

LENNAR CORP
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Operator: 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, please disconnect at this time. I will now turn the call over to Alexandra Lumpkin for the reading of the forward-looking statements.

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

Forward-looking statements represent only Lennar's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in this morning's press release and our SEC filings, including those under the caption Risk Factors contained in Lennar's Annual Report on Form 10-K, most recently filed with the SEC.

Please note that Lennar assumes no obligation to update any forward-looking statements.

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

Stuart Miller: Good morning, everyone and thank you. This morning, I'm here in Miami, and as you can imagine, with a scaled-down crew. Diane Bessette, our Chief Financial Officer and David Collins, our Controller; Bruce Gross, CEO of Lennar Financial Services; and of course, Alex, who you just heard from, are here with me.

Rick Beckwitt, our Chief Executive Officer is in Dallas, and Jon Jaffe, our President is in Irvine, California, and they're on the line with us this morning. We are all properly socially faced. In as much as this is a complicated time to have an earnings call, we're going to alter our traditional format.

I'm going to give an overview and Diane will give some brief financial highlights, and then we'll attempt to answer as many of your questions as possible. But as you all consider framing your questions, please remember that the national landscape continues to evolve, and the economy is stretching to find a way to pause in order to flatten the COVID-19 curve.

Businesses across the country, like ours, are searching for playbooks and institutional memories to help guide the way forward. Those simply do not exist. There are no financial models to populate and no views around dark corners to illuminate.

There is only management, hands-on management, working day-by-day and making adjustments, looking for signals and making decisions in an imperfect environment that will have to be considered and reconsidered as the landscape evolves.

This time is different. Change has been sudden and unexpected and immediate, and the changing has not subsided, it continues. So, as many of you know, our company experienced the grief of losing one of our Seattle associates to coronavirus on March 2, just after our quarter ended.

A successful quarter turned quickly to shock and despair, as this was only the third or fourth casualty of COVID-19 in the country. Pete Anderson was known as the big deal in Seattle, because like many of our associates, he was an impact player and positively affected the hearts and minds of his Seattle team, of all of his customers and many of our trade partners as well.

Pete participated in all of our Seattle divisions' focused acts of caring. That is Lennar's charitable outreach to community program, while he made our customers tickled, delighted and happy as a customer care representative. Perhaps I've gone too far but I simply had to tell the story to properly respect Pete's legacy, as well as the brave Lennar Seattle team that proudly supported him, his family and the future of our business.

This very sad call to action focused our management's attention on the new day unfolding, even as we mourned the loss of an associate. Our leadership team immediately began to take action to make safety first, as the health and hygiene of our associates, customers and trade partners became our number one priority, while we remained open for business.

We flew to the problem not away from it. Our senior management team immediately flew to Seattle, to meet with our team there in order to have a firsthand understanding of the issues and concerns of an affected population. With firsthand experience, we set up a daily call that Rick and John now lead.

And I must say parenthetically that there is simply no partnership and leadership that I've ever seen like the one defined by the respect, engagement and camaraderie shared by Rick and John. The strength and durability of this partnership has never been more evident than in this time of turmoil.

Their daily meeting includes our regional presidents, our corporate leaders, along with leadership from Lennar Financial Services, Lennar Multifamily, and Dr. Goldschmidt who I mentioned in our earnings press release is now our chief medical officer.

On this call, our management team addresses issues and concerns around staying open for business. In a real time setting, the team reviews and implements the plan, the protocols and procedures to manage our business while we keep our people safe in this very fluid environment.

This daily management meeting is where we implement everything from quarantine protocols, to daily wellness checking for 100% of our associates and from pausing land purchases, adjusting start pace and to creating new closing programs and procedures.

Our management team is rigorously evaluating every aspect of the business on a daily basis and making the necessary adjustments to ensure that we're on the best and of course safest course possible. With safety first, we still have an essential business to run. People are still buying homes. People are still closing on homes. And Lennar is still building homes. Let me give you some detail.

Even in the current environment, we are selling homes. Our customers are attracted to the safety and security of a home of their own, while interest rates are low and inventory is limited. Although, fears of the general economic

slowdown, stock market signals and of course unemployment concerns, may well come to bear.

What we have seen so far since the end of the first quarter is that new orders have continued to be strong. For the first two weeks, new orders were up 16%, exceeding plan in each of our operating regions and traffic in our Welcome Home Centers has remained relatively strong.

Nevertheless, we have started to see a slowdown in traffic over the past several days, while at the same time we have seen a higher conversion rate of traffic to sales as those coming out are now more serious buyers.

As the economy slows, we expect that our traffic will decline and we will see the corresponding slowdown in sales. We've moved to an appointment only environment in most of our Welcome Home Centers and in all of our communities we tour only one family at a time to prioritize the safety of our associates and of our customers.

