Toll Brothers
AMERICA'S LUXURY HOME BUILDER®

# Toll Brothers Reports FY 2016 3rd Qtr and 9 Month Results

August 23, 2016

HORSHAM, Pa., Aug. 23, 2016 (GLOBE NEWSWIRE) -- Toll Brothers, Inc. (NYSE:TOL) (www.tollbrothers.com), the nation's leading builder of luxury homes, today announced results for its third quarter and nine months ended July 31, 2016.

Villa Milano at Casabella at Windermere.jpg

Villa Milano at Casabella at Windermere.jpg

***FY 2016 Third Quarter Financial Highlights:***

- FY 2016's third-quarter net income increased 58% to $105.5 million, or $0.61 per share diluted, compared to net income of $66.7 million, or $0.36 per share diluted, in FY 2015's third quarter.

- Pre-tax income of $163.7 million increased 52%, compared to pre-tax income of $107.5 million in FY 2015's third quarter. Included in FY 2016's third-quarter cost of sales were impairments of $3.7 million, compared to impairments of $18.0 million in FY 2015's third quarter.

- Revenues of $1.27 billion and home building deliveries of 1,507 units rose 24% in dollars and 6% in units, compared to FY 2015's third quarter. The average price of homes delivered was $843,000, compared to $724,000 in FY 2015's third quarter.

- Net signed contracts of $1.45 billion and 1,748 units rose 18% in dollars and units, compared to FY 2015's third quarter. The average price of net signed contracts was $831,000, compared to $834,000 in FY 2015's third quarter.

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- Backlog of $4.37 billion and 5 … pared to FY 2015's third-quarter-end backlog. At FY 2 … es in backlog was $844,000, compared to $829,000 at FY

- Gross margin, as a percentag … , compared to 19.8% in FY 2015's third quarter. Adjustec … ory write-downs, as a percentage of revenues (“Adjusted Gross Margin”), was 25.3%, compared to 25.2% in FY 2015’s third quarter.

- SG&A, as a percentage of revenue, was 10.6%, compared to 11.3% in FY 2015’s third quarter.

- Income from operations was 11.3% of revenue, compared to 8.5% of revenue in FY 2015’s third quarter.

- Other income and Income from unconsolidated entities totaled $20.1 million, compared to $20.0 million in FY 2015’s third quarter.

- The Company ended its third quarter with 297 selling communities, compared to 299 at FY 2016’s second-quarter end, and 267 at FY 2015’s third-quarter end. The Company expects to end FY 2016 with between 305 and 315 selling communities.

- At FY 2016’s third-quarter end, the Company had approximately 48,700 lots owned and optioned, compared to approximately 45,400 one quarter earlier and 45,400 one year ago.

- The Company ended its FY 2016 third quarter with $351.9 million of cash and marketable securities, compared to $423.2 million at 2016’s second-quarter end and $404.8 million at FY 2015’s third-quarter end.

- During the third quarter of FY 2016, the Company repurchased approximately 3.7 million shares, representing approximately 2% of outstanding shares, of its common stock at an average price of $26.33 per share for a total purchase price of approximately $97.3 million. Cumulatively, since the start of FY 2016, the Company has repurchased approximately 11.4 million shares, representing approximately 7% of outstanding shares, at an average price of $28.72 per share for a total purchase price of approximately $327.6 million.

- The Company expects FY 2016 fourth quarter deliveries of between 2,025 and 2,325 units with an average price of between $815,000 and $835,000. This range results in projected full FY 2016 deliveries of between 5,900 and 6,200 units with an average delivered price of between $840,000 and $850,000. This would result in FY 2016 revenues of between $4.96 billion and $5.27 billion, up approximately 19% to 26% over FY 2015.

- Due primarily to a shift in its mix of deliveries, the Company now expects its full FY 2016 Adjusted Gross Margin to be between 25.6% and 25.8% of revenues, which is 30 basis points below the mid-point of its previous guidance.

- The Company’s full FY 2016 Other income and Income from unconsolidated entities is now expected to be between $88.5 million and $93.5 million, down from its previous guidance of $105 million to $130 million, as some of the closings of sold units in joint ventures originally projected for this fourth quarter will instead be delivered early in FY 2017.



Douglas C. Yearley, Jr., Toll Brot [illegible] me rose 58% this quarter versus one year ago, driven by a 24% i [illegible] in gross margin and a 70 basis point decline in SG&A, as a perc [illegible] of FY 2015.

“We are particularly pleased wi [illegible] dollars and units. And, through the first three weeks of August, the beginning of our fourth quarter, our non-binding reservation deposits are up

23%, compared to one year ago.

