

LENNAR CORP

Moderator: Grace Santaella
June 20, 2017
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 turn the call over to David Collins for the readings of the forward-looking statements.

David Collins: Thank you and good morning, everyone. 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'd like to introduce your host, Mr. Stuart Miller, CEO. Sir, you may begin.

Stuart Miller: Great, thank you, David. This morning I'm with Rick Beckwitt, our President; Bruce Gross, our Chief Financial Officer; Dianne Bessette, our Vice President and Treasurer and of course, David Collins, who you just heard from. And we also have Jeff Krasnoff, CEO of Rialto here and Eric Feder from the Rialto Group; Jon Jaffe, our Chief Operating Officer; is also with us by phone from California and will participate in the Q&A portion.

As always I'm going to start with a brief overview, Bruce will deliver further detail and we'd like to ask that during the Q&A portion that you limit your questions to one question and one follow-up so that we can accommodate as many participants as possible in the hour allotted.

So let me go ahead and begin by saying that we're very pleased to announce a very strong earnings for the second quarter, with strong and balance results being reported by each of our operating segments. While in our first quarter, we noted that the somewhat sluggish overhang from the end of 2016 had negatively impacted margins and therefore our operating results we felt that the market was improving as sales picked up throughout the first quarter.

We anticipated that the spring selling season would be solid and that we would in fact see improved results as the year progress. These are exactly the conditions that drove our results for the second quarter.

We've continued to see strength in the housing market through the second quarter and have seen new orders, home deliveries and margins exceed our initial expectations.

Generally speaking, in spite of the often noisy political environment, there continues to be a general sense of optimism in the market, there continues to be a perception that jobs are being created across the country and that wages are generally moving positively.

We often discussed labor shortage in many sectors of the economy is translating into a sense that many job sectors compensation is moving up. And while much of the data collected by the government doesn't seem to reflect significant wage growth, the customers visiting our welcome home centers are reflecting an optimistic sentiment.

There continues to be a general sentiment that the business environment is positive and that the governmental pro-business environment will result in at least job security and possibly some tax relief as well.

Overall, the attitude of our customers continues to confirm the sense that we have as business operators that the economic environment in general is strong and stable and improving. The slow and steady though sometimes erratic market improvement that we have seen for the entirety of this recovery continues to seem to be giving way to a more definitive reversion to normal.

We continue to feel that limited supply and production deficits from the past years are now intersecting with land and labor shortage and we started to see some pricing power as we moved through the selling season somewhat offsets however by construction costs increases.

Additionally, the economic realities of a constrained supply of housing options and the economic realities of higher rental rates are beginning to have a rational impact on decision making for the first time home buyer as millennials are continuing to come to the housing market.

Across our platform, each of our business segments benefits from the overall improvement in the market. As we look ahead through the remainder of 2017, we are expecting that each of our business segments will continue to grow, to mature and to improve as we enter the back half of the year.

Against that backdrop, let me briefly discuss each of our operating business segments. To begin, our for sale core homebuilding operations continue to be extremely well positioned for a very strong 2017. Deliveries for the first quarter increased 15% and our gross and net margins improved 40 basis points and 130 basis points sequentially.

In the second quarter, new orders were up approximately 12% year-over-year, driven by a higher sales pace of four homes per community per month versus 3.9 last year, combined with a community count growth of some 6%.

Interestingly, our strongest markets Portland, Seattle, Inland Empire, Coastal California, the Bay area, Tampa and Southeast Florida, all had a sales pace of over five homes per community per month.

We continue to gain stronger results powered by our focused strategy on driving better quality traffic to our digital marketing efforts. Today, our social media outreach generates internet leads that now surpass 100,000 per quarter. And that is driving our marketing and advertising spend which is now down year-over-year for 10 consecutive quarters. We continue to operate at a very high level of efficiency and we're continuing to focus on improving from here.

Alongside our digital marketing effort, another example of one of our technology initiatives is the implementation of our dynamic pricing tool. This technology provides a dashboard for real-time matching of deliverable inventory so that it can be priced and delivered more efficiently.

We saw the power and success of the dynamic pricing tool during this quarter as we exceeded home delivery expectations by reducing our completed unsold inventory by 17% without sacrificing margin.

As you've heard from us in prior quarters, we're using various technology initiatives to dramatically improve our operating model. Fueled by our digital marketing efforts, our dynamic pricing tool and other technology initiatives as well, we continue to focus on overall operational efficiency driving our SG&A to historic lows for our first quarter and now for our second quarter as well. We're simply building a better mousetrap one technology at a time.

In addition, we closed on the WCI acquisition in the first quarter and the integration which is being guided by Rick Beckwitt and his team led by Fred Rothman and Darin McMurray is progressing exactly as planned. WCI will continue to contribute to earnings as expected as purchase accounting and non-recurring cost dissipate and as cost benefits and SG&A savings accumulate.

Overall, our core homebuilding strategy remains to pivot our land strategy towards shorter term land acquisitions and to maintain a 7% to 10% growth rate for the company while we enhance our operating platform by reducing SG&A. Parenthetically, given the WCI addition, our 2017 growth rate should be on the higher side or a little bit over our goal for the year.

