

TOLL BROTHERS INC
Form FWP
November 07, 2013

Issuer Free Writing Prospectus, dated November 7, 2013

Filed pursuant to Rule 433 under the Securities Act of 1933

Supplementing the Preliminary Prospectus, dated November 7, 2013

Registration Statement No. 333-178130

At 8:30 a.m. Eastern time, on November 7, 2013, Toll Brothers, Inc. will use the following slides in a conference call and live webcast to review the announcement of the proposed acquisition of Shapell Industries, Inc. The presentation slides will be available to the public on the Investor Relations portion of the Toll Brothers website, www.tollbrothers.com.

Toll Brothers, Inc. Announces the
Acquisition of Shapell Industries, Inc.
NorCal
SoCal
Shapell Homes
Toll Brothers
Toll Brothers, Inc.

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November 7, 2013
NYSE: TOL

Toll Brothers, Inc.

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Disclaimer

Statement of Forward-Looking Information

Certain information included in this presentation is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, and is not limited to, information related to: anticipated operating results; anticipated financial performance, resources and condition; deliveries; average home prices; consumer demand and confidence; contract pricing; business and investment opportunities; market conditions; consummation of the proposed transaction with Shapell Industries, Inc., and the anticipated benefits to be realized therefrom, and certain closing conditions; consummation of financing transactions; and post-closing asset sales.

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

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

The results for the three months and fiscal year ended October 31, 2013 included in this presentation are preliminary and represent unaudited information available to management. Our actual results may differ from these preliminary results due to the completion of our final adjustments and other developments that may arise between the date of this presentation and the time that financial results for the fiscal year ended October 31, 2013 are finalized.

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Today's Agenda

I.

Toll Brothers

Recent Performance

II.

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III.

Toll Brothers

California Operations

IV.

Transaction Overview and Rationale

I. Toll Brothers
Recent Performance

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Toll Brothers

Preliminary

Q4 and FY2013 Results

Note: Final results to be announced in December 2013.

3 Months Ended October 31,

Fiscal Year Ended October 31,

(\$ in millions), except Avg Prices

2013
 2012
 % Change
 2013
 2012
 % Change
 Contracts
 Units
 1,163
 1,098
 5.9%
 5,294
 4,159
 27.3%
 Total
 \$839
 \$684
 22.6%
 \$3,634
 \$2,558
 42.1%
 Avg Price (\$ in 000's)
 \$721
 \$623
 15.8%
 \$686
 \$615
 11.6%
 Backlog
 Units
 3,679
 2,569
 43.2%
 3,679
 2,569
 43.2%
 Total
 \$2,630
 \$1,670
 57.5%
 \$2,630
 \$1,670
 57.5%
 Avg Price (\$ in 000's)
 \$715
 \$650
 10.0%
 \$715
 \$650
 10.0%

Deliveries

Units

1,485

1,088

36.5%

4,184

3,286

27.3%

Total

\$1,045

\$633

65.1%

\$2,674

\$1,883

42.0%

Avg Price (\$ in 000's)

\$703

\$582

20.9%

\$639

\$573

11.6%

II. Shapell Overview

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Shapell: 55+ Year History of Land

Development & Homebuilding

Nathan Shapell was born in Poland and during World War II was a prisoner of the infamous Buchenwald and Auschwitz Concentration Camps where most of his family members, including his mother, were executed.

After the war he devoted himself to helping thousands of Holocaust survivors by building housing complexes in Germany for survivors and representing them before American military panels responsible for ruling on requests to immigrate to America.

In

1952,
Nathan
Shapell
immigrated
to
the
United
States
with
his
wife
and
daughter.

In
1955
Shapell
Industries
was founded by

Mr. Shapell, his brother David and brother-in-law Max Webb as a home construction company that built custom-quality single family home communities in Southern California.

Since that time the Company has remained family-owned and has expanded its expertise to include virtually every aspect of the real estate development process from land acquisition to design, land development and construction.

To date, Shapell Homes has delivered over 70,000 homes, built over 7,000 apartments, and owns and manages more than 2.7 million square feet of commercial space. Toll will acquire the single-family residential real property development business of Shapell. Toll will not acquire Shapell's commercial and multi-family units, which will be retained by the seller as a separate business.