Just as we are selling homes, we are also delivering or closing homes. Our customers need and want their new home now more than ever, whether to live comfortably during an economic pause or to work comfortably from home to date our customers have wanted to proceed to closing. We have not yet seen an increase in cancellation nor an impact on closing since the end of the quarter. We are working very closely with local municipalities to make sure that we can attain COs and continue to close homes.

With an increased focus on health and safety of both our associates and our customers, we have increased the number of digital closing and created an express drive thru closing program where our customers can close their home from their car.

We are also implementing a virtual new home orientation process so our homebuyers can walk and review their completed home via FaceTime. In a changing environment, we are accelerating our digital platform to accommodate our customers' desires to close on their home, but to close without risk or contact.

While we're selling and closing homes, we're also continuing to build homes. Our construction sites continue to be active and fully functional to date. We have not yet seen an impact on our trades or on our supply chain. We're very focused on the health and safety of our trades and have established clear protocols with this in mind.

We have been in constant communication with our trade partners to help them implement their own safety standard and understand the steps we are taking. We also benefit from the fact that most of our construction activities are in open air environments with appropriate spacing.

We've begun using FaceTime and other technology to help facilitate inspections and we suspended all non-emergency customer care to protect our associates, our customers and our trade partners.

Although, our business has not shut down, we are keenly aware that this landscape can change very quickly. We are focused on bringing money in the door, while limiting money going out the door and focusing on liquidity. Maintaining and innovating our sales, construction and closing operations in this environment is critical to cash coming in.

To support these functions, we've accelerated various technology initiatives to accommodate our safety first mandate and to bring confidence in troubling times. Likewise, controlling our spend in uncertain times is critical to

maximizing our cash position. Land acquisition, land development and home starts, are our three biggest areas of focus.

On land acquisition, we are working with land sellers to understand that since the overall economy has paused, we all need to pause as well. In that regard, we are working collaboratively with our strong relationships with national, regional and local developers to activate a circuit breaker, pausing by extending the closing date of our land purchases. This benefits us all.

We've also slowed down the amount of cash we are investing in land development, and re-phasing our developments to reduce the number of home sites developed at one time. Finally, we're also adjusting our start pace and further limiting the amount of spec inventory production in order to closely match new starts with new sales.

While we are with safety first selling, closing and building homes and managing cash flow, we are also supporting our community. I am proud to be a homebuilder and have never been prouder than yesterday when our leading Builders of America Association initiated an industry wide plan to find surgical masks and eye protection used in the industry in order to support our hospitals and health providers that are in great need of supplies.

The entire industry jumped right in and got to work to show the country that are homebuilders care, and that we can do well by doing good. I'm very proud to be partners with all of my competitors as we seek to contribute in this time of great news.

So, in conclusion, let me say, Lennar's first quarter results were excellent and exceeded guidance and expectations on all metrics. That is our first quarter result in a nutshell. But beyond the first quarter, as change and crisis have

begun to alter the broader economic foundation, our management team has been connected top to bottom on daily calls to adjust the way our business operates.

Most importantly, those first quarter results reflect the work of a very talented and hands on management team that carefully manages our business on a day-to-day basis. We have faced adversity before and although this time it is different, we have adopted and adjusted to meet the moment and to execute.

I hope you have heard that the health and safety of our associates, customers and trade partners is and will continue to be our absolute number one priority. People matter. With every day that has passed, we've been focused on what is the right next step to keep everyone safe, while we remain open for business.

With each passing week, we have learned and evolved our work environment to match the way we work within the expectations of our associates. This week, for example, with a focus on social distancing, we've developed a program to allow as many of our associates to work from home as possible.

While this is new and we are just beginning, we feel confident that with daily focus, we can adjust, learn, evolve and manage all aspects of our business within the boundaries of this program. We're very proud of the quick actions that we've taken to carefully manage our business through these difficult times. We want to thank in conclusion, all of our associates for their tireless efforts, their focus and their dedication.

We also want to thank our trade partners, who have worked collaboratively with us to ensure not only a safe, healthy home but a quality home. And finally, we want to thank our customers for understanding that we're working

hard to adjust many procedures and protocols to safely deliver the new home of their dreams.

So with that, let me turn it over to Diane.

Diane Bessette: Thank you, Stuart, and good morning to everyone. So I'd like to spend just a few minutes reviewing the highlights from our first quarter. So for many decades, we have operated with a balance sheet first philosophy and a strong focus on liquidity. And given today's uncertain environments, this is a very good place to start.

As noted in our release, we ended the quarter with \$785 million of cash on the balance sheet and \$2.1 billion of additional availability under our revolving credit facility. We reduced our year supply of inventory owned to 4.0 as a result of our continued focus on cash flow generation.

At quarter-end, our stockholders' equity increased to \$16 billion and our homebuilding debt to total capital ratio was 33.6%, down from 38.5% in the prior year. As we look at the balance of the year, we have a very manageable level of debt maturity with only \$300 million due in May and only \$300 million due in November. So, with those balance sheet highlights, let me now briefly review our operating performance, starting with homebuilding.