“Our strategy to be the premiere brand in luxury home building, and to provide a wide variety of product lines, price points and geographic locations, continues to pay off. In our third quarter, every region showed growth in contracts of anywhere from 9% to 29% in dollars and 7% to 36% in units. Each region contributed significantly. Of the $1.45 billion in contracts signed this quarter, the North contributed 17%, the Mid-Atlantic 17%, the South 17%, the West 19%, California 25% and City Living 5%.

“It appears that buyers in the luxury market continue to be drawn to our great brand name and nationwide reputation. This February we were #6 among global brands in the quality of our products/services offered according to Fortune Magazine’s survey of the World’s Most Admired Companies. The only companies in the world that ranked above us were Apple, Walt Disney, Amazon, Alphabet and Nordstrom.

“Given our land holdings, geographic diversity, variety of product offerings and brand name recognition, we believe we will continue to benefit from our strong position within the luxury new home market.”

Martin P. Connor, Toll Brothers’ chief financial officer, stated: “Once again, virtually every income statement metric improved this quarter compared, to a year ago, including revenues, earnings and margins. Increases in new contracts and backlog point to continuing growth in earnings.

“During the third quarter we expanded our 20-bank revolving credit facility to $1.295 billion and extended its maturity to May 2021. We also extended our $500 million bank term loan effective August 2, 2016 until August 2021. Combined, this gives us approximately $1.8 billion in capacity for variable rate borrowings, which, at the current interest rate and spread, is about 2%.

“In the third quarter, we deployed $97.3 million in cash to buy back 3.7 million shares at an average price of $26.33 per share, effectively lowering our share count in the third quarter by slightly more than 2%. This brings our spending on share buybacks in the first nine months of FY 2016 to $327.6 million for 11.4 million shares (7% of shares outstanding) at an average price of $28.72. We plan to continue to opportunistically buy back stock.

“In deploying this cash for buybacks, we did not limit our opportunities to invest in future growth. During the third quarter, we purchased 3,494 lots for an aggregate purchase price of $459.2 million and also placed 4,695 lots under option. We ended this quarter with approximately 48,700 lots owned and optioned, compared to 45,400 last quarter.

“Subject to the caveats in our Statement on Forward-Looking Information included in this release, we offer the following limited guidance.

“We expect to end FY 2016 with between 305 and 315 selling communities. In FY 2016’s fourth quarter, we expect to deliver between 2,02 [illegible] n $815,000 and $835,000. This narrows our previous guidance [illegible] nd 6,200 homes at an average price of between $840,000 an [illegible] 016 revenues of between $4.96 billion and $5.27 billion, up appr [illegible]



“We believe our product and ge [illegible] le each quarter some segments may go up or down in volume [illegible] gins. For example, the Adjusted

Gross Margin on our traditional home building business, which represented 96% of this quarter's revenues, rose to 24.7%, up 70 basis points compared to one year ago. Our City Living business, at 4% of revenue, saw its margin go from 43.2% one year ago to 39.8% this quarter, but still remains our most profitable segment. Due to a shift in mix, we now expect full FY 2016's Adjusted Gross Margin to be between 25.6% and 25.8%.

"Our full FY 2016 Other income and Income from unconsolidated entities is now expected to be between $88.5 million and $93.5 million, compared to previous guidance of $105 to $130 million as some of the closings of sold units in joint ventures originally projected for this fourth quarter will instead be delivered early in FY 2017.

"SG&A continues to grow in dollars but decrease as a percentage of revenues, in line with expectations set for the full fiscal year and reiterated on our second-quarter earnings call. The growth in our backlog, contracts, community count and joint ventures is adding costs prior to recognition of revenue. We expect FY 2016's fourth quarter SG&A, as a percentage of revenue, to be approximately 8.3%, which translates into full FY 2016 SG&A, as a percentage of revenue, of approximately 10.4%."

Robert I. Toll, executive chairman, stated: "Our growth in contracts this quarter and the solid demand across most of our markets reflects our brand recognition, our product quality and our strong community locations in land-constrained markets.

"The National Association of Realtors recently reported that sales of existing homes in June rose to the strongest pace since February 2007. This would suggest that those who do own homes have been building up more equity, which would enable them to move up (for growing families), move down (for seniors buying in the active adult and empty nester markets) or acquire a second home. The solid economy and employment picture are also benefiting our target customers. These factors, combined with continuing low interest rates, a favorable supply-demand equation and limited competition in the luxury market, position us for continued growth."

The financial highlights for the third quarter and nine months ended July 31, 2016 (unaudited):

- FY 2016's third-quarter net income was $105.5 million, or $0.61 per share diluted, compared to FY 2015's third-quarter net income of $66.7 million, or $0.36 per share diluted.

