

LENNAR CORP

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Coordinator: Welcome to Lennar's first 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 Alex Lumpkin for your reading of the forward looking statement.

Alex Lumpkin: Thank you and good morning, today's conference call may include forward looking statements including statements regarding Lennar's business, financial condition, results of operations, cash 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 sees no obligation to update any forward looking statements.

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

Stuart Miller: Very good, thank you and good morning, this morning I'm here with Rick Beckwitt our President, Bruce Gross our Chief Financial Officer, David Collins our Controller and of course Alex Lumpkin who you just heard from. Jon Jaffe our Chief Operating Officer is joining by phone from California and we have Jeff Krasnoff CEO of Rialto here as well.

As always I'm going to start with an overview and Bruce will deliver further detail. In as much as this is our first quarterly call as a combined Lennar-CalAtlantic platform, we have a lot of ground to cover so Jon and Rick will give a comprehensive update on our integration process and David Collins will give further detail on how purchased accounting affects our margins and earnings over the next quarters.

When we get to Q&A we would like to ask that you limit your questions to just one question and one follow up so that we can accommodate as many participants as possible.

So let me go ahead and begin by saying that a great deal of hard work has been done, a lot of heavy lifting and it all comes down to a great team of professionals coming together and working cooperatively. From people here in this room with me today, to the many throughout Lennar's and CalAtlantic's offices we are thankful for their hard, diligent and focused work.

Because of them and what they bring to the table every day I have simply never been more enthusiastic about the current position of our company in the context of the market conditions that surround it. As a management team we believe that we are poised to continue to grow our business and to leverage scale in each of our markets to drive efficiencies and to implement new technologies. Current market conditions enable us to grow while management

and company focus enable us to drive continued improvement and refinement of our business with critical scale in the best markets in the country.

The housing market has been strong and it is continuing to strengthen. There is a general sense of optimism in the market as jobs have been created, the labor participation rate is increasing and wages are higher. The low unemployment rate and the labor shortage are driving wage growth which on the one hand has added to our construction costs, but on the other hand has expanded our customer base.

Customers in our Welcome Home Centers confirm that they feel confident as the economic conditions have remained strong, stable and improving. The deficit in the production of new homes that has existed since the market crash has created a supply shortage that matches up with both strengthening demand and a millennial population that has begun to form households and have children.

Supply short with strong demand is propelling this recovery forward and the math would indicate that it will still take some years to get to equilibrium. Against that backdrop, the recently passed federal tax act continues to add additional momentum to the economic landscape. While many have been concerned about the effects of the new tax law and housing it is proving to be a net positive to the wallet of our customer base and stimulative to the economy overall and that is good for housing.

Additionally the doubling of the standard deduction helps apartment dwellers accumulate the savings they need for a down payment to purchase a home and therefore stabilized their housing costs. And while there has been political noise and strife in the market around issues like immigration, gun control and international trade, among others, that generally strong and stable economic

setting has been an excellent backdrop to successfully integrate and close on our strategic combination with CalAtlantic.

Accordingly, with strong management focused and execution we have not missed a beat. Both platforms have seen new orders, home deliveries and margins continue to be in line with or above expectations while we have brought these two enterprises together. As a part of this conference call we have posted five schedules that give detailed information to help reconcile the combination of the two entities as we now report as one.

While Rick and Jon will detail the integration and Bruce will give greater detail for the first quarter results and on projections for 2018 let me give you a couple of highlights. First, the complicated task of purchase accounting has been undertaken and while numbers can change over the next quarters we have landed on the goodwill value of 3.4 billion that is already been disclosed in our S-4, so there is no change to the total number - to that total number at this time. And David Collins will give an overview on how purchase accounting will further affect our margins and earnings over the next quarters.

Second, remembering that the first 10 weeks of CalAtlantic closings this quarter are not included in our first quarter numbers, we are already starting to see the power of consolidation at the corporate level leveraged from additional volume and scale in local markets. Since closing the transaction we are very confident that we will exceed our \$100 Million synergy savings expectations for 2018 and we are on track to achieve the \$365 Million synergies for 2019 as well.

Our gross and net margins are 21.6% and 11.9% respectively, exceeding last years, exceeding last year even with the impact of purchase accounting. Both SG&A and corporate G&A are lower than last year as well and our income

from operations continue the pattern of exceeding our expectation driven by solid fundamentals. These trends should carry forward throughout the year.

Sales and deliveries have continued to remain consistent and strong, focus in the field even during the pre-closing time frame has and will continue to keep sales and closings on track for the year. Over the next two transitional quarters we will transition branding and our everything's included marketing model so sales and closings will be more flattish although this will give way to higher absorptions and deliveries later in the third quarter and into the fourth quarter and, of course, into 2019 and beyond.

Next we are starting to get a better handle on cash flow for the year. Last quarter you might remember that Bruce guided you to a \$1 Billion cash flow number for 2018 and I suggested that I felt it would be materially higher, in fact it will be. But I'll let Bruce give you greater detail. With significant cash flow though we will continue to improve our balance sheet and bring leverage down as we articulated when we announced this strategic combination.

So let me pause here and turn over to Rick and Jon, given the importance and significance of this integration they will give you an update on our progress. I think you'll see that we remained very focused on the details as we execute both on current and expected business accomplishments as well as the complex task of completing the task of bringing two great companies and traditions together without missing a beat. So Rick.

Rick Beckwitt: Thanks Stuart. In our last conference call Jon and I detailed our integration plans and highlighted several integration priorities. I would like to update you on each of these areas, however before I start I want to thank all of our Lennar associates and trade partners for their hard work, collaboration and attention to detail during this process.

From an integration standpoint we are operating today as one company, to put it simply we are Lennar and we are well ahead of schedule. From a technology and systems standpoint we are extremely focused on having the entire company operating on one unified operating platform and are committed to completing this prior to the end of our fiscal year. We have completed the system migrations of two divisions and expect to complete six more divisions by the end of April.

Full systems conversions is a top priority as it will speed up all aspects of our business and accelerate our ability to reduce G&A to maximize our synergies. From a land acquisition standpoint, our regional presidents, division presidents and land acquisition teams have been extremely active in leveraging both preexisting and new relationships to enhance our go forward land pipeline.

