOL will generate 12.7% and 12.5% ROE in 2017 and 2018, respectively. Hence, we believe the company's balance sheet can support further ROE expansion through incremental acquisitions and/or organic community count growth.

Why Does TOL Trade at a Discount to Peers? Many have questioned why TOL trades at a discount to peers, despite the strength of platform, above-average margins, growing ROE outlook and EPS growth. While we don't think the discount is entirely justified, we note the following concerns from investors for TOL's discounted valuation vs peers:

- **Skittishness Over NYC / Luxury Exposure** – The softness in the high-end condo market in NYC over the past year, brought on by a stronger U.S. dollar, capital flow constraints from China and increased geo-political concerns about the U.S. have been the key culprits. Given the softening demand TOL is slowing its NYC development and has not bought any new NYC land in 2-3 years. We note, however, that only ~5% of overall TOL revenue was generated from the City Living product in 2016 and just ~2% of revenue in 1Q17.

- **Coastal California Anxiety** – Another market impacted by concerns over foreign buyers has been California as a substantial number of California homebuyers of late have been from foreign countries buying property as an investment; per NAR, nearly 30% of homes purchased in California in 2014 were from foreign buyers, with Chinese buyers the largest component. As noted above, concerns over increased capital flow constraints (from China) and a stronger U.S. dollar have raised concern among some investors that potentially softer demand will impact California home-buying volumes and pricing. So far, however, it seems that any reduction in foreign buying has been offset by strong domestic demand (given recent underproduction and pent-up demand) as margins and pricing have so far not been impacted, per homebuilder managements on their recent calls.

- **ROE Concerns (Can TOL Achieve Its 12% Target?)** –TOL has historically lagged peers on ROE given its longer than average years' supply of land holdings (given the longer entitlement process in its higher barrier coastal cities). We estimate that TOL holds approximately 7.7 years of land vs. our coverage universe excluding TOL of 5.7 years, but compares to an estimated 8.7 years of supply in 2014. Looking ahead, we expect TOL to improve its ROE by: 1) Being less land heavy (less land overall, more use of options); 2) Introducing some lower price homes ("T Select") which should help ROE (lower price, higher turnover). We believe as TOL becomes more focused on this metric it will gradually improve over time, including in 2017, as we do expect TOL to achieve its 12% ROE target.

Initiating TOL with a Buy Rating. At current levels (1.4x P/Book, 11.9x '17e EPS and 8.4% implied ROE), we do not believe the market fully appreciates TOL's growth rates (orders, ROE, EPS) and our FY17 EPS and YE17 TBV estimates are below consensus. In addition we believe the market's concerns are overdone as TOL remains a leading and proven platform in the industry. As such, **we are initiating on TOL with a Buy and $44 PT (18% upside).**

Exhibit 46: Earnings Model – Toll Brothers (TOL)

Toll Brothers, Inc (TOL)
Income Statement
($ in thousands)

Source: TOL company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																	
Revenues:																	
Home sales	3,911,602	4,171,248	928,566	1,115,557	1,269,934	1,855,451	5,169,508	920,730	1,231,622	1,367,301	1,889,827	5,409,480	1,029,987	1,298,992	1,414,883	1,955,593	5,699,455
Land/lot sales	-	-	-	-			-					-					-
Total homebuilding revenue	**3,911,602**	**4,171,248**	**928,566**	**1,115,557**	**1,269,934**	**1,855,451**	**5,169,508**	**920,730**	**1,231,622**	**1,367,301**	**1,889,827**	**5,409,480**	**1,029,987**	**1,298,992**	**1,414,883**	**1,955,593**	**5,699,455**
Cost of Sales:																	
Home sales	(2,944,380)	(3,126,323)	(680,288)	(834,849)	(951,985)	(1,516,606)	(3,983,728)	(705,074)	(936,074)	(1,014,435)	(1,401,344)	(4,056,928)	(780,799)	(972,394)	(1,033,912)	(1,428,250)	(4,215,355)
Land/lot sales	-	-	-	-			-					-					-
Inventory impairments and land option write-offs	-	-					-		1,232	1,367	1,890	4,489	1,030	2,598	2,830	3,911	10,369
Total homebuilding cost of sales	**(2,944,380)**	**(3,126,323)**	**(680,288)**	**(834,849)**	**(951,985)**	**(1,516,606)**	**(3,983,728)**	**(705,074)**	**(934,843)**	**(1,013,068)**	**(1,399,454)**	**(4,052,439)**	**(779,769)**	**(969,796)**	**(1,031,083)**	**(1,424,339)**	**(4,204,986)**
Gross Profit:																	
Home sales	967,222	1,044,925	248,278	280,708	317,949	338,845	1,185,780	215,656	295,548	352,866	488,483	1,352,553	249,188	326,598	380,971	527,343	1,484,100
Land/lot sales	-	-	-	-	-	-	-					-					-
Inventory impairments and land option write-offs	-	-	-	-	-	-	-	-	1,232	1,367	1,890	4,489	1,030	2,598	2,830	3,911	10,369
Total homebuilding gross profit	**967,222**	**1,044,925**	**248,278**	**280,708**	**317,949**	**338,845**	**1,185,780**	**215,656**	**296,780**	**354,233**	**490,373**	**1,357,042**	**250,218**	**329,196**	**383,801**	**531,254**	**1,494,469**
Selling, general and administrative expense	(432,516)	(455,108)	(121,796)	(128,340)	(134,984)	(150,262)	(535,382)	(137,095)	(140,461)	(145,333)	(153,046)	(575,935)	(156,453)	(152,041)	(154,636)	(164,239)	(627,369)
Interest expense	(137,457)	(142,947)	(32,023)	(35,722)	(39,431)	(53,161)	(160,337)	(27,928)	(27,904)	(33,004)	(36,885)	(125,722)	(27,771)	(27,904)	(33,004)	(36,885)	(125,565)
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on early retirement of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	107,333	88,692	22,358	23,751	20,119	32,738	98,966	59,148	43,107	35,335	52,243	189,832	65,137	44,166	36,564	54,061	199,928
Operating income from homebuilding	**504,582**	**535,562**	**116,817**	**140,397**	**163,653**	**168,160**	**589,027**	**109,781**	**171,521**	**211,230**	**352,684**	**845,216**	**131,131**	**193,416**	**232,725**	**384,191**	**941,463**
Financial Services:																	
Revenues	-	-					-					-					-
General and administrative expense	-	-					-					-					-
Interest and Other income(expense)	-	-					-					-					-
Operating income from financial services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total pretax income	**504,582**	**535,562**	**116,817**	**140,397**	**163,653**	**168,160**	**589,027**	**109,781**	**171,521**	**211,230**	**352,684**	**845,216**	**131,131**	**193,416**	**232,725**	**384,191**	**941,463**
Provision for income taxes	(164,549)	(172,395)	(43,637)	(51,343)	(58,170)	(53,782)	(206,932)	(39,365)	(64,320)	(76,043)	(126,966)	(306,695)	(46,552)	(68,663)	(82,617)	(136,388)	(334,219)
Net Income GAAP	**340,033**	**363,167**	**73,180**	**89,054**	**105,483**	**114,378**	**382,095**	**70,416**	**107,201**	**135,187**	**225,718**	**538,522**	**84,580**	**124,753**	**150,108**	**247,803**	**607,244**
Extraordinary Items, net of tax																	
Net Income Recurring	**340,033**	**363,167**	**73,180**	**89,054**	**105,483**	**114,378**	**382,095**	**70,416**	**107,201**	**135,187**	**225,718**	**538,522**	**84,580**	**124,753**	**150,108**	**247,803**	**607,244**
Effect of Dilutive Securities																	
Interest expense and amortization of issuance costs	-	-	-	-	-	-	-										
Basic earning per share	**$1.91**	**$2.06**	**$0.42**	**$0.53**	**$0.64**	**$0.70**	**$2.27**	**$0.43**	**$0.66**	**$0.83**	**$1.38**	**$3.30**	**$0.52**	**$0.76**	**$0.92**	**$1.51**	**$3.71**
Diluted earnings per share	**$1.83**	**$1.97**	**$0.40**	**$0.50**	**$0.61**	**$0.67**	**$2.17**	**$0.41**	**$0.63**	**$0.79**	**$1.32**	**$3.15**	**$0.49**	**$0.73**	**$0.87**	**$1.44**	**$3.54**
Recurring earnings per share	**$1.83**	**$1.97**	**$0.40**	**$0.50**	**$0.61**	**$0.67**	**$2.17**	**$0.41**	**$0.63**	**$0.79**	**$1.32**	**$3.15**	**$0.49**	**$0.73**	**$0.87**	**$1.44**	**$3.54**

Source: Company reports and Mizuho Securities USA.

Exhibit 47: Balance Sheet – Toll Brothers (TOL)

Toll Brothers, Inc (TOL)
Balance Sheet
($ in thousands)

Source: TOL company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:													
Cash and cash equivalents	586,315	918,993	633,715	373,469	(242,857)	(82,177)	1,473,456	1,473,456	567,815	294,624	497,485	2,176,046	2,176,046
Marketable securities, available-for-sale	12,026	10,001	0		-	-	-	-	-	-	-	-	-
Restricted Cash	18,342	16,795	31,291	12,445	12,445	12,445	12,445	12,445	12,445	12,445	12,445	12,445	12,445
Inventories:													
Construction in progress and finished homes	3,556,275	4,327,023		5,023,289									
Residential lots - developed and under development	2,716,950	2,476,008		2,343,973									
Land held for development	200,495	173,879		148,083									
Other	16,601	20,606		24,629									
Total inventory	6,490,321	6,997,516	7,353,967	7,539,974	8,005,657	7,968,490	6,863,462	6,863,462	8,160,020	8,208,233	8,121,485	6,915,893	6,915,893
Property and equipment (net)	143,010	136,755	169,576	172,459	159,842	146,112	134,844	134,844	125,275	117,466	107,977	100,432	100,432
Mortgage Loans Held for Sale	101,944	123,175	248,601	85,765	85,765	85,765	85,765	85,765	85,765	85,765	85,765	85,765	85,765
Earnest money deposits and other assets	115,873	107,835	53,057	58,012	58,012	58,012	58,012	58,012	58,012	58,012	58,012	58,012	58,012
Trade Receivables	251,572	284,130	582,758	512,974	512,974	512,974	512,974	512,974	512,974	512,974	512,974	512,974	512,974
Deferred Income Taxes	250,421	198,455	167,413	160,006	160,006	160,006	160,006	160,006	160,006	160,006	160,006	160,006	160,006
Investments in Unconsolidated Entities	447,078	412,860	496,411	601,696	601,696	601,696	601,696	601,696	601,696	601,696	601,696	601,696	601,696
Total homebuilding assets	**8,416,902**	**9,206,515**	**9,736,789**	**9,516,800**	**9,353,540**	**9,463,323**	**9,902,660**	**9,902,660**	**10,284,008**	**10,051,221**	**10,157,844**	**10,623,269**	**10,623,269**
Financial Services:													
FS Cash and cash equivalents	0	0	0		-	-	-	-	-	-	-	-	-
FS Restricted cash	0	0	0			-	-	-	-		-	-	-
Mortgage loans held for sale	0	0	0		-	-	-	-	-	-	-	-	-
Other assets	-	-	-		-	-	-	-	-	-	-	-	-
Total financial services assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	**8,416,902**	**9,206,515**	**9,736,789**	**9,516,800**	**9,353,540**	**9,463,323**	**9,902,660**	**9,902,660**	**10,284,008**	**10,051,221**	**10,157,844**	**10,623,269**	**10,623,269**
Homebuilding:													
Accounts payable	225,347	236,953	281,955	258,694	228,517	202,614	257,526	257,526	207,938	237,061	206,217	262,105	262,105
Accrued and other liabilities	581,477	608,066	1,072,300	940,102	678,737	656,526	784,795	784,795	1,112,797	704,115	668,201	798,750	798,750
Customer Deposits	223,799	284,309	309,099	344,150	344,150	344,150	344,150	344,150	344,150	344,150	344,150	344,150	344,150
Senior Notes	2,655,044	2,689,801	2,694,372	2,695,524	2,695,524	2,695,524	2,695,524	2,695,524	2,695,524	2,695,524	2,695,524	2,695,524	2,695,524
Loans Payable	654,261	1,000,439	871,079	879,894	879,894	879,894	879,894	879,894	879,894	879,894	879,894	879,894	879,894
Income Taxes Payable	125,996	58,868	62,782	20,372	20,372	20,372	20,372	20,372	20,372	20,372	20,372	20,372	20,372
Total homebuilding liabilities	**4,465,924**	**4,878,436**	**5,291,587**	**5,138,736**	**4,847,195**	**4,799,080**	**4,982,261**	**4,982,261**	**5,260,675**	**4,881,116**	**4,814,357**	**5,000,795**	**5,000,795**
Financial Services:													
	0	0	0		-	-	-	-	-	-	-	-	-
Mortgage Company Loan Facility	90,281	100,000	210,000	57,040	57,040	57,040	57,040	57,040	57,040	57,040	57,040	57,040	57,040
Total financial services liabilities	**90,281**	**100,000**	**210,000**	**57,040**	**57,040**	**57,040**	**57,040**	**57,040**	**57,040**	**57,040**	**57,040**	**57,040**	**57,040**
Total Liabilities	**4,556,205**	**4,978,436**	**5,501,587**	**5,195,776**	**4,904,235**	**4,856,120**	**5,039,301**	**5,039,301**	**5,317,715**	**4,938,156**	**4,871,397**	**5,057,835**	**5,057,835**
Minority interests	6,321	5,522	5,910	5,910	5,910	5,910	5,910	5,910	5,910	5,910	5,910	5,910	5,910
Preferred stock	0	0	0	-	-	-	-	-	-	-	-	-	-
Common stock	1,779	1,779	1,779	1,779	1,779	1,779	1,779	1,779	1,779	1,779	1,779	1,779	1,779
Additional capital	712,162	728,125	728,464	718,861	739,942	762,653	793,091	793,091	811,444	833,463	856,737	887,922	887,922
Accumulated other comprehensive income (Loss) and reserves	-2,838	-2,509	-3,336	(3,167)	(3,167)	(3,167)	(3,167)	(3,167)	(3,167)	(3,167)	(3,167)	(3,167)	(3,167)
Unearned compensation	0	0	0	-	-	-	-	-	-	-	-	-	-
Retained earnings	3,232,035	3,595,202	3,977,297	4,047,713	4,154,914	4,290,101	4,515,819	4,515,819	4,600,398	4,725,152	4,875,259	5,123,063	5,123,063
Treasury stock	(88,762)	(100,040)	(474,912)	(450,072)	(450,072)	(450,072)	(450,072)	(450,072)	(450,072)	(450,072)	(450,072)	(450,072)	(450,072)
Total stockholders' equity	**3,854,376**	**4,222,557**	**4,229,292**	**4,315,114**	**4,443,395**	**4,601,293**	**4,857,450**	**4,857,450**	**4,960,382**	**5,107,155**	**5,280,537**	**5,559,524**	**5,559,524**
Total Liabilities and stockholders' equity	**8,416,902**	**9,206,515**	**9,736,789**	**9,516,800**	**9,353,540**	**9,463,323**	**9,902,660**	**9,902,660**	**10,284,008**	**10,051,221**	**10,157,844**	**10,623,269**	**10,623,269**

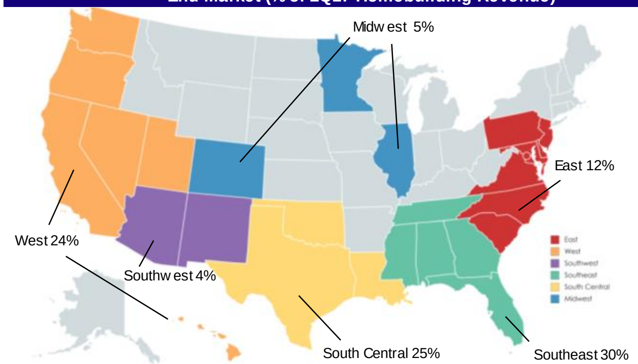
Source: Company reports and Mizuho Securities USA.