- FY 2016's third-quarter pre-tax income was $163.7 million, compared to FY 2015's third-quarter pre-tax income of $107.5 million. FY 2016's third-quarter results included pre-tax inventory impairments totaling $3.72 million ($1.25 million attributable to operating communities and $2.47 million attributable to future communities). FY 2015's third-quarter results included pre-tax inventory impairments of $18.0 million ($6.0 million attributable to an operating community and $12.0 million attributable to future communities).

- FY 2016's nine-month net inc

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compared to FY 2015's nine-month net income of $216.0 

- FY 2016's nine-month pre-ta 's nine-month pre-tax income of $318.0 million.

- FY 2016's third-quarter total revenues of $1.27 billion and 1,507 units rose 24% in dollars and 6% in units, compared to FY 2015's third-quarter total revenues of $1.03 billion and 1,419 units.

- FY 2016's nine-month total revenues of $3.31 billion and 3,874 units rose 21% in dollars and 5% in units, compared to FY 2015's same period totals of $2.73 billion and 3,705 units.

- The Company's FY 2016 third-quarter net contracts of $1.45 billion and 1,748 units rose by 18% in dollars and units, compared to FY 2015's third-quarter net contracts of $1.23 billion and 1,479 units.

- On a per-community basis, FY 2016's third-quarter net signed contracts were up 6% to 5.85 units, compared to third-quarter totals of 5.50 units in FY 2015, 5.25 in FY 2014 and 6.24 in FY 2013.

- The Company's FY 2016 nine-month net contracts of $4.18 billion and 4,991 units increased 13% in dollars and 12% in units, compared to net contracts of $3.70 billion and 4,473 units in FY 2015's nine-month period.

- FY 2016, third-quarter-end backlog of $4.37 billion and 5,181 units increased 19% in dollars and 17% in units, compared to FY 2015's third-quarter-end backlog of $3.69 billion and 4,447 units.

- FY 2016's third-quarter gross margin, as a percentage of revenue, was 21.9%, compared to 19.8% in FY 2015's third quarter.  FY 2016's third-quarter Adjusted Gross Margin was 25.3 %, compared to 25.2% in FY 2015's third quarter.

- Interest included in cost of sales was 3.1% of revenues in FY 2016's third quarter, compared to 3.6% in FY 2015's third quarter.

- SG&A, as a percentage of revenue, was 10.6% in FY 2016's third quarter, compared to 11.3% in FY 2015's third quarter.

- Income from operations of $1 016's third quarter, compared to $87.4 million and 8.5% of r

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- Income from operations of $ 2016's nine-month period, compared to $250.9 million a od.

- Other income and Income from unconsolidated entities in FY 2016's third quarter totaled $20.1, compared to $20.0 million in FY 2015's same quarter.

- Other income and Income from unconsolidated entities in FY 2016's nine-month period totaled $66.2 million, compared to $67.1 million in FY 2015's same period, which included an $8.1 million gain from the sale of home security accounts to a third party by the Company's wholly-owned Westminster Security Company.

- FY 2016's third-quarter cancellation rate (current-quarter cancellations divided by current-quarter signed contracts) was 4.8%, compared to 5.9% in FY 2015's third quarter. As a percentage of beginning-quarter backlog, FY 2016's third-quarter cancellation rate was 1.8%, compared to 2.1% in FY 2015's third quarter.

- In FY 2016's third quarter, unconsolidated entities in which the Company had an interest delivered $17.9 million of homes, compared to $24.6 million in the third quarter of FY 2015. In FY 2016's first nine months, unconsolidated entities in which the Company had an interest delivered $55.4 million of homes, compared to $60.9 million in the same nine-month period of FY 2015. The Company recorded its share of the results from these entities' operations in "Income from Unconsolidated Entities" on the Company's Statement of Operations.

- In FY 2016's third quarter, unconsolidated entities in which the Company had an interest signed contracts for $36.6 million of homes, compared to $72.4 million in the third quarter of FY 2015. In FY 2016's first nine months, unconsolidated entities in which the Company had an interest signed contracts for $141.9 million of homes, compared to $185.6 million in the same nine-month period of FY 2015.

- At July 31, 2016, unconsolidated entities in which the Company had an interest had a backlog of $553.1 million, compared to $409.2 million at July 31, 2015.

- The Company ended its FY 2016 third quarter with $351.9 million of cash and marketable securities, compared to $423.2 million at 2016's second-quarter end and $404.8 million at FY 2015's third-quarter end. During its third quarter, the Company expanded its revolving credit facility to 20 banks and $1.295 billion, and extended its maturity to May 2021. At FY 2016's third-quarter end, it had $765.8 million available under this facility.

- On August 2, 2016, the Comp OK om a February 2019 maturity to an August 2021 maturity.

