

LENNAR CORP
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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 would now like to turn the call over to Alix Lumpkin for the reading of the forward looking statement.

Alix 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 risk and uncertainty. Many factors could affect future results, and may cause Lennar's actual activities or results to differ materially from the activity 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 Lennar's annual report on form 10-k, most recently filed with the SEC. Please note that Lennar claims no obligation to update any forward-looking statements.

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

Stuart Miller: Very good morning everyone and thank you. This morning I'm here in Miami once again with a scaled down crew. Diane Bessette, our Chief Financial Officer. Dave Collins, our Controller. Bruce Gross, CEO of Lennar Services, and of course Alix who you just heard from. Rick Beckwitt, our Chief Executive Officer is in Colorado. And Jon Jaffe in California, our president. And they're on the line with us this morning - and we are all appropriately socially spaced.

In as much as we have a lot of information that we're going to try to cover in our opening remarks, we're going to return to our traditional format. I'll give an overview, Jon and Rick will give operational insights, and Diane will give financial information highlights and some limited guidance and then we will attempt to answer as many of your questions as possible.

But as you consider framing your questions, first of all please limit to one question, one follow-up, and remember that the national landscape continues to evolve and the economy is still trying to reopen and normalize. In the current environment, there are still more guesses than there are clear answers. We will give you the guidance that we can. But remember that we are all still trying to learn together as things unfold.

So let me begin. On March 27, a customer in Pennsylvania named Susan Parnise wrote us a most important and impactful letter. She said, 'Since Pennsylvania's Governor Wolf's decision to shut down new construction, we are set to be homeless on April 20. We have a Lennar home that was expected to be delivered on that day in Hidden Meadows in Pennsylvania. There is a pending agreement for the sale of my current home on that day as well.'

She went on to say that, 'this is all occurring as I'm underemployed because of the shut down and as I'm losing half my usual income. I'm asking you to please appeal Governor Wolf's decision on behalf of our family of six. To us the delivery of our new home is life sustaining. It is shelter for us and is imperative to our health and protection from COVID-19.'

This was the first of many letters to follow that detailed the dashed hopes and expectations of Lennar customers that fell victim to the interruptions caused by COVID-19. And the economic shut down that caught many off guard. The letter from Ms. Parnise detailed for us that home building was in fact an essential service at this critical time and that shelter for families was life-sustaining and critically important to the well-being of our community.

This was a very big and important change in our world and in the world of our customers. Where families lived and how families lived, was essential. Having the space to quote, unquote, "Stay at home" was essential. The safety and security of the family home in a welcome community was essential.

And the timing. The rental term at an end where the old home sold to someone else or leaving roommates, or temporary quarters, or the arrival in or transfer to a new city. The timing to move in to the home being built was essential. To protect our business, we had already been making the case that home-building companies should be able to continue to build, but with Susan Parnise's plea for help, and any others that followed, it was now essential.

The Federal Government, most states, and most municipalities across the country, ultimately deemed housing an essential service and enabled home-builders to continue building, selling, and delivering homes to our customers. As an essential service, we kept our doors open and served communities across the country.

Our second quarter started with great concern as the economy was shuttering and unemployment was starting to rise. The story of Ms. Parnise and the designation of home-building as an essential service, seems to shed light on how the overall market conditions evolved to what we are experiencing right now.

While the economy is still trying to reboot after shut-down, the home building industry only stalled from mid-March through April, and began it's regroup earlier than most.

Homes had to be completed and delivered so people could stay at home in the shelter that they were expecting. Otherwise they would be homeless. Keeping in step with this necessity, we focused on completing and delivering homes in backlog.

But alongside those who needed their homes delivered, many more began to reconsider the essential and aspirational nature of shelter and desire to or needed to purchase and move. Yesterday's notion of a mobile society had its mobility taken away. People reconsidered.

The all but certain migration to large, congested cities as a preferred lifestyle, over suburban was reversed. And people reconsidered. Preference for transient, high-rise, shared, amenity rentals over stable, owned, single-family homes with a yard, was reversed. People reconsidered.

Second homes became a vital refuge and home offices with sound-proofing and separation became the newest amenity. The market was quickly reconsidering its needs, wishes, and wants. And the home-builders have seen this narrative unfold in real time.

Lennar's second quarter numbers are strong and indicate a strong recovery to date. We ended the quarter with \$517 million of net earnings, or \$1.65 per share, compared to \$422 million and a \$1.30 per share last year, up 27% over last year. Our closings were flat over last year but would've been higher except for certain stalled markets and the initial shock from the shut-down.

Our margins were up, but mostly represented sales that had taken place in the months before the shut-down. But what is more impressive is that our backlog margins are even higher as sales have strengthened and momentum has built. And time has passed. And our SG&A is impressively lower and reflects the many cost-reducing initiatives that we have daylighted in prior calls.

We are mindful however that one or two months in a row does not yet define a sustainable trend. Although the market currently feels very strong, we are in the early stages. We know the low interest rates and short supply are driving demand and pricing power. We also know that changing customer preferences are driving strong demand for new homes.

Still, we are giving guidance today with some elements of caution. We know we are currently picking up demand that was postponed from a stalled selling season and we don't know yet how high unemployment and an economy still wrestling to open will moderate this recovery in the future.

Additionally, there has been disruption. When the economy shut down, we reacted and slowed land purchases, land development, and starts. As sales started to recover, we restarted land development and starts. Accordingly, we will have somewhat fewer deliveries in the third and fourth quarter because of the mid-March through April stall. Nevertheless, we expect other metrics and company initiatives to continue to be very strong through the end of the year.

This quarter showcased our company coming together. To consider people first in all circumstances, while at the same time operationally we re-engineered our business for the current environment while we improved earnings, cash flows, and returns. Hard work and hard decisions to find new paths forward, technology and tenacity, paved the path to new ways to construct our business.

We've adjusted and changed the way we manage our business. As a management team, we've learned to operate from outside the office while using technology to stay connected like never before. Although we have managed from a distance through daily video meetings, our company leaders stayed close to operations across all 38 of our divisions and guided with consistent messaging and a very steady leadership hand.

As a connected management team, our home-building and financial services team utilized our significant investments and especially our head start in technology to incorporate social distancing while enhancing our customer's experiences as well as our operations and efficiencies that for the current environment and for the future as well.

We focused on and reconfigured every facet of our business to adapt to the changed environment. We have been changing - we have changed and we have adjusted the plane while it was still flying.

Let me give you some detail on that. As part of our rapid migration towards technologies that enable communication and collaboration, Diane Bessette and Jeff McCall have accelerated our push to modernize our reporting structures both for internal and external reporting.

Data is being collected more effectively into a common data model and that

data is being turned into real-time information that is being standardized and consumed across the platform, creating efficiencies and cost reduction. Standardized reports are being discussed at daily management meetings as our management team is learning together how to use and get the most out of our enhanced technology.

