

LENNAR CORP

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11:00 am EST**

Coordinator: Welcome to Lennar's Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session.

Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I will now turn the call over to Alexandra Lumpkin for the reading of the forward-looking statement.

Alexandra Lumpkin: Thank you and good morning. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial conditions, 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 results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in this morning's press release and our SEC filings, including those under the caption Risk Factors contained in Lennar's annual report on Form 10-K, most recently filed with the SEC. Please note that Lennar assumes no obligation to update any forward-looking statements.

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

Stuart Miller: Thank you. Good morning. Thank you, Alex. And let me say that I am here this morning with some brand new people. I am here with Rick Beckwitt, our Chief Executive Officer; Jon Jaffe, our President; and Diane Bessette, our Chief Financial Officer among others.

And let me go ahead and start and say that, I am going to give a general overview as I always have. Rick and Jon will then give the real operational overview, and Diane will deliver further detail on the numbers.

You know, it's hard to believe, but this is our first full quarter conference call as a combined Lennar-CalAtlantic platform, so we have a lot of ground to cover. Jon and Rick will give a comprehensive update on our now combined operations and progress on strategies - I'm sorry, synergies, and Diane will give detail on how purchased accounting has affected our results and reconcile our quarterly results to our guidance and to consensus expectations. When we get to Q&A, as always I would like to ask that you limit your questions to just one question and one follow-up.

So let me go ahead and begin by saying that our excellent quarterly results derived from a great deal of hard work that's been done both in our division offices and here in the corporate office. I said it last quarter and I am going to say it again, it all comes down to a great team of professionals coming together and working cooperatively.

From the people here in this room with me today to the many throughout the Lennar offices, we are thankful for their hard, diligent and focused work. Because of the manner in which our team has worked and grown through this acquisition, I have continued to become increasingly enthusiastic about the evolving position of our company as a leader in the homebuilding industry.

We are not only well-positioned to execute on our current operational strategies, but we've become ever more adaptable and nimble adjusting to the changing landscapes around us.

As a management team, we believe that we are excellently structured and positioned to continue to grow our business, while we leverage scale in each of our markets to drive efficiencies and implement new technologies to enhance our operating platform.

Overall, the housing market has remained strong and seems to continue to strengthen. Even with questions about rising interest rates, labor shortages, rising construction costs and the macro international trade tensions, the housing market has remained resilient.

There continues to be a general sense of optimism in the market. Unemployment is at historic lows. The labor participation rate is increasing and wages are higher.

Consumers in our welcome home centers confirm that the dual income producing family is resurgent and they feel confident because economic conditions have remained strong and stable and are improving.

The deficit in the production of new homes that has existed since the market crash has driven a serious supply shortage, while demand is strong. The millennial population is forming households and having children, so short supply with strong demand is sustaining this recovery and overcoming headwinds. And since land and labor shortages are limiting affordable production, it will still take some time. It will still take some years to get to equilibrium.

The Federal Tax Act continues to add additional momentum to the economic and housing landscape. While many continue to express concerns about the effect of the tax law on housing, it is proving to be a positive to the wallet of our customer base and stimulative to the economy overall, which is good for housing.

Accordingly, with strong management focus and execution, one can see that we have not missed a beat. We have seen new orders, home deliveries and margins exceed expectations this quarter and we're well-positioned for the remainder of the year.

Before I turn over to Rick and Jon, let me make a few short strategic notes. First, 42.4%, that's our debt to total capitalization at the end of the second quarter. Our net debt to total cap is 40%.

As noted in our press release, we have used strong cash flow to start paying down debt and rightsizing our balance sheet. We paid down \$825 million of higher interest rate notes plus the remaining \$250 million of Rialto notes and we did it out of strong cash flow and without

refinance. We will remain focused on the reduction of debt and will continue to drive strong cash flow as we look to the future.

Next, the pay-down of Rialto's remaining outstanding debt paves the way to a seamless repositioning of that enterprise. As noted in our last conference call, we've engaged Deutsche Bank and Wells Fargo to consider the proper strategic alternatives for Rialto's future. We have begun a formal process for that consideration and we will give public updates as warranted.

We noted last quarter a timeframe of approximately 12 months from then to conclude this process. While I don't have further updates on the Rialto process at this time, we remain committed to our strategy of reverting to our pure-play core homebuilding platform.

Finally, some have noted with interest our recent reinvestment in Opendoor, a leading technology company that automates the valuation of homes and executes purchase offers to customers at those values. Opendoor is simply taking the friction out of the home transaction.

We first invested in the Opendoor platform, 1-1/2 years ago. We believed that Opendoor's strategy of reducing friction in the home sale market would be transformational to the industry, while very compatible with our new home homebuilding strategy. Many interested Lennar customers come to our welcome home centers with a home to sell. Opendoor is there to help.

Additionally, many customers outgrow their first home as their families grow; Opendoor is there to help. Some potential Lennar customers postpone the move-up purchase because engaging the broker and showing their home over months is a dreaded experience; Opendoor is there to help.

Just like selling a used car used to strike fear in the potential new car buyers, selling a used home causes procrastination in the potential move-up purchaser and Opendoor is there to help.

Lennar invested in the Opendoor opportunity to alleviate the stress and friction embedded in our transactions. We believed in the concept, we underwrote the capability of the management team and we concluded that together Lennar and Opendoor could make serious changes to our industry, as well as to our customer interface and could drive cost as well as friction out of the way that people buy and sell homes.

