

LENNAR CORP
January 8, 2020
11:00 am EST

Coordinator: Welcome to Lennar's Fourth Quarter Earnings Conference Call. At this time all participants are in a listen-only mode. After the presentation we will conduct a question-and-answer session.

Today's conference is being recorded. If you have any objections, you may disconnect at this time. I will now turn the call over to Alexandra Lumpkin for the reading of the forward-looking statements.

Alexandra Lumpkin: Thank you and good morning. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial condition, results of operations, cash flows, strategies and prospects.

Forward-looking statements represent only Lennar's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements.

These factors include those described in this morning's press release and our SEC filings, including those under the caption Risk Factors contained in Lennar's annual report on Form 10-K most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

Coordinator: I would like to introduce your host, Mr. Stuart Miller, Executive Chairman.

Sir you may begin.

Stuart Miller: Great. Good morning everyone and thank you. This morning I'm here in Miami with Rick Beckwitt, our Chief Executive Officer; Jon Jaffe, our President; Diane Bessette, Chief Financial Officer; and Dave Collins, our Controller; and of course you just heard from Alex.

I'm going to start as I always do with a brief overview. Jon and Rick are going to give some additional operational remarks and Diane will deliver further detail on our fourth quarter and year-end numbers as well as some guidance for our first quarter and our full year 2020.

As always when we get to our Q&A, we'd like to ask that you limit your questions to just one question and one follow-up so that we can accommodate as many participants as possible.

So let me go ahead and begin by saying that this is another excellent quarter and year-end for the company as we continue to focus on performance, cash flow and total shareholder returns.

We're very pleased to report record quarterly performance together with a record strong finish to 2019 that started off paused and sluggish and ended the year with a rather robust housing market. Our results reflect both the continued strength in the housing market as well as our continued focus on leveraging size and scale to drive greater cash flow and higher returns on equity and on capital.

On the macro front, the housing market continued to strengthen throughout the fourth quarter, confirming the continuing trend that we reported in our last two quarterly earnings calls. The market for new homes has continued a steady improvement from last year's pause as lower interest rates have stimulated demand while the overall fundamentals of the economy have remained strong.

We clearly saw traffic and sales continue to strengthen in the fourth quarter as a combination of lower interest rates and slower price appreciation have positively impacted affordability. Greater affordability together with low unemployment, wage growth, consumer confidence and economic growth drove home purchases especially at the entry level to return to a more affordable housing market.

Even with the constant noise from the current election cycle and from the ebb and flow of global tensions, which we're seeing play out in real-time, the indicators that we see and hear from our customers reflect confidence in the stability of the economy and in the job market. As of now and through today the housing market is strong.

On the company front, Lennar achieved record results as we posted net earnings of over \$674 million or \$2.13 a share for the quarter and approximately \$1.85 billion or \$5.74 per share for the year. These results derived primarily from solid operating results from both homebuilding and financial services as our ancillary businesses have become less of a factor.

In homebuilding, improvement in new orders and deliveries produced a gross margin of 21.5% for the quarter which was at the high end of our guidance last quarter. While deliveries jumped 16% over last year and new orders improved 23% over last year's rather tepid fourth quarter, our size and scale in

most of the best markets in the country enabled us to offset rising land costs with production cost savings while overhead leverage has driven our SG&A to an all-time fourth quarter low of 7.6% and a full year low of 8.3% which has enabled a net margin of 13.9% and 12.3%, respectively. We're confident that these trends are going to continue into 2020.

Our financial services performance also continued to contribute to our earnings beat. I want to focus on this segment for a minute as I did last quarter. Our financial services performance and improvement continues to be a proxy for many of the important initiatives driving our company into next year and beyond.

For the year our Financial Services division earned \$244 million versus \$200 million last year, up 22%. Performance improved though through the year and in the current quarter our Financial Services segment generated a record quarterly profit of \$81.2 million compared to \$57.6 million last year for a 41% improvement.

This record profit comes after selling substantially all of the company's retail operations in both mortgage and title in the first quarter earlier this year. These sales enabled our team to focus on the core home buying business and to implement technology initiatives that are streamlining the remaining business. This focus on the core business drove significant operational improvement in the second half of the year.

First, we increased the company's combined mortgage capture rate to 78% from 74% by focusing on simplifying our customers' engagement and providing excellent customer service.

Second, we reduced the cost to originate a loan by 11% from \$6,300 per loan last year to \$6,000 per loan in the third quarter to \$5,600 per loan this quarter, steady improvement, and this is down by 1/3 from \$8,400 per loan in 2017.

These cost reductions were driven by management's focus on technology initiatives which include our Blend front-end technology for loan application along with robotic processes that automate repetitive processes to reduce paper flow and streamline the closing process. These improvements all lead to not only lower cost to the company but to a friendlier and frictionless customer experience with the company.

Finally we have reduced total financial services headcount by about 50% at the same time. Technology, together with management focus, has enabled efficiency, a better customer experience and a much better bottom line.

In our Financial Services division our management team and the entire group have made technology initiatives a core mission and are showing leadership for the entire company in that regard. Accordingly we're gaining ever more confidence that we will continue to improve our entire end-to-end process to get to a one tap closing and create a customer satisfaction process that is simple, frictionless and has never been seen before.

