



## Earnings Summary

### Earnings Estimates

- TOL issued 2007 EPS guidance of \$1.58-2.08 per share (down 50-62%), with the expectation for revenues to be down 17-30% (\$4.3-5.1 billion). This compares to consensus expectations for earnings of \$2.30 per share and a 27% decline in revenues. Management's guidance embeds an estimated \$60 million of pre-tax write-offs in conjunction with a headwind from an accounting change pertaining to its tower business. TOL indicated that its impairment expectation was a "best guess", but provided little evidence to lend confidence in the number. Although our estimates embed only the \$60 million risk implied by management, our valuation of TOL incorporates over six times this amount remaining on a pre-tax basis.
- Given our moderated stance on revenues and margins into 2007, we are reducing our 2007 estimate to \$1.75 (down 58%) from \$2.35. Our 2007 estimates embed a 29% decline in revenues and a 58% decline in operating profit given an expected 730 basis point decline in operating margin to 11.5%. We continue to weigh on the conservative side with regard to our unit delivery expectations relative to management guidance, as there remains little evidence to suggest that the market is taking steps toward recovery, particularly during this seasonally slow time of the year. Rather, our assumptions imply continued pressures from the systemic overhang of speculative inventory in the market, which we believe will take longer to unwind than TOL implied during the conference call.
- Using our normalized earnings framework, we value TOL at approximately \$22 per share. We believe the group deserves to trade at roughly 10 times normalized homebuilding earnings, and assign TOL a 15% premium to the group. For homebuilding, we assume normalized revenues of \$4.5 billion (24% decline from the peak) and operating margin of 13.5%. For our book value analysis, we adjust tangible book value to reflect perceived impairment risk as discussed in our "Wonder-Land" report published on October 3<sup>rd</sup>, 2006. We value TOL's adjusted book value at 1.55 times, representing a 20% premium to the group's historical median since 1990. This results in a fair valuation of approximately \$32. Combining our normalized earnings valuation (\$22 per share) and book valuation (\$32 per share) analyses yields a fair value today of roughly \$27, which equals a 12-month price target of approximately \$30 using a 12.5% required rate of return. Please see Exhibit 1 for Credit Suisse valuation assumptions and detail.
- Separately, we provide investors with an additional valuation exercise in Exhibit 2 which analyzes TOL's balance sheet incorporating normalized earnings assumptions. In this analysis, the market is currently pricing no risk to book at ~\$32. In our opinion, the market should not ignore impairments as they are a true, business related cost from misjudging the underlying value of its land component. Adjusting for impairments, we arrive at a fair valuation of \$29 under this analysis. This assumes that TOL generates a 15% return on equity and a 9.5 times historical multiple.

**Earnings Summary**

- TOL reported FY4Q06 EPS of \$1.07, which was 42% lower than last year. The results were in-line with our recently revised estimate but higher than consensus at \$1.06. Relative to our expectations, margins were worse than expected, but were adversely impacted by land write-offs. These items were largely offset by joint venture income and a slightly lower than expected tax rate.
- Traditional homebuilding revenues (previously reported) of \$1.78 billion decreased 11% due to a 15% unit decline and a 5% increase in average price to \$710,300.
- Operating margin declined 930 basis points versus last year to 16.2%, which was driven by an 810 basis point decrease in traditional gross margin to 24.0% while SG&A climbed 150 basis points to 8.1% of sales. We were projecting a 17.0% operating margin (26.1% gross, 9.1% SG&A). Excluding land writedowns of \$115 million in the quarter, operating margin would have been 22.5%, ahead of our 20.6% estimate. Management stated that ~60% of its writedowns pertained to option abandonments. The remainder related to a write-down of owned land. Write-offs represented over 2% of shareholder's equity and were above TOL's expected range of \$50-100 million.
- Income generated from land sales, equity joint ventures and other totaled \$32.5 million versus our estimate of \$19.5 million.
- Following the 58% decline in traditional orders announced last month, backlog stands 32% lower than last year. Traditional backlog is down 31% in dollars.
- Management indicated that FASB has ratified the Emerging Issues Task Force's conclusion pertaining to utilization of the percentage of completion method, which pertains to TOL's tower business (3% of 2006 revenues). Although subject to a comment period, this will force a change in accounting for its tower business from percentage of completion to the completed contract method. TOL expects the transition will push out \$275-350 million of revenues from 2007 to future periods.
- TOL repurchased 12,000 shares in the quarter (.01% of outstanding) at an average price of \$27.29. Considering TOL's optimism that stocks will continue to rally, we find it interesting that the company employed minimal capital in the form of share repurchases in order to capture this perceived value. When posed with this question, management provided its belief that investment in land would provide for a better return, although land values have apparently not yet declined from their peak levels. For fiscal 2006, the company repurchased 2.3% of shares outstanding.
- Debt-to-capital at quarter end was 39.5%, up from 38.6% last year. Next twelve month interest coverage of 3.3 times compares to the group at 3.1 times. Return on capital fell to 14.9% from 22.1% last year.
- Lot count fell 11% from last year and last quarter to ~74,000. Of its controlled lots, 58% were owned, up from 43% last year. Based on 2006 or 2007 estimated closings, the 74,000 lots represent a 9 or 12-year supply of land.
- Inventory increased 20% from last year.
- LTM free cash flow was an estimated negative 3% versus positive 5% a year ago. On a next twelve month basis, we expect TOL continue to use cash (-6% yield), with

management mentioning it will spend ~\$900 million on optioned land coming due alone.

Please see Exhibit 3 for a comparison of TOL's actual results versus our pre-earnings announcement estimates and Exhibit 4 through Exhibit 6 for our current quarterly and annual projections.