Exhibit 48: Initiating Coverage of D.R. Horton (DHI); Neutral / $32 PT

Tearsheet

D.R. Horton, Inc. (DHI) PT: $32 Closing Price: $33.45 as of 5/15/2017 Market Cap ($000): $12,420

End Market (% of 2Q17 Homebuilding Revenue)



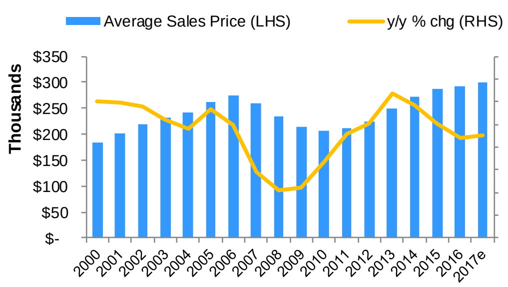
Company Description

D.R. Horton, Inc. (DHI) operates as a national homebuilder that engages in the construction and sale of single-family housing. It operates through the Homebuilding and Financial Services segments. D.R. Horton has been America's largest new home builder by volume for 14 consecutive years, with over 40k homes sold in FY2016. The company was founded by Donald Ray Horton in 1978 and is headquartered in Fort Worth, TX.

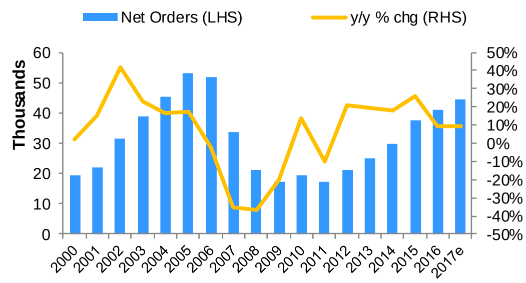
Most Recent Fiscal Quarter (2Q17) Key Operating Metrics

Closings (units): 10,685; 18% y/y
Average Sales Price: $296k; 2% y/y
Net Orders (units): 13,991; 14% y/y
Baklog (units): 14,618; 7% y/y
Cancellation Rate: 20%

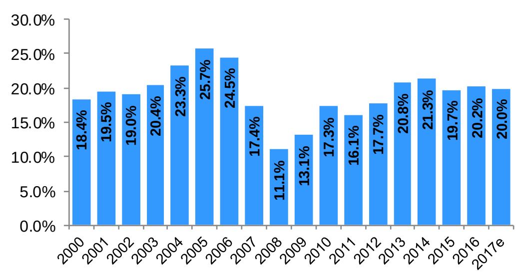
Average Sales Price (Full Fiscal Year)



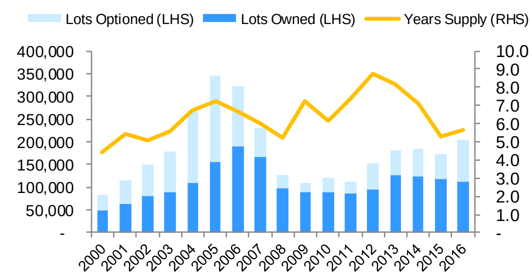
Net Orders (Full Fiscal Year)



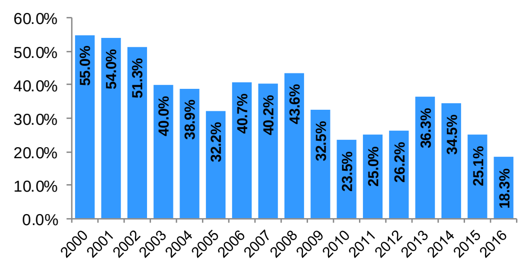
Homebuilding Gross Margins (Full Fiscal Year)



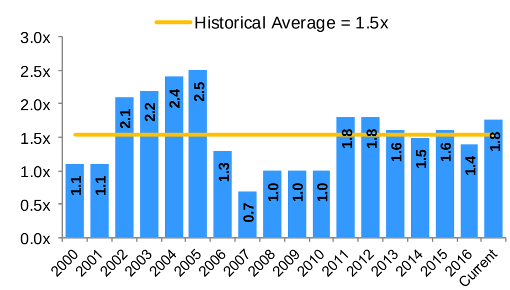
Land Supply (End of Reporting Period)



Net Debt to Cap Ratio (End of Reporting Period)



Price-to-Book (End of Reporting Period)



Source: Company reports and Mizuho Securities USA.

D.R. Horton, Inc. (DHI) Neutral / $32 PT

Investment Thesis. DHI is the largest U.S. homebuilder by volume (~8% of national market share) and operates an established platform with a concentration in key, high-growth Sunbelt markets. DHI's leading production has been the key driver of its 30%+ top-line growth for the past three years, helping the company to maintain 20%-ish gross margins despite slowing HPA / growing cost headwinds. Within our coverage, we think DHI is best positioned to capture incremental market demand through its higher spec inventory levels and its production focus, which helps mitigates near-term margin risk, but which may pose a risk should demand fall short of current expectations. For FY17, DHI is guiding to another year of above average low- to mid-teens revenue growth on robust orders growth, steady margins, though with smaller ASP (price) increases (+2.6%).

We also think DHI's three-pronged strategy, with Emerald (luxury homes division launched in 2013), D.R. Horton (core product) and Express (entry-level homes division launched in 2014) should continue to work in the current environment, in our view, given broad-based demand - in both its core and entry level offerings; management noted margins on their core products are "tighter than most people think" (~100-150bps). We also see potential demand benefits from DHI's recently launched Freedom brand, which was introduced in 2H16 as a "care-free, affordable living for active adults"; DHI plans to have Freedom rolled out in ~1/3 of its markets by YE2017. However, although we expect DHI to continue to post solid performance, we believe the company's current valuation fairly reflects these expectations, given the stock's premium to its peers; **we rate DHI Neutral ($32 PT).**

Industry-Leading Production. By virtue of its size and volume levels, DHI has historically been able to achieve cost efficiencies given the greater clarity its higher production levels provide. DHI's production-focused approach also requires a higher level of speculative building; for example, DHI is expected to deliver approximately 45,000 homes in 2017 (+12% vs 2016), of which ~30% are spec as of 2Q17. The clear risk to this approach is if demand does not materialize to the extent that management expects, ala 2014 when DHI was forced to increase incentives to sell inventory. However, the current improved demand / tight new supply and existing inventory today suggests a better opportunity for DHI and peers, especially in the first time buyer segment where DHI's delivers approximately 45% of their homes. Looking ahead, we expect DHI to continue using its scale to drive down materials and drive lower bids from contractors as the company can offer trades consistent business given their willingness to build more homes speculatively before securing orders.

How is DHI Positioned into 2017? (Above-Average) Detailed guidance management released in 2Q17 (see below) supports our view that DHI will once again be among the leaders in orders growth, gross margin (~20%), and ROE in 2017 (15.3%). We also see DHI as well-positioned from a land and lot perspective into 2017, with 5.3 years of land and strong positioning in the entry-level segment (Express) and in its “bread and butter” D.R. Horton mid-priced product. Similar to the other builders in our coverage universe DHI would prefer to limit land ownership to approximately 2.5-3.0 years of supply in the long run and utilize options for their remaining holdings.

- Given strong demand (evidenced by mid to high single digit order growth on flat community count but increasing absorption rate) DHI is growing earnings and increasing return on capital. Our 2017 operating assumptions drive 2017 EPS estimate of $2.74 (+16% year-over-year), along with 15.3% ROE (vs 14.3% for peers) and 15% tangible book value growth. Gross margin in 2Q17, its last reported quarter, was 19.8%, while operating margin was 10.2%.

- See Exhibit 48 for more detail on DHI’s portfolio, operating history and metrics.

Key 2017 Guidance Items:

- Gross margins of 20.0% vs. 19.9% in FY16 and our estimate of 20.0%

- SG&A of 9.0% vs. 9.3% in FY16 vs. our estimate of 9.0%

- Operating margins of 11% similar to our estimate.

- Closings of 44.5k to 46k units, implying 10%-14% growth vs. our estimate of 45k

- Flat community count growth consistent with our estimate

MSUSA Estimates:

- 2017 EPS Estimate: $2.74

- 2018 EPS Estimate: $3.03

- 2017 Estimated ROE: 15.3%

- 2017 Estimated Ending Tangible Book Value Per Share: $19.05

Balance Sheet Supports Growth and ROE. DHI’s leverage currently stands at 15% net debt to net cap with $1.9B of liquidity (cash plus line availability). Our model projects DHI will generate 15.3% and 14.8% ROE in 2017 and 2018, respectively. Hence, we believe the company’s balance sheet can support further ROE expansion through incremental acquisitions and/or organic community count growth. We also expect DHI to maintain its investment discipline and invest where opportunities to generate "acceptable returns" exist (minimum 20% ROI, with initial cash investment returned within 24 months or less).

Valuation Fairly Reflects DHI's Advantages. At current levels (1.8x P/Book, 12.2x '17e EPS vs peers' 1.6x / 11.7x), we think the market is appropriately balancing the risk / reward between robust orders and deliveries in an upside scenario and the risk to margins should 2017 demand fall short of current forecasts. **As such, we rate DHI Neutral and our price target is $32.**

Exhibit 49: Earnings Model – D.R. Horton (DHI)

D.R. HORTON (DHI)
Income Statement
($ in thousands)

Source: DHI company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																	
Revenues:																	
Home sales	7,804,700	10,469,500	2,340,900	2,686,000	3,118,700	3,637,500	11,783,100	2,797,700	3,158,100	3,533,487	4,046,355	13,535,642	3,053,410	3,429,855	3,818,640	4,372,896	14,674,800
Land/lot sales	53,700	89,500	20,200	15,000	30,100	13,500	78,800	28,400	6,300	31,605	14,175	80,480	29,820	6,615	33,185	14,884	84,504
Total homebuilding revenue	**7,858,400**	**10,559,000**	**2,361,100**	**2,701,000**	**3,148,800**	**3,651,000**	**11,861,900**	**2,826,100**	**3,164,400**	**3,565,092**	**4,060,530**	**13,616,122**	**3,083,230**	**3,436,470**	**3,851,825**	**4,387,780**	**14,759,304**
Cost of Sales:																	
Home sales	(6,139,100)	(8,393,700)	(1,874,300)	(2,151,300)	(2,486,500)	(2,890,900)	(9,403,000)	(2,244,800)	(2,532,100)	(2,825,410)	(3,231,448)	(10,833,758)	(2,449,975)	(2,749,987)	(3,053,421)	(3,492,226)	(11,745,608)
Land/lot sales	(44,300)	(81,700)	(15,900)	(12,000)	(28,400)	(12,100)	(68,400)	(20,800)	(5,600)	(29,820)	(12,705)	(68,925)	(21,840)	(5,880)	(31,311)	(13,340)	(72,371)
Inventory impairments and land option write-offs	(85,100)	(60,200)	(2,000)	(6,000)	(8,100)	(15,400)	(31,500)	(2,300)	(12,200)	(5,556)	(13,021)	(33,077)	568	(9,794)	(2,186)	(9,699)	(21,110)
Total homebuilding cost of sales	**(6,268,500)**	**(8,535,600)**	**(1,892,200)**	**(2,169,300)**	**(2,523,000)**	**(2,918,400)**	**(9,502,900)**	**(2,267,900)**	**(2,549,900)**	**(2,860,786)**	**(3,257,174)**	**(10,935,760)**	**(2,471,246)**	**(2,765,661)**	**(3,086,917)**	**(3,515,265)**	**(11,839,090)**
Gross Profit:																	
Home sales	1,665,600	2,075,800	466,600	534,700	632,200	746,600	2,380,100	552,900	626,000	708,077	814,907	2,701,884	603,435	679,867	765,219	880,670	2,929,191
Land/lot sales	9,400	7,800	4,300	3,000	1,700	1,400	10,400	7,600	700	1,785	1,470	11,555	7,980	735	1,874	1,544	12,133
Inventory impairments and land option write-offs	(85,100)	(60,200)	(2,000)	(6,000)	(8,100)	(15,400)	(31,500)	(2,300)	(12,200)	(5,556)	(13,021)	(33,077)	568	(9,794)	(2,186)	(9,699)	(21,110)
Total homebuilding gross profit	**1,589,900**	**2,023,400**	**468,900**	**531,700**	**625,800**	**732,600**	**2,359,000**	**558,200**	**614,500**	**704,306**	**803,356**	**2,680,362**	**611,983**	**670,809**	**764,907**	**872,514**	**2,920,214**
Selling, general and administrative expense	(834,200)	(1,013,600)	(243,300)	(258,200)	(280,400)	(321,900)	(1,103,800)	(268,400)	(294,500)	(310,341)	(353,947)	(1,227,187)	(302,070)	(330,130)	(335,301)	(382,472)	(1,349,973)
Interest expense	(200)	(100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	(9,800)	-	-	-	(7,200)	(7,200)	-	-	-	-	-	-	-	-	-	-
Loss on early retirement of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	13,100	18,300	3,400	9,600	3,800	1,500	18,300	4,100	2,400	4,305	1,669	12,474	1,421	(823)	4,653	1,803	7,054
Operating income from homebuilding	**768,600**	**1,018,200**	**229,000**	**283,100**	**349,200**	**405,000**	**1,266,300**	**293,900**	**322,400**	**398,271**	**451,078**	**1,465,648**	**311,335**	**339,855**	**434,260**	**491,845**	**1,577,295**
Financial Services:																	
Revenues	166,500	264,900	55,300	66,900	83,100	90,300	295,600	78,100	86,900	117,362	127,530	409,892	110,300	122,729	165,750	180,111	578,889
General and administrative expense	(131,300)	(172,300)	(46,100)	(51,000)	(56,400)	(63,000)	(216,500)	(57,500)	(60,700)	(81,978)	(89,080)	(289,258)	(77,045)	(85,726)	(115,777)	(125,808)	(404,357)
Interest and Other income(expense)	10,200	12,500	3,100	1,500	2,700	700	8,000	3,600	5,300	7,158	7,778	23,836	6,727	7,485	10,109	10,985	35,306
Operating income from financial services	**45,400**	**105,100**	**12,300**	**17,400**	**29,400**	**28,000**	**87,100**	**24,200**	**31,500**	**42,542**	**46,228**	**144,470**	**39,982**	**44,487**	**60,082**	**65,288**	**209,839**
Total pretax income	**814,000**	**1,123,300**	**241,300**	**300,500**	**378,600**	**433,000**	**1,353,400**	**318,100**	**353,900**	**440,813**	**497,305**	**1,610,118**	**351,317**	**384,343**	**494,342**	**557,133**	**1,787,134**
Provision for income taxes	(280,600)	(372,700)	(83,600)	(105,400)	(128,800)	(149,400)	(467,200)	(111,200)	(124,700)	(157,811)	(178,035)	(571,746)	(124,718)	(136,442)	(175,491)	(197,782)	(634,433)
Net Income GAAP	**533,400**	**750,600**	**157,700**	**195,100**	**249,800**	**283,600**	**886,200**	**206,900**	**229,200**	**283,002**	**319,270**	**1,038,372**	**226,600**	**247,901**	**318,850**	**359,351**	**1,152,702**
Extraordinary Items, net of tax	-	-	1,200	(2,600)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Recurring	**533,400**	**750,600**	**158,900**	**192,500**	**249,800**	**283,600**	**886,200**	**206,900**	**229,200**	**283,002**	**319,270**	**1,038,372**	**226,600**	**247,901**	**318,850**	**359,351**	**1,152,702**
Effect of Dilutive Securities																	
Interest expense and amortization of issuance costs	**16,500**	**-**	**-**	**-**	**-**	**-**	**-**										
Basic earning per share	**$1.57**	**$2.05**	**$0.43**	**$0.52**	**$0.67**	**$0.76**	**$2.39**	**$0.55**	**$0.61**	**$0.75**	**$0.85**	**$2.77**	**$0.60**	**$0.66**	**$0.85**	**$0.95**	**$3.06**
Diluted earnings per share	**$1.50**	**$2.03**	**$0.42**	**$0.52**	**$0.66**	**$0.75**	**$2.36**	**$0.55**	**$0.60**	**$0.75**	**$0.84**	**$2.74**	**$0.60**	**$0.65**	**$0.84**	**$0.94**	**$3.03**
Recurring earnings per share	**$1.50**	**$2.03**	**$0.43**	**$0.52**	**$0.66**	**$0.75**	**$2.36**	**$0.55**	**$0.60**	**$0.75**	**$0.84**	**$2.74**	**$0.60**	**$0.65**	**$0.84**	**$0.94**	**$3.03**

