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Toll Brothers, Inc. (TOL)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Toll Brothers Fourth Quarter Fiscal Year 2025 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] The company is planning to end the call at 9:30 when the market opens. During the Q&A, please limit yourself to one question and one follow-up. Please note this event is being recorded.

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

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

Thank you, Drew. Good morning. Welcome and thank you all for joining us. With me today are Rob Parahus, President and Chief Operating Officer; Wendy Marlett, Chief Marketing Officer; and Gregg Ziegler, our new Chief Financial officer. While Gregg has been on these calls for many years, this is his first as our CFO. Congratulations, Gregg.

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

Thank you, Doug.

Douglas C. Yearley

Chairman & Chief Executive Officer, Toll Brothers, Inc.

As usual, I caution you 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.

Overall, I am pleased with our performance in fiscal 2025. We executed well and produced another year of strong results, notwithstanding a difficult sales environment. We delivered 11,292 homes at an average price of $960,000, generating a record $10.8 billion of home sales revenues. We posted an adjusted gross margin of 27.3%, an SG&A margin of 9.5%, and earnings of $13.49 per diluted share. We grew our community count by 9%, continued to produce strong operating cash flows of $1.1 billion, and returned approximately $750 million to stockholders through share repurchases and dividends, and generated a return on beginning equity of 17.6%. These are the results that our entire team can be so proud of and I am grateful for the hard work and dedication that made these results possible.

In our fourth quarter, we met or exceeded guidance across all of our core home building metrics, generating $3.4 billion in home sales revenue with an adjusted gross margin of 27.1% and an SG&A margin of 8.3%. We earned $4.58 per diluted share, which was modestly below guidance, primarily due to the delayed closing of the sale of our Apartment Living business that we announced back in September. We expect to complete this transaction by the end of the first quarter and to completely exit the multifamily business over the next few years.

Our fourth quarter and full year results demonstrate that our luxury business is differentiated as we serve a more affluent customer who is less impacted by the affordability pressures that continue to impact the broader housing market. These results also underscore the resilience of our business model. Our results over the past few years and especially this last year have proven that our business model and strategy can produce strong returns in good markets and bad. To illustrate this point, we started fiscal 2025 with fewer than 6,000 homes and $6.5 billion in backlog, down 9% in units and 7% in dollars from the prior year. Yet in fiscal 2025, we delivered a record 11,292 homes and $10.8 billion in home sales revenues, up 4% in units and 3% in dollars despite a soft market throughout the year. We did this while maintaining an attractive adjusted gross margin of 27.3% and an operating margin of 15.7%.

Our business today is more nimble, thanks in large part to the broadening of our geographies, product lines and price points, as well as our shift to a more balanced portfolio of build-to-order and spec homes, all of which have helped us bring down construction cycle times, improve inventory turns, and gain efficiencies in the land development and construction processes. Our spec strategy has also allowed us to appeal to buyers looking for a quicker move-in, further widening our addressable market. In addition, many of our specs are sold early in the construction process, which affords many of our customers the opportunity to choose their finishes and make upgrades, an important competitive advantage for Toll Brothers. Specs accounted for approximately 54% of our deliveries in fiscal 2025. Given our year-end backlog and our deliveries guidance for fiscal 2026, we expect a similar ratio this year.

In the fourth quarter, we signed 2,598 net agreements for $2.5 billion, down 2% in units and 5% in dollars compared to Q4 of last year. We sold at a pace of approximately two contracts per community per month. Sales modestly improved as the quarter progressed with October being our strongest month. Since the start of our fiscal 2026 six weeks ago, our per community deposit activity has been almost identical to the same six weeks last year, which is somewhat encouraging since last year's period was up 22% from the prior year. Deposit activity in these first six weeks is also about the same as it was in October. Based on historical seasonal trends, it should have been down.

While this activity is positive, it is just one data point and November and December are seasonally slow, so we are not reading too much into it. The real tell for whether the housing market can accelerate will be the spring selling season, which starts in late January. We are encouraged that mortgage rates have stabilized in the low 6% range and may go lower. We also recognize that the underlying fundamentals that fuel housing demand in the long term have not changed. Demographics are favorable with millennials still in their prime homebuying years and Gen Z right behind them. We also continue to have a structural undersupply of millions of homes in this country, and the average age of the home in the US is now 40 years and growing. All of these trends support demand for new homes.

