

# *Toll Brothers*

AMERICA'S LUXURY HOME BUILDER®

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# Executive Summary

We recommend a BUY position with a target price of \$190 representing a 13% annual upside

1

Declining Rates

2

Prime Target Customer

3

Political Deregulation

**BUY**

24% Upside from last  
close price of \$153.92

**\$190**

24-Month Target Price

# Business Overview

## General

Toll Brothers, Inc. is a full service home builder that offers luxury homes and urban-living in affluent suburbs and metro areas near major transit and employment hubs. Their services include the designing, building, marketing, and selling of luxury homes with subsidiaries that provide architectural, engineering, mortgage, title, land development, insurance, smart-home technologies, landscaping, and lumber distribution services.



### Business Segments

- Traditional Home Building
- City Living
- Master-planned communities
- Land Development



### Customer Base

- Affluent demographic
- Move-up Buyers
- First-time Buyers
- Empty-nesters



### Revenue Drivers

- Built Homes; **98.7%**
- Land Sales; **1.2%**
- Rent; **0.3%**

# Market Overview

- Tightening supply constraint on 2nd owner homes
  - Supply dictates construction
- Material cost high due to covid
  - Projected to stabilize this year

US Existing Home Sales - Thousand



Source: tradingeconomics.com | National Association of Realtors

# Industry Overview

***Toll Brothers***  
AMERICA'S LUXURY HOME BUILDER®

- Toll Brothers beating competition in
  - YOY+2024 EST Order Volume
  - YOY+2024 EST Gross Margin
  - 2024 EST AVG closing price
- Low housing supply



# Generational Implications

Toll Brothers' target customer base of Millennials and Baby Boomers implies high growth potential in the following years

## Millennials

- First time home buyers; up 20% since 2020
- Family-friendly suburban housing
- Millennials wealthier than previous generations

## Baby Boomers

- Empty-nesters ready to downsize
- Retirement communities
- Wealthiest Generation

## Summary

- Target generations at key inflection points primed for home buying
- Accrued wealth implies demand for luxury homes

# Housing Prices

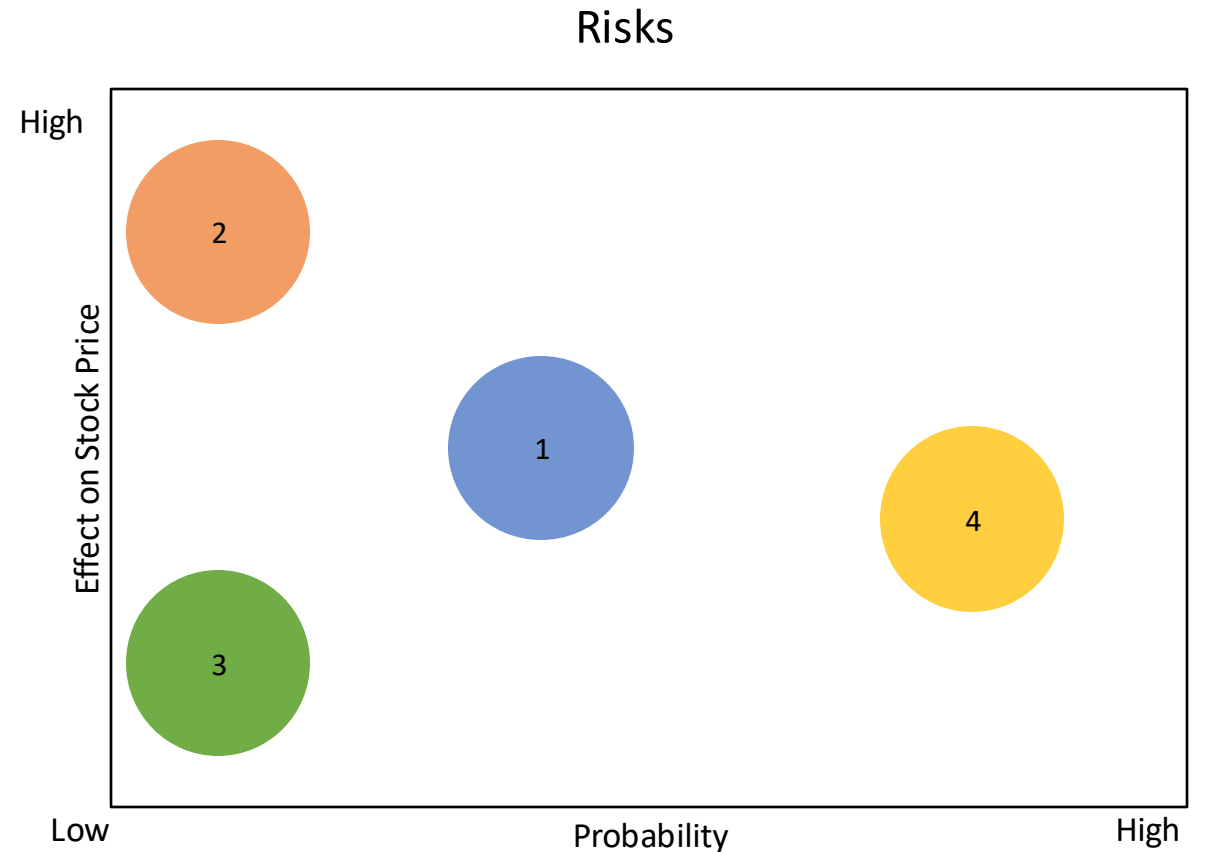
- **Political Pressure:** Current Republican party aims to make housing more affordable (de-regulation)
  - Trump: Proposed easing zoning regulations to increase housing supply
- 24% of the cost of a single-family home and 41% of the cost of a multifamily home are attributable to regulatory costs at the local, state, and federal levels.
- As of mid-2023, there was a housing shortage of 4 million homes in the U.S.
- Single-family housing starts grew 2.7% in September
- Homebuilders expect to construct 1.2 million new single-family homes and around 300,000 multifamily units over the next year