Source: Shapell Industries, Inc..

1969 / 1971

Shapell listed on
the Pacific Stock
Exchange and
NYSE

1950

1960

1970

1980

1990

2000

2010

1955

Shapell

Founded

Late 1970s

Ground breaks on

Porter Ranch

master-planned

community

2008

Shapell's Alamo Creek

wins MAME s Master-
Planned Community of
the Year
Award
Over 5,200 lot / land
portfolio in desirable coastal
Northern and Southern
California locations
1984
Shapell returns to
privately-held
status

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Shapell: Leading Coastal California
Homebuilder and Developer
Opportunity Overview
San Diego
Orinda
Alamo Creek
Gale Ranch

Evergreen

Gilroy

Plum Canyon

Porter Ranch

Thousand Oaks

Yorba Linda

Carlsbad

NorCal

SoCal

Laguna Niguel

One of the largest homebuilders in California
and the leading builder in several of the state's
premier, high-growth markets

18 active selling communities and land holdings
with over 5,200 concentrated lots in 15 locations

Well-known luxury brand with a reputation for
delivering high-quality, sought-after home
product

Sizable amount of lots concentrated in a
manageable number of communities

Geographic Footprint

Highly Attractive and Proven Lot Locations in NorCal and SoCal

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Shapell: Proven Historical
Operating Performance
Average Delivered Price
(\$ in '000)
Closings
(Units)
Homebuilding Revenues

(\$ in millions)

Source: Shapell Industries, Inc..

Shapell has consistently delivered high-quality homes in the coastal California markets where they build

Through the first 8 months of 2013 their home prices were up 13% and revenues have already exceeded their 2012 levels

\$354

\$252

\$272

\$274

2010

2011

2012

8/31 YTD

525

357

389

347

2010

2011

2012

8/31 YTD

\$675

\$706

\$699

\$791

2010

2011

2012

8/31 YTD

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Shapell: Overview of

Lots and Communities

Shapell is an active homebuilder in many of the same markets as Toll and would add immediate scale to Toll's California Division

97.5% of Shapell's lots have been entitled

Source: Shapell Industries, Inc..

08/31/13

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Lot Breakdown By Status (08/31/13)

(\$ in 000s)

City

Metro Area

Backlog

Raw

Graded

Finished

WIP

Models

Total Lots Remaining

Northern California

Gale Ranch

San Ramon

San Francisco

55

--

1,217

202

100

19

1,538

Alamo Creek

Danville

San Francisco

40

--

159

138

46

10

353

Gilroy

Gilroy

San Fran - Santa Clara

--

--

--

59

--

1

60

Evergreen

San Jose

San Fran - Santa Clara

13

--

--

--

24

--
24
Orinda
Orinda
San Francisco
--
--
--
22
3
--
25
Northern California Subtotal
108
--
1,376
421
173
30
2,000
Southern California
Porter Ranch
Porter Ranch
Los Angeles
41
904
746
74
47
15
1,786
Plum Canyon
Santa Clarita
Los Angeles
34
--
503
100
45
8
656
Yorba Linda
Yorba Linda
Orange County
22
288
--
63
31
15

397
Carlsbad
Carlsbad
San Diego - Carlsbad
--
305
--
--
--
--
305
Laguna Niguel
Laguna Niguel
Orange County
14
--
--
31
16
4
51
Thousand Oaks
Thousand Oaks
Los Angeles
--
--
--
24
--
--
24
Southern California Subtotal
111
1,497
1,249
292
139
42
3,219
Total
219
1,497
2,625
713
312
72
5,219

III. Toll Brothers
California Performance

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Toll's Operating Performance in
California

Toll Brothers has been successfully operating in California since 1994

In two
decades,

Toll

has

delivered
7,750
homes
generating
approximately
\$6.5
billion
in
revenue

Historically, California represents ~9% of consolidated annual closings

Additional investment in California is justified based on Toll's proven success in the region and market trends

Average Delivered Price

(Deliveries: \$ in '000)

