

Toll Brothers, Inc.

F1Q beats; orders trending above seasonality & GM guide looks conservative

Reiterate Rating: BUY | PO: 120.00 USD | Price: 107.64 USD

Reiterate Buy; F2 earnings outlook better than expected

Toll Brothers (TOL) reported F1Q24 (ended January) EPS ahead of our/consensus estimates. Our key takeaways: 1) F1Q orders are higher than normal seasonality due to significantly stronger demand in January, 2) strong demand continued in the first three weeks of February across all product types, and 3) gross margin outperformed guidance driven by higher deliveries in higher margin Pacific and Mid-Atlantic communities and fewer in lower margin Mountain communities. We raise our F2024 EPS estimate to \$13.94 (from \$11.99) to reflect the stronger delivery guidance and a \$175mm gain from land sale. We reiterate our Buy rating; valuation remains attractive relative other builders with similar ROE profiles. We raise our PO to \$120 (from \$110) still based on 1.5X price-to-forward 12-month book value.

Orders trending above normal seasonality

TOL's F1Q orders increased 39.8% YoY to 2.0k (above our forecast of 1.7k) and was flat QoQ, above normal seasonality. Demand steadily improved throughout the quarter. In the first three weeks of F2Q, customer deposits are trending higher compared to historical absorption pace (typically up 60% QoQ).

FY GM raised slightly, but F2Q will face mix headwind

TOL slightly raised FY 2024 gross margin guidance to 28.0% vs. previous 27.9%. F1Q gross margin was 28.9%, 90bps above consensus primarily due to favorable geographic mix. TOL is guiding to 27.6% gross margin in F2Q, a 230bps QoQ decline partially due to mix headwinds including a pull forward into F1Q and higher spec mix. Net pricing was flat with modest increase in incentives due to higher spec sales and modest price increases in two-thirds of communities, and order ASP was up 2% QoQ on mix. TOL initiated F2Q ASP at \$1.0mm-\$1.01mm but left F2024 guidance unchanged (implies 2H down), driven by strategy to increase mix in lower price affordable luxury and spec. Spec sales made up 50% of orders/40% of deliveries vs. historical levels of 15%-20%. Spec homes carry gross margin ~250 bps lower than built-to-order (current spread is lower), the build cycle is two months shorter, which supports F2024 ROE guidance of 21%.

F1Q beats on ASP, margins & SG&A; 2024 guidance raised

TOL reported F1Q EPS of \$2.25 above our \$1.92 estimate driven by better than expected higher ASP, gross margin and lower SG&A. TOL increased F2024 EPS guidance of \$13.25-\$13.75, vs. previous \$12.00-\$12.50

Estimates (Oct) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.90	12.36	13.94	13.27	14.94
EPS Change (YoY)	57.5%	13.3%	12.8%	-4.8%	12.6%
Consensus EPS (Bloomberg)			12.26	12.84	14.18
DPS	0.74	0.83	0.84	0.84	0.84
Valuation (Oct)					
P/E	9.9x	8.7x	7.7x	8.1x	7.2x
Dividend Yield	0.7%	0.8%	0%	0%	0.8%
EV / EBITDA*	7.1x	6.7x	6.4x	6.9x	6.5x
Free Cash Flow Yield*	7.7%	10.0%	14.9%	1.3%	3.0%

* For full definitions of *IQmethod*SM measures, see page 5.

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	110.00	120.00
2024E EPS	11.99	13.94
2025E EPS	11.35	13.27
2026E EPS	12.38	14.94

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Stock Data

Price	107.64 USD
Price Objective	120.00 USD
Date Established	21-Feb-2024
Investment Opinion	B-1-7
52-Week Range	55.44 USD - 111.66 USD
Mrkt Val (mn) / Shares Out (mn)	11,949 USD / 111.0
Free Float	99.3%
Average Daily Value (mn)	152.97 USD
BofA Ticker / Exchange	TOL / NYS
Bloomberg / Reuters	TOL US / TOLN
ROE (2024E)	19.7%
Net Dbt to Eqty (Oct-2023A)	22.9%
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 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 21 February 2024 08:17PM EST

