Pulte Group, Inc. (PHM)	Price: $42.78 Yield: 1.40% Mkt Cap: $10,328.2M
Sector: Consumer Discretionary	Industry: Homebuilders
Analyst: David Wagner, CFA	Average Daily Dollar Liquidity: $144.3M

Business Overview

PHM has broad product offering with a diverse mix of homebuyer type, concepts, geographies and price points. Through its 3 major brands, PHM builds homes for first-time buyers (Centex), move-up buyers (Pulte) and active adults (Del Webb) with move up being the biggest driver of revenue.

PHM offers homes in 40 markets across 23 states with none of its 6 geographical segments making up more than 23% of trailing twelve-month deliveries. At the low end, homes are typically offered in the high $200Ks and at the high end they can sell for over $750K. PHM's broad offering across the US has led to the #3 overall market share, in a highly fragmented market.

Exhibit 38: LTM deliveries well-diversified
PHM LTM unit deliveries by region

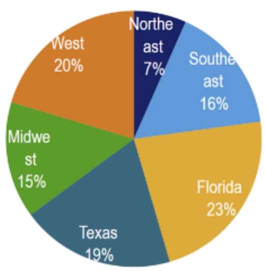


Exhibit 39: Largest revenue exposure to West
PHM LTM revenues by region

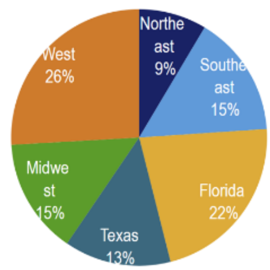
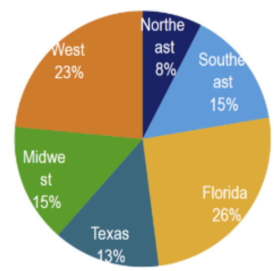


Exhibit 40: Well-diversified backlog
PHM backlog by region ($ basis)



Source: Company Presentation, BofA, Data as of 3/31/2022

Investment Rational: PulteGroup continues to execute which has resulted in positive EPS estimate revisions, driven by soaring pricing power and record-high profit margins. The upward revisions leave PHM trading at just 4.1x this year's projected EPS, a 50%+ discount to PHM's historical median and its lowest P/E since February 2000 -- despite a nearly net-debt free balance sheet, accelerating stock repurchases, and a projected 34% ROIC. Clearly, the market is already bracing for a severe demand shock ahead following an unprecedented 200bp surge in mortgage rates over the past few months. While we anticipate wait lists may thin and price increases moderate, we still see a deep pool of well-qualified buyers amid historic inventory shortages and population migration. Even with a more conservative outlook on 2023 deliveries, margins, and community count, we still see another year of healthy EPS growth ahead, supported by PHM's willingness to deploy its excess cash flow into highly accretive share repurchases.

Capital Allocation

While PHM's top capital priority is to reinvest in the business for growth via land purchases, the company is aggressively returning capital to shareholders. From 2015-2019, PHM invested $13B in land acquisition and development, but was still able to return $3.1B to shareholders via dividends and share repurchases. In 2020, the company invested $2.9B in land acquisition and development and returned $301M to shareholders via dividends and share repurchases. In 2021, PHM's aggressive capital deployment has continued with expectations to invest ~$4B in land acquisitions and development, while the company repurchased $614M in shares (4% share count reduction) and repaid $726M in outstanding debt.

What Does this Mean? Pulte plans to become a more asset-light model should increase the expectations of the company to increase their shareholder yield. A more asset-light land strategy would support higher return-on-equity and cash flow. We would expect better cash flow to translate into an increase in capital return to shareholders, especially with PHM's debt-to-capital ratio already at the low-end of its target range (~21%). PHM bought back 10MM shares in 1Q (4% of shares outstanding) and still has $900mm remaining on its authorization.

ESG (Insider Ownership, Board Independence)

The most material ESG issue facing PHM is improving the environmental sustainability of its homes. Growing environmental awareness both from consumers and regulators is increasing the requirements for more efficient buildings and prompting homebuilders to focus on developing environmentally certified homes. Increasing the homes' resiliency to extreme weather events is also an increasing focus.

PHM's need to meet energy and other environmental regulatory requirements and adapt to changing consumer tastes requires some level of integration of ESG consideration into its strategy. The localized, relationship-driven nature of the homebuilding business makes managing stakeholder relationships a key aspect of the business.

Dividend + Growth Rate +/- Multiple Expansion = Total Return Framework

1.41% + 11.00% = **12.41%**

The Dividend:

The company has continued to increase their yield by double digit percentages over the last decade – one of the key benefits of moving to a more asset-light model (*see Capital Allocation Segment for more details*).