Note that our earnings call is taking place just 12 business days after the end of the quarter. We are using technologies to better roll up revenues, and access our cash. That's better and faster than we used to be, but Diane, it is not as fast and efficient as we are going to be.

Starting tomorrow, we are back to work looking forward, enhancing systems and building efficiencies rather than still working on reporting last quarter a week later. We also changed our home selling process. While Rick will give additional color on current market conditions and our results shortly.

In marketing and sales we advanced and enhanced our digital marketing platform to enable engagement with our customers any way they choose. Through our Lennar.com website, customers now have the choice to deal with us in one of four ways.

Number one, working traditionally by visiting a welcome home center and interacting with one of our professional new home consultants. Or number two, working with our new home consultants through a re-imagined, fully digital experience, that has been designed for the current environment,

Or number three, interacting digitally and viewing products on their computer at home, using three dimensional pictorial tours of models that are complete or soon, a Mod-V 3-dimensional tour of homes that are designed but not yet built or modeled.

Or number four, they can take a do it yourself self-guided tour of our existing models all alone and on their own. We re-wired every one of our model homes across the country over a two-week period to enable our customers to get a code, to access digital entry of our models on their own for a self-guided tour.

No contact, no risk, and all alone, they can interact with Lennar digitally or through phone or face to - or FaceTime, review products, visit models, sign a contract, and send a deposit, all digitally. Our digital experience is getting better and better and will continue to improve quickly now that we have our associates and our customers accustomed to these tools.

Customers are finding new ways to purchase and we're finding new ways to joyfully engage with our customers. As our digital experience is constantly refined and improved, more of our customers will choose and enjoy a more independent and frictionless experience as they engage with Lennar.

In fact, just looking at self-guided tours for the first two weeks of June over May, we have seen an increase of 20% in self-guided tours alone. As an example of our digital engagement, take a look at our Lennar.com today. We are seeing more and more that our customers want to find a home with a home office.

Not just a repurposed bedroom, but they want an office that's at home, that feels separate and quiet. It's apart from the barking dogs and the daily activities of the household, but it is at home. We've redesigned our next-gen home product, home within a home concept, that we are now offering as a home office within a home. It's part of the home, but separate. It's attached but insulated for sound-proofing.

We don't have a model yet to show, but we have a Mod-V 3-dimensional design to explore. Mod-V is one of our portfolio investments companies, that we believe is best of breed in creating three dimensional renderings that look and feel real when we don't have the real thing to show.

We are working with Mod V to improve our ability to demonstrate the dreams that we have not yet been able to build. We are, we can, and we will ramp up our digital abilities and help our customers dream with us as we create the home of their future.

Applying for a mortgage and a closing of home has never been easier at Lennar, also. We have accelerated our digital platform to accommodate a customer's desires to close on their new home, but to close without health risk or social contact.

Our mortgage application, and approval process has never been easier or more digital. With our Blend-enabled application -- another portfolio company -- and many detailed digital improvements designed in-house, in loan officer engagement and loan processing, our customer experience is improving every quarter.

The forms are simpler. The information is entered once. And the updates to information are automated. Our customers are happier. Our associates are more effective, and our costs are coming down.

In title and escrow. We are now closing homes with little or no contact as well. With an increased focus on the health and safety of both our associates and our customers we have increased the number of digital closings, with digital document signings and where possible digital notarization.

We are also implementing a virtual new home orientation process so our home buyers can walk and view their completed home via FaceTime. We can even give keys to the front door digitally with a code for self-access while we leave the sanitized keys in the kitchen.

Where we must physically notarize documents, which is still required in some states, we created an express drive-thru closing program, all paperwork is signed digitally before arrival and our customers can finalize closing their homes with a notarization from their car in just 15 minutes.

Lennar Financial Services just keeps getting better, with faster more frictionless service for our customers, easier engagement for our associates, and more profitability for the company.

This quarter, LFS contributed a \$151 million to the company. While \$61 million of that related to a deferred profit attributable to de-consolidating the sale of our retail title business over a year ago, approximately \$90 million of the contribution is attributable to efficient operations and market conditions.

This is a record quarter for LFS as they continue to lead the way for the company on innovation and enhanced customer experience. We are also building homes differently and Jon will give some more color here as well.

Construction is finally turning digital as we have turned our sights to using technology to centrally schedule construction at the division level. Over the past month, we've been rolling out a technology-oriented scheduling program to create efficiencies across our production platform.

This will enhance and even flow execution, give greater predictability to our trade partners relative to scheduling and logistics and it will ultimately reduce

construction costs as well. The need for effective and efficient communication over the past month has enabled us to advance the education and re-wiring of our field operation as we and our trade partners struggle to keep job sites open and jobs filled.

Most of our construction sites have been - have continued to be active and fully functional to date and we have not yet seen a significant impact on our trades or our supply chain. We are very focused on the health and safety of our trades, and to establish clear protocols with this in mind. We have been in constant communication with our trade partners, to help them implement their own safety standards and understand the steps we are taking.

We have begun using FaceTime and other technologies to facilitate inspections and we suspended all non-emergency customer care to protect our associates, customers, and trade partners, and use a DIY - Do It Yourself model to help customers help themselves where possible.

Although its awkward and difficult to talk about operational and financial results and successes in the wake of a quarter that has been defined by health fears, economic shut downs, job loss, personal struggles, and social injustice, we are proud to say that we have managed with a steady hand with a constructive and measured leadership, and with focus on how we can be a constructive force at a difficult time.

On reflection, I can say with conviction, that we have done well while we have also done good. While the second quarter has been a quarter of tremendous success for Lennar, sadly as the quarter ended and the health crisis began to subside, social justice became a dominant and critical concern both nationally and at Lennar.

Our leadership team and our associates locked arms across the company and stood tall to lean in and enhance and expand our already central focus on inclusion and diversity across the country. Like many across the country, we focused on the senseless killing of George Floyd as a call to action to be better than this and to commit to be an ever-better version of ourselves.

While our Lennar charitable foundation gave generously, notably in honor of our fallen associate Pete Anderson, for homelessness, our Chief Human Resources Officer Andrew Davis led focused discussion and engagement to map strategies to improve.

This work and woke continues. As we look ahead, we remain proud of Lennar's continued and consistent commitment to do well, and to do good, as we lead with a people first focus. With a strong balance sheet and a strong social and moral commitment we are confident that we will emerge from today's distress even better and stronger than before.

Accordingly, while the somewhat unpredictable environment in our country will evolve over time, we believe that we will be very well positioned through hard work, focused leadership, and innovative technology, to offset future headwinds and drive our business to new heights.

