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Toll Brothers, Inc. (TOL)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Toll Brothers First Quarter of Fiscal Year 2026 Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] We do ask that you please limit yourself to one question and a single follow-up. Please also note, today's event is being recorded.

I would now like to turn the conference over to Douglas Yearley, CEO. Please go ahead, sir.

Douglas C. Yearley

Chairman & Chief Executive Officer, Toll Brothers, Inc.

Thank you, Rocco. Good morning. Welcome and thank you for joining us. With me today are Gregg Ziegler, Chief Financial Officer; Rob Parahus, President and Chief Operating Officer; Wendy Marlett, Chief Marketing Officer; and Karl Mistry, who will be taking over as the third CEO in our company's history on March 30 when I will transition to the Executive Chairman role.

Karl is an outstanding leader who has been with Toll Brothers for over 20 years. He has run homebuilding operations in many of our key markets and currently heads all of our Eastern operations. He knows this company inside and out, and I am very confident he is the right person to lead us through the next phase of growth.

During today's call, I will provide a brief overview of our results in the quarter, discuss the market at the macro level and touch on our strategic initiatives. Karl will focus on our operational results and provide a deeper dive on conditions across our markets and product lines. And as usual, Gregg will provide a detailed review of our financial results in the quarter and discuss guidance for the balance of the year.

Before we start, however, I need to provide the usual cautionary notice that many statements on this call are forward-looking based on assumptions about the economy, world events, housing and financial markets, interest rates, the availability of labor and materials, inflation, and many other factors beyond our control that could significantly affect future results. Please read our statement on forward-looking information in our earnings release of last night and on our website to better understand the risks associated with our forward-looking statements.

I am pleased with our first quarter results as we met or exceeded guidance across nearly all metrics. We delivered 1,899 homes in the quarter and generated $1.85 billion of homebuilding revenue, approximately $24 million above the midpoint of our guidance. Both our adjusted gross margin and SG&A margin were also better than guidance by 25 and 30 points, respectively. We earned $2.19 per diluted share, a 25% increase compared to the $1.75 we earned in last year's first quarter, and $0.05 above our implied guidance. We are off to a good start in fiscal 2026.

In the quarter, we signed 2,303 net contracts for $2.4 billion, flat in units but up 3% in dollars compared to last year's first quarter, as the average sales price increased to $1,033,000. Since mid-January, we have seen an increase in overall traffic and sales, consistent with the start of the spring selling season. While it is early, we are cautiously encouraged by the increase in activity over the past months. Our strategy of balancing price and pace worked well in the first quarter. Our overall incentive remained flat compared to the fourth quarter at 8% of sales price. This is the third consecutive quarter that incentives remained flat on a percentage basis.

We are benefiting from a healthy mix of build-to-order and spec homes in our inventory, balancing the higher margin in our build-to-order business with the lower margin but faster turns in our spec business. Impressively, our average adjusted gross margin in our build-to-order business remained above 30% in the first quarter.

Overall, as we head into the heart of the spring selling season, we are very comfortable with the level of specs in our inventory and their stage of construction. Consistent with the strategy I discussed during our last call, we increased our spec production in our first quarter in order to have the right amount available for delivery in the summer when many buyers are looking to move into their new homes ahead of the start of the school year.

We expect the increased to increase community count in our second quarter from 445 communities at the end of the first quarter to 455 at the end of the second. For the full year, we are targeting another 8% to 10% increase over the 9% we grew last year. We also have enough land under control to continue growing community count at this pace over the next several years.

At first quarter end, we owned or controlled approximately 75,000 lots, 55% of which were optioned. Our land is wealth located in desirable locations, which allows us to be highly selective and disciplined as we evaluate new land opportunities. We also continue to structure land acquisition and development opportunities to be more capital-efficient, including through option arrangements, land banks, joint ventures, and similar structures that allow us to defer payments and lot takedowns.

I'd also point out that we continue to benefit from our more affluent customer base, which is less sensitive to the affordability pressures that continue to impact the entry-level buyer. Over 70% of our business is luxury move-up and luxury move-down, which serves a wealthy cohort that has benefited from growth in their home equity and stock market appreciation. The remaining 25% to 30% serves the more affluent first-time buyer, who is less impacted by affordability pressures. Many of them are older millennials buying their first home later in life when they have higher incomes and are more financially secure. The average delivery price of our first-time buyer was approximately $670,000 in our first quarter.