The Growth:

11.00% - 4.00% + 4.00% = 11.00%

Sales Growth + Margin Expansion + Share Repurchases

Income Statement Summary

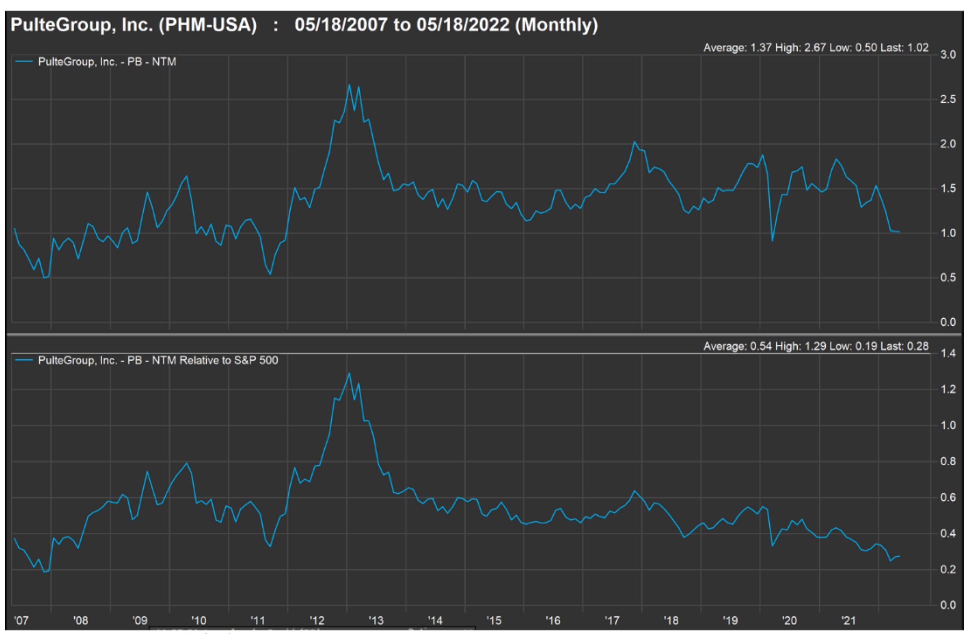
	FY 2020	(Mar.) Q1:21	(June) Q2:21	(Sept.) Q3:21	(Dec.) Q4:21	FY 2021E	(Mar.) Q1:22	(June) Q2:22E	(Sept.) Q3:22E	(Dec.) Q4:22E	FY 2022E	(Mar.) Q1:23E	(June) Q2:23E	(Sept.) Q3:23E	(Dec.) Q4:23E	FY 2023E
New Home Sales	$10,580	$2,597	$3,235	$3,324	$4,220	$13,377	$3,070	$3,870	$4,083	$5,220	$16,244	$3,610	$4,010	$4,380	$5,190	$17,1[illegible]0
Land Sales	94	27	33	63	37	161	33	30	30	30	123	30	30	30	30	120
Financial Services	362	106	91	91	101	390	84	95	94	105	378	91	95	97	100	383
Total Revenues:	**$11,036**	**$2,730**	**$3,359**	**$3,479**	**$4,359**	**$13,927**	**$3,18**	**$3,995**	**$4,207**	**$5,355**	**$16,745**	**$3,731**	**$4,135**	**$4,507**	**$5,320**	**$17,593**

Source: Raymond James, Data as of 4/3/22

The Multiple Expansion / Contraction:

As we all know, valuation is a gauge on investor sentiment and sentiment has been quite poor in this industry, but I would state that we have been watching the dynamics of this area relative to the market increase. Usually, we don't like to count on valuation expansion in our thesis, but we believe that PHM's current valuation can definitely be a call option in the total return profile moving forward.

The chart on the right basically shows that PHM is trading below their book value. This means that the market is pricing as if they sell all of their assets, they could only get 95% of their value.



Source: FactSet, Data as of 5/18/2022

Valuation

Historical Valuations

Historical Valuation Analysis

PHM	Median	Average	LTM	2021	2020	2019	2018	2017	2016
P/E (LTM)	8.3	9.4	5.3	7.7	8.3	10.6	7.3	16.4	10.5
P/E (NTM)	7.9	8.2	3.8	6.4	7.9	10.2	7.2	12.5	9.7
EV/EBITDA (LTM)	6.7	7.1	4.2	6.0	6.7	9.0	6.1	10.8	7.1
EV/EBITDA (NTM)	5.6	5.9	3.1	5.0	5.6	7.9	5.4	8.1	5.9
P/Book	1.7	1.7	1.4	1.9	1.7	1.9	1.5	2.3	1.3
P/Cash Flow	9.9	21.8	9.9	14.0	6.4	9.9	5.1	15.4	92.1
FCF Yield	9.5%	9.7%	9.5%	6.9%	15.3%	9.7%	19.3%	6.6%	0.5%
ROE	16.1%	16.4%	-	23.2%	19.6%	22.5%	10.0%	12.7%	10.3%
ROIC	12.5%	12.4%	22.7%	16.2%	12.5%	13.5%	6.0%	8.3%	7.5%
Debt-to-Capital	20.8%	20.8%	21.2%	20.5%	-	-	-	-	-
Dividend Yield	1.1%	1.3%	1.3%	1.0%	1.1%	1.1%	1.4%	1.1%	2.0%

