

**LENNAR CORP**

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11:00 am EST**

Coordinator: Welcome to Lennar's Second 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 statement.

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. You may begin.

Stuart Miller: Good morning. Thank you and good morning everybody. This morning I'm here with Rick Beckwitt, our Chief Executive Officer; Jon Jaffe, our President; Diane Bessette, our Chief Financial Officer; Dave Collins, our Controller; of course you just heard from Alex; and a number of others.

I'm going to go ahead and start as we always do with a brief overview. Rick and Jon will give an operational update and then Diane will give further detail on our second quarter numbers as well as some additional guidance for the rest of the year.

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

So let me go ahead and begin by saying that we're very pleased to report a very solid second quarter performance, reflecting both a pickup of the homes that were lost in the first quarter due to weather conditions and a general recovery in the housing market.

Deliveries improved 5% over last year while new orders improved to last year's levels and exceeded the upper end of our guidance by just a little over 2%. In the second quarter, we achieved net earnings of over \$421 million or \$1.30 per share, and our strong cash position enabled us to opportunistically repurchase another 1 million shares of stock and set up the repayments of \$500 million of debt just after the quarter ended. At quarter's end and before the debt repayment, we recorded a debt to total capital ratio of 38.3%, which is a 410-basis-point improvement over last year's level.

Overall, our results reflect the fact that the housing market strengthened throughout the second quarter, confirming and continuing the trend that we reported on our earnings call last quarter. We clearly saw traffic and sales continue to strengthen in the second quarter as the combination of lower interest rates together with at least slower price appreciation and in some instances, slightly lower prices have positively impacted affordability. And that, together with low unemployment, wage growth, consumer confidence and economic growth drove the consumer to return to a more affordable housing market.

And while the current market conditions would not be considered robust, they would be considered solid. We believe that the housing market is generally running in a performance channel that is bounded on the downside by the production deficit that has persisted for the past decade and has kept housing supply constrained while it is somewhat moderated on the upside by rising land and labor costs as well as affordability limits. Within this channel, the market is generally continuing to improve and we believe will continue to improve for the foreseeable future.

Although we reported gross margins at the lower end of our previous guidance, this reflects the greater-than-expected incentives used during the market slowdown or pause to maintain volume, ensure --and ensure that we achieve our 2019 closing targets between 50,000 and 51,000 homes. And we remain confident that we will achieve this target this year.

We expect to see our margins improve steadily throughout the remainder of the year as prices remain stable and incentives continue to subside. Accordingly, we expect to generate strong cash flow for the remainder of 2019 and expect to continue to use excess cash flow to both pay down debt while opportunistically repurchasing stock.

We're well-positioned to thrive in this solid market condition. We've continued to refine our land strategies to position ourselves for strong performance and a strengthening balance sheet. Rick is going to update further - this further in his remarks. And additionally, we have noted in - as we've noted in prior calls, we continue to invest capital in technology initiatives that are redefining the future of both our company and our industry. We believe that our tech initiatives represent significant opportunity and upside for the company as we create efficiencies in internal operations, reduce our SG&A and reduce our cost structure.

In the second quarter, our SG&A continued its downward trend with our lowest second quarter level ever at 8.4%. We continue to be laser focused on progress on our technology adoptions and change management. And this is being incrementally reflected in bottom line improvement while we enhance our customer experience and our customer interface. We're still at the very beginnings of opportunities that we envision as we're going to build an ever better and more efficient mousetrap.

Before I turn over to Rick, Jon and Diane, let me just say that we remain encouraged by both Lennar's position and market conditions for the remainder of the year. Our size and scale in each of our strategic markets continues to manage - to help us manage cost and production in a land-and-labor-constrained market. Our focus on technology is driving efficiency that is reflected in our consistent improvement in SG&A. Our strong cash flow and bottom line profitability are continuing to enable us to reduce debt and repurchase shares. Our strong balance sheet continues to improve and position us for the future. And our strategy of

shedding noncore assets continues to drive an intensified focus on our core homebuilding business.

As the homebuilding market continues to solidify in the wake of the recent pause, we're optimistic about our ability to deliver strong and consistent performance for the remainder of 2019.

And with that, let me turn over to the rest of the team. Rick?

Richard Beckwitt: Thanks, Stuart. In these recovering market conditions, our homebuilding operations executed at a high level and produced solid results.

Homebuilding revenues for the second quarter totaled \$5.2 billion, representing a 3% increase from 2018. This was driven by a 5% increase in deliveries to 12,729 homes and a 1% decrease in average sales price. Deliveries for the quarter exceeded the high end of our guidance as we were able to accelerate some third quarter closings into the second quarter.

Our gross margin for the quarter totaled 20.1%, which was within the range of prior guidance and flat sequentially with our first quarter. As Stuart mentioned, our second quarter gross margin was impacted by an increase in sales incentives offered to homebuyers during the market pause in the fourth quarter of 2018. Our margin was also slightly impacted by an increase in the number of closings coming from third-party option contracts versus on land that we developed ourselves. This is in line with our land-lighter strategy that is focused on maximizing cash flow and our internal rates of return. Notwithstanding that our gross margins were down in the quarter, we expect our margins to increase in both Q3 and Q4 through a combination of reduced incentives and lower direct construction costs that Jon will talk about.