**Exhibit 1: Credit Suisse TOL Valuation Assumptions****TOL Book Valuation Assumptions**

Current Shareholders' Equity	\$3,416
Current Goodwill	
Current Tangible Book Value	\$3,416
Shares Outstanding	153.6
<b>Current Tangible Book Value Per Share</b>	<b>\$22.23</b>
CS Estimated Impairment Risk as of "Wonder-Land" (2Q06)	\$526
Impairments to Date	\$139
Remaining Impairments	\$387
Remaining Impairments After-Tax	\$242
Adjusted Tangible Book Value	\$3,174
Shares Outstanding	153.6
<b>Adjusted Tangible Book Per Share</b>	<b>\$20.66</b>
CS Multiple on Fair Book Value	1.6x
<b>CS Estimated Fair Value (Rounded)</b>	<b>\$32.00</b>

**TOL Income Statement Normalized Earnings Assumptions**

	<b>TOL</b>	<b>Group</b>
Normalized Revenues	\$4,500	
Change from Peak	-24%	-27%
Implied CAGR from 2002	15%	9%
2000-2005 Margin	19.2%	
Credit Suisse Normal EBIT Margin	13.5%	9.5%
Credit Suisse Normal After-tax Earnings	\$293	
Homebuilding Multiple	11.5x	10.0x
Premium / Discount	15%	
Homebuilding Value	\$3,365	
Joint Venture Investment	\$246	
Multiple	1.3x	1.5x
Joint Venture Investment Value	\$319	
Market Value	\$3,685	
Value of Stock Options	\$557	
Basic Shares Outstanding	153.6	
Diluted Shares Outstanding	163.1	
<b>CS Estimated Fair Value (Rounded)</b>	<b>\$22.00</b>	

Source: Company data, Credit Suisse estimates

**Exhibit 2: TOL Balance Sheet Normalized Earnings Assumption**

Current Tangible Book Value Per Share	\$22.23
Remaining Impairments	\$387
Remaining Impairments After-Tax	\$242
Shares Outstanding	153.6
Adjusted Tangible Book Per Share	\$20.66
Normalized Return on Equity	15.0%
Normalized Earnings Per Share	\$3.10
1990-Present P/E Median Multiple	9.5x
CS Estimated Fair Value (Rounded)	\$29.00
Fair Value if No Further Asset Impairment Assumed	\$32.00

Source: Company data, Credit Suisse estimates

## Exhibit 3: Toll Brothers' 4Q06 Earnings Results, Actual versus Estimated

	4Q05A	4Q06A	4Q06E	Variation from Estimate
Homebuilding Revenues	\$2,007.7	\$1,777.1	\$1,780.4	0%
Tower Revenues	\$0.0	\$31.4	\$28.5	10%
Land Sales	\$12.5	\$0.3	\$4.5	
<b>Net Revenues</b>	<b>\$2,020.2</b>	<b>\$1,808.8</b>	<b>\$1,813.4</b>	0%
Cost of Homebuilding Sales (ex interest)	1,362.8	1,350.5	1,313.9	
Cost of Tower Sales (ex interest)	0.0	21.7	22.5	-3%
<b>Total COGS</b>	<b>\$1,362.8</b>	<b>\$1,372.2</b>	<b>\$1,336.5</b>	
Homebuilding Gross Profit (ex interest)	644.9	426.6	466.5	
Homebuilding Gross Margin	32.1%	24.0%	26.2%	
Tower Gross Profit (ex interest)	0.0	\$9.7	\$6.0	
Tower Gross Margin	NA	30.8%	21.0%	
Writedown on Land Inventory	1.4	115.0	75.0	
<b>Total Home Sales Gross Profit (ex interest)</b>	<b>644.9</b>	<b>436.3</b>	<b>472.4</b>	
<b>Total Home Sales Gross Margin</b>	<b>32.1%</b>	<b>24.1%</b>	<b>26.1%</b>	-200
SG&A Expense	\$133.1	\$144.1	\$164.6	-12%
SG&A - % of Sales	6.6%	8.1%	9.1%	-100
<b>Total Home Sales EBIT</b>	<b>\$511.8</b>	<b>\$292.2</b>	<b>\$307.8</b>	
<b>Total Home Sales EBIT Margin</b>	<b>25.5%</b>	<b>16.2%</b>	<b>17.0%</b>	-90
Cost of Land Sales	8.7	0.2	4.1	
Gain on Land Sales	3.8	0.1	0.5	
<b>Total Homebuilding EBIT</b>	<b>515.6</b>	<b>292.3</b>	<b>308.3</b>	
<b>Total Homebuilding EBIT Margin</b>	<b>25.5%</b>	<b>16.2%</b>	<b>17.0%</b>	
Equity JV, Interest & Other Income	32.8	32.4	19.0	
Interest Expense	\$39.8	\$33.5	\$39.0	
Interest Expense - % of Sales	2.0%	1.9%	2.2%	-30
Pre-Tax Income	\$508.7	\$291.2	\$288.3	
Pre-Tax Income - % of Sales	25.2%	16.1%	15.9%	20
Income Taxes	\$198.4	\$117.4	\$112.7	
Income Tax Rate	40.6%	38.8%	39.1%	-30
<b>Operating Net Income</b>	<b>\$310.3</b>	<b>\$173.8</b>	<b>\$175.6</b>	-1%
Extraordinary Gain/(Loss)	\$0.0	\$0.0	\$0.0	
<b>Reported Net Income</b>	<b>\$310.3</b>	<b>\$173.8</b>	<b>\$175.6</b>	
Earnings Per Share - Basic	\$1.99	\$1.13	\$1.14	
<b>Earnings Per Share - Diluted</b>	<b>\$1.84</b>	<b>\$1.07</b>	<b>\$1.07</b>	-1%
Extraordinary Gain/(Loss) per share	\$0.00	\$0.00	\$0.00	
<b>Reported EPS - Diluted</b>	<b>\$1.84</b>	<b>\$1.07</b>	<b>\$1.07</b>	-1%
Basic Shares Outstanding	155.5	153.6	153.7	
Diluted Shares Outstanding	168.9	163.1	163.5	0%
<b>Operating Data</b>				
Homes Closed - Units	2,957	2,502	2,502	0%
% of Backlog Closed	32%	34%	34%	
Average Closing Price	\$678,965	\$710,272	\$711,591	0%
Traditional New Orders - Units	2,217	941	941	0%
Community Count at Quarter-End	230	294	294	
% Change in Community Count	5%	28%	28%	
Average Community Count	230	295	295	
Absorptions per Community	9.9	3.4	3.4	
% Change in Absorptions	-6%	-65%	-65%	
Backlog - Traditional Units	8,590	5,801	5,801	
Backlog - Traditional Dollars (in millions)	\$5,844	\$4,048	\$4,048	
Average Price in Backlog (Traditional)	\$680,291	\$697,880	\$697,880	
<b>Key Measures</b>				
Debt/Capital	38.6%	39.5%	42.0%	-250
Net Debt/Capital	27.6%	31.8%	36.0%	
Return on Capital	22.1%	14.9%	14.8%	10
Return on Equity	34.9%	22.2%	22.3%	
Inventory Turns	0.88	0.74	0.73	
Inventory Days	416	494	501	
Net Working Capital	3,739.3	4,920.1	5,239.3	
Net Working Capital % of Sales	58%	75%	76%	

