

LENNAR CORP

Moderator: Grace Santaella
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Operator: Welcome to Lennar's Third 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 David Collins for the reading of the forward-looking statement.

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 flow, 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.

Operator: I would now like to introduce your host, Mr. Stuart Miller, CEO. Sir, you may begin.

Stuart Miller: Great. Good morning and thank you. Thank you, David. This morning, I'm here with Rick Beckwitt, our President, Jon Jaffe, Chief Operating Officer, Bruce Gross, our Chief Financial Officer, Dianne Bessette, our Vice President and Treasurer, David Collins, who you just heard from, Jeff Krasnoff, CEO of Rialto and others as well.

As always, I'm going to start with a brief overview. Bruce will deliver further detail. And then we'll go to our Q&A portion where we ask your indulgence that you limit yourself to one question and one follow-up so that we can accommodate as many participants as possible in the hour that we've allotted.

So let me go ahead and begin by saying that we are very pleased to announce a very healthy earnings for our third quarter, in spite of the active hurricane season that's affected our business at the end of the third quarter and carried into the fourth. And in fact, let me begin today with an acknowledgment of the many across our platform who have been affected by adversity.

You know, first, in our Texas markets, Hurricane Harvey affected all of our markets and especially of course Houston. And I want to thank the Lennar associates who responded and continued to respond so selflessly to care and assist with their time, with their wallets and with company funds to make a difference in the aftermath. Right now, it seems like this storm took place almost years ago but it was really only just last month and the continuing efforts are very much appreciated.

Next, Hurricane Irma came barreling through Florida through Georgia and up the eastern seaboard and affected millions of people in those areas. Again, Lennar associates responded and are still responding with their hearts, their care, their wallets, as is the company and this is greatly appreciated.

Additionally with Hurricane Maria, our hearts go out to the people of Puerto Rico and our company through the Lennar Foundation is meaningfully contributing there as well.

And then of course just yesterday, we all woke up to the tragedy that has gripped Las Vegas, another significant Lennar market. The ripple effect of the Las Vegas shootings affects us all but most impacts those closest to it. And again, Lennar associates are activated and have already organized a blood drive internally and are contributing money to support grief counseling for those in need.

Difficult circumstances call on great companies to properly balance excellent business practices with the human element and I am particularly proud to say that I believe that we have done exactly that at Lennar and I'm very proud to be able to represent our efforts.

Against that backdrop, let me say that through the end of the third quarter and into the fourth, we've been able to execute on our business plan and strategy of growing and refining our business while focusing on our balance sheet after paying all cash for our WCI acquisition at the beginning of the year.

Overall, we've continued to see strength in the housing market through the third quarter and have seen new orders, home deliveries and margins continue to be in line with or above our expectations. Generally speaking, in spite of

the often noisy political environment, there continues to be a general sense of optimism in the market as jobs are being created across the country and wages are generally moving higher.

The often discussed labor shortage in many sectors of the economy is translating into wage growth. 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 and an ability to afford today's more expensive homes.

Overall, the attitude of our customers continues to confirm the same sense that we have as business operators that the economic environment is generally strong and stable and improving. There continues to be a general sentiment that the business environment is positive and that the government's pro business stance will result at least in job security and possibly some tax relief as well.

The slow and steady though sometimes erratic market improvement that we have seen for the entirety of this recovery is at least continuing to churn slowly while at sometimes even seems to be giving way to a more definitive accelerated recovery and reversion to normal. We continue to feel that limited supply and production deficits from the past years have been and continue to drive some pricing power as we moved through the selling season and that is somewhat offset by land and construction cost increases.

Additionally, the economic realities of a constrained supply of housing options and the economic realities of higher rental rates are beginning to have and have had a rational impact on decision making for first-time homebuyers 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. And as we look ahead to the final quarter of 2017 and into '18, we are expecting that each of our business segments will continue to grow, to mature and to improve.

Now 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 in spite of the storm activity described before. Deliveries for the third quarter increased 12% and our gross margin and net margins improved 20 basis points and 40 basis points year-over-year.

In the third quarter, new order increases of 8% in volume and 12% in revenues was driven by year-over-year community count growth of 9%, while our new order pace remained constant at 3.4 homes per community per month. Our strongest markets were Southeast Florida, the Bay area, Inland Empire and Portland, all with sales pace of over five homes per community per month followed by Orlando, Tampa, California Coastal, Fresno and Seattle, all with over four homes per community per month.

We continue to see success with our digital marketing focus, driving better quality traffic to our communities. In our third quarter, our social media outreach generated over 115,000 leads, a 15% year-over-year increase. This allows us to operate at a very efficient level where our total advertising spend is now down to only 40 basis points of our revenue.

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

continued to see the power and success of the dynamic pricing tool during the third quarter as we reduced our completed unsold inventory by 9% year-over-year and 21% sequentially without sacrificing margins.

Additionally and directly related, we have also seen our incentives per home delivered decrease to 5.5% across the platform which is our lowest sales incentives since 2006.

As you've heard from us in prior quarters, we are 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 of 9.2% for the third quarter which is the lowest in history. As I've said before, we are simply building a better mousetrap one technology at a time.