Additionally, we are focused on expanding our first time homebuyer offering with our mix now standing right at around 40%. Combined, these strategies - these strategic elements will produce very strong cash flow for the company and will result in continued balance sheet improvement.

Let me turn briefly to our Financial Services segment. As you've seen, our Financial Services segment is continuing to perform well in the second quarter as it contributed operating earnings of almost \$44 million.

Of course, the business is growing in lockstep with our homebuilding operations and with the addition of the WCI acquisition. As the refi business has diminished over the past year, Lennar Financial Services is continuing to expand its non-Lennar business reach and bottom line to replace those earnings. Bruce, who oversees this operation will give additional color in just a few minutes.

LMC, Lennar Multifamily Communities, our Multifamily Apartment segment has continued to grow and exceed expectations. LMC generated \$6.5 million of earnings in the second quarter driven by the sale of one of our merchant build apartment communities. While we have continued with the development of our merchant build communities, we also have grown LMV our build-to-core program, which is cash flow focused on building an apartment portfolio.

In the second quarter, we started 1,140 apartment homes in four communities with the total development cost of approximately \$520 million. As of May 31, we had a geographically diversified pipeline of 76 communities totaling approximately 23,600 apartment homes with a total development cost of approximately \$8.2 billion.

These included 37 merchant build communities totaling approximately 12,000 apartments with a total development cost of \$4.1 billion and 39 LMV build-to-core communities totaling approximately 11,600 apartments with a total development cost of approximately \$4.1 billion. Our Multifamily platform continues to grow and to perform beyond our projections and expectations.

Turning to Rialto, Rialto contributed \$6.2 million to the bottom line this quarter versus a loss a year ago. Rialto's investment and asset management platform has continued to grow its asset base as well as harvest value for investors and for us.

Our first two flagship opportunity funds continue to be top quartile performers. We're also pleased that our third opportunistic fund held its final closing with approximately \$1.9 billion in total commitments and it has already invested or has under contract 33 transactions involving the investment of over \$600 million of equity. And to complement our opportunistic funds, we also have over \$1.1 billion of investor equity dedicated to investment grade CMBS, mezzanine and transitional lending which we also will be looking to grow this year.

On the Rialto Mortgage Finance side of the business, market conditions have continued to be favorable for RMF which has maintained its position as one of the largest and most profitable non-bank CMBS originators. RMF completed

its 39th and 40th securitization transactions during this quarter with net margins averaging 5.8% selling over \$392 million of RMF originated loans.

Our direct investments should be winding down over the next quarters as the remaining assets are monetized and cash is recycled into our higher returning businesses. Going forward from that point, our focus will be solely on our investment management and RMF business segments there.

Finally, FivePoint successfully completed its IPO this quarter and now enters the public markets as a pure play California master plan community developer. We expect that over time the value embedded in the FivePoint management team and its extraordinary asset base will be realized as the appreciation cycle of these extremely well located communities will be revealed through transparency and public filings. Certainly from a Lennar perspective the new stock symbol FPH will afford Lennar shareholders greater transparency to this part of our balance sheet.

Finally in conclusion, across the platform, our company is very pleased with the accomplishments of our second quarter and we're feeling very optimistic about the remainder of the year. We are clearly well positioned to capitalize across the platform on the strong market conditions that have materialized and seem to define the market in the near future.

Each of our operating segments is mature and positioned to perform and strengthening market conditions. People, assets and operations are all aligned to perform in 2017 and we look forward to keeping you updated.

So with that let me turn over for greater detail to Bruce.

Bruce Gross: Thanks, Stuart and good morning. Our net earnings for the second quarter were \$213.6 million or \$0.91 per diluted share and this compares to second quarter 2016 net earnings of \$218.5 million or \$0.95 per diluted share which included a favorable \$0.02 per diluted share impact due to a lower 32.2% tax rate as a result of energy credits available in the prior year.

Revenues from home sales increased 18% in the second quarter, driven by a 15% increase in wholly-owned deliveries and a 3% increase in average selling price to \$374,000. As Stuart highlighted, our homebuilding team used our new technologies and a strong sales season to focus on selling deliverable inventory. This resulted in a significant increase in our expected backlog conversion ratio to 86% for the quarter.

Additionally, our completed unsold home inventory dropped by 224 homes or 17% sequentially from the first quarter. This focus on deliverable inventory resulted in an acceleration of home deliveries that were previously expected in our third quarter.

WCI contributed 388 deliveries to the quarter and that was about 70 more than were expected. Our gross margin on home sales in the second quarter was 21.5%. We are on track with our previously stated goal of 22% to 22.5% gross margins for the full year. The prior year's gross margin was 23.1% and the decline year-over-year was due primarily to increased land and construction costs. Our gross margin percentage was impacted 20 basis points due to write up of WCI backlog inventory that closed during the quarter.

Sales incentives year-over-year were consistent at 5.7%, but improved sequentially by 20 basis points from our first quarter. Gross margin percentages were once again highest in our homebuilding east segment. Direct construction costs were up 5% year-over-year to approximately \$55 per

square foot, driven by an approximate 7% increase in labor and 4% in material costs driven primarily by lumber.