In terms of pricing in the quarter, we continue to take a measured approach to balancing pace and price. Our average incentive was the same as the third quarter at approximately 8% of delivered price, which is also the current incentive on the next home sold. Our average sales price in the quarter was approximately $972,000, down from $1 million in Q4 of last year due to mix. Geographically, we continue to see relative strength in the East from Boston down to South Carolina, as well as in Coastal California and Boise in the West. Among our buyer segments, we saw little meaningful variation in demand. Given the cloudy near-term outlook for the overall housing market, which is being driven in large part by well-known affordability pressures, we are pleased to be serving an older more affluent customer.

According to data published by the National Association of REALTORS last month, the median age of a first time homebuyer is at an all-time high of 40 years old, and the median age of all buyers is now almost 60. And with just 1 in 5 sales to a first time buyer, the vast majority of sales in the market are to move-up or move-down buyers. These trends play right into our strategy. Over 70% of our business serves the move-up and move-down segments. These buyers are wealthier, have greater financial flexibility, and most have equity in their existing homes. The remaining 25% to 30% of our business is focused on the older more affluent first time buyer who was also feeling less affordability pressure.

While we actively market rate buydowns and they do drive traffic, we have a very low take rate as our buyers do not need a lower rate to qualify for a mortgage, and they'd rather spend incentive dollars upgrading their homes through our Design Studios. In the fourth quarter, the average spend on Design Studio selections, structural options and lot premiums was approximately $206,000 per home or roughly 24% of base price.

These upgrades benefit our margins as they tend to be highly accretive. The financial strength of our customers is also highlighted by our high percentage of all cash buyers, the low LTVs of those who do take a mortgage, and our industry low cancellation rate. Consistent with the several past – with the past several quarters, approximately 26% of our buyers paid all cash in the fourth quarter. The LTVs of buyers who took a mortgage in the quarter were approximately 69%, and our contract cancellation rate was 4.3% of beginning backlog.

Turning to land. At fiscal year end, we controlled approximately 76,000 lots, 57% of which were optioned. We continue to target a mix of 60% optioned and 40% owned over the long term. Our land position allows us to continue being highly selective and disciplined as we assess new opportunities. It also facilitates our plans to continue growing community count over the next several years, including another 8% to 10% in fiscal 2026.

In our fourth quarter, we repurchased $249 million of our common stock, bringing our full-year repurchases to $652 million at an average price of $120.44 per share. During fiscal 2025, we repurchased 5% of our outstanding shares at the beginning of the year. We also paid $97 million in dividends. Dividends and buybacks have been and will continue to be an important part of our capital allocation strategy.

As I mentioned earlier, in September, we announced the sale of a significant portion of our Apartment Living business to Kennedy Wilson. The purchase price is now $380 million, reflecting ongoing investments since the September announcement. We thought it would close in Q4. It will now close this quarter. We closed on part of the transaction last week and expect to complete the balance by the end of January.

When it is completed, Kennedy Wilson will acquire about one-half of our Apartment Living portfolio, including our operating platform and organization. We expect to sell our remaining interest in the retained properties over the next few years. As we exit the multifamily business, we anticipate using the significant cash proceeds from these transactions to both grow our core homebuilding business and return capital to stockholders.

With that, I will turn it over to Gregg.

Gregg L. Ziegler

Chief Financial Officer, Toll Brothers, Inc.

Thanks, Doug. Our fourth quarter capped off another strong year for Toll Brothers, as we beat guidance across all our core homebuilding metrics. We would have beat on earnings as well except for the delay in the Apartment Living sale. In fiscal year 2025 fourth quarter, we delivered 3,443 homes and generated home sales revenue of $3.4 billion, flat in units and up 5% in dollars from one year ago. The average price of homes delivered increased 4% to approximately $992,000.

Fourth quarter net income was $446.7 million or $4.58 per diluted share, compared to $475.4 million and $4.63 per diluted share one year ago. For the full year, we delivered 11,292 homes, up 4% year-over-year, and generated home sales revenue of $10.8 billion, up 2.6%. Full year net income was $1.35 billion and $13.49 per diluted share, compared to $1.57 billion and $15.01 last year.

As a reminder, net income in 2024 included approximately $124 million or $1.19 per share of gains related to one parcel of land sold to a commercial developer for a data center. Excluding this gain, last year's net income would have been $1.45 billion or $13.82 per share. We signed 2,598 net contracts in the fourth quarter for $2.5 billion, down 2.3% in units and 5.0% in dollars from one year ago.