In the first quarter our land acquisition span was approximately 500 million. As expected given our increased local market scale we have quickly become the go to builder for almost every deal. We are testing the boundaries of this new relationship to explore some very interesting land acquisition programs and transaction structures. Lennar has always been recognized as a sophisticated land buyer, with strong teams and deep relationships and we are invigorated with our current market position and we'll update you on our progress in the same.

From a marketing and branding standpoint our website integration was completed and live on day one. We ended the quarter with 1344 active communities which included 573 CalAtlantic communities. With the exception of a few closeout communities we have changed signage to reflect the Lennar brand everywhere. From a product standpoint as we did in the

WCI integration we have been culling through the home plans from both companies to identify the most efficient and bestselling plans.

As you can imagine some plans are more value engineered resulting in lower construction costs and faster cycle times. In addition eliminating plans reduces G&A cost and saves our trades a lot of bidding time which results in lower construction costs as well. Based on a review of the combined universe of plans we will be reducing our plan count by approximately 1250 plans.

Transitioning from the CalAtlantic design center program to a more efficient production builder with and everything's included operating program has been our top priority. We have taken a very logical approach to this transition. In general for those communities that will close out the starts in 2018 we are continuing with the CalAtlantic legacy product.

As for those communities with starts extending into 2019 and all future communities, we are either converting to existing Lennar Everything is Included Product or converting the CalAtlantic product to an everything's included program.

So let me give you some color on the breakdown. We have 573 CalAtlantic communities, approximately 200 of these communities will closeout this year. Of the remaining communities approximately 150 communities will be converted to Lennar product. In fact we've already converted 100 communities and an additional 50 communities will be converted in the next few quarters. Of the remaining 223 communities we will be converting those to CalAtlantic product to EI.

At the end of the first quarter we had converted in rebid approximately 15% of the CalAtlantic plans and our goal is to have them all rebid and converted by

the end of the fiscal year. So what does this really mean? It means we will build homes faster and cheaper. From a cycle time perspective depending on the product this effort should reduce build times between 15 and 35 days. In addition we will see G&A savings through the elimination of the CalAtlantic Design Centers. Jon will discuss the cost savings associated with this conversion.

Finally I want to touch briefly on our operations reviews. At the end of each quarter we do a deep dive into every division. We review the historical performance, detailed budgets, projections in five year land plans among other things. These meetings are focused on setting a clear sense of direction in establishing firm goals. Jon and I have almost completed these meetings with 38 of our divisions and we couldn't be more optimistic as to where we stand as a company.

With all that said I'd like to give a shout out to our Indianapolis division. This is a new market for us run by a CalAtlantic division president overseen by a CalAtlantic regional president. Stuart and I spent the day with them last week and the review was impressive. More importantly while this was a new player to our company, you couldn't tell that the division and the associate's hadn't been with us for years, they have fully embraced the Lennar culture and all of our operating programs, now I'd like to turn it over to Jon.

Jon Jaffe: Thanks Rick, on last quarter's call we communicated that we expect to achieve synergies of \$100 Million and \$365 Million in fiscal year 2018 and fiscal year 2019, respectively. As Stuart noted we are ahead of schedule in 2018 and are on track for our 2019 targets. The \$100 Million target for 2018 breaks down to \$50 million for corporate expenses and SG&A savings and \$50 million for direct construction cost savings.

For corporate expenses and SG&A we have locked in about \$60 million of synergies that is made up of the following two categories. Corporate G&A represents about \$35 million made up of executive and administrative compensation along with public company expenses. Operational SG&A savings of about \$25 million are from the reduction in associate head count in the regions and divisional offices. From the closing of the transaction through the end of the first quarter CalAtlantic's head count is down by 15%, by the end of the fiscal year it will be down 21% as a result of transitional associate's completing their terms.

All of our operations will be combined so that by the end of the fiscal year there will be no duplicate offices, we estimate that 2019 annualized run rate for these overhead savings at \$75 Million. The integration teams are finalizing the work plans targeting the balance of the savings to achieve our target of \$100 million in 2019. For direct construction costs our national supply chain team has identified approximately \$65 million of savings for 2018 exceeding our target of \$50 million.

This breaks out into four primary categories. National manufacturing and supplier contracts, cost increase avoidance, telecom providers, and division level construction cost savings. New contracts with our largest manufacturing relationships have resulted in about \$20 million of this amount, these contracts have an annualized run rate of about \$34 million with contract terms of two to three years. We have about 15 categories remaining to complete which are comprised of small to medium sized manufacturers, we expect this will yield about another \$5 million in 2018 and \$20 million plus in 2019.

By working with our valued supplier relationships we also achieved \$10 million in savings through cost avoidance and products where market wide

increases were already put in place. We also revisited all of our national agreements with cable and ISP providers. They have agreed to modifications on existing agreements entering into new agreements, adding complementary and infrastructure services and expanding ongoing agreements.

This work has generated savings of over \$9 million in 2018 and \$12.5 million in 2019. Our homebuilding divisions are actively engaged in the process of focusing on material and labor savings and have already identified more than \$25 million for 2018, this is where the hard work will be done to accomplish the balance of savings needed to achieve our 2019 targets.

In total these four categories are already accounting for approximately \$100 million towards the 2019 target of \$265 million. We have developed a very thorough process at the division level to identify potential savings and how to execute on them. We are conducting cost synergy workshops at seven divisions per month, the process has already commenced as we will complete the first seven divisions this month and will be finished with all divisions by the end of the summer.

The workshops identify, validate and collect cost synergies across all labor and material categories as well as the improved building practices and value engineering processes to achieve them. We also evaluate every opportunity to improve utilization of our national supplier programs to enhance the rebate opportunity, it is a joint effort of our national and regional purchasing teams, construction and value engineering experts and the division management teams.

The process is very detailed and organized, it starts with planning sessions four weeks before the workshop begins all the way through until a fully developed and agreed upon plan that clearly articulates the accountable

resources, timing and synergy amounts. Like Rick, I also want to highlight Lennar's quarterly operations reviews. This is a process that has been in place for 20 years, Rick or I along with regional presidents and regional operation controllers meet every quarter with each division management team at their offices.

At these meetings we spend a full day reviewing everything from A to Z in our operations. As Rick mentioned where we're through the process in our current round of reviews and as these are the first operations reviews where we are conducting them as a combined company Stuart is also attending many of the meetings.