And as we're building these improvements we're also seeing the fruits of our focus and investment at the bottom line. These improvements specifically and these types of improvements generally are sustainable and they will continue to drive bottom line improvement in our Financial Services segment and across our entire company in the future.

Over the next two years we expect to see some of the same technology-based improvements affecting our core homebuilding operation specifically in areas

of customer acquisition costs and even flow production and inventory management. Stay tuned.

Moving on, while our strong operating results drove the bottom line, we are simultaneously focused on any and all ways to improve total shareholder returns by reducing our asset base. Our fourth quarter results reflect our overall focus on land spend and inventory control that has enhanced our strong and improving cash flow picture as well.

We've maintained a relentless focus on our pivot to a land lighter strategy. From the timing of land purchases to the duration of each land assets that we buy to the percentage of option versus owned land we are and will continue migrating toward a significantly smaller land-owned inventory driving our business and our cash flow forward.

While we're also driving our asset base lower by continuing to focus on monetizing non-core assets and business segments are most immediately impactful focus remains on our land spend and our inventory.

With that said, strong operating results and our focus on asset base has increased cash flow for this year to \$1.6 billion and projected annual cash flow expectations for 2020 are continuing to head towards the \$2-billion mark.

In the fourth quarter we used excess cash to repay an additional \$600 million of debt while we also repurchased another 1.7 million shares of stock at an average price of just under \$59 a share. For the year, we retired \$1.1 billion of senior debt while repurchasing almost 10 million shares of stock while we ended the year with \$1.2 billion of cash and our revolver paid to zero.

We improved our balance sheet with a debt-to-total cap ratio of approximately 33% which is a 410-basis point improvement over last year.

As we look to 2020 we expect to continue to generate strong cash flow and we'll use cash to pay down debt and to return capital to shareholders while improving our balance sheet as we continue to improve our total shareholder returns.

In conclusion let me end where I began. We had another excellent quarter and year end. Our management team is laser-focused on driving returns with excellent operational execution and careful land and inventory management. This focus is not just demonstrated by our words but also by last year's results.

While 2019 is in the book, 2020 seems even brighter to us. We remain encouraged by both market conditions for the remainder of the year and Lennar's position in it. Our size and scale continues to facilitate the management of cost and the production in a land and labor constrained market.

In addition to carrying forward the successes of last year, we have the additional opportunities of our growing single family for rent initiative and our technology-based improvements to the way our customers purchase a home and the way our customers live in a home. These strategies, along with our, quote-unquote, "sustainable Lennar sub theme," will continue to drive operational innovation and excellence and enhance total shareholder returns.

With that, let me turn it over to the rest of the team. Rick?

Rick Beckwitt: Thanks, Stuart. We had a strong quarter in each of our business segments, driven by a solid execution of our operating strategies.

Homebuilding revenues for the fourth quarter totaled \$6.5 billion, representing an 8% increase from 2018. This was driven by a 16% increase in deliveries to 16,420 homes, partially offset by a 7% decrease in average sales price.

Deliveries for the quarter exceeded the high end of our guidance as we carefully matched available inventory with strong buyer demand. The decline in average sales price was driven by our continued strategic focus on a very robust entry level market as our percentage of first-time buyers increased year-over-year.

Our gross margin for the quarter totaled 21-1/2%, which was the top side of our guidance, and up 110 basis points sequentially from the third quarter. This sequential improvement benefited from the direct cost savings that Jon will discuss as well as a higher number of deliveries which allowed us to leverage our field expense.

Our SG&A in the quarter was 7.6%. This marks an all-time fourth quarter low and highlights the power of our increased market scale and operating leverage.

Homebuilding operating earnings totaled \$893 million, up 11% from the prior year. We're proud of the fact that our homebuilding earnings are growing at a faster rate than revenues, once again demonstrating our operating leverage.

Net earnings for the quarter totaled \$674 million, up 11% from 2018, excluding the gain on the sale of Rialto and non-recurring expenses in the prior year.

New orders for the quarter increased 23% to 13,089 homes, exceeding the high end of our guidance. From a dollar value perspective, new orders totaled \$5.2 billion in the fourth quarter which was up 23% from the prior year as well. New orders increased significantly in each of our operating - in our Homebuilding segments with extremely strong performance from our Texas region and our West region where new orders were up 48% and 34%, respectively, year-over-year. Our Texas segment is perfectly positioned and continues to benefit from our strategic focus on the strong entry-level market.

During the fourth quarter, we saw increased demand, which benefited from favorable housing market fundamentals, low unemployment, higher wages competitive mortgage rates, low inventory levels and a much more confident homebuyer, all contributed to a 26% increase in our sales pace per community year-over-year.

We ended the fourth quarter with a sales backlog of 15,577 homes with a dollar value of \$6.3 billion. This backlog, combined with our current housing inventory, puts us in a great position to close between 54,000 and 55,000 homes in fiscal 2020.

As Stuart said in fiscal 2019, we were laser-focused on improving our returns on capital and generating increased cash flow. With this in mind, increasing our percentage of option home sites and reducing our year supply of owned home sites were top priorities.

At the beginning of the year we set a two-year goal of having 40% of our home sites controlled via options and similar arrangements. We made great progress on this front throughout the year as we ended the first quarter with a 24% mix, ended the third quarter at 30% and finished the year at 33%. Based on our progress our new two-year goal is to have 50% of our land needs controlled versus owned by the end of fiscal 2021.