Lots Owned and Controlled

2,208

1,802

1,236

1,299

1,286

1,000

1,616

1,398

90

90

229

97

174

2,445

2007

2008

2009

2010

2011

2012

2013E

Owned

Controlled

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Case Study: Investment in

Shapell Lots

Amalfi Hills

In 2012, Toll acquired two Shapell communities (Sorrento & Positano) that consisted of 113 Lots in Yorba Linda & Amalfi Hills (Orange County) for \$47mm

Yorba Linda is a highly desirable housing market with median household income of \$115k and restricted supply

Toll Brothers was able to drive pricing from \$1.3 mm to approximately \$1.6 mm in Sorrento and from \$1.5 mm to approximately \$2.3 mm at Positano since the acquisition

Toll's pace is almost 3x as fast as originally underwritten 18 months ago

The vast improvement in pace and price should result in meaningful gross margin expansion at these two communities

Toll Brothers at Amalfi Hills, Yorba Linda, CA

IV. Transaction Overview and Rationale

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Overview of Transaction Financing

Total purchase price of ~\$1.60 billion,
all cash, for 5,200 lots plus Shapell's
homebuilding operations

The purchase will be financed using a
combination of equity and debt:

Equity

will
represent
10

15%
of
the purchase price
Debt will represent the remaining
85

90%
and
will
be
comprised
of
draws on our existing senior
unsecured credit facility and other
senior unsecured debt
We believe that closing will occur by the
end of the first calendar quarter of 2014

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Key Acquisition Considerations
We
believe
+/-
\$100
million
of

cash
will
be
on
their

balance sheet at closing which we will retain plus
another \$150 million will be returned in the first 6
months from WIP

We believe we will return cash of approximately \$500
million from land sales within the first 18 months

Strong pro forma free cash flow will quickly reduce
incremental leverage

We underwrote the transaction based on the
underlying value of the land

We did not assume any inflation in our underwriting

We anticipate very limited goodwill and intangibles as
a result of the transaction

After the transaction is completed, we still anticipate
having more than \$1 billion of available liquidity

Note: Cash flow and asset sale estimates are management projections that are subject to material revision.

We believe it will be
accretive to earnings in
the first year, excluding
transaction costs

We believe we will
receive a significant
return of our investment
in the first 18 months

Premier coastal
California land with a
complementary luxury
brand

Very limited goodwill
and other intangibles

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Competitive Advantages From

Shapell Acquisition

Bolster footprint in key proven coastal California locations that fit extremely well within Toll's current divisional operations

Toll will own or control approximately 9,200 lots in what we believe are the best locations

in

California

at
the
corner
of

Main
St.
and
Main
St.

Complementary luxury brand with a reputation for delivery of high-quality, sought-after home product and communities

Build upon recent success of Toll Amalfi Hills land purchase from Shapell

California housing market dynamics support incremental investment with many of Shapell's markets experiencing double digit price appreciation

Shapell's seasoned management team will add capacity to Toll's already proven local homebuilding and land development expertise

Strategic

Rationale

Financial

Rationale

We

believe

the

transaction

will

be

accretive

to

EPS

in

the

first

year

of

the

transaction,

excluding transaction costs

Toll intends to selectively sell off \$500 million of land to de-lever the balance sheet, and reduce California concentration

We believe the transaction will return significant cash within 18 months of purchase

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Augments Toll's Footprint in Premier
Coastal California Locations
Property
City
1
Orinda
Orinda, CA