To-date, this partnership has worked exceptionally well and it's getting better and expanding to more markets. Lennar is selling more homes enabled by the Opendoor program. We are accommodating customers who come to us with a home to sell and we are also reaching out to existing first-time homeowners with a growing family and enabling them to avoid the friction and the aggravation and purchase a move-up home, with the rooms they need, the space they want and the new home technologies they crave.

Opendoor benefits from our managerial and operational experience and we benefit from their technology and innovative approach to the home sales market. This Opendoor story is a proxy for Lennar's technology strategy. We look for ideas that can work and enhance our customers' experience while building a better business platform. There is no hype, just execution.

We look for great technology management teams that can execute on technology platforms that we don't have the talent or the resource to develop. We invest and then we let our formidable scale and management guidance enable the business to adapt and to grow. We get better and they get better.

Opendoor is not our only technology initiative. We have now worked with the talented management teams of Blend, the digital mortgage platform; Notarized, the digital notary company; and Blueprint, the energy network company, among others.

These are not investments; they are part of a strategy. We are investing in technologies and tech teams that can change our industry and enhance our company's execution. We're simply building a better mousetrap.

So with that said, let me conclude where I started. It really all comes down to people. People make the trains run on time. Sales, starts, closings and margins; it's the people.

People focus on cash flow and right-size the balance sheet. People find the strategic directions for ancillary businesses and revert to core. People find new technologies and they adapt and change and incorporate them into old school companies. People execute and we have great people and great teams and I am proud to be a part of this team.

We have accomplished a great deal and have a lot of exciting work ahead of us. It's the people that have and will make the difference and I once again thank the associates across our platform, our operating platforms, for their diligence and their expertise. Because of them, I can comfortably say that our company, Lennar, is well-prepared to continue to execute.

So with that, let me turn over to Rick and Jon.

Rick Beckwitt: Thanks, Stuart.

Let me quickly start by summarizing our results in the second quarter and then Jon and I will update you on the CalAtlantic integration. Net earnings for the quarter totaled \$310 million, up 45% from 2017. Our core homebuilding operations really produced. New orders for the quarter totaled 14,440 homes, up 62% from the prior year, with a dollar value of approximately \$6 billion, representing a 79% increase.

We delivered 12,095 homes in the quarter, which was up 57% from 2017. Revenues in the quarter totaled \$5.5 billion, representing a 67% increase. We ended the quarter with a solid sales backlog of 19,622 homes, with a dollar value of \$8.6 billion, up 92% and 114% respectively from 2017.

Our gross margin, excluding the backlog and construction in progress write-up, totaled 21.6%, which was the top of the range we guided to last quarter.

Finally, our SG&A in the quarter was 8.7%. This marks an all-time second quarter low, significantly lower than our prior guidance and highlights the power of our increased geographic scale and our operating leverage.

These results were achieved by a lot of hard work from our associates across the country driving our day-to-day business and focused on the CalAtlantic integration. I can't thank of our associates enough for everything they've accomplished.

While these numbers demonstrate the success of our integration, let me give you some additional color on where we stand. Operationally, CalAtlantic is fully integrated into Lennar and we are operating as one company. This transition has proceeded smoothly and we are well ahead of schedule. More importantly, we're now realizing the true operating synergies stemming from our new local and national market scale.

As I highlighted last quarter, our homebuilding operation has five regions and 38 divisions with operations in 49 markets. Prior to the merger, CalAtlantic had four regions and 27 divisions, with operations in 43 markets.

Two of the CalAtlantic divisions were new markets to Lennar and continue today. The remaining 25 divisions have been combined with the Lennar divisions resulting in significant SG&A savings.

Operationally, we've been able to maintain or increase our market share, reduce cycle time and increase absorptions, while reducing headcount by approximately 33%. We also eliminated five corporate and regional offices, 21 homebuilding division offices, 18 design centers, 24 financial services branches and one financial services processing center.

The transition from the CalAtlantic design center program to the Everything's Included program has been impressive and is reducing cycle times and construction cost.

Excluding the CalAtlantic closeout communities, 207 communities have been converted to Lennar products, 136 communities have continued with CalAtlantic product, but converted to an Everything's Included products and the remaining 30 communities are continuing with an option-light rebid CalAtlantic product.

Our intense focus on product conversion is really showing its benefits in reduced cycle times. On average, we are saving approximately 30 to 40 days by converting the CalAtlantic product to Lennar product and approximately 25 to 30 days by converting the CalAtlantic

design center products to an Everything's Included product. Jon will highlight the significant cost savings and increased access to trades we are seeing from this conversion.

Keep in mind that we are now the number one builder in 20 markets and a top three builder in 32 markets and that our market share in our number one markets range between 21% and 43%, with an average share of approximately 30%. This critical mass will continue to increase our operating leverage. We just are seeing the beginning of our leverage in the last quarter.

This market share has significantly increased our access to land. Simply put, landowners and developers are finding that they both want and need us in their communities. With this in mind, we have met with many leading developers and third-party capital sources to explore new mutually beneficial structures.

On the technology side and the systems side, we are making good progress on our homebuilding system migrations and we'll be completing two more divisions this week. We are on track to be migrating two to three divisions each week for the next few months until completed.

We have also completed the system migration for our financial services operations and now are currently writing all mortgages out of our Eagle mortgage operation. We are already seeing the benefits of this capture rate from the legacy CalAtlantic communities where we've increased capture rate from 60% to approximately 80% and we feel that there is increased opportunity over the entire platform given our larger scale.

Now, I'd like to turn it over to Jon.

Jon Jaffe:

Thanks, Rick.