During the fourth quarter we also made significant progress on reducing our years owned supply of home sites from 4.4 years at the end of the third quarter to 4.1 years at the end of the fourth quarter. Based on this progress, we believe we can reduce our years owned supply of home sites to three years by the end of fiscal 2021 as well.

If we're successful, this would reduce our on-balance sheet land position by approximately \$3 billion. The combined impact of properly executing on our land lighter business and reaching our stated owned and controlled goals will drive meaningful higher cash flow, returns on capital and total shareholder returns.

Consistent with our land light strategy and focus on increased returns, we're continuing to develop a program to develop and address the single family rental market. There's no question that there's a shortage of affordable and workforce housing and new single family rentals can solve this problem.

Given the shortage there's intense investor interest in professionally-managed new single family rental communities where the owner can leverage the overhead cost of managing the rentals because they are in the same community with identical features from home to home. Last quarter we daylighted our single family rental program where our homebuilding

operation will be building and selling homes in bulk in communities where the land is owned by third parties with no lease up risk to Lennar.

Since then we've expanded this program to include building and selling incremental single family rentals in bulk in separate sections of some of our larger existing communities. While we're at the beginning stages of growing this business, we are excited about its growth prospects.

Given the lead time in developing new communities and getting home production started, single family rentals will only represent about 1% of our closings in 2020. However this program will have a much more meaningful impact in 2021 and we will provide an update accordingly.

Single family rental is an expansion of our core business as it allows us to leverage our existing machine and overhead. Additionally this program provides an interesting and unique hedge to our for-sale business.

Before I turn it over to Jon, I would like to thank our associates and our trade partners for an excellent year. Through your hard work and collaboration we accomplished many great things in 2019 and more importantly we're excellently positioned to execute on our strategies in 2020.

I'd like to turn it over to Jon now.

Jon Jaffe: Thanks, Rick. As we look back on the quarter and our fiscal year we can clearly see the benefits we're receiving from our significant size and scale across the platform. For both the fourth quarter and for the year we delivered the most homes in Lennar's history.

We continue to see the benefits in our direct construction costs and in our SG&A that is not only a result of the size and scale but also of our focus on process particularly the simplification of processes to maximize efficiencies.

Turning first to direct construction cost, I noted last quarter we had visibility that our direct costs are going down sequentially and will contribute positively to our gross margins going forward. In our fourth quarter, 70 basis points of our 110 basis points of sequential margin improvement came from our direct construction costs.

In the fourth quarter, our direct costs as a percentage of our average sales prices was 45.5%. Throughout 2019 this cost of price ratio has trended downward each quarter and we expect this trend to continue throughout 2020 even though we're projecting lower sales prices in 2020 due to a higher mix of entry level homes.

Looking at cost per square foot, year-over-year our direct costs were up less than 1% while our average square footage was down by 4%. This is an improvement from the third quarter's 3% year-over-year increase and marks the lowest rate of year-over-year direct cost increase in 12 quarters.

Going forward as we deliver more entry level homes and our average selling price and square footage will both continue to be lower. While this is occurring the ability to both lower our direct construction cost as a percentage of average sales price and to keep our cost per square foot relatively flat demonstrate the value of the size, scale and efficiency of our platform.

Across the country our builder of choice focus allows Lennar to minimize the impacts of the labor shortage while maximizing supply chain efficiencies. Throughout 2019 we were disciplined with our even flow production model,

which combined with our Everything's Included platform, gives predictability to our trade partners, suppliers and manufacturers.

Turning now to overhead, as noted our fourth quarter and full year SG&A of 7.6% and 8.3%, respectively, were both all-time company lows. Our focus on simplicity and technology, combined with our size and scale, continue to give us SG&A leverage.

As we improve our systems and simplify our processes, our associates increasingly become more efficient. In the fourth quarter, our year-over-year personnel spend in homebuilding SG&A was down 1% while our volume increased by 16% giving us significant G&A leverage. We achieved sales and marketing leverage through the use of technology to reduce our sales and marketing spend.

As we mentioned last quarter we are focused on higher-quality Internet leads through our Internet sales team. In the fourth quarter we had over 90,000 Internet leads. Meaning we had that many customers requesting specific information about a home or community. Our team of Internet sales consultants may communicate with the customer online, via text messaging or by phone call to learn more about the customers' needs and then match their specific needs with our homes and arranging visit to one of our communities. The result is high quality, very well-informed customers with set times visiting our communities.

In summary we are executing our game plan with the following unified playbooks. One, simplification, maximizing the efficiency of every process. Two, asset light, optioning land and buying land with shorter durations. Three, even flow production, operating our Everything's Included platform with a step production start pace while matching sales for this pace using our

dynamic pricing model. Four, lower direct construction costs, developing strategic Builder of Choice partnerships throughout the supply chain along with value engineering workshops division by division. And five, technology, providing better systems and information for happier, more productive associates, a better customer experience and lower costs.

Now I'll turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning to everyone.

So first let me start with reemphasizing a few points from our fourth quarter and I'm starting with homebuilding. So as we've mentioned, deliveries increased 16% from the prior year and exceeded the upper range of our guidance by 3% as we benefited from a strong housing market and a continued focus on returns. Our fourth quarter gross margin was 21.5%, which was at the higher end of our guidance, and the prior year's gross margin was 22.1% excluding CalAtlantic's purchase accounting.