The average price of contracts signed in the quarter was approximately $972,000, down 2.8% compared to last year's fourth quarter. As Doug mentioned, the decrease in ASP was primarily due to mix as we had fewer sales in our Pacific region. At year-end, our backlog stood at $5.5 billion and 4,647 homes. Our cancellation rate as a percentage of backlog was 4.3% in the fourth quarter. Our fourth quarter adjusted gross margin at 27.1% was slightly better than guidance. In the quarter and throughout the year, we outperformed expectations in all regions and buyer segments, reflecting the ongoing benefits of our cost control efforts and improved efficiencies.

SG&A as a percentage of revenue was 8.3% in the quarter, flat compared to the same quarter one year ago and in line with our guidance. Joint venture, land sales and other income was $6 million in the fourth quarter compared to $44.5 million in the fourth quarter of fiscal year 2024 and our guidance of $65 million. As we noted earlier, the myth was primarily because of the delay and the closing of the Apartment Living transaction. In addition, we booked $24 million of pre-tax impairments that were primarily related to three land positions that we now intend to sell. Impairments included in home sales cost of revenue totaled $16.4 million in the quarter, almost half of which related to only one community in Oregon, compared to $24.1 million in the prior year period.

We continued to generate strong cash flow in fiscal 2025 with approximately $1.1 billion of cash flow from operations. We ended the fiscal year with over $3.5 billion of liquidity, including $1.3 billion of cash and $2.2 billion available under our revolving bank credit facility. In fiscal 2025, we invested $2.9 billion in land acquisition and land development. We also returned approximately $750 million to stockholders through share repurchases and dividends. Our net debt to capital ratio was 15.3% at fiscal year-end, and we have no significant debt maturities until fiscal 2027. Our balance sheet is in great shape.

Turning to our first quarter and full year 2026 guidance. I want to emphasize that our assumptions and estimates are based on current market conditions, which, as Doug noted, are choppy. We have not assumed any market improvement in our forecast. We are projecting first quarter deliveries of 1,800 to 1,900 homes with an average price between $985,000 and $995,000. Consistent with normal seasonal patterns, first quarter deliveries are expected to be the low point of the year with deliveries for the full fiscal year weighted to the second half.

For full year 2026, we are projecting new home deliveries of between 10,300 and 10,700 homes with an average price between $970,000 and $990,000. We expect our adjusted gross margin in the first quarter of fiscal 2026 to be approximately 26.25%, and for the full year to be approximately 26.0%. We expect interest in cost of sales to be approximately 1.1% in the first quarter and for the full year. We project first quarter SG&A as a percentage of home sale revenues to be approximately 14.2%, reflecting lower fixed cost leverage as the first quarter tends to be our lowest revenue quarter.

Also included in the first quarter SG&A is about $14 million of annual accelerated stock compensation expense that does not recur in the remainder of the year. For the full year, we project SG&A as a percentage of home sale revenues to be approximately 10.25%. Other income, income from unconsolidated entities and land sale gross profit is expected to be $70 million in the first quarter and $130 million for the full year. Our first quarter guidance includes gains on the sale of our Apartment Living assets to Kennedy Wilson.

I want to be clear that after we complete the Apartment Living transaction with Kennedy Wilson, we will retain about half our existing interest in Apartment Living assets, which will be managed by Kennedy Wilson in the future. We do not intend to commit any new capital and will exit the multifamily business as we sell off the retained properties. We project a first quarter and full year tax rate of approximately 23.2% and 25.5%, respectively.

We are budgeting $650 million of share repurchases in fiscal 2026 with most of that occurring later in the year, aligned with the higher operating cash flows we typically generate in the second half. We expect our weighted average share count to be approximately 97 million for the first quarter and 95 million for the full year. 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.

With that, I will turn the call back over to Doug.

Douglas C. Yearley

Chairman & Chief Executive Officer, Toll Brothers, Inc.

Thank you. Gregg. Before we open it up to questions, I'd like to thank the entire Toll Brothers team for staying focused on our customers and consistently executing on our core strategies. Most importantly, you've helped position the company for continued success in 2026 and beyond. For that, I am truly grateful.

Drew, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Hello, everyone. This is the conference operator. I apologize. It looks like our original operator may have disconnected. We'll go on to our next question. Our next question comes from Stephen Kim at Evercore. Please go ahead.

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

Hi. Is Drew okay?

Stephen Kim
Analyst, Evercore ISI Q

Hi. Thanks very much, guys.