I'd like to bring you up-to-date on where we are with our focus on cost synergies. On last quarter's call, we communicated that we expect to exceed our synergy's target of \$100 million for fiscal year '18 by \$25 million. I am pleased to report that we are now on track to exceed that target by an additional \$35 million for a total fiscal year 2018 synergies of \$160 million.

For fiscal year 2019, we are now on track to exceed our \$365 million target by \$15 million for a total of \$380 million. There's approximately \$160 million of expected savings for 2018, breaks down to about \$80 million for corporate expenses and SG&A savings and \$80 million for direct construction cost savings.

For the corporate expenses and SG&A savings, we have locked in about \$80 million of synergies that's made up of the following 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 \$45 million are from the reduction in associate headcount in the regions and divisions, along with the closing of offices that Rick highlighted. We now estimate that 2019 annual run-rate for these overhead savings at \$115 million exceeding our target of \$100 million for 2019.

Becoming the builder of choice for national manufacturers, suppliers and local trades is a key to achieving our direct construction cost synergies. We have now identified approximately \$80 million of savings for 2018, exceeding the increased target of \$65 million we gave you last quarter.

Our significant market scale, combined with our efficient Everything's Included platform, are very big drivers of these savings. Additionally, our intense focus on even flow production, jobsite readiness, cycle time accuracy and dynamic pricing all enhance our relationships with our trade partners, increasing the number of bids we received for our work.

Last quarter, I spoke about kicking off our cost synergy workshops. We have now conducted workshops at 23 divisions. The key areas of focus at the workshops are value engineering, takeoff verification and leveraging our increased scale.

We identify, validate and collect cost synergies across all labor and material categories as well as improve building practices. We also evaluate every opportunity to improve utilization of our national supplier programs to increase the rebate opportunity. The information from each workshop is compiled for tracking our execution and then shared with all other Lennar divisions.

Through this process, we are able to add quickly on opportunities identified in any one of our divisions across our entire platform. I feel strongly that these workshops, which involve our national supply chain team, our regional purchasing teams and our division management teams, are the key to driving our ability to meet and exceed our direct cost saving or direct cost synergy plans. The 23 divisions that have completed a workshop are all above their respective synergy targets, demonstrating the effectiveness of this process.

Let me briefly describe the top five categories driving our division synergy plans for 2019. Plans and specification changes will total about \$50 million of savings. We select lower cost home plans and overall specification rightsizing as identified at our workshops.

Value engineering at the workshops for framing and lumber, along with leveraging our local scale for this category with our trade partners, will represent over \$30 million of savings. For drywall, flooring and HVAC, we will save around \$10 million in each of these categories through our national programs and leveraging our local scale with the trades.

Given our progress in these and other categories, we are on track to meet or exceed our 2019 target of \$265 million of direct construction cost synergies. We expect to accomplish this despite the backdrop of serious industry headwinds of a tight labor market, elevated lumber prices and international trade tariffs.

We do not expect to see any softening in the labor supply, especially with the current political environment on immigration. Here, our success in being the Builder of Choice with the trades gives us a strategic operating advantage as we attract more trades to bid our work. We now see approximately five to six bids as compared to two to three bids for most trade categories.

We believe lumber, which is at an all-time high of over \$600 per thousand board feet has peaked and expect to see some softening as more lumber inventories freed up due to increased availability of transportation.

With respect to tariffs, we are protected on most of our national contracts, where we have seen some impact is with products like rebar. In markets that are dependent upon foundation

steel, this increase in rebar can be a few hundred dollars per home. To a lesser extent, there are some minor increases in products such as garage doors, steel lath, screws and nails.

As I did last quarter, I want to highlight Lennar's quarterly operations reviews. This is the process that pulls together all of the pieces. Here, Rick or I and sometimes Stuart, along with the regional president, the regional operations controller, and the division management team address all aspects of our business. We cover merger-related issues, associates, customers, trade partners, land plans, financials and more. These sessions keep us connected and on track to accomplish our goals.

I also want to thank our incredible associates. In our first full quarter as a merged company, they tackled the challenges of the integration while exceeding all of our second quarter expectations. Their dedication, hard work and focus inspire us all.

I'd also like to thank our trade partners from manufacturers and suppliers to the local trades. The open discussions and resulting agreements on how to improve both of our businesses are clear evidence of the effectiveness of this merger.

With that, I'd like to turn it over to Diane.

Diane Bessette: Thank you Jon and good morning to everyone.

Before I provide the details of our second quarter results, let me give a simple analysis of our numbers as compared to consensus to assist in understanding some of the noise in the quarter.

Our reported EPS is 94 cents and the average of all analyst estimates is 41 cents. The difference is 53 cents. This difference of 53 cents can be separated into two categories: first, non-operating items, representing 35 cents of the difference; and second, operating items, representing 18 cents of the difference. This 18 cents is our operating beat or our outperformance as you compare expectations to actual results.

So, let me give you the details of the two categories starting with the non-operating items.

There are three distinct components to this category. The first item is the CalAtlantic purchase accounting write-up of backlog and construction in progress.

The expectation for Q2 was to record approximately \$350 million of write-up. The actual amount recorded was approximately \$240 million. The difference between these two amounts is just timing and will flow through in subsequent quarters. The total amount of write-up for fiscal 2018 is approximately the same.

The second item is integration costs such as severance and lease termination. The expectation for Q2 cost was \$29 million and the actual costs were just \$24 million.

The third item is tax rate. The expected Q2 tax rate was 24% and the actual tax rate was 19.7%. The difference relates to the impacts of energy credits that were taken in the quarter.

Now, let me turn to the operating items category. The difference between expectations and actual results relate to the increase in Q2 deliveries, average sales price and operating margins or as I previously stated, this is our operating out-performance.