As I'm sure you will recall we closed on the WCI transaction in the first quarter of this year. The integration of this acquisition has been executed seamlessly by Lennar's operating teams in the field and by our corporate support groups as well. With any combination, the hard work begins at closing. After all the fanfare, the real congratulations are due as results are achieved.

The WCI combination and integration is now complete and the results are coming in exactly as expected, as Lennar's margins, SG&A and bottom line are performing as promised. We simply have an excellent management team with tremendous bandwidth to execute and I'd like to take a brief pause to express my appreciation for that hard work and focus as well and for the opportunity to represent their work and accomplishment to our investor community.

In addition, as I noted earlier, we came to the end of the third quarter Hurricane Harvey came through in Texas and that was followed by Irma at the beginning of the fourth quarter. For homebuilders and homebuilding divisions on the business side, these storms present many cumbersome challenges, whether the storm is a direct hit or a near miss.

Preparation for these storms requires a shutdown of the business operations with extensive preparation to batten down the hatches, so to speak. Associates need to care for their work environments and for their personal residence and families at the same time. After the storm, caring for our associates who might have been affected while surveying damage, attending to our customers and restarting business operations is equally difficult.

As we noted in our recent press release, we have come through these two hurricanes quite well. We have attended to our associates. We have assessed the damage to our communities. We have attended to our customers and have restarted business operations.

As we have said, our communities sustained only minor damage and due to the business disruption, we expect approximately 950 closings will be pushed from 2017 into 2018. Additionally, given the volume push into 2018, the positive trajectory of our margins will be temporarily impacted as well and Bruce will give some additional detail.

With that said, the Lennar team has done an excellent job of managing through difficult times as these hurricanes affected geographies representing some 50% of our volume by closings. Considering both the all-cash acquisition of WCI and the affect of the two hurricanes, we are pleased to report that we have continued to focus on cash flow and on our balance sheet.

We have maintained our 7% to 10% growth target and have focused on driving our operating costs down in order to drive bottom line and cash flow. These strategies have brought our balance sheet back to the position of the year ago with our debt to total cap at 39.6%, an improvement of 30 basis points over last year. While the impact of the hurricanes will delay some of this progress over the next quarter, our strategy continues to be to drive strong cash flow and position our company for opportunity in the future.

Now let me briefly turn to our Financial Services segment. As you've seen, our Financial Services segment is continuing to perform well in the third quarter as it contributed operating earnings of over \$49 million. While profits and projections are down slightly from last year, the decrease is primarily due to storm impacts and the slowdown in the refi business.

Our core Financial Services business is growing in lockstep with our homebuilding operations and is innovating with new products like our recently announced creative student loan program. As the refi business has diminished over the past year, Lennar Financial Services continues to focus on product innovations as well as its non-Lennar retail business to replace those earnings. Bruce, who oversees this operation, will give additional color in just a few minutes.

LMC, Lennar's Multifamily Communities, our Apartment segment, has also continued to grow and exceed expectations. LMC generated \$9.1 million of earnings in the third quarter driven by the sale of two of our merchant build apartment communities. While we've continued with the development of our merchant build communities, we've also significantly grown LMV, our build-to-core program, which is cash flow focused on building an apartment portfolio.

In the third quarter, we started 836 apartment homes in three communities with the total development cost of \$371 million. As of August 31st, we had a geographically diversified pipeline of 75 communities, totaling approximately 23,700 apartment homes with a total development cost of approximately \$8.3 billion. These include 36 merchant-build communities totaling approximately 12,000 apartments with a total development cost of \$4.2 billion and 39 LMV build-to-core communities totaling approximately 11,600 apartments with a total development cost of \$4.1 billion. Our multifamily platform continues to grow and to perform beyond our projections and expectations.

Turning to Rialto, Rialto contributed \$3.2 million to the bottom line this quarter versus \$5.9 million a year ago, as our direct investments continued to be a drag on overall performance. These direct investments should be winding down over the next two quarters as the remaining assets are monetized and cash is recycled into our higher returning businesses. This will enable us to efficiently lever our existing infrastructure and overhead and focus on our investment management business and RMF business segment.

The investment and asset management platform has continued to grow its asset base. As we have said before, our first two flagship opportunity funds continue to be top quartile performers, which has helped Rialto attract both existing and new investors to newer vehicles. Our third opportunity fund, which is approximately \$1.9 billion in total commitments, has already invested or has under contract 43 transactions involving the investment of over \$850 million of that equity.

On the Rialto Mortgage Finance, RMF, 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 41st through 43rd securitization transactions during the quarter with net margins averaging 5.1% selling over \$236 million of RMF originated loans.

Finally, just to mention FivePoint because I always have, as you all know, it's now an independent public company. Accordingly, the FivePoint management team will speak regularly for its asset base including the very positive news recently on progress at Newhall Ranch. As I've said before from a Lennar perspective, the new stock symbol FPH will afford Lennar shareholders greater transparency to this part of our balance sheet as the value embedded in these extraordinary California assets is unlocked.

In conclusion, across our platform, our company is very pleased with the accomplishments of our third quarter and we're feeling very optimistic about our future. Given production deficits that persist, existing housing supply constraints, a pro-growth stance in government, generally solid employment fundamentals, we believe that the macro environment reads very positively for the next years and there is still a long runway in this recovery.