Lastly, I will note that our balance sheet remains very healthy. We have ample liquidity, low net debt, and a strong investment-grade credit rating. We recently extended the maturities of our revolving credit facility and most of our term loan facility to February 2031. We also continue to expect significant cash flow generation from operations this year. All of this enables us to continue investing in the growth of our business, while also returning capital to our stockholders.

With that, I will turn it over to Karl.

Karl Mistry

Executive Vice President, Toll Brothers, Inc.

Thank you, Doug. I'm excited for this opportunity and grateful for the trust that you and the board have placed in me. I very much appreciate our investors and the analyst community, and I look forward to building on the great relationships that you and Bob before you have developed over the years.

We started the year off with a solid first quarter. We beat the midpoint of our homebuilding revenue guidance, exceeded margin expectations and increased our earnings per share by 25% over last year's first quarter. From a demand perspective, we saw the typical seasonal pattern unfold in the first quarter.

Based on signed contracts on both an absolute and per community basis, November was the slowest month, followed by December, with a market uptick in January. As Doug mentioned, we saw an increase in demand beginning in mid-January that is consistent with the start of the spring selling season. With our broadly diversified portfolio and affluent buyer profile, we are well-positioned to capitalize on any further improvement in homebuyer demand.

Geographically, the Boston to South Carolina corridor has continued to perform well, as has Boise, Las Vegas, and Reno in our mountain region and all of California. Most of Florida seems to have found its footing, although Tampa remains challenged along with Atlanta, San Antonio, and the Pacific Northwest.

Among our buyer segments, our luxury move-up business also continued to perform well. In the first quarter, luxury move-up accounted for 59% of homebuilding revenues. Luxury first-time was 25% and luxury move-down was 16%. Our luxury move-up business has the highest margin among our buyer segments, so we are very pleased that it is the largest part of our business.

Turning now from buyer segments to our build-to-order and spec home strategy, I will note that we generate about one-half of our homebuilding revenues from specs and the other half from build-to-order. We believe we have achieved the right balance in our overall business with this healthy 50/50 mix of high-margin build-to-order homes with buyers who want to customize their dream home with specific layouts, designs and finishes, alongside lower margin but faster turning spec homes that appeal to buyers who want to move into their homes on a quicker schedule.

I will also point out that we sell our specs at various stages of construction. Although the mix can change from quarter-to-quarter, on average, approximately one-third of our specs sell before framing is completed, and the risk profile and margin for these homes is not all that different from our build-to-order homes.

Our goal is to sell our specs as early in the construction cycle as possible. The earlier we sell our specs, the greater the opportunity for our customers to visit our Design Studio and personalize their homes with finishes that match their tastes. This ability to customize remains an important competitive advantage for Toll Brothers, and it benefits our margins as Design Studio upgrades tend to be highly accretive. In the first quarter, Design Studio upgrades, structural options and lot premiums averaged $212,000 or 25% of our average base sales price.

Doug mentioned the benefits of serving a more affluent customer base. Consistent with the past several quarters, approximately 24% of our buyers paid all cash in the first quarter, and the loan to value for buyers who took a mortgage was approximately 70%, also consistent with recent quarters.

Our contract cancellation rate in the first quarter remained low at 2.8% of beginning backlog. This industry-low cancellation rate speaks to the financial strength of our buyers, as well as the sizable deposits they make and how emotionally invested they become as they personalize their homes at our Design Studios.

We benefited from improved production efficiencies in our construction cycle times in the first quarter. For our build-to-order homes, the cycle time was approximately 9.5 months and was about one month shorter for spec homes. Additionally, our build costs in the first quarter were flat compared to the fourth quarter of 2025.

With that, I will turn it over to Gregg.

Gregg L. Ziegler

Chief Financial Officer, Toll Brothers, Inc.

Thanks, Karl. In the first quarter, we delivered 1,899 homes at an average price of $977,000 and generated home sales revenues of $1.85 billion. While we exceeded the midpoint of our revenue guidance, the average delivered price was below our guidance due primarily to mix, as we delivered more lower priced finished spec homes in the quarter than projected.

As Doug mentioned, we signed 2,303 net agreements for $2.4 billion in the quarter, flat in units but up 3% in dollars compared to the first quarter of fiscal 2025. The average price of contracts signed in the quarter was approximately $1,033,000, which was up 3% compared to the first quarter of fiscal 2025 and up 6% sequentially. The increase was primarily due to mix, as we sold well in the North and Pacific regions, particularly in our luxury move-up business.