Our SG&A percent in the second quarter was consistent with the prior year at 9.3% which was a record low. We are continuing to improve SG&A operating leverage by growing volume organically in existing homebuilding divisions and benefiting from our focus on our technology investments through the company. Included in our SG&A for the second quarter were transaction related expenses to the WCI acquisition which had a 20 basis point impact.

Other income net was \$3.8 million compared to \$13.7 million in the prior year. In the prior year, we did have a profit participation from one of our homebuilding consolidated joint ventures that drove most of that profit.

Equity and loss from unconsolidated entities was \$21.5 million which included our share of net operating losses from JVs as they incur general and administrative expenses while ramping up for future land sales. We opened 86 new communities during the quarter and closed 102 communities to end the quarter with 736 net active communities.

We continued with our soft pivot strategy as we purchased only 7,500 home sites totaling \$371 million in the second quarter and our home site count owned and controlled now totals 167,000, of which 136,000 are owned and 31,000 are controlled.

Our Financial Services business had strong results with operating earnings of \$43.7 million compared to \$44.1 million in the prior year. Mortgage pre-tax income decreased slightly to \$32 million from \$36.8 million in the prior year,

mortgage originations were \$2.3 billion compared to \$2.4 billion in the prior year.

Refinance volume was down 48% compared to the prior year, leading to a more competitive origination environment. The capture rate of Lennar home buyers was 80% compared to 83% in the prior year.

Our title companies profit increased to \$9.7 million during the quarter from \$7.4 million in the prior year, driven by an 8% increase in revenue and operating leverage from these higher revenues. And then our new Florida realty brokerage operation acquired from WCI generated \$2.2 million of profit during the quarter. The spring selling season quarter is typically the strongest quarter of the year for this business.

More detail on Rialto, this segment produced \$6.2 million compared to last year's loss of \$13.8 million, both years are net of non-controlling interest. The investment management business contributed \$42 million of net earnings which included \$5.8 million of equity and earnings from the real estate funds and \$36.3 million of management fees and other which includes \$11 million of carried interest distributions.

At quarter end, the undistributed hypothetical carried interest for Rialto Real Estate Funds 1 and 2 now totals \$119 million. Rialto Mortgage Finance operations contributed \$392 million of commercial loans into two securitizations resulting in earnings of \$15.6 million compared with \$386 million and \$12.7 million in the prior year respectively.

The increase in earnings was primarily due to an increase in the average net margins and the securitizations from 3.6% in the prior year to 4.2% in the current year. Our direct investments had a loss of \$13 million as we continue

to focus on monetizing the remaining assets from the early portfolio purchases.

Rialto G&A and other expenses were \$32.1 million for the quarter and interest expense was \$6.3 million. Rialto ended the quarter with a strong liquidity position with \$120 million of cash.

The Multifamily segment delivered a \$6.5 million operating profit during the quarter primarily driven by the segments \$11.4 million share of gains from the one operating property that was sold, as well as management fee income partially offset by G&A expenses.

Our tax rate for the quarter was 33.8% which included a favorable resolution with the IRS. The rate is higher than the prior year's rate of 32.2% due to the energy credits in the prior year. And we expect the tax rate to be approximately 34% for the remainder of this year.

Turning to the balance sheet, our balance sheet remained strong with the net debt-to-total capital of 40.7%, a decline of 280 basis points over the prior year. Our liquidity strength provides exceptional financial flexibility with \$748 million of cash and no outstanding borrowings on our revolving credit facility. This facility was amended during the quarter to extend out to five years and to increase the commitments to \$2 billion which includes a \$400 million accordion feature.

During the quarter, we retired our 12.25% senior note maturity of \$400 million which was due June 1, with the proceeds from our new issuance of \$650 million of 4.5% seven year senior notes. This results in an annual net cash interest savings of \$31 million per year. We intend to use the balance of the proceeds to redeem the 6.875% senior notes that were acquired with the

WCI transaction. This redemption will likely occur at the next call date in August. Stockholders equity increased to \$7.3 billion and our book value per share reached \$31.23 per share.

Now I would like to update our goals for 2017. We are right on track to deliver between 29,500 and 30,000 homes for 2017. Given that we accelerated closings from Q3 into Q2, there is a smaller population of homes available for delivery in Q3 and therefore we expect the backlog conversion ratio to be similar to 2016 second half conversion ratios, which was 75% for the third quarter and close to 90% for the fourth quarter.

We are increasing our average sales price guidance to between \$370,000 and \$375,000 for the year. We are still on track to hit our expected operating margins of around 13% for the full year. The full year gross margin is still expected to be in a range of 22% to 22.5%. We expect our third quarter gross margin percentage to be between 21.75% and 22%.

We still expect continuing improvement in the SG&A line to be between 9.1% and 9.3% for the full year. The third quarter will have some non-recurring transition cost relating to the WCI transaction and therefore we expect SG&A to be approximately 9.3% again in the third quarter. The fourth quarter however should realize the largest leverage given our higher expected volume for the fourth quarter.

Financial Services despite a large decline in refis, we are on track with our financial services goal of \$160 million for the year with the third quarter expected to be \$45 million to \$50 million.