We are clearly well positioned to capitalize across our platform on strong market conditions that have materialized and seem to define the market for the future.

In spite of the short-term speed bumps that will temporarily slow progress in the fourth quarter, each of our operating segments is mature and positioned to perform and strengthen. People, assets and operations are all aligned as we begin to prepare for 2018.

And with that, let me turn over to Bruce.

Bruce Gross: Thanks, Stuart, and good morning.

Our net earnings for the third quarter were \$249.2 million or \$1.06 per diluted share. This compared to third quarter 2016 net earnings of \$235.8 million or \$1.01 per diluted share, which included a favorable 3 cents per diluted share impact due to a lower 31.1% tax rate as a result of energy credits available in the prior year.

Revenues from home sales increased 17% in the third quarter, driven by a 12% increase in wholly-owned deliveries and a 4% increase in average selling price to 375,000. As Stuart highlighted, our homebuilding team has focused on the dynamic pricing tool to price and deliver more efficiently and it is reflected in our results.

Our delivery machine achieved a backlog conversion ratio of 74.5% while our completed unsold inventory dropped by 233 homes or 21% sequentially to the lowest level per community since 2012. Our pricing efficiency is also noted as our sales incentives dropped 40 basis points year-over-year to 5.5% which is an 11-year low and drove our gross margin outperformance.

Our gross margin on home sales in the third quarter was 22.8% versus 22.6% in the prior year. Gross margin percents were once again its highest in our Homebuilding East segment. The gross margin percentage was benefitted by 30 basis points this quarter due to insurance recoveries. Direct construction costs were up 4% year-over-year to approximately \$56 per square foot driven by an approximate 5% increase in labor and 3% in material costs.

Our SG&A percentage continues to drive lower as Q3 was 9.2% compared to 9.3% in the prior year. Included in our SG&A in the third quarter were transaction-related expenses related to the WCI acquisition which had a 20

basis point impact but were offset by insurance recoveries. Our operating margin improved by 40 basis points for the quarter to 13.6%.

Other income net was 2.8 million compared to 30 million in the prior period. In the prior period, other income net included the sale of a clubhouse and management fee income from one of our strategic joint ventures.

Equity and loss from unconsolidated entities was 9.7 million which included our share of net operating losses from JVs as they incur G&A while ramping up for future land sales. We opened 108 new communities during the quarter and closed 86 to end the quarter with 758 net active communities.

New home orders increased 8% and new order dollar value increased 14% for the quarter. And as we disclosed a few weeks ago, there were approximately 120 new home orders that were impacted due to Hurricane Harvey. Our sales pace was 3.4 sales per community per month which was the same as the prior year.

During the quarter, we purchased 12,700 home sites totaling 498 million. We continue with our soft pivot strategy, however, this quarter also included the strategic purchase of 5,800 home sites in Maryland. Our home sites owned and controlled now total 176,000 home sites, of which 141,000 are owned and 35,000 are controlled.

Our Financial Services business segment had operating earnings of 49.1 million compared to 53.2 million in the prior year. Mortgage pre-tax income decreased to 32.5 million from 38.3 million in the prior year. Mortgage originations were 2.4 billion compared to 2.6 billion last year.

Refinance volume was down 62% compared to the prior year leading to a more competitive origination environment. Refinances now make up only 7% of our total originations. The capture rate of Lennar homebuyers was 80% for the quarter compared to 82% in the prior year.

Our title companies profit increased slightly to 15.6 million during the quarter from 15 million in the prior year, and that was driven by a 6% increase in revenue and operating leverage from the higher revenues. Our Florida realty brokerage operation acquired from WCI generated 1.3 million in profit during the quarter.

Stuart provided the multifamily detail, so now I'll turn to Rialto. The Rialto segment produced operating earnings of 3.2 million compared to 5.9 million in the prior year. Both amounts are net of non-controlling interest. The investment management business contributed 37 million of earnings which includes 4.7 million of equity and earnings from real estate funds and 32.3 million of management fees and other which includes 11.4 million of carried interest distributions.

At quarter end, the undistributed hypothetical carried interest for Rialto Real Estate funds one and two now totals 108 million. Rialto Mortgage Finance operations contributed 236 million of commercial loans into three securitizations resulting in earnings of 12.5 million compared with 491 million and 27.2 million in the prior year, respectively, and that's before their G&A expenses.

The decrease in earnings was primarily due to lower volume. Our direct investments had a loss of 9.4 million as we continue to make good progress on monetizing the remaining assets from the FDIC and early portfolio purchases.

Rialto G&A and other expenses were 30.6 million for the quarter and interest expense including the warehouse lines was 6.3 million. Rialto ended the quarter with a strong liquidity position with 155 million of cash.

Our tax rate for the third quarter was 33.4%. The rate is higher than the prior year's third quarter of 31.1% due to the additional energy credits recognized in the prior year. These credits expired on December 31, 2016 and were only available to us for part of this year. Therefore, we expect the tax rate to be approximately 34% for the fourth quarter.

Our balance sheet remains strong with the net debt to total capital of 39.6%, a decline of 30 basis points over the prior year. Our liquidity strength provides exceptional financial flexibility with 565 million of cash and no outstanding borrowings on our 1.6 billion revolving credit facility.

