

Toll Brothers, Inc.

F1Q24: beats on revenue and margin; Orders outperforming typical seasonality

Maintain Rating: BUY | PO: 110.00 USD | Price: 103.55 USD

Solid F1Q beat on revenues and margin

Toll Brothers (TOL) reported F1Q24 EPS (ended January) of \$2.25, well ahead of our \$1.92 forecast and consensus of \$1.78. Better than expected higher average selling price (ASP), gross margin and well-controlled SG&A expenses drove upside to our forecast (see variance table below). Home sales revenue grew 10% YoY to \$1.93bn (slightly above our \$1.92bn forecast) in F1Q. Homes closed (units) increased 5.5% YoY with average price up 4.6% YoY. Adjusted home sales gross margin expanded 134bps YoY to 28.9% (ahead of guidance of 28%). F1Q24 net orders were well ahead of expectations and grew 39.8% YoY to 2.0k in units (above our forecast of 1.7k) and 1.6% YoY in value. Orders and absorptions significantly outpaced normal QoQ seasonality (both flattish QoQ vs. normal seasonality of down double-digit). TOL decreased its land acquisition pace to 2,620 lots for \$463.2mm in F1Q compared to 3,352 lots for \$430.9mm in F4Q2023. F1Q beat/orders are impressive and we think the gross margin outlook is conservative. Maintain Buy.

TOL's core guidance looks conservative

F2Q delivery guidance of 2,400-2,500 units was in-line with our 2,450 forecast while ASPs of \$1,000k-\$1,010k were above our \$966k forecast. TOL also guided F2Q to 27.6% adjusted home sales gross margin (below our forecast of 28.5%), SG&A as a percentage of homes sales revenues of 9.7% (below our 10.0% forecast), ending community count of 385 (in-line with our forecast), \$180M in other income and a 25.8% tax rate. The jump in other income guidance for F2Q and 2024 comes from a gain on sale of land that is expected total around \$175mm in pre-tax income in F2Q (1.5% market cap). Excluding the one-time benefit from the land sale (estimate \$1.25 benefit), TOL's guidance looks relatively unchanged despite the F1Q beat and F2Q order beat. TOL is guiding to higher deliveries ranging from 10k-10.5k (vs. previous 9.85k-10.35k units), unchanged ASPs of \$940K-\$960K, a 28.0% adjusted home sales gross margin (vs. 27.9%), SG&A as a percentage of homes sales revenue of 9.8% (vs. previous 9.9%), an ending community count of 410 (+ 10% YoY), \$260mm in other income (vs. previous \$125mm) and a 25.5% tax rate (vs. previous 26.0%).

Key questions for the call tomorrow

TOL will host its earnings conference call tomorrow morning at 8:30am ET. Our questions heading into the call tomorrow: 1) F2024 guidance seems to imply a step down in average selling prices and gross margin through the year, especially in F2H – is this conservatism?; 2) What is the gross margin on homes sold today and how much visibility does management have into F2Q-F4Q gross margins?; 3) How did demand trend through the quarter and into February, especially as mortgage rates have increased recently?; 4) Priorities of capital allocation and why not buy back more stock in F1Q?; and 5) Any other 30x book value land sale opportunities hidden in the balance sheet? We will review our estimates following the earnings call.

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Stock Data

Price	103.55 USD
Price Objective	110.00 USD
Date Established	14-Dec-2023
Investment Opinion	B-1-7
52-Week Range	55.44 USD - 105.91 USD
Mrkt Val (mn) / Shares Out (mn)	11,495 USD / 111.0
Free Float	99.3%
Average Daily Value (mn)	141.57 USD
BofA Ticker / Exchange	TOL / NYS
Bloomberg / Reuters	TOL US / TOLN
ROE (2024E)	17.4%
Net Dbt to Eqty (Oct-2023A)	22.9%
ESGMeter™	Medium

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Exhibit 1: TOL F1Q variance vs. BofA forecasts