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

Just want to make sure our friend Drew is okay. Thank you again. Apologies. And Stephen, let's get it rolling here.

Stephen Kim
Analyst, Evercore ISI Q

All right. Sounds good. So, yeah. Thanks for all the help here. Wanted to ask about your assumptions for the active adult buyer. I thought it was interesting you said that 70% of your sales are move-up and move-down. I was wondering if you could give us a sense of the move-down and any other kind of age breakdown of your buyer to the degree you can do it? And I'm curious what kind of trends you factor into your land purchasing decisions today. Because obviously the stuff you're buying now or tying up I should say today isn't going to be used probably for another maybe four or five years. And so, I'm curious as to what sort of potentially changing trends should we be cognizant about with respect to the move-down buyer in particular in terms of what you're considering as well. Thanks.

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

Sure. So, active adult is doing well as you would expect. Older more affluent buyer invested in the markets, equity in their existing homes. It's about 17% of our revenue. So, the biggest part of that plus 70% we referenced being both move-up and move-down is our core move-up business, which is really doing well. Trends with that buyer, I think, through these softer times, we continue to expect the active adult group to outperform and we're seeing that.

With respect to the age of the different buyer segments, we don't have great data on that. I think it's pretty consistent with the numbers I gave that the first time buyer is now approaching 40 and the average buyer is approaching 60. I'm quite confident that would be about where we are. Our first time buyer is not 250 to 400. Our first time buyer is 450 to – in California, we have first time buyers at 1,000,005. They're older, they're more affluent, a lot less impacted by affordability issues, not looking for rate buy down. And I'm sure our age breakdown is pretty consistent with the numbers I gave.

With respect to trends on land, we're seeing good deal flow. We are being very conservative. We are being very disciplined in our underwriting. We talk all the time about this combination score of gross margin and IRR. And we have a lot of great land, we have community count growth that's lined up at 8% to 10%, which will follow exactly 9% in 2025, but we're seeing good deal flow. Part of that is some softer markets. Part of that is the other big builders with capital do not tend to compete with us for land. So, we have a bit of an advantage.

And so, most of the land we're buying or contracting for now is setting up 2027 and 2028 revenue. So, it's always forward looking because we have to get entitlements and get roads in and get sales centers open. But we are being quite disciplined, but continuing to see good deal flow and gives us the opportunity to not just focus on returning capital to shareholders, but grow the company.

Stephen Kim
Analyst, Evercore ISI
Q

Okay. That's helpful. I guess, the next question is sort of related to that kind of a continuation of your thought there. I'm curious as to whether or not you think the number of lots owned by the end of next year could stay flat or maybe even decline compared to where it is today. And related to that cash flow conversion next year, Gregg, any thoughts on maybe a range of values that you would generally target for cash flow conversion? Thanks.

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

I'll take the first half and then turn it over to Gregg. We think owned lots will continue to come down a little bit. They came down a little bit through 2025. We're doing more and more land banking joint ventures with other builders. We're getting extended terms with land sellers where we can buy land over time. That's very important to us, as we continue to focus on ROE. And so, I think, Stephen, I'd say, flat to modestly down on the owned/optioned ratio. I've said before, while right now 60/40 optioned to owned is a goal, I mean it's not going to take too long for us to blow through that and give you a new goal that's even better. Gregg?

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

Hey, Stephen. We think cash flow from operations will be modestly lower in 2026 as it compares to 2025. So, I think that's the cash flow conversion which is your original question. Might be – I'll throw out something in the 60% range.

Stephen Kim
Analyst, Evercore ISI
Q

Thank you.

Operator: Thank you. And our next question today comes from John Lovallo with UBS. Please go ahead.

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

Hey, John.

John Lovallo
Analyst, UBS Securities LLC
Q

Hey. Good morning, guys. Thanks for taking my questions. The first one is that, look, you guys have exceeded your quarterly delivery outlook in 11 of the past 12 quarters by like 5% on average versus the midpoint. You beat the gross margin outlook in each of the past 12 consecutive quarters by I think about 70 basis points on average. I understand that visibility is limited here, but do you believe you're leaving a little bit of room for cushion in your outlook, particularly if the market is at least slightly better in 2026 as we expect it might be?

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

A

John, I'm a conservative guy. I've run this company in I think a very conservative way, and I think all I'll say is the guidance we're giving you for 2026 is conservative. We are not assuming any improvement in market conditions. We are not assuming that 8% incentive comes down. We have a lot of communities opening in the first half of the year. We have 30 opening in Q1. We have 60 opening in Q2.