During the quarter, we redeemed early the 250 million of 6.875% senior notes that were acquired with the WCI transaction. We continue to significantly reduce our cost to capital as we improve our leverage ratio. S&P upgraded our corporate credit rating during the quarter to BB+. Stockholder's equity increased to 7.6 billion and now our book value per share grew to \$32.11 per share.

Now I'd like to update our goals for closing out 2017, starting with deliveries. We were right on track to achieve a 90% backlog conversion ratio for the fourth quarter before the storms hit. Using the same backlog conversion ratio and adjusting for the 950 homes that we talked about being pushed into 2018, now calculates to between 8,200 and 8,300 deliveries which is what we are now projecting for the fourth quarter.

Based on the projected closings in our backlog, we are increasing our average sales price guidance to between 380,000 and 385,000 for the fourth quarter. We expect our fourth quarter gross margin percentage to be between 22% and 22.25%. This should bring our full year gross margin percentage to 22%.

The fourth quarter gross margin was negatively impacted by approximately 50 basis points as a result of 950 deliveries being pushed into 2018 and therefore a higher field expense per remaining delivery.

Additionally, these deliveries were primarily in Florida which has the highest gross margin percentages in the company. We continue to see improvement in the SG&A line and we should see another record low SG&A percentage in the fourth quarter as we are projecting between 8.5% and 8.6%.

Turning to Financial Services, as a result of the significant decline in refinances, lack of resale inventory and the storm impact, our fourth quarter is now projected to be in a range of \$35 million to \$40 million.

Rialto is now expected to generate profits for the fourth quarter of 2 million to 5 million which will bring it to about 25 million for the year. Multifamily is expected to be approximately 35 million to 37 million which will bring it to approximately 70 million for the full year.

The category of joint ventures, land sales and other income, in this category we've been highlighting all year that the fourth quarter will generate the bulk of the profits. The fourth quarter is expected to generate approximately 90 million to 95 million which will bring the full year at the lower end of the previous range that we gave of 70 million to 80 million of profit.

Corporate G&A is expected to be 2.1% of total company revenues for the fourth quarter and our net community count is expected to end the year between 770 and 780 communities. We expect our balance sheet to again end the year with strong liquidity positioning us well as we enter 2018.

Let me now turn it back to the operator to open it up for questions.

Operator: Thank you. We will now begin our question-and-answer session for today's conference. To ask a question, please press star followed by the number 1. Unmute your phone and record your name after the prompt. And to cancel your question you may press star followed by the number 2. One moment please.

The first question comes from Bob Wetenhall of RBC Capital Markets. Go ahead, please.

Robert Wetenhall: Good morning and congratulations on delivering some very strong results in a very challenging quarter and thanks for all the terrific detail. Stuart, I was hoping you could spend a minute and talk about ASP growth and the dynamic pricing initiatives.

It seems like you have a lot of pricing momentum, incentives are all-time lows and that's a real big tailwind. At the other side you're going to have some labor constraints and issues with the hurricane rebuild activity. I wanted to understand how Lennar is going to balance those going into the fourth quarter and 2018?

Stuart Miller: Well, let me start and I'm sure that Jon who's really been spearheading the dynamic pricing and Rick would also want to join in. But dynamic pricing -

our dynamic pricing model helps us in a number of ways and really it helps us focus in order to drive, you know, margin and even ASP growth.

You know, it starts with a proper alignment of our production machine and our sales machine recognizing that as we near completion, it's time to sell. That has really enabled us to bring down our incentives generally.

And as I noted, our incentive levels have come down to the lowest level since 2006 at 5.5%. And I feel that that's very directly tied to the initiatives in and around our dynamic pricing.

Now another part of that is the driving of our inventory levels. We've seen a number of our divisions benefit in both generating pricing power and driving down incentives by being able to reduce standing inventory. Standing inventory homes are generally the ones that come with the greatest discounts or the greatest incentives. And getting people tuned in to properly aligning pricing and delivery and clearing inventory earlier has helped that.

So, Jon, do you want to add to that?

Jon Jaffe: Sure. The efficient delivery of the homes that Stuart is describing is really enabled by providing our division the data so that they can pull the right levers at the right time to match sales pace with construction pace and as Stuart mentioned the low inventory levels.

Last quarter we were down to 1.25 homes per community on average of completed homes that were unsold. I don't have the data as to whether that's a record low but I don't personally remember ever being that low. And by orderly selling the homes through the construction process, having a buyer

who's mortgage approved, ready to close as the home is completed really enables us to reduce the incentives both helping ASP and margins.

I'd also want to note that we've talked for several years about the impact of our next gen platform and there our sales are up 41% year-over-year and now represents just about 6% of our company's total sales. That's also a high mark for next gen sales. And the ASP of next gen is almost 490,000 compared to the company averaging 375,000. So it's a number of initiatives that I think cumulatively are giving us the results that we speak to.

Rick Beckwitt: So that's all the good stuff. They left me with the cost side of the equation. And on the cost side of the equation we're doing our best to hold our trades accountable for, you know, the type of cost pricing that we're looking for.

Clearly in this environment where you have people chasing the storm aftermath, there's some trades and some areas of the business that are tight and where people are going after the easy insurance money. You know, those are typically in the roofing, the drywall, the siding, you know, and depending on the market.