Turning to Rialto, Rialto is now expected to generate profits of approximately \$30 million for the year with the third quarter expected to be in a range of \$3

million to \$5 million. Multifamily is still on track to be between \$70 million and \$80 million for the full year, the third quarter is expected to be approximately \$5 million of that number.

And joint ventures, land sales and other income, as we look at this combined category, we still expect to range at \$70 million to \$80 million of profit for the full year, the third quarter is expected to be profitable in the range of \$0 million to \$5 million and the fourth quarter will generate the bulk of the profits in this category.

Corporate G&A is on track to still be 2.2% to 2.3% of total company revenues for the year and our community count is still expected to be approximately 770 to 780 communities. The balance sheet is well positioned to end the year with strong liquidity and similar leverage as 2016. So as you can see, we are well positioned to achieve our goals for the remainder of 2017.

So with that, let me turn it back to the operator to open it up 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 followed by the 1 on your phone. Unmute your phone and record your name clearly when prompted. Your name is required to introduce your question. To cancel your request, press star followed by the 2. One moment for our incoming questions.

Our first question comes from Ivy Zelman. Your line is now open.

Ivy Zelman: Thank you, good morning guys, congratulations, another solid quarter. Stuart, you mentioned in your opening comments that roughly 40% of the business was really geared at the entry level segment and just talking about what's happening from a pricing perspective, there has been an acceleration in

pricing really throughout the year from January to through the spring selling season given the strength. Is there a level of price appreciation that can concerns you as affordability is still attractive?

I mean how much runway do you think you have and you mentioned your technology on pricing, maybe you can give us some flavor around an apples-to-apples comparison what you're seeing in the start of market as I hear lot of questions about concerns about the rapid rising appreciation and concerns that it may look like '13 when the market got too egregious and pricing was getting a little ahead of its skis. So if you can comment there and then I have a follow-up. Thanks again.

Stuart Miller: Sure, look I think that - I think its clear pricing has been moving up and even the line between first time and move up buyer is starting to get a little blurry and has been moving up over the past couple of years.

I think that I'm going to turn over to Rick and Jon to give some color from the field. I think generally speaking we are seeing that people - though the pricing is moving up people are finding that the affordability from employment wage growth and general economic factors is increasing as well and enabling people to come to the market. Rick?

Rick Beckwitt: Yes, Ivy. So if you look at the quarter, our sales prices were up about 5% on overall aggregate basis and granted some of that, you know, impacted by mix. But as you look at the entry level product that we're dealing in our major markets, we're able to offset the efficiencies of production associated with the price increases in those communities. So we're having a pretty well balanced program right now and really on track with the underwriting that we've had.

Stuart Miller: Jon, you want to weigh in on that?

Jon Jaffe: Yes. I would just echo that the consumer sentiment is really a driving factor right now and we're not seeing spikes in appreciation that are causing concerns and we're really not seeing that at the mortgage table. So I think its typical housing follows jobs and wages and that's really a tailwind that we have right now.

Ivy Zelman: Great. And my follow-up Stuart, the question for Stuart as it relates to sort of capacity knowing that the U.S. housing market is still significant deficit what's needed shelter for single family and retail is extremely tight and very constraint with days on market falling below 30 days according to NAR.

One question comes up a lot in meetings as you'll hear from clients is, okay, now all the builders, you know, you're the prettiest girl at the dance if you're building, you know, within the FHA loan limit and there is not enough supply, but everybody is going there. You know, from your perspective, is there a room and depth for now the industry all rushing to go to the B and even C rings of the market and give us some comfort that they're not going to get a crowding situation or saturation.

Stuart Miller: You know, I think there are some governors out there Ivy and we've mentioned this in past conference calls. I think there is a limitation on land availability, land pricing that yields to affordable housing. I think there are labor shortages generally. I think that while demand is continuing to grow, I think there are some limiters on how quickly the production can keep up and can expand to meet that demand.

The question is to whether there is going to be a flood to the B and C locations, you know, there is certainly more demand for those locations as the market expands. As we've highlighted before, it's our strategies to stay inside

those outskirts. And so we think that our strategy is really well crafted for where the market is going and we certainly don't want to get way out on the outer fringes. Rick, you want to add to that?

Rick Beckwitt: Yes, and it's all about the overall land strategy. You know, we try to stay ahead of where the market is going. I'd like to think that we're one or two steps ahead of where the industry is. And as a result, we've tied up as we've talked about in the past, a lot of contiguous land through option contracts that put us in a good position as the market evolves.

Ivy Zelman: Okay, great. Good luck guys. Thank you very much for taking my questions.

Stuart Miller: Sure.

Coordinator: Our next question comes from Robert Wetenhall from RBC Capital Markets. Your line is open.

Robert Wetenhall: Hey, good morning. Tremendous quarter. Wanted to ask Stuart and Rick and Jon, how much operating leverage is left in the model? You called out dynamic pricing, you're obviously having great success leveraging the SG&A side of the business with some of the new social marketing initiatives you're undertaking.

