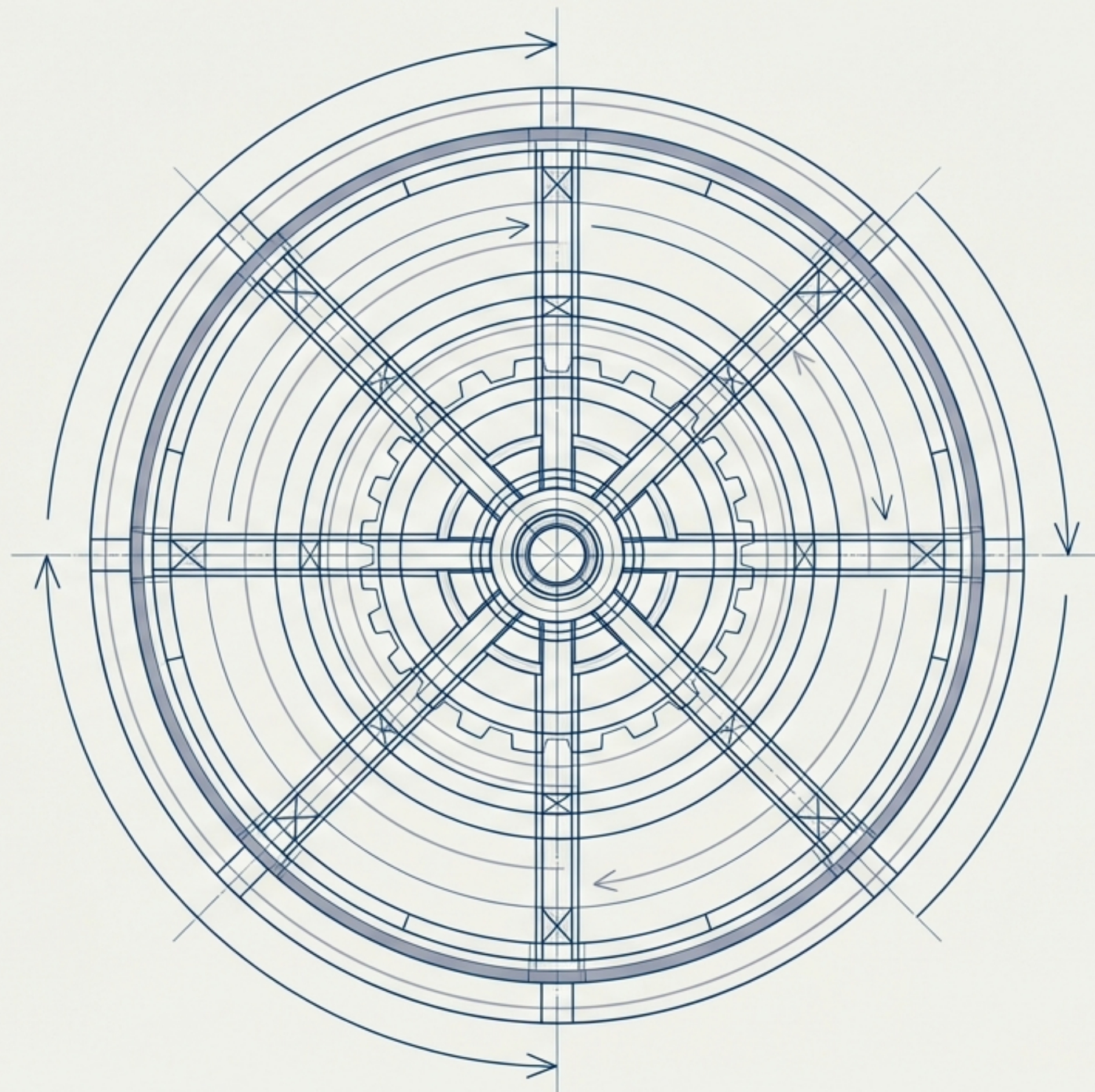


NVR, Inc. (NVR): Structural Alpha in Residential Construction

Investment Analysis & 2026 Outlook:
Measuring the Resilience of the
Asset-Light Model.