Oh -- and by the way, remember Susan Parnise who I mentioned and quoted in the beginning? While Governor Wolf was one of the very few who did not lift restrictions on home building during the stay at home order, we were able, with the assistance from the borough or municipality, to complete Ms. Parnise's home.

She and her family of six moved into their home on April 29. She and her family were able to delay the closing of their home once we gave them an

updated completion date. Today she and her family are part of the Lennar family, and we're proud that we were able to assist. And with affection and appreciation for the Lennar associates who answered her plea? She sends her regards to them and everyone listening today.

We are very proud of the quick actions that we have taken to carefully manage our business through these difficult times. I would like to personally thank all Lennar associates across our platform for their commitment, for their trust, and for their dedication during this very difficult time.

I also want to thank our trade partners who have worked collaboratively with us to ensure not only a safe, and healthy home, but a quality and affordable home. And finally, I want to thank Ms. Parnise and all of our customers, for understanding that we are working hard for them to adjust, to learn, and to evolve, so that we can safely deliver the home of their dreams. So with that, let me turn over to Rick.

Rick Beckwitt: Thanks, Stuart. We entered our second quarter with a strong housing market and solid economic fundamentals. This combined with low mortgage rates and a limited supply of homes, gave us continued sales momentum and pricing power.

However, all of this changed in the second half of March through April as the nation dealt with the impact of COVID-19. While residential construction was designated an essential service in most of our markets, the severe and immediate shut-down of economic activity across the country, began to negatively impact our business.

As a result of the pandemic, our sales orders declined significantly in late March and continued at a reduced rate through April. Despite a strong start in

March, new orders for the month were down 10% from the prior year. April marked a low point during the second quarters with orders decreasing 29% from the prior year, and our cancellation rate peaking at 23%.

Notwithstanding the slow down, our team did an excellent job selling homes, be it by appointment, self-guided tours, or virtual tours. We also focused on controlling sales prices and managing backlog expectations which benefited our gross margins in the second quarter, and will benefit our gross margins in the back half of the year.

In May we saw an influx of new home buyers wanting to take advantage of extremely low mortgage rate, and move out of apartments and densely populated areas and homes they were sharing with friends and family during the pandemic. We also heard increased conviction from people wanting to buy a new space and clean home vs. an existing home.

In May, our new orders increased each week sequentially and were up 7% over the prior year. Our cancellation rate in May also dropped to 18% from the 23% high in April. More importantly our increase in sales was generally achieved while raising prices and reducing incentives throughout the month of May. We rarely comment on sales activity outside of the quarter we are reporting, however given these fluid market dynamics, I will give you some insight on June.

For the first two weeks of June, our new orders were up 20% over the same period last year. We believe that part of this increase was the recapture of sales activity lost during this year's Spring selling season. And there will be a reversion to typical seasonality, as we move through the rest of our fiscal year.

Recognizing the risks around high unemployment rates and the current trends

towards a recurrence in COVID cases, we have not projected that this level of activity will continue in the next two quarters. However, should this pace extend longer, we plan to carefully match sales with measured and consistent price increases to further enhance our growth margins.

We also know that our sales activity in the next two quarters will be somewhat constrained by reduced community openings as we slowed development activity to conserve cash in the second quarter and many municipalities shut down their offices and did not issue permits and approvals to start development and sale. Currently our community count is down 6% year over year.

I'd now like to give you a little color on markets across the country. They really fall into three categories. One, markets not really impacted by the pandemic. Two, markets that were impacted but have recovered, or where the recovery is well underway. And three, markets that were impacted, but where the recovery is still lagging.

Notwithstanding these categories, in all of our markets, we saw a sequential increase in sales activity from April to May, and continued strength during the first two weeks of June. During our second quarter, we had eight markets that little to no impact from the pandemic.

These included Jacksonville, coastal Carolinas, Indianapolis, Maryland, Nashville, Dallas, San Antonio, and Utah. While most of these markets had stay at home ordinances in place, we picked up considerable market share through better execution, as many of the builders in these markets shut down their operations.

Many of these markets also benefited from low COVID-19 infection rates so

business activity was less impacted. In addition, each of these market benefited from low inventory levels, and while traffic was down, conversion rates were extremely high as buyers were highly motivated to purchase a safe new home.

In Dallas and San Antonio, two of our larger markets, we continued to benefit from our move down the price curve and by having quick move-in homes.

Category 2 includes 18 markets that were impacted by the pandemic but have either recovered or are well on their way to the recovery. Starting in the east, these markets include New Jersey, North Carolina, Southeast and Southwest Florida, Tampa, Orlando, Chicago, Minnesota, Houston and Austin, Colorado, Arizona, the Inland Empire, San Diego, Central Valley California, Sacramento, Reno and the Pacific Northwest.

While we continued to sell homes and offer limited incentives in each of these markets, municipality shutdowns and lower consumer confidence caused a significant decline in both traffic and sales from mid-March through April. However, across the board, all of these markets started to recover beginning the last week of April and have continued to improve through May and into June.

In our larger Florida markets, demand in May and the first part of June rebounded strongly. Southeast Florida and Tampa saw increased demand from renters and customers wanting to move from densely populated areas to purchase detached single-family homes. Southwest Florida, which is a big second home active adult market, saw increased demand from customers fleeing the COVID-impacted areas in the northeast to the more safe South Florida market.

Raleigh, Charlotte and Atlanta were hit hard initially; however, all of these markets bounced back as business activity resumed in May. In each of these markets, we benefited from the return of the cultural buyer who wanted the safety of a new COVID-free home. These markets also experienced increased demand from buyers looking to relocate from the northeast.

The Houston market has been the biggest surprise. While hit hard between mid-March and mid-April, our sales bounced back in May and June as demand from entry-level product outpaced the fall in oil price. While unemployment is still high, due to reduced oil and gas investments, we're extremely well positioned with almost 50% of our community priced below \$300,000.

The activity in Houston reflects the incredible diversification that happened in the Houston economy away from oil and gas. Austin was the slowest market in Texas to recover. This was in large part due to a stricter shutdown ordinance imposed by the city. However, sales started to recover in May and it has increased in the first part of June. The Austin economy is strong with over 7,200 technology companies spurring job growth and demand.

Moving to Colorado. Colorado is on the road to recovery and while not fully recovered, the local economy is strong and diverse with limited new home inventory and low resale listings. In May our traffic increased and sales were rebounded from April lows. June has seen a more significant increase in both sales and pricing power.

The Phoenix market entered the pandemic as one of the strongest markets in the country, and while impacted, has bounced back strongly. Our sales steadily improved through May and were really strong in the first part of June and we continue to benefit from a broad product offering with many lower

priced communities.

The Pacific Northwest has recovered nicely. In spite of the state shutdown in Washington temporarily shutting down construction, we continued to sell and close homes. Demand has improved significantly in May and has continued into June. In California, the Inland Empire is the strongest market.