Our SG&A in the quarter was 8.4%. This marks an all-time second quarter low and highlights the power of our increased local market scale and our operating leverage. Homebuilding operating earnings on the sale of homes totaled \$603 million, up 48% from the prior year. Net earnings for the quarter totaled \$421.5 million, up 36% from 2018.

New orders for the quarter increased 1% to 14,518 homes, exceeding the high end of our Q1 guidance. From a dollar value perspective, new orders totaled \$5.8 billion, which was down 4% from the prior year, reflecting an increase in sales incentives, which I talk about, a higher percentage of entry-level homes and a transition away from the higher-priced CalAtlantic homes in the year ago period.

Our average sales price will continue to move lower going forward as many new entry-level communities come online. This is particularly the case in Texas as all of our Texas markets in the last 18 months we bought over 75% of the land that's targeted to entry-level product.

During the second quarter, we saw increased seasonal demand, which benefited from both lower mortgage rates and moderating sales price increases. Homebuyers' sentiment improved throughout the quarter and we experienced solid traffic on both our Web site and our Welcome Home Centers. While lower rates help drive demand, we continued to price-to-market and offer incentives although at reduced levels from the market pause to keep our homebuilding business on track to build and close more than 50,000 homes in 2019.

We continue to believe that maintaining an even flow of steady production is the best operating strategy as it will drive higher operating margins, IRRs and increase shareholder value.

We ended the second quarter with a sales backlog of 19,061 homes with a total dollar value of \$7.7 billion. This backlog combined with our current housing inventory puts us in a great position to achieve strong operating results in fiscal 2019.

Before I turn it over to Jon, let me give you a brief update on our land initiatives. The three strategic initiatives we discussed last quarter have continued to expand in both their initial markets and into new markets. In the last quarter, these ventures have put under contract or closed more than 11,000 homesites. Lennar will build on the majority of these homesites with selective sales to other builders to enhance the overall return in these ventures. As I said in the past, the majority of these homesites will be delivered to us fully developed on a rolling basis, so just-in-time inventory.

In the second quarter, we also announced another strategic transaction with Level Homes, an Engquist Development in Raleigh, North Carolina. Through this transaction, we purchased 34 homes under construction and 29 developed homesites. More importantly, in continuing with our asset-light land strategy, we have a future right to purchase approximately 1600 finished homesites across seven communities. These homesites will be delivered by Engquist over the next six years. And this marks the beginning of a new strategic relationship in the Carolinas.

Recognizing the continuing short supply of dwellings both for sale and for rent, we recently entered an agreement with one of our longstanding third-party relationships to build homes that will be purchased by that third party in a standalone rental community. This community is in Florida and is the first in what we believe will be an ongoing business strategy and relationship where we build and sell homes in bulk on land owned by third parties with no lease-up risk.

We are actively discussing this program with several landowners and investors that control large parcels of land suitable for single-family rentals in locations where we have a leading market share and we are the low-cost producer. We're optimistic that we can replicate this program and that we can leverage our buying power and building expertise to achieve outside returns and continue to lower our SG&A.

We love this new business model as it will generate high IRRs, strong margins, leverage our existing overhead with no accompanying land risk. This is a perfect expansion of our land-light strategy.

Now I'll turn it over to Jon.

Jonathan Jaffe: Thanks, Rick. Today I'm going to give some color on the various cost factors that impact our cost of sales and the timing of how they flow through our deliveries.

First, with respect to direct construction costs, there are several components impacting our direct costs. The positives are tailwinds that come from the drop in lumber prices, cost synergies and our production-first operating platform. The headwinds are cost pressures from the ongoing labor shortage and tariffs.

While there're many variables that affect our direct cost, including the mix of homes closing in any particular quarter, as we look back at Q2 and look forward at the next few quarters, we see that directionally, our direct construction costs are decreasing. In the second quarter, the cost of materials, which account for 57% of our directs, were lower sequentially by 0.5%. This is the first time in years that the cost of materials has dropped as lower-cost lumber and synergies flow through our closings.

The biggest factor impacting material cost is lumber, which represents approximately 13% of direct cost. The peak pricing for lumber was back in June of 2018 at approximately \$600 per 1000 board feet. That pricing went into place for homes we started in July through September of 2018 and those homes deliver primarily in Q1 and Q2 of 2019.

Lumber dropped to around \$330 per 1000 board feet in December of 2018. It then bounced back to \$400 before trending to its low point earlier this month in June of \$300 per 1000 board feet. The December pricing will impact homes that started in January through March for Lennar, which will primarily be delivering in our third and fourth quarters. Deliveries in our second quarter were mostly started in October through December and priced off of September's lumber pricing of around \$400 per 1000 board feet.