New orders increased 18% from the prior year and deliveries increased 17% from the same period. We ended the quarter with 1,258 active communities. Our first quarter gross margin was 20.5%, up 40 basis points from the prior year and our SG&A was 9.2%, which is the lowest first quarter SG&A percent we have ever achieved.

These core results are evidence that we are managing our homebuilding business extremely well. And our financial services team also executed at high levels. Mortgage operating earnings increased to \$41 million from \$15 million in the prior year. We continue with our technology focus, which will be valuable as we manage forward.

Title operating earnings were \$10 million, net of non-controlling interest compared to \$5 million in the prior year. LMF Commercial, formerly our Rialto Mortgage Finance business, produced operating earnings of \$7 million compared to about breakeven in the prior year.

And just to spend a minute on our tax rate, the tax rate for the quarter was 7.5% as a result of our tax team's tremendous effort to obtain the benefits from the new energy efficient home credit extension passed by Congress in December 2019.

So in summary, our first quarter results demonstrate that we have a high quality management team that focuses on strategy and execution, which results in exceeding expectations. And so to come back to where I started, today, we find ourselves in turbulent waters and we will do what we always do.

We will manage our cash inflows and cash outflows with great focus to ensure we maintain our strong liquidity position and preserve the strength of our balance sheet. And so with those brief comments, let me turn it over to the operator so that we can respond to your questions.

Coordinator: Thank you. And at this time if you would like to ask a question, please press star 1. Please unmute your phone and record your name clearly when

prompted. And our first question today is from Ivy Zelman from Zelman & Associates.

Ivy Zelman: Thank you. First, I just want to say thank you Stuart for your calming and steady rational voice in this crisis, and to commend all the management team for all the steps that you're taking, for keeping your employees safe and all the protocols you've implemented.

I know it's really rough sailing out there, but you guys are the best and we want to obviously hear everything you have to say. So let me start with a question about what we've seen in the equity markets just a complete collapse of the values of the companies and your stock and there was trading half of book, which is worse than, close to where it traded if not at below where it traded during the crisis.

People are expecting massive impairments because they don't believe the book. So maybe you can help us first by walking through, let's just make, put a stake in the ground and say this thing is behind us, God willing, by the end of the second quarter and we're going to get back to normal.

That was the case. And I will say, making it even a more difficult question for you, but you know me. If you had to shut down completely, you were mandated like Boston, no construction jobs sites are allowed to continue, using that to answer the impairment questions, so a two part question. And then I'll let others ask, because I know that's a lot. Thank you.

Stuart Miller: Yes. So first, I want to say Ivy we know that that was a compound question so that counts as the question and the follow up ...

Ivy Zelman: Okay.

Stuart Miller: But, look, that's an important and serious question. First as it relates to impairment, I've emphasized in my opening comments that this time it is different. This is not a financially or financial sector driven slow down, this is not derived from inventory buildup, it doesn't derive from overproduction, mortgages or excesses, it is a true black swan. It comes from a very different part of the world. So we're going to have to wait to see how this resolves and moves forward.

But, the impairment question is, really relates to what kinds of duration we have and to what extent we see real impact to the overall and broad economy or to what extent we see snapbacks. You have to remember that when you start to look at impairing assets, there's a built in kind of shock absorber, or buffer between a reduction in the market and an impairment and that is our gross margin.

As you know, our gross margin has been robust and remained strong. You're also looking at inventory levels across the industry that have been defined by short supply and production deficit. And so, it's going to be some time before we're called on to raise the question of impairment but with that said, it's possible.

But the other counterbalancing thought is to keep in mind that we started a number of years ago, a soft pivot to lighter and shorter duration land position. And those shorter duration land positions will certainly not suffer the kind of impairments that we've seen in prior cycles.

Our balance sheet is in excellent stead with shorter land position, strong margins and a short supply of products in the market for a population that has

a great affection for having a home that's defined by safety and security for the family.

So, I think it's premature to start thinking in terms of balance sheet impairments and asset impairment. But I think as we look forward and think that there could be that question, I think it's going to be muted relative to anything we've seen in the past. So that's number one.

Ivy Zelman: The shock absorber, though, you mentioned is it, how far did gross margins have to fall? I think that'd be helpful if you could quantify. Is it 10% gross margin before you have an impairment test?

Stuart Miller: You probably have to see 50% or greater reduction in gross margin to start even thinking about impairment.

Ivy Zelman: Right. Thank you.

Stuart Miller: So, really as long as we are generally positive and generally cash flow positive. And Diane gave rather magnificent impairment primer as we went through the last downturn. So, Diane, perhaps you'd like to talk.

Diane Bessette: Yes, I was going to just say as I think about it, again, higher level. I mean, if you think about where our gross margins are, let's say, that's about 21% and the impairment process considers selling and marketing expenses. So it's around 6%.