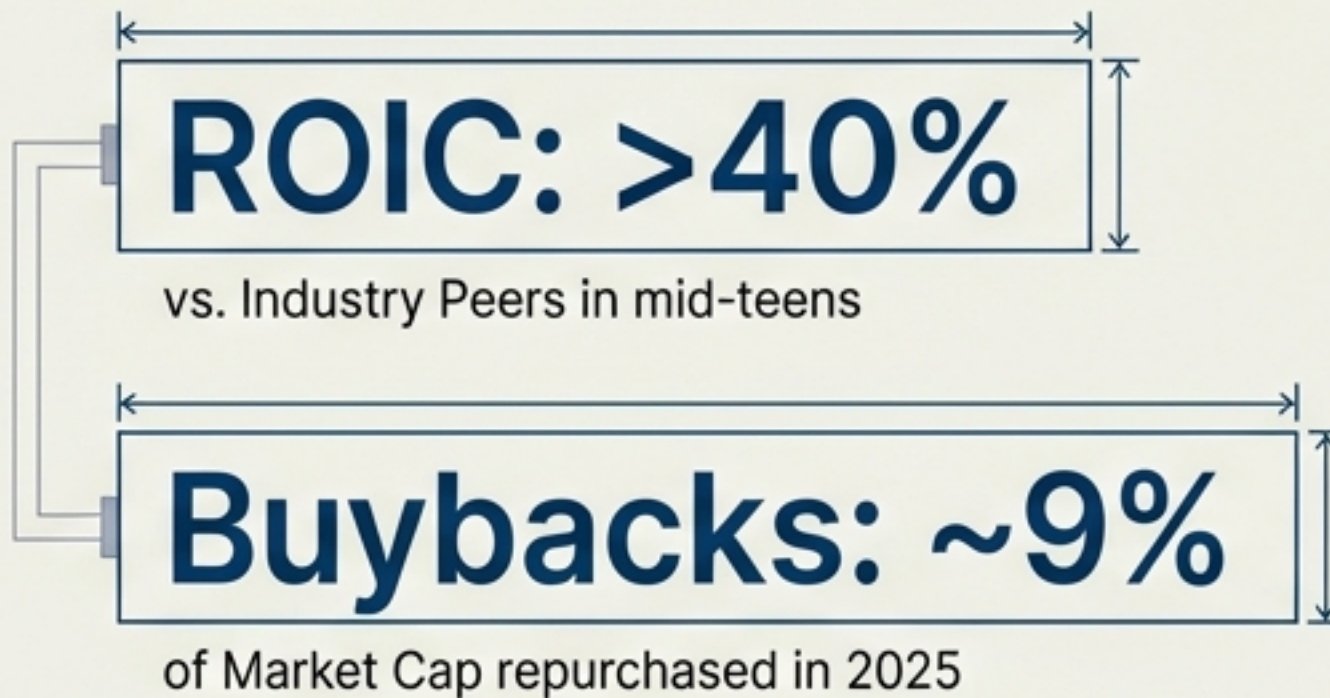
Prepared for Institutional Investor Review