This tried and true Lennar practice is the format in which are able to evaluate the successes and challenges associated with the integration of the two companies. This is also where we gain direct feedback on the various technology initiatives Lennar is undertaking.

First hand we are able to see all programs like dynamic pricing, home automation, our trade up partnership with Opendoor and many others are working. Stuart, Rick and myself and the regional presidents are seeing discussing and evaluating our business where it happens in our home building divisions. It is the process from which we build a better company. Lastly I can't say enough about how amazing our associates are, they are tackling the challenges of the integration head on and maximizing the opportunities of the combination swiftly and methodically, I also want to thank them for their dedication and hard work and focus they are what makes us Lennar.

I also would like to thank our trade partners and manufacturers and suppliers and our local trades, you all have proven to be loyal and creative partners in

helping both you and Lennar benefit from this merger. I'd like to turn it back over to Stuart.

Stuart Miller: Great thanks Rick, thanks Jon. You know as you can hear from Rick and from Jon we are on it. We have broken down the critical elements of integration, of driving synergies and of implementing new technologies and we are executing as you would expect from this team. As I've noted before and we will demonstrate as we go forward we expect to bring these two companies together efficiently and effectively and to drive savings and engage innovation in the process.

Let me finally note that while we've been integrating and closing the CalAtlantic transaction we have not taken our eye off the ball of our ancillary businesses or our core strategy of reverting to pure play. To begin last quarter I addressed the "fourth quarter bottom line miss" that derived from shifting a onetime non-core non Rialto transaction.

The transaction was actually two separate transactions selling non-core assets that produced both cash and more than the fourth quarter shortfall in profit. The first transaction was the sale of approximately 80% of our interest in Treasure Island and that resulted in a onetime \$165 million profit. The second transaction was the \$150 million sale of a portion of our solar business that generated cash in the third and fourth quarters but has not yet still resulted in a bottom line profit or completion of that transaction.

Next as we noted in our press release we have actively engaged Wells Fargo securities and Deutsche Bank securities to advise us in seeking strategic alternatives for our Blue Chip Rialto investment and asset management platform. In preparation for this engagement we have repaid all \$350 million of Rialto 7% unsecured bonds. Additionally Rialto Mortgage Finance, RMF,

our commercial loan securitization business will be moved out of Rialto and merged into Lennar financial services while certain other Rialto assets will be carved out of Rialto and held separately including approximately 275 million of book value of limited partnership interest in Rialto funds as well as the associated carried interest.

With the shifting of these assets and last year's monetization of Rialto's on balance sheet loan portfolios which is now complete, Rialto has become a Blue Chip asset light investment and asset manager that earns fees for raising, investing and managing capital focused on real estate related opportunities. We expect to be able to conclude a program for Rialto over the next 12 months and then we will have taken another step towards pure play.

Finally let me note the progress on LMC, Lennar's Multifamily Communities, our apartment segment. This ancillary business which has continued to grow is very compatible with our core for sale business and therefore remains a primary focus for the company as part of the core for now. In the first quarter we started 1259 apartment homes in four communities with a total development costs of approximately \$464 Million. While we've continued with the development of our merchant build communities, we've also significantly grown LMV our build-to-Score program which is focused on building a portfolio of high quality income producing apartments.

In March 2018 we had the initial close of our second multifamily venture with equity commitments totaling \$500 Million. As of February 28 we had a geographically diversified pipeline of 82 communities totaling almost 26,000 apartment homes with a total development costs of just over \$9 Billion. These include 29 merchant build communities totaling over 9000 apartment homes with a total development cost of approximately \$3 Billion. 39 build-to-core communities in our first multifamily venture totaling just under 12,000

apartment homes with a total development costs approximately \$4 billion and 14 build to core communities slated for our second multifamily venture totaling proximately 5000 apartment homes with the total development costs of approximately \$2 Billion.

Lennar multifamily continues to mature into a best in class multifamily rental enterprise. So let me conclude where I started, it really all comes down to people. We have accomplished a great deal but we still have a lot of exciting work ahead of us, it is our people that have and will make the difference. I once again thank the people across our operating platforms for their diligence and their expertise because of them, all of them, I can comfortably say that Lennar is well prepared to continue to execute. So now let me turn over to Bruce and David Collins for more detail.

Bruce Gross: Thanks Stuart and good morning. In our year end conference call we had David Collins our Chief Accounting Officer provide a primer on the purchase accounting process. I'm going to turn the call over to David first to discuss purchase accounting as it affects our quarterly numbers this quarter and going forward and then I'll return to walk through our results, David.

David Collins: Thanks Bruce and good morning everyone. There are many moving parts in connection with the purchase accounting for CalAtlantic. When allocating purchase price to the assets and liabilities of CalAtlantic we are required to separately fair value portions of CalAtlantic's inventory consisting of homes in backlog, specs and model homes. To eliminate some of the built-in gain associated with these assets. As a result we will only recognize a percentage of our typical full gross margin on parts of our inventory.

Accordingly our first quarter produced and our second and third quarter results will produce some lower than normal gross margins on these inventory

homes when they close which will reduce our average gross margin for 2018. Let me walk you through the mechanics. Over a 5 month period after the closing date of the CalAtlantic transaction we will only recognize a percentage of the gross margin on the homes we delivered during that time, the underlying theory behind this is that for homes in backlog, completed unsold homes and homes under construction at the acquisition date there's very little work that needs to be done by us, thus we are not able to recognize full margin on these homes.

We're using a 10%, 30%, 50%, 70% and 90% profit allocation for these inventory homes sequentially for the five months after the acquisition. These percentages are meant to represent how much value we have added to a home post-acquisition. Let me give you an example, on inventory homes that we delivered in the first month we will recognize 10% of the normalized net margin on the homes that close in that month. Net margin is defined as gross margin less only sales and marketing expenses.

In theory we have added 10% value to the inventory we acquired that we will, that will be delivered in the month after the acquisition. On inventory homes that we deliver in the second month we will recognize 30% of the net margin on the homes that closed in that month, in theory we have added 30% value to the inventory we acquired that will be delivered in the second month after the acquisition. For months 3, 4 and 5 the profit recognition is 50%, 70% and 90%, respectively.