Source: Factset, Data as of 5/7/2022

The market has rewarded PHM with upward revisions leaving PHM trading at just 4.1x this year's projected EPS, a 50%+ discount to PHM's historical median and its lowest P/E since February 2000 – despite a nearly net-debt free balance sheet, accelerating stock repurchases, and a projected 34% ROIC. Clearly, the market is already bracing for a severe demand shock ahead following an unprecedented 200bp surge in mortgage rates over the past 60 days. While we anticipate wait lists may thin and price increases moderate, we still see a deep pool of well-qualified buyers amid historic inventory shortages and population migration. Even with a more conservative outlook on 2023 deliveries, margins, and community count, we still see another year of healthy EPS growth ahead (+8%y/y), supported by PHM's willingness to deploy its excess cash flow into highly accretive share repurchases.

PHM has increased and increasing the return hurdles for new land underwriting, which has resulted in higher ROE. We believe PHM's higher ROE compared to historical levels could support a higher P/B ratio compared to its historical level.

Competitive Peers:

			PulteGroup, Inc.	NVR, Inc.	D.R. Horton, Inc.	Taylor Morrison Home Corporation	M.D.C. Holdings, Inc.	KB Home	Toll Brothers, Inc.	Lennar Corporation Class A
Ticker	Median	Average	**PHM**	**NVR**	**DHI**	**TMHC**	**MDC**	**KBH**	**TOL**	**LEN**
P/E (LTM)	5.3	6.2	5.3	11.9	5.1	4.7	4.6	5.2	6.7	6.2
P/E (NTM)	3.9	4.4	3.8	8.9	4.0	3.0	3.5	3.1	4.5	4.4
EV/EBITDA (LTM)	4.4	4.9	4.4	-	4.1	2.8	4.0	6.1	7.5	5.6
EV/EBITDA (NTM)	3.3	3.6	3.3	5.9	3.3	1.7	2.8	3.1	4.4	4.5
P/Book (NTM)	0.9	1.3	1.0	4.7	1.1	0.6	0.8	0.7	0.8	0.9
Dividend Yield	1.4%	1.5%	1.3%	0.0%	1.2%	0.0%	4.7%	1.8%	1.5%	1.6%
FCF Yield	9.5%	6.0%	9.5%	-	-1.1%	17.5%	-2.3%	-7.8%	15.9%	10.6%
ROE	22.2%	24.2%	29.51%	49.00%	33.84%	19.46%	24.70%	0.0%	17.71%	19.64%
ROIC	15.3%	16.8%	22.73%	31.60%	27.40%	10.70%	15.47%	0.7%	10.71%	15.04%
Short Interest	2.6%	2.9%	2.6%	2.5%	2.3%	3.3%	2.2%	-	3.8%	3.4%
LT EPS Growth	27.0%	27.6%	20.0%	27.0%	21.9%	46.0%	46.0%	0.0%	-	32.0%
Market Cap	$ 8,036.75	$ 10,620.38	$ 10,453.71	$ 14,939.03	$ 25,046.95	$ 3,346.30	$ 2,729.78	0.0%	$ 5,619.80	$ 22,827.45
Debt-to-Capital	28.5%	26.7%	20.5%	34.6%	22.4%	46.3%	34.6%	0.0%	39.7%	15.4%
BV Growth	15.6%	16.9%	20.0%	21.1%	20.5%	14.7%	15.5%	-	10.6%	15.6%

Source: Factset, Data as of 5/7/2022

PulteGroup management provided commentary similar to peers with respect to the housing backdrop in the first quarter. Specifically, demand remained strong across buyer cohorts (first-time, move-up, and active adult) and geographies, with no discernible weakness seen through April. Building material shortages, supply chain bottlenecks, labor constraints, and longer cycle times (145-155 days now, up one week q/q) have been more problematic for PulteGroup (and the industry) than demand destruction and/or a lack of pricing power. In essence, PulteGroup, like others, indicated that it has more buyers than it can build homes for, forcing it to meter sales. That said, PulteGroup management, like peers, did allude to some caution about first-time buyers given that they tend to be more sensitive to rising mortgage rates. This buyer base, which represented about 35% of the company's sales in the March quarter, does bear watching; however, PulteGroup has among the most diverse buyer cohorts in the industry, which could provide it with diversification should first-time buyers exit the market.