The Asset-Light Anomaly: A Fortress Under Stress

The Thesis

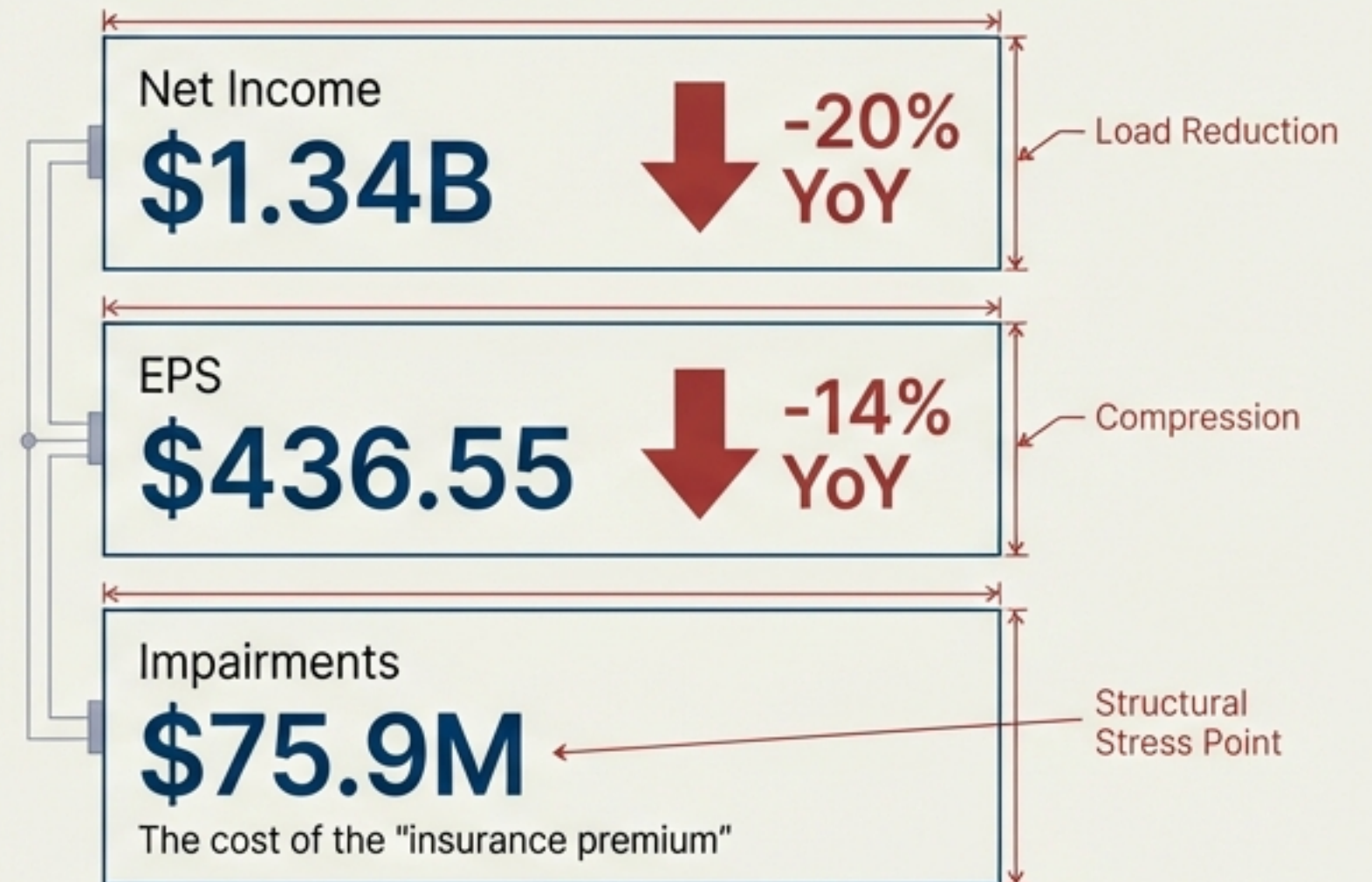
Core Thesis: NVR defies industry cyclicalities through a "land-light" strategy, decoupling Return on Invested Capital (ROIC) from land asset volatility.