With respect to synergies, we remain on track to achieve our targets and are seeing those savings reflected in our cost of deliveries. Let me walk you through the timing of these synergies. Synergies were first layered in as negotiations with national vendors took place shortly after the merger in Q2 and Q3 of 2018. This was followed by negotiations with local trade partners which resulted in new trade contracts for home starts in Q3 and Q4 of 2018.

The transition of closing out CalAtlantic communities and the conversion of product to Lennar's more efficient Everything's Included platform takes place over a longer period of time. Once a new contract is established based on the negotiations with trades and new specifications and plan changes, then new permits were required for the start of the new product to benefit from this lower cost. Homes benefiting from these production change strategy benefits have savings starting in our second quarter with homes delivering in our second quarter, and a meaningful cohort of these plans we'll deliver in the second half of 2019.

The severity of the labor shortage in the construction industry is the strongest headwind that we face. Labor cost represent 43% of our direct spend and were up 2.8% sequentially in the second quarter and 7.7% year-over-year. While labor cost continued to rise, I strongly believe our Builder of Choice focus has allowed Lennar to minimize the impact of labor - of the labor shortage especially in our ability to access labor for our jobsites.

Another headwind is tariffs on material cost. First there was the 10% tariff on Chinese goods that took place last September and then another 15% this June. On average, the impact to us is about \$500 per home. We're in constant communication with our manufacturing partners, discussing strategies for offsetting impacts to these tariffs with alternate specifications and locations of manufacturing. The strategic relationships with our manufacturers, just like with the rest of our trade partners is a result of the focus of our Builder of Choice program. We're seeing the benefits of this play out in real time with discussions that develop solutions for avoiding cost increases while improving safety, quality and cycle times despite the labor shortages.

We consistently give advanced visibility to our trades for our production needs, allowing them to plan accordingly. Maintaining an even flow start pace with our Everything's Included platform allows the trades to make better utilization of their limited labor. These efforts combined with our significant size and scale in each market enables Lennar to be the low-cost builder to serve.

Lastly, another headwind affecting our cost of sales is land. Land cost as a percent of sales is increasing primarily due to two factors. As we've noted on previous calls, the land market remains constrained as land entitlements are taking longer, restricting the availability of land in the market which results in appreciating land cost. Additionally, as Rick mentioned, we're delivering a higher percentage of homes on option or just-in-time land. While this land delivers higher returns, it comes at a cost premium due to the low risk and short carry time associated with it.

Overall, we remain focused on improving our net operating margin, free cash flow and return on capital. We're driven to simplify our operations, enabling us to execute on our four pillars -- our Builder of Choice production-first operational program; our just-in-time selling

platform driven by our dynamic pricing model; our technology-driven efficiency leverage overhead structure; and last, our simple and efficient Everything's Included platform.

With that, I'll now turn it over to Diane who will give you more color on how these costs will result in our margin guidance for Q3 and Q4.

Diane Bessette: So thank you, Jon, and good morning to everyone. So let me summarize and reemphasize a few points from our second quarter starting with homebuilding. So as we've mentioned looking at deliveries, deliveries increased 5% from the prior year and exceeded the upper range of March guidance by 6% as we benefited from both deliveries that were postponed by weather from our first quarter and the recovering housing market.

Our second quarter gross margin on home sales was 20.1%. The prior year's gross margin was 21.6%, excluding CalAtlantic purchase accounting. Q2 2019 gross margins were impacted by an increase in sales incentives offered during the homebuilding market pause and an increase in construction cost as a result of continued cost pressures due to land and labor shortages.

Our second quarter SG&A was 8.4%, which is the lowest second quarter SG&A percent we have ever achieved. This compared to 8.7% in the prior year. The decrease was primarily due to continued operating leverage, evidenced through improvements in personnel and related expenses and a decrease in broker commissions year-over-year.

And then turning to new orders. New orders increased 1% from the prior year. And additionally, new orders exceeded the upper range of March guidance by 2%.

Looking at absorptions. Absorptions for the second quarter was 3.7 versus 3.6 in the prior year. Additionally, we ended the quarter with 1,325 active communities.

And finally, for homebuilding, joint venture, land sales and other categories, we had a combined loss of \$21 million compared to \$17 million of earnings in the prior year. This was primarily due to a loss on consolidation of a previously unconsolidated entity, partially offset by our share of operating earnings from one of our unconsolidated entities.

And turning to Financial Services. Looking at the results, the operating earnings net of noncontrolling interest related to States Title were \$62 million compared to \$56 million in the prior year. And here is the detail of the components. Mortgage operating earnings increased to \$43 million compared to - from \$35 million in the prior year. As a result of the sale of our retail mortgage business in Q1 of 2019, total origination volumes decreased to \$2.6 billion from \$2.9 billion. The sale of the retail business, however, enabled the mortgage division to focus solely on the captive business, implement technology improvements, streamline processes and achieve G&A reductions that exceeded the impact from lower origination volumes.