So with that backdrop, let me walk you through the details of our second quarter results starting with homebuilding. Revenues from home sales increased 74% in the second quarter, driven by a 57% increase in wholly-owned deliveries and an 11% increase in average sales price to \$413,000. Both of these increases were primarily a result of the CalAtlantic acquisition.

As Rick noted, our second quarter gross margin on home sales was 21.6%, excluding the CalAtlantic purchase accounting write-up of backlog and construction in progress. The prior year's gross margin percent was 21.5% and gross margins in the second quarter were highest in our homebuilding west segment.

And just a few comments about our second quarter gross margins. Sales incentives improved 40 basis points to 5.3% from 5.7% and direct construction costs were up about 7% to \$59.64 per square foot driven by a 7% increase in labor and an 8% increase in material costs. Also as Rick noted, our second quarter SG&A percent was 8.7%, which was the lowest Q2 SG&A

in the company's history compared to 9.3% in the prior year. The improvement was due to improved operating leverage as Rick detailed as well as continued benefit from our technology initiatives.

So as a result of the above noted gross margin and SG&A percent, our second quarter operating margin was 12.9%, excluding the write-up of backlog and construction in progress compared to 12.1% in the prior year. We opened 163 new communities during the second quarter and closed 182 communities to end the quarter with 1,325 net active communities. New orders increased 62% and the new order dollar value increased 79% again primarily as a result of CalAtlantic.

As we highlighted on our last conference call, during the second quarter, where we were transitioning CalAtlantic products, we expected our sales pace to be about 3.4. However, we exceeded that expectation with an actual sales pace of 3.6.

Our completed unsold homes were 1,478 homes at quarter end, which is roughly about one home per community. This is a decrease from about 1.5 homes per community in the prior year.

During the second quarter, we purchased 9,600 home sites totaling \$692 million and have land development spend of \$557 million. Our home sites owned and controlled were 261,000, of which 195,000 are owned and 66,000 are controlled.

And finally, the second quarter joint venture land sale and other category had a combined \$17.9 million of earnings compared to a loss last year of \$15.9 million primarily driven by the profitability of two strategic land sales.

And then turning to financial services, in our second quarter, our financial services segment had operating earnings of \$52.4 million compared to \$43.7 million in the prior year. Mortgage operating earnings increased to \$34.7 million from \$32 million in the prior year. Originations increased to \$2.9 billion from \$2.3 billion, 96% of originations are now from purchase business, while only 4% are from refis. As we have noted for a while, this drop in refis has led to a very competitive market that is going after purchase business and is leading to lower profit per loan originated.

We went live on April 1st with a new digital mortgage platform for the combined company using a mortgage application technology from Blend. The platform is already being used in 77% of our mortgage applications. The results have shown a several day reduction in the mortgage process and have streamlined, improved customer experience.

Title operating earnings increased to \$16.4 million from \$9.7 million in the prior year. The increase was due to the addition of CalAtlantic closings and a higher mix of purchase business with higher transaction values versus the prior year.

And then turning to multifamily, in the second quarter, our multifamily segment had operating earnings of \$14.8 million compared to \$6.5 million in the prior year. The earnings were primarily driven by \$17.4 million from the sale of two operating properties as well as \$5.2 million of promote revenue related to two properties in our LMV Fund I.

We ended the quarter with 19 completed and operating properties and 31 under construction, seven of which are leased up, totaling approximately 14,600 apartments with a total development cost of approximately \$4.9 billion. Including these communities, we have a total diversified development pipeline of approximately \$9.5 billion and over 25,000 apartments.

And then turning to Rialto, in the second quarter, Rialto had operating earnings of \$7 million compared to \$6.2 million in the prior year and both of those amounts are net of non-controlling interest. The details of the segment businesses are as follows. The investment management business contributed \$30.3 million of earnings primarily driven by \$18.7 million of management fees. Rialto Mortgage Finance business contributed \$209 million of commercial loans into three securitizations, resulting in earnings of \$8.7 million before their G&A expenses. Direct investments had a loss of \$7.5 million as we monetize the remaining assets from the bank portfolios and G&A and interest expense, excluding warehouse lines, were \$24.5 million and benefited from the retirement of Rialto's \$350 million, 7% senior notes.

Our tax rate for the second quarter was 19.7%. The rate is lower than prior year of 33.8% primarily due to a lower federal tax rate and as previously mentioned the impact of new energy efficient home credits that were extended to be available for homes closed in 2017.

And then turning to our balance sheet, we ended the quarter with \$932 million of cash. And as Stuart mentioned, during the quarter, we repaid \$575 million of 8.375% CalAtlantic senior notes using homebuilding cash. As a result, our net debt to total cap was 40%.

During the quarter, we also paid off the remaining \$250 million of Rialto's 7% senior notes and on June 1st we repaid \$250 million of 6.9% Lennar senior, notes also using homebuilding cash, thus a total reduction of \$1.1 billion. Stockholders' equity increased to \$13.6 billion and our book value per share grew to \$41.25 per share.

So, now turning to our guidance for the balance of the year starting with homebuilding, for deliveries and new orders, we reaffirm our previous guidance as follows. We expect Q3 deliveries and new orders to be 12,500. We expect Q4 deliveries to be 15,000 and new orders to be 11,600. For our average sales price, we expect Q3 average sales price to be about \$410,000 and Q4 about \$415,000.

For gross margins, we expect Q3 gross margins, excluding write-ups for backlog and construction in progress, to be between 21.5% and 21.75% and Q4 gross margins to be between 22.5% and 22.75% given the higher deliveries in that quarter.