Our first quarter adjusted gross margin was 26.5%, 25 basis points better than our guidance of 26.25%. Q1 gross margin exceeded our guidance due primarily to operating efficiency. We are maintaining our full-year adjusted gross margin guidance of 26.0% and project a second quarter margin of 25.5%. In the second half of the year and especially in the fourth quarter, we expect our adjusted gross margin to rise, as our deliveries mix should include a greater contribution from our higher margin North and Pacific regions.

Write-offs in our home sales gross margin totaled $11.7 million in the quarter, approximately $5 million of these related to pre-development costs and option write-offs, with the remainder associated with a handful of operating communities in different markets around the country.

SG&A as a percentage of revenue was 13.9% in the first quarter, compared to our guidance of 14.2%. The 30-basis-point beat relative to our guidance was due primarily to leverage from higher-than-anticipated homebuilding revenues. Note that our SG&A margin in the first quarter is higher as it generally is our lowest revenue quarter and it includes accelerated employee stock-based compensation expense that only hits in the first quarter.

Joint venture, land sales and other income was $72 million in the first quarter, compared to $2.5 million in the first quarter of fiscal 2025 and our guidance of $70 million. During the quarter, we substantially completed our previously announced sale of about half of our Apartment Living portfolio for net cash proceeds of approximately $330 million. The $72 million of joint venture, land sales, and other income includes the net gain associated with this sale. As we noted on our last call, we intend to fully exit the multifamily development business over the next several years.

Our tax rate in the first quarter was 22.9%, 30 basis points better than guidance. We ended the first quarter with approximately $3.4 billion of liquidity, including $1.2 billion of cash and $2.2 billion of availability under our revolving bank credit facility. Our net debt to capital ratio was 14.2% at first quarter end, compared to 21.1% one year ago.

Turning to our guidance, I will remind you that our projections are subject to all the caveats regarding forward-looking statements included in our earnings release. We are projecting fiscal 2026 second quarter deliveries of approximately 2,400 to 2,500 homes, with an average delivery price between $975,000 and $985,000. For full fiscal year 2026, we are maintaining our projected deliveries of between 10,300 and 10,700 homes, with an average price between $970,000 and $990,000.

As I noted earlier, we expect adjusted gross margin to be 25.5% for the second quarter and we continue to project 26.0% for the full year. We expect interest in cost of sales to be approximately 1.1% in the second quarter and for the full year. We project second quarter SG&A as a percentage of home sales revenues to be approximately 10.7%. For the full year, we continue to expect it to be 10.25%.

Other income, income from unconsolidated entities and land sales gross profit in the second quarter is expected to break even. We continue to expect $130 million for the full year, of which we have already realized $72 million. Included in our second half projection is the sale of several stabilized apartment projects. We project the second quarter tax rate to be approximately 26% and for the full year rate to be approximately 25.5%.

Based on land we currently own or control, we expect to grow community count by 8% to 10% by the end of fiscal 2026 and are targeting 480 to 490 communities. We expect to be selling from 455 communities at the end of the second quarter. Our weighted average share count is expected to be approximately 96 million for the second quarter and 95 million for the full year. This assumes we'll repurchase a targeted $650 million of common stock for the full year, with most of that occurring later in the year aligned with our anticipated higher cash flows.

Now, let me turn it back to Doug.

Douglas C. Yearley

Chairman & Chief Executive Officer, Toll Brothers, Inc.

Thank you, Gregg. We remain positive on the long-term future of the US housing market. Owning a home continues to be a key aspiration for tens of millions of American families. The market is supported by strong demographic tailwinds, driven by the millennial generation reaching its peak homebuying years, and Gen Z following right behind. The baby boomers, who have built up enormous wealth over their lifetimes, are passing it down in the greatest generational wealth transfer in history. They are also in the market buying homes as they enter the next stage of their lives.

Our country has also enjoyed years of stock market success. In addition, the vast majority of the 88 million American households that own a home have participated in significant home price appreciation over the past decade. These are powerful drivers of long-term demand.

On the supply side, the market continues to be underserved. Depending on the estimate, the market would need anywhere between an additional 3 million and 7 million new homes to reach equilibrium based on population growth. So basic economic forces, strong underlying demand and low supply create a solid foundation for the housing market.

We believe that, over time, affordability pressures will recede and buyers who have been priced out will come back to the market, creating a much healthier housing ecosystem. In the meantime, we are pleased to be serving a more affluent customer in our luxury business. We will continue to navigate this market with the goal of driving strong returns for our stockholders.