Here's a detailed example for a home in backlog delivered one month after the acquisition. Assume the sales price of \$400,000 and a projected gross margin of 20% or \$80,000. Assume sales and marketing expenses for that home are 6% or \$24,000 the projected net margin of this home is \$80,000 less \$24,000 or \$56,000. The write up to the inventory in backlog is 90% of this \$56,000

or \$50,400. The full gross margin of \$80,000 less the \$50,400 write up I just described is now the reported gross margin of \$29,600 or 7.4%.

In the first quarter this adjustment negatively impacted gross margin by 210 basis points bringing down our gross margin from 21.6% to 19.5%. We project the impact of this adjustment to gross margin to be approximately 750 to 800 basis points in the second quarter and 100 to 150 basis points in the third quarter. As we get to the fourth quarter we expect to return to normalized results with only a minor impact, now back to Bruce.

Bruce Gross: Thanks David. Since this quarter has many moving pieces, we thought it would be helpful to include five supplemental schedules in addition to our press release. These were all filed with our 8K this morning. Hopefully you will find these schedules provide clarity in understanding a complex quarter. Let me start with schedule one, this is titled Q1 homebuilding metrics as reported and pro forma.

The goal of this schedule is to build up our home building metrics so you can see Lennar standalone results and CalAtlantic results since the acquisition date to get to today's reported results in our press release. Lennar standalone new orders were 7387, a 14% increase over the prior year. CalAtlantic new orders for the 2 week period were 1069 totaling across to 8456, a 30% increase in our as reported results. Lennar standalone deliveries were 5946 a 9% increase over the prior year. CalAtlantic deliveries were 819 for the 2 week period totaling across to 6765, a 24% increase in as reported results. Backlog builds up in a similar fashion to 95% increase in as reported results.

The bottom section of schedule one includes CalAtlantic stand alone in the middle box. These numbers are pro forma from December 1st to February 28, which includes the period prior to our acquisition date. Note that new orders

were impacted by a reduction of 262 due to net accounting reclassifications of backlog acquisitions and contingent sales. Excluding these adjustments new orders would have increased by 9% for the quarter.

Turning to schedule two, this schedule is titled Q1 2018 earnings components. The goal of this schedule is to show the buildup of reported numbers starting with Lennar standalone results versus the prior year in our previous guidance. We then added CalAtlantic actuals for the period February 13th to February 28th to total across the combined numbers in today's press release.

I'm going to walk through Lennar standalone results first and then comment on CalAtlantic separately. Lennar standalone deliveries were 5946 which is a 9% increase compared to the prior year. And was within our first quarter backlog conversion guidance of 65 to 70%. Average sales prices increased 5%. Home sales revenue increased 15% over the prior year and gross margins were up 40 basis points over the prior year as Lennar's sales incentives declined 60 basis points year over year to 5.3% percent of home sale revenue.

Direct construction costs were up 6% with labor up 7% and materials up 5%. SG&A improved 30 basis points and again this was due to improved operating leverage and continued benefits from our technology initiatives. As a result of improved gross margin and SG&A results Lennar operating margins exceeded prior year by 70 basis points and outperformed our previous guidance of being consistent with the prior year's operating margin.

The category of land, EPU and other came in at \$155.6 million which exceeded the \$80 Million projection. This was driven by the strategic sale at 80% of our Treasure Island interest that Stuart mentioned resulting in a \$162 million profit net of \$3 million of related costs.

As expected financial services results declined year over year as a result of a significant reduction in refi's leading to a more competitive pricing environment. Refi's are now less than 10% of our total originations which were flattish at \$1.8 billion compared to the prior year. Mortgage pretax earnings were a flat at \$13.4 million, capture rate was 80% of Lennar home buyers and title pretax was also down from \$6.8 million to \$4.6 million this year due to refi reductions as well.

The financial services team has also been keenly focused on the CalAtlantic integration and it's making significant progress, we have already transitioned our teams with organization, licensing and systems to operate as one team. We have begun originating loans and issuing title policies for our CalAtlantic customers and this month we went live with a new digital mortgage platform for the combined company using mortgage application technology from Blend.

This technology provides a simple, friendly and frictionless mortgage process leading to a better customer experience. And I'd also like to thank the financial services team for all their hard work with this integration process. Rialto and multifamily results were on track with guidance, and the press release and Stuart's comments already added additional color, so I'm not going to add anything additional to those two segments.

Corporate G&A as a percentage of total revenue, improved 10 basis points year over year as Jon was highly highlighting the additional operating leverage that we're already capturing. Many of you will be focused on the next line which is a subtotal of Lennar's standalone pretax income before CalAtlantic acquisition and integration costs, purchase accounting and prior year litigation reserves.

This result was \$377.4 million in the current year versus \$198 million in the prior year. The relevant earnings per share before the deferred tax asset charge was \$1.21 versus \$0.55 in the prior year. Our tax rate for the quarter was 23.8% excluding the anticipated one-time non-cash charge of \$68.6 million, \$68.6 million relating to the re-measurement of the deferred tax assets due to the new lower federal tax rates effective in this quarter. This was below our previous guidance of 25% due to the extension of energy efficient home credits to be applied retroactively to homes closed in 2017.

I'm now going to address the CalAtlantic column on schedule two. Let me start by saying that these results represent a two week period which included over 75% of the monthly closings but only half the monthly expenses. As a result, the CalAtlantic gross margin was higher than the normalized level and SG&A percentage was lower than the normalized level as well.

Gross margin excluding the backlog write-up was 22.2% and SG&A was 8.2%. Financial services started to contribute adding \$1.8 million of profits for the two week period and corporate G&A was nominal as I highlighted we are recognizing synergies from the combined corporate operations. At the bottom of this column we have a line for total acquisition costs related to the CalAtlantic transaction incurred by either Lennar or CalAtlantic.

Additionally, we show the impact David mentioned from the backlog write-up in purchase accounting, \$55 million bringing the gross margin down to 7.5% for the month. The Lennar stand-alone section and CalAtlantic sections then total across to tie into the reported results in our press release of net earnings of \$136.2 million and EPS of \$0.53 per diluted share. The share count increase due to shares issued in the acquisition and outstanding for the two week period.