Source: Company reports and Mizuho Securities USA.

Exhibit 50: Balance Sheet – D.R. Horton (DHI)

D.R. HORTON (DHI)
Balance Sheet
($ in thousands)

Source: DHI company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																	
Cash and cash equivalents	632,500	1,355,900	1,245,700	1,195,200	862,900	1,271,800	1,271,800	1,115,500	947,900	972,216	1,677,749	1,677,749	1,058,527	1,392,236	1,335,612	2,309,636	2,309,636
Marketable securities, available-for-sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Restricted Cash	10,000	9,700	9,700	11,400	11,800	9,500	9,500	8,800	11,100	11,100	11,100	11,100	11,100	11,100	11,100	11,100	11,100
Inventories:																	
Construction in progress and finished homes	3,541,300	3,501,200	3,792,600	4,153,800	4,371,400	4,034,700		4,285,400	4,642,600								
Residential lots - developed and under development	3,800,000	4,065,300	4,072,600	3,829,300	3,948,600	4,135,200		4,296,400	4,242,200								
Land held for development	332,800	202,300	185,400	194,300	155,500	137,800		137,200	128,400								
Land held for Sale	26,400	38,200	37,600	39,200	28,700	33,200		23,400	24,900								
Total inventory	7,700,500	7,807,000	8,088,200	8,216,600	8,504,200	8,340,900	8,340,900	8,742,400	9,038,100	9,491,775	9,232,115	9,232,115	10,118,431	10,079,283	10,254,718	9,781,284	9,781,284
Property and equipment (net)	190,800	144,000	147,600	149,500	151,700	139,500	139,500	154,100	167,600	178,753	184,284	184,284	191,470	211,279	221,547	226,226	226,226
Income taxes Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Earnest money deposits and other assets	441,100	456,200	434,300	378,900	422,800	456,200	456,200	444,700	463,400	463,400	463,400	463,400	463,400	463,400	463,400	463,400	463,400
Trade Receivables	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Income Taxes	565,000	558,100	542,200	526,600	505,100	476,300	476,300	467,800	451,600	451,600	451,600	451,600	451,600	451,600	451,600	451,600	451,600
Goodwill	94,800	87,200	87,200	87,200	87,200	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Total homebuilding assets	**9,634,700**	**10,418,100**	**10,554,900**	**10,565,400**	**10,545,700**	**10,774,200**	**10,774,200**	**11,013,300**	**11,159,700**	**11,648,844**	**12,100,249**	**12,100,249**	**12,374,528**	**12,688,898**	**12,817,976**	**13,323,245**	**13,323,245**
Financial Services:																	
FS Cash and cash equivalents	29,300	27,900	23,000	28,900	43,900	31,400	31,400	34,800	45,300	45,300	45,300	45,300	45,300	45,300	45,300	45,300	45,300
FS Restricted cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans held for sale	476,900	631,000	524,400	616,100	634,500	654,000	654,000	548,300	577,800	577,800	577,800	577,800	577,800	577,800	577,800	577,800	577,800
Other assets	61,600	74,000	77,200	89,800	109,100	99,300	99,300	115,700	138,300	138,300	138,300	138,300	138,300	138,300	138,300	138,300	138,300
Total financial services assets	**567,800**	**732,900**	**624,600**	**734,800**	**787,500**	**784,700**	**784,700**	**698,800**	**761,400**	**761,400**	**761,400**	**761,400**	**761,400**	**761,400**	**761,400**	**761,400**	**761,400**
Total Assets	**10,202,500**	**11,151,000**	**11,179,500**	**11,300,200**	**11,333,200**	**11,558,900**	**11,558,900**	**11,712,100**	**11,921,100**	**12,410,244**	**12,861,649**	**12,861,649**	**13,135,928**	**13,450,298**	**13,579,376**	**14,084,645**	**14,084,645**
Homebuilding:																	
Accounts payable	480,300	473,000	415,600	499,800	568,200	537,000	537,000	505,900	530,300	572,157	607,020	607,020	658,999	676,050	617,383	655,119	655,119
Accrued and other liabilities	875,000	929,200	935,300	847,000	909,800	917,100	917,100	967,600	897,700	1,080,741	1,194,297	1,194,297	1,211,175	1,279,922	1,166,169	1,288,931	1,288,931
Liabilities - consolidated land inventory not owned	0	0	-	-	-	-	0	-	-	0	0	0		0	0	0	0
Notes payable	3,323,600	3,333,600	3,337,200	3,167,300	2,797,100	2,798,300	2,798,300	2,798,600	2,803,400	2,803,400	2,803,400	2,803,400	2,803,400	2,803,400	2,803,400	2,803,400	2,803,400
Total homebuilding liabilities	**4,678,900**	**4,735,800**	**4,688,100**	**4,514,100**	**4,275,100**	**4,252,400**	**4,252,400**	**4,272,100**	**4,231,400**	**4,456,299**	**4,604,717**	**4,604,717**	**4,673,574**	**4,759,372**	**4,586,952**	**4,747,450**	**4,747,450**
Financial Services:																	
Accounts payable and other liabilities	44,700	41,900	33,800	41,700	41,100	40,500	40,500	39,200	50,600	50,600	50,600	50,600	50,600	50,600	50,600	50,600	50,600
Notes payable to financial institutions	359,200	477,900	397,100	495,400	504,200	473,000	473,000	419,000	419,000	419,000	419,000	419,000	419,000	419,000	419,000	419,000	419,000
Total financial services liabilities	**403,900**	**519,800**	**430,900**	**537,100**	**545,300**	**513,500**	**513,500**	**458,200**	**469,600**	**469,600**	**469,600**	**469,600**	**469,600**	**469,600**	**469,600**	**469,600**	**469,600**
Total Liabilities	**5,082,800**	**5,255,600**	**5,119,000**	**5,051,200**	**4,820,400**	**4,765,900**	**4,765,900**	**4,730,300**	**4,701,000**	**4,925,899**	**5,074,317**	**5,074,317**	**5,143,174**	**5,228,972**	**5,056,552**	**5,217,050**	**5,217,050**
Minority interests	3,900	1,100	1,100	600	600	500	500	500	500	500	500	500	500	500	500	500	500
Preferred stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common stock	3,700	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800
Additional capital	2,613,700	2,733,800	2,769,600	2,795,600	2,839,300	2,865,800	2,865,800	2,885,000	2,931,500	2,950,277	2,971,621	2,971,621	2,988,075	3,006,380	3,026,667	3,049,730	3,049,730
Accumulated other comprehensive income (Loss) and reserves	2,200	1,400	2,600	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unearned compensation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	2,630,500	3,289,600	3,417,700	3,583,300	3,803,400	4,057,200	4,057,200	4,226,800	4,418,600	4,664,068	4,945,711	4,945,711	5,134,679	5,344,946	5,626,157	5,947,865	5,947,865
Treasury stock	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)	(134,300)
Total stockholders' equity	**5,115,800**	**5,894,300**	**6,059,400**	**6,248,400**	**6,512,200**	**6,792,500**	**6,792,500**	**6,981,300**	**7,219,600**	**7,483,846**	**7,786,832**	**7,786,832**	**7,992,254**	**8,220,826**	**8,522,324**	**8,867,095**	**8,867,095**
Total Liabilities and stockholders' equity	**10,202,500**	**11,151,000**	**11,179,500**	**11,300,200**	**11,333,200**	**11,558,900**	**11,558,900**	**11,712,100**	**11,921,100**	**12,410,244**	**12,861,649**	**12,861,649**	**13,135,928**	**13,450,298**	**13,579,376**	**14,084,645**	**14,084,645**

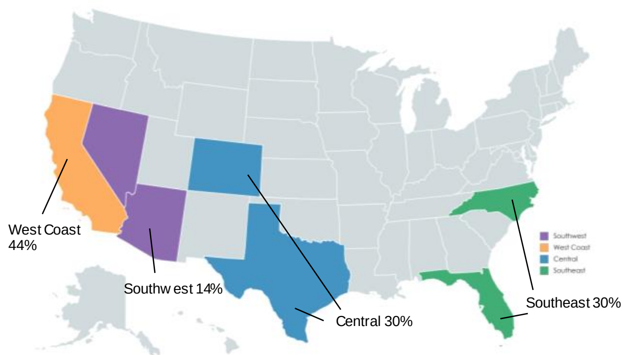
Source: Company reports and Mizuho Securities USA.

Exhibit 51: Initiating Coverage of KB Homes (KBH); Neutral / $20 PT

Tearsheet

KB Home (KBH) PT: $20 Closing Price: $21.29 as of 5/15/2017 Market Cap ($000): $1,783

End Market (% of 1Q17 Homebuilding Revenue)



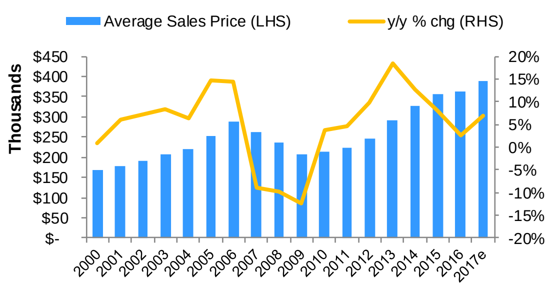
Company Description

KB Home (KBH) is one of the largest and most recognized homebuilders in the United States and an industry leader in sustainability, building innovative and highly energy- and water-efficient new homes. Founded in 1957 and the first homebuilder listed on the New York Stock Exchange, the Company has built nearly 600,000 homes for families from coast to coast. KBH's fiscal year ends November 30.

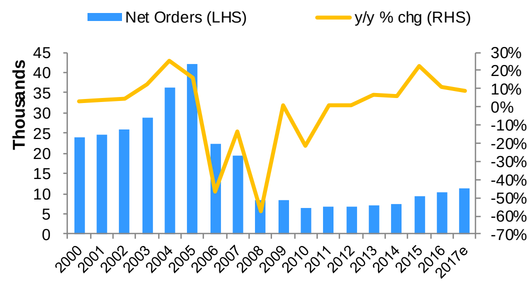
Most Recent Fiscal Quarter (1Q17) Key Operating Metrics

Closings (units): 2,224; 14% y/y
Average Sales Price: $365k; 6% y/y
Net Orders (units): 2,580; 14% y/y
Baklog (units): 4,776; 12% y/y
Cancellation Rate: 23%

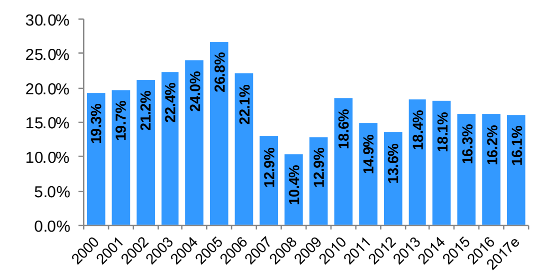
Average Sales Price (Full Fiscal Year)



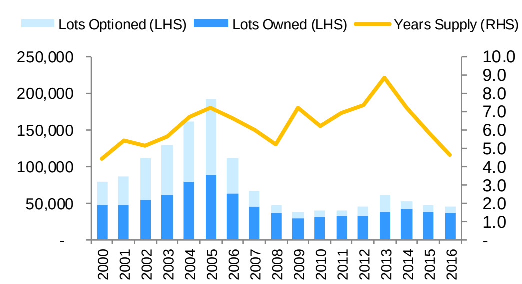
Net Orders (Full Fiscal Year)



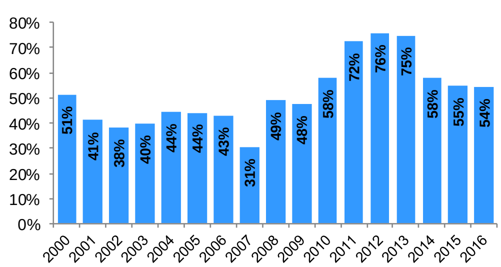
Homebuilding Gross Margins (Full Fiscal Year)



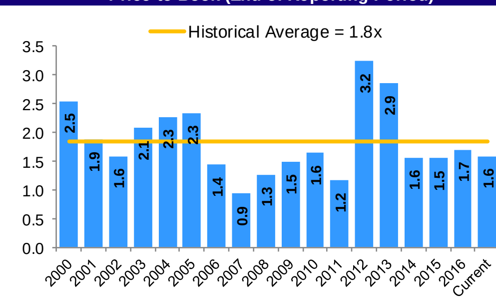
Land Supply (End of Reporting Period)



Net Debt to Cap Ratio (EOP)



Price-to-Book (End of Reporting Period)



Source: Company reports and Mizuho Securities USA.