I would like to thank our Toll Brothers employees. Their hard work, talent, dedication and commitment to our customers is the reason we've once again been named the number one homebuilder on Fortune's list of the World's Most Admired Companies.

Rocco, let's open it up to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] Once again, we do ask that you limit yourself to one question and a single follow-up. Today's first question comes from John Lovallo at UBS. Please go ahead.

John Lovallo
Analyst, UBS Securities LLC

Q

Good morning, guys. Thanks for taking my questions. The first one is, you've exceeded your gross margin outlook in each of the past 13 quarters by 65 basis points on average. So, sort of with that as a backdrop, what's driving the 100 basis points sequential decline from 26.5% in 1Q to 25.5% in 2Q?

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Hi, John. It's mix. Gregg touched on it. We will have less Pacific in the second quarter, which is for us a very high-margin region. That reverses itself as the year progresses, particularly in the fourth quarter when we will have a lot more coming out of both the North and the Pacific, which are our number one and number two margin areas.

John Lovallo
Analyst, UBS Securities LLC

Q

Got you. Okay. And then, curious on your thoughts of the Sumitomo acquisition of Tri Pointe. I mean, obviously, there's an effort to diversify away from an aging demographic in Japan. But the Japanese, in general, tend to be pretty big proponents of offsite construction. I mean, do you think that they have a bigger goal in mind here to bring more technology, sort of like Toyota did in the 1980s in the automotive industry?

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

I don't know the answer to that. I'm not close enough to it. Doug Bauer could probably help you out on that one. I'm sure there have been conversations around how they intend to invest in his great company. They've obviously been aggressive in terms of getting into the US housing market through the acquisition of a number of mid-cap-sized builders. That's between, of course, not – it's Daiwa also. We put in that conversation with their M.D.C. deal. So, I don't know.

The Japanese have always been innovative. We have had a very hard time as an industry making that innovation, that technology, lead to more efficient homebuilding operations. You've heard me say many times that in my 35.5 years here at Toll Brothers, the way we build houses has changed very little from when Bob Toll set me out in the field when he told me to go buy a pair of Timberland boots and get in a trailer. And so I am – we are all anxiously awaiting more innovation and technology to the industry. Maybe the Japanese can help in that regard. I don't know. But it's been a tough nut to crack for all of us.

Operator: Thank you. And our next question today comes from Stephen Kim at Evercore ISI. Please go ahead.

Randa Shaw
Analyst, Evercore ISI

Q

Good morning. This is Randa on for Stephen. First question, I kind of wanted to dig into your spec strategy. Today, you reiterated that you're comfortable with the spec ratio around 50% and that you would like to close your specs early in the construction process. Say that demand is insufficient to maybe support kind of both parts of your spec strategy, which would you prioritize? Would you either slow your spec starts but continue to sell them earlier into the construction process, or maybe sell later but maintain that 50% spec ratio?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Hey, Randa. It's Karl. We are happy now with the 50/50 mix. You'll see that change quarter-to-quarter, may go up and may come down. To your question about a softening, we are very comfortable and, as we outlined, execute well at a high margin on the build-to-order business. So we would pull back if there's more softening. We're not going to blindly build specs into a softening market. And we are working to sell them at an earlier stage because the trick for us is getting our customers into the Design Studio to make their selections. It's a unique process. We execute well there. So, yes, we would lean into build-to-order if the market softened.

Randa Shaw
Analyst, Evercore ISI

Q

Got it. That makes sense. And then curious, what kind of long-term net debt-to-cap are you targeting. And how do you think about cash – how much cash you want to hold going forward?

Gregg L. Ziegler
Chief Financial Officer, Toll Brothers, Inc.

A

Hey, Randa. It's Gregg. Yeah, long-term net debt-to-total cap, we think somewhere in the mid-teens makes a lot of sense for us. And then, in terms of what our cash holdings need to be, you'll see they generally accelerate as you move into the second half of the year. But we probably have a minimum holding of a few hundred million just to meet normal operating expenses, including land purchases. But that's kind of the general cash flow cadence that we see throughout the year.

Operator: Thank you. And our next question today comes from Sam Reid at Wells Fargo. Please go ahead.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. Karl, welcome to the call. Wanted to unpack the January-to-date comments. And would you just characterize the traffic and sales that you're seeing as better, as potentially good relative to normal seasonality, or is it just tracking in line with normal seasonality? Maybe just trying to parse through that difference there. And then, we've heard some comments from peers that weather has been a little bit of a headwind year-to-date. It doesn't sound like that's been the case for you, but any comments on impacts from weather?