While the market took a hit in April, it came back strong in both May and June. The Inland Empire has always been the affordable alternative to the more coastal areas. With low mortgage rates, buyers have flocked back to the market. Most of these have been renters or front-line workers fighting the pandemic.

Category 3 includes four markets that were significantly impacted by the pandemic and where the recovery is lagging the rest of the US. These markets include the Bay Area, Orange County, California, Las Vegas and Orlando. The Bay Area market was one of the first markets impacted by COVID-19 and with progressive government shutdowns, the market just shut down, consumer confidence lost, demand significantly slowed.

While the lower-priced single-family market has recovered, the higher density, higher-priced attached market still needs to gain some traction. Orange County, California was one of the weakest markets going into the pandemic and is still lagging the other markets on the way up.

The combination of reduced demand from Chinese buyers and government shutdowns really chilled the market. While sales more than doubled sequentially from April to May, the market still needs to stabilize further.

Las Vegas was really impacted by a close down of the casinos and a huge

decline in tourism. Unemployment peaked at 30%. While most of this is furloughed and temporary job loss, the casinos, which just reopened, need to rebuild their businesses before things get back to normal. Despite this, we've seen a rebound in both traffic and sales in May and the first part of June.

Orlando is starting to come back. With the shutdown of international travel, reduced domestic flights and the closure of theme parks, the local economy really slowed down. Sales declined sharply in April but we saw a bounce back in May and June. With the recent and planned reopening of the theme parks, we're optimistic that this market will pick up in demand very quickly.

I hope this gives you a sense of how we're positioned in our local markets. While we have a few markets that are lagging, most of have rebounded. From a macro standpoint, the market is strong with limited inventory, pent-up demand, aided by low mortgage rates.

In this environment, we've been very focused on balancing pace and price, and while we've increased our sales pace for communities, we've been vigilant in raising prices, lowering incentives and reducing our brokerage spend.

With low mortgage rates the impact of our price increases have had a minimal impact on affordability and this should give us a decent runway to improve gross margins in the coming quarters.

And now I'd like to turn it over to Jon.

Jon Jaffe: Thank you, Rick. Today I'll start with a discussion of our land and balance sheet strategies, beginning with a look at the actions we took during the second quarter in response to the COVID-19 pandemic. As Stuart mentioned, we slowed our land purchases, land development activities and home starts.

We used our daily management calls to quickly implement this strategy across all of our divisions.

We were able to pause all of the land acquisitions that we wanted to, and due to the strength of relationships with our land sellers, we did not walk away from any deposits or lose any deals. What we did was to pause takedown for 60 to 90 days in order to give us time to understand the impact of the pandemic and the associated government shutdown.

At the same time, we also slowed our land development spend. This was done on a community-by-community basis by determining in real time the market demand for each community and the economic logic associated with stopping and restarting. We also looked at our planned starts, again, evaluating each community's market demand, if the particular home was in backlog and the mortgage status if it was sold, or if the home was unsold.

We paused about 4,100 starts in the quarter, or 27% of what was planned. Given this pause in land spend and fewer starts in our second quarter, the results for our land and cash positions were temporarily altered by the actions we took. We ended the quarter with 3.9 years of land owned compared to 4.5 years of Q2 of 2019 and with an increased percentage of home sites optioned of 32%, up from 25% last year.

The combination of slowing our land spend in the quarter, strong closings and executing our strategy of building strategic relationships to option home price resulted in significant cash flow generation at the end of the quarter of \$1.4 billion of cash on the balance sheet and zero borrowed against our revolver.

Additionally, we repaid \$300 million of senior notes and ended the quarter with a total debt to capitalization of 31.2% versus 38.3% the prior year.

Despite the daily intensity it took to manage through the challenges of the pandemic, we still maintained our focus on becoming a land-light company and are on track to be migrating both our supply of land owned down to three years from the current 3.9 years and to control 50% of or home sites through options as compared to the current 32% by the end of fiscal 2021.

We continue to work on and develop additional strategic relationships that are designed to facilitate our reaching these goals. Just as effectively as we paused, as we saw markets recover, we have recommenced land acquisitions, land development and home starts. We are confident we will have the home sites necessary to start and deliver the homes we're projecting in our guidance.

Now I'll turn to our direct construction costs and the value of our builder of choice program with our trade partners. Simply put, our approach has been to understand what drives efficiencies from our trade partner's perspective so we can work openly with them to lower costs without hurting their margins. So let me be clear. This work is anything but simple.

It's beyond the rolling up of our sleeves to do the hard work required. It's about building trust. It's all about our trade partners trusting that we will change the way we manage our business for their benefit and we will do what we say we're going to do.

This takes commitment from them and us and it takes time. Once this trust is established, it allows us to work together with our trade partners to remove costs from the supply chain. A good example of this is our intense focus on even flow productions. Using technology, our field is connected in real time with our office and, in turn, our office with our trade partners. This connectivity enables construction to be on schedule and for schedules to be reliable.

The predictability this provides our trade partners allows them to eliminate overtime which can save as much \$500 per home. This focus produced the fifth straight quarter where our direct construction costs as a percent of revenues fell. In Q2 costs were at 44.5% of revenue 50 and 200 basis point improvements sequentially and year over year, respectively.

This 200-basis point improvement in cost as a percent of revenue resulting from the combination of pricing power and lower cost was the driver of our gross margin improvement of 150 basis points, which more than offset the increased cost of land fees. In our second quarter, our costs per square foot was down 130 basis points sequentially and 240 basis points year over year.

The cumulative effect of our strategic trade partner collaboration on removing cost from the supply chain, ongoing value engineering workshops, which are now done virtually, and our strong purchasing organization led by Paul Dodge and Kent Gillis has led to continuously lower cost which we believe will be sustainable given the buy-in from our trade partners and our builder-of-choice model.

I would like to highlight that these cost efficiencies have an achieved an environment of increased labor cost due to the labor shortage combined and at the same time with a shift in product to smaller and lower-priced homes.

The mass of smaller square footage and lower average small price normally increases both costs as a percent of revenues and cost per square foot; however, with our focus of working collaboratively with our trade partners to remove costs from the supply chain, we have accomplished lowering both of these cost metrics.

With respect to the labor shortage, I want to note that the homebuilding

industry through the Leading Builders of America is initiating a program to attract those who have been displaced by the pandemic. The program will offer training for positions with the trades and presents the opportunity for easing of the labor constraints. Accordingly, as this occurs, the cost of labor should ease as well.

As all of these efforts take cost out of the supply chain are critical for us to be able to build homes that consumers can afford. With respect to the impact of the pandemic, what happened throughout the quarter demonstrated the strength of our trade partner relationships. There are four areas where this working relationship is evident.