You know, that said, we constantly are adjusting sales pace with sales price and the real tricky thing for us at this point is whether we want to really push the trade and pay them more than what the job should really justify in order to accelerate the home or do we take a little bit longer to deliver that home. All of this will work itself out in the next three to six months.

Jon Jaffe: Bottom line, pace and price are really connected and we're using technologies to refine our processes and it's impacting in a number of efficiencies, on the cost side, on the incentive side, on the ASP side dropping down to gross margin and a few basis points at a time, we're making some real progress.

Robert Wetenhall: Yes, those are big strides. My follow-up question was, Stuart, or maybe the team, could you please give us an operational update where you are in Houston and how you are in Florida and whether WCI's integration is still on track?

And maybe Bruce if you could just flush out a little bit more some of your comments about the pace and cadence of gross margin given the mix shift between communities and the deferral of deliveries into next year?

Thanks and good luck. Congratulations on very strong execution.

Rick Beckwitt: Well, you really stack a bunch of questions into one. With regard to Houston and to Florida, let me just address that right now starting with Houston. You know, the Houston market is slowly recovering. You know, all of our communities are open and doing business today.

You know, from a trade standpoint, it's consistent with what I said. Trades are tight in the roofing area, the drywall area as you'd expect because there was a lot of damage associated with the interior of the homes. Folks are - those trades are really chasing that insurance business and it's slowly getting better.

From a power standpoint, we're really not having any power connection issues in the Texas markets. So that's a good thing. On the sales side of the market, we're having good traffic, good solid traffic where people want to buy. The issue is a lot of those folks need to sell a home that's damaged and they haven't received the insurance proceeds yet.

And as a result it's going to take a little bit of time for them to get those homes repaired in order for them to buy something and people want to move

into areas and communities that haven't been impacted by this type of weather damage.

Stuart Miller: Not just buy something. I mean, some of them are under contract and were moving towards a closing and the storm now means they've got to fix something or get their home ready so that they can sell it and ultimately close on their home. And of course we're cutting them some slack in this area.

Rick Beckwitt: Right. Of course we are. So that really covers Houston. Florida is sort of a mixture between north and south. In southern Florida, we still do not have the ability to get power connections. And as a result of that, that's slowing down the business. That will catch its way up. We have not had the ability to press the power companies because quite frankly they need to address other concerns before they do the new home market.

We are doing some things that I think are unique. We're running some conduit between curb and the home in order to accelerate the connection. So when the power companies come out there to do the connects, we should be able to bring things on pretty fast.

Stuart Miller: Let me just interrupt there and say, you know, what might be a little counterintuitive to the investor group is, you know, the power companies, it would seem that after the power is back on, everything normalizes. But the power companies actually have a pretty comprehensive intercompany agreement to go to where the problems are.

So even a problem like the power in Puerto Rico brings some of the manpower from the power companies locally to other areas and impairs their ability to get back up running here in South Florida. So you're going to

continue to see some disruption until many of these storm affected areas are really up running and stabilized.

Jon Jaffe: One more point of clarity on that. As they fix power to existing areas, much of that is done on a temporary basis to get power up immediately. And so the next course of action for the power company is to come back and permanently fix that.

So if there's a temporary pole put in, they have to come back and put a permanent. All of that takes priority over new home processes.

Rick Beckwitt: Then as you move up to central Florida, we're seeing that recovering faster. Tampa, Orlando, Jacksonville are way ahead of where southeast and southwest Florida are.

Bruce Gross: And then you asked about the pace and cadence in gross margin I believe going into next year, which we haven't commented on that yet but we will with our year-end conference call we'll give detailed 2018 guidance.

Stuart Miller: Next?

Rick Beckwitt: Thank you very much.

Robert Wetenhall: See you later. Thanks.

Operator: Thank you. Our next question comes from Ivy Zelman of Zelman & Associates. Go ahead, please.

Ivy Zelman: Hi, guys. Thanks for taking my question and congratulations and a special appreciation to all the Lennar family of getting through for the challenging times.

Stuart, I have a question that I get every day from investors and the question is focused around Lennar's stock performance relative to Horton and Pulte Homes and they don't understand why the stock is lagging. I think, you know, the best thing that we could talk about I guess to understand it is our focus on returns by both companies and talking about asset light and shifting more to an NVR model.

But we obviously saw a decline in your ROE which was related to WCI and obviously you expect that to resume acceleration. But can you talk a little bit about targets around ROE and maybe talk to your expectations and whether or not you'll do things to improve that level of ROE beyond the, you know, call it 15% bogey that would actually help stock perform at a better level?

Stuart Miller: Look, first of all, Ivy, in the immediate past I think that we've had an unusually large overhang on our stock as it relates to pending storm activity. And I think that's been the case now for some time. I can't even tell you how long.

But aside from that if you look at our strategy and you look at the way that our company is performing, we've been very focused on a growth strategy that targets 7% to 10% rate. But with WCI that's been trending a little bit higher.

We are very focused on cash flow and using cash flow to both pay down debt and ultimately look at stock buyback. But stock buyback comes in a number of different forms. Remember that we had initially targeted WCI to be a 50-50

stock in cash transaction. It ended up being an all cash transaction which was in effect a large stock buyback.

