

NVR, Inc.

2024 EPS and ROE estimates going much higher after 4Q order beat

Reiterate Rating: BUY | PO: 8,000.00 USD | Price: 7,120.67 USD

4Q EPS roughly in-line despite delivery miss

NVR, Inc. (NVR) reported 4Q23 EPS of \$121.56, ahead of our \$115.39 forecast and consensus of \$121.50. Homebuilding revenues declined 11% YoY to \$2.39bn (6% below our forecast). Homes closed (units) declined 7% YoY and average price was down 4%. Despite the lower 4Q revenue, we increase our 2024 EPS estimate by 14% to reflect stronger a top-line outlook going forward (better orders) as well as SG&A leverage. We raise our PO to \$8,000 (from \$7,500) still based on 5.5x price-to-forward book.

Order growth significantly outperforms normal seasonality

NVR 4Q orders increased 25% YoY and 9% QoQ, 12% above our forecast. Average order price (ASP) decreased 1% QoQ in 4Q mainly driven by mix. Orders and absorption pace significantly outperformed normal seasonality. Absorption pace continues to hold well above pre-COVID levels, despite headwinds from higher interest rates early in the quarter. NVR increased its community count by 2% QoQ and we expect growth to continue into 2024 given NVR's controlled lot position (~7 years of land supply based on current sales pace).

Expect relatively resilient GM and SG&A leverage in '24

4Q gross margin of 24.1% down 20bps QoQ. We forecast 2024 gross margin of 24.0% vs. 24.3% in 2023. We expect flattish incentives going forward with lower rates and an improved demand backdrop. Higher land and material costs could be a slight headwind to margins in 2024. We anticipate 50bps of SG&A leverage due to lower stock-based compensation in 2024 (2023 had overlapping plans).

ROE likely to remain elevated in 2024; Reiterate Buy

We reiterate our Buy on NVR given its high return-on-equity (forecast ~35%+ 12-month forward) and cash flow generation (~7% FCF yield) should support capital return to investors. We do not anticipate NVR to continue to grow its cash position (\$2bn+ of net cash on balance sheet). Given the elevated cash position, we expect share repurchases to increase from 4Q levels (forecasting \$1.4B buybacks in 2024 vs. \$1.0bn in 2023).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	491.65	463.18	481.07	494.24	527.18
EPS Change (YoY)	53.3%	-5.8%	3.9%	2.7%	6.7%
Consensus EPS (Bloomberg)			427.60	451.28	415.61
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	14.5x	15.4x	14.8x	14.4x	13.5x
EV / EBITDA*	8.7x	10.2x	9.4x	9.7x	9.8x
Free Cash Flow Yield*	7.4%	5.8%	6.4%	6.0%	6.0%

* For full definitions of *IQmethod*SM measures, see page 6.

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	7,500.00	8,000.00

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Stock Data

Price	7,120.67 USD
Price Objective	8,000.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-1-9
52-Week Range	4,988.99 USD - 7,423.73 USD
Mkt Val (mn) / Shares Out (mn)	24,992 USD / 3.5
Free Float	95.3%
Average Daily Value (mn)	151.32 USD
BofA Ticker / Exchange	NVR / NYS
Bloomberg / Reuters	NVR US / NVR.N
ROE (2024E)	35.2%
Net Dbt to Eqty (Dec-2023A)	0%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 30 January 2024 07:54PM EST

iQprofileSM NVR, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	39.3%	33.2%	29.3%	27.4%	27.0%
Return on Equity	53.0%	40.6%	35.2%	32.8%	32.2%
Operating Margin	21.7%	20.2%	20.1%	18.6%	17.9%
Free Cash Flow	1,852	1,446	1,594	1,491	1,503