Knowing this, PHM should not trade at a discount to peers.

Yield & Growth

Dividends	12/2012	12/2013	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021	Now/LTM	Avg	Median
Dividend Yield	0.00%	0.74%	1.07%	1.85%	1.96%	1.08%	1.46%	1.16%	1.16%	1.00%	1.40%	1.15%	1.12%
Dividend / Share	0.00	0.15	0.23	0.33	0.36	0.36	0.38	0.45	0.50	0.57	0.60	0.33	0.36
Special Divs	0.00	(0.05)	(0.03)	(0.01)	(0.00)	(0.01)	(0.03)	(0.01)	(0.02)	(0.01)	(0.02)		
EPS (non GAAP)	0.54	6.72	1.26	1.36	1.75	2.03	3.55	3.66	5.18	7.43	8.16	3.35	2.79
Payout Ratio	0.0%	2.2%	18.3%	24.3%	20.6%	17.7%	10.7%	12.3%	9.7%	7.7%	7.4%	12.3%	11.5%

Income Stmt	12/2012	12/2013	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021	LTM	FY22 (e)	FY23 (e)
Revenue	4,820.0	5,679.6	5,822.4	5,982.0	7,668.5	8,573.3	10,188.3	10,213.0	11,036.1	13,926.9	14,384.7	16,916.2	17,948.2
EBITDA	263.6	637.2	750.7	836.1	1,031.2	1,033.6	1,397.0	1,415.5	1,830.9	2,627.2	2,772.3	3,733.9	3,666.5
EBIT	233.5	605.7	710.9	789.9	977.2	982.6	1,347.6	1,361.5	1,764.8	2,557.2	2,703.3	3,501.8	3,453.4
EPS (GAAP)	0.54	6.72	1.26	1.36	1.75	1.44	3.55	3.66	5.18	7.43	8.16	10.89	11.58
EPS (non GAAP)	0.54	6.72	1.26	1.36	1.75	2.03	3.55	3.66	5.18	7.43	#N/A	10.89	11.58
Gross Margin	15.4%	20.4%	23.5%	23.6%	25.1%	21.5%	23.2%	23.3%	25.0%	27.0%	27.6%	28.6%	28.3%
EBITDA Margin	5.5%	11.2%	12.9%	14.0%	13.4%	12.1%	13.7%	13.9%	16.6%	18.9%	19.3%	22.1%	20.4%
EBIT Margin	4.8%	10.7%	12.2%	13.2%	12.7%	11.5%	13.2%	13.3%	16.0%	18.4%	18.8%	20.7%	19.2%
Net Margin	4.3%	45.8%	8.1%	8.2%	7.8%	5.2%	9.9%	9.9%	12.6%	13.9%	14.5%	15.5%	14.4%

Source: Factset, Data as of 5/7/2022

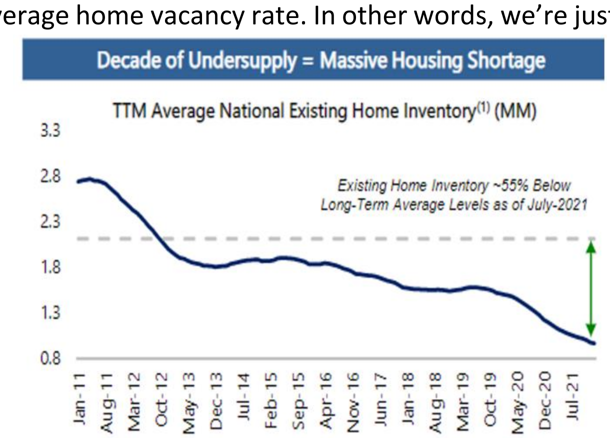
Construction cycle times continued to extend by another week during1Q, prompting continued sales restrictions and delayed community openings. Despite these headwinds, management reaffirmed original FY22 guidance of 31,000 deliveries; 2) Robust demand coupled with record low inventories allowed Pulte to implement further price increases ranging from 1-5% in all communities. ASPs on new orders rose by a record 26% y/y, allowing another increase to FY22 gross margin guidance by 100 bp to 29.5–30.0%; 3) Though affordability concerns are pervasive in the market, incentives/discounts are near all-time lows. Lot options and premiums were up 23% during the quarter at ~$100,000 per home; 4) After having met its original 50/50 goal, Pulte raised its target mix of lots controlled through option to 65-70%; and 5) Building material and labor costs are expected to inflate another 10-12%during FY22.

The Underdevelopment of the US Housing Economy:

"I like to keep concepts simple around here. Say there are 1000 buyers who can afford a home when a 30-year mortgage is at 3%. Say there are 800 buyers who can afford it at 4% and 600 who can afford it at 5%. Now, realize that none of this matters; because there are only 100 homes to fight for. This sums up the US housing market today." (Kuppy, 2022).