As previously mentioned, some of the write-ups for backlog and construction in progress have shifted. And so we now expect to record approximately \$100 million in Q3 and approximately \$50 million in Q4. And for SG&A, we expect Q3 SG&A to be about 8.7% and Q4 about 8.0%, again given the higher deliveries in that quarter.

We expect our net community count to end the year at about 1,350. And finally for the combined category of joint ventures, land sales and other income, we expect Q3 to be about breakeven and Q4 earnings of about \$8 million.

Turning to Financial Services, we expect Q3 earnings to be about \$60 million and Q4 earnings between \$63 million and \$68 million. For multifamily, we expect Q3 to be a slight

loss and Q4 to have earnings of about \$35 million. And for Rialto, we expect Q3 earnings to be about \$15 million and Q4 earnings between \$28 million and \$38 million.

For corporate G&A, we expect to see leverage with the full year at 1.8% of total revenue. For integration costs, we believe that we will have a small amount of continuing integration costs in Q3 and Q4, approximately \$10 million in each quarter. For our tax rate, we expect the tax rate for Q3 and for Q4 to be 24%. For share count, the weighted average share count for Q3 and Q4 should be about 330 million shares.

And so then looking at EPS, as you put together the components of our guidance, our Q3 EPS, excluding the write-up of backlog and construction in progress and integration costs, should be in the range of \$1.40 to \$1.45. This range increases the low end of the range previously provided during our last conference call.

And Q4 EPS, again excluding the write-up of backlog and construction in progress and integration costs, should be in the range of \$2.10 to \$2.20. This is also an increase to the low end of the range previously provided. We remain on target with our cash flow generation forecast of \$2 billion to \$2.5 billion before CalAtlantic related costs, ancillary businesses and debt pay-downs.

So, in conclusion, with these goals in mind, we are well positioned to deliver another strong and profitable year in 2018.

And now I will turn it back to the operator to open it up for questions.

Coordinator: Thank you, speakers. We will now begin the question-and-answer session. Please be advised that only one follow-up question will be allowed per attendee.

Our first question comes from Stephen East from Wells Fargo. Your line is open.

Stuart Miller: Stephen, are you there?

Stephen East: Yes, can you hear me?

Stuart Miller: There we go. There we go.

Stephen East: All right. Congratulations on the quarter. Nice quarter and thanks for all the detail. Start first, there is a lot of chatter in our side of the world about slowing demand. I guess we haven't really seen in our fieldwork other than seasonal slowing. Looking at your numbers given all the integration with CalAtlantic, it looks like you are not seeing it, but I don't want to put words in your mouth, so are you seeing any slowdown, anything other than seasonal and if so where are you seeing it and what type of product?

Jon Jaffe: I think seasonal is exactly the right way to describe it, Steve. This is Jon. You know, across the platform, we're seeing the economic environment of strong job growth, good economy and very low inventory supporting demand as you see in your fieldwork.

So, you know, we're definitely seeing the seasonal change. We had a strong spring as evidenced by our second quarter results, but we're not seeing anything that causes us to think otherwise.

Stuart Miller: You know, it goes back to some of my opening remarks, Steve. You're still looking at short supply and a growing demand. It's very hard to put affordable product on the ground and there's short supply of that in the existing market as well.

And, you know, I think cutting against some of the headwinds, you just have that production deficit in a growing demand from the millennials that are all, you know, coming of that age where they're forming families and demand patterns still seem strong. Flies in the face of some of the noise that we hear in the press, but there is a lot of confidence and people are still coming out to buy homes.

Stephen East: All right, great. And then, you know, on the integration savings, I was wondering how long it'd take you to bump up the \$365 million and it didn't take you long. So I guess two questions around that. One, does that include as you look out and we continue to see this inflation, is that net of the inflation or is that built into it?

And then I guess, Jon, maybe a little bit more specifically where you're getting - if you rank ordered the incremental bumps you're seeing in both '18 and '19 a little bit more specificity on where that's coming from.

Jon Jaffe: So we talked about the synergy numbers that is from what that the marketplace is. So, for example, if lumber went up, but we, you know, say \$1 a foot and we brought our framing and labor contracts down 50 cents, our net might be up 50 cents, our synergy is 50 cents; you follow that example.

Stephen East: Okay.

Jon Jaffe: With respect to where we're seeing it, it's really as I said given a lot of details that come out our workshops that deal with perhaps the way a type of lumber for a top plate or the way a corner is put together or foundations, the way we're working with our framers on some free-cutting of material or panelizing material and putting those panels together, it's really working across the spectrum of all trades.

So, it's hard to say that it's all here or there, because you also have geographic differences. So in some markets, we will find we have a bigger opportunity in one category and in another market it will be in a different category.

Stephen East: Got it, okay. On the EI and I know in the field we saw where you're keeping some of the CalAtlantic plans, if you will, but you're going to value engineer those. Will you get the same type of cost savings from those that you would have gotten from an E&I - from an EI switch?

Rick Beckwitt: In many cases, we'll get more cost savings from those.

Stephen East: Really?

Rick Beckwitt: So I really want to reiterate that most of the CalAtlantic product that we will be continuing to build in the future will be EI and there will be few communities that have a handful of communities that have a modified or lighter option program similar to what we do in Texas with Village Builders.

Jon Jaffe: As I said, Stephen, in my comments we look at - I was looking at an 1,800 square foot plan for a specific submarket for a specific customer type and we had a Lennar plan and a CalAtlantic plan. We look at which is the lower cost plan to produce but also will satisfy the needs of that market. So, it's very much what the best plan, which one is the most cost efficient to build, which one has the best cycle time.