Our fourth quarter SG&A was 7.6% which is the lowest quarter SG&A percent we have ever achieved and was below our guidance. This compared to 7.9% in the prior year.

New orders increased 23% from the prior year and exceeded the upper range of our guidance by 6%. Absorption for the fourth quarter was 3.4 versus 2.7 in the prior year as we benefited from increased demand and focused on accelerating the close out of slower paced communities to enhance returns. Our ending community count was 1,283.

And finally for homebuilding joint ventures, land sales and other categories, we had a combined loss of \$2 million compared to \$4 million of earnings in the prior year.

And then turning to financial services, as Stuart mentioned, operating earnings were \$81 million compared to \$58 million in the prior year. And here's the detail of the components. Mortgage operating earnings increased to \$57 million from \$44 million in the prior year. Mortgage earnings improved due to an increase in captive volume as a result of higher homebuilding deliveries and a higher capture rate and reduction in loan origination costs primarily driven by technology initiatives which enabled us to reduce headcount, as Stuart mentioned.

Title operating earnings were \$22 million net of non-controlling interests compared to \$18 million in the prior year. The increase was due to an increase in captive volume and our focus on cost reductions to right size the business.

Rialto Mortgage Finance operating earnings were \$3 million compared to a loss of \$1 million in the prior year. This was driven by an increase in securitization dollar volume, partially offset by a decrease in securitization margins.

And then turning to multifamily. Our Multifamily segment had operating earnings of \$5 million net of non-controlling interests compared to \$33 million in the prior year. There were no building sales this quarter as compared to three transactions in the prior year.

And finally, Other. This is the category of the legacy Rialto assets outside of Rialto Mortgage Finance and our strategic technology investments. Earnings

were \$11 million this quarter compared to losses of \$49 million in the prior year. This quarter earnings were largely driven by earnings related to our Rialto fund investments while prior year losses were primarily due to nonrecurring expenses.

And then turning to our balance sheet. We ended the year with an extremely well-positioned balance sheet. In fiscal 2019 we generated approximately \$1.6 billion of homebuilding cash flow and ended the year with \$1.2 billion of cash on the balance sheet. We continue to make progress with our strategy to reduce years of land owned and increase our land control position.

At the end of the year our home sites owned and controlled totaled 313,000, of which 209,000 were owned and 104,000 were controlled. As Rick mentioned, our years of land supply owned decreased to 4.1 at the end of Q4 from 4.4 at the end of Q3. Our controlled home sites increased to 33% at the end of Q4 from 30% at the end of Q3.

At the end of the year we had no outstanding borrowings on our revolving credit facility, thereby providing \$2.5 billion of available capacity.

During the quarter we retired \$600 million senior notes that were due in November. This brings our senior note repayments to \$1.1 billion for the year and \$2.2 billion since the acquisition of CalAtlantic.

During the quarter we repurchased 1.7 million shares for a total of approximately \$98 million. This brings our total for the year to 9.8 million shares, totaling \$493 million. At the end of the year, our debt-to-total cap was 32.8%, a 410-basis point improvement from the end of '18.

So now turning to guidance. I'd like to provide some high-level guidance for fiscal 2020 and then I will provide more detailed guidance for the first quarter.

So for the full year of 2020 we expect to deliver between 54,000 and 55,000 homes with an average sales price for the year of approximately 385,000. This average sales price reflects our focus on a higher percentage of entry-level product.

Our fiscal 2020 gross margin is expected to remain consistent with fiscal 2019 and will be in the range of 20.5% to 21%. Although entry level margins tend to be slightly lower we believe our margins for the year will benefit from our continued focus on reducing construction spend, leveraging field expenses over more deliveries and reduce interest expense as we've continued to pay down our senior note maturities.

Our fiscal 2020 SG&A should be in the range of 8.2% to 8.3%. And as we continue to add higher volume, higher absorption entry-level communities, while also accelerating the close out of slower paced communities to enhance returns, we expect our community count to grow 1% to 2% by the end of the year. Financial Services earnings should be in the range of \$250 million to \$255 million. And we expect our tax rate to be approximately 23.25%, primarily due to the recent extension by Congress of energy efficient home credits.

Now let me give you more detailed guidance for Q1 only. Starting with homebuilding. We expect Q1 new orders to be in the range of 11,300 to 11,500 and our Q1 deliveries to be in the range of 9,800 to 10,000 homes. Our Q1 average sales price should be between \$390,000 and \$395,000. We expect our Q1 gross margin to be in the range of 19.7% to 19.8% noting that this will be our lowest margin quarter for the year and margins will increase

throughout the year to be in the range previously stated. We expect our Q1 SG&A to be in the range of 9.4% to 9.5%. And for the combined homebuilding joint venture, land sale and other categories, we expect a Q1 loss of approximately \$10 million.

We believe our financial services earnings for Q1 will be in the range of \$25 million to \$27 million. Our multifamily operations will be at about breakeven. And for the other category related to the legacy Rialto assets and our strategic investments, we expect Q1 earnings of approximately \$8 to \$10 million.

We expect our Q1 corporate G&A to be about 2% of total revenues. And as previously stated, we expect our tax rate to be approximately 23.25%. The weighted average share count for the quarter should be approximately 313 million shares. And so when you roll all this together this guidance should produce an EPS range of 80 cents to 85 cents for the quarter.