Source: Company data, Credit Suisse estimates

## Exhibit 4: TOL Earnings Model, 2005A-2007E

	1Q05A	2Q05A	3Q05A	4Q05A	2005A	% Chg	1Q06A	2Q06A	3Q06A	4Q06A	2006A	% Chg	2007E	% Chg
Homebuilding Revenues	\$989.1	\$1,226.0	\$1,536.5	\$2,007.7	\$5,759.3	50%	\$1,278.7	\$1,400.5	\$1,488.9	\$1,777.1	\$5,945.2	3%	\$4,182.5	-30%
Tower Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		\$57.6	\$40.0	\$41.2	\$31.4	\$170.1		\$190.6	
Land Sales	\$1.2	\$9.8	\$10.6	\$12.5	\$34.1		\$4.7	\$2.1	\$1.1	\$0.3	\$8.2		\$5.0	
<b>Net Revenues</b>	<b>\$990.3</b>	<b>\$1,235.8</b>	<b>\$1,547.1</b>	<b>\$2,020.2</b>	<b>\$5,793.4</b>	<b>50%</b>	<b>\$1,341.0</b>	<b>\$1,442.5</b>	<b>\$1,531.2</b>	<b>\$1,808.8</b>	<b>\$6,123.5</b>	<b>6%</b>	<b>\$4,378.1</b>	<b>-29%</b>
Cost of Homebuilding Sales (ex interest)	685.5	830.6	1,023.7	1,362.8	3,902.7		884.1	976.5	1,052.1	1,350.5	4,263.2		3,232.3	
Cost of Tower Sales (ex interest)	0.0	0.0	0.0	0.0	0.0		47.3	31.2	32.0	21.7	132.3		142.1	
<b>Total COGS</b>	<b>\$685.5</b>	<b>\$830.6</b>	<b>\$1,023.7</b>	<b>\$1,362.8</b>	<b>\$3,902.7</b>		<b>\$931.4</b>	<b>\$1,007.7</b>	<b>\$1,084.1</b>	<b>\$1,372.2</b>	<b>\$4,395.5</b>		<b>\$3,374.4</b>	
Homebuilding Gross Profit (ex interest)	303.6	395.3	512.8	644.9	1,856.6		394.6	423.9	436.8	426.6	1,682.0		950.2	
Homebuilding Gross Margin	30.7%	32.2%	33.4%	32.1%	32.2%		30.9%	30.3%	29.3%	24.0%	28.3%		22.7%	
Tower Gross Profit (ex interest)	0.0	0.0	0.0	0.0	0.0		10.2	8.8	9.2	\$9.7	\$37.8		\$48.5	
Tower Gross Margin	NA	NA	NA	NA	NA		17.8%	22.0%	22.3%	30.8%	22.2%		25.5%	
Writedown on Land Inventory	2.3	0.2	1.2	1.4	5.1		1.1	12.0	23.9	115.0	152.0		60.0	
Total Home Sales Gross Profit (ex interest)	303.6	395.3	512.8	644.9	1,856.6		404.8	432.7	446.0	436.3	1,719.8		998.8	
Total Home Sales Gross Margin	30.7%	32.2%	33.4%	32.1%	32.2%		30.3%	30.0%	29.1%	24.1%	28.1%		22.8%	
SG&A Expense	\$107.1	\$116.4	\$126.3	\$133.1	\$482.8		\$139.2	\$142.0	\$148.1	\$144.1	\$573.4		\$498.0	
SG&A - % of Sales	10.8%	9.5%	8.2%	6.6%	8.4%		10.4%	9.9%	9.7%	8.1%	9.4%		11.4%	
<b>Total Home Sales EBIT</b>	<b>\$196.5</b>	<b>\$279.0</b>	<b>\$386.5</b>	<b>\$511.8</b>	<b>\$1,373.8</b>	<b>93%</b>	<b>\$265.7</b>	<b>\$290.7</b>	<b>\$297.8</b>	<b>\$292.2</b>	<b>\$1,146.4</b>	<b>-17%</b>	<b>\$500.8</b>	<b>-56%</b>
<b>Total Home Sales EBIT Margin</b>	<b>19.9%</b>	<b>22.8%</b>	<b>25.2%</b>	<b>25.5%</b>	<b>23.9%</b>		<b>19.9%</b>	<b>20.2%</b>	<b>19.5%</b>	<b>16.2%</b>	<b>18.7%</b>		<b>11.5%</b>	
Cost of Land Sales	0.8	5.3	9.6	8.7	24.4		3.8	2.1	0.9	0.2	7.0		4.5	
Gain on Land Sales	0.4	4.5	1.0	3.8	9.7		0.8	(0.0)	0.2	0.1	1.2		0.5	
Total Homebuilding EBIT	197.0	283.5	387.4	515.6	1,383.5		266.5	290.7	298.1	292.3	1,147.6		501.3	
Total Homebuilding EBIT Margin	19.9%	22.9%	25.0%	25.5%	23.9%		19.9%	20.1%	19.5%	16.2%	18.7%		11.5%	
Equity JV, Interest & Other Income	8.8	12.5	14.8	32.8	\$68.9		27.9	23.8	17.0	32.4	\$101.0		\$59.5	
Interest Expense	\$21.8	\$28.1	\$35.6	\$39.8	\$125.3	34%	\$28.8	\$29.9	\$29.8	\$33.5	\$122.0	-3%	\$91.9	-25%
Interest Expense - % of Sales	2.2%	2.3%	2.3%	2.0%	2.2%		2.1%	2.1%	1.9%	1.9%	2.0%		2.1%	
Pre-Tax Income	\$184.0	\$267.8	\$366.7	\$508.7	\$1,327.2		\$265.6	\$284.6	\$285.2	\$291.2	\$1,126.6		\$468.9	