- During the third quarter of F .7 million shares, representing approximately 2% of outstan ce of $26.33 for a total purchase price of $97.3 million. Cumulatively, since the start of FY 2016, the Company has purchased approximately 11.4 million shares, representing approximately 7% of outstanding shares, at an average price of $28.72 per share for a total purchase price of approximately $327.6 million.

- The Company's Stockholders' Equity at FY 2016's third-quarter end was $4.17 billion, compared to $4.12 billion at FY 2015's third-quarter end.

- The Company ended FY 2016's third quarter with a debt-to-capital ratio of 48.2%, compared to 45.7% at FY 2016's second-quarter end and 44.5% at FY 2015's third-quarter end. The Company ended FY 2016's third quarter with an adjusted net debt-to-capital ratio[1] of 44.9%, compared to 41.7% at FY 2016's second-quarter end, and 40.5% at FY 2015's third-quarter end.

- The Company ended FY 2016's third quarter with approximately 48,700 lots owned and optioned, compared to 45,400 one quarter earlier, and 45,400 one year earlier. At 2016's third-quarter end, approximately 35,600 of these lots were owned, of which approximately 17,600 lots, including those in backlog, were substantially improved.

- In the third quarter of FY 2016, the Company spent approximately $459.2 million on land to purchase 3,494 lots.

- The Company ended FY 2016's third quarter with 297 selling communities, compared to 299 at FY 2016's second-quarter end and 267 at FY 2015's third-quarter end.  The Company expects to end FY 2016 with between 305 and 315 selling communities.

- Based on FY 2016's third-quarter-end backlog and the pace of activity at its communities, the Company expects FY 2016 fourth-quarter deliveries of between 2,025 and 2,325 units with an average price of between $815,000 and $835,000. This range results in narrowed delivery guidance of between 5,900 and 6,200 homes in full FY 2016, with an average price of between $840,000 and $850,000 per home, which would result in FY 2016 revenues of between $4.96 billion to $5.27 billion, up approximately 19% to 26% over FY 2015.

- The Company now expects full FY 2016's Adjusted Gross Margin to be between 25.6% and 25.8%, compared to previous guidance of 25.8% t



- Full FY 2016 Other income ar ... ected to be between $88.5 million and $93.5 million, dov ... 30 million, as some of the closings of sold units in joint ... r will instead be delivered early in FY 2017.

- The Company expects FY 2016's fourth quarter SG&A, as a percentage of revenue, to be approximately 8.3%, which would result in full FY 2016 SG&A, as a percentage of revenue, of approximately 10.4%.

(1) See "Reconciliation of Non-GAAP Measures" below for more information on the calculation of the Company's net debt-to-capital ratio.

Toll Brothers will be broadcasting live via the Investor Relations section of its website, www.tollbrothers.com, a conference call hosted by CEO Douglas C. Yearley, Jr. at 11:00 a.m. (EDT) today, August 23, 2016, to discuss these results and its outlook for FY 2016. To access the call, enter the Toll Brothers website, click on the Investor Relations page, and select "Conference Calls". Participants are encouraged to log on at least fifteen minutes prior to the start of the presentation to register and download any necessary software.

The call can be heard live with an online replay which will follow. MP3 format replays will be available after the conference call via the "Conference Calls" section of the Investor Relations portion of the Toll Brothers website.

Toll Brothers, Inc., A FORTUNE 1000 Company, is the nation's leading builder of luxury homes. The Company began business in 1967 and became a public company in 1986. Its common stock is listed on the New York Stock Exchange under the symbol "TOL." The Company serves move-up, empty-nester, active-adult, and second-home buyers and operates in 19 states: Arizona, California, Colorado, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, North Carolina, Pennsylvania, Texas, Virginia, and Washington, as well as in the District of Columbia.

Toll Brothers builds an array of luxury residential single-family detached, attached home, master planned resort-style golf, and urban low-, mid-, and high-rise communities, principally on land it develops and improves. The Company operates its own architectural, engineering, mortgage, title, land development and land sale, golf course development and management, home security, and landscape subsidiaries. The Company also operates its own lumber distribution, house component assembly, and manufacturing operations. The Company purchases distressed loan and real estate asset portfolios through its wholly owned subsidiary, Gibraltar Capital and Asset Management. The Company acquires and develops commercial and apartment properties through Toll Brothers Apartment Living, Toll Brothers Campus Living, and the affiliated Toll Brothers Realty Trust, and develops urban low-, mid-, and high-rise for-sale condominiums through Toll Brothers City Living.

