

Company: Toll Brothers	Ticker: TOL	Price: \$90.30	Industry: Homebuilding
Target Price: \$90.30 Stop Loss: \$72.24 52 Week High/Low: \$90.30/\$45.47	TTM P/E: 7.1x Forward P/E: 8.0x EPS (Q4): \$13.9	Beta (5Y): N/A Credit Rating: Baa3 (Moody's) Rating Outlook: Stable	Market Cap: 9.37B Avg. Vol: 1.84M Dividend Yield: 0.96%

#### Company Background:

Toll Brothers, established in 1967, stands as the foremost builder of luxury homes in the United States. The Toll Brothers is engaged in the comprehensive process of designing, constructing, marketing, selling, and facilitating financing for a diverse range of luxury residential properties. With a commitment to excellence, Toll Brothers strategically targets both the upscale luxury market and the segment of buyers seeking affordable luxury. Toll Brothers specializes in the development and improvement of various housing types, including single-family detached homes, attached homes, master-planned communities, and urban low-, mid-, and high-rise developments. Toll Brothers primarily operates on the land it develops, ensuring a hands-on approach to crafting distinctive living spaces. Over the period from 2017 to 2023, Toll Brothers successfully delivered an impressive total of 45,369 homes across 904 distinct communities, solidifying its reputation as a premier player in the luxury homebuilding industry.

#### Industry Outlook:

The US residential construction market, valued at \$5.267 billion in 2022, is poised for significant growth, with projections estimating a market size of \$8.308 billion by 2032, reflecting a compound annual growth rate (CAGR) of 4.8%. Notably, the median age of owner-occupied housing has risen to 40 years, a notable increase from 31 years in 2005, indicating a growing need for new residential construction to meet evolving preferences and standards. The industry is buoyed by an average increase in wealth, contributing to enhanced spending capacity among potential homebuyers. Despite this demand, the residential construction market is currently undersupplied as households continue to grow. With a Total Addressable Market (TAM) boasting 26 million addresses, Toll Brothers addresses only a fraction of this vast potential, serving around 10,000 addresses. This underscores the ample room for expansion within the market, positioning Toll Brothers for continued growth and market penetration.

#### Investment Thesis:

Toll Brothers presents a compelling investment thesis, driven by a sophisticated land strategy that focuses on capital efficiency and increased return on equity (ROE), evidenced by a notable 9.5% ROE increase from FY21 to FY23. The company has strategically invested in more optioned land contracts as a percentage of the total, structuring land acquisitions more efficiently. Furthermore, Toll Brothers has expanded its portfolio with Affordably Luxury communities, leading to higher inventory turnover. The firm's financial and management strength is underscored by a solid balance sheet with approximately \$2.8 billion in liquidity and strong Debt/Capital margins, affirming its resilience and stability in the homebuilding sector. This strategic approach positions Toll Brothers for continued growth and success in the market.

#### Investment Risks:

Toll Brothers navigates potential macroeconomic risks by targeting higher-income individuals with luxury offerings, mitigating the impact of rising interest rates and inflation on consumer spending. To address supply chain disruptions, TOL increases home prices to counter higher input costs, as evidenced by a Q2 2023 average increase of \$25,000. The company also tackles the risk of a mismatch in consumer preferences by incorporating diverse architecture and unrivaled design choices for

interiors. Moreover, TOL utilizes land option contracts to ensure strategic building locations, maintaining a reputation for constructing homes in prestigious areas. These strategic measures position TOL to effectively mitigate risks and thrive in a dynamic market.

3-5 takeaways from last quarter investor call transcript:

- Demand was solid across both geography and product lines in their third quarter, and they raised prices by an average of \$20,000. TOL saw particular strength in the Mountain and South regions, where we tend to have lower average prices.
- TOL signed 2,245 net contracts for \$2.2 billion in our third quarter, up 77% in units and 30% in dollars compared to last year's third quarter when mortgage rates were much lower in the 5% to 6% range. On a per community basis, TOL sold at a pace of 2.2 homes per month, compared to 1.3 last year and 2.3 last quarter.
- TOL attributes the solid demand for new homes to the well-publicized shortage of existing homes for sale. Existing homeowners are reluctant to give out their low-rate mortgages. While rising rates remain a challenge for the overall industry, they further cement a lock-in effect that has kept resell inventory at historically low levels.