KB Homes (KBH) Neutral / $20 PT

Investment Thesis. In our view, KBH presents the most volatile risk / reward profile in our coverage, given its more erratic operating history (including more guidance disappointments than peers). Further, KBH's 2017 lagging near-term orders and gross margin outlooks reflect the challenges KBH continues to encounter in its transition into more infill markets coming out of the recession.

We are initiating coverage of KBH at Neutral ($20 PT) as we think that KBH's current valuation fairly reflects all the positive changes the company has made over the last few years, including its improved orders growth outlook for FY2017, along with partial credit for its DTA reflected in our YE2017 "adjusted" book value estimate; see valuation / ratings discussion for more discussion.

***KB2020* Provides a Roadmap.** We are generally supportive of (although withholding final judgment) on KBH's *KB2020* strategy, outlining the company's three-year roadmap to closing its operating gap versus peers. Key tenets of its plan include: 1) Increased size / scale within in its existing footprint; 2) Improved profitability per home (through KBH's "Build-to-Order" model) driving better margins; 3) Leading to improved cash flow, earning and returns (as well as accelerated use of its DTA). That said, we are employing a "wait and see" approach and would like to see more evidence of the improvements KBH is outlining as part of its plan.

But Platform Transition "Challenges" Continue. KBH continues to generate lower gross margins relative to peers in our coverage universe (20%+, on average), coming in at approximately 16% for 2016 similar to our 2017 estimate. KBH's lower margins reflect a number of challenges, including: 1) less scale in its target markets compared to peers; 2) less advantageous land basis (given less opportunistic investments given its more constrained balance sheet and KBH's stumbles at its turned to buying raw land earlier this decade, which then gave rise to delays in community openings); and 3) incremental headwinds of re-activating formerly mothballed land (gross margins ~10% vs portfolio average of ~16%). Further, KBH has proportionately more first-time home buyer exposure than peers (51% vs 40% generally for peers), which has seen stronger demand of late, but generally offers lower gross margins. We believe until KBH is able to significantly grow the scale of the operation it will be quite difficult to achieve margins or returns similar to its large cap peers.

As KBH moves forward, we acknowledge its improved orders growth (though still below peers), but with expected closings of less than 11,000 homes in 2017 (vs. DHI's ~45,000) we see less incremental opportunity for KBH to drive meaningful improvements to margins and returns on capital.

How is KBH Positioned into 2017? (**Mixed, in our view**). Detailed guidance management released (see below) supports our view that KBH is less well-positioned vs peers into 2017. Despite lower margins, KBH has noted demand remains strong and order growth and growth in closings is similar to peers while community absorption is running **above** our coverage universe average. Per KBH's CEO on 1Q17 call:

> *Our build-to-order model enables us to build the home the customer wants, with features that they value. As a result, we sustained one of the highest absorption rates per community in the industry. During the first quarter, we achieved 3.6 net orders per community per month, an increase in absorption of 16% year over year with improvements in all four of the regions)*

Key 2017 Guidance Items:

- Closings of 10,400 to 10,900 units, indicating growth of ~+ 6%-10% year-over-year vs. our estimate of 10,800 units
- Gross margins of 16.1% to 16.5% vs. 16.2% in FY16; KBH anticipates gross margins above 17% by 4Q17 (with improved "pace and price") this compares to our estimate of 16.2%
- SG&A of 10.0% to 10.4% vs. 10.9% in FY16, vs. our estimate of 10.3%
- Operating margins of 5.7% to 6.5% vs. our estimate of 5.9%
- Flat community count year-over-year, consistent with our estimate
- See Exhibit 51 for more detail on KBH's portfolio, operating history and metrics.

MSUSA Estimates:

- 2017 EPS Estimate: $1.60
- 2018 EPS Estimate: $1.94
- 2017 Estimated ROE: 8.9%
- 2017 Estimated Ending Tangible Book Value Per Share: $13.23

KBH's higher levered balance sheet limits its ability to be opportunistic. At 55% net debt to net cap with $597M liquidity, KBH has the highest leverage among our coverage. We think this relative higher leverage will hinder KBH's ability to pursue opportunistic transactions and limit ROE improvements. Our model projects that the company will generate 8.9% and 10.0% ROE in 2017 and 2018, respectively.

Why Neutral Rating? Despite Optics, We Think KBH is Fairly Valued. Given KBH's YTD performance (+35%), on improved sector sentiment broadly, as well as improved orders and gross margins (in the back-half of the year) for KBH specifically, we believe taking a "wait and see" approach makes sense at this point given what we feel is a fairly valued stock with platform and balance sheet challenges still to overcome.

On conventional Price to Book (including the DTA), KBH trades at 1.1x book value, suggesting the stock looks cheap. However, excluding the DTA, KBH trades at 1.6x price to tangible book, close to that of higher productivity / quality peers LEN and DHI (~1.8x), suggesting the stock looks expensive.

To arrive at our price target, we use our estimate of KBH's YE2017 tangible book value ($13.23), which includes a ~$130M net present benefit of KBH's expected $400M burn-off of its DTA by YE2019. We then apply a 1.5x target multiple, reflecting KBH's relative disadvantages vs. its larger, more efficient peers (e.g., DHI), to arrive at our price target, which implies 4% downside from current levels. As such, we are initiating coverage of KBH with a Neutral.

Exhibit 52: Earnings Model – KB Homes (KBH)

K.B. Home (KBH)
Income Statement
($ in thousands)

Source: KBH company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																	
Revenues:																	
Home sales	2,369,633	2,908,236	672,646	807,408	910,111	1,185,383	3,575,548	810,947	1,003,637	1,066,473	1,318,656	4,199,713	943,254	1,115,843	1,163,949	1,432,126	4,655,172
Land/lot sales	20,010	112,751	3,096	1,054	-	3,245	7,395	5,299	1,107	1,162	3,407	10,975	5,564	1,162	1,220	3,578	11,524
Total homebuilding revenue	**2,389,643**	**3,020,987**	**675,742**	**808,462**	**910,111**	**1,188,628**	**3,582,943**	**816,246**	**1,004,743**	**1,067,635**	**1,322,063**	**4,210,688**	**948,818**	**1,117,005**	**1,165,169**	**1,435,704**	**4,666,696**
Cost of Sales:																	
Home sales	(1,940,100)	(2,433,683)	(564,828)	(682,303)	(760,490)	(989,452)	(2,997,073)	(692,787)	(848,103)	(886,959)	(1,089,980)	(3,517,829)	(797,612)	(938,298)	(963,282)	(1,177,942)	(3,877,134)
Land/lot sales	(45,551)	(105,685)	(3,990)	(6,411)	-	(33,627)	(44,028)	(5,293)	(1,105)	(1,161)	(3,403)	(10,963)	(5,558)	(1,161)	(1,219)	(3,574)	(11,511)
Inventory impairments and land option write-off	-	-					-		1,004	1,066	1,319	3,389	943	2,232	2,328	2,864	8,367
Total homebuilding cost of sales	**(1,985,651)**	**(2,539,368)**	**(568,818)**	**(688,714)**	**(760,490)**	**(1,023,079)**	**(3,041,101)**	**(698,080)**	**(848,204)**	**(887,054)**	**(1,092,065)**	**(3,525,403)**	**(802,226)**	**(937,227)**	**(962,173)**	**(1,178,651)**	**(3,880,278)**
Gross Profit:																	
Home sales	429,533	474,553	107,818	125,105	149,621	195,931	578,475	118,160	155,534	179,513	228,676	681,883	145,642	177,545	200,666	254,185	778,038
Land/lot sales	(25,541)	7,066	(894)	(5,357)	-	(30,382)	(36,633)	6	1	1	4	12	6	1	1	4	13
Inventory impairments and land option write-off	-	-	-	-	-	-	-	-	1,004	1,066	1,319	3,389	943	2,232	2,328	2,864	8,367
Total homebuilding gross profit	**403,992**	**481,619**	**106,924**	**119,748**	**149,621**	**165,549**	**541,842**	**118,166**	**156,539**	**180,581**	**229,998**	**685,285**	**146,592**	**179,778**	**202,996**	**257,053**	**786,418**
Selling, general and administrative expense	(288,023)	(342,998)	(87,932)	(93,810)	(98,144)	(109,555)	(389,441)	(92,889)	(111,562)	(109,793)	(119,210)	(433,453)	(107,976)	(124,027)	(119,823)	(129,456)	(481,282)
Interest expense	(30,307)	(21,398)	(3,545)	(1,836)	109	(99)	(5,371)	(6,109)	-	-	-	(6,109)	-	-	-	-	-
Goodwill impairment	-	-					-	-	-	-	-	-	-	-	-	-	-
Loss on early retirement of debt	-	-					-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	741	(1,804)	(603)	(825)	(536)	(217)	(2,181)	731	(2,029)	(628)	(241)	(2,168)	(93)	(3,372)	(685)	(262)	(4,412)
Operating income from homebuilding	**86,403**	**115,419**	**14,844**	**23,277**	**51,050**	**55,678**	**144,849**	**19,899**	**42,948**	**70,160**	**110,547**	**243,555**	**38,523**	**52,379**	**82,487**	**127,334**	**300,724**
Financial Services:																	
Revenues	11,306	11,043	2,629	2,588	3,172	3,314	11,703	2,350	2,313	2,835	2,962	10,461	2,101	2,068	2,534	2,648	9,351
Expenses	(3,446)	(3,711)	(859)	(871)	(891)	(1,196)	(3,817)	(819)	(806)	(988)	(1,032)	(3,646)	(732)	(721)	(883)	(923)	(3,259)
Interest and Other income(expense)	686	4,292	(587)	(197)	132	(2,768)	(3,420)	29	29	35	37	129	26	26	31	33	115
Operating income from financial services	**8,546**	**11,624**	**1,183**	**1,520**	**2,413**	**(650)**	**4,466**	**1,560**	**1,536**	**1,882**	**1,966**	**6,944**	**1,394**	**1,373**	**1,682**	**1,758**	**6,207**
Total pretax income	**94,949**	**127,043**	**16,027**	**24,797**	**53,463**	**55,028**	**149,315**	**21,459**	**44,484**	**72,043**	**112,514**	**250,499**	**39,917**	**53,752**	**84,170**	**129,092**	**306,931**
Provision for income taxes	823,400	(42,400)	(2,900)	(9,200)	(14,100)	(17,500)	(43,700)	(7,200)	(17,349)	(28,097)	(43,880)	(96,526)	(15,568)	(20,963)	(32,826)	(50,346)	(119,703)
Net Income GAAP	**918,349**	**84,643**	**13,127**	**15,597**	**39,363**	**37,528**	**105,615**	**14,259**	**27,135**	**43,946**	**68,633**	**153,973**	**24,350**	**32,789**	**51,343**	**78,746**	**187,228**
Extraordinary Items, net of tax					-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Recurring	**918,349**	**84,643**	**13,127**	**15,597**	**39,363**	**37,528**	**105,615**	**14,259**	**27,135**	**43,946**	**68,633**	**153,973**	**24,350**	**32,789**	**51,343**	**78,746**	**187,228**
Effect of Dilutive Securities																	
Interest expense and amortization of issuance c	-	-	-	-	-	-	-										
Basic earning per share	**$10.29**	**$0.92**	**$0.15**	**$0.19**	**$0.47**	**$0.44**	**$1.23**	**$0.17**	**$0.32**	**$0.51**	**$0.80**	**$1.81**	**$0.28**	**$0.38**	**$0.60**	**$0.92**	**$2.19**
Diluted earnings per share	**$9.25**	**$0.82**	**$0.13**	**$0.16**	**$0.41**	**$0.39**	**$1.10**	**$0.15**	**$0.28**	**$0.46**	**$0.71**	**$1.60**	**$0.25**	**$0.34**	**$0.53**	**$0.82**	**$1.94**
Recurring earnings per share	**$9.25**	**$0.82**	**$0.13**	**$0.16**	**$0.41**	**$0.39**	**$1.10**	**$0.15**	**$0.28**	**$0.46**	**$0.71**	**$1.60**	**$0.25**	**$0.34**	**$0.53**	**$0.82**	**$1.94**

Source: Company reports and Mizuho Securities USA.