In 2016, Toll Brothers ranked #6 among all 1,500 companies in Fortune magazine's survey of the World's Most Admired Companies in the Quality of Products/Services Offered category behind only Apple, Walt Disney, Amazon, Alphabet, and Nordstrom. The firm was also named as the Most Admired Home Building Company for 2016, the second year in a row it has been so honored. Toll Brothers was named 2014 Builder of the Year by ***Builder*** magazine, and is honored to have been awarded Builder of the Year in 2012 by ***Professional Builder*** magazine, making it the first two-time recipient. Toll Brothers proudly supports the communities in which it builds; among other philanthr … Brothers Metropolitan Opera International Radio Network, br … orld. For more information, visit www.tollbrothers.com.



Toll Brothers discloses informat … and other matters, and provides links to its securities filings, no … news releases, on the Investor Relations section of its website …

*Forward Looking Statement*

Information presented herein for the third quarter ended July 31, 2016 is subject to finalization of the Company's regulatory filings, related financial and accounting reporting procedures and external auditor procedures.

Certain information included in this release is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, information related to: anticipated operating results; anticipated financial performance, resources and condition; selling communities; home deliveries; average home prices; consumer demand and confidence; contract pricing; business and investment opportunities; and market and industry trends.

Such forward-looking information involves important risks and uncertainties that could significantly affect actual results and cause them to differ materially from expectations expressed herein and in other Company reports, SEC filings, statements and presentations. These risks and uncertainties include, among others: local, regional, national and international economic conditions; fluctuating consumer demand and confidence; interest and unemployment rates; changes in sales conditions, including home prices, in the markets where we build homes; conditions in our newly entered markets and newly acquired operations; the competitive environment in which we operate; the availability and cost of land for future growth; conditions that could result in inventory write-downs or write-downs associated with investments in unconsolidated entities; the ability to recover our deferred tax assets; the availability of capital; uncertainties in the capital and securities markets; liquidity in the credit markets; changes in tax laws and their interpretation; effects of governmental legislation and regulation; the outcome of various legal proceedings; the availability of adequate insurance at reasonable cost; the impact of construction defect, product liability and home warranty claims, including the adequacy of self-insurance accruals, and the applicability and sufficiency of our insurance coverage; the ability of customers to obtain financing for the purchase of homes; the ability of home buyers to sell their existing homes; the ability of the participants in various joint ventures to honor their commitments; the availability and cost of labor and building and construction materials; the cost of raw materials; construction delays; domestic and international political events; and weather conditions. For a more detailed discussion of these factors, see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent annual report on Form 10-K and our subsequent quarterly reports on Form 10-Q filed with the Securities and Exchange Commission.

Any or all of the forward-looking statements included in this release are not guarantees of future performance and may turn out to be inaccurate. Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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| | July 31, 2016 | October 31, 2015 |
|---|---|---|
| | Unaudited) | |

| | | |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 351,854 | $ 918,993 |
| Marketable securities | | 10,001 |
| Restricted cash | 43,183 | 16,795 |
| Inventory | 7,670,523 | 6,997,516 |
| Property, construction and office equipment, net | 148,804 | 136,755 |
| Receivables, prepaid expenses and other assets | 280,277 | 284,130 |
| Mortgage loans held for sale | 170,937 | 123,175 |
| Customer deposits held in escrow | 66,846 | 56,105 |
| Investments in unconsolidated entities | 461,604 | 412,860 |
| Investments in foreclosed real estate and distressed loans | 13,687 | 51,730 |
| Deferred tax assets, net of valuation allowances | 197,984 | 198,455 |
| | $ 9,405,699 | $ 9,206,515 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Loans payable | $ 1,058,656 | $ 1,000,439 |
| Senior notes | 2,693,221 | 2,689,801 |
| Mortgage company loan facility | 125,000 | 100,000 |
| Customer deposits | 338,457 | 284,309 |
| Accounts payable | 276,213 | 236,953 |
| Accrued expenses | 628,684 | 608,066 |
| Income taxes payable | 105,508 | 58,868 |
| Total liabilities | 5,225,739 | 4,978,436 |
| Equity: | | |
| Stockholders' Equity | | |
| Common stock | 1,779 | 1,779 |
| Additional paid-in capital | 724,151 | 728,125 |
| Retained earnings | 3,862,919 | 3,595,202 |
| Treasury stock, at cost | (412,243) | (100,040) |
| Accumulated other comprehensive loss | (2,455) | (2,509) |
| Total stockholders' equity | 4,174,151 | 4,222,557 |
| Noncontrolling interest | 5,809 | 5,522 |
| Total equity | 4,179,960 | 4,228,079 |
| | 9,405,699 | $ 9,206,515 |