What's left? Because you guys made great strides in the short amount of time, it seems like all levers are working in the business. Can you get a better net margin in say the next 18 months or two years due to the fact that you got favorable operating leverage, the pricing environment seems benign if not outright positive and you're doing a great job of leveraging the cost structure. What's left to extract from the business in terms of net margin in the current environment?

Stuart Miller: So Bob, I would turn the sentiment around and say that we feel that we're at the very beginning stages. We are articulating our successes relative to digital marketing and now dynamic pricing because we can point to some tangible effects that people can latch on to. But this is a big strategic initiative within the company. We feel that we're at the very early stages, very early innings of what I said in my comments building a better mousetrap.

We think that there is a lot more leverage. I think it derives from a lot of smaller initiatives adding up overtime. And as they become more provable, we'll start to put them on the table. I don't want to start getting out over my skies or creating false optimism it has been done before. But as we prove these up, we're talking about them a little bit more.

I think that many know, many people know that this is a very big strategic focus for the company. And we think that we can produce a lot of operating leverage and bring our operating margins up. I don't want to quantify it, but we don't think it's tens of basis points, we think it's much bigger than that and it will be overtime.

Robert Wetenhall: That's good to know, thank you. And for a follow-up question, you guys had the successful IPO of FivePoint earlier this year and it seems like some of the ancillary businesses are maturing nicely. And I wanted to ask you Stuart, what's your vision of the business in say the end of 2018 or 2019? You've called out a reversion to pure play as a homebuilder, back to basics. And it seems like the other ancillary businesses are maturing nicely. How do we think about the trajectory of how this plays out in say the next 18 to 24 months, what are your expectations? Thanks and good luck.

Stuart Miller: Thank you. So we've highlighted in past conference calls that we're very focused on reverting to pure play to the pure play homebuilding model. Of course, we've talked about the IPO of FivePoint, we think that brings great transparency and visibility. But we're working every day on some of the other components of our business.

You've heard us talk a lot about LMC, our multifamily apartment rental program, that program as we move through our merchant build assets and migrate towards our build-to-core strategy, this sets up an opportunity for us to maintain this strategy within the company if it strategically make sense as a core asset or to do some kind of alternative transaction and that can very well happen over the next couple of years.

On the Rialto side, you've seen the buildup of our investment management business, you seen the buildup and execution around Rialto Mortgage Finance and you are seeing a very focused strategy on liquidating our core holdings, our assets that where we invested Rialto capital. So that we're going to reduce that business to just those two core business lines of RMF and investment management.

And as we do that, we come to the end of 2017, the next few quarters we're really going to have something that will be able to be either combined, IPO, or spun out and we look forward to doing that over the next couple of years as well. So we think as we look forward expect to see a refined pure play homebuilder over the next couple of years.

Robert Wetenhall: Got it. Thanks and good luck.

Stuart Miller: Thanks.

Coordinator: Our next question comes from Mike Dahl from Barclays. Your line is open.

Anthony Trainor: Hi, this is Anthony Trainor filling in for Mike. Thanks for taking my question and congrats on a strong quarter. So, just wanted to talk a little bit about this gross margin ramp in the second half. Is there any way you can provide kind of the puts and takes around what's driving the step up from 2Q to 3Q and then kind of how you guys get from 3Q or 4Q in order to maintain this full year guide? Any type of - anything you can help us in terms of the bridge there will be great.

Rick Beckwitt: Probably the biggest impact on the margin is the amount of field expenses that are absorbed given the increased volume closings. That combined with the fact that generally we enter the year with a little bit lower sales pace and we're able to push pricing throughout the year. It's a very typical seasonal pattern.

Anthony Trainor: Great. And then I guess there as a follow-up. You mentioned that the East has the highest gross margin percentage. Do you have what the Central gross margin percentage is relative to the full company? Because given that backlog value in the Central region is now down year-on-year that should be a smaller portion of revenues in the second half.

Bruce Gross: We haven't broken that out by region, but that's something on a follow-up I could certainly talk through with you.

Anthony Trainor: Great, thank you.

Coordinator: Our next question comes from Buck Horne from Raymond James. Your line is open.

Buck Horne: Hey, thank you, good morning. I wanted to ask a strategic question of sorts, it's pretty well known. A competitor has made a pretty intriguing strong different external land development platform and I'm kind of curious how you see the market over the next couple of years for land development and finished lots evolving. And would it make some sense for Lennar to develop its own external platform or partnership for finished lots, you know, notwithstanding, you know, the relationship with FivePoint in California?

Rick Beckwitt: So, I think you're talking about the Forestar news that's out there. As those of you that don't know Starwood Capital has that as a merger agreement to acquire that company. Another builder has recently announced that they have an interest in trying to put something together that buys the majority of the company and run it as a land bank type of machine that would feed that company.

You know, it's an interesting set of cards, we really don't want to comment on, you know, the viability of that platform or the stub piece that would trade in the market. But as we look at, we have had absolutely no problem sourcing land. We do a lot of partnerships and have a tremendous depth of connectivity with the land sellers and land developers out there. And we think that, you know, we're going to continue down our path and continue to grow the company.