Stephen East: Okay, thanks a lot and congratulations.

Rick Beckwitt: Thanks.

Coordinator: Thank you. And our next question comes from Alan Ratner from Zelman & Associates. Your line is open.

Alan Ratner: Hi, guys. Good morning. Congrats on all of the very impressive progress and congrats to Rick and Jon and Diane and Bruce, if you are in the room as well, listening quietly.

So, yes, what I wanted to touch on a little bit was your comments on the land front and I had to quote in the release and you mentioned in the prepared remarks as well just the momentum and progress you're seeing as far as your conversations with landowners and sellers. And I was hoping to dig in a little bit more on that and really determine exactly what you are seeing there.

If I look at your lot count about a quarter of your lots today are controlled through options, so when you're reading between the lines what I think I'm hearing is you're expecting to see some progress there moving that number higher.

So, I was just curious if there is an internal target or goal there that you're willing to share with us and then kind of connecting the dots there on the cash side very impressive generation and de-leveraging this quarter.

I was hoping you could just give us an update on your current thinking on cash generation as well as the timing of debt repurchase and any potential buyback activity as well.

Rick Beckwitt: So, it's Rick. On the land side, we have an intense focus right now. Jon and I, our regional presidents, Stuart, we've been all over the country meeting with the key developers to create some pretty interesting structures to increase our activity.

What we found is the deals are coming to us right now, because when you have a 20% to 40% market share, you need to be included. And so where there were times in the past where we had to hunt them down, the hunt is not happening right now.

So based on that, what we're trying to do is increase the amount of option business that we can do, which is a little bit lower margin business, but a higher IRR business. And we are engaged in conversations across the country with these leading developers and capital sources to create something that's special and, you know, it's - you will see an increase in our option business that will help our cash position and, you know, it's going to take a little bit of time to do that, but as we move into 2019, you will see some dramatic changes.

Alan Ratner: Thanks, Rick. And then just on the cash generation, I think you had given the number of \$2 billion for the remainder of the year and I think the current thinking is, you know, this year, you're really focused on paying down debt, getting to a net debt level similar to where you were before the deal by the end of the year and then '19, you know, having some capacity either for, you know, some share repurchase activity, additional M&A etc. So, is that still kind of the right way to think about that?

Stuart Miller: I think in terms of size and scope the answer is yes. I think we leave optionality open to ourselves in terms of how cash will be deployed particularly as we look ahead numerous quarters. But I think that you can see from the numbers posted today, the cash, cash generation is squarely in the middle of our scope.

We are paying down debt at an accelerated rate. We're really pleased that we got through this quarter with the ability to pay down as much as we did without refinance and it sets up the rest of the year, which is even more cash generative.

So, you know, as we go into next year, I think we will have excess cash and again we leave our options open, but we are going to have a very well-crafted balance sheet.

- Rick Beckwitt: Alan, just as a point of reference, my good friend, Stuart, made my screensaver our debt maturity ladder and I'm trying to figure out how to change it.
- Alan Ratner: Got it. Thanks, guys. Good luck.
- Coordinator: Thank you. And our next question comes from Stephen Kim from Evercore ISI. Your line is open.
- Stephen Kim: Yes, thank you very much guys. Hi, congratulations and boy, so many things to talk about, which I guess is good. I just wanted to follow-up on Alan's question about land if I could.
- Rick, in your answer to his question about land and your intentions going forward, you used a couple of phrases that were interesting, you said interesting structures, trying to create something special and a dramatic change is likely in 2019. So I just want to follow-up on that and trying to make sure that I'm understanding what you're saying, because options are not a new structure in the industry.
- So could you give us some hint as to what aspect of the deals and arrangements you are looking into is particularly interesting or special and when you said dramatic changes, you know, likely in 2019, was that referring to dramatic changes in, let's say, land spend as a percentage of revenues or something else?
- Rick Beckwitt: Stephen, I don't want to going into a lot of detail because there is a lot of conversations going on right now and, you know, with some developers, capital sources, internally within our organization. But our stated objective is to do two things, number one is increase our returns and number two, become more efficient in how we utilize our cash.
- With that in mind, the natural end result would be to increase in some sort of programmatic structure, our just-in-time ability to close on land. So, those are the touch points that, Stuart, Jon and I are focused on and we are all over it to figure out and create something that gets us those objectives.
- Stuart Miller: And the one piece that Rick left out was and increase cash flow.

Rick Beckwitt: Correct.

Stephen Kim: All right, excellent. I'm going to leave others to sort of follow-up on the cash flow point, because I'm sure they will.

I wanted to jump if I could to Stuart, your commentary about technology and Opendoor as I imagine you probably expect that I would. I was very intrigued to hear what you had to say about that because, you know, obviously I share your enthusiasm about what can happen there.

But I was wondering if you could talk specifically about your investments across these technology initiatives. You said, they weren't just investments but rather a strategy. The last I recall when we visited you down in Miami, you talked a lot about how your vision for harnessing these innovations was to try to improve the new home industry's premium that it garners over existing homes, which I thought was very interesting.

I was curious if you could talk about whether that vision also includes the ability for Lennar specifically to benefit from a competitive advantage in any material way from the things that you have invested in thus far.

Stuart Miller: Well, that's a lot of questions. And first of all, Steve, I want to say thank you for hearing and listening to what we're talking about in technology because, you know, it's not easy for everybody to get their head around it and there are some of the elements of our initiatives that are more about our customer interface, others that are more oriented towards the product offering that we have, many have heard and asked about the Amazon relationship and home automation that we've included in and perhaps most importantly, our Wi-Fi certification that we include.