I'm now going to discuss schedule three which is titled Homebuilding Metrics: Historical Pro Forma and Projected. We thought this schedule would be helpful to provide historical pro forma, new orders, deliveries and backlog to conform to Lennar's reporting periods. Additionally, we provided our projections for new orders, deliveries and backlog for each quarter for the remainder of 2018 to help you with your modeling.

As you can see in the far right column on schedule three, we are projecting total deliveries for 2018 to be 45,765. We are providing this additional guidance for 2018 to add clarity in a difficult year to model and then we expect to continue with our historical guidance approach in the future. Additionally, I would like to provide some more key goals for the company in 2018. With the addition of CalAtlantic average sales prices for the company are expected to be \$400,000 to \$405,000 for the full year.

Gross margins for the full year 2018 excluding backlog and with write-ups to be in between 21.5% and 22%. The second and third quarter are both expected to be between approximately 21% and 21.6% and the fourth quarter is expected to be in the range of 22.25% to 22.75% given the higher volumes and synergies that we're on track with from the CalAtlantic acquisition.

We expect full year SG&A to be between 8.8% and 9%. The second quarter is projected to be between 9.1% and 9.4% and the third quarter is projected to be between 9% and 9.2%. The fourth quarter will see the largest leverage from synergies and higher volumes at between 8% and 8.3%. Operating margins for the full year are projected to be between 12.5% and 13.25% and David provided quarterly backlog and WIP adjustments which again are expected to be an impact of gross margins of between 750 and 800 basis points in Q2 and 100 to 150 basis points in Q3.

Financial services are expected to be in the range of \$190 million to \$200 million for the year. The second quarter is expected to be \$45 million to \$48 million. The third quarter \$60 million to \$64 million and the fourth quarter is \$65 million to \$69 million.

Turning to Rialto, we expect the range of profits between \$60 million and \$70 million for the year. The fourth quarter is still expected to have the highest quarter profitability. Q2 is expected to be approximately \$10 million to \$12 million. With multifamily we're projecting \$45 million to \$50 million for the full year as one apartment sale shifted into 2019. The second quarter is expected to be between \$8 million and \$10 million. The third quarter will be a slight loss and the fourth quarter approximately \$40 million profit.

The combined category of joint venture, land sales and other income is expected to be about \$10 million in profit in Q2, breakeven in Q3 and approximately \$15 million in Q4. Corporate G&A is expected to see leverage with a full year at 1.8% of total revenue. We expect integration in deal costs to be approximately \$150 million to \$175 million for the full year and we will report that item on a separate line.

We expect our effective tax rate in 2018 to be approximately 24% for each of the remaining quarters. The weighted average share count for the year should be approximately 310 million shares, however the second quarter increases to 327 million and the third and fourth quarters 329 million. We expect our community count net to be approximately 1350 by year-end and with these goals in mind we are well positioned to deliver another strong profitable year in 2018.

I'm going to touch briefly on schedule 4 and 5. Schedule 4 is titled Pro Forma Homebuilding Statistics to provide you with 2017, pro forma information by

segment to help you with your comparisons throughout 2018. Schedule 5 is a Non-GAAP reconciliation which reconciles our reported net earnings to the numbers provided in the schedules previously.

Finally, our balance sheet remains strong with a net total capital of 42.5%, stockholders equity increased to 13.1 billion and our book value per share grew to \$40.10 per share. During the quarter we increased our credit facility to \$2.6 billion and extended the maturity to 2023. We had \$734 million of cash at quarter end and although our balance sheet is well positioned with financial flexibility as Stuart highlighted, we are very focused on generating significant cash flow with our first priority to retire debt and further reduce leverage.

For the remaining quarters of 2018, we expect to generate approximately \$2 billion to \$2.5 billion of cash from operations before ancillary businesses, CalAtlantic related costs and debt paydowns. I would like to conclude by thanking the entire corporate team for all of their hard work in preparing all of the information for this call today.

And with that let me turn it over to the operator and open it up for questions.

Coordinator: Thank you. We will now begin the question-and-answer session of today's conference. And to ask a question press star followed by the number one in your phone, when you hear a tone record your name when prompted. Your name will be required to introduce your question and also please limit to one question only and a follow-up. To cancel your request press star followed by the number two.

Our first question is coming from Alan Ratner of Zelman & Associates. Sir, your line is now open.

Alan Ratner: Hey everybody, good morning and congrats on all the progress and thank you very much for all the great transparency in detail, it's very helpful. My first question on the synergies, I was hoping just to get a little bit of clarification here. So obviously you guys are well on track to hit your '19 numbers and that's great to see. On the gross margin I'm just trying to get a feel when we think about the 21.5 to 22 you are guiding to for this year, is your synergies in '19, is that a direct flow through to margin thinking about on top of whatever your current normalized margin is or should we think about any offsetting factors there you know related to either cost creep or maybe as you reposition some of the CalAtlantic product towards everything is included is going to be a partial offset there on the gross margin line?

Rick Beckwitt: So this is Rick. On the margin perspective our guidance really includes the synergies. So as we move through this year we will be gravitating at about a 22% percent margin on the CalAtlantic products or the homesites that's coming from the transaction, and that should continue at that level through 2019 and the build out of that entire portfolio.

Alan Ratner: When you say continue at that level are you trying to remain flat at the 22 or as you are guiding for more synergies on a percentage basis in '19 over '18?

Rick Beckwitt: Yeah that's correct but as we under wrote the portfolio and went through the accounting of fair value that those are the assumptions that we took into place.

Alan Ratner: Got it, okay. That's helpful Rick. And then just on the quarterly breakout on the guidance, it looks like you guys do expect to see a bit of a dip lower on order growth in 2Q and I think you alluded to that just related to some of the repositioning you've got going on there. Just want to clarify that that's not anything related to what you're seeing quarter to date in terms of market

slowdown or anything like that because it seems like you're expected that re-accelerate in the back half of the year.

Stuart Miller: Yeah, thanks Alan. No, absolutely not tied to any slowdown in the market or anything like that. As we transition communities from a design studio approach studio approach to everything's included as we work through some of the transitions we just expect that we're going to see just a mild slowdown to basically even for the second quarter and that's going to start accelerating as we start picking up absorption rates and implementing where everything is included program and getting cycle times moving. So that's just a normal progression.

Alan Ratner: Perfect, thanks Stuart. Good luck.

