



ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

Toll Brothers Inc. (NYSE: TOL: BUY)

Target Price: \$43

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Why Buy Toll Brothers?

- Toll is the largest homebuilder serving the luxury market. We believe that Toll's access to capital is an advantage over small and mid-sized builders that are privately owned.
 - Doesn't typically compete with the big public builders.
- Our analysis suggests favorable supply/demand conditions at the high end of the housing market as a result of limited access to capital by small and mid-sized privately owned builders, several years of pent-up demand, and a shortage of approved home sites in high-employment markets.
 - Management thinks pent-up demand may be starting to bring more buyers into the market.
- Recently initiated cash dividend.
- Fortune magazine named Toll "Most Admired Home Building Company" for third consecutive year.

Recent Management Comments:

- Management remained upbeat about prospects for "substantial" growth this year and was pleased with the 16% increase in nonbinding deposits in the first three weeks of 2Q17.
- Robert Toll said that a strong stock market, low unemployment, and rising home equity point to a favorable outlook for the housing market.
- Rising home values giving buyers more cash when they sell to "move up."
- Optimism on Millennials: 26% of settlements had someone 35 or younger on the deed.
- Notes that Toll's portion of the luxury market is not as pressured as the "super-luxury" segment, e.g., Hamptons, Malibu, Greenwich, where prices are well into the millions.
 - Average home \$750,000 - \$800,000
 - Average \$663,000 outside NYC and California -- affordable to a household that makes \$125,000.

Solid Order trends:

- In 1Q, the company signed contracts for 1,522 homes valued at \$1.24 billion.
 - This was up 14% in dollars and 22% in units from the prior-year quarter.
 - This was better than the StreetAccount consensus, which called for 1,407 contracts.
- The backlog was 5,145 units with a value of \$4.35 billion, up 19% in dollars and 21% in units. The StreetAccount consensus called for 4,934 units with a value of \$4.21 billion.
- The average TOL buyer added \$155,000 in upgrades in FY16, up 6% from FY16. That's 80% of the price of the average U.S. home.

Footprint:

- At the end of FY16, the company operated 310 selling communities in 20 states.
- Presence in about 50 major markets.

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