First is the work we did to help our trade partners navigate the CARES Act. The act contained provisions for Paycheck Protection Program loans that had the potential for keeping many of our trade partners and their associates afloat. Unfortunately, the language in the legislation was very confusing and nobody really knew what to do. So Lennar took action.

Led by our vice president tax, Mike Petrolino, along with the help senior partners at Deloitte, we quickly put together an overview of the act for the benefit of our trade partners and on Sunday, March 29, just one and a half days after the act was signed into law, we held two conference calls with over 5,000 of our trade partners in attendance. We spent the day walking them through the act and answering their questions.

Next was our commitment to the safety of our associates, customers and trade partners in our communities. We paused our warranty work, as it was not safe to be sending workers into our homes. We then repositioned our customer care associates to be COVID-19 safety officers on all of our job sites.

Working with our chief medical officer, Dr. Pascal, we produced safety guidelines and checklists to ensure everyone's safety while construction continues. This was critical if we were to ensure the treatment of housing as essential. In fact, we surveyed and found that specifically they contracted the COVID-19 virus at a much lower rate than the general population.

We provided this information to various state and local agencies as they evaluated the issue of allowing home construction to continue. Through these efforts and more, we fulfilled our commitment to keep our associates, customers and trade partners safe while continuing to deliver homes to eagerly awaiting families.

Thirdly, we worked closely with our trade partners to help us where they could to temporarily reduce costs to make sure that we could continue to sell homes as the pandemic took hold and the economy went into shutdown mode. Our trade partners stepped up, allowing us to aggressively buy down interest rates which helped jumpstart our sales.

Finally with the help of our trade partners and the focused work of our national purchasing team, we navigated the various pandemic-related supply chain disruptions first in China and then in Mexico. For each manufacturer, we classified the risk level, regularly monitored their current inventories, developed plan Bs and plan Cs and provided home community-level forecasting to give a detailed view of our needs.

The primary disruption occurred in Mexican factories, impacting cabinets, door hardware, appliances and interiors. We successfully managed through all these disruptions to avoid any delays. As of today, all of our manufacturers are open and with improving capacity.

I want to take this opportunity to personally thank all of our trade partners and our Lennar team for working so effectively through this crisis. Together we're able to navigate this unprecedented time and deliver homes, essential homes, to families across America.

Now I'd like to turn it over to Diane.

Diane Bessette: Thank you, Jon, and good morning to everyone. I'd like to spend just a few minutes reviewing the highlights from our second quarter. For many decades we have operated with a balance sheet-first philosophy and a strong focus on liquidity and so for today that's where I'd like to start.

As noted with our laser focus on generating cash and preserving cash, we ended the quarter with \$1.4 billion of cash and no borrowings outstanding on our \$2.45 billion revolving credit facility, thereby providing total liquidity of \$3.85 billion. At quarter end, our homebuilding debt to total capital ratio was 31.2% versus 38.3% in the prior year. This is the lowest debt to total capital ratio since Q1 2007.

As we look at the balance of the year, we have a very manageable level of debt maturities with only \$300 million due in November after having repaid \$300 million in May. In the last two years, we have repaid \$2.5 billion of senior notes from cash flow generated from operations. Our stockholders' equity increased to \$17 billion and our book value per share was \$52.98.

And so with those balance sheet highlights, let me briefly review our operating performance. Stuart, Rick and Jon provided most of the details so here's a quick summary of the highlights. For new orders we ended the quarter down 10%, our sales pace was 3.5 for the quarter compared to 3.7 in the prior year. Our cancellation rate was 19% compared to 15% from the prior year.

For the quarter, deliveries were relatively flat year over year as we remained intensely focused on cash generation. Our gross margin was 21.6%, as Jon mentioned, primarily as a result of our focus on construction costs, and our SG&A was 8.3% as a result of creating an efficient platform, and the 8.3% is the lowest second quarter SG&A percentage we've ever achieved.

And our financial services team also executed at high levels. Mortgage operating earnings increased to \$81 million compared to \$43 million in the prior year. During the quarter, we sold our legacy servicing portfolio for a gain of \$5 million and eliminated potential future liabilities.

Additionally, mortgage earnings primarily benefited from a higher capture rate, 82% versus 75% last year, a lower percentage of cash buyers during the quarter, a higher percentage of locks on deliveries that will occur in Q3 as a result of record low interest rates, and a continued decrease in loan origination costs.

Title operating earnings were \$17 million compared to \$15 million in the prior year. Title earnings increased due to an increase in profit for a closed order which was driven by cost reductions. LMF Commercial had an operating loss of \$6 million compared to operating earnings of \$6 million in the prior year, primarily as a result of the COVID-19 effects on the capital market. However, during the quarter, we were pleased to be a part of one securitization, though at a lower than normal margins but still positive.

Additionally during the quarter, we de-consolidated State Title. The process required us to perform a fair market value analysis of our interests which resulted in a \$61 million gain. And two other final items. In the category of land sales, we recorded a \$23 million write-off of costs related to the Concord Naval Base located northeast of San Francisco, since we are not moving

forward with this development.

In the category of Lennar other, we recorded a \$25 million charge which was our share of a valuation adjustment related to the Rialto legacy fund. This adjustment was primarily a result of the disruption in the capital markets as a result of the COVID-19 environment.

So with that quick summary, let me provide you with detailed guidance for Q3 and high-level guidance for our core operations in Q4. So starting with Q3 and homebuilding. We expect new orders between 12,800 and 13,000. We expect to deliver between 13,200 and 13,400 homes.

Our average sales price should be in the range of \$380,000 to \$385,000 as we continue to move down the price curve. We expect to continue to maintain our gross margins in the range of 21.5% to 21.75% and our SG&A should be in the range of 8.3% to 8.5%. And for the combined homebuilding joint venture, land sales and other category, we expect a loss of approximately \$20 million to \$30 million due to the current delay of land sales activity.

Turning to our ancillary businesses. We believe our financial services earnings will be approximately \$70 million based on more normalized metrics in the third quarter. For our multi-family segment, we expect a loss of approximately \$5 million and for the Lennar other category we expect to be about breakeven.

We expect corporate G&A to be about \$90 million for the quarter. We expect our tax rate to be approximately 23.1% and the average share count should be approximately 309 million shares. This guidance should produce an EPS range of \$1.46 to \$1.59.

And now let me provide a few high-level estimates for Q4 for homebuilding and financial services. For home building, we expect new orders between 12,000 and 12,250. We expect to deliver between 14,300 and 14,600 homes. Our Q4 volume will be impacted, as we mentioned, by the slowdown in starts during our second quarter.

Our average sales price should be in the range of \$380,000 and our we expect our gross margin to be in the range of 21.75% to 22% and our SG&A around 8%. And for financial services we believe we will have operating earnings of about \$60 million. We hope you find this guidance helpful and with that, let's turn it over to the operator.