You know, so, our technology initiatives are very, very focused on identifying technologies that can alter our landscape. Altering our landscape can mean reducing our own internal SG&A or cost of building homes, some of those are going to be like Opendoor.

The Opendoor technology has enabled us to bring our cost of customer acquisition down and has furthered our initiatives in those arenas. We are working on technologies in and around

building construction. Those technologies will help in terms of construction technique and enable a more efficient delivery system and production system and reduced cycle time.

We are also working with technologies around the inclusions in our home. Wi-Fi certification is really all about Wi-Fi distribution through the home from wall-to-wall floor-to-ceiling, no dead spots, no speed loss. That's a big differentiator between the existing home and the new home.

The new home's advantage is that we can be enabled for seamless Wi-Fi distribution. We know we can bring the internet to the home, but distributing it through the home is where everybody is running around with their phone looking for that hotspot that works best and we can heat map and engineer our homes to have seamless Wi-Fi distribution that it enables future technologies in an agnostic way. Right now, we are working with Amazon, but we want to be enabled for all platforms.

At the end of the day, we believe that our technology initiatives which are not as you know about shiny objects and a lot of hype, they're about execution and building a better mousetrap. They will enable us to drive our costs down both at the SG&A level and at the production level and improve our product offerings to our customer, which will differentiate the new home market from the existing market and I think with our aptitude and drive towards technologies and their inclusions will separate Lennar from other homebuilders.

We're very enthusiastic about this and I think the single most important differentiating component of Lennar versus other builders is our ability to disseminate. We've built lines of communication out to our divisions to disseminate new initiatives out to the field and get them adapted and adopted in orderly fashion so that we can reap the benefits of those new technologies and improve our margins, our customer interface, and our product offering.

Stephen Kim: That's great. Appreciate it. Do you actually have specific targets or goals, let's say, for next year with respect to any of these initiatives?

Stuart Miller: So, Steve, hype would tell us to put out a number that's exciting and, you know, market moving. The reality is that change happens in basis points and 10 basis point increments quarter-by-quarter and a piece at a time. We have internal targets, but to try to articulate

them for the outside world, the road is bumpy and we are respectful. It's all about execution. And I think directionally you'll see improvement in terms of goal setting, I don't think we want to get out over our skis.

Stephen Kim: Okay, thanks very much. Thanks.

Stuart Miller: You bet.

Coordinator: Thank you. And the next question is from John Lovallo from Bank of America. Your line is open.

John Lovallo: Hey, guys. Thank you for fitting me in here. You are clearly executing at a really high level and that's certainly encouraging, but the market is, you know, much more concerned at this point with interest rates, affordability in the cycle.

So what I just want to be really clear on, are you seeing anything, anything at all that would suggest that higher rates, you know, higher home prices are negatively impacting demand? And, you know, are you seeing any evidence that the best days of this cycle are behind us at this point?

Rick Beckwitt: So, let me start, it's Rick. We're still seeing good solid traffic in our communities. We're still seeing ability by our customers to qualify for homes across all price points. We have not seen a movement to a variable rate product on the mortgage side, which is generally the first sign that there is affordability issues.

So, you know, while there is a lot of focus in the press on rates going up, we got to keep in mind, as Stuart said in his opening comments that wage growth is real and it's happening out there. Confidence is solid. So we put all those things together and we don't look at the headlines. We operate our business and the business is strong.

John Lovallo: Okay, that's exactly what I wanted to hear. And then as a follow-up, you know, there's a huge disconnect at least in our opinion with where your stock is trading and where it should be trading. I mean, if you would share that view or if you do share that view, I mean and I

understand that you want to de-lever I understand your focus on that, but why not just put a big authorization out and just buy the heck out of the stock?

Stuart Miller: You know, look, I think that we were very straight with the Street on what our strategy is. We're not trying to send signals or anything else. We made a significant acquisition, strategic combination with CalAtlantic and our first order of business was integration and operations, our second order of business was cash flow and rightsizing our balance sheet.

In sequence, we will continue to generate cash flow. I've highlighted that we're focused on orderly cash flow from operations, enhancing that cash flow by reverting to our core business, enhancing that cash flow through land strategy. And as we have excess, then we will articulate what the strategies are for the deployment of capital at that time.

So we just want to be straight. We don't want to send out signals and stuff like that. Our focus right now is on rightsizing the balance sheet and operating this business and I think we are at the top of our game.

John Lovallo: Very helpful. Thank you, guys.

Rick Beckwitt: You bet.

Coordinator: Thank you and the next question is from the line of Michael Rehaut from JP Morgan.

Stuart Miller: Good morning Mike are you there?

Coordinator: Excuse me speakers. One moment. Again Michael Rehaut your line is open.

Michael Rehaut: Yes I'm here. Can you hear me?

Stuart Miller: There we go.

Michael Rehaut: Okay. I wasn't on mute. Don't know what happened there. Anyway what I was about to say was good afternoon now and congrats on the results. First just looking at demand from another perspective and appreciate all your comments on that already. Just wanted to

confirm, I believe Diane reaffirmed the order growth or order numbers for 3Q and 4Q. As part of that original guidance you had given pro forma, kind of organic I guess pro forma for CalAtlantic. I believe 2Q was a 3% number and I don't have – I'm not in the office so I don't have 3Q and 4Q.

But just wanted to know if with the, you know, what the pro forma was for 2Q and if part of the reiteration for 3Q and 4Q those pro forma numbers are still the same as well.

Diane Bessette: Mike I'm not sure, I'm just trying to understand the numbers. So are you asking for the pro forma for Q3 and Q4 are still the same, right?