Stuart Miller: Okay thank you.

Coordinator: Thank you. And our next question comes from Michael Rehaut of JPMorgan. Your line is now open.

Michael Rehaut: Thanks, good morning everyone and congrats on all the progress and thanks for all the detail. Yeah first question I guess just going back to more in the different elements of debate around conversion of the CalAtlantic communities over to Lennar and everything is included, and recall that you guys are able to effectively get a better sales pace out of your communities versus the roughly you know two to three let's say that the CalAtlantic community sales pace on average has achieved. You know thinking about that relative to your guidance let's say in the back half of the year where you're looking at you know blended roughly of 10% growth for the back half in terms of order growth.

Does that include some of the benefits of the you know CalAtlantic conversion to everything is included and you know if so I mean how should we think about that step function that possibly step function impact in terms of you know the benefits from a sales pace of shifting those communities over?

Rick Beckwitt: So it's Rick, I'll take a stab at it and then I'll let the other guys jump in. I think you're just seeing a transitioning program you know as I said in my remarks you know there is a certain number of communities that we're not transitioning to an EI product because they are inventory that's just going to normally build out over the year and with regard to those communities there's very little that we can do to accelerate the sales pace or construction pace in those communities. For the ones that are getting converted from CalAtlantic legacy product to CalAtlantic or to Lennar-CalAtlantic EI product you know you'll see a slight pick-up this year in absorptions and construction pace.

And then clearly those that are getting converted to Lennar EI will see a faster absorption pace and faster cycle times. As we move into 2019, we will start to see a more smooth level of the absorption that are more consistent with the Lennar absorptions although some of the CalAtlantic is higher priced and it won't have that full blend across the entire portfolio. Jon you want to weigh in.

Jon Jaffe: Yeah just to add to Rick's commentary that as you transition from a design center platform to everything is included that the timing of sales also varies. So it really very much ties to the discussion we are having about normal transition. In an option program you have to sell much earlier to deal with the timing for the option selections in that whole process, in a very production oriented everything is included approach, the timing of the sales happens later in the process.

So combined with the factors that Rick sort of mentioned you take that into account, we have to work through that period so we have a fully baked everything is included program up and running and then I think you'll see the impact of that higher absorption across the whole platform.

Michael Rehaut: No that's helpful and that makes sense. I guess the second question you know Stuart, I noticed in your opening remarks about comments around cash flow and that was a sounded like a pretty major I told you so to Bruce with regards to the billion dollars and exceeding that, so well within your rights and congrats on that. You know how to think about, I guess the question is around how to think about you know cash flow over the next year or two, you know in terms of a longer term goal and you know with the combined companies in your continued soft pivot with expectations for positive cash flow.

I was hoping if you provide an update, you can provide some updated thoughts around what the next couple of years could look like and you know how the positive cash flow from the capital allocation standpoint in the different levers that you can use or put that capital towards how you're thinking about that?

Stuart Miller: Well let me say first of all Mike that you're making me blush here. I thought I was a little more subtle than that you might have missed that normally Bruce would have picked up but as long as we're putting it out there. Yeah you know the focus of this deal and a lot of our underwriting revolves around cash flow and recognizing that we would want to use strong cash flow to think about the balance sheet structure of the company to think about our way forward to navigate the program of reverting back to pure play and rationalizing how we thought about Rialto, it's great management team being positioned to stand on its own.

Some of the other non-core assets being monetized, cash flow is a very central part of the story here and one of the really terrific elements of the CalAtlantic deal is the fact that number one you properly highlighted that a migration from design studio to everything's included when you have expertise in an everything is included platform, you can accelerate absorption rates and reduce cycle times and create affections with your trade partners that enable us to run a better business.

This enhances cash flow and so the backbone of this combination was very much about building a stronger cash flow model and of course, Bruce properly conservatized that number as we first started talking about it in our last conference call but we are as we closed the transaction and we are gaining confidence we're starting to put out the fact that we think the cash flows are going to be strong and they're going to be stronger and building as we migrate through the years with this combination and this focused platform.

Remember it's about market share in strategic markets, markets that we know, products that we know well and everything's included platform that we have worked with for years and that we're getting better and better with. It's about new technologies that can help build a better mousetrap. All of these elements drive bottom line and drive better cash flows and we think we're going to be able to very quickly take a step up in debt to total cap, bring it back down to the levels where we started by paying down debt, increasing our equity component and building a really strong balance sheet then we think we will have excess cash flow to employ to continue to grow the company.

But also to be able to return capital to shareholders and this also is one of the articulations that we had at the beginning is over the next few years we can certainly envision a way to not only paying down debt to a proper debt to total

cap level or a comfortable debt to total cap level for us but also returning some capital to shareholders because cash flows will be very strong.

Michael Rehaut: Thank you.

Stuart Miller: Next.

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

Trey Morrish: Hey Stuart and guys, it's actually Trey on for Steve. Thanks for all the information you gave earlier, that's going to be really helpful. I want to mention or ask about the Treasure Island sale because it sounds like that was not something that you had initially guided for or expected to happen. What was the thought process around that sale, why now, what about divesting that asset or control of that asset off your books, was attractive at this point in time?

Stuart Miller: Good, Trey. I am happy you brought that up. You know I think that as with many of our ancillaries and other components of our business we don't talk about them much because we're trying to focus on the core business. The Treasure Island asset sale was one that's been in the works actually for quite a long time. You're right we haven't guided to it, these kinds of transactions are lumpy and they happen when they happen. We can't always predict and kind of guiding to something really sets us up for a miss.

Basically the thinking around this was that Treasure Island was not a formally a part of our FivePoint program. It was an asset that we had on our books, it was an asset that going forward would require additional investment. It was a non-core program, it's one that we will remain invested in, involved in and

participatory in but not one that we want a lot of our capital tied up over the next years and what becomes a nonproductive, in current terms in quarterly turns nonproductive contributor.

So this is what we're doing with many of our assets is looking at are they current contributors, are we generating bottom line or can we monetize and move forward and deploy capital more effectively. So that's what you're really seeing with Treasure Island, we sold 80% of it, we recognized a hearty profit, bottom line profit and we have capital to re-deploy.