Structural Alpha



The Reality

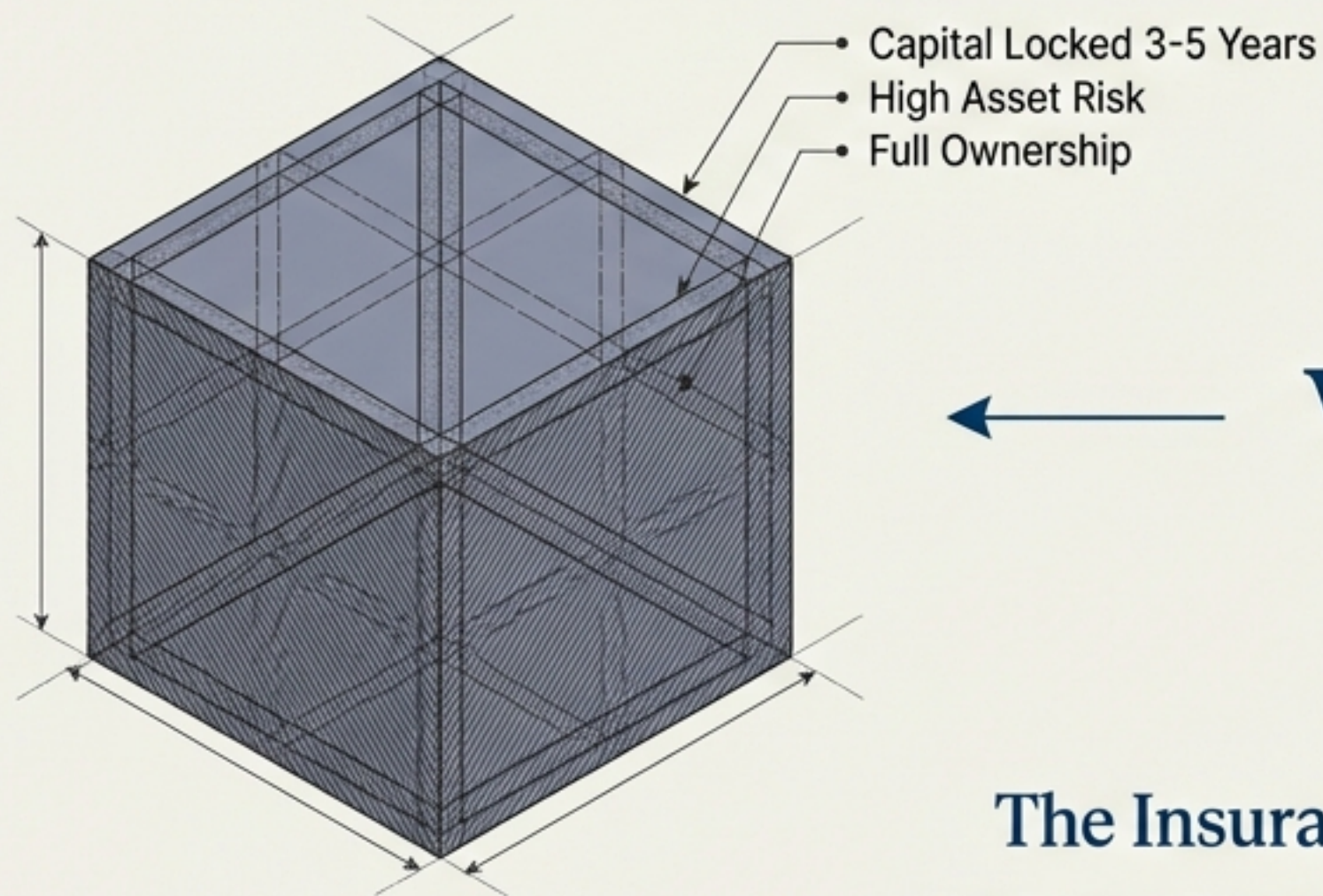
Stress Test



Verdict: Despite 2025 headwinds, the structural spread between **ROIC** and **WACC** remains the primary driver of **intrinsic value**. A "**Compounder**" to be accumulated on weakness.

Anatomy of the Model: The Lot Purchase Agreement (LPA)