Title operating earnings were \$13 million compared to \$16 million in the prior year. The decrease was due to the sale of the majority of our retail agency business and title insurance underwriter business to States Title in Q1 2019 which resulted in a decrease in retail closed orders. This decrease in retail volume was partially offset by an increase in captive closed orders and a decrease in G&A expenses due to the sale.

Rialto Mortgage Finance operating earnings were at \$6 million compared to \$3 million in the prior year. The increase was due to higher securitization dollar volume during the - as compared to the prior year.

And then turning to Multifamily. Our Multifamily segment had an operating loss of \$4 million compared to operating earnings of \$15 million in the prior year. There were no sales in the quarter compared to two sales in the prior year that resulted in \$17 million in gain for that segment. However, we had \$4 million of promote revenue compared to - related to communities as Lennar Multifamily Venture Fund I compared to \$5 million in the prior year.

A few weeks ago, we announced the final closing of Lennar Multifamily Venture Fund II with the total of \$1.3 billion of equity commitments including Lennar's commitment of \$381 million. This success is a continuation of the build-to-hold platform that we had migrated to where we earn fees and promotes while creating value within our fund.

And then finally in the Other category. As a reminder, this category is for the legacy Rialto assets outside of Rialto Mortgage Finance and our strategic technology investments. Earnings were \$2 million in the second quarter compared to \$4 million in the prior year.

Now turning to our balance sheet. We ended the quarter with \$801 million of cash. At the end of the quarter, our homesites owned and controlled were 289,000, of which 215,000 are owned and 74,000 were controlled. Land acquisition spend during the quarter was \$755 million and land development spend was \$611 million. We had borrowings on our revolving credit facility of \$550 million, leaving \$1.85 billion of available capacity.

At quarter end, our homebuilding debt to total cap was 38.3%. And during the quarter, we repurchased 1 million shares for a total of approximately \$52 million. Stockholders' equity increased to \$15.2 billion and our book value per share grew to \$47.06 per share. And then subsequent to quarter end, as Stuart mentioned, we retired \$500 million of senior notes that were due in June.

So then turning to guidance. I'd like to just give some guidance for the third quarter. Starting with homebuilding, we expect new orders between 12,500 and 12,800. We expect to deliver between 13,000 and 13,250 homes, which reflects the acceleration of some deliveries into Q2. We expect our Q3 average sales price to be between \$385,000 and \$390,000. We expect our Q3 gross margin to be in the range of 20.25% to 20.5% and our SG&A to be in the range of 8.3% to 8.4%. And for the combined homebuilding joint venture land sales and other categories, we expect a Q3 loss of approximately \$10 million to \$15 million.

And turning to our ancillary businesses. We believe our Financial Services earnings will be between \$52 million and \$55 million. We believe our Multifamily earnings will be about \$5 million. And for the Other category related to the Rialto legacy assets and our strategic investments, we expect Q3 earnings of approximately \$3 million.

We expect our corporate G&A to be about 1.7% of total revenue. And we expect our tax rate to be approximately 25.5% for the remainder of the year.

Our weighted average share count for Q3 should be approximately 321 million shares. And when you roll up all of those numbers, the guidance that we are expecting is an EPS range of \$1.25 to \$1.35.

And now let me update guidance for the full fiscal year 2019. With regard to deliveries, we expect to deliver between 50,500 and 51,000 homes. We believe our average sales price will be about \$400,000. Our gross margin is still expected to be in the range of 20.5% to 21%. Our SG&A should be in the range of 8.3% to 8.4% as we continue to benefit from operating leverage. Financial Services earnings should be in the range of \$200 million to \$205 million. Our Multifamily earnings should be in the range of \$8 million to \$10 million. And we expect corporate G&A to be in the range of 1.5% to 1.6% of total revenues.

So in summary, we believe we're well-positioned to have strong profitability and cash flow generation in 2019. And now let me turn it over to the operator for questions.

Coordinator: We will now begin the question-and-answer session. For participants over the phone if you would like to ask a question, please press star followed by the number 1. Please record your name and company name slowly and clearly. Those information are needed to introduce your question. To cancel the request you may press star and then the number 2. We ask that you please limit yourself to one question and one follow-up per turn. Our first question is coming from the line of Mike Rehaut of JPMorgan. Your line is open.

Michael Rehaut: Thanks. Good morning everyone and congrats on the results. First question, you know, the - just on the housing market and some of the commentary that you gave earlier on in your prepared remarks, specifically talking about, you know, the housing market strengthening during the second quarter, you know, you highlighted traffic in sales and I believe even, if I heard you right, incentives declining. But, you know, I just wanted to get a little bit more granular in terms of the order trends if possible, how they progressed during the quarter. Obviously, they came in a little bit above your guidance. And, you know, any, you know, commentary around June as well, you know, particularly as it relates to any possible early impact from the recent further decline in rates.

Stuart Miller: Yes. So, Mike, I think that what we highlighted in the call is that the market had really continued the trend that we saw in the first quarter. There had been progressive improvements through the quarter, though fairly mild. And I was clear to say that the market rather than being robust could be qualified as solid. And it really did solidify through the quarter. And I think that's what you're seeing play through our numbers.

