

Nvr firm analysis



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Homebuilding Industry: Firm Analysis of NVR Inc. Analysis of Key Firm

Characteristics NVR Inc. is one of the largest homebuilder firms in the United States. It operates in eighteen metropolitan areas in eleven states, but the concentration of its business is in Washington D. C. as well as Baltimore.

Business here accounts for half of its sales. NVR builds, sells and finances new homes, especially for first-time and move-up buyers. Founded in 1948, NVR's mission has been to provide affordable housing in the growing economy since World War II. The company operates under various trade names such as Ryan Homes, NVHomes, Fox Ridge Homes, and Rymarc. Its scope of activities though is wide ranging. It not only deals with home construction and marketing of homes, but also other related things such as financing programs, settlement, and title services care of its NVR Mortgage Finance subsidiary. It therefore seeks to cater to every need of the homebuyer.

The types of homes NVR builds include single-family detached homes, town homes and condominium buildings. It offers a variety of home designs. It sells about 15, 000 homes annually. The sizes of the homes range from 900 sq. ft. to 7, 300 sq. ft. The prices range from \$60, 000 to \$2. 5 million with an average of \$373, 000.

Here is a table summary of key performance indicators for NVR:

General/Economic

Market share

1. 32%

Market capitalization

\$2. 23 billion

Growth rate: Sales

\$4. 23 billion (last 12 months), 10. 5% 5 yr growth

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Growth rate: Income

\$198. 62 billion (last 12 months), 0. 2% 5 yr growth

Accounting measures

Gross margin

16. 55%

Net profit margin

4. 69%

ROE (Return on equity)

79%

Earnings Per Share (EPS)

\$54. 14

P/E Ratio

11. 80

Debt to equity ratio

0. 21

Stocks

Current share price

\$434. 25

Share price 52 week high/low

\$679. 37 (high), \$316. 84 (low)

Price to Sales per share ratio (weighted average historical high and low over the last 10 years)

0. 89x (high), 0. 46x (low)

Currently 0. 53x, which is significantly (22%) below its average levels historically

cash flow per share

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\$83.64 (strong)

Cash Earnings ratio per share (weighted average historical high and low over the last 10 years)

Fluctuated between 5.22 (low) and 10.50 (high)

Analysis of NVR's Competitive Position

NVR went through a difficult period in the 1990s when it had to file for bankruptcy. But since then the company has restructured itself and in the 2000s is once again a leading company. In 2004 the company reported solid gains including revenues of \$4.3 billion, which was a 17% increase over the previous year. Its big competitive advantage is its branching out into providing financial services because this has really helped the company increase its revenues. In 2005 it was the 10th largest homebuilder firm in the United States. (builderonline.com) NVR now has a 1.32% share of the market compared to Pulte Homes's 3.61%. (builderonline.com)

“ We believe that we operate our business with a conservative operating strategy. We do not engage in land development and primarily construct homes on a pre-sold basis. This strategy allows us to maximize inventory turnover, which we believe enables us to minimize market risk and to operate with less capital, thereby enhancing rates of return on equity and total capital. In addition, we focus on obtaining and maintaining a leading market position in each market we serve. This strategy allows us to gain valuable efficiencies and competitive advantages in our markets which management believes contributes to minimizing the adverse effects of regional economic cycles and provides growth opportunities within these markets. Because we are not active in the land development business, our continued success is contingent upon, among other things, our ability to

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control an adequate supply of finished lots at current market prices on which to build, and on our developers ability to timely deliver finished lots to meet the sales demands of our customers.” (NVR)

NVR’s market capitalization is comparable to its main competitors, and only \$0.3 billion lower than that of Pulte Homes. Compared with Pulte Homes, its price to sales per share ratio is both currently (0.53x) and historically slightly higher, although its price to cash earnings figure is much lower (6.51 compared to 50.71). However, NVR’s ROE figure is currently significantly higher than its competitors. The current P/E ratio at 11.8 is higher than the industry average of 1.5. The profitability measure ROE of 79% shows that the firm is generating a 79% return per dollar of net worth, which is a very healthy figure. The debt to equity ratio is lower than the industry average of 0.98, so the company’s financial risk position is safer.

One characteristic that distinguishes NVR is its “just-in-time business model of buying land (only) when they are ready to build homes, which works when you have access to land. It doesn’t work when markets are in high demand.” (The Wall Street Transcript) In contrast, Toll Brothers usually hold on to land if they find good land property until the market conditions improve. NVR could learn from this technique when land is abundantly available and to capitalize on strategic locations for when the economy improves because the homebuilding industry is a highly cyclic one linked to interest rates and the business cycle.

The main competitors of NVR are Pulte Homes, Inc., The Ryland Group Inc., Beazer Homes USA Inc., Champion Enterprises Inc., and Centex Corporation. In addition, other players in the home building industry include Brookfield Homes, Comstock Homebuilding, Hovnanian Enterprises, KB Home, Meritage

Homes, Standard Pacific, and Toll Brothers. Based on the financial statistics and areas of operation, Pulte Homes is perhaps its main rival. However, Standard Pacific is also looking to expand its presence in other East Coast markets such as Philadelphia, Atlanta and Washington, D. C. and has been buying several locally operating firms. So, NVR needs to remain competitive and take advantage of the fact that home building is a business where key functions such as land and labor procurement are best done at the local level.

References

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