# Affordability – Rising Wages, Falling Rates

- Mortgage rates peaked in Oct 23' - correlation between rates & sales
- Though 10YR yields elevated, volatility between 10YR and US30YMR narrowing. When volatility falls, so will mortgage rates as the spread between them decreases.
- 30YR Fixed Mortgage currently 6.84% 11/21 --> Expected 5.7% avg 2025
- YoY Professional income increasing 5% with avg yearly pmt decreasing to \$76,253
- Interest rates are expected to fall, and affordability is expected to increase, further amplifying Toll Brother's position

# Risks

- **1** - Mortgage Rate Volatility
  - 24% of homes closed were done in cash
- **2** - Severe recession – rGDP down 3-4%, unemployment 7%+, less wage growth
  - Rate cuts and economy stimulation mitigate risk of a big recession
  - Home Prices falling faster than cost of construction.
- **3** - Political Concerns
  - Consumers always wait until after elections to make big ticket purchases
- **4** - Tariffs
  - Increases to PPI will be mitigated by TOL high gross margin and increasing gross margin %



# Financial Model

- PE currently at 11.22. We anticipate a PE of 12 due to 10% increase in affordability standards for TOL houses along with 20% increase in new luxury home buyers over next few years
- >50% of TOL revenues comes from sales equaling \$750,000 or more in predominantly suburban and retirement settings
- High revenue, margin, and EPS growth
- EBITDA 3-year growth outperforms competitors

TOLL BROTHERS INC	Sector	FY End	Market Cap	Shs Outstand	Div Yield						
	Consumer Discretionary	10/2023	15,476	101	0.60						
		2020	2021	2022	2023	Current/LTM	2024e	2025e	2026e	Annualized Growth (LTM to 2026e)	
<b>Revenue</b>		7,078	8,790	10,276	9,995	10,533	10,674	11,003	11,735	5.7%	
<i>growth %</i>		(2.0)	24.20	16.90	(2.73)	(1.44)	6.79	3.09	6.65		
<b>Gross Profit</b>		1,418	1,942.90	2,486.38	2,634.20	2,941.71	2,973.33	2,967.51	3,124.44	3.1%	
<i>growth %</i>		(9.1)	37.05	27.97	5.95		12.87	(0.20)	5.29		
<i>margin %</i>		20.0	22.10	24.20	26.36	27.93	27.86	26.97	26.62		
<b>EBITDA</b>		690	1,142.76	1,640.48	1,854.83	1,952.51	2,252.27	2,136.64	2,225.17	7.0%	
<i>growth %</i>		(13.2)	65.61	43.55	13.07		21.43	(5.13)	4.14		
<i>margin %</i>		9.7	13.00	15.96	18.56	18.54	21.10	19.42	18.96		
<b>Net Income</b>		491	882.41	1,312.37	1,396.33	1,452.14	1,541.35	1,463.26	1,533.60	2.8%	
<i>growth %</i>		(28.4)	86.65	54.33	6.65		10.39	(5.07)	4.81		
<i>margin %</i>		6.9	10.04	12.77	13.97	13.79	14.44	13.30	13.07		
<b>EPS</b>		3.40	6.63	10.90	12.36	13.67	14.73	14.59	15.91	8.1%	
<i>growth %</i>		(12.3)	87.82	58.45	13.12	(3.90)	19.14	(0.93)	9.02		
				11/21/2024	10/31/2024						
				07/24	07/31/24	10/31/24	10/31/25	10/31/26		1.944444444	
<b>Exit Multiple Model</b>											
		2020	2021	2022	2023	Current/LTM	2024e	2025e	2026e	Annualized Growth (Curr/LTM to 2026e)	PEG
EPS, Adj+		3.40	6.63	10.90	12.36	13.67			15.91	8.1%	1.48
P/E		12.44	9.08	3.95	5.72	11.22			12.00	3.5%	
Price		42.28	60.17	43.08	70.71	153.27			190.86	11.9%	

# Recommendation

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