ASP: Average Selling Price

iQprofileSM Toll Brothers, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.5%	15.6%	15.3%	13.0%	13.0%
Return on Equity	22.8%	21.4%	19.7%	15.8%	15.5%
Operating Margin	14.7%	17.3%	18.1%	15.0%	14.4%
Free Cash Flow	915	1,193	1,785	154	358

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	0.9x	1.3x	0.2x	0.4x
Asset Replacement Ratio	0.9x	1.0x	1.5x	1.4x	1.4x
Tax Rate	24.5%	25.5%	25.5%	26.0%	26.0%
Net Debt-to-Equity Ratio	32.9%	22.9%	2.9%	8.9%	11.7%
Interest Cover	NM	NM	NM	NA	NA

Income Statement Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	10,276	9,995	10,371	11,261	12,255
% Change	16.9%	-2.7%	3.8%	8.6%	8.8%
Gross Profit	2,486	2,634	2,863	2,776	2,941
% Change	NA	NA	NA	NA	NA
EBITDA	1,950	2,068	2,180	2,029	2,153
% Change	39.2%	6.0%	5.4%	-6.9%	6.1%
Net Interest & Other Income	195	118	68	60	80
Net Income (Adjusted)	1,287	1,372	1,447	1,295	1,368
% Change	48.2%	6.7%	5.4%	-10.5%	5.6%

Free Cash Flow Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,287	1,372	1,447	1,295	1,368
Depreciation & Amortization	77	76	96	110	120
Change in Working Capital	(353)	(354)	383	(1,111)	(955)
Deferred Taxation Charge	(97)	36	0	0	0
Other Adjustments, Net	73	135	3	12	(8)
Capital Expenditure	(72)	(73)	(143)	(152)	(166)
Free Cash Flow	915	1,193	1,785	154	358
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	(543)	(562)	(492)	(600)	(600)
Cost of Dividends Paid	(89)	(91)	(87)	(82)	(81)
Change in Debt	0	(5)	0	0	0

Balance Sheet Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,347	1,300	2,496	1,967	1,649
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	9,481	9,749	9,323	10,507	11,524
Property, Plant & Equipment	288	324	352	394	441
Other Non-Current Assets	1,174	1,154	1,162	1,162	1,162
Total Assets	12,289	12,527	13,332	14,031	14,776
Short-Term Debt	1,334	1,264	1,127	1,127	1,127
Other Current Liabilities	2,937	2,853	2,707	2,780	2,841
Long-Term Debt	1,995	1,596	1,596	1,596	1,596
Other Non-Current Liabilities	0	0	0	0	0
Total Liabilities	6,267	5,714	5,430	5,503	5,565
Total Equity	6,022	6,813	7,902	8,527	9,211
Total Equity & Liabilities	12,289	12,527	13,332	14,031	14,776

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Homebuilders

Company Description

Toll Brothers is a leading US homebuilder with a focus on luxury suburban and urban markets. TOL operates in six distinct segments, focusing on highly customized homes. The company builds luxury, affordable luxury (millennial focus) and active-adult communities.

Investment Rationale

We rate TOL share Buy. Positives include: (1) TOL has yet to see the full impact of price increases due to its longer build cycles and (2) roughly 75% of the owned land on the balance sheet was purchased pre-pandemic (roughly 3 year supply) and should provide a long runway for healthy margins.