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Sam, it's Doug. I'll take this one. There's three data points, right? We've got web traffic, we've got physical traffic visiting our communities and we've got deposits. Because agreements lag one to three weeks behind deposits, when you look at the last month, the agreement number is not as relevant. And for all three of those, web traffic, physical traffic and most importantly, deposits, we are up modestly over last year, same period of time. It's modest. It's too early to be high-fiving around here. But it causes us to have what we call – the industry likes to call cautious optimism. And that's where it is.

But we're in mid-February. We'll have to see how it plays out. But we are – we knew it would increase as mid-January hit, consistent with the beginning of what we call the spring selling season. And it did, of course, increase, but it is only up modestly over a year ago. But at the moment, we'll take it.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

Sounds like a plan. And switching gears...

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Weather – I'm sorry. Your question about weather...

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

Oh, yeah, on weather.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

My apologies. North Carolina, Raleigh and Charlotte got slammed. Nashville, it's been on the news. Kids didn't go to school for a week. Vanderbilt lost half of their beautiful trees. My friends tell me from kids being there. And Atlanta got hit. So, that corridor, the Mid-Atlantic from North Carolina down to Georgia, definitely had an impact, slowed us down for a week to 10 days. But outside of that, Philly, New York, Boston, Washington recovered pretty quickly. So I think it's just the Carolinas to Atlanta corridor that we felt it.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

All helpful color there, Doug. And then maybe switching gears on the P&L to gross margins, you talked a little bit about gross margins improving sequentially in Q3 and Q4. Sounds like Q4 is going to be particularly strong just given the timing of some of those luxury closings, but would just love maybe a little bit more nuance around the cadence of margin in the third and fourth quarters. Thanks.

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Hey, Sam. It's Karl. Yeah, we expect the back half to be better. It's mix again. It's actually similar to the answer around the second quarter. So in the back half of the year, you'll see more revenue out of the Pacific and the North, as well as more of that move-up luxury that I referenced in my remarks. And that's what's contributing to the improvement. And we'll see more of that even in Q4.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

That's right. Yeah, Karl, if I could just add on to it for you, Sam. Yeah, Q3 is probably slightly improved over Q2, and then we expect benefit to accelerate a bit in Q4.

Operator: Thank you. And our next question today comes from Mike Dahl at RBC Capital Markets. Please go ahead.

Q

Hi. This is [ph] Chris (00:31:22) on for Mike. Just to follow up on that 3Q-4Q gross margin step-up outside of mix. I mean, can you just talk about how you guys are thinking about pricing, incentives, costs and some of the other financials impacting the gross margin outside of mix?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Yeah. Hey. So incentives, as we go throughout the year, we've maintained them at current levels. So there's no assumption that the market has a dramatic improvement or anything like that. So it should be – we tried to underwrite for today's conditions throughout our projection, and that's where we left it.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

And for building costs, assuming – the building costs are flat.

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

And building costs are flat.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

We're beginning to see a little bit of downward pressure, downward move, downward improvement on building costs, but it's small. Lumber right now is a little bit of a headwind, but there's other costs that are coming down. But in terms of our projections, we're just going into it assuming they'll stay flat.

Q

Understand. Appreciate that. And then just maybe if you guys can just touch on what you're seeing in the land market today, the outlook there as you progress through the year and how aggressive you guys plan on being in investing in land this year?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Yeah. Hey [ph] Mike (00:32:36), it's Karl again. I think we're still seeing that low- to mid-single-digit inflation on land.

Operator: Thank you. And our next question today comes from Michael Rehaut at JPMorgan. Please go ahead.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everyone. Thanks for taking my questions. And congrats, Doug and Karl, on your upcoming moves.

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Thanks, Mike.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Thank you, Mike.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

First, I just wanted to dig in a little bit to the – also on the comments around kind of year-to-day trends. And I think you mentioned just earlier that you're up modestly versus a year ago. I just wasn't sure if that was in terms of sales pace in particular or any other metrics.

And more broadly, as you talked about incentives being consistent for, I think, three months in a row, that's not necessarily what we've heard from other builders. I think maybe perhaps they're more spec or first-time builder oriented but – buyer oriented. But there has been a lot of movement around incentives over the last three months, I think, on a broader market basis. So, just would love to understand, number one, again, the up modestly versus a year ago, what exact metrics are those, if it's sales pace? And number two, how your own incentive strategy is different from the market?