Pre-Tax Income - % of Sales	18.6%	21.7%	23.7%	25.2%	22.9%		19.8%	19.7%	18.6%	16.1%	18.4%		10.7%	
Income Taxes	\$73.8	\$97.7	\$148.7	\$198.4	\$518.7		\$101.8	\$109.6	\$110.6	\$117.4	\$439.4		\$182.9	
Income Tax Rate	40.1%	36.5%	40.6%	40.6%	39.1%		38.3%	38.5%	38.8%	38.8%	39.0%		39.0%	
<b>Operating Net Income</b>	<b>\$110.2</b>	<b>\$170.1</b>	<b>\$217.9</b>	<b>\$310.3</b>	<b>\$808.5</b>	<b>95%</b>	<b>\$163.9</b>	<b>\$174.9</b>	<b>\$174.6</b>	<b>\$173.8</b>	<b>\$687.2</b>	<b>-15%</b>	<b>\$286.0</b>	<b>-58%</b>
Extraordinary Gain/(Loss)	\$0.0	\$0.0	(\$2.4)	\$0.0	(\$2.4)		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	
<b>Reported Net Income</b>	<b>\$110.2</b>	<b>\$170.1</b>	<b>\$215.5</b>	<b>\$310.3</b>	<b>\$806.1</b>		<b>\$163.9</b>	<b>\$174.9</b>	<b>\$174.6</b>	<b>\$173.8</b>	<b>\$687.2</b>		<b>\$286.0</b>	
Earnings Per Share - Basic	\$0.76	\$1.10	\$1.40	\$1.99	\$5.25		\$1.06	\$1.13	\$1.14	\$1.13	\$4.45		\$1.86	
<b>Earnings Per Share - Diluted</b>	<b>\$0.66</b>	<b>\$1.00</b>	<b>\$1.28</b>	<b>\$1.84</b>	<b>\$4.80</b>	<b>88%</b>	<b>\$0.98</b>	<b>\$1.06</b>	<b>\$1.07</b>	<b>\$1.07</b>	<b>\$4.17</b>	<b>-13%</b>	<b>\$1.75</b>	<b>-58%</b>
Extraordinary Gain/(Loss) per share	\$0.00	\$0.00	(\$0.01)	\$0.00	(\$0.01)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00	
<b>Reported EPS - Diluted</b>	<b>\$0.66</b>	<b>\$1.00</b>	<b>\$1.27</b>	<b>\$1.84</b>	<b>\$4.78</b>	<b>90%</b>	<b>\$0.98</b>	<b>\$1.06</b>	<b>\$1.07</b>	<b>\$1.07</b>	<b>\$4.17</b>	<b>-13%</b>	<b>\$1.75</b>	<b>-58%</b>
Basic Shares Outstanding	145.7	154.6	155.3	155.5	153.9		155.1	154.8	153.7	153.6	154.3		153.6	
Diluted Shares Outstanding	166.1	169.4	169.8	168.9	168.6	4%	167.0	165.7	163.5	163.1	164.9	-2%	163.1	-1%

## Operating Data

Homes Closed - Units	1,590	1,912	2,310	2,957	8,769	32%	1,879	2,063	2,157	2,502	8,601	-2%	6,292	-27%
% of Backlog Closed	24%	26%	27%	32%	131%		22%	25%	27%	34%	100%		108%	
Average Closing Price	\$622,074	\$641,212	\$665,151	\$678,965	\$656,780	13%	\$680,149	\$678,855	\$690,357	\$710,272	\$691,218	5%	\$664,782	-4%
Traditional New Orders - Units	2,171	3,120	2,705	2,217	10,213	18%	1,395	2,076	1,400	941	5,812	-43%	5,043	-13%
Community Count at Quarter-End	225	227	230	230	230	5%	257	275	295	294	294	28%	303	3%
% Change in Community Count	10%	11%	10%	5%	5%		14%	21%	28%	28%	28%		3%	
Average Community Count	223	226	229	230	227	10%	244	266	285	295	272	20%	298	10%
Absorptions per Community	9.8	14.1	12.0	9.9	45.0		6.3	8.1	5.1	3.4	21.3		16.9	
% Change in Absorptions	26%	11%	7%	-6%	7%		-35%	-42%	-58%	-65%	-53%		-21%	
Backlog - Traditional Units	7,234	8,442	9,330	8,590	8,590	28%	8,106	8,119	7,362	5,801	5,801	-32%	4,553	-22%
Backlog - Traditional Dollars (in millions)	\$4,821	\$5,768	\$6,291	\$5,844	\$5,844		\$5,575	\$5,652	\$5,177	\$4,048	\$4,048		\$4,048	
Average Price in Backlog (Traditional)	\$666,367	\$683,250	\$674,309	\$680,291	\$680,291		\$687,700	\$696,133	\$703,206	\$697,880	\$697,880		\$697,880	
Joint Venture Backlog (in millions)	\$65.0	\$111.7	\$149.4	\$184.4	\$184.4		\$20.8	\$7.7	\$12.6	\$18.0	\$18.0		\$18.0	

Note: new orders and backlog for 2003 and beyond ignores joint ventures

Note: As of 4Q05, TOL includes amortized interest in COGS.