So you're already with a 15% net margin as your starting point. So that's reasonably healthy, higher than the net margin that we had around that 2006 timeframe, give or take. So there's no crystal ball, it's very early. But I do think that that higher bar is very helpful to us.

Stuart Miller: So the second part of your question was a shutdown for a month, two month period, and we in no way discount the possibilities as we look around the corner right now. So let me say that we've been very quick to react. And as I noted in the opening remarks, we absolutely have our fingers on all the levers relative to cash going out.

If we are shut down and cash stops coming in, we will immediately be regulating as well. The other side of that equation and hope I've highlighted well, but we are focusing on a people first, people safety approach. And that means that while we would regulate the outflow of capital relative to land acquisition, land development and new starts, the very last thing that we would be considering will be laying-off or thinking about reducing our labor force.

We are dedicated to supporting our people. We've made this very clear through the organization. And so, we think that's our most valuable asset right now. But I think that we can balance the inflows and outflows of capital by managing carefully land, land development and production and maintain our organization in a constructive and healthy way.

Next question.

Coordinator: Thank you. Our next question is from Stephen Kim, Evercore ISI.

Stephen Kim: Thanks very much guys. Yes, Stuart, I definitely agree and glad to hear you say the emphasis is on people first. I think that's absolutely right. I want to ask you about the bigger picture. As we look at -- as we're heading into this downturn, you can't help but think back to the previous downturns.

And in past downturns, we saw that some builders chose to, “toe the line on price” and they ultimately suffered for that as they were left with too much land in an even worse market environment later. But you, to your credit, discounted your homes and built out your communities as quickly as possible in order to work down your landholding.

But as you said, this time seems a bit different and it sounds like now you're looking to moderate production to keep it in line with demand. And so my question, kind of a two part question is, one, does this mean that if demand flows sharply in the near term, you think it won't be as price elastic as in the past and therefore, that you would be slower to discount your homes than in the past?

And then secondarily, if so, how exactly would you do that? Would it still be left up to the discretion of the DPs, the division presidents, or would corporate being more involved? And how long would you be willing to maintain that kind of a posture?

Stuart Miller: So Steve, I really like your question, because it highlights the statement that I made a number of times, and that it is very, very different this time. And in a traditional economic slowdown, economy driven slow down, accelerating production, there is a price discovery mechanism.

The question here is to what extent are markets going to be paused for a period of time and will we even be able to keep our construction sites moving forward. So, the landscape is shifting and changing on a daily basis.

The answer to your question is embedded in my statement that it's all about management, it's all about hands on management and adjusting to the landscape day-by-day as it unfolds. So the answer to your direct question is

going to be we'll see. Let's see what the components are that defines a slowdown, the reduction in sales, let's see if buyers are out there if they have appetite.

Right now, pricing isn't really the big issue, because we all know that our customers don't buy price, they buy monthly payment. And with interest rates low, the ability to purchase at a price, their pricing is good. The question is do they have the capacity, do they feel uncomfortable with unemployment possibilities, where is the economy going, how is it rebuilding.

We're going to have to wait and see. Navigating the waters is going to be a day-by-day process, and that's exactly what we're doing. It's an everyday focus. And I will just ask, Rick, Jon, would you like to chime in on this?

Jon Jaffe: What we're seeing is exactly what you described is price is not the issue right now. PITI is actually in most of our markets less than monthly rents. So its very attractive for those that are out there shopping for a new home.

So we're going to have to really react as we see things change on a daily basis. And what we're already seeing is it's different market by market, and even within that, I think we'll see fluctuations. So, we're going to adjust as we go.

Rick Beckwitt: And I don't think you can underestimate Stuart's comment about the safety of having your own home. We're seeing that much of the customers coming in they want a place where they can stay. And that combined with the low rate environments and limited inventory that's continuing to drive the opportunity set.

Stephen Kim: Great. Well, that's very encouraging, obviously. And it was also encouraging, Stuart, that you indicated that you really haven't seen a slowdown in the traffic, or not meaningful increase in cancellations, I should say and that the slowdown in traffic was actually met with an increase in conversion rate.

The one question that I had, the second question I have for you, which is shorter is, basically if you're making any marketing changes or see any opportunity to make marketing changes using your strong online presence. If you're finding that customers or anticipating the customers will be more willing to go further in the shopping experience online.

And if that might actually result in some unintended benefits, such as just to pick one, maybe a reduction in co-broker commissions, let's say, or maybe some other benefits from your investments you've been doing online?

Stuart Miller: So, I hate at this time to be talking about unintended benefits. But the answer is, we have a focused team approach right now on looking at our digital and technology-oriented initiatives and tying them together. We basically have three focused strands that are customer facing.

One of them is lead production through digital contracting, the entire process of generating a lead, scoring a lead, attributing leads, engaging our customers in a digital format through internet new home consultants and bringing a digital representation of our home. The entire process of engaging our customers on a digital platform is something that we are accelerating.