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Sure. I'll take this one. All three metrics I mentioned, web traffic, foot traffic to our communities and deposits, all three of those, each of those are up modestly over a year ago. With respect to incentives, we're comfortable with the guide around 8%. That's where we've been, as I mentioned, for the last three quarters. While we did focus in Q1 on leaning into our completed specs a little bit more because we did want to bring that number down, and we have had success in doing that where we are now very comfortable moving forward with our mix of the stage of construction of our specs.

Some of those completed specs required a little bit more incentive to move them, but that was offset by a modestly lower incentive in our build-to-order business, which was very encouraging. And when you put it all together, it came out to the same 8%. And even though we did lean into selling a bit more of the finished inventory to get down to what we think is the right percentages, we were still able to beat margin. So that was – I'm very proud of that in today's environment.

And we think we have fully budgeted and have conservatism in our internal projections around the spec business, which is where the incentive can be a bit higher. And so we're very comfortable with that 8% number. We think it'll stick right in that range. And we're very comfortable with the full-year guide around margin.

Operator: Thank you. And our next question today comes from Alan Ratner at Zelman & Associates. Please go ahead.

Alan Ratner
Analyst, Zelman & Associates

Q

Hey, guys. Good morning. Nice quarter.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Hey, Alan.

Alan Ratner
Analyst, Zelman & Associates

Q

And, yeah, congrats again to both Doug and Karl. Yeah, I guess, first, I'll add on to the incentive trend. Personally, I think it's encouraging. I guess, I think you said three quarters in a row that incentives have been stable at 8%. And it doesn't sound like you're expecting much movement from here in the near term. But I'm curious, as we head into the spring, which typically does have a little more pricing power than the winter, what would you need to see to try to take a stab at dialing back some of those incentives? Is it thinking about absorptions on a year-over-year basis? Is it thinking about what mortgage rates do? I'm just curious, at what point you might get more aggressive in trying to dial some of those incentives back.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Yeah, I think, we – Alan, it's a great question. If the market improves, we're going to first lean into pace. Right now, we're running at a 24 homes pace per year per community to a month. We have the operation capacity in the field and the infrastructure, the organization out there to build into the low-30s per community per year. So the first thing you're going to see is for us to increase pace. But as that happens, price will probably also go up because it's just the nature of more and more people get in your sales office and there's more activity, and the deposit starts popping up on the site plan and the sales center. And urgency, it's an amazing thing what happens with urgency. And so, that will not just drive pace, but it'll also drive price. But we will first lean into pace.

Alan Ratner
Analyst, Zelman & Associates

Q

Got it. That makes a lot of sense. And you mentioned having the infrastructure to build 30 homes a year for community. As you think about labor and cost in general, obviously, I think that was the big positive surprise in 2025 in terms of the cost relief that builders were able to see in spite of the tariffs.

I'm curious how you see the labor environment today. We have seen a little bit of an uptick in lumber prices to start the year. What's the flex in the supply chain right now where if we do see a strong spring, do we – is there any risk that labor can become tight again and costs can begin creeping higher? Just curious what your thoughts there are.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Yeah, Alan. We are not seeing the impact from tariffs. We – on the good news, we're seeing plenty of availability of labor, more and more people showing up to the job site that want to work. I think our scale is going to continue to help us with suppliers. And so, I think it's too early to tell. If there's a really robust spring, which we'd be happy to see, it's hard to see if there's going to be pressure ahead. We'll continue to leverage our scale and the rationalization that we have done with our products over the last several years to minimize those impacts.

Operator: Thank you. [Operator Instructions] Our next question comes from Jay McCanless with Citizens. Please go ahead.

Jay McCanless
Analyst, Citizens JMP Securities LLC

Q

Hey. Good morning, everyone. Just wanted to focus on the cost side a little bit. Sounds like labor and construction costs are moving in Toll's favor. Are you seeing any opportunities to maybe lean in on land purchases, especially since Toll seems to be doing better than a lot of other builders out there?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Jay, I think we're seeing – because of who we are and what we build, I think the opportunity for us to structure land deals with seller financing over time more efficiently has always been a part of the playbook. I think we are – to your question, we are seeing a little bit more of those opportunities of late, which is encouraging on the land side. But broadly speaking, we just have less competition. There are fewer and fewer builders that have capital and the desire to build luxury homes north of $1 million, and that plays right into what we do well. So we'll continue to watch it. And we are seeing a little bit of an opportunity for some well-structured land deals.