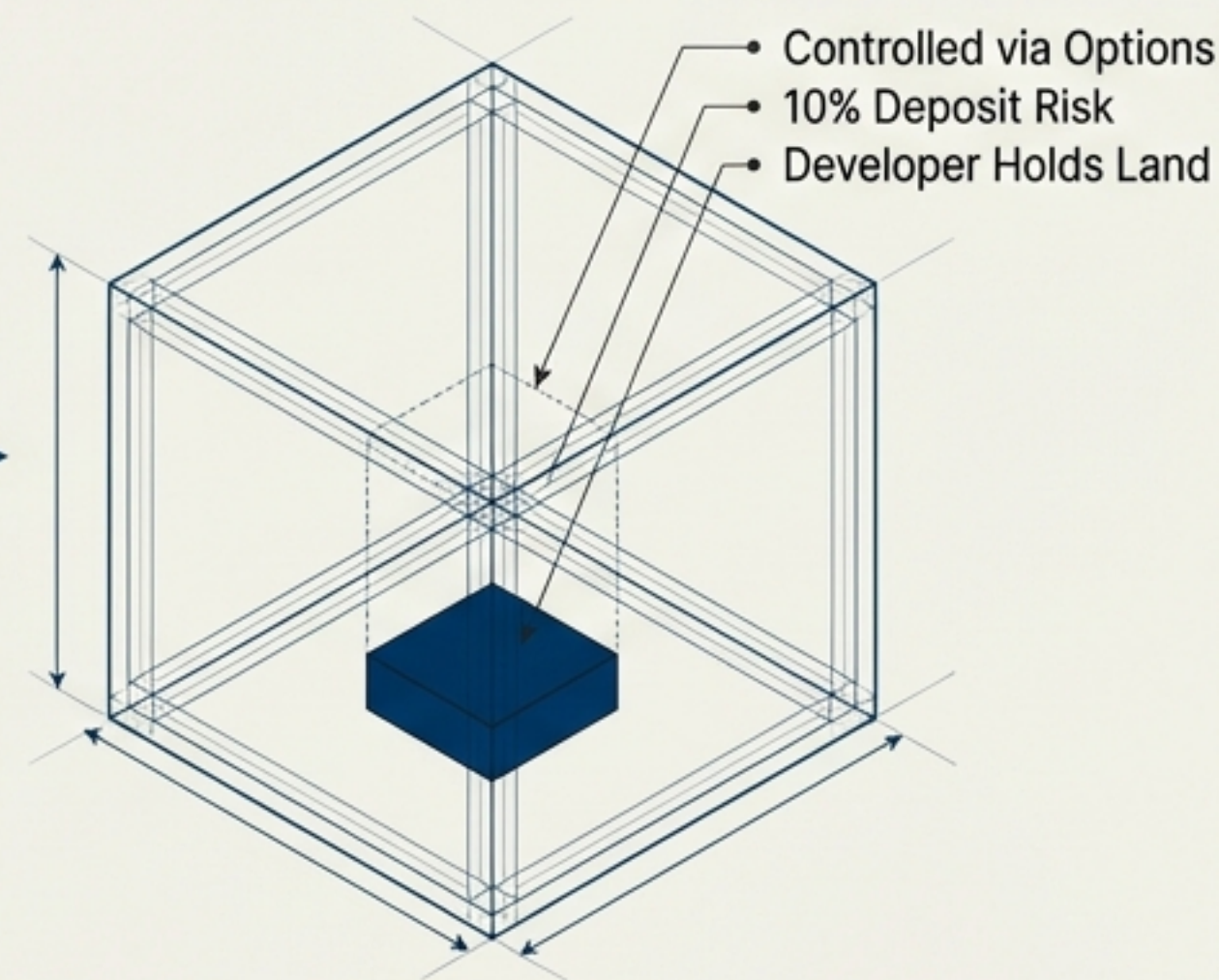
Traditional Land Banking



Balance Sheet Heavy

Vs.

NVR Option Model



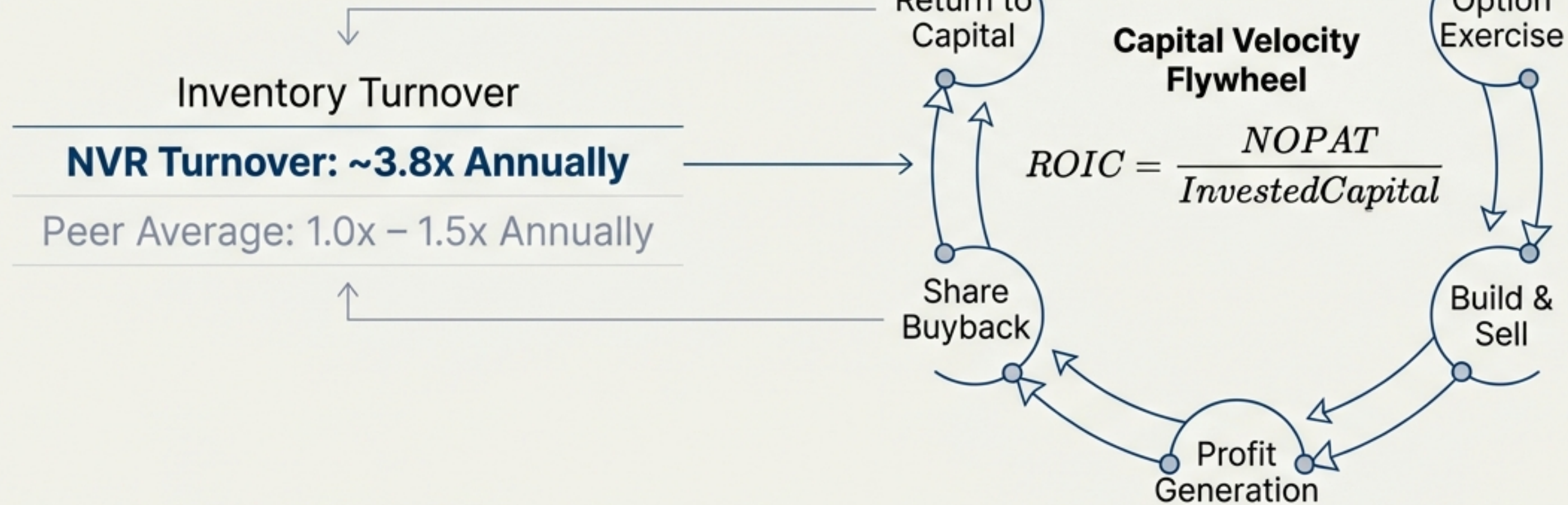
Balance Sheet Light

The Insurance Premium

NVR pays a deposit (up to 10%) to control the lot. In 2025, NVR recorded **~\$75.9M** in contract land deposit impairments. This is the realized cost of walking away from unviable lots—a small price compared to **billions** in inventory write-downs peers face.