It's fully integrated. It's well executed. And we're becoming a real cash flow program and machine which affords us the ability to target transactions to use cash in a variety of ways. And we're fully confident that as we move forward, our strategies are going to reflect on our returns on equity and on capital perhaps more importantly in very positive and constructive ways.

We've mapped out our strategy for the Street to consider. The execution has been flowing in course. And I think that over time remembering that we are less focused on quarter-to-quarter or month-to-month stock performance and more concerned and focused on adherence to a strategy that is designed to maximize return on equity, return on capital over a longer period of time, we're fully confident that our stock performance will continue to be excellent over the long term.

Ivy Zelman: That's helpful. I think what I want to - and I agree, I think you're the best right now stock and at least Zelman's top pick. And what I think is important is people appreciate that you are focused on back to being a pure homebuilder which you said on previous conference calls. And maybe talking about some of the ancillary businesses, obviously the FivePoint spin was a success.

So just thinking if you can give us any perspectives on your strategic initiatives getting back to being a pure homebuilder?

Stuart Miller: Yes, so, you know, both - well, as you mentioned, FivePoint we're there. With regard to multifamily and Rialto we still have I believe a couple of years of maturity and execution to really prepare them for a spin. And I for one simply don't want to sell cheap. I'm about maximizing shareholder value over longer

periods of time. And I think both of these engines, both of these machines have the ability to be best-in-class executions and will afford our shareholders strong values as they mature.

LMC is progressing exactly, not exactly, even better than we ever anticipated. If you look at the composition of our apartment communities, the distribution between the merchant build and the build-to-core programs that we have in place, we just have an excellent program of execution ahead over the next couple of years that will define an extraordinary value for that compendium of assets.

As it relates to Rialto, we've had some bumps in the road which we've articulated over time. We still need another couple of quarters to clear those bumps and to start striving forward and we have every confidence that we'll be able to do that also. But if you look at Rialto as a private equity asset manager and investment manager, if you look at Rialto's RMF execution, those two isolated go-forward programs are best-in-class. They are blue chip and they will ultimately drive shareholder value.

So I think we're right on course and I think that we have the management patience to execute well over a longer time horizon. The stock market might fluctuate a little bit more on a short-term basis and we're going to continue to execute our plan. I think the most important thing to focus on is the bandwidth that we have in this company to migrate turbulent waters, to execute our business strategy and to execute across a rather broad platform and I think we're right on course.

Ivy Zelman: Can I sneak one more in quickly just on the cash flow? Do you envision more M&A and are you looking for opportunities to complement your existing footprint? And thanks for taking my questions, guys.

Stuart Miller: You know, well, we never comment on M&A but we leave all options open. And, you know, we think that the cash flow program that we have in place really enables us a broad range of opportunities to be able to access - to be able to execute and to be able to perform and I think that you'll continue to see us balance between all kinds of possibilities and execute on opportunities.

So we'll leave it at that. And next question.

Ivy Zelman: Thanks.

Operator: Thank you. I'm sorry. Our next question comes from Stephen Kim of Evercore. Go ahead, please.

Stuart Miller: Good morning.

Stephen Kim: Thanks very much, guys, and good job in the quarter. In particular, it's helpful that you have taken a stab at trying to quantify the impact of the hurricanes and that's really where I wanted to spend my first question. And there are a couple of things here so bear with me.

You mentioned 50 basis point impact. It wasn't clear to me whether that was a fourth quarter comment or an annual comment. And then you also mentioned that you were seeing some of your customers in Houston needing to repair their homes. And that sort of brings to mind this question of what the fade of the margin impact you think ultimately may be?

And I know you're not going to get specific until later, but I'm interested in sort of what things you are likely to put into that bucket on hurricane affected margin? For instance, when you have people who may have lost more equity

than they anticipated in their home because it was flooded in Houston and then he dropped out if there's any cancellations that spin out of that, would that be something that would show up?

If you have to pay extra for labor, are you going to try to quantify the amount you're paying extra for labor or is it simply going to be we think maybe we lost some sales total and what impact we think that has on our overhead at the project level?

If you can just help us think about how you're thinking about quantifying the hurricane-related affects on your margin?

Stuart Miller: Bruce is going to jump in and talk a little bit more about the margin effect, but before he gets to that let me just jump in on this notion of fade. You know, Steve, I think it's going to take some time to actually ferret some of this out.

But overall long term, given the loss of residences in a generally constrained market to begin with, you're more likely to see a supply shortage that as homes get repaired, there's really very little fade in terms of value and pricing. As homes get repaired, the value comes back and I think that you're going to see a shorter term negative turn into a longer term positive and that's traditionally what we've seen in storm affected areas through many decades of having dealt with it.

It takes a little bit of time for things to get back on their feet. And as we talked about the loss of or the postponement push of some closings from fourth quarter into 2018 and some directly related to homes to sell that have to be repaired and ultimately brought on line, those homes will get repaired. They will be sold probably at the price that was expected with very little re-trade and I don't think that that will be the impact to margin, if anything. It will

probably come around and lift the ability to raise prices maybe with some offset from cost on the labor and material front.

But, Bruce, go ahead.