5-Year Financial Performance:



DCF Valuation:

TOL	Historical Period				Current FY	Projection Period				
	2019	2020	2021	2022 (E)	2023	2024	2025	2026	2027	
Home Sales	\$7,080	\$6,917	\$1,412	\$9,711	\$9,816	\$10,211	\$10,517	\$10,727	\$10,942	\$11,051
Land sales and other	\$787	\$587	\$159	\$564	\$861	\$896	\$923	\$941	\$960	\$970
Revenue	\$7,868	\$7,504	\$1,571	\$10,275	\$10,680	\$11,107	\$11,440	\$11,669	\$11,902	\$12,021
% growth	1%	1%	1%	0%	4%	3%	2%	2%	2%	1%
Home Sales	\$5,514	\$5,514	\$6,539	\$7,217	\$7,345	\$7,577	\$7,993	\$8,153	\$8,316	\$8,399
Land sales and other	\$130	\$126	\$309	\$552	\$1,086	\$681	\$701	\$715	\$730	\$737
Cost of Revenue	\$5,464	\$5,669	\$6,248	\$7,769	\$8,431	\$8,438	\$8,694	\$8,868	\$9,046	\$9,136
% margin	30%	24%	20%	25%	21%	23%	24%	24%	24%	24%
Gross Profit	\$2,404	\$1,864	\$1,043	\$2,486	\$2,249	\$2,629	\$2,688	\$2,676	\$2,748	\$2,749
% gross margin	29%	25%	23%	24%	21%	24%	24%	23%	23%	23%
Operating Expenses	\$879	\$867	\$922	\$978	\$962	\$1,040	\$1,179	\$1,203	\$1,227	\$1,219
% margin	11%	12%	10%	10%	9%	10%	10%	10%	10%	10%
EBIT	\$1,324	\$997	\$1,021	\$1,509	\$1,306	\$1,629	\$1,479	\$1,472	\$1,521	\$1,510
% margin	17%	13%	12%	15%	12%	15%	13%	13%	13%	13%
Tax Expense	\$197	\$140	\$267	\$417	\$511	\$397	\$355	\$353	\$365	\$362
Fin. Rate	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%
NOL/PAT	\$1,127	\$857	\$754	\$1,091	\$795	\$1,232	\$1,124	\$1,119	\$1,156	\$1,147
Adj. DDA	\$69	\$72	\$69	\$76	\$77	\$98	\$98	\$98	\$98	\$100
% margin	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Less: CapEx	\$133	\$47	\$204	\$117	\$93	\$148	\$144	\$161	\$142	\$145
% margin	2%	1%	2%	1%	1%	1%	1%	1%	1%	1%
Less: Increase in NWC	\$166	\$166	\$166	\$166	\$166	\$169	\$172	\$175	\$178	\$182
% margin	2.10%	2.20%	1.88%	1.63%	2%	2%	2%	2%	2%	2%
Free Cash Flow	\$897	\$716	\$584	\$888	\$684	\$1,014	\$907	\$879	\$934	\$921

Implied Perpetuity Growth Rate	
Terminal Value FCF	\$921
Discount Rate	9%
Terminal Value	\$15,816
Perpetuity Growth Rate	3%

Implied Equity Value and Share Price	
PV of FCF	\$3,633
PV of Terminal Value	\$10,279
Enterprise Value	\$13,912
Less: Debt	\$2,975
Add: Cash & Equivalents	\$1,347
Equity Value	\$12,284
Shares Outstanding	111
Implied Share Price	\$110.45
Current Price	\$90.30
Margin of Safety	22%

Comparable Companies:

Ticker	Company Name	Market Data		Financial Data (TTM)				Valuation Metrics			
		Price (\$/Share)	Market Cap (\$B)	Sales (\$B)	EBITDA (\$B)	EPS (\$)	EV/Sales	EV/EBITDA	P/E	P/BV	
TOL	Toll Brothers	90.30	9.37	10.95	10.0	1.8	13.9	1.1	5.9	7.1	1.4
DHI	DR Horton Inc	134.31	43.56	45.43	35.5	6.4	14.1	1.3	7.1	9.5	1.9
LEN	Lennar Corp	136.58	37.13	37.97	33.4	5.5	13.5	1.1	6.8	9.8	1.7
PHM	Pulte Group Inc	93.17	19.60	20.28	17.1	3.7	12.3	1.2	5.3	7.4	2.0
NVR	NVR Inc	6448.00	20.25	18.50	9.9	2.1	475.4	1.9	8.6	13.4	5.0
	Average	1380.47	25.98	26.63	21.18	3.88	105.83	1.32	6.74	9.44	2.40
	Median	134.31	20.25	20.28	17.07	3.69	13.91	1.20	6.80	9.50	1.90

ESG:

Toll Brothers is committed to ESG principles, emphasizing environmental responsibility, social inclusion, and sound governance. In 2022, the company achieved significant environmental milestones and promotes social responsibility through clear policies, a Culture Steering

	<p>Committee, and educational investments. In governance, Toll Brothers engages with stakeholders, regularly evaluates board performance, and prioritizes diversity in decision-making. These initiatives highlight the company's commitment to sustainable practices across ESG domains.</p>
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