NVR controls ~159,000 to 171,000 lots via LPAs.

The Velocity Engine: Why ROIC is King



Velocity drives returns. By stripping land assets from the balance sheet, **NVR recycles capital nearly 4 times per year**, structurally suppressing the “Invested Capital” denominator.

The 2025 Stress Test: Financial Recalibration

A year of contraction as the “higher-for-longer” rate environment took hold.

Financial Scorecard

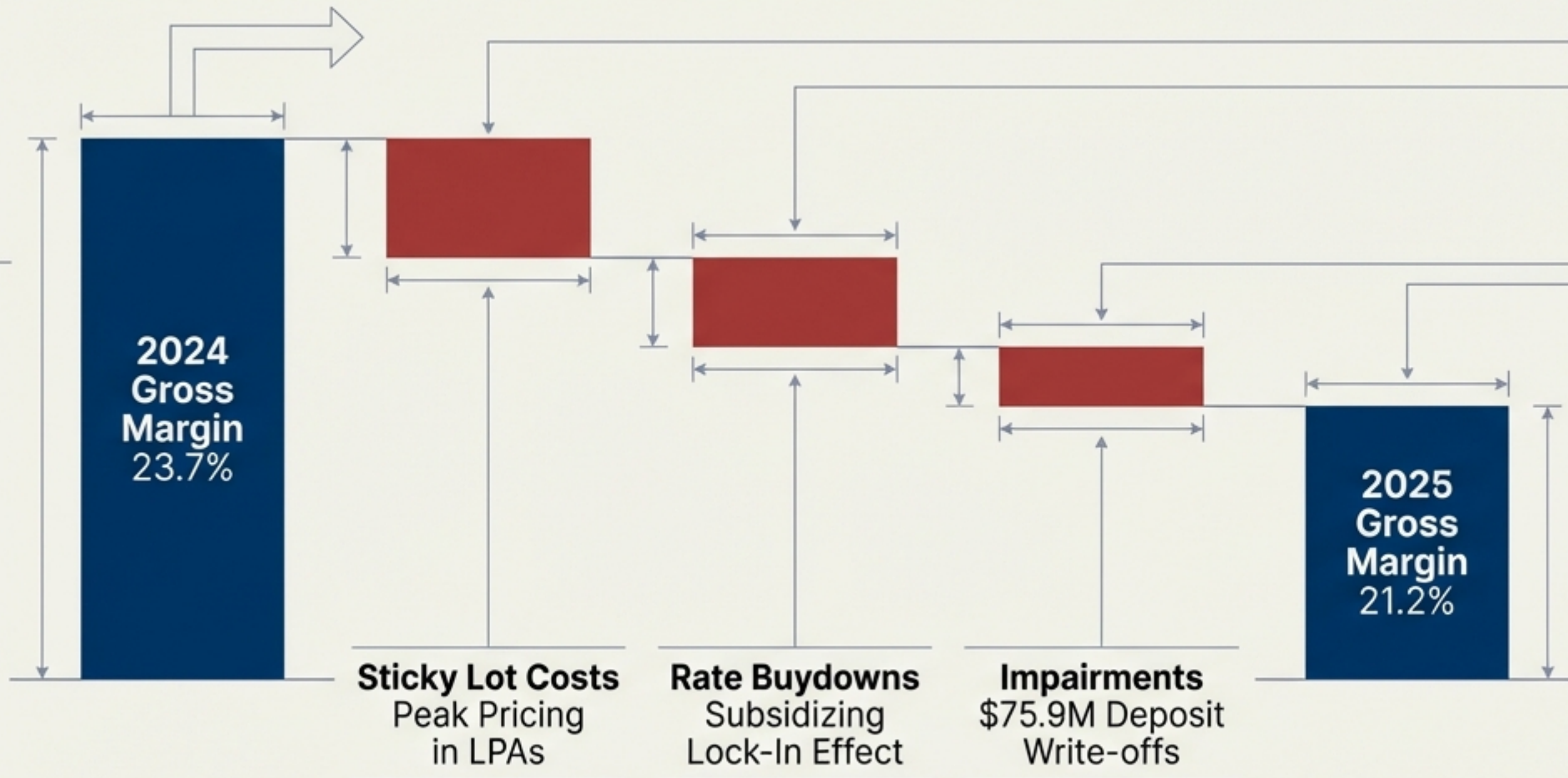
Revenue \$10.32 Billion (-2%)	Net Income \$1.34 Billion (-20%)
Diluted EPS \$436.55 (-14%)	New Orders 20,410 Units (-10%)
Cancellation Rate 16.6% (Q4) (Stabilized from Q3 spike of 19%)	