Jay McCanless
Analyst, Citizens JMP Securities LLC

Q

That's good news. Could you talk about the opportunity to raise prices? It sounds like Pacific and North you're doing well, but maybe what percentage of your communities this quarter were you able to raise prices, and how is that outlook going forward?

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

30% to 40% of our communities saw a price increase in Q1. And you're right, the North is the strongest, Boston down to – really, Boston down to South Carolina, that full corridor. It's no longer Boston to Washington, D.C.

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Yeah.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

It extends with Raleigh, Charlotte, our four South Carolina markets, and Atlanta. Atlanta's been a bit softer lately, but certainly through South Carolina, we have done the best there. We had a community down in the Delray, Boca Raton area that took 10 sales at $1.05 million in the quarter with a mid-30s gross margin.

We have a community in Central New Jersey at the beach, took 12 sales in the quarter at $1 million to $1.2 million, north of 30% gross margin. Southern Cal, at the Great Park, everyone knows the Great Park, right next to Irvine Ranch, took 23 sales in the quarter at a community that sold between $1.5 million and $3 million. So there's still action out there and there's still pricing power. It's relatively limited. But I think what – I think I fully described it. I think 30% to 40% is about the right range of where we saw some price increases.

And by the way, that's – I've been corrected. Those numbers I just gave you for sales was not in the quarter. It's in the last eight weeks. Thank you, guys. So it's in the last two months.

Operator: Thank you. And our next question today comes from Paul Przybylski with Wolfe Research. Please go ahead.

Paul Przybylski
Analyst, Wolfe Research LLC

Q

Good morning. Congratulations, Doug and Karl. I guess, to start off, you mentioned your January traffic and deposits were up slightly. Can you add any color on how that breaks out among your consumer groups, especially with how the age-targeted is starting off the snowbird season?

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Yeah, it was pretty consistent activity between our three consumer segments: move-up, move-down and first-time. And it was pretty consistent between spec and build-to-order. So there's nothing in those buyer segments that stood out as either outsized sales or undersized, so consistent across the business.

Paul Przybylski
Analyst, Wolfe Research LLC

Q

Okay. It's good to hear. And then you mentioned that the Pacific Northwest was one of your weaker markets. Can you give us any color on how the ethnic homebuyer demand trends have performed since we've had a little bit of settling since the H-1B controversy?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Yeah, Paul, we still hear it. Even separate from the Pacific Northwest, I'll just say broadly, we do still hear about it a little bit. The uncertainty around visa status has created a little bit of a pause from customers across the country. It's been modest, and I don't think it has been concentrated in the Pacific Northwest, but we still hear it on the sales floor.

Operator: Thank you. And our next question today comes from Armando A. Barron with Housing Research Center. Please go ahead.

Alex Barron
Analyst, Housing Research Center, LLC

Q

Hey, guys. You probably know me as Alex. Anyways, I wanted to ask – so we saw Pulte sold their truss manufacturing plant, but you guys have a very expansive, not just trusses, but lots of stuff you guys do with those manufacturing plants in the East Coast. I'm just wondering, what would it take for you guys to expand those more to, let's say, Texas or Phoenix or some markets, where you guys have a bigger scale. Is it a matter of scale? Is it a matter of distance to communities? Like, what would it take for you guys to start those types of operations in other markets that are not the East Coast?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Hey, Alex. It's Karl again. We like the business and we like its current footprint. It probably serves 20% to 30% of the revenue for the company nationwide, as you know, predominantly sort of Carolinas North. The limitation with expansion of those facilities is transportation costs are really significant. So it's had a sort of a fixed footprint for a very long time. We like the business. That vertical integration in this corridor has really helped us. But at least in the near term, we don't see a need or a desire for expansion.

Alex Barron
Analyst, Housing Research Center, LLC

Q

Got it. All right, guys. Well, best of luck for this year.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

A

Thank you.

Operator: Thank you. And our next question today comes from Ryan Gilbert at BTIG. Please go ahead.

Ryan Gilbert
Analyst, BTIG LLC

Q

Hi. Thanks. Good morning. And congratulations to Doug and Karl. I wanted to go back to the North segment, really strong sales. And I understand that demand is strong in this area. I'm just wondering the extent to which there have been any changes in product mix that could be contributing to the improvement in orders? And then also how the community pipeline looks and your ability to replace community close-outs, given the strength of orders?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.