Rick, do you want to add to that?

Richard Beckwitt: Yes. And if I had to give you sort of trajectory in the quarter, May was the strongest month from us - for us from both the new sales orders, from an absorption pace standpoint and from just an overall field, traffic and buyer sentiment.

Incentives were down, you know, quite a bit from our fourth quarter with regard to the incentive in the sales order. And that's what gives us a little bit confidence that you'll start to see some margin improvement in the back half of the year combined with the construction cost stuff that Jon highlighted.

Michael Rehaut: That's great. Thank you, Stuart and Rick, on that. I guess, you know, secondly, you know, just to highlight your - or talk a little bit more about the incentive trends, specifically, you know, gross margins, you kind of highlighted that the increase - if I heard it right, that the sequential increase in incentives on closings was still more of a flow-through from the, you know, the softness in the fourth quarter. I wanted to make sure that that was, you know, fully the case and that, you know, as you're saying, you know, maybe we could just shift the attention a little more towards - if you have any stats, around incentives on orders.

And, you know, you've kind of been saying that they're down materially from the fourth quarter. I was curious on the cadence - the continued cadence, if there was any improvement in incentives on 2Q orders versus 1Q because I think that's an area of focus right now as it relates to, you know, if the market continues to strengthen as you talk about, you know, if the pricing has, you know, further improved 2Q versus 1Q.

Richard Beckwitt: Yes, that's what I was trying to address. If you looked at the incentives in the new sales orders, not in the closed home, for Q4 that was about 6.1% in the fourth quarter. As we moved into Q1 and Q2, we saw additional improvement. Q1 was about 5.7%, Q2 was about 5.6%, but trending in the quarter down through the quarter of Q2.

Michael Rehaut: Okay. So the 5.7% and 5.6% were - you're talking specifically on orders.

Richard Beckwitt: That's what you asked. Yes.

Michael Rehaut: Perfect. Thanks so much.

Coordinator: Thank you. Our next question comes from the line of Stephen East of Wells Fargo. Your line is open.

Truman Patterson: Hi, good morning everybody. This is Truman Patterson on for Steven. Thanks for taking our questions.

Just piggybacking off that last commentary with you guys saying that May was the strongest month of the year from, I believe, orders and absorptions and incentives. Do you guys believe that the lower interest rate environment has extended the spring selling season?

Stuart Miller: Well, I think that's yet to be seen. We generally don't comment beyond the end of the quarter but we definitely saw, you know, the market being fairly solid through the second quarter. And even as we've started to go into the third, it feels like the market is, as I said, solid.

You know, lower interest rates clearly are impacting affordability. That's bringing people back to the market, you know. And while, you know, while new home sales are reported across the nation right now at down by about 7% or 8%, you know, we're still looking at a generally solid economic environment with low unemployment and increasing wages, you know, basically getting customers to act on their appetite to find a home. We're in short supply relative to homes and interest rate is really enabling affordability to kick in and to bring buyers back to the market.

So that's a trend that we've been seeing. And that's kind of how we see things as we look through the end of the year continuing to improve and solidify.

Richard Beckwitt: Yes. And, you know, as I said in my remarks, the market is really following its typical seasonal pattern with improvement from the prior quarter periods. So I think it's too soon to tell whether this is going to be an elongated selling season because of mortgage rates being down. But what it has done is piqued buyer interest because things are more affordable right now.

Jonathan Jaffe: And this is Jon. I'll just add to that. If you think about it, the second quarter of 2018, everyone thought that was a very strong market for new home sales and we surpassed that level in our second quarter 2019, so again directionally talks about an improving marketplace. And there's no question, as Stuart mentioned the affordability impact of the lower interest rates is helping that.

Truman Patterson: Okay. Thanks for that. I didn't hear a community count number. Could you guys just give us an update on community count growth? And, you know, last quarter, you guys mentioned some weather-related catch-up. I'm really just trying to get a sense of where you all think you could end the year and, you know, looking forward to some longer-term growth potential.

Diane Bessette: Yes, (Steve). So we ended the quarter with 1,325 active communities. And if you look at where we think we'll be for Q3, we think it'll probably be flattish with the prior year. And if you look ahead as you get to the end of the year, we might be a little bit lower than the prior year just because we're accelerating our absorption pace.

Truman Patterson: Okay, thank you guys. And then anything kind of longer term, how you guys are thinking about community count growth?

Richard Beckwitt: Well, we haven't really given projections...

Truman Patterson: Yes.

Richard Beckwitt: ...into 2020. So I think that's a little bit premature right now.

Truman Patterson: Okay. Thank you.

Coordinator: Thank you. Our next question is coming from the line of Ivy Zelman of Ivy & Associates. Your line is open.

Stuart Miller: Good morning.