Exhibit 53: Balance Sheet – KB Homes (KBH)

K.B. Home (KBH)
Balance Sheet
($ in thousands)

Source: KBH company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																	
Cash and cash equivalents	356,366	559,042	323,076	274,849	334,669	592,086	592,086	351,880	541,208	962,924	821,204	821,204	959,373	691,240	1,089,541	1,007,020	1,007,020
Restricted Cash	27,235	9,344	4,357	3,517	602	0	0	0	0	0	0	0	0	0	0	0	0
Inventories:																	
Construction in progress and finished homes	928,272	1,031,356	1,110,826	1,247,223	1,402,650	1,245,938	1,245,938	1,332,386									
Residential lots - developed and under development	1,710,149	1,766,045	1,879,363	1,815,661	1,773,962	1,727,657	1,727,657	1,658,275									
Land held for development	579,966	516,346	478,455	462,205	421,061	429,633	429,633	432,683									
Land held for Sale		-															
Total inventory	3,218,387	3,313,747	3,468,644	3,525,089	3,597,673	3,403,228	3,403,228	3,423,344	3,349,654	2,960,401	3,255,854	3,255,854	3,168,058	3,601,260	3,215,004	3,452,650	3,452,650
Property and equipment (net)		13,100	13,614	14,139	13,006	14,240	14,240	14,450	13,681	12,272	13,480	13,480	12,259	12,001	10,851	12,468	12,468
Inv. In Unconsolidated Joint Ventures	79,441	71,558	68,572	65,213	61,526	64,016	64,016	64,916	64,916	64,916	64,916	64,916	64,916	64,916	64,916	64,916	64,916
Earnest money deposits and other assets		0							0	0	0	0	0	0	0	0	0
Receivables	125,488	152,682	152,089	151,066	149,219	231,665	231,665	238,358	238,358	238,358	238,358	238,358	238,358	238,358	238,358	238,358	238,358
Deferred Income Taxes	825,232	782,196	779,396	770,396	756,596	738,985	738,985	731,885	690,918	649,952	608,985	608,985	576,485	543,985	511,485	478,985	478,985
Other Assets	114,915	99,674	99,446	98,651	100,335	76,905	76,905	82,229	82,229	82,229	82,229	82,229	82,229	82,229	82,229	82,229	82,229
Total homebuilding assets	**4,747,064**	**5,001,343**	**4,909,194**	**4,902,920**	**5,013,626**	**5,121,125**	**5,121,125**	**4,907,062**	**4,980,964**	**4,971,051**	**5,085,026**	**5,085,026**	**5,101,678**	**5,233,989**	**5,212,384**	**5,336,626**	**5,336,626**
Financial Services:																	
FS Cash and cash equivalents	2,402	1,299	1,780	1,700	3,053	914	914	570	570	570	570	570	570	570	570	570	570
Receivables	1,738	2,245	1,201	1,543	1,222	1,764	1,764	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859
Inv. In Unconsolidated Joint Ventures	6,149	10,440	9,853	9,656	9,788	7,771	7,771	13,051	13,051	13,051	13,051	13,051	13,051	13,051	13,051	13,051	13,051
Other assets	197	44	28	24	72	50	50	38	38	38	38	38	38	38	38	38	38
Total financial services assets	**10,486**	**14,028**	**12,862**	**12,923**	**14,135**	**10,499**	**10,499**	**15,518**	**15,518**	**15,518**	**15,518**	**15,518**	**15,518**	**15,518**	**15,518**	**15,518**	**15,518**
Total Assets	**4,757,550**	**5,015,371**	**4,922,056**	**4,915,843**	**5,027,761**	**5,131,624**	**5,131,624**	**4,922,580**	**4,996,482**	**4,986,569**	**5,100,544**	**5,100,544**	**5,117,196**	**5,249,507**	**5,227,902**	**5,352,144**	**5,352,144**
Homebuilding:																	
Accounts payable	172,716	183,770	167,575	190,327	195,785	215,331	215,331	178,491	207,339	177,411	203,522	203,522	213,927	229,100	192,435	219,658	219,658
Accrued and other liabilities	409,882	513,414	483,286	456,645	471,295	550,996	550,996	501,902	518,347	492,808	509,630	509,630	490,249	572,750	534,541	550,037	550,037
Liabilities - consolidated land inventory not owned	-	-					-		0	0	0	0		0	0	0	0
Notes payable	2,576,525	2,625,536	2,652,705	2,632,127	2,674,795	2,640,149	2,640,149	2,504,449	2,504,449	2,504,449	2,504,449	2,504,449	2,504,449	2,504,449	2,504,449	2,504,449	2,504,449
Total homebuilding liabilities	**3,159,123**	**3,322,720**	**3,303,566**	**3,279,099**	**3,341,875**	**3,406,476**	**3,406,476**	**3,184,842**	**3,230,135**	**3,174,667**	**3,217,601**	**3,217,601**	**3,208,625**	**3,306,299**	**3,231,424**	**3,274,144**	**3,274,144**
Financial Services:																	
Accounts payable and other liabilities	2,517	1,817	1,432	1,575	3,436	2,003	2,003	1,278	1,278	1,278	1,278	1,278	1,278	1,278	1,278	1,278	1,278
Notes payable to financial institutions	-	-					-		-	-	-	-	-	-	-	-	-
Total financial services liabilities	**2,517**	**1,817**	**1,432**	**1,575**	**3,436**	**2,003**	**2,003**	**1,278**	**1,278**	**1,278**	**1,278**	**1,278**	**1,278**	**1,278**	**1,278**	**1,278**	**1,278**
Total Liabilities	**3,161,640**	**3,324,537**	**3,304,998**	**3,280,674**	**3,345,311**	**3,408,479**	**3,408,479**	**3,186,120**	**3,231,413**	**3,175,945**	**3,218,879**	**3,218,879**	**3,209,903**	**3,307,577**	**3,232,702**	**3,275,422**	**3,275,422**
Minority interests									0	0	0	0	0	0	0	0	0
Preferred stock	-	-	-	-	-	-	-	-	0	0	0	0	0	0	0	0	0
Common stock	115,387	115,548	115,548	115,672	116,199	116,224	116,224	116,299	116,299	116,299	116,299	116,299	116,299	116,299	116,299	116,299	116,299
Additional capital	668,857	682,871	681,699	686,188	695,686	696,938	696,938	697,656	701,259	705,001	709,549	709,549	712,966	716,954	721,021	725,937	725,937
Accumulated other comprehensive income (Loss) and reserve	(21,008)	(17,319)	(17,319)	(17,319)	(17,319)	(16,057)	(16,057)	(16,057)	(16,057)	(16,057)	(16,057)	-16,057	(16,057)	(16,057)	(16,057)	(16,057)	-16,057
Grantor Stock Ownership Trust	(112,106)	(109,936)	(105,871)	(105,871)	(105,871)	(102,300)	(102,300)	(99,279)	(99,279)	(99,279)	(99,279)	-99,279	(99,279)	(99,279)	(99,279)	(99,279)	-99,279
Retained earnings	1,391,256	1,466,713	1,477,570	1,491,073	1,528,329	1,563,742	1,563,742	1,575,786	1,600,792	1,642,604	1,709,098	1,709,098	1,731,308	1,761,957	1,811,161	1,887,767	1,887,767
Treasury stock	(446,476)	(447,043)	(534,569)	(534,574)	(534,574)	(535,402)	(535,402)	(537,945)	(537,945)	(537,945)	(537,945)	(537,945)	(537,945)	(537,945)	(537,945)	(537,945)	(537,945)
Total stockholders' equity	**1,595,910**	**1,690,834**	**1,617,058**	**1,635,169**	**1,682,450**	**1,723,145**	**1,723,145**	**1,736,460**	**1,765,069**	**1,810,624**	**1,881,665**	**1,881,665**	**1,907,292**	**1,941,930**	**1,995,199**	**2,076,722**	**2,076,722**
Total Liabilities and stockholders' equity	**4,757,550**	**5,015,371**	**4,922,056**	**4,915,843**	**5,027,761**	**5,131,624**	**5,131,624**	**4,922,580**	**4,996,482**	**4,986,569**	**5,100,544**	**5,100,544**	**5,117,196**	**5,249,507**	**5,227,902**	**5,352,144**	**5,352,144**

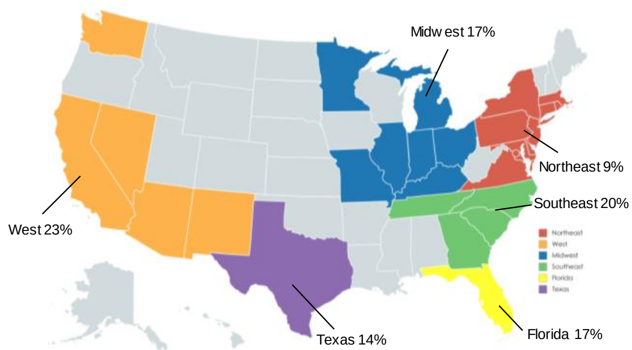
Source: Company reports and Mizuho Securities USA.

Exhibit 54: Initiating Coverage of PulteGroup (PHM); Neutral / $22 PT

Tearsheet

PulteGroup, Inc. **(PHM)** **PT: $22** **Closing Price:** **$22.94** **as of 5/15/2017** **Market Cap ($000):** **$7,178**

End Market (% of 1Q17 Homebuilding Revenue)



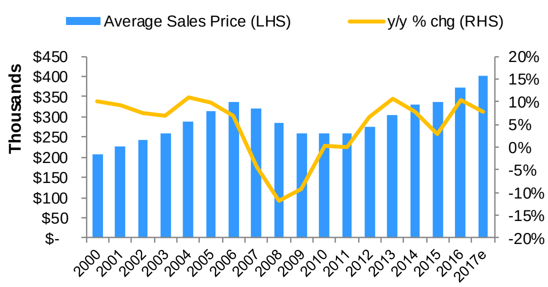
Company Description

PulteGroup, Inc. (PHM), based in Atlanta, GA, is one of America's largest homebuilding companies with operations in approximately 50 markets throughout the country. Through its brand portfolio that includes Centex, Pulte Homes, Del Webb, DiVosta Homes and John Wieland Homes and Neighborhoods, the Company is one of the industry's most versatile homebuilders able to meet the needs of multiple buyer groups and respond to changing consumer demand. PHM's fiscal year ends November 30.

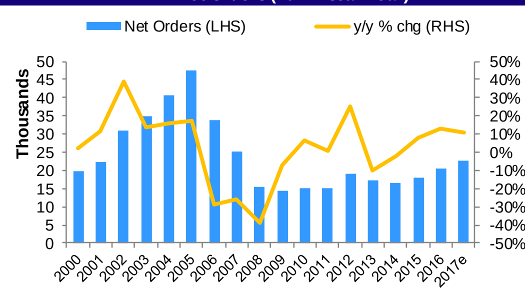
Most Recent Fiscal Quarter (1Q17) Key Operating Metrics

Closings (units): 4,225; 7% y/y
Average Sales Price: $375k; 6% y/y
Net Orders (units): 6,126; 8% y/y
Baklog (units): 9,323; 7% y/y
Cancellation Rate: 12%

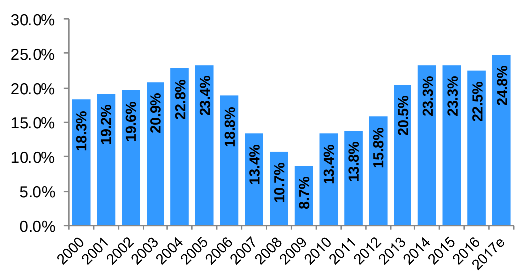
Average Sales Price (Full Fiscal Year)



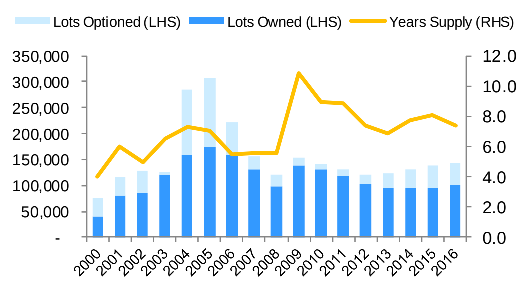
Net Orders (Full Fiscal Year)



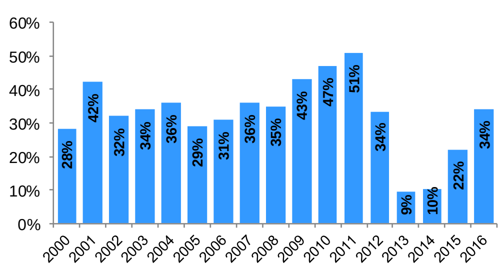
Homebuilding Gross Margins (Full Fiscal Year)



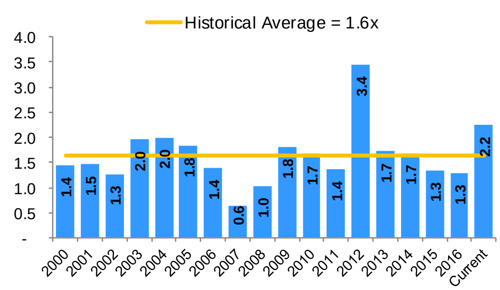
Land Supply (End of Reporting Period)



Net Debt to Cap Ratio (End of Reporting Period)



Price-to-Book (End of Reporting Period)



Source: Company reports and Mizuho Securities USA.

PulteGroup (PHM) / Neutral / $22 PT

Investment Thesis: PHM is the third largest U.S. homebuilder, behind DHI and LEN. PHM has made significant improvements to its platform in recent years, first with a transition to a “Common Managed Floorplan” (started in 2011), and more recently with revamping its land positions (starting in 2015) to help re-establish strong positive community count growth. Early results have been mixed, with improved orders growth and gross margins, but its SG&A margins still lag. We think some of PHM’s more favorable recent trends are tied to an increasing mix of homes sold and closed in CA, which carry much higher prices relative to other regions; CA was 20% of PHM’s total homes delivered in 2016. Looking ahead, we see further opportunity for PHM to enhance growth via incremental community count and absorption rate growth.

On the capital allocation side, we support PHM’s plan to improve long-term returns by focusing on a balanced capital allocation plan, which the company believes will drive improved returns over time. Despite a new CEO (Ryan Marshall) appointed in 2016, PHM remains focused on its message / strategy of prudent investing (with a focus on ‘risk-scoring’, no longer a hard line on projects with 20%+ returns) and a keen focus on return on capital. That said, despite our favorable view on PHM’s portfolio and capital allocation strategy, we think PHM is fairly valued at current levels (given ongoing transition and dilutive impact of stock buybacks on its book value), but think that the stock can benefit from the buyback activity. **We rate PHM Neutral, our PT is $20.**

Platform Evolution Continues Coming out of the recent recession, PHM tweaked its capital allocation and operating / investing playbook to focus on driving superior returns over the full operating cycle and enhance its operating metrics. As part of this, PHM implemented a more shareholder friendly and balanced capital allocation strategy split between land investment, dividends, share repurchases, and strategic transactions with initial goals including investing 40-50% of its cash flow on land invest, 20-30% to fund a dividend, 0-30% on strategic transactions and 0-30% of share buybacks (PHM anticipates repurchasing ~$1 billion of shares in FY2017, having already re-purchased $100 million of shares in 1Q17 at an average price of $21.30 per share). While the plan was not viewed very positively by investors when first announced (in 2013), we think investors have warmed up to it given the slowing (orders) growth outlook and similar strategies employed by peers.

On the operating side, PHM is in the final stages of a successful transition to a “Common Managed Floorplan” and a build-to-order strategy to reduce production costs (improve margins) by focusing on fewer floorplans; see Exhibit 2 for more detail. PHM is also focused on reducing its land holdings, consistent with peers. On May 8, PHM announced a plan to dispose of approximately 5,000 owned lots and book an impairment of $95-$125 million in 2Q17; the impairment equates to a loss of $19,000 to $25,000 per lot, a substantial sum and somewhat reflective of sub-optimal land purchase decision making in the past. Prior to the announcement, we estimate that PHM owned / controlled approximately 6.8 years of supply. Following the successful execution of the announced 5,000 lot disposition, PHM's years' supply of land would drop to ~6.5 years, closer to its goal of reducing its land exposure down to ~6 years of supply. With a focus on turning land at a faster pace (to improve future ROEs), the average duration of projects PHM approved in 1Q17 was 2.5 years.