We of course, as you know and I've spoken about in prior earnings calls, it has been a focal point of the company. This is a time where we're leaning into that. And of course, the change management that might have been frictional

in the past is less frictional today, because it's just an opportunity to accommodate the market as it exists today. So the answer is a defined, yes.

The second strand is in the closing process. We've been focused, we've mentioned before a one tap solution. All the way from the contract through to the closing from mortgage application to mortgage approval, title, insurance, appraisal, all of the components we've been working on digital platforms. Bruce has been tirelessly working soup to nuts on that, the progress that we've been making.

This just even focuses our attention even more on getting to that digital platform. And even in the interim, the innovation around a digital closing or a drive by closing, which is an innovation on the fly of engaging the notarization process and the papers that need to be signed right from the comfort of someone's car, not having to come into the office is an accommodation to the market that exists today.

And Bruce and our financial services group have been working on that, and then of course relative to warranty. We are working on a more robust zero-defect closing, necessitating much less warranty engagement, which is not desired today.

Touch points are not desired and engaging our relationship with some of our digital partners to rethink our warranty program. But these strands in our digital platform have given us a head start and are enabling us to think differently about how we manage our business through a very quickly changing environment. Next question.

Coordinator: Thank you. Our next question is from Buck Horne from Raymond James.

Buck Horne: Hi, good morning and thanks. And first of all, let me start with condolences to your team and the Lennar family. I had heard about Pete's loss while out in the field last week, and so I just want to pass that along. And we're all thinking of you and hope you all stay safe and well.

Stuart Miller: Thank you. Thank you.

Buck Horne: First of all, let me just clarify one thing. Are there any communities out there that are under and operational shutdown due to shelter in place ordinances or anything that close to shutting down operationally?

Jon Jaffe: There's just three or four small municipalities at this point that are impacted a couple small ones in Philadelphia area, Newark and Gilroy out here in California. But for the most part, even when there's been shelter in place ordinances construction has been viewed as essential and business continues.

Buck Horne: Okay. Great. And when we're thinking about turning back on the land acquisition development spending to build the cash flow. Have you taken any initial swags at kind of how much you trimmed budget for this year, or is it just kind of still all very much in flux at this point? Or how quickly could, I guess the cash outflow from land purchases or developments be trimmed back in a situation like this?

Stuart Miller: Rick, you're leading that?

Rick Beckwitt: Well, I'll tell you, we're very focused on cash going out the door. We started the process immediately when this whole situation came up. And it's really a weekly focus on each land transaction wire going out requires my approval, Jon's approval, Stuart's approval.

And so we've taken a look at the timeline of all of our deals, all of our deposits and we've engaged in dialog with the close relationships that we've got going out several, several months. And at some point, this will come to a pass.

We're not walking away from these opportunities, we're really as Stuart said, looking to postpone the closing and we're working hand in hand with the development community.

Stuart Miller: Let me add to that, Rick and say, because what we've talked about is, this is a legitimate circuit breaker. Right now, the market has shifted rather abruptly. I think we all recognize that. This is a circuit breaker that enables the world, the market and ourselves, to recalibrate just a little bit to take a breath and that's how we're talking to our land partners and that's how we view them. They might be selling and we might be averse at the negotiating table.

But right now, it's all about how are we going to migrate forward. The economy is taking pause and so to do the land deals have to take a pause, and we're working with most of them, it won't be all of them but most of them. To put a pause in place and enable the market to reset and that's the way to think about it right now.

But it materially alters the outflow of capital as we prepare for a stabilized balance sheet and foundation to navigate forward.

Diane Bessette: And I think, Buck, the only other thing that I would add is, if it wasn't clear. Land development is in the same category, those dollars are equally large. And so we had looked at every single community every single dollar being spent in that community with the same level of rigor.

Buck Horne: Very helpful. Thank you very much. I'll jump back in the queue.

Stuart Miller: Okay. Next question.

Coordinator: Thank you. And our next question is from Michael Rehaut from JPMorgan.

Michael Rehaut: Thanks. Good morning everyone and I also want to extend my condolences to the Lennar team and your associate, Pete, in Seattle. Very sad to hear that, and commend everyone on all of the thoughtful approach that you've described, particularly in terms of safety and health since that point or perhaps that had started before that point.

But, the first question I had kind of harkens back a little bit to an earlier question around just the current market backdrop amid a pause. And again, kind of recognizing how different and how different the drivers are of the current economic backdrop and perhaps what's to come over the next quarter or two relative to the great financial crisis. In that you don't have the same type of drivers to the destruction of demand, from either a mortgage market standpoint and excess inventory standpoint.

I'm curious if you've had comments as it relates, with your other homebuilding peers. You alluded to the fact before some of the efforts by the industry association around some of the surgical supplies. But from a market standpoint, to the extent that you just have a pause not because of demand, but because of public safety and other factors.