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	0.9x	1.0x	1.0x	1.0x
Asset Replacement Ratio	1.1x	1.4x	1.2x	1.2x	1.2x
Tax Rate	23.4%	17.5%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-45.9%	-49.4%	-51.7%	-50.5%	-48.6%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	10,580	9,687	10,544	10,950	11,292
% Change	18.0%	-8.4%	8.8%	3.9%	3.1%
Gross Profit	2,918	2,636	2,807	2,759	2,765
% Change	32.2%	-9.7%	6.5%	-1.7%	0.2%
EBITDA	2,310	1,975	2,143	2,067	2,049
% Change	38.8%	-14.5%	8.5%	-3.5%	-0.9%
Net Interest & Other Income	(40)	(28)	(30)	(30)	(30)
Net Income (Adjusted)	1,726	1,592	1,564	1,507	1,493
% Change	39.5%	-7.8%	-1.7%	-3.7%	-0.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,726	1,592	1,564	1,507	1,493
Depreciation & Amortization	17	19	26	27	28
Change in Working Capital	(12)	(192)	(54)	(98)	(73)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	139	53	88	88	88
Capital Expenditure	(18)	(26)	(31)	(32)	(33)
Free Cash Flow	1,852	1,446	1,594	1,491	1,503
% Change	51.2%	-21.9%	10.2%	-6.4%	0.8%
Share / Issue Repurchase	(1,500)	(1,082)	(1,400)	(1,500)	(1,600)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(601)	(1)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,523	3,126	3,339	3,331	3,233
Trade Receivables	21	29	31	32	33
Other Current Assets	1,788	1,950	2,036	2,156	2,244
Property, Plant & Equipment	62	70	75	80	85
Other Non-Current Assets	1,268	1,390	1,337	1,337	1,337
Total Assets	5,661	6,565	6,818	6,935	6,932
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,239	1,248	1,282	1,304	1,321
Long-Term Debt	915	989	989	989	989
Other Non-Current Liabilities	0	0	0	0	0
Total Liabilities	2,154	2,237	2,271	2,293	2,310
Total Equity	3,507	4,328	4,547	4,642	4,622
Total Equity & Liabilities	5,661	6,565	6,818	6,935	6,932

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Homebuilders

Company Description

NVR, Inc. is a top 5 US homebuilder based on deliveries. It operates in four geographic segments, building homes catering to entry-level and move-up buyers. The company is positioned in 34 markets in 14 states, and primarily builds single-family detached homes. NVR also operates a mortgage and title insurance business. The company's fiscal year ends on December 31.

Investment Rationale

We rate NVR shares at Buy. We view NVR as one of the highest quality homebuilders in our coverage. The company's sizable share in its markets, consistent execution, enviable asset-light land strategy, superior return profile and offsite manufacturing process for key structural components are all important strategic advantages.

Stock Data

Average Daily Volume 21,251

Quarterly Earnings Estimates

	2023	2024
Q1	99.90A	111.44E
Q2	116.54A	122.42E
Q3	125.26A	132.42E
Q4	121.58A	114.95E

Exhibit 1: NVR 4Q23 variance to BofA estimate

NVR reported 4Q EPS above our estimate on a lower tax rate

Income Statement	YoY Change			Variance vs BofAe		
	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Home Sales (\$ in mms)	\$2,668	\$2,387	(10.5%)	\$2,548	\$2,387	(6%)
Homebuilding Gross Margin ex-impairments	25.3%	24.1%	-122 bps	24.5%	24.1%	-45 bps
Homebuilding SG&A % of revenue	5.2%	6.3%	110 bps	5.9%	6.3%	45 bps
Homebuilding Operating Margin	20.6%	19.0%	-165 bps	18.7%	19.0%	32 bps
Pre-tax Margin	21.0%	19.5%	-146 bps	18.9%	19.5%	60 bps
Operating EPS	\$133.44	\$121.56	(9%)	\$115.39	\$121.56	5%
GAAP EPS	\$133.44	\$121.56	(9%)	\$115.39	\$121.56	5%
Regional Results	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Deliveries (units)	5,749	5,332	(7.3%)	5,599	5,332	(4.8%)
Average Delivered Price (\$000s)	\$464.0	\$447.6	(3.5%)	\$455.1	\$447.6	(1.6%)
Total Orders	4,153	5,190	25.0%	4,652	5,190	11.6%
Average Selling Price (\$000s)	\$459.0	\$450.9	(1.8%)	\$467.7	\$450.9	(3.6%)
Mid-Atlantic orders	1,836	2,029	10.5%	2,056	2,029	(1.3%)
North East orders	430	526	22.3%	482	526	9.1%
Mid East orders	741	942	27.1%	830	942	13.5%
South East orders	1,146	1,693	47.7%	1,284	1,693	31.9%
Backlog Units	9,162	10,229	11.6%	9,424	10,229	8.5%
Backlog Value (\$ in mms)	\$4,326	\$4,757	10.0%	\$4,431	\$4,757	7.4%
Avg Price in Backlog	\$472.1	\$465.0	(1.5%)	\$470.2	\$465.0	(1.1%)
Backlog Conversion Ratio	53.4%	51.4%	-203 bps	54.0%	51.4%	-257 bps