Ivy Zelman: Good morning and congratulations on the quarter. So I'm going to go for the bigger picture question given the fact that your stock is selling off and I think there's a big elephant in the room that no one's addressing, which is the fear of a recession and the yield curve is certainly telling us that. So people will say to me, "Why in the world would I want to own a homebuilding stock late in the cycle with the risk of recession around the corner after ten years of economic recovery?" And I think something you guys said today -- sorry for the background noise -- was really interesting about, you know, your ability to sell homes to single-family rental operators. And one of the big concerns I hear about Lennar specifically is that your factory of 50,000 plus units a year, you know, being number 3 or higher in 25 markets, you actually have to continue to take a lot of risk in terms of exposure to land and recognizing that if there is a downturn, you actually have more exposure than anybody else because you have such a big machine to feed.

So talk to us about in a downturn if in fact a recession were to come to fruition, which I personally don't think is going to happen but I'm not an economist in predicting recessions, but if in fact, how much of it, for example, of the single-family rental piece whether it's Opendoor that's buying your homes or Zillow or some of these guys that then sell it to a single-family rental operator. I think people are just very concerned about the risk of being involved in homebuilding sites this late in the cycle. And all of your size, even if you guys are doing an awesome job on scale, it's still a very capital-intensive business with obviously cyclical risk. Thank you.

Stuart Miller: Well, there are a lot of embedded questions there, Ivy, and a lot of topics. And I think that we can all agree that there are crosscurrents in today's market. And there are a lot of reasons to be optimistic and to view the world quite positively. And there are some concerns that are out there, some of them are at the macro level. And those are environmental programs that we're going to have to fit into.

At the end of the day and our view is that the base of the economy is strong. Unemployment is low. And relative to the housing market, you're really dealing in a world that we've not seen before. And that is for the past ten years, you've really seen relative to the population of the country, a production deficit that has persisted. And that persistence means that housing is in short supply, is going to continue in short supply and there are going to be some

movements in the market overall that are sometimes up, sometimes down. Affordability will be tested as we saw with the pause.

But even with land short, labor constrained, prices or costs being pushed up, there's a need that is driving the housing market. And in our view, and I've said this for some time, it presents somewhat of a floor or a downward limit on how constrained the market can get. And while the upside in the market is somewhat constrained as well because of cost and affordability, there is a channel of production that it seems in order to fill the need for dwellings in the country, we're going to be traversing for quite some time. And if you look at a normalized level of production -- and I know some people question it -- of around 1.5 million and maybe it's a little bit lower, we've been underperforming that for some time.

Now what we've done is we've created some innovative land strategies and some innovative production strategies, recognizing that there will be a balance between what is sold and what is rented. And we're participating in both sides of that market in our rental program, in our for-sale housing program that will in some instances be sold to groups that are buying and leasing. And we're really adopting a broad strategy of participating in all parts of the market as the country overall has to fill the need of dwellings that are in short supply.

Richard Beckwitt: I guess the other...

((Crosstalk))

Ivy Zelman: Well I think that's - go ahead, Rick. Sorry.

Richard Beckwitt: ...Ivy, is, you know, we benefit from being the low-cost producer. And while margins may move up or down depending on what goes on in the economy, we do know that we have an operating advantage. In addition to that on the - on this for-sale rental stuff, these are in areas that we wouldn't build but for this type of program because it's not a good for-sale market; it's more affordable markets where we found an opportunity to leverage our operating platform.

As Stuart said, we are not seeing cracks in the system out there. We feel that the economy is moving along. And we're quite confident that if there is a downturn, that we'll be able to

react very proactively and slow down the machine but still have tremendous cash flow because we won't have to buy as much land. So I think in an environment where the market goes down, we're really strategically positioned to outperform.

You got to keep in mind that during the last downturn, there were different issues at play. The biggest issue was that people couldn't afford to stay in their homes because mortgage rates were much higher. We don't have that. And in past decline, that's when a lot of inventory came to the market because people couldn't afford to live where they were living. That's not the case today.

Ivy Zelman: Well I think that's really helpful, both of you. I think - you know, I'm just trying to be - play devil's advocate because, you know, I think your stock is the best recommendation we have in our sector. It's our top pick. And what I see is just there's hesitancy and concern.

So what you just said, Rick, is that even if there was a downturn, you know, the cash flow that you would generate, do - I'm assuming you guys have modeled out what a recession not led by housing but let's just say trade wars or something that creates a recession, what your sort of different sensitivities are. And I think it'd be helpful, maybe not on this call but I just think that's what the market is talking about today. Reminds me of when China was blowing up in first quarter of '16 and, you know, there's just a lot of fear and uncertainties. And you guys as a homebuilding company until you lived through a downturn, many people stay away. And I think they're not doing themselves a service buying the stock here but it'll be helpful for you guys to help even though you don't think, Stuart, there's going to be a recession, what happens to the company's earnings, what does it look like, what does cash flow look like, That would be really constructive for us to understand better.

Stuart Miller: Okay. You know, look, we can add some color to that. But I think that you start with the understanding that our strategy is basically derived from that view of this channel and the downside protected and upside kind of limited moving through this kind of middle zone. And remember as we said as we went through the pause in the second half of 2018, we're focused on building through, using pricing to basically maintain production which maintains cash flow.