We now have over 35% of our communities that can deliver homes in less than eight months, because frankly we've become better and more efficient builders and are turning houses faster. So, there is an opportunity to get further into the spring, not just with the communities we have, but with the new openings that can still have deliveries this year. And that's just internally on how we're running the business.

That doesn't even go to what the market conditions look like, whether rates come down, whether affordability pressure eases a bit, whether there's overall consumer confidence that improves. None of that is built in. So, I'm not going to sit here and tell you that, we're going to blow through our guidance, but we've approached it the right way. I've learned this for 35 years. When you're in a softer market that's a bit bumpy, that is the time to be conservative when you guide to the street, and that's exactly what we've done setting up 2026.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah. It makes a lot of sense. Okay. The first quarter home sales gross margin guide is 26.25%, the full year guide is 26%, which would be seasonally sort of atypical given the normal cadence of sales. What's driving the implied moderation in the gross margin through the year in your view?

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

A

We are starting more spec now to set up when people want to move into homes, right? Most people want to move into a home in June, July, August, September, as the school year approaches or begins. And so, you have to plan your spec strategy, in our opinion, not with the equal cadence month-to-month for spec starts, but begin homes focused on when they deliver and when the buyer wants them.

And so, in the later part of the year, we will have more spec deliveries. Some of those get sold early and they can go to that Design Studio and load it, but some of those don't get sold until the house is further along. And so, we all know right now there is a bigger incentive on spec than there is on build-to-order. And in the later part of the year, we will have more specs delivering. So, we are being conservative in the gross margin guide, assuming that those specs will require a bit of a higher incentive, and that's in the later part of the year. So, that's the answer.

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

Stephen Mea Q
Analyst, RBC Capital Markets LLC

Hey. Good morning, team. You've got Stephen Mea on for Mike Dahl today. Thanks for taking my questions.

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

Sure.

Stephen Mea Q
Analyst, RBC Capital Markets LLC

I wanted to kind of dive a little more into the fiscal 2026 delivery guide. Like the company delivered around 11,300 homes from beginning backlog of around 6,000 last year, representing a little under 2 times your beginning backlog. Kind of what – you closed out the year with kind of – and going into next year with the guide at around 10,500 at the midpoint, you're aiming for a little more than 2 times your beginning backlog.

What kind of – if you could give us some more color on kind of what gives you confidence in that ramp? I'm assuming spec plays a big part of that, but if there's anything else you could speak to and perhaps any more color you can give on the spec strategy side, it would be helpful. Thanks.

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

Sure. I'll be happy to. So, let's go through the numbers for you because I want to make it clear. We have 4,500 homes in backlog. We have 3,000 spec homes or as we call it quick move-ins under construction. That takes you to 7,500. We have 1,500 build-to-order homes that we believe conservatively will be sold and settled in fiscal 2026. I mentioned that 35% or more of our communities are now delivering homes in less than eight months from when the buyer signs the agreement to the closing date.

I mentioned the new communities that we'll be opening in the first half of the year, and we are very comfortable in that 1,500 number. And then we have another 2,300 spec permits that have not started construction. But of those, we are selecting individually based on market conditions 1,500 that we will start and will allow us to sell and settle by year end. So, when you add 4,500 backlog, 3,000 spec under construction, 1,500 build-to-order and 1,500 spec at permit that we are now selecting to start to have them done in those prime summer months, that gets you right to 10,500.

Stephen Mea Q
Analyst, RBC Capital Markets LLC

Got it. That's super helpful. Appreciate the quantitative walk there. And if I could squeeze one in on the exit of the – or the announcement to exit the remaining of the multifamily business. If you could give us a bit more color on how you came to that decision, and if I could also ask how we should maybe think about the use of potential additional proceeds once you're able to fully exit the business. Thanks.

< <A – [05DVVL-E]Doug Yearley – Toll Brothers, Inc.>: Sure. It's a business I've been very proud of for the last 15 years. If we were private, we would stay in it. But we recognize as a public homebuilder, we're not getting the full credit that we think we deserve for the earnings generated from that business. We understand that analysts, investors and Wall Street would prefer that we focus on core pure-play homebuilding. And so, we have waved the white flag.