Source: BofA Global Research estimates, Company data

BofA GLOBAL RESEARCH

Exhibit 2: NVR income statement (\$000s, except per share data)

We expect EPS to increase in 2024

YE 12/31	2024E				2023	2024E	2025E
(\$ 000s)	3/31/2024	6/30/2024	9/30/2024	12/31/2024	12/31/2023	12/31/2024	12/31/2025
Income Statement	1QE	2QE	3QE	4QE			
Revenue							
Home Sales	\$2,340,474	\$2,614,436	\$2,751,271	\$2,473,917	\$9,314,605	\$10,180,097	\$10,602,474
Other Income	32,000	32,000	32,000	32,000	148,010	128,000	100,000
Mortgage Banking Revenue	53,499	62,460	65,995	54,016	224,733	235,970	247,768
Total Revenue	\$2,425,972	\$2,708,897	\$2,849,265	\$2,559,933	\$9,687,348	\$10,544,067	\$10,950,242
Homebuilding Cost of Goods Sold	\$1,767,058	\$1,986,972	\$2,090,966	\$1,892,546	\$7,051,198	\$7,737,541	\$8,190,937
Homebuilding Gross Profit	\$573,416	\$627,465	\$660,305	\$581,370	\$2,263,407	\$2,442,556	\$2,411,537
Selling General & Administrative Expenses							
Homebuilding SG&A	\$133,407	\$151,637	\$151,320	\$148,435	\$588,962	\$584,799	\$609,035
Mortgage Banking G&A	24,074	28,107	29,698	24,307	91,075	106,186	111,496
Operating Income							
Homebuilding	\$472,009	\$507,827	\$540,985	\$464,935	\$1,822,455	\$1,985,757	\$1,902,502
Mortgage Banking	29,424	34,353	36,297	29,709	133,658	129,783	136,272
Total Operating Profit	\$501,433	\$542,181	\$577,282	\$494,644	\$1,956,113	\$2,115,540	\$2,038,775
Total Interest Expense	\$7,493	\$7,493	\$7,493	\$7,493	\$27,740	\$29,972	\$29,972
Income before provision for income taxes	\$493,940	\$534,688	\$569,789	\$487,151	\$1,928,373	\$2,085,568	\$2,008,803
Provision for Income Taxes	123,485	133,672	142,447	121,788	336,762	521,392	502,201
Net Income (Continuing Operations)	\$370,455	\$401,016	\$427,342	\$365,364	\$1,591,611	\$1,564,176	\$1,506,602
Diluted EPS (Adjusted Shares, Cont. Ops.)	\$111.44	\$122.42	\$132.42	\$114.95	\$463.18	\$481.07	\$494.24
Diluted shares outstanding	3,324	3,276	3,227	3,179	3,436	3,251	3,048
Margins							
Homebuilding Gross Margin (Excluding Impairments)	24.5%	24.0%	24.0%	23.5%	24.3%	24.0%	22.7%
Homebuilding Operating Margin	19.9%	19.2%	19.4%	18.6%	19.3%	19.3%	17.8%
Mortgage Banking Operating Margin	55.0%	55.0%	55.0%	55.0%	59.5%	55.0%	55.0%
Total Operating Margin	20.7%	20.0%	20.3%	19.3%	20.2%	20.1%	18.6%
Pre-tax Margin	20.4%	19.7%	20.0%	19.0%	19.9%	19.8%	18.3%
Net Margin (Cont. Ops)	15.3%	14.8%	15.0%	14.3%	16.4%	14.8%	13.8%
Tax Rate	25.0%	25.0%	25.0%	25.0%	17.5%	25.0%	25.0%
% Sales							
Homebuilding SG&A expenses	5.7%	5.8%	5.5%	6.0%	6.2%	5.7%	5.7%



Exhibit 2: NVR income statement (\$000s, except per share data)