And so as you think about the way that we would model a recession that is not housing-led, and I think that it would not be but might be a derivative of trade wars or other things, it would be defined by those kinds of thoughts that the production deficit is a buffer, land and labor is a limiting factor, and we're going to continue to produce homes at an accelerated level by using pricing to keep our production machine moving through.

Ivy Zelman: Great. Well good luck guys. Thank you.

Stuart Miller: Thank you.

Coordinator: Thank you. Our next question is coming from the line of Stephen Kim of Evercore ISI. Your line is open.

Stephen Kim: Thanks very much guys. Stuart, Rick, Jon, if I can maybe follow up here on that line of thinking. I think there's really no dispute about the - some of the factors which you said can act as buffers to the industry as we go into the next downturn, whenever that is. But by the same token, it's a little surprising to me that you would need - that you wouldn't be seeing those same factors and then put together with lower rates, driving better pricing in the marketplace today without the need - you know, in other words that it's surprising to me that you need to continue to have incentives at the level that you're doing. I would have thought that your incentives would have been able to drop substantially, sequentially from 1Q to 2Q in light of the lower rates. And you've talked about the housing market having - or your demand experiencing a typical seasonal pattern, I think was your phrase. But rates have not been following a normal seasonal pattern this year.

And so effectively my question with incentives because you've been kind enough to give us this metric of 6.1%, 5.7%, 5.6%, is that in your view keeping up with the market or are you leading the market with incentives? And if you could talk a little bit about why you think the incentive level that you're at has been necessary in light of the fact that the rates have dropped so much.

Jonathan Jaffe: Hey, Steve, it's Jon. I would definitely characterize that as keeping up with the market. We are not of a scale nor is any other builder to make the market. And so you have a consumer that is looking at what value can they get for their monthly payment, which interest rates as

we all know a big effect on and creates a market pricing. So we're participating in that market from community to community. It may vary. It might be more or less aggressive depending on that particular marketplace. But in general we're for the market. And I think it's just a reflected - reflection of a long up-cycle but one that's defined as slow and steady, which in a lot of respects is more healthy than one that is very robust because that can't last very long.

And so we're in this channel that Stuart described that in my view is slow and steady. So there isn't robust demand that as you think about your question of normal seasonality why hasn't it been stronger and created a greater reduction incentive. It's really a reflection of the overall marketplace that we've seen for the last few years just continuing forward at that pace.

Stuart Miller: You know, additionally, you know, I would say this, Steve, if the perception is that we're using incentives to stimulate the market in a broader sense, the incentive structure is arrived at a very local level, community by community, in response to existing market conditions. It's in cooperation with Jon, Rick, our division presidents and the people on the ground. So you're really looking at a composite incentive number that derives from what the local level is telling us that the market is requesting. So it's an active feedback loop rather than something that is forced downward to drive the market.

Jonathan Jaffe: Steve, let's also remember the incentives never go to zero even in...

Stephen Kim: Sure.

Jonathan Jaffe: ...the best of markets where we are paying for closing cost and some cost of that nature. So your floor is sort of call it, you know, 3%-ish in terms of what the bottom in a really strong market would be.

Stephen Kim: Yes.

Richard Beckwitt: I think I - sort of just to end this, we've run the analytics and models to understand where we maximize returns and profitability based on pricing and pace. And we started this year saying that we were going to deliver a certain number. We knew what our fixed overhead

and our operating cost were. And we're driving towards a cash flow number and an earnings number. And we could certainly slow down production and push price but that wouldn't produce a better result.

So I think we're operating the company with the strategy that we entered the year. And you're focused on one small piece of the puzzle when there's a big - a lot of pieces around.

Stephen Kim: Yes, no that's helpful. And that is just one of the things that we look at where we look at obviously a lot. And we try to look at as many things as you look at to the best of our ability.

So in that vein, going to land spend, I was a little surprised that your acquisition-oriented land spend wasn't lower this quarter given, you know, a market environment that is solid but not robust and given an outlook for, you know - well, given the order situation kind of being flattish, you know, year-on-year and community count going to be kind of flat to maybe even slightly down by the end of the year. I was a little surprised that your acquisition spend was - I think it was about - first half of this year, it's about \$1.5 billion. And I think in the back half of last year it was like \$1.6 billion or so.

I would've thought that the acquisition land spend would be declining as we go forward. So can you give us a sense for what we can expect from the acquisition-oriented land spend, which obviously would tie into your cash flow outlook over the next couple of quarters?

Richard Beckwitt: Yes, I'll let Diane talk about the go-forward number. But I think you need to keep in mind, Steve, that the land spend in any quarter is not necessarily dollars that are in - that just came together in an acquisition in that quarter. Some deals take years to come together in order to get to a point where all the entitlements are in place and we're ready to go.

Stephen Kim: Right.

Richard Beckwitt: And, you know, a lot of the land that you're looking at that got acquired has been under contract for two or three years. So...