Coordinator: Thank you. We will now begin the question-and-answer session of today's conference. We ask that you limit your question to one question and one follow-up question until all the questions have been answered. If you would like to ask a question, please unmute your phone, press *, 1 and record your name clearly when prompted. If you would like to withdraw your question, you may press *, 2.

Our first question is from Stephen Kim from Evercore ISI. Your line is open.

Stephen Kim: Yes. Thanks very much, guys. Strong results and thanks for all the additional disclosure and getting everything to us so quickly in particular. My first question relates to the margin. Well actually you gave really good strong margin guidance but I guess one surprising issue was your orders looking in 3Q and 4Q to be down year over year. I know you sort of addressed it a little bit and said that you made some comments about second wave concerns. You also talked about lower community counts.

And I guess I'm just trying to get a sense for how much of these second wave

concerns are baked into your outlook? If these second wave concerns, let's say, were not to materialize, could you actually see order growth, you know, remain up double digits like its running in June or do you actually think that the supply constraint issues that you've got and community counts were to fall would continue to keep pressure on your order growth and that you would just simply raise price more aggressively in the fact of that?

Stuart: So. Thanks, Steve. And first of all let me say I know that we packed a lot of information into our opening remarks and so we're going to take Q&A for a little bit longer. But thanks for the question.

You know, Rick daylighted that our sales as we came into June are up over 20% and we're not giving exact numbers because we really don't want to get carried away with it, but the market is strong and just the discussions with our divisions really across the country is that they're seeing really strong activity.

It's hard to tell what portion of that is a push forward or a push into the third quarter the second quarter traditional selling season and what represents a rethinking of where people live and how they want to live and how sticky that's going to be. So what you're seeing in our guidance is a clear understanding that the market is strong and, yes, it can remain strong as we go forward.

There is a supply constraint. Interest rates are low and are likely to stay low for a period of time. The economy is certainly looking for ways to recover and with recovery and reduced unemployment rates, there's cause for optimism. I would think that the housing market and its strength will contribute to job creation, absorbing some of the people who might have lost their jobs more permanently.

So there are reasons for optimism and we do think that sales can be stronger. We are going to balance between pricing and pace as we move through the third quarter and into the fourth. On the other side, we inject some conservatism in our projection or in our guidance because we're still learning.

We're still looking at how the economy will actually resolve the disruption that it's gone through, how jobs will come back. There's certainly the cloud of social unrest right now. So there are questions out there and moderating factors.

There's upside in our numbers, particularly on sales. There's also caution and we're trying to weave that balance and be straight as we look at giving guidance for going forward.

Jon: Steve, let's remember, as I said, we intentionally pulled back about 4,100 starts and we're going to manage carefully not to be selling too far forward into the future and so we're going to control the sales pace even though the market might allow us to sell at a faster pace. We're going to make sure that we match to our production pace.

Stephen Kim: Yes. I mean, particularly when you have a rising price environment, selling too far out in front doesn't make a lot of sense so, yes, that conservatism is welcome and understood.

The second question relates to what some of the things you touched on. There a lot of societal factors that have been changing more rapidly than I think we've ever seen and a lot of those are really positive it seems like for your business and for, you know, home building in general, you know, the suburban versus urban living preference, you know, I mean, so many things, home offices, recreation space, outdoor living, et cetera, et cetera.

I'm interested in your perspective about the drivers for these changes and their permanence or at least their likelihood, the likelihood that some of these drivers will last long enough for you to make investments that will pay off over a period of years not months. I'm thinking like things like the social distancing thing that we've all gotten used to. How long do you think that's going to drive some changes in the kinds of housing that people want?

You know, maybe increased urban safety concerns which we've talked about, you know, these increased work from home. Which of these things do you think are going to be temporary? Which do you think are going to be lasting and give you the opportunity to actually invest to capitalize on them and are you doing that yet, making those investments?

Stuart: So let me just give a quick response and ask Rick to chime in a second. But, look, there's no way in the middle of a crisis to figure out what's going to be short term and what's going to be long term and we're going to feel our way through this. There are certain elements that are clearly going to be with us for a very long period of time and that is the migration to technologies that we're all learning to use that are enhancing the customer experience that I detailed in my portion.

But relative to the trends of migrating from cities to suburban, you know, mobility and that having been put on pause and some of the other questions out there, how long-term they are going to be – we're going to have to wait and see. Some of the elements like work from home and having an office at home we think that these are going to have some stickiness. So Rick why don't you weigh in on that?

Rick: Yes, I agree with Stuart. You know, we're going to have to wait and see how things evolve but we do have some trends that are really positive. You know,

going into this we had the Millennial population that was going through wanting to move to the suburbs, having babies and things like that. On top of this we've seen a mass flight from highly populated areas where people just really don't want to be confined in small spaces. So we are really positioned well and have been investing in opportunities and contracting for land to take advantage of this.

You know, one of the most interesting dynamics that we – that we're looking at is with the dramatic fall in oil prices people have the ability if they need to commute to commute at much more affordable levels but many times now since you can work at home you don't need to drive anywhere. So that really opens up a vast amount of opportunities for us as we look down the road.

Stephen: Yes great. Thanks very much, guys.

Stuart: Okay. Next?

Coordinator: Next we have Ivy Zelman from Zelman Associate. Your line is open.

Ivy Zelman: Good morning. I apologize but I did unfortunately get kicked off the call so I missed a bunch of the opening comments but first I just want to recognize and congratulate all of you for navigating such incredibly challenging times and having such a spectacular financial performance. It really was remarkable so I'm not just saying it to say it but it really is something we should all acknowledge, so first and foremost.

You know, it's difficult to ask the questions that I have with not repeating a lot of what you've already commented on but you guys have a very unique perspective having a multi-family business. And we hear it a lot from the publicly traded REITs that they're not seeing flight from the urban core to the

suburbs. Their turnover numbers are actually only up marginally but still at extremely depressed levels.

So it's very difficult to triangulate a lot of what we're hearing about with people wanting in your quote in the press release about people leaving, you know, the urban dense areas for space, safety, you know, all the things that we talked about and taking advantage of record low mortgage rates and wanting to be in a home where they have the ability to have all those factors today that are socially important for living and safety for their family, technology.

So maybe you can give us some data around some of the things that you've noted. I - I'll promise I'll stop talking in a minute but when you look at you hear builders react where is all this demand coming from? It's crazy strong. It's everything against what we would have expected in a massive unemployment environment we're in. And their answer is we'll really nothing's changed. It's the same reasons people have been buying. It's just, you know, accelerating.