Buck Horne: That's perfect. Now that's exactly what I was trying to ask about, so I appreciate you reading through those lines. And last, I'd like to just go back to WCI just for a second. You know, how do you see the integration I guess progressing from here in terms of, you know, growth plans or acceleration of community activity and maybe if you can add some color about what you'd like to do with the WCI tower pads going forward as well?

Rick Beckwitt: Well on the integration front, as Stuart said, we're exactly where we planned again if not a little bit ahead of schedule. The only integration that's left is really some backend IT stuff, the fine tuning on integrating the accounting and control assumptions. Although from an operating standpoint we are one company right now. We're continuing with the WCI brand, because we think that there is an increased ASP growth on those communities.

From a targeted standpoint with regard to the pads, we have one of the towers under construction right now that's doing really well once we entered the sales season. And our plan is to - if the market is there to continue to build and develop out that business. WCI is a power house in that, in those markets and with our expertise especially on our multifamily side since we do a lot of high rise in the multifamily business. Now we're able to arbitrage costs as that will make that business even stronger.

Stuart Miller: You know, let me just add to that and say, you know, WCI really is a textbook, you know, merger, combinations, integration story. It's happened very quickly, very efficiently. We are as Rick says up, we are one company at this point. The positive side of that is that we have clean and clear operating strategies going forward. And the two pronged programs that lead to the best operating results and that is the ability to apply our construction cost, you know, preferred customer approach to dealing with subcontractors is really going to benefit the WCI business going forward.

And the SG&A leverage that we have been improving on the Lennar platform, we think better than others is going to help leverage the additional volume that we see from WCI in the future. Getting the integration behind us quickly and efficiently really enables us to take advantage of those two strategic advantages and we think we're going to see that going forward.

Buck Horne: That's great, thank you very much for the comments.

Stuart Miller: You bet.

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

Stephen East: Thank you and good morning everybody. Bruce, you talked about, you expected strong cash flow this year, could you give us an idea of what type of magnitude you're talking about this year and next year and as you all rank order, you know, your options for that - usage of that cash?

Bruce Gross: So let me start, we haven't given next year's numbers out yet although we'll expect next year to be strong as well. But for this year, we talked about approximately \$0.5 billion of operating cash flow. And one of the things we said at the beginning of the year is we were comfortable paying all cash for WCI and that was a \$643 million acquisition. So, you know, that was one of the primary uses of the operating cash flow for this year.

We expect the leverage by the end of the year to be similar to the prior year, so that will put us in really good shape as we enter '18 and we'll give that updated guidance in our fourth quarter.

Stephen East: Okay, fair enough.

Stuart Miller: But make no mistakes Steve, we are very focused on cash flow generation and focused on really improving the balance sheet as we go forward.

Stephen East: Okay. And along those lines Stuart, I guess I'll ask a different version of Buck's question. When you look at FivePoint, do you see a vehicle that, you

know, in this cycle could expand away from California and into other parts of the country and maybe act as a partner with you to maybe continue or accelerate your soft pivot somewhat?

Stuart Miller: Yes, that's - you know, first of all I - FivePoint today is a strong independent company with a strong Chief Executive Officer, Emile Haddad and I certainly don't want to take away from his articulation of strategy. But having been on the road show with him now for a few weeks, I do feel that I can comfortably say that FivePoint's strategy is to remain focused as a California pure play master plan community focused developer. It has a strong complement of assets that it is focused on today and it's not going to be distracted by a land strategy for Lennar or any other builder across the country. It's going to stick to its core competence.

We endorse that strategy for FivePoint, we think that's how they're going to drive bottom line and execute their strategy in the public markets as they've articulated it. So they are - you know, for those who might think about the Forestar strategy and applying that to a FivePoint, that's just simply not our thinking about strategy nor is it the articulated strategy of FivePoint.

Stephen East: Fair enough, that's extremely helpful. You know, if I could sneak one other in, you all have talked in the past reducing floor plans, your labor hours with technology, you know, becoming more of a manufacturing process, et cetera. Do you see with the labor issues continuing and probably continuing for good chunk of this cycle? Do you see a fundamental change in the way you build i.e., more panelization, modular or whatever the case maybe?

Stuart Miller: You know, Jon leads that - a lot of that effort and has done extraordinary work there. Jon, why don't you take that?

Jon Jaffe: Sure. You know, really, we explore those options every day. We have a supply chain team that's very focused from the beginning of the process through the end. There really hasn't been a realization in the area of modular or prefabricating, but yes, we continue to explore that.

The opportunities that we're seeing are really eliminating the waste that's in the supply chain by forming very close relationships with the suppliers and manufacturers and recalibrating that to drive some efficiencies and that's what we see over the near to medium term and perhaps longer term there will be some technologies that enable some change. But, you know, remember, our factory is out in the field, its home site by home site. So it doesn't lend itself the same way that some other manufacturing processes do to the advance of technologies.

Stuart Miller: Well, within our environment we've really engineered and Jon has spear headed using our every things included marketing strategy as a mechanism for creating Lennar as a builder of choice among subcontractors. And we've built a lot of partnership to be able to strategize in how we can breed efficiencies into our building process and our cost structure. And I think we've made some meaningful inroads along those lines.

Stephen East: Okay, thanks a lot. I appreciate that Stuart.