We expect EPS to increase in 2024

YE 12/31	2024E				2023	2024E	2025E
Mortgage Banking SG&A expenses	45.0%	45.0%	45.0%	45.0%	40.5%	45.0%	45.0%
Total SG&A expenses	6.5%	6.6%	6.4%	6.7%	7.0%	6.6%	6.6%
Depreciation & Amortization	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%
YoY % Change							
Home Sales	9.8%	14.5%	9.5%	3.6%	(9.8%)	9.3%	4.1%
Mortgage Banking Sales	5.0%	5.0%	5.0%	5.0%	3.8%	5.0%	5.0%
Total Sales	9.5%	13.9%	9.0%	3.2%	(8.4%)	8.8%	3.9%
Home Sales Gross Profit	9.6%	12.9%	8.2%	1.3%	(15.1%)	7.9%	(1.3%)
Operating Income	13.7%	13.4%	5.7%	0.8%	(14.7%)	8.2%	(3.6%)
Net Income (continuing ops)	7.6%	(0.7%)	(1.3%)	(10.9%)	(7.8%)	(1.7%)	(3.7%)
EPS (continuing ops)	11.5%	5.0%	5.7%	(5.5%)	(5.8%)	3.9%	2.7%
YoY BPS Change							
Homebuilding Gross Margin (Excluding Impairments)	-6 bps	-33 bps	-29 bps	-55 bps	-150 bps	-31 bps	-125 bps
Homebuilding Operating Margin	82 bps	15 bps	-44 bps	-43 bps	-167 bps	0 bps	-149 bps
Mortgage Banking Operating Margin	-58 bps	-658 bps	-674 bps	-314 bps	241 bps	-447 bps	0 bps
Total Operating Margin	76 bps	-9 bps	-63 bps	-47 bps	-148 bps	-13 bps	-145 bps
Pre-tax Margin	78 bps	-8 bps	-63 bps	-49 bps	-139 bps	-13 bps	-143 bps
Net Margin (Cont. Ops)	-27 bps	-219 bps	-156 bps	-227 bps	12 bps	-160 bps	-108 bps
Tax Rate	438 bps	1075 bps	531 bps	972 bps	-595 bps	754 bps	0 bps

Source: BofA Global Research estimates, Company Data

BofA GLOBAL RESEARCH

Price objective basis & risk

NVR, Inc. (NVR)

Our \$8,000 PO is based on 5.5x 2024E book value, a significant premium to peers (1.4x), but roughly in line with NVR's historical average.

Downside risks: (1) worse-than-expected demand in core markets, (2) a decline in finished lot availability, leading to gross margin pressure and declining return on equity, (3) less stock liquidity than certain peers, (4) a continued increase in interest rates leading to affordability challenges, (5) significant increase in land, labor or material costs, (6) continued supply chain challenges, (7) slowing US economic growth

Upside risks: (1) better-than-expected demand in core markets, (2) an increase in finished lot availability, leading to gross margin acceleration and an increasing return on equity, (3) increased stock liquidity, (4) pullback in interest rates, key input costs or home price appreciation.

Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

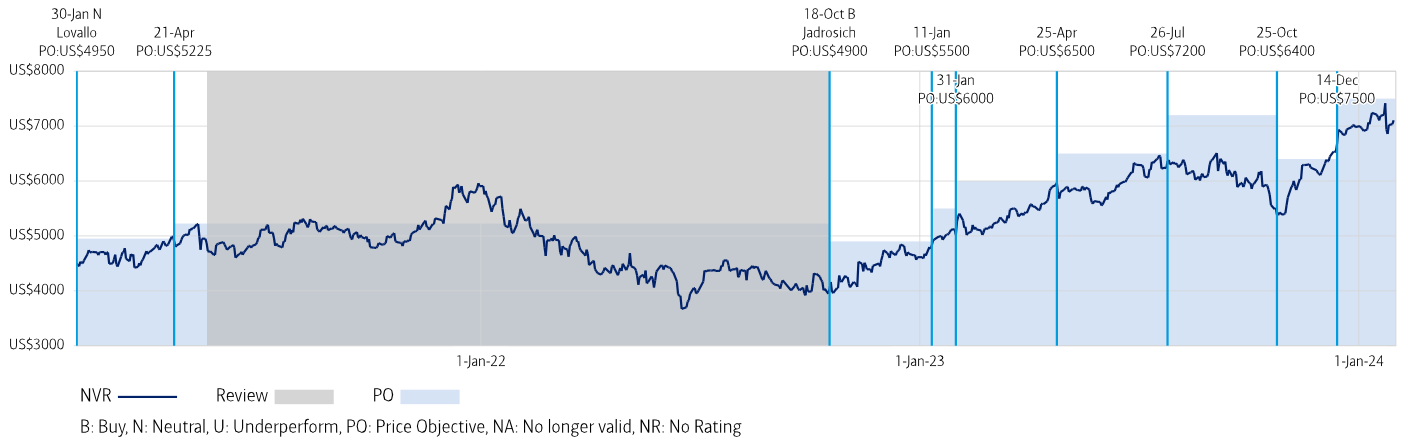
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Disclosures

Important Disclosures

NVR, Inc. (NVR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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