Bruce Gross: And then your first question, the 50 basis points that I highlighted, that's purely the impact related to the fourth quarter by pushing out 950 deliveries and the impact with less volume that field expense is going to be higher per remaining unit. So that's just the impact for Q4.

Stephen Kim: Okay, got it. And so I guess by implication then that means that you're probably going to be at the lower end of your margin expected range for the year, excluding the hurricanes, I guess would be the implication from that.

I guess, the question that I had - my second question really relates to the technology and the role of technology on your results in your gross margin and SG&A. Obviously, it's been really impressive. It's been - and I know that you've been out in front and have been very active and continue to be active in ways that your competitors are not.

And I guess my question relates to what you think - what inning do you think we are in, in terms of not necessarily digital marketing and dynamic pricing per se, but the ability of the technology initiatives that you see on the table right now being able to benefit the margin structure of your business over the next few years.

You know, like what inning do you think we are in? And what do you think the first-mover advantages are in these technology-related investments? Like how much can you keep do you think relative to your competition?

Stuart Miller: So if you've ever been to a baseball game, you're begging a baseball metaphor here. Have you ever noticed that people warm up before the game actually starts? That's the inning that I think we're in.

Rick Beckwitt: In a minor league game.

Stuart Miller: I think this is just getting started and there's a big, big range of opportunity in the technology field to refine the homebuilding business that has only started, we've only started to prick the surface of some of these areas and we are really invigorated by it both myself, Jon, Rick and our whole management team are really focused on this.

And I would encourage you at some point to - when you're down here, Steve, to come visit and make sure that you see our innovation center which we've done on our third floor here. We are fully focused on thinking about how technologies can create efficiencies through our system in every part of our business and we think that there's a long way to go.

Your question of course is how much room is there to enhance SG&A or to bring SG&A down? And I can't quantify that right now. But I think we've just started to figure out how to really build that better mousetrap that I keep talking about.

Now your next question is to what extent is there a first-mover example - advantage, excuse me. I'm not going to say a first-mover advantage because I believe that others can learn and jump onboard. But it's not about first-mover advantage. It's about incorporating these technologies is hard, hard work.

It's hard work to learn and understand how they work and then to transport that knowledge out to multiple divisions in multiple geographies is a very

complex management engagement and it's something that we work on every day.

So as you've watched the improvement of migrating from conventional to digital marketing, that seems like a kind of binary, oh, let's just make a movement but it has come with a learning curve, a testing curve, a proven curve and then an implementation curve that is really difficult to overcome.

So it's not a first-mover advantage in a traditional sense. It's the sooner you start, the more time you've put behind you in doing the hard work and the heavy lifting that it takes to actually implement these programs. So our work is not to run to get ahead of others, it's to move hard, work hard every single day to implement and to garner that 1, 2 or 10 basis points per week, per month, per quarter of improvement that we've been articulating as we've gone through the past years.

Jon Jaffe: I do think though that as each initiative goes through that process that Stuart described of testing and ultimately into implementation which is as rigorous as he described, it gets easier and easier as time goes on, as people understand the benefits of these technologies, the change in management aspect of that is easier to address and to incorporate the 2.0 version and 3.0 version.

So I think that whether it's first mover or not, it's sooner you get started the sooner you're going to get to better and better execution of new technologies.

Stuart Miller: But I don't think somebody can come along and just pick up and copy what we've done and say, "Okay, now we've got the answer so we can get the answers right on the test." The implementation is the hard part.

Stephen Kim: Got it. That's very helpful and very thorough. I appreciate it. And if anybody's going to get it done, it will be you guys, so that's great. Thanks, guys.

Stuart Miller: Thanks.

Operator: Thank you. Our next question comes from Michael Rehaut of JPMorgan. Go ahead, please.

Michael Rehaut: Thanks. Good morning or now I guess it's afternoon. Nice results and, you know, congrats on getting through all the challenges weather-related obviously. You know, it was huge undertaking I'm sure.

You know, first question, you know, Stuart, I wanted to circle back to the comments you had in your press release actually and I believe you had this even on your initial prior release around estimations of impact. And, you know, what you said in the release again today was that you expect an increased demand in homes in the storm-related areas which will result in a broader range of opportunities as we look towards 2018.

So I just wanted to see if you could give a little more detail around that statement. You know, from our perspective, you know, when you think about the impact of the storms and I think you've alluded to this in previous questions, you know, it seems like it's more around, you know, fixing existing homes, getting insurance recoveries, you know, power related, et cetera.

You know, certainly, you know, there might be some incremental demand for new homes in terms of maybe people wanting to move out of a damaged home. But just wanted to get a sense for, you know, you said you've been through this before, you know, what specifically - is there an expectation in

terms of maybe incremental new home demand going up 5%, 10%, 15% in the respective states or is it more of a broader statement?

And, you know, when you say a broader range of opportunities, you know, if there are certain specific types of initiatives or certain types of communities or pivoting or maybe for multifamily, what exactly do you mean by that?

Rick Beckwitt: It's Rick. Why don't I take a stab at it and then Stuart and Jon can chime in.