So in summary we believe we are well positioned to continue to have strong profitability and increasing cash flow generation in 2020. And now let me turn it over to the operator for questions.

Coordinator: Thank you. We will now begin the question-and-answer session.

If you would like to ask a question, please press star 1, unmute your phone and record your name clearly.

If you need to withdraw your question, press star 2.

We ask that you limit yourself to one question and one follow up question until everyone has had the opportunity to have their question answered.

Our first question comes from Truman Patterson with Wells Fargo.

Your line is open.

Truman Patterson: Hi. Good morning everybody. Nice quarter. Thanks for taking my questions.

First, just wanted to start off kind of a multipart question on entry level. You know, multiple industry participants are moving to the entry level. Do you all see an upcoming supply imbalance or are you seeing robust enough demand that's really, you know, allowing the entry level communities to generate greater than historical absorption paces?

And, you know, on the prior call you all suggested that, you know, maybe you could get a 44% entry level in 2020. Do you think there's possibly upside to that level given the demand that you've been seeing?

And finally could you just give an update on kind of the gross margin profile versus your other segments? I mean, how much of a drag it might be on your margin profile?

Stuart Miller: Truman, let me start at a macro level and say it's important for everyone to remember that the entry level part of the market has remained impaired for the longest period of time since the downturn and really had a very difficult time getting started. So that part of the market is probably the most supply constrained. When you note that a number of participants are migrating towards that market, it has most recent - more recently become accessible. Demand is very strong in that part of the market and I think it's going to be some time before it gets saturated.

Rick, Jon, maybe you like to talk about margin and...

Rick Beckwitt: Yes, so from an overall mix standpoint and our position, I think we really have benefited from the fact that this has been something that we strategically target for the last several years. We've been very methodical on lining up communities, repositioning product, working with our developer partners to really secure excellent positions that are sizable. When you're dealing with a single family or entry level product, you need some larger communities because your absorption pace in these communities is much faster. So we're really well positioned.

From mix standpoint, do we get up to 44%? I think it's too soon to tell. We're probably in the low 40% right now. And we're just going to see how the years evolve.

From a margin standpoint, as Diane said, the margins tend to be slightly lower than our first time move up - and move up product. But they come with higher velocity and as a result the IRRs associated with the buildout of those communities is much, much higher, and that's why we focused on that.

Jon, anything else?

Jon Jaffe: You covered it.

Truman Patterson: Okay. Okay thanks for that. Your rotation towards option lots it's - your traction has been a little bit faster than what we've expected, you know, the past couple of quarters. Could you just discuss the health of the option land market whether these lots are becoming more available across the industry or whether this is, you know, purely the result of your land developer partners?

And kind of part two of that question, could you just give an update on the strategy to expand your developer partner relationships? I believe you were at three previously. You know, what you're kind of thinking throughout 2020?

Rick Beckwitt: So, you know, I think what this really reflects is as a management team, when we - when Stuart, Jon and I sit down and we make a plan, we execute on the plan. And, you know, we really decided that we were going to convert and increase the amount of our option position.

We worked with our regional trade partners and our regional developers and have significantly expanded that program. We haven't necessarily entered into new arrangements with different developers. Rather what we've done is expand the footprint of those relationships to other markets and that's what you're seeing in the increase.

In addition to that, our teams out there are really leveraging the relationships they have in all of their markets to increase that percentage.

Truman Patterson: Okay. Thanks guys.

Stuart Miller: Thank you.

Coordinator: Our next question comes from Alan Ratner with Zelman & Associates.

Your line is open.

Alan Ratner: Hey guys. Good morning. Congrats on the very strong performance.

So I was hoping to drill in a little bit just in terms of your thinking right now on the capital allocation. You mentioned the focus on return several times.

And this year was a huge year for cash flow as you were expecting. So great to see that come to fruition.

You know, if I look at how you spent your cash this year, you know, debt on the balance sheet came down by about \$800 million; buybacks were about \$500 million. I know a lot of builders say the first and, you know, main use of cash is for, you know, growing the business but it certainly seems like you're in a pretty enviable position where you can do that and, you know, throw off a lot of cash flow.

So should we think about the - you know, generally the use of cash this year towards debt reduction and buyback as kind of how you're thinking about prioritizing that or has that shifted at all given the fact that your debt-to-cap is now down to, you know, that 30% type level?

Stuart Miller: So as we noted in our comments, we expect to continue to pay down debt certainly as it comes due. I think we noted that over the next year, over 2020, we have about \$600 million of longer-term debt coming due. You can expect that we'll pay that down out of cash flow.

But additionally returns to shareholders - focus on returning of capital to shareholders is something that will be continued and properly balanced. As we've looked at our business and looked at our growth expectations, normal operations today are cash flow positive. As we noted last year we produced \$1.6 billion and we expect to continue that trend and more. And that excess capital is going to be balanced exactly as noted. We're very focused on our balance sheet, very focused on total shareholder return.

Alan Ratner: Thank you for that, Stuart. And second question, if I could, on the SFR, the expansion there. You know, first off I guess just more housekeeping. Were

there any orders this quarter that flowed through the order line that were geared toward SFR? And I guess more high level, you know, as you start to build these homes in existing communities, can you talk a little bit about the product that you're building for rental? Is it comparable to your for-sale product and if so, you know, is there any concern about cannibalizing that piece of the business or is it being priced differently that, you know, it shouldn't compete?