Stock Data

Average Daily Volume

1,421,142

Quarterly Earnings Estimates

	2023	2024
Q1	1.70A	2.25A
Q2	2.85A	3.94E
Q3	3.73A	3.62E
Q4	4.11A	4.17E

Exhibit 1: TOL F1Q variance vs. BofA Forecasts

F1Q beat on revenues, 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

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

TOL is raising guidance for gross margin to 28% range in F2024

FYE 10/31 (\$ 000s)	FY2024E				FY2023 10/31/23	FY2024E 10/31/24	FY2024E 10/31/24
	1/31/24	4/30/24	7/31/24	1/4/00			
	1Q	2QE	3QE	4QE			
Revenue							
Home Sales	\$1,931,836	\$2,313,977	\$2,786,309	\$3,147,401	\$9,866,026	\$10,179,523	
Land Sales	16,012	175,000	-	-			
Total Revenue	\$1,947,848	\$2,488,977	\$2,786,309	\$3,147,401	\$9,994,937	\$10,370,535	
Homebuilding Cost of Goods Sold							
Land Sales	\$1,399,226	\$1,712,343	\$2,056,296	\$2,329,077	\$7,207,279	\$7,496,942	
Land Sales	10,161	-	-	-	153,457	10,161	
Amortized interest charged to cost of sales	23,578	34,846	39,008	44,064	139,410	141,496	
Operating community impairments	-	-	-	-	-	-	
Land Impairment	-	-	-	-	-	-	
Land Options Write-Offs	1,471	-	-	-	-	-	
Inventory & land option charges	1,471	-	-	-	30,706	1,471	
Homebuilding Cost of Goods Sold (ex impairments)	\$1,397,755	\$1,712,343	\$2,056,296	\$2,329,077	\$7,176,573	\$7,495,471	
Homebuilding Gross Profit	\$532,610	\$601,634	\$730,013	\$818,324	\$2,658,747	\$2,682,581	
Homebuilding Gross Profit (ex impairments)	\$534,081	\$601,634	\$730,013	\$818,324	\$2,689,453	\$2,684,052	
Land Sales Gross Profit	5,851	175,000	-	-	(24,546)	180,851	
Selling General & Administrative Expenses	\$230,046	\$225,381	\$256,340	\$276,971	\$909,446	\$988,739	
Operating Profit	\$308,415	\$551,253	\$473,672	\$541,353	\$1,724,755	\$1,874,693	
Other Expense (Income)							
Other Expense (income)	(12,212)	(5,000)	(10,000)	(10,000)	(77,046)	(37,212)	
Net Interest Expense (income)	294	-	-	-	9,528	294	
Equity in earnings of unconsolidated entities	9,172	-	(20,000)	(20,000)	(50,098)	(30,828)	
Total Other Expenses (Income)	(\$2,746)	(\$5,000)	(\$30,000)	(\$30,000)	(\$117,616)	(\$67,746)	
Income before provision for income taxes	\$311,161	\$556,253	\$503,672	\$571,353	\$1,842,371	\$1,942,439	
Provision for Income Taxes	71,603	144,626	130,955	148,552	470,300	495,735	
Net Income (Continuing Operations)	\$239,558	\$411,627	\$372,718	\$422,801	\$1,372,071	\$1,446,704	



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

TOL is raising guidance for gross margin to 28% range in F2024

FYE 10/31

Potential add-back of convert interest

Net Income (Continuing Operations - post converts)

Non-Recurring Items

Net Income (GAAP)**Diluted EPS (Adjusted Shares, Cont. Ops.)****Adjusted Common Shares Outstanding:**

Diluted

Shares adjusted for convert (for EV calculation)

Margins

Homebuilding Gross Margin (Excluding Impairments & amortization)

Land & Lot Sales Gross Margin

Operating Margin

EBITDA Margin

Pre-tax Margin

Net Margin (Cont. Ops)

Tax Rate

% Sales

SG&A Expense % of homebuilding sales

Depreciation & Amortization

Amortization of previously capitalized debt

YoY % Change

Home Sales

Home Sales Gross Profit

Operating Income

Net Income (continuing ops)

EPS (continuing ops)

YoY BPS Change

Homebuilding Gross Margin (Excluding Impairments)

Total Operating Margin

Pre-tax Margin

Net Margin (Cont. Ops)

Tax Rate

Source: Company reports, BofA Global Research estimates**FY2024E****FY2023****FY2024E****FY2025E**