Since 1960, the U.S. has built 1.01 million single-family homes on average in any 12-month period. Following the peak of the housing bubble in 2007 we then spent 13 years building below that level, even as the population grew and the number of households increased by 14 million over that time frame. In theory, we believe we could build at the current rate of just over 1 million starts for the next two years without a single new unit being occupied and we would only return to an average level of available inventory and the 20-year average home vacancy rate. In other words, we're just getting back to normal.

Source: U.S. Housing Bureau, Data as of February 2022



Source: American Homes 4 Rent Presentation, Data as of 3/31/22

All these factors taken together has resulted in a severe shortage of available homes for sale. Across the US currently there are only 338,738 active home listings as of February 2022. This is down 25% y/y from the already low February 2021 figure and down 71% from the pre-covid average (2016 – 2019). The shortage is particularly pronounced in some of the states which saw an influx of migration over the past two years. In Florida there are only 27,139 homes currently for sale across the top MSAs, down 49% y/y and down 75% from the pre-covid average.

So single family home supply is incredibly constrained but what about other living options? If someone isn't living in a single-family home, then the most likely other option is a multifamily building. Multifamily vacancy rates are currently just 2.4%, their lowest ever. In other words, they're filled to the brim. Because of this, the median rent for an apartment in the U.S. is up 19.8% y/y, and much higher in cities like Miami (+52%), Tampa (+38%) and Austin (+31%).3

One way to contextualize this vacancy rate is that we could build at the current pace of 500k multi-family unit starts over the next 3.6 years, not have a single person move into any of the new units, and we would just get back to the 30-year average vacancy rate.

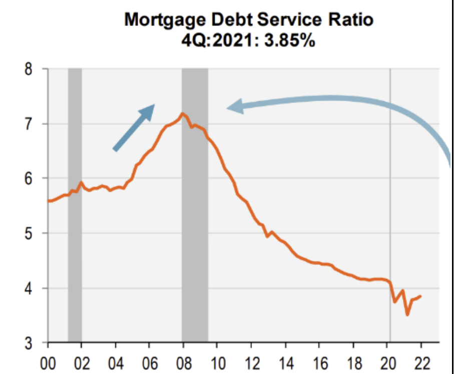
What about Interest Rates?

Let's look at the 1970s. They were a decade where home prices appreciated dramatically. Why? Because a home is a consumer durable, and the replacement cost increased with inflation. Have you ever looked at what interest rates did during the 1970s? They kept ramping—meanwhile it did little to slow down housing appreciation. Why? Because the baby boomers were having kids, they needed somewhere to put those kids and they all moved to the suburbs. They fled the increasingly chaotic cities. There was a supply demand imbalance.

Is there a Possibility for a Housing Crisis?

Today's home price runup has been bigger and faster than the 2004-06 episode. Median single family home prices are 27% above the pre-pandemic trend – vs. their 19% peak in 2005. That said, the financial foundation of the sector is much healthier today than it was in the last cycle, with solid balance sheets and good credit quality. Home prices look vulnerable and may very well see declines … but a related financial crisis is not in the cards.

Solid credit is one big difference between now, and the last housing bubble. So while we expect home prices to succumb to the affordability crunch, that's unlikely to have knock-on systemic significance for broader financial markets.



Source: PSC, Data as of 5/7/2022

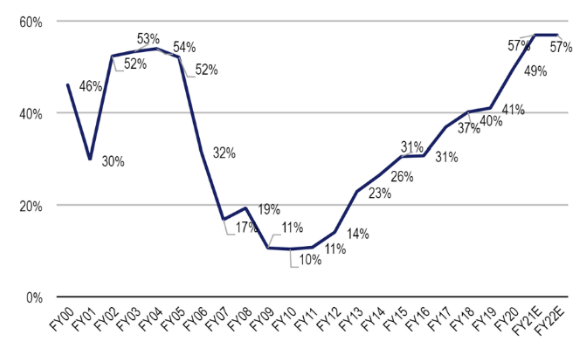
Quality

Quality	12/2012	12/2013	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021	LTM	Avg
ROE	10.0%	76.1%	10.0%	10.3%	12.7%	10.0%	22.5%	19.6%	23.2%	27.5%	29.6%	22.2%
ROIC	4.3%	45.6%	7.2%	7.8%	8.6%	6.0%	13.5%	12.5%	16.2%	20.8%	22.7%	14.2%
Debt / Capital	55.1%	31.8%	29.2%	33.4%	42.6%	45.3%	41.2%	36.8%	33.1%	26.8%	25.3%	37.5%
EBITDA / Interest	1.3	4.1	5.7	6.9	6.4	5.7	8.1	8.6	11.2	20.2	21.9	7.8

Source: Factset, Data as of 5/7/2022

Similar to other homebuilders, PHM has shifted to a more asset-light model by controlling more land through the use of options, rather than purchasing it outright. In our view, this approach provides PHM with a degree of flexibility (lowers risk in a downturn) and reduces the amount of capital it has allocated toward land inventory at any given time. While optioning carries lower margins, the end result is greater flexibility and balance sheet efficiency. Options as a percent of lots owned and controlled has increased from 31% in FY15 to ~60% in the most recent quarter. Over this time frame PHM has seen a significant increase in inventory turnover and ROE.