Rick Beckwitt: So let me just start off by saying is that right now this business is very small in the grand scheme of things and what we've really done is focus on positioning to grow something that's substantive. So from an order perspective for the last quarter, the orders associated with this were de minimis.

You know, what we've really been focusing on is identifying markets that we can build to pay a good business that is focused on providing product that the market needs. Within our existing communities, what we've really done is looked at sectioning off different phases or sections of the community that will be priced completely differently than our other for-sale product. So smaller footprint, lower specification levels, you know, not a lot of change from home-to-home pretty identical features right down the street.

Stuart Miller: Let me back up for a second and say this: SFR has been a part of the sales program for the past years at both in our company and in others. It's basically been on a one-off basis. It's more mom-and-pop oriented. What we have been innovating over the past years -- and we daylighted this in Reno, it's a continuation of that -- is a more structured program and we've been focusing on looking at single family for-rent communities which is where we have innovated and are kind of branding going forward a new way of thinking about single family for rent.

We are at the early stages of this. It has been an evolutionary track for the company. You're going to see others follow suit. Capital is starting to understand this business. And this will be an emerging story as we go forward. But the single family for rent that we're talking about is single family communities for rent which will be - you know, there'll be a circle around that community.

While there will be similarities with other single family product, it won't be directly competitive but instead this product is going to enable a consumer that want single family but might not quite be able to get into a for-sale program. We're very enthusiastic about this and it's a uniquely Lennar branded program.

Jon Jaffe: I'll add to that two points. One is we don't think it will cannibalize our existing product at all. It is the same product. It's really filling the need, as Stuart just mentioned, of a consumer that can't afford to buy. It doesn't make sense for them to buy.

The other point is the focus on this for us will further enhance our Builder of Choice position with the trade as we have more volume. And this is even more consistent and higher volume. So we see that as being very complementary to our construction platform.

Alan Ratner: Great. Thanks a lot guys. Good luck.

Stuart Miller: Thank you.

Coordinator: Our next question comes from Michael Rehaut with JPMorgan.

Your line is open.

Michael Rehaut: Thanks. Good morning everyone and congrats on the results. My first question I had is focusing just on some of your comments around, you know, inventory and driving returns and the resulting cash flow. I don't know if I heard and maybe you typically don't give but I was just trying to get a sense when you talked about, you know, having inventory, your balance of inventory down 3 billion over the next two years, I was wondering if you could give us what that number is or, you know, at the end of this year just to get a sense of, you know, where that number could go?

And, you know, with that amount of inventory balance reduction, should we be expecting potentially an acceleration of share repurchase with the use of that as that cash frees up? I mean, obviously you have a 1.2 billion of debt due next year but given your still declining, you know, debt to cap, you know, I would assume, you know, you'd want some debt on the balance sheet and you can kind of push that maturity out. So just trying to get a sense again of the finer numbers around that inventory reduction and how we should think about, you know, the use of that cash.

Rick Beckwitt: Let me start off by just generally telling you how we look at the dollar value difference. You know, we've told you that what we want to do is take our own supply from 4.1 years to 3 years by 2021. And if you step back and you look at it, you can calculate that two different ways. It's about one year of land purchase. So we buy about \$3 billion of land a year. So \$3 billion sort of sums up to that number.

Looking at it a different way, based on our guidance of 54,000 to 55,000 homes for next year, if we don't have to buy the home sites associated with that, our average lot finished home site or undeveloped, in some cases,

finished home site, is about 54,000 or 55,000 which gets you to the same \$3-billion number.

Stuart Miller: So, you know, look, it's a pretty straight math calculation to look at the \$3-billion number. Mike, you're correct in highlighting that this is additive to cash flow as we migrate in this direction. We do expect that cash flow will continue to benefit from our inventory and land strategy. And I think that your question is, does that mean that we accelerate things like debt and shareholder - return of capital to shareholders? And the answer to that is decidedly yes.

Michael Rehaut: Great. Thank you. I guess second question, you know, just a little bit finer tuning granularity around order growth and how to think about that for the upcoming year. Obviously you gave first quarter guidance and as well as community count growth expected to be 1% to 2% I believe for the year. I assume that's year-end over year-end. If you could clarify that.

But how should we think about, you know, the sales pace component of that, you know, given that you've kind of mentioned that you continue to expect to shift a little bit more towards entry level which is, you know, higher sales pace versus other segments, other buyer segments as well as the fact that, you know, you'd expect the broader market to continue to improve a little bit given, you know, where we are with rates and affordability, et cetera.

So, you know, just trying to kind of break out the pieces of that, you know, I think expectations perhaps are in a low to mid-single digit type of range for sales pace growth but, you know, any thoughts around how you're thinking about that for the first quarter and the full year would be very helpful.

Jon Jaffe: Hey, Mike, it's Jon. First of all that is correct. It's year-end to year-end comparison. As we think about pace it really goes back to my commentary about a very disciplined production approach and matching sales pace to that. So to the extent that the market is stronger or not, we'll adjust pricing accordingly. So we expect our pace to be a consistent one.

And to the extent the market is stronger, we would hope that we'll see improvement in margins over what we're projecting. To the extent that the market were to soften, we expect the pace to be consistent and we would see some reflection of that in our margins.