	-	-	-	-	-	-	-
	\$239,558	\$411,627	\$372,718	\$422,801	\$1,372,071	\$1,446,704	
	-	-	-	-	-	-	-
	\$239,558	\$411,627	\$372,718	\$422,801	\$1,372,071	\$1,446,704	
	\$2.25	\$3.94	\$3.62	\$4.17	\$12.36	\$13.94	
	106,265	104,605	102,945	101,345	111,008	103,790	
	106,265	104,605	102,945	101,345	111,008	103,790	
	28.9%	27.5%	27.6%	27.4%	28.7%	27.8%	
	36.5%	nm	nm	nm	nm	nm	
	15.8%	22.1%	17.0%	17.2%	17.3%	18.1%	
	18.0%	24.7%	20.5%	20.5%	20.7%	21.0%	
	16.0%	22.3%	18.1%	18.2%	18.4%	18.7%	
	12.3%	16.5%	13.4%	13.4%	13.7%	14.0%	
	23.0%	26.0%	26.0%	26.0%	25.5%	25.5%	
	11.9%	9.7%	9.2%	8.8%	9.2%	9.7%	
	0.8%	1.0%	1.0%	0.9%	0.8%	0.9%	
	1.2%	1.4%	1.4%	1.4%	1.4%	1.4%	
	10.4%	(7.1%)	4.2%	6.6%	1.6%	3.2%	
	18.8%	(8.5%)	(1.7%)	1.0%	7.5%	0.9%	
	36.9%	29.5%	(8.0%)	(3.1%)	14.3%	8.7%	
	25.1%	28.5%	(10.1%)	(5.1%)	6.7%	5.4%	
	32.2%	37.9%	(3.0%)	1.5%	13.3%	12.8%	
	155 bps	-84 bps	-169 bps	-173 bps	145 bps	-89 bps	
	318 bps	517 bps	-217 bps	-130 bps	257 bps	82 bps	
	172 bps	517 bps	-250 bps	-188 bps	185 bps	30 bps	
	154 bps	377 bps	-206 bps	-132 bps	121 bps	22 bps	
	-152 bps	37 bps	100 bps	-35 bps	104 bps	-1 bps	

BofA GLOBAL RESEARCH

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

Our \$120 PO on TOL shares is based on a price-to-forward 12-month 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.

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
	Smith Douglas Homes Corp.	SDHC	SDHC 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

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$NOPAT = (EBIT + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $EV = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
 $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
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.

IQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

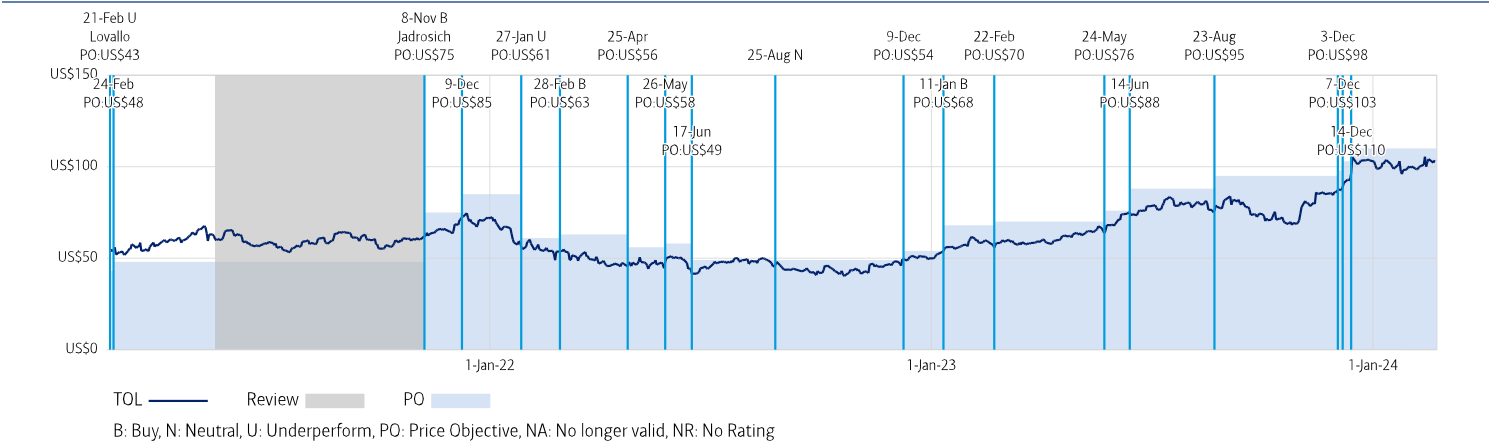
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Disclosures

Important Disclosures

Toll Brothers (TOL) 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.

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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%

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