Stuart Miller: You bet.

Coordinator: Our next question comes from Jack Micenko from SIG. Your line is open.

Jack Micenko: Hi, thanks for taking the question. You know, with the FivePoint's ownership, obviously you bought into some more on the deal. It might be a technical question, but I think it has ramifications to the bigger Lennar story

that kind of is a sum of the parts story. You know, you didn't step up the value of FivePoints on your balance sheet, I know it's a long-term position. How do we think about, you know, how you realize that value now it's a public traded entity longer term, you know, the value of that position?

Stuart Miller: Well, look, number one, I think that transparency associated with FivePoint being a public company really helps our shareholder base understand its horsepower. Now that story is going to evolve over the next quarters and years as residential land is sold, as infrastructure improvements add to value, as the cycle of appreciation embedded in master plan communities really reveals itself through quarterly conference calls and accomplishments, our shareholders are going to be able to see FivePoint's improvement through the transparency and articulations through the public markets.

You know, I think that FivePoint's strategy as it's been articulated is very focused. There is excellent management team in place. We're happy to number one, be invested in the assets that are - that make up FivePoint, invested in the management team that makes up FivePoint and we think that given California's land constraint, we're going to have - we're going to see a tremendous appreciation overtime.

Bruce Gross: And let me just add the technical part of that question, the difference between the basis on our books and FivePoint books is recognized when there is a third-party sale from FivePoint that difference will be recognized by Lennar.

Jack Micenko: Okay, thank you, that's helpful. And then looking at the backlog, the ASP is up about 6% year-over-year, looks like some acceleration there. Is that the pricing power you are speaking off or is that WCI mix or maybe a little bit of both?

Bruce Gross: It's a little bit of both. You know, we are seeing some mix, but we are seeing some price appreciation. The 3% this quarter gave us the confidence as we looked at our backlog to increase the average sales price for the rest of the year. So it's a little of both.

Jack Micenko: Alright, thank you.

Coordinator: Our next question comes from Michael Rehaut from JP Morgan. Your line is open.

Michael Rehaut: Thanks, good morning everyone.

Stuart Miller: Good morning.

Michael Rehaut: First question, you know, just about sales pace throughout the quarter. You know, if you kind of take the average community count and I know this is kind of an in exact science, but, you know, just using a methodology consistently, you know, we have sales pace up roughly 3% year-over-year that compares to up 5% last quarter.

Just curious if, you know, you see anything different in terms of how, you know, at least on a year-over-year bases, was that kind of, you know, modest improvement, you know, kind of consistent throughout the quarter? You know, again a percent here or there is not too material, but was there any change as you saw it versus the first quarter? As, you know, we kind of focus on the pace year-over-year, it's kind of getting a better picture of year-over-year demand - change in demand.

Stuart Miller: Jon, want to give prospective there?

Jon Jaffe: Yes. I think you saw the traditional spring selling season that strength as you look at year-over-year and the slight uptick in comparison just to show that this year was a little bit stronger reflective of our earlier comments seeing in consumer confidence, wage and job growth all reflecting an increased traffic at our welcome home centers, increased conversion rate of that traffic. So all building to a slightly stronger sales pace.

Michael Rehaut: And nothing different that you saw during the quarter?

Jon Jaffe: Pretty consistent. The quarter strengthened from the first month to the second two months, but pretty consistent over the quarter.

Michael Rehaut: Great. And then just secondly on the ASP, you know, I think you kind of talked about 2Q, the improvement being a little bit mix and pricing driven and that's what drove your confidence to increase the guidance for the full year. Just want to clarify that, you know, that increase in, you know, about \$5,000 per home, is that also kind of in some ways both mix and pricing driven? And is it right to assume that, you know, you're not necessarily increasing your gross margin guidance because you may perhaps that's being offset to the extent that there is a little bit of pricing there, it's being offset by continued inflation or how should we think about that?

Stuart Miller: You know, there is always a question around mix versus price appreciation when you're rolling up numbers from across the country and it's very hard to disentangle. I think that there is some offset, you know, with construction cost and labor cost and everything else. It's really hard to get these, you know, margin numbers and everything perfectly refined as we look ahead and it moves around through the quarter.

So, you know, it is as you said in your prior question Mike, it's an in exact science and I think we're all kind of trying to look ahead to what the trend looks like. Generally speaking we've seen some initial pricing power, some initial, you know, sense of pricing power. But remember that you also have the offset of construction costs and labor costs that are moving in tandem. So we'll see how the quarter unfolds, we've given the best guidance that we can at this point.

Michael Rehaut: Great, thanks so much.

Stuart Miller: You bet. And I think we have time for one more question.

Coordinator: Our next question comes from Stephen Kim from Evercore ISI. Your line is open.

Stephen Kim: Thanks very much for squeezing me in guys. I wanted to follow-up on that, I think earlier in the call when you were addressing pricing, you were talking about the entry level of the market and I thought that maybe it was Rick was saying that you were able to offset cost with price there sort of suggesting that margins, you know, were stable to maybe slightly positive trending.