How is PHM Positioned into 2017? (Mixed, in our view.) While we see PHM growing community count, we cannot ignore the absorptions / margins risk (highlighted by 1Q17 results)**.**

- **Strong community count growth, but below-average absorption pace**. PHM's management guidance supports our view that while PHM is in an enviable position of growing community count at a high single-digit growth rate while peers are generally facing flattish community count growth, its platform evolution is not yet fully complete. We note that PHM experienced a slower absorption pace vs. peers in1Q17, declining 1% year over year, and disappointing investors. While absorption pace has a number of variables and can be influenced by community type, we are careful to not place too much weight on this single data point but it is worth watching as the year progresses.

- **Above-average ROE.** In the first quarter, absorptions for first time buyers and move-up buyers were down 5% year-over-year while active adult was up 17%, in contrast to some peers reporting strong growth in absorption pace. However, we note that PHM is focused on profitability and not order growth, reflected in its improved ROE metrics; see Exhibit 5. While a number of builders remain more focused on driving production, we like PHM's focus on profitability over production / pace.

- **Solid Growth / Profitability Measures.** For FY17, we estimate PHM will generate ~11% order growth, a 24.5% gross margin (adjusted for the 2Q17 land impairment), an 11.0% operating margin and a 15.7% ROE. Our 2017 operating assumptions drive 2017 EPS estimate of $2.23 (+ 27% year-over-year), along with 7% tangible book value growth (reduced due to $1 billion stock repurchase plan above book value for 2017 as well as a large land impairment).

- See Exhibit 54 for more detail on PHM's portfolio, operating history and metrics.

Key 2017 Guidance Items:

- Gross margins of 24.0% to 24.5% vs. 24.9% in FY16 and our estimate of 24.5%
- SG&A of 12.0% to 12.5% vs. 12.8% in FY16 and our estimate of 12.0%
- Operating margins of 11.5% to 12.5% vs. our estimate of 12%
- 5%-10% community count growth vs. our estimate of 6%

MSUSA Estimates:

- 2017 EPS Estimate: $2.23 (excluding est. $0.22 land impairment)
- 2018 EPS Estimate: $2.50
- 2017 Estimated ROE: 15.7%
- 2017 Estimated Ending Tangible Book Value Per Share: $11.32

Balance Sheet in Solid Shape. PHM's leverage currently stands at 29% net debt to net cap with $947M liquidity and no meaningful debt maturities. Our model projects that the company will generate 15.7% and 16.9% ROE in 2017 and 2018, respectively.

Why Neutral Rating? At current levels (2.0x P/Tangible Book, 10.3x '17e EPS), we think PHM is fully valued and that that the market may be over-estimating its near-term growth potential and underestimating the negative impact its lower growth will have on its DTA earn-back period. Given current valuation, we would like further visibility on how demand manifests over the course of FY17 before getting more optimistic/pessimistic. Deploying an additional $900 million in share repurchases during the year should provide support for the stock but we prefer to stay on the sidelines until we have a clearer picture of how demand, margins and returns are unfolding. We rate PHM Neutral; our price target of $22 (implies 5% downside) reflects a 50% weighting to a 1.6x TBV multiple and a 12x EPS multiple to 2017 earnings.

Exhibit 55: Earnings Model – PulteGroup (PHM)

Pulte Group (PHM)
Income Statement
($ in thousands)

Source: PHM company documents, Mizuho Securities

Year ended September 30,	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																	
Revenues:																	
Home sales	5,662,172	5,792,675	1,394,243	1,751,882	1,881,718	2,423,472	7,451,315	1,585,421	1,995,937	2,278,220	2,751,044	8,610,622	1,749,100	2,199,722	2,416,736	2,918,307	9,283,865
Land/lot sales	34,553	48,536	2,487	4,950	13,167	15,431	36,035	1,640	5,198	5,457	16,203	28,497	1,722	5,457	5,730	17,013	29,922
Total homebuilding revenue	**5,696,725**	**5,841,211**	**1,396,730**	**1,756,832**	**1,894,885**	**2,438,903**	**7,487,350**	**1,587,061**	**2,001,134**	**2,283,678**	**2,767,246**	**8,639,119**	**1,750,822**	**2,205,179**	**2,422,466**	**2,935,320**	**9,313,787**
Cost of Sales:																	
Home sales	(4,343,248)	(4,440,893)	(1,038,028)	(1,374,509)	(1,485,611)	(1,821,672)	(5,587,974)	(1,217,678)	(1,512,510)	(1,714,247)	(2,052,496)	(6,496,930)	(1,328,974)	(1,642,661)	(1,818,473)	(2,177,288)	(6,967,395)
Land/lot sales	(23,749)	(35,858)	(2,028)	(4,403)	(11,428)	(14,256)	(32,115)	(3,228)	(4,938)	(5,021)	(14,906)	(28,093)	(1,636)	(5,185)	(5,444)	(16,162)	(28,426)
Inventory impairments and land option write-offs	-	-					-		(110,000)	-	-	(110,000)	-	-	-	-	-
Total homebuilding cost of sales	**(4,366,997)**	**(4,476,751)**	**(1,040,056)**	**(1,378,912)**	**(1,497,039)**	**(1,835,928)**	**(5,620,089)**	**(1,220,906)**	**(1,627,447)**	**(1,719,267)**	**(2,067,402)**	**(6,635,023)**	**(1,330,610)**	**(1,647,846)**	**(1,823,916)**	**(2,193,450)**	**(6,995,822)**
Gross Profit:																	
Home sales	1,318,924	1,351,782	356,215	377,373	396,107	601,800	1,863,341	367,743	483,427	563,974	698,548	2,113,691	420,126	557,061	598,263	741,019	2,316,469
Land/lot sales	10,804	12,678	459	547	1,739	1,175	3,920	(1,588)	260	437	1,296	405	86	273	287	851	1,496
Inventory impairments and land option write-offs	-	-	-	-	-	-	-	-	(110,000)	-	-	(110,000)	-	-	-	-	-
Total homebuilding gross profit	**1,329,728**	**1,364,460**	**356,674**	**377,920**	**397,846**	**602,975**	**1,867,261**	**366,155**	**373,687**	**564,410**	**699,844**	**2,004,096**	**420,212**	**557,334**	**598,550**	**741,870**	**2,317,966**
Selling, general and administrative expense	(667,814)	(589,782)	(243,316)	(192,333)	(183,008)	(207,647)	(957,150)	(236,268)	(249,096)	(263,947)	(290,947)	(1,040,258)	(269,401)	(285,520)	(292,101)	(323,295)	(1,170,317)
Interest expense	(30,307)	(21,398)	-				-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-					-	-	-	-	-	-	-	-	-	-	-
Loss on early retirement of debt	-	-					-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	741	(1,804)	(5,874)	(12,909)	(23,617)	(6,412)	(48,812)	(4,022)	(16,703)	(28,593)	(7,279)	(56,597)	(6,186)	(20,608)	(30,332)	(7,721)	(64,848)
Operating income from homebuilding	**632,348**	**751,476**	**107,484**	**172,678**	**191,221**	**388,916**	**861,299**	**125,865**	**107,888**	**271,869**	**401,618**	**907,241**	**144,624**	**251,205**	**276,117**	**410,854**	**1,082,800**
Financial Services:																	
Revenues	11,306	140,753	35,848	43,082	48,020	54,175	181,125	41,767	50,195	55,949	63,120	211,031	48,663	58,483	65,187	73,542	245,875
Expenses	(3,446)	(82,048)	(26,119)	(26,180)	(26,906)	(29,370)	(108,575)	(28,367)	(34,091)	(37,999)	(42,869)	(143,327)	(33,051)	(39,720)	(44,273)	(49,948)	(166,992)
Interest and Other income(expense)	686	-					-	-	-	-	-	-	-	-	-	-	-
Operating income from financial services	**54,488**	**58,705**	**9,729**	**16,902**	**21,114**	**24,805**	**72,550**	**13,400**	**16,104**	**17,950**	**20,251**	**67,705**	**15,613**	**18,763**	**20,914**	**23,594**	**78,884**
Total pretax income	**686,836**	**810,181**	**117,213**	**189,580**	**212,335**	**413,721**	**933,849**	**139,265**	**123,992**	**289,819**	**421,869**	**974,945**	**160,237**	**269,968**	**297,031**	**434,448**	**1,161,684**
Provision for income taxes	(215,419)	(321,932)	(34,913)	(71,820)	(83,865)	(140,549)	(331,147)	(47,747)	(45,257)	(105,784)	(153,982)	(352,770)	(49,673)	(102,588)	(109,901)	(160,746)	(422,908)
Net Income GAAP	**471,417**	**488,249**	**82,300**	**117,760**	**128,470**	**273,172**	**602,702**	**91,518**	**78,735**	**184,035**	**267,887**	**622,175**	**110,564**	**167,380**	**187,129**	**273,702**	**738,775**
Extraordinary Items, net of tax					-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Recurring	**471,417**	**488,249**	**82,300**	**117,760**	**128,470**	**273,172**	**602,702**	**91,518**	**78,735**	**184,035**	**267,887**	**622,175**	**110,564**	**167,380**	**187,129**	**273,702**	**738,775**
Effect of Dilutive Securities																	
Interest expense and amortization of issuance co	-	-	-	-	-	-	-										
Basic earning per share	**$1.27**	**$1.37**	**$0.24**	**$0.34**	**$0.38**	**$0.84**	**$1.77**	**$0.29**	**$0.25**	**$0.60**	**$0.89**	**$2.01**	**$0.38**	**$0.57**	**$0.64**	**$0.93**	**$2.52**
Diluted earnings per share	**$1.26**	**$1.36**	**$0.23**	**$0.34**	**$0.38**	**$0.83**	**$1.76**	**$0.29**	**$0.25**	**$0.60**	**$0.89**	**$2.00**	**$0.37**	**$0.57**	**$0.63**	**$0.93**	**$2.50**
Recurring earnings per share	**$1.26**	**$1.36**	**$0.23**	**$0.34**	**$0.38**	**$0.83**	**$1.76**	**$0.29**	**$0.47**	**$0.60**	**$0.89**	**$2.23**	**$0.37**	**$0.57**	**$0.63**	**$0.93**	**$2.50**

Source: Company reports and Mizuho Securities USA.

Exhibit 56: Balance Sheet – PulteGroup (PHM)

Pulte Group (PHM)
Balance Sheet
($ in thousands)

Source: PHM company documents, Mizuho Securities

Year ended September 30,	2014A		2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Homebuilding:																		
Cash and cash equivalents	1,292,862		754,161	995,696	229,187	434,205	698,882	698,882	397,758	690,157	128,424	567,281	567,281	478,424	773,439	478,424	1,248,780	1,248,780
								0	0	-	-	-	-	-	-	-	-	-
Restricted Cash	16,358		21,274	22,419	26,484	26,984	24,366	24,366	26,105	26,105	26,105	26,105	26,105	26,105	26,105	26,105	26,105	26,105
Inventories:																		
House and Land Inventory	4,392,100		5,450,058	6,202,479	6,629,464	6,950,242	6,770,655	6,770,655	7,028,335									
Land, not owned, under option agreements	30,186		-					-										
Land held for Sale	101,190		81,492	85,017	85,781	57,468	31,728	31,728	48,563									
Total inventory	4,523,476		5,531,550	6,287,496	6,715,245	7,007,710	6,802,383	6,802,383	7,076,898	6,985,549	7,877,966	7,656,919	7,656,919	7,263,507	7,404,143	8,358,336	8,002,757	8,002,757
								0	0	-	-	-	-	-	-	-	-	-
Inv. In Unconsolidated Joint Ventures	40,368		41,267	53,090	52,500	51,768	51,447	51,447	65,293	65,293	65,293	65,293	65,293	65,293	65,293	65,293	65,293	65,293
Residential Mortgage Loans available for sale	339,531		442,715	290,578	364,004	349,012	539,496	539,496	345,379	345,379	345,379	345,379	345,379	345,379	345,379	345,379	345,379	345,379
Intangible Assets	123,115		110,215	163,185	161,372	158,242	154,792	154,792	151,342	151,342	151,342	151,342	151,342	151,342	151,342	151,342	151,342	151,342
Deferred Tax Assets	1,720,668		1,394,879	1,344,853	1,277,096	1,195,905	1,049,408	1,049,408	1,028,414	1,008,414	958,414	908,414	908,414	858,414	808,414	758,414	708,414	708,414
Other Assets	513,032		671,099	686,163	681,168	647,706	857,426	857,426	829,625	829,625	829,625	829,625	829,625	829,625	829,625	829,625	829,625	829,625
Total homebuilding assets	**8,569,410**		**8,967,160**	**9,843,480**	**9,507,056**	**9,871,532**	**10,178,200**	**10,178,200**	**9,920,814**	**10,101,865**	**10,382,548**	**10,550,358**	**10,550,358**	**10,018,089**	**10,403,740**	**11,012,918**	**11,377,695**	**11,377,695**
Financial Services:																		
FS Cash and cash equivalents								0	-	-	-	-	-	-	-	-	-	-
Receivables								0	-	-	-	-	-	-	-	-	-	-
Inv. In Unconsolidated Joint Ventures								0	-	-	-	-	-	-	-	-	-	-
Other assets								-	-	-	-	-	-	-	-	-	-	-
Total financial services assets	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Assets	**8,569,410**		**8,967,160**	**9,843,480**	**9,507,056**	**9,871,532**	**10,178,200**	**10,178,200**	**9,920,814**	**10,101,865**	**10,382,548**	**10,550,358**	**10,550,358**	**10,018,089**	**10,403,740**	**11,012,918**	**11,377,695**	**11,377,695**
Homebuilding:																		
Accounts payable	270,516		327,725	331,932	340,847	378,423	405,455	405,455	367,180	397,820	343,853	441,355	441,355	354,829	402,807	364,783	468,264	468,264
Customer Deposits	142,642		186,141	223,692	252,259	248,302	187,891	187,891	240,745	240,745	240,745	240,745	240,745	240,745	240,745	240,745	240,745	240,745
Accrued and Other Liabilities	1,343,774		1,284,273	1,294,892	1,269,263	1,270,353	1,448,994	1,448,994	1,360,418	1,513,159	1,458,305	1,531,102	1,531,102	813,150	1,007,017	1,013,287	1,023,610	1,023,610
Income Tax Liabilities	48,722		57,050	33,460	33,980	33,562	34,860	34,860	41,941	41,941	41,941	41,941	41,941	41,941	41,941	41,941	41,941	41,941
Total homebuilding liabilities	**1,805,654**		**1,855,189**	**1,883,976**	**1,896,349**	**1,930,640**	**2,077,200**	**2,077,200**	**2,010,284**	**2,193,666**	**2,084,844**	**2,255,142**	**2,255,142**	**1,450,666**	**1,692,510**	**1,660,756**	**1,774,560**	**1,774,560**
Debt:																		
Financial Services Debt	140,241		267,877	118,614	189,557	158,794	331,621	331,621	140,381	331,621	808,548	808,548	808,548	994,247	994,247	1,471,359	1,471,359	1,471,359
Senior Notes / Term Loan	1,818,561		2,084,769	3,067,363	2,603,033	3,110,066	3,110,016	3,110,016	3,110,004	3,110,004	3,110,004	3,110,004	3,110,004	3,110,004	3,110,004	3,110,004	3,110,004	3,110,004
Total financial services liabilities	**1,958,802**		**2,352,646**	**3,185,977**	**2,792,590**	**3,268,860**	**3,441,637**	**3,441,637**	**3,250,385**	**3,441,625**	**3,918,552**	**3,918,552**	**3,918,552**	**4,104,251**	**4,104,251**	**4,581,363**	**4,581,363**	**4,581,363**
Total Liabilities	**3,764,456**		**4,207,835**	**5,069,953**	**4,688,939**	**5,199,500**	**5,518,837**	**5,518,837**	**5,260,669**	**5,635,291**	**6,003,396**	**6,173,694**	**6,173,694**	**5,554,917**	**5,796,761**	**6,242,120**	**6,355,923**	**6,355,923**
Minority interests								0	-	-	-	-	-	-	-	-	-	-
Preferred stock	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	3,695		3,491	3,463	3,438	3,324	3,191	3,191	3,161	3,027	2,892	2,758	2,758	2,758	2,758	2,758	2,758	2,758
Additional capital	3,072,996		3,093,802	3,108,883	3,115,041	3,120,881	3,116,490	3,116,490	3,141,430	2,897,315	2,653,515	2,410,261	2,410,261	2,412,591	2,415,406	2,418,487	2,422,151	2,422,151
Accumulated other comprehensive income (Loss) and reserves	(690)		(609)	(588)	(568)	(548)	(526)	(526)	(505)	(505)	(505)	(505)	(505)	(505)	(505)	(505)	(505)	(505)
Accumulated Deficit (Retained Earnings)	1,728,953		1,662,641	1,661,769	1,700,206	1,548,375	1,540,208	1,540,208	1,516,059	1,566,737	1,723,250	1,964,150	1,964,150	2,048,328	2,189,320	2,350,059	2,597,368	2,597,368
								-										
Total stockholders' equity	**4,804,954**	#	**4,759,325**	**4,773,527**	**4,818,117**	**4,672,032**	**4,659,363**	**4,659,363**	**4,660,145**	**4,466,574**	**4,379,152**	**4,376,664**	**4,376,664**	**4,463,172**	**4,606,979**	**4,770,798**	**5,021,772**	**5,021,772**
Total Liabilities and stockholders' equity	**8,569,410**	#	**8,967,160**	**9,843,480**	**9,507,056**	**9,871,532**	**10,178,200**	**10,178,200**	**9,920,814**	**10,101,865**	**10,382,548**	**10,550,358**	**10,550,358**	**10,018,089**	**10,403,740**	**11,012,918**	**11,377,695**	**11,377,695**