Jon Jaffe: And I would add relative – this is Jon relative to the timing, Treasure Island at this stage in its life cycle where we have our entitlements and we've begun land development and the first land sales will take place from the partnership in the next couple months with vertical construction starting in the beginning of 2019. So there was a maturation of the asset that really created the lift in value having achieved going through the difficult entitlement process in San Francisco and actually being under way with development.

Trey Morrish: Got you. Thanks for that. And then regarding the new multifamily venture fund that you guys have recently launched, what was the thought process around building out a second venture fund, was it the fact that the first venture was fully invested already, or you saw incremental investment opportunities or new potential partners that wanted in on the multifamily type of action that you're going to do with the build to core model.

Rick Beckwitt: So it's pretty simple. The first multifamily venture was \$2.2 billion of committed capital that has been fully committed to assets in the first venture. So there's no more money to spend in that venture. That you know the performance that we achieved in the first venture based on underwriting relative to the original projections is off the chart. So we had investors that

wanted to continue into the second venture. We did our initial close of that venture in March. We anticipate that that's just the initial close and the funds will grow higher than that and it's all about stacking these two different build to core opportunities.

You know at the end of the day what we really like to have is \$5 billion to \$10 billion of completed product that produces an enormous amount of cash flow and gives us the ability to monetize these assets in a much more productive ways than selling them off one by one.

Stuart Miller: Yeah just let me add to that and say you know a number of -- a number have looked at our apartment community program. They've looked at the migrations from merchant build where you have a regular monetization of bottom line as you sell these communities and the migration to a build-to-core program and the excitement around that migration for us and for many who have studied it is the stacking of funds where we can build funds that generate fees streams that are regular and recurring.

Those funds of new assets, best of breed assets in the apartment rental business will produce an identifiable and predictable cash flow stream back to the company that will really highlight the strength of that program. So it's been very much at the heart of our program to stack the funds as we fill one up, raise capital for the next and keep moving forward because we are building brand new best of class rental products.

Trey Morrish: Thanks Stuart.

Stuart Miller: Welcome.

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

Stephen East: Thank you and good morning guys. My thanks for all the information, extremely helpful here. So maybe I'll start with the integration questions. Two things here, one Rick you mentioned in your prepared comments maybe some innovative land deal structures et cetera that you're looking at trying to evaluate, given your new economies of scale if you will and then also on the \$100 million and \$365 million, is there any chance that we would see you not hit those numbers because of reinvesting savings into back into the business, I'm not talking about land spend but I'm talking about other things like digital or IT or something along those lines?

Rick Beckwitt: So let me talk about the land piece first and Stephen as always you listened very carefully. I think as we look at where we stand right now in the land market, as we discussed when we announced the deal and in a meeting subsequent to that you know our local market presence really puts us in a different position, you know given our size and scope, the land sellers in the market really have to deal with this, they don't have the choice.

And as we've been discussing various structures and opportunities to just put various programs together, we are really testing the boundaries of how far we can go with that. You know whether it's you know just in time takedowns that allows us to keep land off balance sheet till the point in time that we close the home to a third party or whether it's just having fully dedicated land programs with third party developers you know we're really exploring all of these options, and I just say, Steve right now just stay tuned. We are very focused on all the opportunities.

Stuart Miller: Let me take the second part of the question, Steve, and say that you know you asked about taking some of these savings and reinvesting in technologies. I want to go back to the question of cash flow and earning strength. You know this program has been built for cash flow and driving earnings forward. This really enables us to do what we had hoped we would do and we will do and that is we will be investing in IT, IP and technologies that will enhance our business.

We will not sit, and you see this and you know this, we will not sit in a static environment, we are constantly reinventing ourselves because technologies can help us become better, more efficient, more effective but I would not think of this as synergies being redeployed or altered into technologies. These will be structured carefully managed investments that are designed to invest in adjacencies that can really help us build a better mousetrap. And you and many others have come down and seeing the things that we are working on, I think our future is very bright in this regard.

Jon Jaffe: I would add, Its Jon, I'd add that we very carefully sort of separate the bucket so that we don't have creep from one benefit to another so as we look at cost synergies and how that affects our margins and SG&A we put that in the isolated bucket and look at that. As we look at the investment technologies that's in our corporate G&A number. We very carefully are aware of that and manage that, so that there is very little risk of not only conceptually not reinvesting as Stuart mentioned but just as we practically manage it of keeping a clear eye on what we want to achieve in each category.

Stephen East: Okay that's helpful, thanks a lot. And a quick follow-on on the multifamily question, as I calculated it was almost 400 grand a door for this particular deal which seemed pretty high given your ASPs for the company are going to be

around that. So maybe a little color on what's going on there and then just demand broadly Stuart, I assume entry level is driving your business and but just interested in what you're saying broadly on the demand for us?

Stuart Miller: Okay the first thing I want to highlight Steve is that we are not unaware of the fact that you have done two compound questions. Okay, so Rick go ahead on multifamily...

Rick Beckwitt: So on the multi-family side you know we're seeing consistent strong demand in the multifamily communities that we have, we are very focused on the fact that in some markets you're seeing pipeline come to the market now that is sort of depressing rent growth but not really hurting absorptions. With that in mind given the program that we have which is a build-to-core program it's really set up in a way to maximize the value of those assets and capture that value since we are not ultimately going to immediately sell those assets.

These are assets that we are going to hold for multiple periods of time you know they are an eight years vehicle and gives us the luxury of really timing, the disposition of those assets to the market. So we are seeing solid demand in most of the communities across the country.

Stuart Miller: And then on the single family.

Rick Beckwitt: On the single family side you know we're seeing solid demand at all price points across the country. You know entry level market is very strong, first time move-up is solid and you know even at the higher price points we're seeing good demand. Jon you have got any additional color.

Jon Jaffe: If you just look at the data or monthly absorption pace was 3.1 sales per community per month in first quarter of 2018 compared to 3.0 in '17, and we

are seeing, as you know Steve just the limited supply and strong demand, healthy economy, seeing that across the board.

Stephen East: Okay, I've got you thanks a lot.

Coordinator: Thank you. And our next question comes from Susan McClary of Credit Suisse. Your line is now open.

Susan McClary: Thank you, good morning.

Stuart Miller: Good morning.