Source: Company data, Credit Suisse estimates

## Exhibit 5: TOL Earnings Model, 2005A–2007E

YOY % and Basis Point Changes	1Q05A	2Q05A	3Q05A	4Q05A	2005A	% Chg	1Q06A	2Q06A	3Q06A	4Q06A	2006A	% Chg	2007E	% Chg
Revenues	66%	51%	54%	40%	50%		35%	17%	-1%	-10%	6%		-29%	
HB Gross Profit	82%	72%	82%	56%	70%		30%	7%	-15%	-34%	-9%		-44%	
HB Gross Margin	230	400	490	350	380		20	(200)	(400)	(810)	(390)		(560)	
SG&A Expense	40%	29%	22%	20%	27%		30%	22%	17%	8%	19%		-13%	
SG&A - % of Sales	(220)	(150)	(220)	(110)	(150)		(40)	40	150	150	100		200	
Housing EBIT	117%	100%	117%	69%	93%		35%	4%	-23%	-43%	-17%		-56%	
Housing EBIT Margin	450	560	720	450	530		0	(260)	(570)	(930)	(510)		(730)	
Net Income from Cont. Operations	120%	120%	105%	72%	95%		49%	3%	-20%	-44%	-15%		-58%	
Earnings Per Diluted Share	114%	112%	95%	66%	88%		48%	5%	-17%	-42%	-13%		-58%	
<b>Operating Data</b>														
Homes Closed - Units	47%	31%	37%	23%	32%		18%	8%	-7%	-15%	-2%		-27%	
Average Closing Price	14%	15%	13%	13%	13%		9%	6%	4%	5%	5%		-4%	
Traditional New Orders - Units	44%	20%	16%	-1%	18%		-36%	-33%	-48%	-58%	-43%		-13%	
Total New Orders - Units	44%	23%	18%	1%	19%		-29%	-32%	-47%	-56%	-41%		-13%	
Average Community Count	10%	11%	10%	5%	5%		14%	21%	28%	28%	28%		3%	
Traditional Backlog - Units	42%	36%	36%	28%	28%		12%	-4%	-21%	-32%	-32%		-22%	
Average Price in Traditional Backlog	15%	14%	6%	3%	3%		3%	2%	4%	3%	3%			
Total Backlog - Units	NA	NA	NA	NA	NA		18%	2%	-15%	-2%	-26%			
Average Price in Total Backlog	NA	NA	NA	NA	NA		3%	1%	3%	1%	1%			

**Regional Data**

Closings - Units	1Q05A	2Q05A	3Q05A	4Q05A	2005A	1Q06A	2Q06A	3Q06A	4Q06A	2006A	2007E
Northeast	229	254	310	450	1,243	308	351	411	439	1,509	938
Mid-Atlantic	663	759	886	982	3,290	589	687	678	743	2,697	2,005
Midwest	95	141	178	213	627	109	115	105	145	474	478
Southeast	155	197	236	444	1,032	397	392	371	431	1,591	1,061
Southwest	248	305	361	506	1,420	340	378	459	577	1,754	1,179
West Coast	200	256	339	362	1,157	136	140	133	167	576	631
<b>Total Traditional Unit Closings</b>	<b>1,590</b>	<b>1,912</b>	<b>2,310</b>	<b>2,957</b>	<b>8,769</b>	<b>1,879</b>	<b>2,063</b>	<b>2,157</b>	<b>2,502</b>	<b>8,601</b>	<b>6,292</b>

**New Orders - Units**

Northeast	319	435	431	382	1,567	198	311	222	179	910	809
Mid-Atlantic	767	1,177	758	673	3,375	456	643	476	339	1,914	1,821
Midwest	112	212	149	151	624	67	171	130	94	462	458
Southeast	379	462	593	455	1,889	254	307	176	101	838	635
Southwest	366	579	544	429	1,918	307	434	238	163	1,142	860
West Coast	228	255	230	127	840	113	210	158	65	546	460
<b>Traditional Unit New Orders</b>	<b>2,171</b>	<b>3,120</b>	<b>2,705</b>	<b>2,217</b>	<b>10,213</b>	<b>1,395</b>	<b>2,076</b>	<b>1,400</b>	<b>941</b>	<b>5,812</b>	<b>5,043</b>

**Backlog- Units**

Northeast	1,118	1,299	1,508	1,352	1,352	1,242	1,202	1,013	753	753	623
Mid-Atlantic	2,349	2,767	2,639	2,330	2,330	2,197	2,153	1,951	1,547	1,547	1,363
Midwest	463	534	505	443	443	401	457	482	431	431	412
Southeast	894	1,159	2,081	2,020	2,020	1,877	1,792	1,597	1,267	1,267	841
Southwest	1,469	1,743	1,926	1,849	1,849	1,816	1,872	1,651	1,237	1,237	919
West Coast	941	940	831	596	596	573	643	668	566	566	395
<b>Traditional Unit Backlog</b>	<b>7,234</b>	<b>8,442</b>	<b>9,490</b>	<b>8,590</b>	<b>8,590</b>	<b>8,106</b>	<b>8,119</b>	<b>7,362</b>	<b>5,801</b>	<b>5,801</b>	<b>4,553</b>