Obviously, you talked about home prices being pretty reasonable at this point, particularly coming off of the affordability crunch 18 months ago. I'm curious if you've talked to any of your other home buildings peers around, in effect holding the line for a quarter or two, not making any rash decisions,

particularly given the fact that I think cash flows are also very different this time around.

Stuart Miller: So let me say, Mike, one of the things we don't ever do is have coordinated efforts relative to pricing or any of the operational side. We compete head-to-head and we're competitors.

But I do want to say in that light that I am a proud partner with our competitors in the jump to action across the industry, to think about how we can participate in fortifying supplies. Both surgical masks, as you know, used in painting and other parts of our business, as well as eye protection to help our health services.

So while I have to say most emphatically that we're not having the discussions around pricing or holding the line, I'm not even sure that it would be appropriate to do that. We are definitely coordinated with our competitors as partners in serving our community and serving the greater good as homebuilders really care.

Michael Rehaut: And I appreciate that. And I guess my question was, I didn't mean to imply any type of coordination of price more just, I guess, from an informal approach, but I understand your response.

Stuart Miller: Let me say that that our competitive field is a group of very smart, capable, professional home builders. They're going to each and we're going to each, make decisions day by day running our businesses quite independently. And we're all seeing the same data points in the market. I think that intelligent decisions will be made across the industry.

Michael Rehaut: I appreciate that. I guess, secondly, coming off of your comments around cash management, which is obviously critical here in the next quarter or two and hopefully, it isn't as necessary perhaps as we get into the back half of the year, things hopefully normalize.

But you've talked about community-by-community monitoring spend on land, spend on land development, et cetera. I was hopeful to get a sense of maybe before this started what, if you could remind us what your plans were from a land spend and land development standpoint in terms of the dollars that you are expecting as part of your former guidance.

And to the extent that things go to a hard stop. How much of that could be pulled back? And separately, also again in this in this light of cash out the door, if there are elements of the corporate G&A line and SG&A line that combines right now around 10%.

What parts of those line items could also be pulled back to the extent that business does grind to a halt for a period of time?

Stuart Miller: So as it relates to land, you'll remember that our base strategy has been, had been, continues to be, migrating to a higher percentage of option, lower percentage of owned land. We had been migrating to a materially smaller spend relative to land and our cash flows were starting to demonstrate that.

Of course, we're continuing along those lines. And so before these change in circumstance, we were on path to a materially lighter land position and expect to continue that trajectory. As it relates to SG&A, as I said, its people first right now, so let's not even think about the people side of the business, because we're here to support our people and they've been out there supporting us.

But on the SG&A side, there are marketing costs and other costs that of course we are managing and monitoring. You've been watching our SG&A migrate downward anyway as an organic part of our business model that will be something that we continue to focus on.

I basically say to you to focus on the fact that this was a management team that has its fingers and hands on all levers. And as markets define themselves, we will be defining both the spend, liquidity and SG&A, and managing in concert with market conditions.

Michael Rehaut: Thank you.

Stuart Miller: Next question.

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

Carl Reichardt: Hi, good morning everybody. And hope you're all safe and healthy there in your scattered locations. I have a question for Bruce, if he's in there. I just wanted to get sort of a real broad sketch of how you're looking at the mortgage market now Bruce. Obviously MBS investors worried about prepayments, rates have been all over the place, banks are snowed under with refi demand.

I just want to see how the mortgage market in your view is functioning right now, and how your customers are reacting to the bounce around in rates?

Bruce Gross: Sure. Good morning, Carl. So with respect to the mortgage market, we have not seen disruption thus far. The Fed stepping in and backing MBS market this week, has offered quite a bit of support. If you think about where we sell our loans to, about 70% of them are sold to the GSEs.

So to the extent any of the investors in that subset were to become weaker, we could increase the percentage to the GSE. So it's functioning really well. On top of that, the GSE's have been great partners through this. They're looking at things, such as verifications of employment, which people have been asking about.

And where typically you have to get a verbal approval, they're looking at accepting e-mails in this environment, instead of verbal verifications. Appraisals, they're looking at desktops and drive bys that would be helpful as well. So they're working to eliminate friction points.

So we're pleased with the fact that it's operating somewhat normal thus far. People are trying to be anticipatory, as far as what to be friction points and they are dealing with those one at a time. With respect to us, Stuart mentioned full digital closings are really helping.

So the fact that we focused on technology early, really helps. So we went to our banks and we got approval for electronic notes to be sold through the banking system, which allows for a full digital closing for us, that's already approved.

So when we have somebody that's working remotely with a remote online notary from the comfort of their home, they could go ahead and electronically sign the documents, work with this remote notary, go through our system digitally, have the e-mails transferred, so there's no human contact.