Exhibit 14: Options as a % of controlled & owned lots
PHM's % of lots optioned has significantly increased to over 50%



Source: BofA, Company Financials, Data as of 12/31/21

Moving forward, given this asset light model, we expect PHM to perform better during a market downturn, something that has not been analogous to homebuilders in the past.

In fact, during the downturn of Q4 2018, as the Fed was performing quantitative tightening, PHM was actually up during the quarter, outperforming the S&P 500 by almost 20%.

Momentum

EPS History				EPS Trends				
Quarters	EPS Act.	EPS Est.	Surp. %			Cur. Est.	90 Days	90 % Chg
03/2022	1.83	1.72	6.5%	Qtr	06/2022	2.60	2.46	5.8%
12/2021	2.61	2.30	13.3%	Qtr	09/2022	2.89	2.72	6.3%
09/2021	1.82	1.79	1.8%	Qtr	12/2022	3.59	3.38	6.2%
06/2021	1.90	1.74	9.0%	Qtr	03/2023	2.23	2.19	2.0%
03/2021	1.13	1.22	-7.1%	Year	12/2022	10.89	10.25	6.2%
12/2020	1.62	1.40	15.7%	Year	12/2023	11.58	11.40	1.6%

Source: Factset, Data as of 5/7/2022

What is priced into estimates? This is a big question IMO. I think the demand destruction event related to the surge in rates is fully baked into current prices and estimates. Also, I think the effect on forward margins due to slowing/flattening price appreciation while labor & material costs remain elevated in 2023 is largely baked into most estimates as well. We've spoken with a few analysts and they have accounted for this already. As evidence, I think you can look to the fact the builder sentiment index just dropped by the largest amount month/month in something like 4 years in May, but the stocks are rallying strong again and ahead of the overall market. Relative outperformance since mid-April continues, as people slowly realize we're not headed for imminent recession. And even with the rate spike, a jump in cancellations, and some slowing prices – there's still a ton of well qualified buyers out there looking to get into a house and avoid a double-digit rent bump on their lease renewal.

Home prices continue to rise, supported in part by lean inventory (~1.7 months of supply for existing homes), and household formation remains firm. That said, the market is focused on the lagged effect from the surge in rates on housing affordability and turnover. While we are not dismissive of these concerns, the magnitude of demand destruction seemingly being priced into our home-related stocks feels extreme. Furthermore, when looking at analyst EPS expectations, many of them are already considering a slowdown of sales in 2023.

Technicals:
At its core, we've seen a shift in sentiment in this group, as they have recently started to outperform the S&P 500.

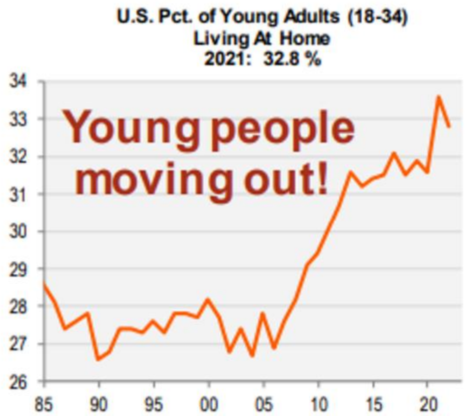
PHM is back to the $40 level that has been support since it broke through in July 2020. While LT averages are flat to negative in slope, the LT support is in play to help reduce the potential for any further drawdown. From here, it should stay level and hold onto the $40 area the next few months like it did in Q4 of 2020. Once price gets closer to its LT average (200 and 400 sma) it will look to make a momentum play (breakout, etc.).

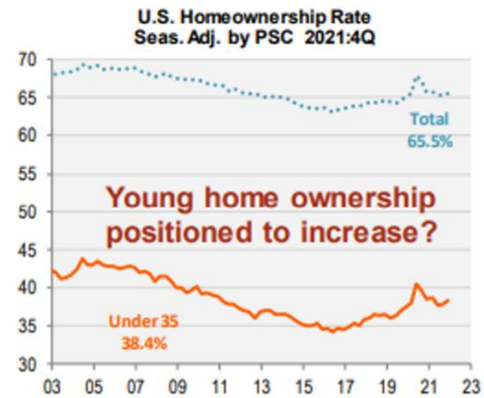
To make sure the 200 doesn't drop below the 400 SMA (typically a negative LT trend change moment), it would be advantageous for price to get back to its LT averages over the next month. That could provide further credence to the $40 support.