Source: Company data, Credit Suisse estimates

## Exhibit 6: TOL Earnings Model, 2005A–2007E

EBITDA & Free Cash	1Q05A	2Q05A	3Q05A	4Q05A	2005A	% Chg	1Q06A	2Q06A	3Q06A	4Q06A	2006A	% Chg	2007E	% Chg
EBIT	\$205.8	\$296.0	\$402.3	\$548.4	\$1,452.5		\$294.4	\$314.5	\$315.1	\$324.7	\$1,248.6		\$560.8	
Depreciation & Amortization	\$4.3	\$4.7	\$5.4	\$6.0	\$20.3		\$6.9	\$7.3	\$7.7	\$7.5	\$29.5		\$29.5	
<b>EBITDA</b>	<b>\$210.1</b>	<b>\$300.7</b>	<b>\$407.6</b>	<b>\$554.4</b>	<b>\$1,472.8</b>		<b>\$301.3</b>	<b>\$321.8</b>	<b>\$322.8</b>	<b>\$332.2</b>	<b>\$1,278.1</b>		<b>\$590.3</b>	
EBITDA Margin	21.2%	24.3%	26.3%	27.4%	25.4%		22.5%	22.3%	21.1%	18.4%	20.9%		13.5%	
EBITDA Per Share	\$1.26	\$1.78	\$2.40	\$3.28	\$8.74		\$1.80	\$1.94	\$1.97	\$2.04	\$7.75		\$3.62	
<b>Free Cash Flow Data</b>														
Reported Net Income	\$110.2	\$170.1	\$215.5	\$310.3	\$806.1		\$163.9	\$174.9	\$174.6	\$173.8	\$687.2		\$286.0	
Depreciation & Amortization	4.3	4.7	5.4	6.0	20.3		6.9	7.3	7.7	7.5	29.5		29.5	
Non-cash Compensation Expense	1.0	1.0	1.0	1.2	4.0		11.5	5.8	5.8	4.8	28.0		28.0	
Non-cash Joint Venture Adjustment	(1.4)	(3.3)	2.0	(11.6)	(14.3)		(13.9)	(11.1)	(5.8)	(16.2)	(47.0)		(29.8)	
Inventory Write-off	2.3	0.2	1.2	1.4	5.1		1.1	12.0	23.9	115.0	152.0		60.0	
Change in Inventory	(222.1)	(158.1)	(519.6)	(125.6)	(1,025.4)		(250.1)	(433.4)	(235.3)	41.1	(877.8)		(335.5)	
Change in Other Working Capital	20.8	107.5	269.4	114.0	511.7		(115.3)	9.9	40.7	(17.4)	(82.1)		(310.9)	
Change in Mortgage Loans	25.5	(4.3)	(4.3)	(16.9)	0.1		50.8	(10.6)	(33.2)	(37.6)	(30.5)		35.3	
Other CFO	15.4	(2.4)	14.9	(0.7)	27.2		7.6	7.8	17.7	5.7	38.8		0.0	
<b>Cash Flow from Oper.</b>	<b>(\$44.1)</b>	<b>\$115.4</b>	<b>(\$14.5)</b>	<b>\$277.8</b>	<b>\$334.7</b>		<b>(\$137.5)</b>	<b>(\$237.2)</b>	<b>(\$3.8)</b>	<b>\$276.7</b>	<b>(\$101.8)</b>		<b>(\$237.2)</b>	
Capital Expenditures	(9.1)	(9.3)	(13.2)	(11.4)	(43.0)		(14.3)	(12.0)	(6.8)	(12.0)	(45.1)		(45.0)	
<b>Free Cash Flow</b>	<b>(\$53.2)</b>	<b>\$106.1</b>	<b>(\$27.7)</b>	<b>\$266.5</b>	<b>\$291.7</b>		<b>(\$151.8)</b>	<b>(\$249.2)</b>	<b>(\$10.6)</b>	<b>\$264.7</b>	<b>(\$146.9)</b>		<b>(\$282.2)</b>	
Investing Activities	(14.5)	(1.0)	(14.4)	(10.6)	(40.4)		(68.9)	(1.8)	(5.0)	10.7	(65.0)		64.8	
Change in Mortgage Debt	(29.8)	144.8	(0.0)	(0.0)	115.0		0.0	0.0	0.0	36.1	36.1		(34.2)	
Net Debt Issuance / Repayment	(43.4)	(4.8)	(31.7)	7.0	(72.8)		(48.5)	318.9	(15.0)	(3.8)	251.6		163.9	
Stock Repurchases	(0.2)	(30.5)	(0.4)	(87.7)	(87.8)		(21.8)	(40.0)	(47.8)	(0.3)	(109.8)		0.0	
Cash Paid for Acquisitions	0.0	0.0	0.0	0.0	0.0		(40.8)	0.0	0.0	0.0	(40.7)		0.0	
Proceeds from Exercise of Options	15.8	11.4	13.5	4.1	44.7		6.0	3.6	2.7	2.0	14.3		8.0	
Other	0.0	0.0	0.0	3.9	3.9		0.0	3.0	0.1	0.6	3.8		0.0	
<b>Net Change in Cash</b>	<b>(\$125.2)</b>	<b>\$226.0</b>	<b>(\$60.7)</b>	<b>\$183.3</b>	<b>\$223.4</b>		<b>(\$325.7)</b>	<b>\$34.5</b>	<b>(\$75.6)</b>	<b>\$310.0</b>	<b>(\$56.7)</b>		<b>(\$79.8)</b>	
<b>Balance Sheet Data</b>														
Cash	\$340.6	\$566.7	\$505.9	\$689.2	\$689.2		\$363.6	\$398.1	\$322.6	\$632.5	\$632.5		\$552.7	
Marketable Securities	\$144.8	\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		\$0.0	
Receivables	\$154.1	\$152.0	\$166.9	\$185.6	\$185.6		\$235.6	\$268.5	\$296.8	\$330.6	\$330.6		\$187.1	
Inventories	\$4,145.7	\$4,299.6	\$4,840.1	\$5,068.6	\$5,068.6	31%	\$5,531.1	\$5,939.4	\$6,226.8	\$6,095.7	\$6,095.7	20%	\$6,471.2	6%