2

Alamo Creek
Danville, CA

3

Gale Ranch
San Ramon, CA

4

Evergreen
San Jose, CA

5

Almaden Valley
San Jose, CA

6

Gilroy
Gilroy, CA

7

Moorpark / Chevron
Moorpark, CA

8

Thousand Oaks
Thousand, Oaks, CA

9

Porter Ranch
Porter Ranch, CA

10

Plum Canyon
Santa Clarita, CA

11

Yorba Linda
Yorba Linda, CA
Placentia, CA

12

Laguna Niquel, CA
Laguna Niquel, CA

13

Carlsbad
Carlsbad, CA

Property
City

1

Schaefer Ranch
Dublin, CA

2

The Reserve at Pleasanton
Pleasanton, CA

3

Norris Canyon Estates
San Ramon, CA

4

Toll Brothers at Amalfi Hills

-
Positano Collection
Yorba Linda, CA

5
Toll Brothers at Baker Ranch
Lake Forest, CA

6
Estilo at Rancho Mirage
Rancho Mirage, CA
Toll Brothers at Alta
Palm Springs, CA

8
Toll Brothers at Escala
Rancho Mirage, CA

9
Toll
Brothers
at
Arrowood

Greens
Oceanside, CA

10
Toll Brothers at StoneBridge
San Diego, CA

11
Toll Brothers at The Ridge
Brisbane, CA

12
The Estates at Sunnyvale
Sunnyvale, CA

13
The Pinnacle at Moorpark Highlands
Moorpark, CA

NorCal
SoCal
Toll will own or control
approximately
in
premier coastal California
locations
Shapell communities are well
located in the same coastal
Northern and Southern
California markets in which
Toll operates today
Alamo Creek and Gale Ranch
are the two main Shapell
properties in Northern
California and represent

approximately 95% of the
acquired lots in that region
Plum Canyon and Porter
Ranch are the two main
Shapell properties in Southern
California and represent
approximately 75% of the
acquired lots in that region

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Complementary Luxury Brand

Source:

Company filings, TOL management and Shapell Homes Offering Memorandum.

(1)

Pro Forma ADP calculated based on 4Q 2013 Toll closings and 3 mos. ended 8/31/13 Shapell closings.

(2)

Pro Forma home closings by delivered price based on FY ended 10/31/13 for Toll and the 10 months ended 8/31/2013 for Shapell

Home Closings

(2)

PF Consolidated Toll
and Shapell

Total Closings: 4,184

Total Closings: 461

Total PF Closings: 4,645

(1)

Pro Forma ADP vs. Peers

Most Recent Quarter; Home Deliveries

Toll Standalone

Shapell Standalone

\$1,162

\$853

\$716

\$703

\$420

\$366

\$349

\$345

\$341

\$310

\$299

\$298

\$291

\$252

TOL CA

Shapell

PF TOL

TOL

SPF

TMHC

NVR

MDC

MTH

PHM

KBH

RYL

LEN

DHI

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Demographics Support Incremental

Investment in California

Source: California Building Industry Association, U.S. Census Bureau.

From 1970 to 2006, California averaged over 177,000
annual housing starts per year

During the downturn from 2007 to 2012, starts
plummeted 66% to under 61,000 starts per year

California needs to build an additional ~700,000 units,
or 4-years worth of supply, just to catch up from the
downturn and return to its 35+ year average of annual
housing starts

Annual
California
Housing
Starts
from
1970

2012

Distribution of Household Income

Based on households with greater than \$100,000 in income

In 2012, California had 3.45 million households
with incomes greater than \$100,000, nearly a
third of all households

13.2% or 1.65 million California households earn
more than \$150,000, versus 9.5% of households
nationwide

\$100,000 -

\$124,999, 32%

\$125,000 -

\$149,999, 20%

\$150,000 -

\$199,999, 23%

\$200,000 +, 25%

177,765/yr.

60,990/yr.

700,650

1970-2006

2007-2012

6 Year Shortfall

2007-2012

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Toll's Conservative Long Term
Leverage Strategy Remains in Place

Toll's conservative long term
leverage strategy will remain in
place after this transaction

We believe our liquidity and
balance sheet were helpful in

winning this bid

While our leverage ratios will rise at closing, we believe the return of cash from Shapell's operations and from our land sales will help our leverage return to historical levels quickly

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We are very excited, and honored that the Shapell family has chosen Toll Brothers to continue on with their legacy

This is a one-of-a-kind coastal California land portfolio that dovetails perfectly with our own footprint

We have proven historical success in

California markets

We believe the transaction will be accretive to income and operating margins, excluding transaction costs, and we assumed no inflation in our underwriting

This is the right acquisition at the right time in the right location for Toll Brothers

Conclusion