Stuart Miller: You know, I'd say additionally that, you know, as part of our land and inventory management program, looking internally we have clearly focused on more of our higher paced communities and focusing on those communities with greater absorptions and we've clearly and decidedly been pruning some of the slower paced communities that might have come from the CalAtlantic legacy that are more of a drag on some of our returns. So this is all part of our inventory management program and we've been looking community by community to enhance that - the absorption rate, therefore enhancing returns.

Michael Rehaut: Okay. So just to be clear then, you know, given that shift that you're describing, Stuart, it wouldn't be unreasonable to expect an order growth rate for the year that would exceed the community count growth that you're looking for?

Rick Beckwitt: I think that's definitely, I mean, if you just look at the guidance we gave with regard to deliveries, the delivery growth is higher than the increase in communities. So you'll get a natural increase in overall sales that are greater than the 1% to 2% growth in community count.

Stuart Miller: And that's a more efficient and more effective business model.

Rick Beckwitt: That's right. You know, we've strategically focused on getting higher velocity out of each community as opposed to growing communities at a higher rate.

Michael Rehaut: Great. Thank you.

Coordinator: Thank you. Our next question comes from Carl Reichardt with BTIG.

Your line is open.

Carl Reichardt: Thanks. Happy new year everybody.

Stuart Miller: Good morning, Carl.

Carl Reichardt: Jon, I wanted to ask a little bit about subcontractor trade cost. And obviously starts were flat this year, builders reporting some really significant order growth and move to the entry level which increases number of units started sort of for two reasons. One, the velocity and also just business is better. How are you thinking about the trades? You didn't seem, like, they had a lot of overcapacity or not enough work last year.

Are they going to look even with your scale at trying to get more aggressive on their pricing to you? And how do you combat that? Is it just scale? Is it just product simplicity and a focus on Everything's Included and even flow? I'm just curious what your perspective is maybe not just this year but also maybe for, you know, a year or two.

Jon Jaffe: Sure. As you look backward and as you look forward, there is a severe shortage of labor in the industry, particularly skilled labor. And we really don't see that improving because a lot of the labor out there is actually aging out from the workforce. So expect that pressure to continue.

And as - when we've started several years ago, we really thought about the fact that as volume grows there'll be more pressure on the system. And that's why we really reinvented ourselves with this focus of being the Builder of Choice. So it's much more than just volume and scale. That is a big part that strategically positions us to be most desirable. But it has everything to do with this even flow production and the predictability that gives trade.

Our Everything's Included platform is really critical because one of the big obstacles for trades is if they go out to a job site and is not ready for them, that inefficient use of labor that's already in short supply backed up on itself and creates real issues. And because of that, the trades find us more favorable to work for because the jobs run smoother, they're more predictable, they don't have the starts and stops of options and upgrades.

And so we are continuing to focus on how do we get even better at that, how do we - even more disciplined about even flow so that as we move forward, the trades are actually able to make more money on our business because it's efficient, not because we're paying them more.

Carl Reichardt: That makes sense. And then, Stuart or Rick, just on pricing again the mix shift to the entry level, more price sensitive customer, we've seen builders in the past used price to control pace so that production can actually catch up but you're running even flow and your mix is changing. How do you look at your pricing power as you head into this year with such robust demand but what's likely to be a more price sensitive consumer? And obviously, using dynamic

pricing I'm sure is helping manage pace. But again is this different than what we've seen in the past where builders were shoving price to try to hold pace off?

Jon Jaffe: I don't think it's different. For us it's going to be - as we've said, to be on a very consistent pace. And if the market is stronger and it currently is showing signs of how historic that it's strong and we see that across our markets that we will have pricing power greater than we had in the last year or two. That will unfold, you know, as months go by and we'll see exactly what the market is like. But as we look at it right now, it is - it's strong and we would expect to be able to benefit from that.

Rick Beckwitt: Yes. And I think the thing to focus on, you know, we will solve the price, whether that's a higher price or lower price. But we're very focused on net operating margin for each community.

Carl Reichardt: Thanks, Rick. Thanks all.

Coordinator: Thank you. Our next question comes from Stephen Kim with Evercore ISI.

Your line is open.

Stephen Kim: Yes thanks very much guys. Good quarter. Thanks for the information regarding your outlook for the year and the quarter. I had a little question about the interplay of the margins and the order cadence you suggested in 1Q. And I guess in general my question is, your margin assumption for the quarter versus the year since you said that you expected the first quarter to be the low in the year and you gave a pretty healthy guide for the full year, can you give us a sense for when in the year you're expecting to see, you know, that, you know, fairly meaningful step up in the margin?

Is that going to be, like, kind of 2Q, 3Q event or is that something that you're sort of envisioning will happen later in the year? And if it is, like, as soon as, you know, the second quarter, is that a reflection of the current environment allowing you to get better price than the order comment you made of up 8% would suggest?

Jon Jaffe: Yes, Steve, it's Jon. You know, as an overview, remember that our first quarter is always our lowest from a volume perspective and therefore our field is spread out. It has a bigger impact on the margins in the first quarter and you always see that trend with us. So what you'll see is sequentially throughout the year margins will improve as we get greater field leverage just purely based on volume.

The improvement is throughout the year though, you know, based on what we expect to see with this more efficient of both gross margin, net operating margin out of the efficiencies we're gaining in our systems and our costs and our SG&A that should flow through all of our numbers. So for the combination, those two things progressing throughout the year.