So I think the fact that Stuart focused us all on technology early and the financial service team has been working hard at this gave us a head start and puts us in a good position to take advantage of these technologies, and the

GSE is a great partners. So we feel like this is working more normal than certainly people are expecting at this point.

Carl Reichardt: That is really helpful. Thank you Bruce. And then, Stuart, just a follow up on a couple of questions, about residential construction being deemed as an essential service and some of the shutdown and shelter in place orders.

Are you, in your conversations with the other builders, with NAHB, with BIAs or with governmental entities, are you getting a sense that as this rolls out that the Bay Area model, which exempted residential construction, is going to be the go forward model? Do you have any sense of that at this point?

Stuart Miller: Thanks for the question, Carl. The landscape is still defining itself and it's too early to tell. We have a general sense that that is more the case. Jon, maybe you'd like to weigh in on that.

Jon Jaffe: It's somewhat of a marquee landscape right now, each city is acting independently. We found that there is actually, as you noted in your question, a coordinated effort through the building industry associations working with each municipality to get clarity.

All I can tell you is what we found to-date is when we have the opportunity to have that audience and have the discussion, the cities are clarifying that the construction can continue, recording offices for title, transfers can continue. But there's no coordinated effort between municipalities at this point, this is all on a one off basis. So we're just going to have to monitor.

Carl Reichardt: Thank you all.

Stuart Miller: Rick, you have any different perspective?

Rick Beckwitt: No, that's just spot on. I think that what's happening is you're seeing an increasing use of some of the newer technologies utilized by the municipalities in doing inspections, in doing appraisals and keeping their businesses open.

They're very focused on not shutting down housing but we're going to have to see how this morphs over the next several weeks.

Jon Jaffe: So, let me just add on, in real time, Nevada put out an order that there was confusion about just this morning, they clarified that construction is exempt. So construction will continue in Nevada, which affects Las Vegas and Reno, obviously.

But that's just a good example how one off of the building industry goes and meets with the offices in this case with the governor's office, because this was a statewide order and we ended up with, just for the time being, the resolution that construction will continue in Nevada.

Carl Reichardt: Thank you.

Coordinator: Thank you. Our next question is from Truman Patterson from Wells Fargo.

Truman Patterson: Hi, good morning, everyone. Sorry to hear about Pete, and I hope the rest of you are healthy and safe. First question just a clarification, Diane, following up on Ivy's question. You were talking about the impairment process and you said 21% gross margins, 6% selling costs. So, I believe you are implying that really kind of a 15% decline in gross margin is really necessary for impairments. Is that clear or is that correct?

Diane Bessette: Directionally, that's right. Those are the components. That's where the bar is right now, so that's the starting point, because you're only considering the selling and marketing, not the division G&A. It's always the costs that are directly associated with the land, so that's directionally correct.

Stuart Miller: But let me just also say because Diane raised this point to me the other day. And that is even as you think of impairment and getting to that place, the duration of land that we have sitting on our books is so much less than we ever saw before. The biggest impacts are to your later dated land.

Diane Bessette: Yes.

Stuart Miller: And, as you go through the impairment model, that's where the big impact is. So even if you've got to that point, the impact would be significantly less.

Diane Bessette: Yes, I was going to punctuate that as well. That's right. So even if you got there, the amount of land that you're applying that too is far less, so your numbers will be lower.

Truman Patterson: Okay. Thank you for that clarification. Actually, Stuart, you actually touched on kind of my main question on the land impairments. Clearly, investors are very worried about this in a potential recession. But, could you maybe discuss, you again already touched on this, but how your business model has changed versus the 2006 crash?

Thinking JVs, your land structure, because I believe you all were one of the more aggressive to write off your land in the '06 crash. And then also, Stuart, your company's been around for 65 years. Any period in history where you've seen material land impairments outside of the great housing recession?

Stuart Miller: So, let me say that in the last downturn, if you dissect the way that we approach the financial down turn, what we think of is end of '05, '06, '07, 08, '09, those years, we adjusted first our home prices very quickly as we saw the market start to deteriorate. And we started selling homes at lower prices and looking at price discovery. That was our starting point.

And of course, the market continued to migrate downwards for an extended period of time, which at a later date translated into land impairments, because the pricing was coming down so quickly. In the current environment, we're not thinking about it this way.

Today, we have a shortage of supply of homes on the market, a shortage of supply of dwelling, a production deficit that is still being made up. Since that downturn, it still hasn't been made up. There's still a need for dwellings.

If you go to the discourse at local communities across the country, before the current issues arrived, the discourse was about lack of affordable housing, a shortage of affordable housing. And the concerns that were being raised at local levels were how do we get more? We were not in an oversupplied situation.

In today's environment, we're looking at a very different program. Right now, we're looking at an economic pause. There's a beginning. There's going to be an end to this. How we will recover from there is going to be a question. But with that said, I don't think that -- we don't feel that price and financial instigators are going to be at the heart of this. It's going to be more a recalibration.