Source: Bloomberg, Data as of 5/8/2022

Bull Case

- ***The Structural Problem → A Supply/Demand Imbalance*** – Surge in demand for homes coupled with supply constraints have pressured inventory availability in both new and existing homes.
    - *The Backdrop → Demographics* – This decade was already poised to see historic levels of housing demand as the millennial generation - the largest cohort in American history - comes full-steam into a severely undersupplied U.S. housing market. What we could not foresee, however, was the added acceleration provided by the pandemic-driven "Work From Home era" which has begun to unleash millions of extra "deferred" formations among adult children, in particular. US homeownership rates jump from low-30% for 25–29-year-old to 60%+ for 35–39-year-old and overall homeownership rates should benefit from aging millennials.





Source: PSC. Data as of 4/30/22

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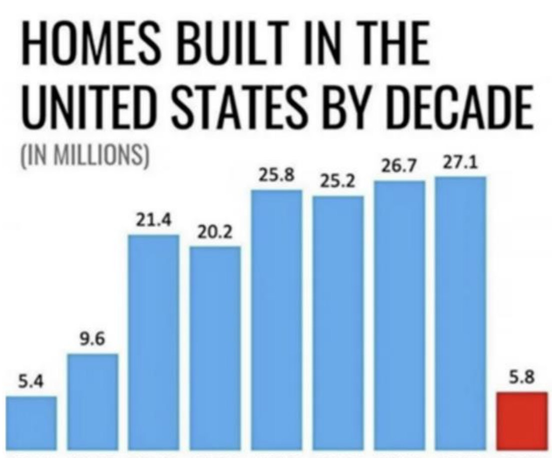
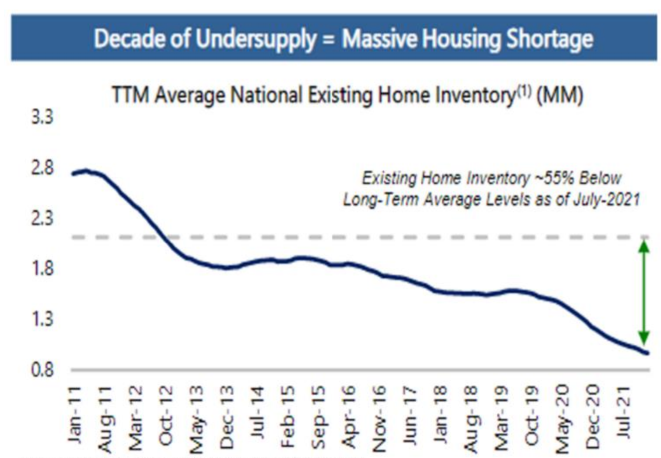
    - *The Underdevelopment* - For the undersupplied housing industry, we expect the favorable supply/demand imbalance to persist for the foreseeable future amid ongoing constraints on new home construction while demographic-driven and WFH-driven demand remain resilient. Freddie Mac estimates that the U.S. housing market is 3.8 million homes short of what's needed to meet the country's demand, representing a 52% rise in the nation's housing shortage compared with 2018. The record-low inventory levels of homes have resulted in rent growth and home price appreciation persistently above the rate of inflation throughout the past decade.



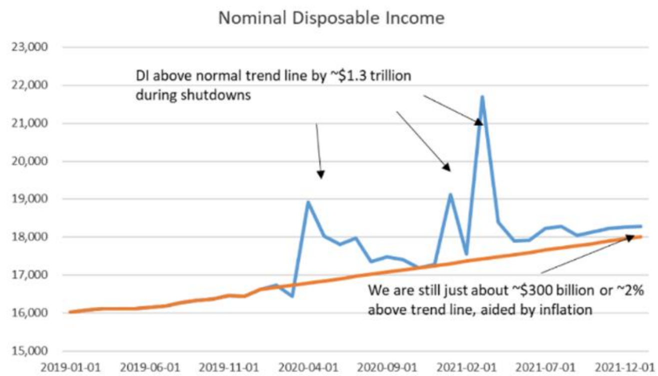
Source: Keeping Current, Data as of 12/31/2021