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**CONDEN RATIONS**

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(Unaudited)

| | Nine Months Ended July 31, | | Three Months Ended July 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $ 3,314,057 | $ 2,734,046 | $ 1,269,934 | $ 1,028,011 |
| Cost of revenues | 2,574,298 | 2,152,938 | 991,416 | 824,394 |
| Selling, general and administrative expenses | 385,120 | 330,174 | 134,984 | 116,175 |
| | 2,959,418 | 2,483,112 | 1,126,400 | 940,569 |
| Income from operations | 354,639 | 250,934 | 143,534 | 87,442 |
| Other: | | | | |
| Income from unconsolidated entities | 22,754 | 17,080 | 4,998 | 5,952 |
| Other income - net | 43,474 | 50,005 | 15,121 | 14,070 |
| Income before income taxes | 420,867 | 318,019 | 163,653 | 107,464 |
| Income tax provision | 153,150 | 102,015 | 58,170 | 40,715 |
| Net income | $ 267,717 | $ 216,004 | $ 105,483 | $ 66,749 |
| Income per share: | | | | |
| Basic | $ 1.58 | $ 1.22 | $ 0.64 | $ 0.38 |
| Diluted | $ 1.52 | $ 1.18 | $ 0.61 | $ 0.36 |
| Weighted-average number of shares: | | | | |
| Basic | 169,692 | 176,443 | 165,919 | 176,797 |
| Diluted | 177,403 | 184,692 | 173,405 | 185,133 |

**TOLL BROTHERS, INC. AND SUBSIDIARIES**

**SUPPLEMENTAL DATA**

**(Amounts in thousands)**

**(unaudited)**

| | Nine Months Ended July 31, | | Three Months Ended July 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Impairment charges recogn[illegible] | | | | |
| Cost of sales - land owned/[illegible] communities | [illegible] | [illegible]13,279 | $ 2,469 | $ 11,969 |
| Cost of sales - operating co[illegible] | [illegible] | [illegible]8,000 | 1,250 | 6,000 |
| | [illegible] | [illegible]31,279 | $ 3,719 | $ 17,969 |
| Depreciation and amortization | $ 16,838 | $ 17,667 | $ 5,809 | $ 5,895 |

| | | | | |
|---|---|---|---|---|
| Interest incurred | $122,079 | $117,896 | $ 41,667 | $ 37,438 |
| Interest expense: | | | | |
| Charged to cost of sales | $ 107,176 | $94,942 | $ 39,431 | $ 36,989 |
| Charged to other income - net | 606 | 2,795 | 297 | 1,057 |
| | $ 107,782 | $ 97,737 | $ 39,728 | $ 38,046 |

| | | |
|---|---|---|
| Home sites controlled: | | |
| Owned | 35,594 | 35,713 |
| Optioned | 13,103 | 9,662 |
| | 48,697 | 45,375 |

Inventory at July 31, 2016 and October 31, 2015 consisted of the following (amounts in thousands):

| | July 31, 2016 | October 31, 2015 |
|---|---|---|
| Land and land development costs | $ 2,506,203 | $ 2,476,008 |
| Construction in progress | 4,534,045 | 3,977,542 |
| Sample homes | 457,044 | 349,481 |
| Land deposits and costs of future development | 148,939 | 173,879 |
| Other | 24,292 | 20,606 |
| | $ 7,670,523 | $ 6,997,516 |

Toll Brothers operates in two segments: Traditional Home Building and Urban Infill ("City Living"). Within Traditional Home Building, Toll operates in five geographic segments:

| | |
|---|---|
| **North:** | Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey and New York |
| **Mid-Atlantic:** | Delaware, Maryland, Pennsylvania and Virginia |
| **South:** | Florida, North Carolina and Texas |
| **West:** | Arizona, Colorado, Nevada, and Washington |
| **California:** | California |

Three Months Ended

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| | Average Price Per Unit $ | |
|---|---|---|
| | 2016 | 2015 |
| HOME BUILDING REVENUE: | | |
| North | $ 655,600 | $ 629,600 |
| Mid-Atlantic | 630,300 | 627,200 |
| South | 789,500 | 780,900 |