But there's no question more renters are converting to homeowners. So maybe try to triangulate a little bit for us what you're seeing from maybe entry-level versus move up? Are people leaving New York city and buying move up homes? Are you seeing maybe some delineation between project categories? You mentioned entry-level being really strong? I'll stop because I can keep going and I'm sure...

Stuart: Yes.

Ivy Zelman: I'm confusing you with too much.

Stuart: I know that we set the stage with long-winded introductions and you've

certainly carried it forward. So your next question is going to have to be shorter. But so let me say that there is no story. There are many stories and many of the stories are playing out.

You know, just to, you know, give you some data I was talking this morning to our Southeast Florida division, Carlos Gonzalez and Carlos enthusiastically said that 31% of his sales most recently have come from the city of Miami to the suburban areas of Miami migrating to the suburban areas.

So we're hearing that kind of empirical data that is just starting to percolate up where we're starting to see that some of the stories are really playing out, the migration from rental communities to single-family homes or even single-family for rent. These are all stories that are just starting to play out and we don't have enough data around it. We will over time.

But with that said we don't know the permanence how long-lasting it's going to be and we want to moderate with that. But there are a myriad of stories and maybe Jon and Rick will chime in and share some of their thoughts.

((Crosstalk))

Jon: I will add that I think we're seeing more people move out of apartments into new homes versus existing homes. So I think it makes sense to me that on the multifamily side they're not seeing a rapid spike in their customer turnover. But, you know, it doesn't take many basis points of market share from existing too new to really impact the demand for us. And I think we're definitely seeing that because in all the divisions as Stuart noted with Southeast Florida, we're seeing a pickup in sales of people coming directly out of apartments.

Rick: And Ivy one other point and you've seen it in how you're tracking the better run-in higher-Class A REITS is in our multifamily business our occupancy really hasn't changed much. We have people paying rent and really didn't have a big dip in any of that.

And what we've seen as we've really drilled down is it's coming from the non-class A lower quality apartments where people don't want to live there anymore. In the higher-Class A that have good amenities there's people that want to live there but we're seeing a mass exodus from the lower quality non-amenitized apartments across the US.

Ivy Zelman: And from the perspective of affordability as builders are right now taking advantage of the strength, they're raising prices and mortgage rates have obviously ticked considerably lower compared to last year. But is there a level that concerns you that that favorable affordability for those Class B tenants that may be driving this exodus, you know, what does it do to rents and what is it going to do to demand if homebuilders keep pushing price? And thank you guys, I'm done.

Rick: I think we're just going to have to monitor it and how things change in the economy. We're seeing a lot of double, dual income folks coming to our communities. You know, where with mortgage rates as low as they are small price changes, even incremental within a couple of months really don't move the needle that much. So it's an interesting phenomenon right now.

Stuart: Yes, I think an additional point is we're going to have to see how employment starts to shake out when we think about long term how the market is actually going to be receptive to the way – to the migrations that are out there. It seems and it feels that employment's going to snap back to some extent. It's not going to be back at 3-1/2%.

There are going to be some disruptions out there but at the same time there are a number of people who are finding that they have affordability. And remember one of the most difficult things to accumulate is a down payment. And with people having stayed at home so long, not having restaurants and movie theaters and other activities open, the ability to save has actually increased the amount of deposit money available to customers.

So all of these things are working to gather. We'll see how they play out over time. It's part of the reason that we've conservatively some of our numbers because we recognize that we're going to have to wait and see on some of these items. So next question.

Coordinator: Next we have Truman Patterson from Wells Fargo. Your line is open.

Truman Patterson: Hi. Good morning everyone. And thank you for all the detail -- really appreciate it. Let me also throw on great results.

So following up on Ivy's question, you know, one of the big questions in the market clearly is how sustainable, you know, the demand is and whether this rebound is being driven by, you know, that pent-up demand potentially which could trail off. So a couple of questions that I'm hoping you can give us a little bit of color on.

You know, one, you know, what portion of your sales today are being driven by we'll call it pre-COVID traffic, you know, from the first half of March and before? And then the second part, you know, for sustainability, you know, any idea what portion of your entry-level purchasers are using government stimulus checks as down payments.

You know, a family of four essentially just got a \$3400 check from the

government which can usually go a long way, you know, towards a down payment. Any idea or any way you can help us with either of those questions I'd appreciate it.

Stuart: Jon, Rick?

Jon: I think with respect to your last question Truman if you think about qualification requirements to purchase a home, you know, the people that we're seeing buying our homes today for the most part are not relying on the government assistance checks. They're employed. You know, for someone to purchase and close they've got job security so we're really not seeing that.

You know, as Stuart said a moment it's -- we really and Rick said we really have to wait and see how things unfold with how sustainable some of these trends are and how much of it is the pull back from what was missed in the second half of March and the beginning of April which was in the middle of a very strong spring selling season and how much of these are trends of, you know, like granted there's Millennials moving to the suburbs with people looking for a better way to have a home office -- all the factors that we know are playing out right now we're going to have to see how sustainable they are.

Stuart: You know, I would just add to that Jon and say let's remember that what was disrupted by the pandemic was an already very strong housing market. And we were just entering the selling season in a market that was already revealing itself as being fairly robust.

When we announced our first quarter earnings while it took a backseat to the discussion of about what was happening to the broader economy our earnings picture was very strong, our sales were very strong.

And so it makes sense that with a basically two to three-month hiatus or slowdown in the middle that the traffic that was already embedded is somewhat coming forward. But it's attitude by the number of narratives that are playing out at the same time. Deciphering which is which is a little bit complicated.

Another thing I want to highlight and remind people is we have talked for the past years about a production deficit. We have been under producing homes, dwellings from multifamily, rental all the way through to single-family suburban, across the board the country has been under producing homes for a very long time for certainly the past ten years.

And that underproduction means we are short supply against strong demand, pent-up demand, stalled demand and this is likely to be with us for some period of time. We do not have an overstated inventory to absorb that demand so we're likely to see, you, an under-supply meeting with a strong demand for some period of time.

Truman Patterson: Okay, okay thank you for that. If I could just parse the data a little bit further, you know, really kind of micro near term trends what was the back half of May's year over year growth rate? And, you know, with June trending up over 20%, you know, year over year could you maybe discuss the gross order improvement? You know, is this, you know, to an extent being driven by a massive decline in the cancellation rate?

Rick: So the cancellation rate really has come down as I highlighted. And we also pointed out that through the month of May each week got, you know, picked up in activity. So the last week of May was stronger than the first week of May. And I'm really going back over the last six weeks. In each of those weeks we sold north of 1,000 homes increasing during that time period.

So we did see the market solidify. That continued into June. And, you know, the market's got a good solid footing right now.

Truman Patterson: Okay, okay is there any way to parse out the back half of May's growth rate in that can rate versus how June's can rate is trending?