PP&E	\$58.2	\$63.6	\$72.7	\$79.5	\$79.5		\$88.4	\$95.6	\$96.6	\$99.1	\$99.1		\$114.6	
Financial Services	\$74.4	\$78.7	\$82.9	\$99.9	\$99.9		\$49.0	\$59.6	\$92.8	\$130.3	\$130.3		\$95.0	
Investment in Joint Ventures	\$109.9	\$114.2	\$126.6	\$152.4	\$152.4		\$206.2	\$224.7	\$240.2	\$245.7	\$245.7		\$210.6	
Other Assets	\$69.3	\$76.7	\$86.7	\$68.6	\$68.6		\$85.1	\$87.6	\$56.7	\$49.7	\$49.7		\$47.2	
<b>Total Assets</b>	<b>\$5,097.0</b>	<b>\$5,351.5</b>	<b>\$5,881.9</b>	<b>\$6,343.8</b>	<b>\$6,343.8</b>	<b>29%</b>	<b>\$6,559.1</b>	<b>\$7,073.5</b>	<b>\$7,332.4</b>	<b>\$7,583.5</b>	<b>\$7,583.5</b>	<b>20%</b>	<b>\$7,678.4</b>	<b>1%</b>
Accounts Payable	\$192.4	\$202.9	\$261.2	\$256.6	\$256.6		\$226.8	\$260.0	\$290.8	\$292.2	\$292.2		\$208.0	
Accrued Expenses	\$556.0	\$611.3	\$767.5	\$791.8	\$791.8		\$735.6	\$757.3	\$783.9	\$825.3	\$825.3		\$627.3	
Income Taxes Payable	\$178.2	\$148.0	\$173.7	\$282.1	\$282.1		\$300.6	\$276.7	\$297.1	\$334.5	\$334.5		\$246.9	
Customer Deposits	\$329.2	\$389.3	\$438.2	\$415.6	\$415.6		\$432.6	\$446.6	\$430.9	\$360.1	\$360.1		\$273.2	
Financial Services	\$64.4	\$69.1	\$72.1	\$89.7	\$89.7		\$38.4	\$48.7	\$83.6	\$119.7	\$119.7		\$85.5	
Total Debt	\$1,668.2	\$1,654.8	\$1,642.4	\$1,740.6	\$1,740.6		\$1,879.2	\$2,180.4	\$2,206.9	\$2,228.1	\$2,228.1		\$2,492.0	
<b>Total Liabilities</b>	<b>\$2,988.3</b>	<b>\$3,075.4</b>	<b>\$3,355.2</b>	<b>\$3,576.3</b>	<b>\$3,576.3</b>		<b>\$3,613.2</b>	<b>\$3,969.7</b>	<b>\$4,093.3</b>	<b>\$4,159.9</b>	<b>\$4,159.9</b>		<b>\$3,932.8</b>	
Minority Interest				\$3.9	\$3.9		\$3.9	\$7.0	\$7.1	\$7.7	\$7.7		\$7.7	
<b>Stockholder's Equity</b>	<b>\$2,108.6</b>	<b>\$2,276.0</b>	<b>\$2,526.7</b>	<b>\$2,763.6</b>	<b>\$2,763.6</b>	<b>44%</b>	<b>\$2,942.0</b>	<b>\$3,096.8</b>	<b>\$3,232.0</b>	<b>\$3,415.9</b>	<b>\$3,415.9</b>	<b>24%</b>	<b>\$3,737.9</b>	<b>9%</b>
<b>Key Measures</b>														
Debt/Capital	44.2%	42.1%	39.4%	38.6%	38.6%		39.0%	41.3%	40.6%	39.5%	39.5%		40.0%	
Net Debt/Capital	38.6%	32.3%	31.0%	27.6%	27.6%		34.0%	36.5%	36.8%	31.8%	31.8%		34.2%	
Return on Capital	15.9%	17.7%	20.0%	22.1%	22.1%		22.2%	20.8%	18.5%	14.9%	14.9%		5.7%	
Return on Equity	26.5%	29.3%	32.1%	34.9%	34.9%		34.2%	31.9%	28.3%	22.2%	22.2%		8.0%	
Inventory Turns	0.80	0.82	0.85	0.88	0.88		0.86	0.83	0.77	0.74	0.74		0.50	
Inventory Days	455	444	430	416	416		425	441	471	494	494		731	
AR Days Outstanding	29.9	31.4	33.5	35.8	35.8		33.8	30.9	26.8	22.6	22.6		18.0	
Accrued Expenses Turnover	6.6	6.4	6.1	5.9	5.9		5.9	5.8	5.6	5.5	5.5		5.0	
AP Days Outstanding	17.3	17.5	17.6	17.8	17.8		18.0	17.6	16.5	16.1	16.1		13.2	
Net Working Capital	3,233.2	3,300.5	3,590.4	3,739.3	3,739.3		4,373.0	4,790.5	5,026.9	4,920.1	4,920.1		5,570.3	
Net Working Capital % of Sales	70%	66%	62%	58%	58%		59%	62%	68%	75%	75%		126%	
Market Cap	\$5,685.5	\$5,860.3	\$7,884.8	\$5,740.8	\$5,740.8		\$5,272.6	\$4,975.6	\$3,930.7	\$4,441.8	\$4,441.8		\$6,037.3	
Firm Value	\$7,013.1	\$6,948.5	\$9,021.3	\$6,792.2	\$6,792.2		\$6,788.2	\$6,758.0	\$5,815.1	\$6,037.3	\$6,037.3		\$6,037.3	
FV / LTM EBITDA	8.0	6.7	7.3	4.6	4.6		4.3	4.3	3.9	4.7	4.7			
Book Value	\$14.48	\$14.72	\$16.27	\$17.77	\$17.77		\$18.97	\$20.01	\$21.02	\$22.23	\$22.23		\$24.33	
Price/Book Value	2.7	2.6	3.1	2.1	2.1		1.8	1.6	1.2	1.3	1.3			
LTM FCF Yield	3.2%	6.9%	5.7%	5.1%	5.1%		3.7%	-3.3%	-3.7%	-3.3%	-3.3%			
Interest Incurred	29.2	29.0	28.9	28.4	115.4		32.4	34.2	34.2	34.3	135.2		177.6	
LTM Int. Coverage	7.7	9.0	10.8	12.8	12.8		13.2	12.8	11.6	9.5	9.5		3.3	

