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TOL Shows Signs of Improvement

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In a downright awful tape, **Toll Brothers** (TOL) managed to eke out a gain yesterday. On the company's conference call, management indicated that there are signs of improvement in several geographies and the rate of cancellations is beginning to decline.

Toll is going to be opportunistic yet selective at bottom fishing for some deals in depressed areas. While the worst may be over, there is no guarantee that the good times will roll once again. The recovery will likely be slow and choppy.

That being said, if I was going to buy a homebuilder, Toll would be the one. While I am not a buyer today, I can see being one in the near future.

Toll Brothers reported a net loss of 18 cents per share on revenue of $797.7 million. For the first nine months of the year, the company has accumulated a total loss of $1.38 per share. In the third quarter, the homebuilder wrote down $139.4 million on a pre-tax basis. Included in the writedown was $33.4 million for joint ventures. Half of the writedowns were in the West. Excluding the writedowns, on an after-tax, pro-forma basis, Toll Brothers earned 35 cents per share for the quarter.

The balance sheet remains strong. The company ended the quarter with $1.5 billion in cash and has another $1.3 billion available in bank credit lines. The net debt-to-capital ratio set another all-time record low at 18.0%

Some homebuilder-specific metrics:

- Land positions (owned and under option) were cut by 47%, to 48,500 lots, compared to a peak of 91,200 lots at the end of second quarter 2006.
- Cancellations were elevated on an historic basis, at 105, but it was the lowest level in nine quarters.
- Traffic and deposits have been stabilizing.

Management gave no EPS guidance. As far as the company's outlook is concerned, management expects deliveries of 850 to 1,050 for the quarter, totaling 4,500 to 4,700 deliveries for the full year, with ASPs between $640,000 and $650,000.

Geographic reports during the Q&A:

- Bob Toll pointed out that the company was looking at some deals. He said that the market is not at the level it was in 1991 but closer to 1990 and is loosening up. The deals are being looked at in the West and South. There is not much in the Midwest or Northeast.
- Washington, D.C., Toll's largest market, is not doing well. The same was said for the Philadelphia suburbs, however, and those are looking better. The election should help the D.C. market.
- There are some appraisal problems in the West for people who are trying to get a loan on an 80% loan-to-valuation basis.
- Massachusetts is coming back slightly but not enough to get excited about.

- Connecticut is making a big comeback.
- New Jersey has gotten hot recently after being "deader than a doornail except for around Princeton."
- Dutchess and Putnam Counties in New York are doing well relative to normalized levels.
- The condo market in NYC is strong and is becoming less dependent on Wall Street.

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At the time of publication, Rothbort had no positions in the stocks mentioned, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele. He also is the founder and manager of the social networking educational Web site TheFinanceProfessor.com.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

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