Source: Company reports and Mizuho Securities USA.

Appendix A: Mizuho Housing Outlook

Exhibit 57: 2017 Mizuho Housing Outlook

FY2016 Recap:	
Household Formations	1.1M
Existing Home Sales	4.9M
New Homes Sales:	560K
Total Housing Starts	1.28M
Single Family Housing Starts:	830k
Home Price Appreciation:	+5%
2017 Outlook:	
Household Formations	1.4 M
Existing Home Sales	5.4M (+0% YOY)
New Homes Sales:	590K (+5% YOY)
Total Housing Starts	1.30M (+11% YOY)
Single Family Housing Starts:	930k (+9% YOY)
Home Price Appreciation:	+3% increase

Source: Company reports, Federal Reserve Economic Data, Mizuho Securities USA estimates.

Exhibit 58: Historical Housing Summary – Starts, Sales

	Housing Starts[1]						Home Sales[1]				Notable Indicators	
Year	Single-Family	YOY Chg.	Multi-Family	YOY Chg.	Total	YOY Chg.	New	YOY Chg.	Existing	YOY Chg.	Case-Shiller HPI[2]	NAHB Sentiment[2]
2000	1,231		338		1,569		877		4,602		100	69
2001	1,273	3.4%	330	-2.4%	1,603	2.2%	909	3.6%	4,732	2.8%	109	52
2002	1,359	6.8%	346	4.8%	1,705	6.4%	972	6.9%	4,974	5.1%	116	58
2003	1,499	10.3%	349	0.9%	1,848	8.4%	1,088	11.9%	5,444	9.4%	128	62
2004	1,611	7.5%	345	-1.1%	1,956	5.8%	1,203	10.6%	5,958	9.4%	141	68
2005	1,716	6.5%	352	2.0%	2,068	5.7%	1,283	6.7%	6,180	3.7%	160	70
2006	1,465	-14.6%	336	-4.5%	1,801	-12.9%	1,052	-18.0%	5,677	-8.1%	181	57
2007	1,046	-28.6%	309	-8.0%	1,355	-24.8%	776	-26.2%	4,398	-22.5%	183	35
2008	622	-40.5%	284	-8.1%	906	-33.1%	485	-37.5%	3,665	-16.7%	171	19
2009	445	-28.5%	109	-61.6%	554	-38.9%	374	-22.9%	3,870	5.6%	149	8
2010	471	5.8%	116	6.4%	587	6.0%	322	-13.9%	3,708	-4.2%	145	15
2011	431	-8.5%	178	53.4%	609	3.7%	305	-5.3%	3,786	2.1%	139	16
2012	535	24.1%	246	38.2%	781	28.2%	369	21.0%	4,128	9.0%	134	25
2013	618	15.5%	307	24.8%	925	18.4%	429	16.3%	4,484	8.6%	144	47
2014	648	4.9%	355	15.6%	1,003	8.4%	439	2.3%	4,344	-3.1%	159	56
2015	715	10.3%	397	11.8%	1,112	10.9%	500	13.9%	4,646	7.0%	175	57
2016	760	6.3%	392	-1.3%	1,152	3.6%	563	12.6%	5,450	17.3%	186	61
2017e	*830*	9.2%	*450*	14.8%	1,280	11.1%	*590*	4.8%	*5,430*	-0.4%	*na*	67
2018e	*900*	8.4%	*450*	0.0%	1,350	5.5%	*640*	8.5%	*5,720*	5.3%	*na*	*na*

Source: Company reports, Federal Reserve Economic Data, NAHB, Mizuho Securities USA estimates. 1. Excludes condos

Appendix B: Key Macro Housing Data Points

On the macro front, the most closely watched indicators are New Home Sales, Single Family Housing Starts, NAHB Homebuilder Sentiment and Existing Home Sales. Collectively, the data points are important measures of the strength of the housing market as they assess demand for single family housing, current and future supply, and current and future sentiment towards housing production.

Exhibit 59: Homebuilder Data Points Monthly Calendar

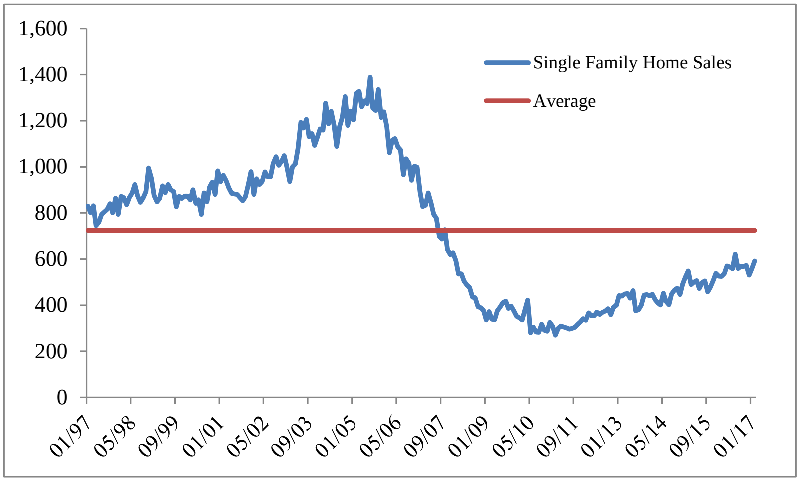
Key Builder Macro Data	Release Date
New Homes Sales	Released in the third or fourth week of the month (17th workday officially)
Housing Starts	Released in the 3rd week of the month (12th workday).
Housing Market Index	Released monthly by the NAHB on the day before Housing Starts data is released.
Existing Home Sales	Existing Home Sales data is released monthly by NAR and tracks home resales as well as resale inventory.
Home Price Indices	Published monthly by Case Shiller (CS) and FHFA, which are released with a two-month lag.

June	Monday	Tuesday	Wednesday	Thursday	Friday
Week 1				01	02
Week 2	05	06	07	08	09
Week 3	12	13	14 ● Existing Home Sales 10:00 AM ET	15 ● Housing Market Index 10:00 AM ET	16 ● Housing Starts 8:30 AM ET
Week 4	19	20	21	22 ● Home Price Indices 8:30 AM ET	23 ● New Home Sales 10:00 AM ET
Week 5	26	27	28	29	30

Source: Federal Reserve Economic Data, Mizuho Securities USA.

New Homes Sales. **Released on the third or fourth week of the month (17th workday officially)** jointly by the Census Bureau and HUD and represents newly constructed homes built by public and private builders that have been laced under contract. Since 2008, we estimate that public builders have increased their market share from a low of ~17% (1/6 share) to ~34% (1/3) in June 2014.

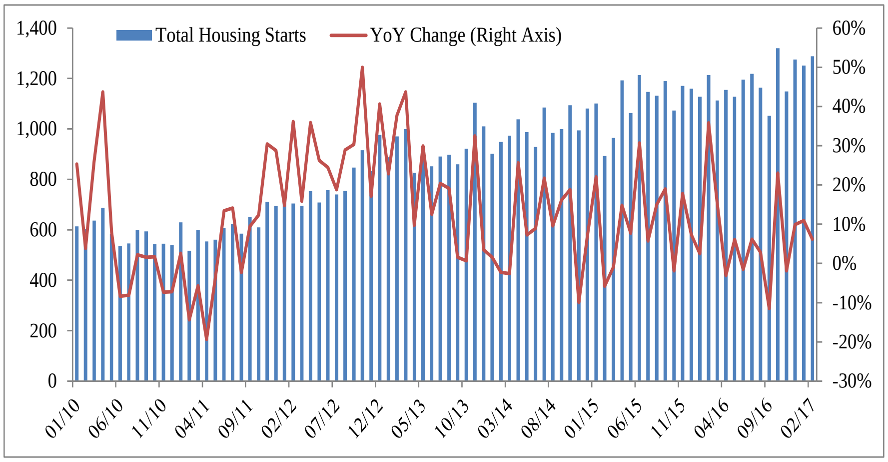
Exhibit 60: Historical New Home Sales



Source: Federal Reserve Economic Data, Mizuho Securities USA.

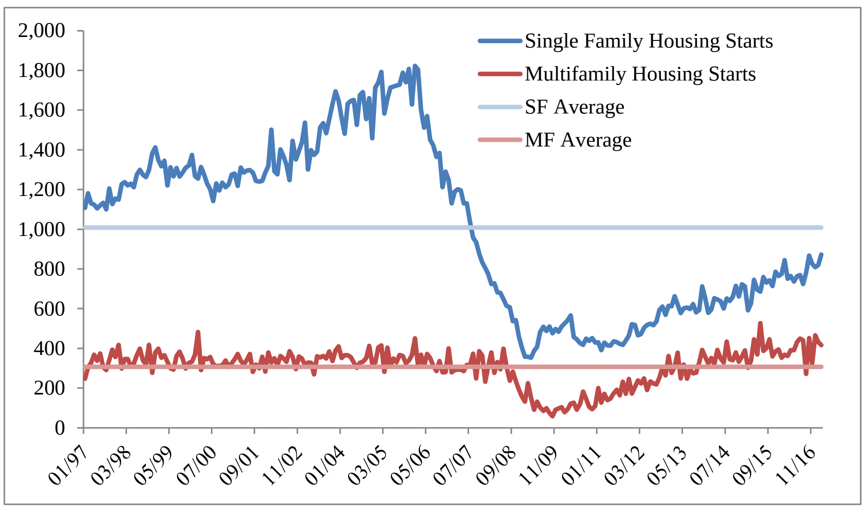
Housing Starts. Single Family Housing Starts is a component of New Residential Construction, which Census and HUD **release the 3rd week of the month (12th workday).** The metric represents new single family homes that have started construction and is released alongside new building permits and completions. The report is issued before the New Home Sales release and is currently useful as an indicator in the pace and depth of the housing recovery. Historically, Housing Starts have averaged ~1.5M units per year with the single family component comprising ~1.0M, or ~70% of the total, and multifamily starts ~0.5M, or ~30% of the total.

Exhibit 61: New Home Starts



Source: Federal Reserve Economic Data, Mizuho Securities USA.

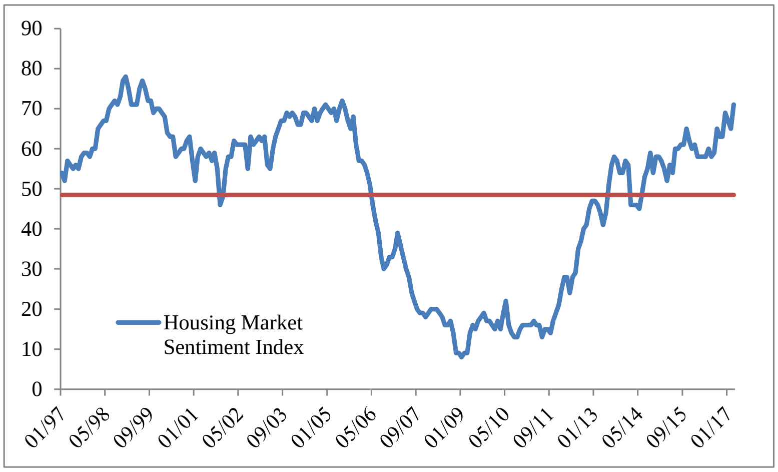
Exhibit 62: Total Housing Starts



Source: Federal Reserve Economic Data, Mizuho Securities USA.

NAHB Housing Market Index (HMI). Also referred to as Homebuilder Sentiment, **HMI is released monthly by the NAHB on the day before Housing Starts data is released**. The index track homebuilders' views of the current market, six-month sales outlook, and prospective buyer traffic. An index reading above 50 indicates a favorable housing market.