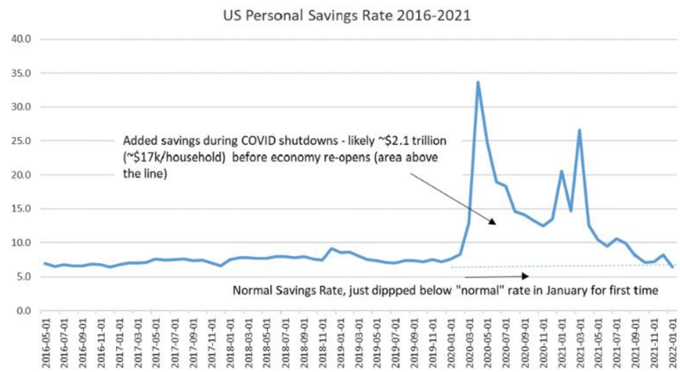


Source: American Homes 4 Rent, Data as of 4/13/2022

- ***A Shift to an Asset Light Model*** – Like other homebuilders, PHM has shifted to a more asset-light model by controlling more land through the use of options, rather than purchasing it outright. In our view, this approach provides PHM with a degree of flexibility (lowers risk in a downturn) and reduces the amount of capital it has allocated toward land inventory at any given time. While optioning carries lower margins, the end result is greater flexibility and balance sheet efficiency. Options as a percent of lots owned and controlled has increased from 31% in FY15 to ~54% in the most recent quarter. Over this time frame PHM has seen a significant increase in inventory turnover and ROE. With this, PHM will be able to focus on return to shareholder via Buybacks and Dividends, as the company's debt-to-capital ratio is already well below the low-end of their target range.

- ***The Financial Macro Backdrop***:
    - *Financial Obligations are Well Below Historical Levels*: The ratio of financial obligation payments to DPI is significantly below its long-term historical average given a stimulus-driven surge in disposable income and slowing growth in debt payments and obligations. It also remains below the long-term averages, implying room for the consumer to increase borrowing & spending from current levels.
    - *Savings Rate has Increased*: The US personal US savings rate has increased significantly since the beginning of 2020 and continues to track above its long-term historical average.



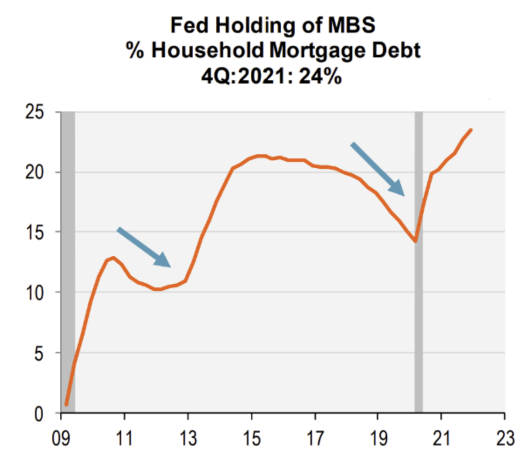


Source: Raymond James, Data as of 4/15/2022

- ***Historic Valuation Discount -*** PHM is trading at just 4.1x this year's projected EPS, a 50%+ discount to PHM's historical median and its lowest P/E since February 2000 along with a book value below 1.0x -- despite a nearly net-debt free balance sheet, accelerating stock repurchases, and a projected 34% ROIC.

Bear Case

- ***Increasing Mortgage Rates*** – The prospect of rising interest rates, particularly mortgage rates, is likely to create some unease among homebuilding investors, given the real and perceived impact on affordability. Homebuilder stocks historically have maintained an inverse relationship with mortgage rate movements. The potential headwind from rising rates is two-fold: (1) entry level buyers could be priced out of the market, and (2) current homeowners could be hesitant to sell their home that was financed at an attractive fixed mortgage rate and buy a new home that will be financed in a higher rate environment.
- ***Will the Fed Affect Rates***? – Even if we're right about treasury yields coming down, the knock-on effect on mortgages may not be enough to improve affordability much. If mortgage spreads stay near their current 260bps, and our 10yr year-end estimate of 2.2% is right, mortgage rates would slide to about 4.8% -- still very high relative to just a few months ago. And recall, the Fed will be letting lots of mortgages run off it's balance sheet, and may even outright sell some – putting upward pressure on their yields and spreads.



Source: PSC, Data as of 5/7/2022

- ***Supply Chain Will Remain an Overhang*** - Build cycle times elongated by one week over the last quarter. Pulte is not assuming an improvement in supply chain through this year. PHM has increased its starts pace (9K in Q1) and taken steps to offset bottlenecks including increasing the amount of spec homes in its pipeline (target 25-30% of homes compared to mid-teens % last year).
- ***Labor Issues*** - Local market share is important to negotiating and building relationships with skilled building trades (includes framers, electricians, and plumbers for example). Builders that are able to provide their subcontractors with consistent flow of jobs tend to get better pricing and efficiency as well as shorter lead times in their build cycles. The labor market in housing construction remains tight and the cost of labor has consistently increased at 3-4% rate annually over the last few years. We expect upward pressure in labor costs to continue (or even accelerate),

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