| | | | | | | |
|---|---|---|---|---|---|---|
| West | 309 | 264 | 223.1 | 179.2 | 721,900 | 678,600 |
| California | 227 | 125 | 336.4 | 145.8 | 1,482,100 | 1,166,700 |
| Traditional Home Building | 1,493 | 1,339 | 1,217.4 | 967.5 | 815,400 | 722,600 |
| City Living | 14 | 80 | 52.5 | 60.5 | 3,750,500 | 756,400 |
| Total consolidated | 1,507 | 1,419 | $ 1,269.9 | $ 1,028.0 | $ 842,700 | $ 724,500 |
| | | | | | | |
| CONTRACTS | | | | | | |
| North | 342 | 271 | $ 242.6 | $ 190.1 | $ 709,300 | $ 701,400 |
| Mid-Atlantic | 396 | 353 | 242.5 | 221.8 | 612,300 | 628,300 |
| South | 335 | 247 | 245.5 | 200.5 | 732,900 | 812,000 |
| West | 387 | 363 | 276.7 | 247.6 | 715,100 | 682,000 |
| California | 251 | 215 | 367.6 | 314.0 | 1,464,600 | 1,460,600 |
| Traditional Home Building | 1,711 | 1,449 | 1,374.9 | 1,174.0 | 803,600 | 810,200 |
| City Living | 37 | 30 | 77.4 | 59.9 | 2,091,700 | 1,995,500 |
| Total consolidated | 1,748 | 1,479 | $ 1,452.3 | $ 1,233.9 | $ 830,800 | $ 834,300 |
| | | | | | | |
| BACKLOG | | | | | | |
| North | 1,075 | 970 | $ 773.1 | $ 638.6 | $ 719,200 | $ 658,300 |
| Mid-Atlantic | 1,080 | 893 | 680.1 | 568.8 | 629,700 | 637,000 |
| South | 1,005 | 941 | 776.2 | 770.2 | 772,400 | 818,500 |
| West | 1,151 | 844 | 842.4 | 571.8 | 731,900 | 677,400 |
| California | 695 | 683 | 1,045.1 | 917.0 | 1,503,800 | 1,342,700 |
| Traditional Home Building | 5,006 | 4,331 | 4,116.9 | 3,466.4 | 822,400 | 800,400 |
| City Living | 175 | 116 | 257.6 | 221.9 | 1,471,700 | 1,913,300 |
| Total consolidated | 5,181 | 4,447 | $ 4,374.5 | $ 3,688.3 | $ 844,300 | $ 829,400 |

| | Nine Months Ended July 31, | | | | | |
|---|---|---|---|---|---|---|
| | Units | | $ (Millions) | | Average Price Per Unit $ | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| HOME BUILDING REVENUES | | | | | | |
| North | 728 | 735 | $ 491.7 | $ 463.1 | $ 675,400 | $ 630,100 |
| Mid-Atlantic | 929 | 929 | 577.0 | 579.2 | 621,100 | 623,500 |
| South | [illegible] | [illegible] | [illegible] | [illegible] | 781,700 | 741,900 |
| West | [illegible] | [illegible] | [illegible] | [illegible] | 686,700 | 675,000 |
| California | [illegible] | [illegible] | [illegible] | [illegible] | 1,464,800 | 1,099,500 |
| Traditional Home Building | [illegible] | [illegible] | [illegible] | [illegible] | 810,400 | 715,400 |
| City Living | [illegible] | [illegible] | [illegible] | [illegible] | 2,864,700 | 1,302,800 |
| Total consolidated | [illegible] | [illegible] | [illegible] | [illegible] | $ 855,500 | $ 737,900 |

| | | | | | | |
|---|---|---|---|---|---|---|
| CONTRACTS | | | | | | |
| North | 913 | 827 | $ 645.6 | $ 537.1 | $ 707,100 | $ 649,500 |
| Mid-Atlantic | 1,198 | 992 | 738.2 | 628.5 | 616,200 | 633,600 |
| South | 912 | 802 | 678.4 | 658.3 | 743,900 | 820,800 |
| West | 1,134 | 930 | 817.6 | 634.7 | 721,000 | 682,500 |
| California | 688 | 808 | 1,029.1 | 1,052.3 | 1,495,800 | 1,302,400 |
| Traditional Home Building | 4,845 | 4,359 | 3,908.9 | 3,510.9 | 806,800 | 805,400 |
| City Living | 146 | 114 | 275.7 | 191.8 | 1,888,400 | 1,682,500 |
| Total consolidated | 4,991 | 4,473 | $ 4,184.6 | $ 3,702.7 | $ 838,400 | $ 827,800 |

**Unconsolidated entities:**

Information related to revenues and contracts of entities in which we have an interest for the three-month and nine-month periods ended July 31, 2016 and 2015, and for backlog at July 31, 2016 and 2015 is as follows:

| | Units | | $ (Millions) | | Average Price Per Unit $ | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Three months ended July 31, | | | | | | |
| Revenues | 21 | 26 | $ 17.9 | $ 24.6 | $ 851,300 | $ 946,000 |
| Contracts | 27 | 42 | $ 36.6 | $ 72.4 | $ 1,357,100 | $ 1,723,900 |
| Nine months ended July 31, | | | | | | |
| Revenues | 61 | 75 | $ 55.4 | $ 60.9 | $ 907,900 | $ 811,400 |
| Contracts | 95 | 107 | $ 141.9 | $ 185.6 | $ 1,493,400 | $ 1,734,400 |
| Backlog at July 31, | 220 | 167 | $ 553.1 | $ 409.2 | $ 2,513,900 | $ 2,450,200 |

## RECONCILIATION OF NON-GAAP MEASURES

This press release contains, and Company management's discussion of the results presented in this press release may include, information about the Company's Adjusted Gross Margin and the Company's net debt-to-capital ratio.