F1Q24 beat on margins and orders

Income Statement	YoY Change			Variance vs BofAe		
	1Q23	1Q24	YoY	BofAe	1Q24	Δ
Home Sales (\$ in mms)	\$1,749	\$1,932	10%	\$1,919	\$1,932	1%
Adj. Homebuilding Gross Margin	27.5%	28.9%	134 bps	28.5%	28.9%	37 bps
Homebuilding SG&A % of revenue	12.1%	11.9%	-18 bps	12.0%	11.9%	-9 bps
Homebuilding Operating Margin	12.7%	15.8%	318 bps	15.0%	15.8%	83 bps
JV & Other income (\$ in mms)	\$28	\$3	(90%)	(\$10)	\$3	n/a
Pre-tax Margin	14.3%	16.0%	172 bps	14.5%	16.0%	150 bps
Operating EPS	\$1.70	\$2.25	32%	\$1.92	\$2.25	17%
GAAP EPS	\$1.70	\$2.25	32%	\$1.92	\$2.25	17%
Regional Results	1Q23	1Q24	YoY	BofAe	1Q24	Δ
Deliveries (units)	1,826	1,927	5.5%	1,925	1,927	0%
Average Delivered Price (\$000s)	\$958.3	\$1,002.6	4.6%	\$997.0	\$1,002.6	1%
Total Orders	1,461	2,042	39.8%	1,747	2,042	16.9%
Average Selling Price (\$000s)	\$995.4	\$1,011.2	1.6%	\$973.0	\$1,011.2	3.9%
North	328	325	(0.9%)	328	325	(0.9%)
Mid-Atlantic	251	246	(2.0%)	276	246	(10.9%)
South	415	575	38.6%	519	575	10.8%
Mountain	299	541	80.9%	389	541	39.1%
Pacific	168	355	111.3%	235	355	51.1%
Backlog Units	7,733	6,693	(13.4%)	6,400	6,693	4.6%
Backlog Value (\$ in mms)	\$8,585	\$7,081	(17.5%)	\$6,726	\$7,081	5.3%
Avg Price in Backlog	\$1,110.2	\$1,058.0	(4.7%)	\$1,050.9	\$1,058.0	0.7%
Backlog Conversion Ratio	22.5%	29.3%	675 bps	29.3%	29.3%	3 bps

Source: BofA Global Research estimates, Company data

BofA GLOBAL RESEARCH

Price objective basis & risk**Toll Brothers, Inc. (TOL)**

Our \$110 PO on TOL shares is based on a price to 2024E book value multiple of roughly 1.5x, in line with TOL's historical average.

Downside risks: (1) Luxury home demand could suffer an outsized decline during economic slowdowns, (2) Mid-Atlantic and Northeastern markets tend to grow more slowly, (3) potential earnings volatility given historically lumpy City Living sales, although this segment is now a small portion of TOL's overall business, (4) worsening affordability from rising rates, (5) supply chain issues and (6) slowing US economic growth.

Upside risks: (1) Luxury home demand could benefit by an outsized amount during economic strengthening, (2) Mid-Atlantic and Northeastern markets could grow more quickly, (3) improved lending markets could positively impact potential TOL customers needing to sell an existing home.

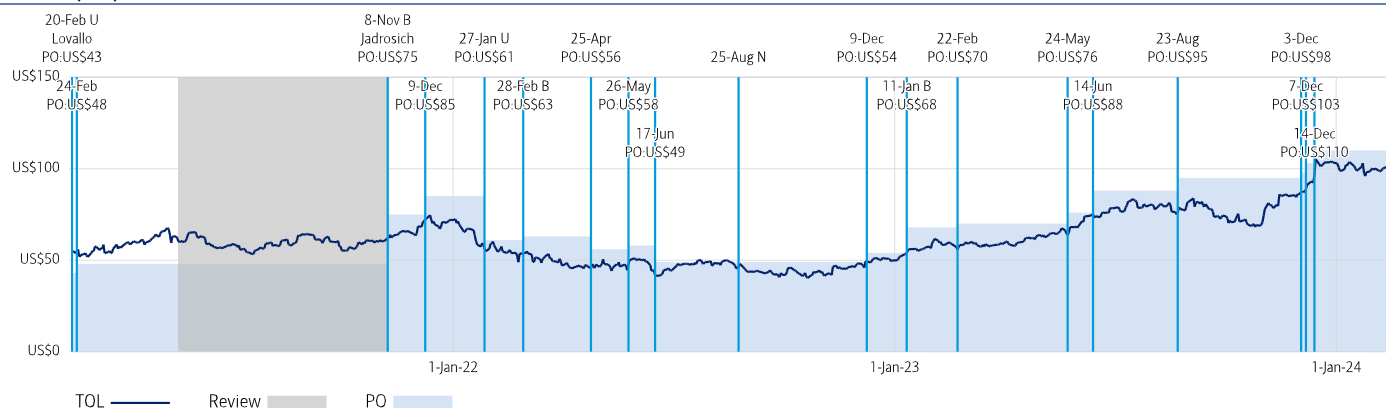
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Toll Brothers (TOL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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