You know, there's several aspects of this that are just different pieces. You know, one is just the overall new capital investment as you're rebuilding various markets. There's going to be tremendous capital invested in infrastructure that's going to create new jobs, that's going to create wage growth, that's going to allow people to just have more spend as they're looking at buying homes just in general.

The second aspect of it is as you look at where the storms hit, particularly in Houston, let's just focus on Houston right now, there's going to be parts of the market where FEMA will shut down and will not allow homes to be built in those areas.

As a result of that for folks like us to have a lot of land in other parts of the market, more the upland areas, that's going to create over time just long-term fundamental demand.

The other aspect of it and I put this sort of in both markets, the Florida markets and the Houston markets, as you look at what happened with regard to the storms, the newer homes, the newer production, the newer construction fared so much better than the used home market, the existing market.

As a result of that you're seeing a continued shift of people saying, "I'd rather live in something that's going to weather the storm than be impacted by the storm again and again."

So those are just a few aspects of the opportunities that exist out there that creates that longer term fundamental demand in the aftermath of these storms.

Jon Jaffe: And that's the pattern we've seen in prior storms on your question about experiences. It's sort of fundamentally a reallocation of capital from insurance companies to local economies that drive those local economies creating, as Rick said wage growth, job growth and demand for housing. That combined with a shortage from homes temporarily taken out of the market generally bode well for a mid-term housing market recovery.

Stuart Miller: The infusion of capital into these markets, even those that don't seem to have been affected that much is a shot in the arm to people who are thinking about buying, moving up, trading and it just stimulates the economy in the long run.

Michael Rehaut: That's helpful. I appreciate all the color there.

You know, second question on the gross margin guidance. You know, I guess you've identified that of the 22 to 22.25, 50 bips of an impact from deliveries. And then you also mentioned a negative gross margin mix from the delayed Florida deliveries.

You know, a couple of questions here on this I guess just to understand. Was the negative gross margin mix in addition to that 50 bip impact from the delayed closings which sounded like a little bit more of negative fixed cost absorption? And, you know, if so or if it's not, you know, it seems like the prior guidance was pointing to a 4Q gross margin in the high 23s.

So just was curious, you know, what changed outside of the 50 bps hit, because also obviously your 3Q gross margin came in above expectations. So just curious if there was other shifts going around or, you know, what really fully impacted, you know, on top of the hurricane hit, you know, the gross margin outlook?

Bruce Gross: I'll explain the 50 basis points again. The reason for the 50 basis points was both for the 950 deliveries being pushed which took into account the fact that they were higher margin Florida deliveries that were being pushed. So the remaining deliveries on an average basis would have a lower gross margin percentage as well as the impact to losing some leverage in field expense.

So that's already embedded in the 50 basis points that I described.

Jon Jaffe: The mix of that's about half and half between the margin mix and the additional cost that we don't have, the ability to leverage that over more closings.

Michael Rehaut: So what would then be the difference in terms of the prior guidance in the high 23s?

Bruce Gross: We did have a range for the year, Mike. So we still are ending up with the range that we had for the year, the lower end of that range of the guidance that we gave previously.

Michael Rehaut: Okay. And then just one clarification. The 300 to 385 ASP, that was not for the fourth quarter, that was for the full year?

Bruce Gross: No, that was for the fourth quarter.

Michael Rehaut: Okay. Thanks very much.

Stuart Miller: Let's take one more question.

Operator: Thank you. Our last question comes from Stephen East of Wells Fargo. Go ahead, please.

Paul Przybylski: Yes, this is Paul Przybylski on for Stephen.

Going back to the gross margin question again, do you feel like that mid-22% range is normalized? And then should we expect, you know, a swing of the 50 basis points to show up in, you know, the first quarter of '18?

Rick Beckwitt: You know, it's so tough to make a prediction on where normalized margins are right now in the context of where the trade basis out there are like at the moment. And I think we're going to have to see, you know, what happens with regard to them rebuilding themselves, where they're focused on, what activities are out there and how the power side of the equation comes back to the market. It's a little bit too soon to be commenting on that.

Stuart Miller: I think that we don't want to give kneejerk guidance. And the bottom line is in the middle of turmoil, it would be easy to try to give something and then not be able to live up to it. I think we're going to have to let these markets settle a little bit. ASP is going to be affected. Incentives are going to be affected. Construction costs on labor are going to be affected. And we're going to let the market settle a little bit before we give more guidance into 2018. But we feel pretty good about the business overall.

Paul Przybylski: Okay. Then what kind of impact you expect from the storms on development? Do you think that might delay some community openings that could maybe cause your top line to come in towards the lower end of expectations?

Rick Beckwitt: When you have a lot of water and wind come through a certain area, you got delays. There's no question about that. And, you know, what we're trying to do is manage our business as efficiently and effectively as we can. Jon and I tell the guys all the time, we don't want a weather report, we're looking for execution.

So I'm not here to give you a weather report at this point in time, but there's no question we will encounter some delays. That's going to be with regard to getting some materials. Pipe is pretty tight right now.

In addition to that, you know, there's just been a slowdown on the overall inspections as both, you know, the municipalities are focused on other infrastructure things that are more compelling to get up and running.

Paul Przybylski: Thank you.

Stuart Miller: Okay. With that, thanks, everyone, for joining us and we look forward to updating you with our fourth quarter conference call. Thank you.

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

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