A

Yeah, Ryan. It's a good question. There has been a planned shift and repositioning of product and our land acquisition strategy throughout the Northeast, particularly here in Pennsylvania, New Jersey, New York State. We're seeing a lot of opportunities for infill development, repositioning of old, unoccupied, or poorly occupied office buildings. These tend to be in very, very good locations, great school districts. And so it's helped us maintain better velocity and absorptions in these markets.

I think the other thing you have going on is, there's just less inventory. This corner of the country during the pandemic, it was not one of these markets that ran away. And so, inventory has remained a bit muted. And so, yes, we are seeing a repositioning of our strategy here, much more attached product. And that's really the same on both coasts, both here in the Northeast and parts of California.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc. A

And we are also – to your question about opportunities, we are – I think, guys, we would all agree, we're seeing outsized land opportunities now in the North and in Mid-Atlantic...

Karl Mistry
Executive Vice President, Toll Brothers, Inc. A

Yeah.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc. A

...which is very exciting for us.

Karl Mistry
Executive Vice President, Toll Brothers, Inc. A

Yeah. The pipeline in the North region is very strong.

Ryan Gilbert
Analyst, BTIG LLC Q

Okay. Great. Thank you. And then second question on the land bank. And you've talked about having the lots controlled to continue growing community count in the years to come, but I think kind of flat to down lots controlled versus growing community count seem a bit at odds. So I'm hoping you can add some detail to what gives you the confidence that you can continue growing your community count given, relatively flattish controlled lot count. And then where you think your optimal years of land supply sits?

Gregg L. Ziegler
Chief Financial Officer, Toll Brothers, Inc. A

Hey, Ryan. It's Gregg. Yeah, we're still very comfortable because we have approximately 75,000 lots that we own or control. So the mix is still very favorable with 55% of those being optioned. It's – when you net out our backlog, I think we have 2.7 years of owned land, so an attractive statistic as well. So we think we have the right land bank to support our continued community count growth somewhere in that 7% to 10% each year as we look forward.

Operator: Thank you. And our next question today comes from Susan Maklari with Goldman Sachs. Please go ahead.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Thank you. Good morning, everyone. And I want to add my congrats to Karl and to Doug on...

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.
A

Thanks, Susan.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

...your move. My first question is on the Design Studios. You mentioned that you've still seen some really healthy activity there, especially as you're selling some of those specs a bit earlier. Has there been any notable trends in the spend there? Anything that has changed and anything that we should be aware of as we're thinking about the outlook for future deliveries and margins?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.
A

Yeah. Susan, it's remarkable. Over – in my 20-plus years at Toll Brothers in good markets and bad, the Design Studio upgrades as sort of a percentage of the home have been really consistent. And so, what has improved is I think, if you spent time in our studios, we've continued to professionalize them. We'll continue to do that, and make the buying experience better and better. The margin has improved over time, but your question on spend, it has been very consistent.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. That's helpful. And then, you mentioned some of those head count reductions that you recently implemented. As you're thinking about balancing costs relative to current conditions, but still being able to flex once things do normalize and improve, can you talk a bit about how you're thinking about those two worlds? And what is your ability to eventually ramp the business as conditions improve?

Karl Mistry
Executive Vice President, Toll Brothers, Inc.
A

Yeah. Susan, we are constantly making sure that the business is structured to be efficient. And we've done that quarter-after-quarter. If we have a great spring again, we're hopeful we do, and we see that absorption at 24 homes a year climb. We see that on the front end of the business first. We see it in the sales offices. And we can begin to staff up, particularly with our field personnel, our construction teams and our sales teams. But our back office, our G&A, those folks are intact. They're here, and as Doug alluded to, we believe, have capacity to produce a lot more revenue with the existing team.

Operator: Thank you. And that concludes today's question-and-answer session. I'd like to turn the conference back over to Doug Yearley for any closing remarks.

Douglas C. Yearley
Chairman & Chief Executive Officer, Toll Brothers, Inc.

Rocco, as always, you've been terrific. Thanks, everyone, for all your great questions, your interest and support of our great company. This is an exciting time here at Toll Brothers. And we appreciate all of you very much. And I hope you have a wonderful remaining winter. And the spring comes early this year for all of us. Thank you. Take care.

Operator: Thank you, sir. And we thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.