Diane Bessette: Yes, Stephen, maybe the only thing I'd add is I think if you look at the growth of gross margin in 2019, that would give you a really good proxy for what we're expecting in 2020 with the back half of the year having the highest increase in margins.

Stephen Kim: Got it. All right. That's helpful. Secondly I was really intrigued by this comment, Stuart, you made about how you saw the improvement in the Financial Services business and I guess specifically you cited the mortgage origination business and some of the tech initiatives that you've got going on there.

I believe you used the word “proxy” for what we might see from many of your other tech initiatives, you know, across the company. And I was curious if you could give us a little bit of a preview as to what you meant by that. I think you had said, “Homebuilding customer acquisition costs and even flowing construction management.”

As I think about some of the initiatives you’ve got, obviously you have the iBuyer investment in Open Door which could, you know, lead to customer acquisition cost. But I’m particularly intrigued by this even flow and construction management how - in what way could the improvement we saw in your mortgage origination business be a proxy for that?

Stuart Miller: So thank you for listening to the call carefully, Steve. Yes that’s exactly what I said. And it starts with the fact that in our Financial Services group, which is where we really initiated many of our technology initiatives, we had a management team start to dip a toe then a foot then a leg into the technology stream.

And as they became more entrenched, there was kind of a feedback loop that began that said, “Wow, this really does have import. This really can have impact.” And the more we did, the more we explored, the more we found, we could change the way that our business operates.

If you think about the migration from, I think it was \$8,600, \$8,700 per loan in 2017 towards a \$6,000 or \$5,600 per loan cost of origination, that’s a sizable step over a fairly short period of time and it comes from management focus and integration of new technologies, new ways of doing business that hadn’t been done or tried before. And the feedback loop that comes from early successes feeding the adventure of drilling deeper and trying more.

We're starting to see many of those things happen in and around our dynamic pricing program. We've talked about it before. Early adoption starts to bring some early successes. It takes some time for those earlier successes to start accelerate - start to accelerate and start to translate into real cost reductions but we're starting to see real efficiencies in the way that our inventory turns.

If we look back from this year's year-end back to last year's year-end, the efficiency with which we are driving closings through the year it's having real bottom line impact in the way that our business is configured and we think that that will accelerate.

As it relates to customer acquisition, we've talked about a number of our initiatives, Open Door being one of them. But others of them are more internally focused about customer acquisition and then lead scoring developing into a driven focused Internet sales consultant approach to the way that we handle our customers. We think that as it starts to drive - as we start to drive adoption will drive cost down and efficiencies up.

So there are a lot of initiatives going on behind the scenes. If you would ask me this question at the beginning of the innovation cycle in financial services, it would have been hard to demonstrate the specific areas where cost would come from. But it's management focus, early successes and adoption and that cycle that drives the cost structure down and I think that the Financial Services group in that regard is a proxy for the way that we're seeing things starting to happen on the homebuilding side as well. Does that help?

Stephen Kim: Yes. No that's very interesting. I guess just one little clarification on my part would be the numbers you gave around the mortgage cap - mortgage origination costs declining. I assume you're implying from that that your improvement that you traced out for us has been better than what you believe

the industry overall has been. So that's not just an industry issue. That's a Lennar issue. And similarly you expect that in these other avenues as well. Is that correct?

Stuart Miller: Listen, I can't really look at what the rest of the industry is doing at a micro level but from what we understand at a macro level, the costs within the industry have been migrating higher and we are an outlier in that regard.

Stephen Kim: Great. Thanks very much.

Stuart Miller: You're welcome. How about one more question.

Coordinator: Thank you. Our next question will come from Susan Maklari with Goldman Sachs.

Your line is open.

Charles Brown: Good morning. This is actually Charles Brown filling in for Susan. Thanks for taking my question and congratulation on strong results.

Jon Jaffe: Thank you.

Charles Brown: I was just wondering if you can provide an update on some of your key markets such as Florida and Texas and California and also specifically for Texas, if you think your success in this region is reflective of your recent initiative in this market.

Rick Beckwitt: So let's start with Texas. I can tell you that we had strong performance in each one of our Texas markets -- San Antonio, Austin, Dallas and Houston -- all up high-double digits. The region was up 48% year-over-year in orders

and it really is driven by the fact that we've completely repositioned to a much higher percentage of entry-level product.

Right now we're about 50% of our sales and communities are below \$250,000 price point and about 70% of our communities are below \$300,000. So it's the strength of that reposition that's really fueling the market there.

With regard to Florida, the markets in Florida are very strong particularly on the lower price points in that first time move up and that really is across the board south to north and east to west.

Jon, do you want to talk about California?

Jon Jaffe: Yes California has clearly seen a recovery if you look at it from a year-over-year perspective. The prior year California has really fallen off and the pause affected California perhaps more than any other parts of the country. What we saw in the fourth quarter was a much healthier market, a clear recovery back to normal sales paces, even in the Bay Area which was perhaps the most impaired by a market slowdown in the fourth quarter of 2018. We've seen that market come back to life. I wouldn't describe that as robust yet but certainly a lot healthier.

Charles Brown: Okay. Thank you for your time guys.

Stuart Miller: All right, very good. Well thank you everybody for joining us on our call. We look forward to reporting in 2020. As you can hear we're pretty enthusiastic about the year to come and look forward to keeping you up to date. Thank you all for joining.

Coordinator: That concludes today's conference. Thank you for participating. You may disconnect at this time.

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