In this context of a mortgage rate environment that's kind of surprised us over the last six months in terms of coming down fairly meaningfully. I'm assuming that probably wasn't baked into your guidance as well. Are you a little surprised that you haven't been able to recognize more pricing power at the entry level particularly?

Rick Beckwitt: Well Steve, that's not exactly what I said. What I was trying to say and let me just backup. We have always articulated that the entry level is a lower margin business given that it's that type of business. We are continuing to see pricing

power in that first time segment, what I was really trying to get to is given the fact that it's an easier simpler product to build with less foo foo in it if you will, it helps us from a margin standpoint.

Stuart Miller: We don't use foo foo on our conference call.

Rick Beckwitt: Well, less specialness on the outside let's say.

Stephen Kim: Right.

Rick Beckwitt: Just easier to build, faster from the production standpoint.

Stephen Kim: Okay.

Stuart Miller: Next question, Steve.

Stephen Kim: Okay, got it. But within that, could you address the interplay of mortgage rates and the obvious impact on affordability and how that affects your pricing dynamic then at that segment of the market?

Rick Beckwitt: So, I think you are starting to see the buyers in that segment come to the table a little bit better organized where they have their financing documents in a row, they've got a little bit higher qualified buyer universe out there. And that's helping offset some of the price increase that we're able to do, because they've got - you know, they're just better organized and positioned.

Stuart Miller: You know, let me add to that and say that, you know, I think Jon highlighted earlier that a lot of what's driving people to the market is a sense of confidence. It's animal spirits. It's, you know, the notion that all of this is an inexact science, you know, interest rates and affordability and wages and

pricing, all play a part in, you know, what people can afford and how the math actually works out.

But the confidence that people bring with them to the table about whether their job is stable and whether there is going to be a wage increase or whether there is opportunity for them to move and be mobile to the next job opportunity, whether they have been to able accumulate a down payment or in excess of a down payment or whether their family members that are able to help support with a gift or something else. All of these are moving parts that define this inexact science that we are all trying to kind of divine going forward.

So, you know, it's kind of hard to wrap all of our heads around where the market is going, but the general trajectory is positive and even at the first time buyer level as the millennials start to unwind their doubling up and come to the market realizing that rental rates have gone up and there is a real reason to go ahead and purchase. That first time buyer segment is showing some optimism and some ability to be flexible in and around the affordability levels and as prices move up. I don't know if that's helpful or not Steve, but...

Stephen Kim: Great. That's - yes, that was just what I was getting at. So that's very helpful.

Stuart Miller: All right.

Stephen Kim: The second question I had related to technology and I know you've done a lot of work there and it's come up a few times on this call and it's an area of great interest for us. I think that you had mentioned - you called out two areas in particular, I think digital marketing and dynamic pricing and you said there were some others. But within the digital marketing, I think you pointed that marketing spend is down year-over-year for 10 straight quarters and in

dynamic pricing that you reduced your standing inventory 17% without a negative margin impact.

And I guess I was curious as to when you take those two, digital marketing and dynamic pricing, are those the metrics that you're primarily monitoring? Is that you think are the most important for assessing the effectiveness of your programs there? Or is there - are there other very important metrics that we should be thinking about as it relates to those two? And when you mentioned other initiatives outside of those two, are there any general areas that hold the most promise that you think that we could be focused on?

Stuart Miller: Well, first of all let me say I'm so happy to hear that people are listening to my opening remarks and you did recite back to me as you've clearly listened. Look, these initiatives are really core to what we're working on day-to-day inside the company. And your question is a good one. The answer is that those metrics are the starting metrics for those two initiatives, but they are not the only metrics for those two initiatives. There are other embedded metrics that we're working at.

So, relative to digital marketing, the very first thing was proving that we could improve our traffic, particularly the quality of traffic. Put aside the quantity for a minute, but the quality of traffic while reducing the spend. So it was really can we cut the spend by 50 basis points while we improve the quality of the traffic and continue to grow our business. And that was the beginning metric.

But as we become more proficient at digital marketing and as we can expand the flow of qualified traffic, I highlighted 100,000 customers, qualified customers coming to the doors driven by social media and internet marketing. You know, as we can expand the number coming through the doors, we're

probably going to be able to see greater pricing power and other efficiencies as well.

And I'm not going to go through and start articulating those metrics, but we think there is more firepower in the digital marketing strategy and we are very focused on that on a regular basis.

Likewise with the dynamic pricing tool, what you're seeing in a reduction in standing inventory is a starter. But the ability to sell homes that are not standing inventory at the end of quarters helps alleviate the need to use discounting mechanisms or incentives to move that inventory.

And so as we move forward with those digital tools or technology tools, we think that there is more firepower in them. But we have a whole host of initiatives of that we're working on that we don't articulate, because we're simply not getting out over our skis, but we are telling you that we're working on these things every day and we are committed and think we will build a better mousetrap.

Stephen Kim: That's great. Thanks very much for that. I appreciate it and good luck.

Stuart Miller: Okay, you bet. Thanks Steve. And I do want to say thank you everybody for joining us. We look forward to keeping you updated as we move through the rest of 2017. Thank you.

Coordinator: That concludes today's conference. Thank you for your participation. You may now disconnect.

END