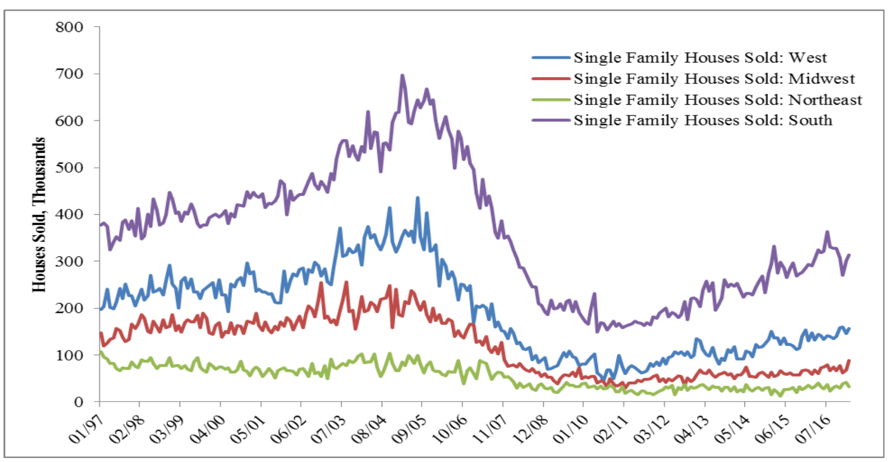
Exhibit 63: National Association of Home Builders (NAHB) Sentiment Index



Source: National Association of Home Builders (NAHB) Housing Market Index (HMI), Mizuho Securities USA.

Existing Home Sales. Existing Home Sales data is released monthly by NAR and tracks home resales as well as resale inventory. Existing Home Sales are the **lion's share of housing transactions** and account for ~80-90% of transactions historically.

Exhibit 64: Existing Homes Sales Most Active in South / West

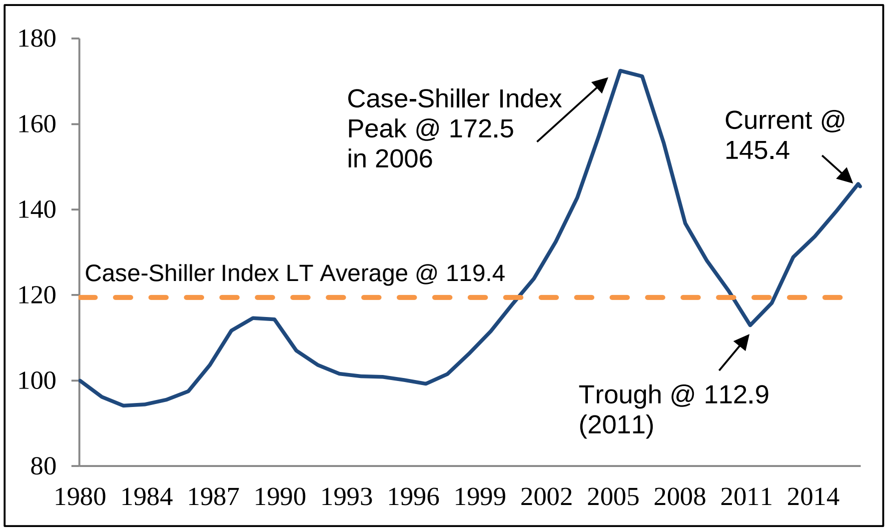


Source: Federal Reserve Economic Data, Mizuho Securities USA.

Home Price Indices. We focus on indices published by Case Shiller (CS) and FHFA, which are released with a two-month lag. A number of sources publish indices, including CoreLogic and Zillow.

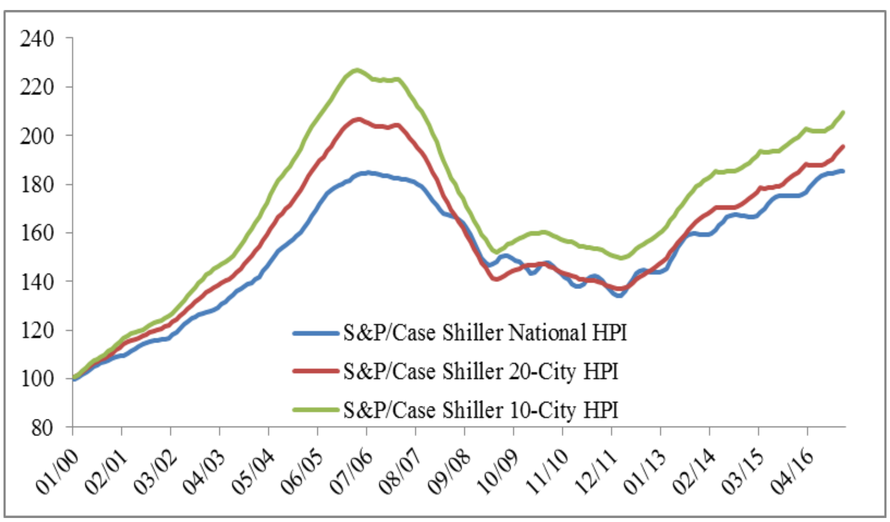
CS publishes seasonally-adjusted and non-seasonally adjusted national indices, 20-city composite indices, 10-city composite indices, as well as indices for the cities included in the Components.

Exhibit 65: Case-Shiller U.S. Home Price Index



Source: Case-Shiller Home Price Index, Mizuho Securities USA.

Exhibit 66: HPI in Larger Cities Has Outpaced U.S. Average



Source: Federal Reserve Economic Data, Mizuho Securities USA.

Appendix C: Historical Homebuilder vs S&P 500

Exhibit 67: Historical Homebuilder versus S&P 500 Data Points

Year	Date Range	S&P 500 (SP50) a	SNL US Homebuilders b	Variance b-a
2017	Mar-May	2%	2%	1%
2016	Nov-Mar	11%	26%	15%
2016	Apr-Jun	2%	1%	-1%
2015	Nov-Mar	-1%	-4%	-3%
2015	Apr-Jun	0%	-3%	-2%
2014	Nov-Mar	2%	17%	15%
2014	Apr-Jun	5%	5%	0%
2013	Nov-Mar	7%	9%	2%
2013	Apr-Jun	2%	-9%	-11%
2012	Nov-Mar	11%	16%	5%
2012	Apr-Jun	-3%	20%	23%
2011	Nov-Mar	12%	40%	28%
2011	Apr-Jun	0%	-3%	-3%
2010	Nov-Mar	12%	11%	-1%
2010	Apr-Jun	-12%	-21%	-9%
2009	Nov-Mar	13%	19%	6%
2009	Apr-Jun	15%	3%	-13%
2008	Nov-Mar	-18%	-12%	5%
2008	Apr-Jun	-3%	-29%	-26%
2007	Nov-Mar	-15%	3%	18%
2007	Apr-Jun	6%	-10%	-16%
2006	Nov-Mar	3%	-10%	-14%
2006	Apr-Jun	-2%	-26%	-24%
2005	Nov-Mar	7%	1%	-6%
2005	Apr-Jun	1%	20%	19%
2004	Nov-Mar	4%	30%	26%
2004	Apr-Jun	1%	-12%	-14%
2003	Nov-Mar	7%	18%	11%
2003	Apr-Jun	15%	39%	24%
2002	Nov-Mar	-4%	1%	6%
2002	Apr-Jun	-14%	14%	28%
2001	Nov-Mar	8%	58%	50%
2001	Apr-Jun	6%	4%	-2%
2000	Nov-Mar	-19%	23%	42%
2000	Apr-Jun	-3%	0%	3%

Source: SNL Financial, Mizuho Securities USA.

Price Target Calculation and Key Risks

D.R. Horton, Inc.

Our price target of $32.00 equates to our forward tangible book value multiple of 1.7x applied to our FY2017 ending estimated tangible book value per share of $19.05.

Risks include a material move higher in mortgage rates, a broader economic slowdown, the availability of lending and a sustained increase in the supply of homes for sale.

KB Home

Our price target of $20.00 equates to our forward tangible book value multiple of 1.5x applied to our FY2017 ending estimated tangible book value per share of $13.23.

Risks include a material move higher in mortgage rates, a broader economic slowdown, the availability of lending and a sustained increase in the supply of homes for sale.

Lennar Corp

Our price target of $59.00 equates to a sum of the parts analysis valuing the company's multiple divisions, including 1.7x our forward tangible book value multiple applied to the homebuilding division. Risks include a material move higher in mortgage rates, a broader economic slowdown, the availability of lending and a sustained increase in the supply of homes for sale. In addition, a material decline in any of Lennar's unique business divisions such as Rialto, could potentially negatively impact the share price.

Pulte Group, Inc.

Our price target of $22.00 equates to a 50/50 bled of our forward tangible book value multiple of 1.6x applied to our FY2017 ending estimated tangible book value per share of $11.32 and a 12.0x EPS multiple to 2017 earnings to 2017 earnings using our adjusted EPS estimate of $2.23 (excluding 2Q17 land impairment charge).

Risks include a material move higher in mortgage rates, a broader economic slowdown, the availability of lending and a sustained increase in the supply of homes for sale.

Toll Brothers, Inc.

Our price target of $44.00 equates to our forward tangible book value multiple of 1.6x applied to our FY2017 ending estimated tangible book value per share of $27.47.

Risks include a material move higher in mortgage rates, a broader economic slowdown, the availability of lending and a sustained increase in the supply of homes for sale. A downturn in the equity market may impact TOL more than other homebuilders given its product's high price point.

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Investment Risks and Valuation Methods can be located in the following section of this research report - Price Target Calculation and Key Risks.

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Underperform:	Stocks for which the anticipated share price falls by 10% or more.
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Rating Distribution

(As of 5/15)	**% of coverage**	**IB service past 12 mo**
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Hold (Neutral)	51.37%	39.69%
Sell (Underperform)	3.92%	50.00%

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Rating and Price Target History for: KB Home (KBH) as of 05-15-2017

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Rating and Price Target History for: D.R. Horton, Inc. (DHI) as of 05-15-2017

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Rating and Price Target History for: Pulte Group, Inc. (PHM) as of 05-15-2017

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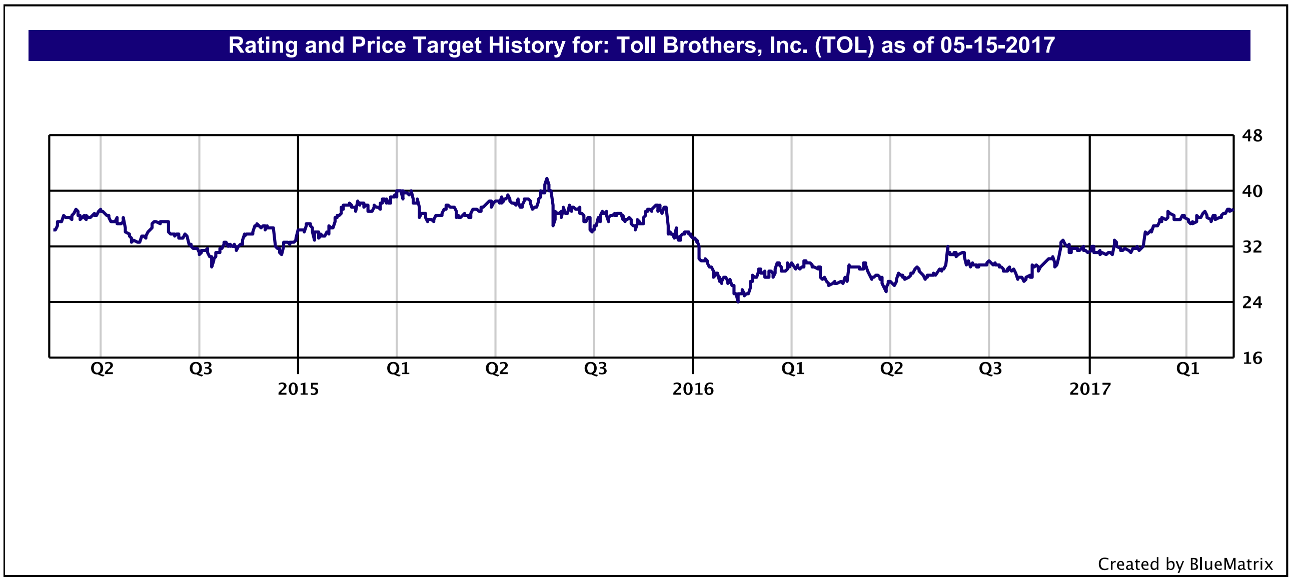

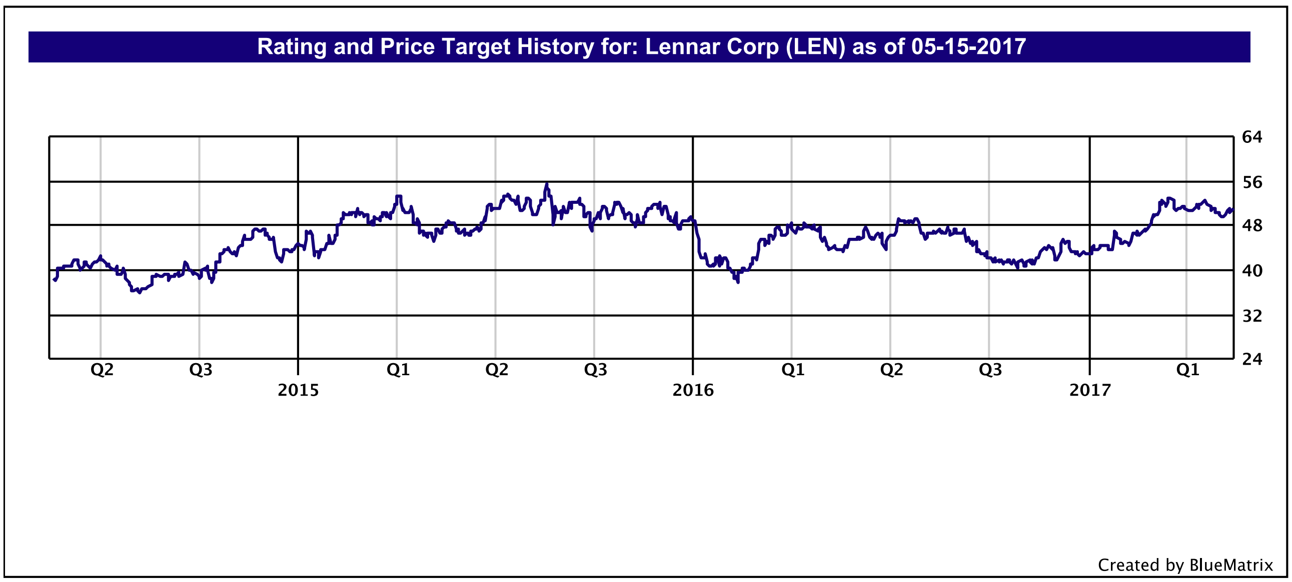

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