Stephen Kim: Got it.

Richard Beckwitt: ...you can't look at the comparison between last quarter and the quarter before that to this because it's apples and oranges, particularly since we're buying and contracting for a much larger business now than we were in the past.

Diane Bessette: Yes, Steve, I think if you just look at the numbers, our second quarter was not too dissimilar from the first quarter, a little bit higher but not materially. And so I think where we are in the second quarter is a good proxy for what you'll see in the third and fourth quarter as well.

Stephen Kim: Okay, great. Thanks very much guys.

Coordinator: Thank you. Our next question comes from the line of Matthew Bouley of Barclays. Your line is open.

Matthew Bouley: Hi. Thank you for taking my questions. I wanted to ask about the guidance. You know, you're guiding to I guess implying growing deliveries by double digits in the fourth quarter. But you're saying that or guiding to order growth of kind of low single digits in the third quarter. Obviously the backlog is down a bit year-over-year in units. So is there any additional color there, you know, perhaps around your internal start projections? You know, what else could you say that gives kind of insight into reaching that fourth quarter delivery guidance in light of where orders and backlog are? Thank you.

Diane Bessette: So I think, yes, I think if you look at our third quarter guidance on delivery, you're absolutely right. We're sort of in the single-digit range. And we do pick up as we go to the fourth quarter. We're generally backend-loaded. So I'm not sure that we're too dissimilar. If you look at the pattern of last year, pretty similar. We always pick up and have our strongest new order and delivery growth in the fourth quarter. So I'm not sure that we're too out of sync with what the typical pattern.

Matthew Bouley: Okay. Understood. And then secondly, the SG&A side, I think you've shown some pretty clear progress with the tech investments and streamlining all the costs. I think Stuart, you termed it as a significant opportunity still going forward. So just any additional thoughts on kind of the longer-term opportunity, you know, broker commissions, advertising? What are the different buckets and, you know, how much runway is there on all that? Thank you.

Stuart Miller: Yes. Look, I've noted this before. I think that there is still a lot of opportunity throughout our SG&A levels to improve our business operation by using technologies. And we're working with a number of really vibrant programs. And a lot of them are customer-facing. We've talked about Opendoor. Opendoor-enabled homes or home sales for our company continue to accelerate. And the better we get at working with Opendoor, the more we're able to drive our realtor cost down. And that's a benefit to our SG&A.

But at the same time, we're working with companies like States Title to improve the amount of time that it takes to get a title policy and to deliver documentation to our customers. And in time, though not yet, that will improve some of our financial services performances. We're using Blend to help our customer better access the mortgage application process. And across our platform there're just a number of technology opportunities to refine the way that we do business and bring cost down incrementally. It's not going to happen in large steps quarter by quarter but what we've been seeing is ten basis points here, 20 basis points there over the last quarter, year. And over years, you're going to start to see us become a much, much more efficient business because technology has made us better at what we're doing.

Matthew Bouley: All right. I appreciate all the details. Thanks again.

Stuart Miller: Okay you bet. Why don't we take our last question?

Coordinator: Thank you. Our last question comes from the line of Carl Reichardt of BTIG. Your line is open.

Carl Reichardt: Thanks very much. I wanted to ask two questions about California. I'll just ask one question with both the parts in it. One, just can you talk a little bit, Stuart, about how California performed for you? And then with the move towards more lot options and what looks like a pretty significant move to smaller homes, quicker turns, does that impact at all how you think about California in terms of land mix and community mix on a long-term basis, how that might influence your thought?

Jonathan Jaffe: This is Jon. I'll take your question. So California in general improved. But there's really two different categories to think about when you look at California. The high-end coastal markets, particularly the San Francisco Bay Area and Orange County are still a bit sluggish.

Those are the higher price points. You're talking, you know, \$1 million-plus homes and heavily influenced by what's being impacted with the Chinese buyer. So those - they're calling it for what it is. Those remain sluggish.

The more inland markets from the inland empire in the South in San Diego up through the Central Valley and into Sacramento, those markets are all performing very well, very consistent with what Stuart described in terms of the overall market condition being solid. And we're seeing strength in market there, much lower price point, say in the \$400,000 to \$600,000 price range. It's performing very well.

With respect to land in California, we're well-positioned. It's not a market that really lends itself to a lot of rolling option developed programs. It's mostly owned developed land. But we do have - given our scale in the respective markets, we've got very strong strategic relationships where there are opportunities for phased takedowns for long-term relationships. We're in every one of those opportunities throughout the state and maximizing it. But you're not going to see the same kind of volume on just-in-time land inventory that you'll see in a Texas or Florida market that's the land position is more set up for delivering that.

Carl Reichardt: Okay. Thanks Jon. Appreciate it.

Stuart Miller: Okay. Sounds like we've come to an end. I want to thank everyone for joining us, and we look forward to continuing to give guidance and understanding of our business as we go forward. Thanks.

Coordinator: Thank you. And that concludes today's conference. Thank you all for joining. You may now disconnect.

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