These two measures are non-GAAP financial measures which are not calculated in accordance with generally accepted accounting principles ("GAAP"). These non-GAAP financial measures should not be considered a substitute for, or superior to, tl ay be different from non-GAAP measures used by other compa

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The Company's management c e make operating and strategic decisions and evaluate our per hat may use similar non-GAAP financial measures. The Comp ancial measures are useful to investors in understanding our operations and leverage and may be helpful in comparing the Company to other homebuilders to the extent they provide similar information.

## Adjusted Gross Margin

The following table reconciles the Company's gross margin as a percentage of revenues (calculated in accordance with GAAP) to the Company's Adjusted Gross Margin (a non-GAAP financial measure). Adjusted Gross Margin is calculated as (i) gross margin plus interest recognized in cost of sales plus inventory write-downs divided by (ii) revenues.

### Adjusted Gross Margin Reconciliation

| | Three Months Ended July 31, | | Twelve Months Ended |
|---|---|---|---|
| | 2016 | 2015 | October 31, 2015 |
| Revenues | $ 1,269,934 | $ 1,028,011 | $ 4,171,248 |
| Cost of revenues | 991,416 | 824,394 | 3,269,270 |
| Gross margin | 278,518 | 203,617 | 901,978 |
| Add: Interest recognized in cost of sales | 39,431 | 36,989 | 142,947 |
| Inventory write-downs | 3,719 | 17,969 | 35,709 |
| Adjusted gross margin | $ 321,668 | $ 258,575 | $ 1,080,634 |
| Gross margin as a percentage of revenues | 21.9% | 19.8% | 21.6% |
| Adjusted Gross Margin | 25.3% | 25.2% | 25.9% |

The Company's management believes Adjusted Gross Margin is a useful financial measure to investors because it allows them to evaluate the performance of our homebuilding operations without the often varying effects of capitalized interest costs and inventory impairments. The use of Adjusted Gross Margin also assists the Company's management in assessing the profitability of our homebuilding operations and making strategic decisions regarding community location and product mix.

***Forward-looking Adjusted Gross Margin***

The Company has not provided projected full year FY 2016 gross margin or a GAAP reconciliation for forward-looking Adjusted Gross Margin because such measure cannot be provided without unreasonable efforts on a forward-looking basis, since inventory write-downs are based on future activity and observation and therefore cannot be projected for the full fiscal year. The variability of these charges may have a potentially unpredictable, and potentially significant, impa

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## Net Debt-to-Capital Ratio

The following table reconciles t d in accordance with GAAP) to the Company's net debt-to-ca he net debt-to-capital ratio is calculated as (i) total debt min ash equivalents and marketable securities divided by (ii) total debt minus mortgage warehouse loans minus cash and cash equivalents and marketable securities plus stockholders' equity.

### Net Debt-to-Capital Ratio Reconciliation

| | July 31, | | April 30, |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Loans payable | $1,058,656 | $ 865,516 | $ 711,293 |
| Senior notes | 2,693,221 | 2,341,904 | 2,692,061 |
| Mortgage company loan facility | 125,000 | 100,000 | 100,000 |
| Total debt | 3,876,877 | 3,307,420 | 3,503,354 |
| Total stockholders' equity | 4,174,151 | 4,120,981 | 4,159,139 |
| Total capital | $8,051,028 | $ 7,428,401 | $ 7,662,493 |
| Ratio of debt to capital | 48.2% | 44.5% | 45.7% |
| | | | |
| Total debt | $3,876,877 | $3,307,420 | $3,503,354 |
| Less:Mortgage company loan facility | (125,000) | (100,000) | (100,000) |
| Cash and cash equivalents and marketable securities | (351,854) | (404,816) | (423,178) |
| Total net debt | 3,400,023 | 2,802,604 | 2,980,176 |
| Total stockholders' equity | 4,174,151 | 4,120,981 | 4,159,139 |
| Total net capital | $ 7,574,174 | $6,923,585 | $ 7,139,315 |
| Net debt-to-capital ratio | 44.9% | 40.5% | 41.7% |

Note: Certain July 31, 2015 amounts have been restated due to the adoption of the Financial Accounting Standards Board Accounting Standards Update No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." See Note 1, "Significant Accounting Policies - Recent Accounting Pronouncements" in our 2015 Annual Report on Form 10-K for additional information.

The Company's management uses the net debt-to-capital ratio as an indicator of its overall leverage and believes it is a useful financial measure to investors in understanding the leverage employed in the Company's operations.

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