Source: Company data, Credit Suisse estimates

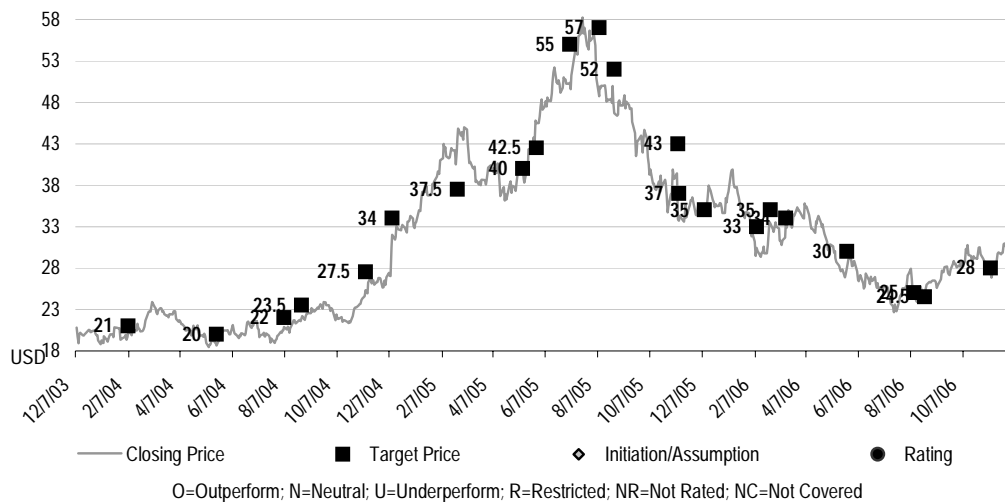
**Companies Mentioned** (Price as of 05 Dec 06)

Toll Brothers (TOL, \$32.87, NEUTRAL, TP \$30.00, MARKET WEIGHT)

**Disclosure Appendix****Important Global Disclosures**

I, Ivy L. Zelman, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

**3-Year Price, Target Price and Rating Change History Chart for TOL**

TOL Date	Closing Price Price (US\$)	Target Price Price (US\$)	Rating	Initiation/ Assumption
2/6/04	20.34	21		
5/19/04	18.62	20		
8/6/04	20.85	22		
8/26/04	21.985	23.5		
11/9/04	25.315	27.5		
12/10/04	32	34		
2/24/05	43.675	37.5		
5/11/05	40.2	40		
5/27/05	45.53	42.5		
7/5/05	50.35	55		
8/8/05	48.76	57		
8/26/05	46.71	52		
11/8/05	33.91	43		
11/9/05	33.72	37		
12/9/05	35.2	35		
2/8/06	30.4	33		
2/24/06	33.34	35		
3/14/06	33.35	34		
5/24/06	28.01	30		
8/10/06	25.14	25		
8/23/06	24.55	24.5		
11/8/06	27.5	28		

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

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**Outperform:** The stock's total return is expected to exceed the industry average\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral:** The stock's total return is expected to be in line with the industry average\* (range of  $\pm 10\%$ ) over the next 12 months.

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**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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*\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

*\*\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Global Ratings Distribution		
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<b>Neutral/Hold*</b>	43%	(56% banking clients)
<b>Underperform/Sell*</b>	15%	(52% banking clients)
<b>Restricted</b>	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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**Price Target:** (12 months) for (TOL)

**Method:** Using our normalized earnings framework, we value TOL at approximately \$22 per share. We believe the group deserves to trade at roughly 10 times normalized homebuilding earnings, and assign TOL a 15% premium to the group. For homebuilding, we assume normalized revenues of \$4.5 billion (24% decline from the peak) and operating margin of 13.5%. For our book value analysis, we adjust tangible book value to reflect perceived impairment risk as discussed in our "Wonder-Land" report published on October 3rd, 2006. We value TOL's adjusted book value at 1.55 times, representing a 20% premium to the group's historical median since 1990. This results in a fair valuation of approximately \$32. Combining our normalized earnings valuation (\$22 per share) and book valuation (\$32 per share) analyses yields a fair value today of roughly \$27, which equals a 12-month price target of approximately \$30 using a 12.5% required rate of return.

**Risks:** The risks that may impede achievement of our \$30 price target are: (1) rising interest rates given the capital intensity of TOL (62% Net Working Capital % of Sales versus the group at 51%) in addition to the fact that affordability is at its lowest level in nearly 15 years. (2) Likewise tightening of mortgage lending practices may impact this company, as it will preclude potential buyers from qualifying for a loan and may discourage investor buyers from participating in the housing market. (3) TOL is more exposed to the high-end, luxury demand, which has seen relatively more weakness than the overall market. If this trend continues, TOL may see further downside risk. (4) Delays in the the permitting and approval process have impacted TOL's ability to open and close communities. Continued constraint may preclude TOL from meeting its double digit community growth expectations.

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