This is not an environment where we're going to build into it and build up inventory and sell at price discovery. What we've already highlighted is we're

staying very close to the market. We're looking at on and off switches to see what's available, what we can do, and it's going to be very market-by-market case-by-case specific.

And that's why I highlight the value of that the hands-on management team that's meeting every day, market-by-market to look at what's happening, to define our way forward. It's very, very different landscape. I don't think we can go backwards in history, either to the last downturn or any of the prior ones.

We've not seen one that looks like this so there really isn't specific history to draw from. We're going to have to create this playbook as we go. And I think that we're uniquely positioned to be able to do that.

Truman Patterson: Okay. Okay. Given that this is a pretty unique situation and you all are focused on managing cash flow, what does that imply near term for share repurchase? And you all mentioned you have \$300 million in debt coming due in May and another \$300 million in November. Do you plan on paying that down?

What do you plan on doing with your dividend? And then also you mentioned adjusting the spec level. Does that mean that you all are going to remain extremely rational with pricing and just work off whatever specs you currently have on hand?

Stuart Miller: Yes, so thanks for that question. Look, as it relates to stock repurchase, we're clearly pausing stock repurchase as we look ahead in today's environment, because there is enough uncertainty where nothing is on autopilot. Nothing in our company is on autopilot. Everything that happens in this company is being considered on a day-by-day basis. As it relates to our debt pay down,

the \$300 million coming due and then the next \$300 million, it is our expectation right now that we will repay those outstanding bonds.

And one of the things I would highlight is that we are in the enviable position with an already recast balance sheet and already strong liquidity where we have the ability to meet those opportunities to pay down that debt, which has been our primary focus for some time and to meet that quite comfortably. So that is our thinking right now.

That's the way that we're approaching the market, not stock buybacks. Yes, pay down the debt. And manage the business and liquidity on a day-by-day basis. Everything is being manually engaged, nothing on autopilot.

Truman Patterson: All right. Thank you all and great quarter.

Stuart Miller: Thank you. Okay, why don't we take one more?

Coordinator: All right. Our final question today is from John Lovallo from Bank of America.

John Lovallo: Hi, thank you for putting me in here. I guess the first question is accessing credit lines proved pretty challenging when things got tough during the financial crisis and in many cases, as you know, bank lines or banks pulled these lines from companies. Have you considered preemptively drawing on your lines just as an abundance of caution?

Diane Bessette: No, John, that really hasn't been the direction. I think our real focus is just generating cash. That's the better answer. So as you've heard us say throughout this call, it's really managing the cash flows. And it is not our

desire or goal to draw down on our lines as has been the talk in today's market.

Stuart Miller: So I think that, look again, we look day-by-day and consider the world as it unfolds, we are in the enviable position of a strong balance sheet and strong liquidity. With that said, we don't want to be caught off guard. But as we look at the national environment and what the government is doing right now, it seems that the government is very, very focused on getting ahead of focusing on liquidity in order to support businesses and support individuals as we migrate through this soft spot.

So, our knee jerk reaction right now is not to and we don't have to pull down on those lines.

John Lovallo: That's helpful. And then that actually feeds into another question here. With interest rates near zero and the Fed seemingly doing a lot and the government willing to pull out all stops here to avoid a recession or even potentially a depression, Stuart, if you could ask the government for one action that you think can help the homebuilding industry what would that be?

Stuart Miller: Look, that is such a hard question. I think if I could ask the government for one action, it would be to demonstrate leadership and putting safety, security and health, health and hygiene first and foremost. Across our landscape, and it's probably a great place to conclude.

Across our landscape, we were faced with a tragedy, and we ran to the fire and we focused on what's the landscape, what's really happening and how do we address it? How do we put people and safety first and foremost, how do we focus on health and hygiene and how do we operate in a socially connected environment in a way that is pro social and that keeps us all safe?

I think that leadership in these circumstances is critically important. It's the tone of our voice. It's the way that we confront and deal with the issues of the day. And I think that our work with our now Chief Medical Officer, Dr. Pascal Goldschmidt, has helped us navigate the circumstances, operate our business, and I think very much keep our people safe while we operate in an appropriate way.

I guess I would ask that the government, that it shows the same leadership. Just saying, focus on if you're sick, stay home. If you're together, stay six feet apart and let's don't shake hands, let's not even elbow bump. Let's focus on promoting safety, while we navigate the waters of finding a cure and ultimately a vaccine.

And so that's what I think would help the homebuilding world and perhaps the rest of the economy heal appropriately. And I would ask for just good, strong, smart, focused leadership. So with that, let's end it there. And let me say thanks for joining us for our first quarter conference call. And we look forward to keeping you apprised of the progress inside our company as we figure out how the landscape is changing and as we run our business and do the best that we can in changing times. Thank you for joining.

Coordinator: Thank you. And this does conclude today's conference. You may disconnect at this time.

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