Susan McClary: In your comments you noted that you're sort of thinking about ways to approach the land market especially as you know you've closed this deal and you've become sort of a go to builder for a lot of the things that are going on the ground. Thinking about that longer term can you talk to maybe how you're thinking about different ways you could structure this and when we think about some of the things you've done in the past is there anything about the market today or your positioning today that could make some of those strategies perhaps work now or work differently than they have before?

Stuart Miller: Look we think of ourselves as best of breed in terms of the breadth of experience that we've had in land acquisition both in terms of just purchasing and as well in structuring deals. With critical mass in markets we get to look at every deal, we get to work with every land seller and the opportunity to bring certainty to land sales because we have a size and volume and scope in a market, really enables us to structure deals that enable a seller to have better certainty as to the ability to actually close the deal and us a better opportunity to structure the kind of deals that we want at a moment in time.

So it's our belief that as we pull together the two companies, we have the critical mass in the markets that are most desirable across the country that will have the best negotiating position relative to land owners and developers in those markets, in those markets and will be able to develop strategies that work uniquely well for those markets. Different markets are different, California is different from Texas, so there will be different strategies in each of those markets but we have that expertise and the scale really gives us the unique position.

Jon Jaffe: I'd add to that to what Stuart said that it's different in different markets. It truly is, but every market has land developers, land players that have long term standing in the market, long term positions and so now with our scale we are able to sit down and structure agreements that really create a win-win situation to control a pipeline of land that benefit both the land seller and Lennar given our concentration in the market.

So it's the same expertise we have, we just have more volume, more visibility going forward to structured deals.

Susan McClary: Okay thank you. And then you have noted that you saw a pretty strong demand from the entry level all the way through sort of the higher end price points but there's definitely been a lot of talk as rates have risen, the ability to qualify these buyers. Can you talk to any pressures that you've seen there? What you are perhaps hearing on the ground across the markets in terms of getting people into these homes and qualified?

Stuart Miller: Yeah so look interest rates tends to be kind of a flashpoint for homebuilding, but it's never properly contextualized you know interest rates go up within the context of an environment and the environment right now is one of low unemployment and generally wage growth and what is not talked about

enough is participation rate, labor participation rate improvement. What we are seeing in the field is that more of our customers are coming in with confidence.

They are coming in with certainty about higher wages, they have either had higher wages or believe that there will be, and additionally, more two earners within the same family because somebody's going back to work, somebody's finding a job that they weren't able to get before. Those trends tend to really offset the impact of a higher interest rate. Now that raises the question of what amount of acceleration of interest rate increases starts to get to a nosebleed section. And again it's all a question of what's happening at the same time, how far are wages going up and how much additional participation is there in the labor force.

And I think we're just going to have to wait and see, but as things sit right now I think we're sitting in a very healthy environment and then at the other side of that was demand strong, supply remains fairly constrained because of the production deficit that we've witnessed in every single year since the crash.

Susan McClary: All right that's very helpful. Thank you, good luck.

Stuart Miller: You bet, thank you and we will take our last question.

Coordinator: Thank you. Our next question is coming from Jack Micenko of SIG. Your line is now open.

Soham Bohnsle: Hey good afternoon guys. This is actually Soham on for Jack. So my first question was on gross margins in affordability going forward. So it looks like your core margins were up 40 basis points year over year driven by lower incentives and pricing power, but as you look at the rest of the year could you

maybe talk about the balancing act between cost increases, affordability and what that means for margins going forward because according to our checks it seems like you guys are the builders have generally been able to pass these increases on so far but we also heard of some affordability concerns in some of the first entry level type buyers. So could you just maybe address those issues?

Stuart Miller: Jon, why don't you take that?

Jon Jaffe: Sure what we are clearly seeing as you heard from our commentary is strong demand and as you noted we are able to have pricing power in our markets. As we operate our business we don't price to our costs, we price to the market and every market does functions slightly differently but we're clearly seeing even at the entry level very robust demand, we have our strongest absorptions there and we are able to increase prices there. Now on a percentage basis a price increase at the entry level is not that significant in terms of nominal dollars.

And so I think that we've got run away in front of us to continue to be able to do that to the extent that affordability really does start to change that absorption which again we have not seen yet, not seen any indication of yet we can look at different programs relative to mortgages to help our customers out, we could look at helping them more with contributions to their closing costs.

So we still have bullets left to use when we start seeing a change but we don't see anything yet on the horizon other than you know the kind of questions that you're asking about you know what happens if and when. But as of right now it's very steady, very strong demand and a very limited supply environment.

Soham Bhonsle: Gotchya. Okay that's very helpful. And the second follow-up was on financial services going forward. So one of the things that maybe hasn't been brought up as much as your ability to now leverage you know the financial service segment further given that you'll be putting a lot more volume through with CalAtlantic and WCI deliveries going forward. So I mean what kind of leverage can you get from that platform and is there a normalized operating margin number that we should be thinking about it today?

Bruce Gross: Sure, this is Bruce. I'll take that one. So if you think about financial services there's a couple points that might be helpful as you think about the leverage going forward. The first one on the mortgage side is we have about an 80% capture rate on the Lennar financial services side, we have an opportunity to bring up the capture rate CalAtlantic was running in the 50s, they do have more jumbo product and higher price points, so somewhere between 50% let's say we got it up between 60% and 70% over the next year.

That's going to add a lot of leverage to the program with the back office and the secondary there's a lot of opportunity for leverage with financial services as well on the mortgage side. And on the title side we have an underwriter and CalAtlantic did not so we're immediately starting that underwriter on CalAtlantic transactions that will add additional opportunities as well and we've combined the title folks as well there will be overhead leverage there as well.

Soham Bhonsle: Is there an operating margin number or like accretion number you're comfortable with today?

Bruce Gross: There's a lot of moving pieces between the two businesses, so I could walk you through those offline if that would be helpful.

Soham Bhonsle: Great, thank you.

Stuart Miller: Okay so let's end it there. I want to say thank you for those who are attending, also we have a number of people here in the room but I want to give a quick shout out to Jeff McCall who's sitting here. Welcome aboard, it's good to have Jeff as the Senior Vice President of the company and you will hear more from him in the future but we really do have a top notch management team that's guiding the way forward and a terrific group of people through the ranks that are making sure that we are performing as expected. We look forward to telling you more as we go forward and through the year. Thank you for joining.

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

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