We are selling the business. We will focus exclusively on our for-sale business. And we wish our team, who was so talented, to have a tremendous future under the Kennedy Wilson platform in terms of the money generated, the cash generated from the sale, not just the Kennedy Wilson, but then the subsequent sale of the retained assets. It's going to be used to grow the business and to return cash to shareholders.

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

Trevor Allinson
Analyst, Wolfe Research LLC

Q

Hi. Good morning. Thank you for taking my questions. First question on, fourth quarter orders typically are down mid-single digits sequentially. This quarter, they were up 9%. I think ex-COVID, that was the best sequential performance you had seen – has seen over a really long time, but you mentioned demand still remains soft. So, what drove the outperformance in the quarter? Was that a desire to work down some inventory or why did that outperformed normal seasonality so significantly? And then with that in mind, how are you thinking about orders relative to normal seasonality here in your first quarter?

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

A

Hey, Trevor. It's Gregg. Fourth quarter 2025 order growth there, I think that we saw it in quite a number of geographies across the country as well as most of our buyer segments. So, I think that we did well, and you will notice in the results there that the North region was definitely above our expectations. So, we're proud of the results that we had there. As you're asking about orders for our contracts for the rest of the year, especially into Q1, I think our comments around the November demand we've saw in deposits is probably as far as we would like to comment publicly on, on orders as we move forward.

Trevor Allinson
Analyst, Wolfe Research LLC

Q

Okay. Fair enough. Thanks for that color. Second question then is around new home inventory kind of industry levels. There's been a lot of talk about that being extended, especially in some of the weaker markets, such as Texas and Florida, but obviously, you guys operate at very different price points versus a lot of your peers. So, can you talk about where you think new home inventory stands in at your price points and some of those more challenging markets? Do you think some of the overbuilding that we've seen is more across price points or do you think that from what you guys can see is more concentrated at the entry level? Thanks.

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

A

It's definitely more concentrated at the entry level. You look at the Boston to, I'll call it, Philadelphia or even Northern Virginia corridor, which most in this room live in. There's very little on the resale market. There's very little land for the new homebuilders. We have a pretty unique positioning there. It's tough to come into those markets and find land that you can get entitled quickly and get the machine running. So, this is our home corridor that we do well in.

We know how difficult the entitlements are and we're benefiting from it with very, very tight resale markets and very few builders to compete with. That's also been true in Coastal California. We've done very well. I mentioned earlier and it may surprise some, but while Sacramento and Palm Springs have been a bit off, both Northern California and Southern California what we call our coastal markets, which is all the San Francisco suburbs and all the LA and Orange County communities are doing extremely well, there's limited resale at our price points. We don't have the other builders anywhere near our price points. And, those markets have continued to perform well with limited competition.

Just a couple of examples. Out of both of those East and West Coast areas, we opened a community in Central New Jersey eight weeks ago in what's seasonally not considered a great time of October and November, and we took 20 sales at $1.8 million. We have a community in Irvine Ranch in Orange County that opened about six months ago back in May. Has 47 sales at over $6 million, including 14 of those 47 sales just in the past eight weeks. So, those are just two examples. But yes, there are markets that have a lot of big Publix that are building a lot of spec at lower prices, and we're in the food chain, right? So, we have – there is some impact on us, particularly because we have a lot of buyers that have homes to sell. But in our core business of $1 million homes, we're just not seeing it. We have a unique niche that we feel very lucky to be in.

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. I just wanted to dig a little deeper on SG&A. When I run the numbers, it looks like SG&A dollars might be up a little bit year-over-year. Could you just bucket some of the incremental dollar expenses that you're planning for maybe things like third-party broker commissions, new community growth? Would just love some additional context on the SG&A piece.

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

A

So, it pains me to give the guide I gave on SG&A. We're fighting hard every day to reduce overhead in this company, and that effort is elevating. We're more and more focused on it than ever. That's what soft markets do. It is a conservative guide. We're 75 basis points above last year's result. 50 of those 75 basis points is just leverage on less revenue, and that obviously could change if we do better in 2026 with our sales and with our deliveries. And the balance of 25 basis points is inflation in wages, it's healthcare costs, and it's some modest elevated both internal and third-party sales commissions.

When you're in a softer market, per house, you pay your salespeople a little more because you don't want to take them backwards in their total comp. So, if they're selling a few less houses, you give them a little more per house and you have to incent the third-party realtors a little bit more to get them to come to your community. So, those numbers are modestly elevated, but that's the breakdown. 50 basis points leverage, 25 basis point, those other items. But we're fighting this fight every day and I am determined to bring that number into all of you by the end of the year with a nine in front of it.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

Yeah. All helpful context there. Maybe switching gears and talking lot costs. Would just love to hear some context as to where you exited 2025 on lot cost inflation. And then any sense in terms of what's embedded in guide for 2026 lot cost inflation based on what you plan to deliver? Thanks.