Rick: We really haven't talked about a June can rates but that has come down. And I just want to be very careful not to give too many micro-statistics associated with the business. The trend line was consistent throughout the month increasing week to week and continuing into June.

Truman Patterson: Okay thank you all.

Stuart: Next question and we'll probably cut it at that point. Oh, two more questions. Okay go ahead.

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

Mike Rehaut: Great, thanks very much guys and appreciate all the detail and the thoughtfulness in your remarks. First thing, you know, I just wanted to circle back for my first question on the order guidance. and, you know, you kind of talked about Stuart that, you know, there is an element of conservatism here which is understandable, as well as concern, not concerns but a trajectory around community counts being impacted by sort of the land spend and other constraints out there.

Help me to get a sense for what you're thinking about in particular with regards to community counts trying to, you know, decouple those drivers and get a sense for, you know, how you're thinking of the community count

trajectory that ended the quarter at 1,245 where that could be by year end?

And, you know, and, you know, from that is there kind of a margin of error that you're injecting from a conservative standpoint? Are you kind of taking a 10% haircut let's say if there's any type of, you, quantification of what that conservatism might be?

Stuart: Well before I let Rick answer that question let me just say that community count we have all learned together is one of the most difficult numbers to project. It moves around a lot and in the context of the environment that we've have been working in with municipality offices shutting down and being less available, getting fewer permits out of them for land development it becomes even more difficult. So I'll let Rick take it from there.

Rick: So I'll take the question that we really don't have a great answer to which is, you know, we expect our community count to dip slightly in Q3, stabilize in Q4. And we're optimistic as we enter 2021 through the balance of 2021 that we'll see probably a 5% increase in community count in 2021. You know, just really can't underestimate the difficulty it has been getting communities out of the ground as towns and municipalities reopen up and do permitting.

Mike Rehaut: I appreciate that. And I assume you mean when you say dip slightly you mean from 2Q levels. The second question I had was also just kind of circling back to the, you know, various initiatives that you had in place for quite some time around efficiency measures both on the construction side and on the SG&A and, you know, recognizing that, you know, that there are, you know, probably dozens of initiatives on both of those line items, you know, it may be a little hard to quantify.

But, you know, I was hoping for any type of thought around, you know, what

this means over the next couple of years from a margin benefit standpoint both on the gross side with the various construction, you know, initiatives that you've done as well as the SG&A, you know, cost reducing efforts?

You know, if there's any way to kind of think about this or, you know, some type of guidance that maybe not formal guidance but just directional guidance how we could think about, you know, all those people obviously what this means for those metrics, the gross side and the SG&A side?

Stuart: So look Mike we have daylighted that our focus has been on all ranges of technology across our platform because there is a direct translation to bringing the cost side of our world down. It's everything from construction costs, to labor cost to internal efficiencies and the way that we internally transmit and report our numbers and all the way through to our customer experience and the way that we interact with our customers.

You know, part of our initiative is designed to make sure they we're able to produce affordable housing so it's not going to all flow through to margin. It's going to help us keep our home prices affordable as we go forward. And so it's not a direct relationship to our margin because some of these initiatives are going to flow through to the benefit of our customers.

But with that said we think that our margins will improve. You're already seeing some of that improvement injected going forward. Some of that derives from things like pricing power. Some of it derives from things like reduced incentives or reduced Realtor cooperation but it's all parts of our business of bringing our cost structure down.

With that said and to directly answer your question we looked over the next couple of years at 100 basis points maybe a couple hundred basis points of

flow through. These are our objectives as we think about it. It's more of an internal number than part of our guidance right now but you're definitely seeing improvement in the way that our cost structure is configured.

Mike Rehaut: Great thank you.

Stuart: You're welcome. Last question?

Coordinator: Thank you. And our last question is from Mike Dahl from RBC Capital Market. Your line is open.

Mike Dahl: Hi. Thanks for squeezing me in. Stuart I have just a couple follow-ups on some of the internal initiatives I guess specifically first on the virtual sales shift. And, you know, in addition to an enhanced customer experience it sounds like some nice financial benefits. But, you know, within those comments around the margin can you help us understand, you know, what percentage or any metrics around what portion of your sales force has effectively shifted to more of the virtual new home coordinators versus, you know, in community salespeople?

Stuart: The shift today has been fairly mild. People are still learning to properly use and engage the digital technologies. And that learning curve takes some time to implement and to perfect.

But as we perfect it we're going to see a greater number of both our customers enjoying the digital engagement and the autonomy as well as our new home consultants and what we call our Internet new-home consultants, our ISCs really being able to work with those tools and be far more effective and efficient.

You know, this is a migration that's going to take place over the next quarters to years and I think we'll be better equipped to answer it as we develop additional experience. But I will say that the way I think about this is we've had probably a year or two of change management get incorporated over just the past three months as we've reeducated or educated our new home consultants and our customer base that these tools exist and that they're quite beneficial to a better experience.

Jon: Can I just add that I agree with Stuart but nearly 100% of our new home consultants and Internet sales consultants are using our virtual tools today. It's really a question of them becoming experts at it and really comfortable with it. We've launched a series of training programs that we take our associates through to how to sell virtually and it's rapidly accelerating but it is change management and it will continue to improve.

Mike Dahl: Okay, thanks for that and then a follow-up for me is then another internal initiative question just around build cycles. You talked about some of the centralized scheduling. And I was wondering if you could just quantify, clearly there's the moving pieces with some of the shutdowns but maybe, you know, at the trough of the issues in March or April how much had your build cycle widened out or lengthened?

And then, you know, do you have any sort of metric you're tracking against with some of these initiatives in terms of how many days you think you can shave off the build cycle by some of these – with some of these efficiencies and digital tools?

Jon: What we are seeing is a steady decline as we look year over year and sequentially the quarter, they decline in our build cycle time. And so we think, you know, as an example this quarter compared to a year ago about a 15-day

decline in our cycle time. So all elements of efficiency from, you know, the coordination with our trades, even flow focus, you know, the benefits of everything that's included in today's world.

I think just our total Builder of Choice program has attracted trades to us making sure we have the trade power that we need on the job as we need them and we're there to facilitate things flowing more smoothly for them. So I think that that's another trend that I expect will be continued for us as a continue contraction of that.

Stuart: Rick, do you want to weigh in on that?

Rick: Going down.

Stuart: Going down, okay.

Mike Dahl: Thank you.

Stuart: So I think with - that's - I think we'll end it there. I want to thank everybody for joining us and for enduring some rather long and windy opening remarks.

I know it starts with me but we felt that we wanted to share more information at what can be a confusing time and look forward to reporting in a more condensed way. Our third quarter is few months from now. Thank you for joining.

Coordinator: Thank you all for participating in today's conference. You may disconnect your line and enjoy the rest of your day.

END