Michael Rehaut: Right.

Diane Bessette: And still compare it to the re-affirmation that I made a few minutes ago.

Stuart Miller: I think the way to think about it is...

Diane Bessette: Yes.

Stuart Miller: ...that the beat in 2Q is additive to the year.

Diane Bessette: It's not taking away...

Stuart Miller: Right.

Diane Bessette: ...from the 3rd and 4th quarter.

Stuart Miller: Right.

Diane Bessette: Correct.

Michael Rehaut: Right. I think you had given a 3% pro forma guidance number for 2Q and I just wanted to know if that is what indeed you reported if there was upside to that because the full number of 62% growth was above our 55% estimate.

Rick Beckwitt: So maybe I'll answer that. We were about, depending on how you look at it 8 to 10% above the prior year pro forma number. And the balance of the year based on the pro formas that we gave you in the schedule that we released when we did our last call, Q3 was projected to be up about 12% and Q4 was projected to be up about 7%.

And as Stuart said, notwithstanding the fact that we sold and delivered more homes in Q2 because we guided to a 3% number we're maintaining our Q3 and Q4 guidance.

Michael Rehaut: Okay that's helpful Rick. I think also just on clarification on demand before I get to my second question. You know I think you alluded to from an affordability standpoint that you haven't seen any difference between price points. I was just curious, you know, affordability aside just from a basic demand trend and observational standpoint if you're noticing any areas of relative strength or weakness by demographic or price point segment or geography?

Jon Jaffe: It's Jon. As I said earlier we're really seeing, because of the economic conditions, strength across the platforms where you have entry level product and pricing there is this very strong demand. Where you have a move up product in A locations there's very strong demand. I think maybe give you a couple data points to sort of emphasize what we're seeing that underlies the demand in our view forward that the demand is still strong is that, you know, we see most of our lead generations start on the Internet at lennar.com. In the second quarter the traffic on lennar.com was up 50% year over year to 4.5 million. And that turned into leads which means people asking for specific information about communities that was up 43% year over year to 170,000 leads for the quarter.

So there's really good clarity that there's strength and demand across the entire platform. And of course you have higher velocity at a lower price point than a move up product. But the markets where we have the move up products we're still seeing exceptional demand.

Michael Rehaut: No that's great Jon. Thank you for that. I guess just second question going back to your comments Rick regarding, you know, land. How you're going to be purchasing land going forward and the different types of conversations you're having with land developers which is, you know, of course very important and, you know, great to hear particularly, you know, leveraging your size and increased strength in the marketplace.

I was curious if any of those conversations or your strategic approach to this more broadly is inclusive of your current owned lot position given that I believe, you know, Diane had reported at quarter end that you're about I guess roughly 75% own almost 200,000 lots of your 261 owned. You know if there's any kind of thought towards moving some of that owned position to any of your land developer partners in a greater effort to become more capital efficient.

Rick Beckwitt: You know what I'd like to do I'd like to put a pause on this one and come back to it at another time. You know what we're doing as a company right now is really evaluating what as I said earlier how we can increase returns and maximize cash flow. And so there's a lot of conversations going on today that will evolve over the next year. And I'd like to really address that when and if that happens.

Michael Rehaut: Fair enough. I appreciate it, thanks guys.

Stuart Miller: Thank you. Okay last question.

Coordinator: Thank you. And the next question is from the line of Buck Horne from Raymond James. Your line is open.

Buck Horne: Hey thanks this is Buck. Quick question just on pricing power during the quarter. Just wondering if you could tell us, you know, roughly what percentage of communities you were able to raise price in during the quarter and if you, you know, you held back on that a little bit because of the integration of the sales effort at CalAtlantic.

Stuart Miller: So we don't really track that kind of information because the pricing and the price increase happen at the local level on a division by division, really community by community basis. But what I will say is, you know, you look at the Case-Shiller index that came out this morning. It was up, you know, comfortably year over year April over April. You know I think it's almost up 7%. I think that pricing power, pricing pressure continues to exist as supply is really constrained and demand continues to come to market. I think Jon did a good job of highlighting that demand is strong and even advanced demand relative to the traffic

that we're getting on our website is a real good indicator that the traffic continues to build against a really constrained supply.

Buck Horne: Okay that's helpful. And the last one is just on the multi-family division. Just wondering any updated thoughts about the longer term, you know, prospect of the business in terms of continuing to hold it next to the core home building operation. There's obviously a wall of private equity money that's trying to still get invested in multi-family. Does that evolve your thinking about the right time to move multi-family outside the core?

Stuart Miller: You know we're just so proud of the multi-family program that has been put together I think that we highlighted or Diane highlighted \$9.5 billion in production. We have a very attractive platform and a core strategy of reverting to core. Whether that happens we certainly have not engaged a process at this point because we still think there's some maturity to be had. But we are openly thinking about how that will evolve and expect that to mature over the next year or so.

Rick Beckwitt: But the thing that we are very focused on is when you're involved in the construction of 5,000 to 10,000 apartment homes a year that gives us additional synergy with regard to cost and materials. So it's core to a large degree and we need to just really focus on the evolution of that business.

Buck Horne: That's perfect. Thank you guys, congratulations.

Stuart Miller: Okay so for those who are still with us I know we went over a little bit in time. You know we're really pleased with how things are progressing. We look forward to continued success. Just in conclusion I'll say once again it all comes down to people. We thank the associates of the company, our trade partners, people across our platform. That's what makes things happen. And we look forward to reporting again third quarter. See you then.

Coordinator: Thank you and that concludes this conference. Thank you all for participating. You may now disconnect.

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