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

A

The guys around me are telling me it's flat. Our guide is also flat. We're seeing, as I said, there's some opportunities now we're excited about, which sometimes happens in a softer market. We are renegotiating a lot of our land deals. The impairments were up modestly because we did sell out of a few of our deals, but that final sign-off by our land committee in here, there's a lot of conversations about going back and working to get a little better price because the market is a bit softer. So, that's a longer answer to lot cost land prices being flat.

Operator: Thank you. And our next question today comes from Michael Rehaut with JP Morgan. Please go ahead.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for taking my questions.

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

A

Sure, Mike.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Wanted to first – good morning. Hi. Wanted to first zero in a little bit and kind of hit the closings guidance. I know, Doug, you kind of walked through some of the math in how to get to the midpoint earlier. But on an overall level, given the fact also that you expect the spec mix to be similar in 2026 versus 2025, you kind of obviously walked through the community count growth, on a – kind of looking at it from a different angle, is the guidance for the percent decline in closings largely just driven by math from where you're starting out the year with the backlog being down as it is or is there some element of a timing of community openings throughout the year or even perhaps a slower sales pace that you're baking in to protect margins?

Maybe if you were to be a little more aggressive on deliveries, it might be more at the expense of gross margin. So, just trying to look at it from a different angle and understand the decline in closings in 2026.

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

A

Mike, it is the lower backlog to begin 2026.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Okay. So, all those other factors obviously really not coming into play then.

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

A

Correct. We assume we're going to sell...

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Second question.

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

I'm sorry. We assume we're going to sell at the same pace. Right now, we're running at about two sales per month per community. We have not assumed that's going to improve. And so, we're doing the math off of the beginning backlog with those other buckets that I laid out for you earlier in terms of spec under construction, build-to-order that we think can sell and settle, and spec permits that we are intending to start to have summer deliveries. But it all starts with that 4,500 of beginning year backlog.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Right. Okay. No, that's fair.

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

And as you understand...

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

I guess...

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

Go on. Go ahead, please.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

No, no. Why don't you finish your thought and then I'll ask my second question.

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

If the two per month, which is a pretty low number in the company's history, does a bit better, then obviously each of those other buckets can improve, but that's not how we're approaching the guidance for 2026.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Right. Okay. Second question kind of on the gross margins. I think you've highlighted the fact that your incentives are roughly flattish at least most recently. I think you just said you're [audio gap] (00:52:17) in 2026 to be flat versus 2025. So, just wanted to understand what's driving the sequential decline in gross margins into the first quarter and then more broadly in the full year. Because I would have assumed, if you are assuming incentives being flat, I would have thought land cost inflation would be the primary driver of that. But I'd love to understand what are kind of the impacts or what are the factors driving 1Q and 2026 overall relative to 2025.

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

Sure. The incentive a year ago on this call that was out there for us was $68,000 a house. The incentive today is $80,000 a house. That explains the full 27.3% down to 26% margin change, and we are projecting out the year again on that same $80,000.

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.

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

Alan, good morning.

Alan Ratner
Analyst, Zelman & Associates
Q

Nice performance in a tough market. Gregg, great job on the first call. I won't hold the technical snafu against you. It's all up from here, though.

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

That's all right. They can blame me for the technical snafu.

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

No. We're going to blame Marty Connor for Drew's disappearance.

Alan Ratner
Analyst, Zelman & Associates
Q

Yeah. Exactly.

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

Hopefully, he's listening.

Alan Ratner
Analyst, Zelman & Associates
Q

We expect on him to – he can't defend himself. So, a lot of my questions are on the guidance, but I think we beat that topic there pretty good. Doug, just thinking about the consumer and your buyer today, obviously there's a lot of crosscurrents. The stock market remains strong, but we're hearing confidence is challenging.

We're seeing on the resale side a lot of de-listings. So, people that might have been putting their house up for sale, deciding not to move forward with the sale and maybe some of that seasonal. But I heard you're encouraging sales data through the first six weeks of the quarter, but are you sensing any change in your consumer confidence or their desire to sell their house because the data would seem to be a bit more alarming on that front?

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

A

Yeah. No, we're not. That's why I cautioned that don't read too much into November and December just because of the seasonality of those months not being slower sales and not telling us a lot. So, it's modestly encouraging that the last six weeks were flat to 2024, and 2024 was up 22% to 23%, and that six weeks were also flat to October, which shouldn't be the case. They should be down. But no, there's nothing I can point to, to feel great about where the market is. Consumer confidence for us, for our client is the number one driver.

Affordability, mortgage rates, while I will celebrate a 5.5% rate, it's just not as important to our buyer as we talked about with our buy downs. We market the heck out of buy downs. They drive traffic and very, very few people take it. And so, there's issues around job growth. We still have a lock-in effect, of course, with 70% of our homes requiring a client to sell their existing home, whether they're moving up or moving down, there's still some that are locked in and just don't want to give up that 3% rate. So, those are all real headwinds.

The passage of time is a bit of a tailwind, right? It's just, we're pretty far into this downcycle. If you look historically at housing downcycles, we should be on the other side of it and maybe coming out of it, but that's just looking at prior peaks and valleys. And as people stay in their beat-up old house and always dreamed of moving those kids up to the pretty Toll Brothers house, in a better school district, and the bigger lot, join the fancy country club, whatever they want to do with their life. The passage of time has an amazing psychological effect on people finally saying, I've done well in the markets, I have equity in my house, I have a resale market that's pretty darn good, and we're going to bite that finger and move up.

Now, Marty Connor may not do that because he's a finance geek, but a lot of people want to do that because they want to improve the lives of their kids and their family. And so, the passage of time really helps in that regard. But Alan, that's a very soft comment I'm making, right? It's just kind of the psychological psychology of the buyer, but we're getting closer. I think we're getting closer to when we see some light.

And I'm excited about that, but I can't point to it. But if there's pressure on rates coming down with a couple more cuts, if confidence improves a bit, as time moves on and we're further along in this downcycle, I think there's a great opportunity because of those long-term tailwinds to see some improvement. But I can't point to any data point right now, and that is the main reason why we're staying conservative in our 2026 guide.

Alan Ratner
Analyst, Zelman & Associates

Q

Makes sense. No. Understood. I appreciate the comments even if you call them soft. I think it's helpful just to hear what you're seeing.

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

A

Thanks.

Alan Ratner
Analyst, Zelman & Associates

Q

Gregg, I'm going to put you on the spot and then hop off.

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

A

Sure.

Alan Ratner
Analyst, Zelman & Associates

Q

Just on the share buyback guide for $650 million. So, pretty flat with the past year. If I look at this past year, you – I think you did – you generated $1.1 billion of cash. You're saying that maybe that's down a little bit, but you also have the sale of the apartment business in there in the first quarter. So, it would seem like unless you're looking to, I don't know, build up cash or de-lever, which you don't have any debt coming through this year, that there should be an opportunity to drive that buyback number decently higher from 2025. So, what's holding you back there?

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

A

Sure, Alan. We would like to go higher but we do think that $650 million is very prudent guide at this point to start the year. So, we'll continue to evaluate it throughout the year, but this is where we want to launch.

Operator: Thank you. And our next – yes sir?

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

A

We're going to we're going to extend for another question because of our friend, Drew.

Operator: Absolutely. So, our next question comes from Rafe Jadrosich with Bank of America. Please go ahead.

Victoria Piskarev
Analyst, BofA Securities, Inc.

Q

Hi. You have Victoria Piskarev on for Rafe Jadrosich. Thanks for taking our question. My first question is on what are you thinking about stick and brick costs and labor costs for 2026, and what is embedded in the guidance?

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

A

Great question. We're seeing a modest decrease in construction costs in most parts of the country. It's either flat or it's down slightly, and maybe $2, maybe $3 a square foot in reduction in building costs. It costs us plus or minus $100 a square foot to build our homes. When I started in this business, Rob Parahus is here with me, we're the old guys. We used to build for $55 a square foot. Remember, Rob? So, that's a couple of points, right? A couple of percentage points down, which is encouraging, and I think that should continue. We have not built in any continued reduction in building costs for the balance of the year.

Operator: Thank you. That concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Douglas C. Yearley

Chairman & Chief Executive Officer, Toll Brothers, Inc.

Thanks, everyone. We appreciate all your interests, all your great questions. We're always here to answer any follow-up questions you may have. Have a wonderful, wonderful holiday season and we look forward to seeing all of you soon. Thanks so much.

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