Insight:

Net Income fell 20%, but EPS only fell 14%. The divergence highlights the protective power of share buybacks.

Q4 showed stabilization with Orders +3%, suggesting the trough may be forming.

Margin Analysis: The Cost of Affordability

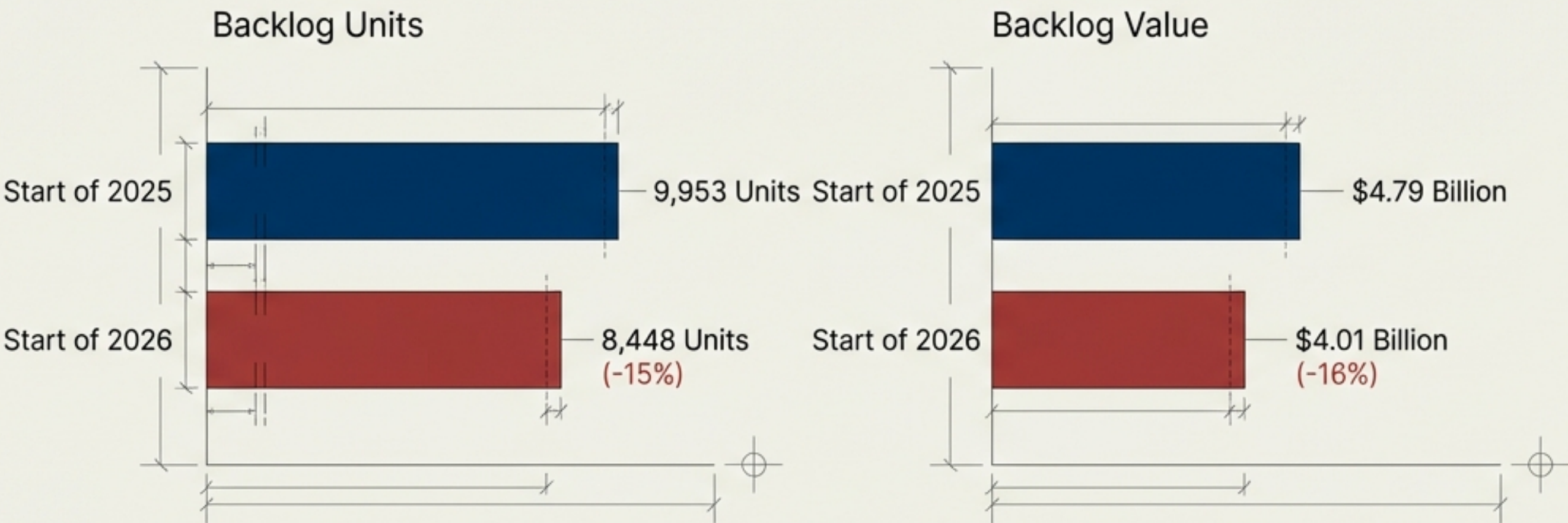


Drivers of Compression:

- 1. **Land Costs:** Developers raised prices; NVR's fixed-price contracts absorbed the peak.
- 2. **Mortgage Incentives:** Necessary to convert buyers sitting on sub-4% rates. Buying a rate from 6.5% to 5.5% hits margins directly.
- 3. **Trough:** Margins hit a low of 20.4% in Q4.

Leading Indicators: Backlog & Forward Visibility

NVR starts 2026 with a smaller pipeline, guaranteeing revenue headwinds for 1H.



Implication

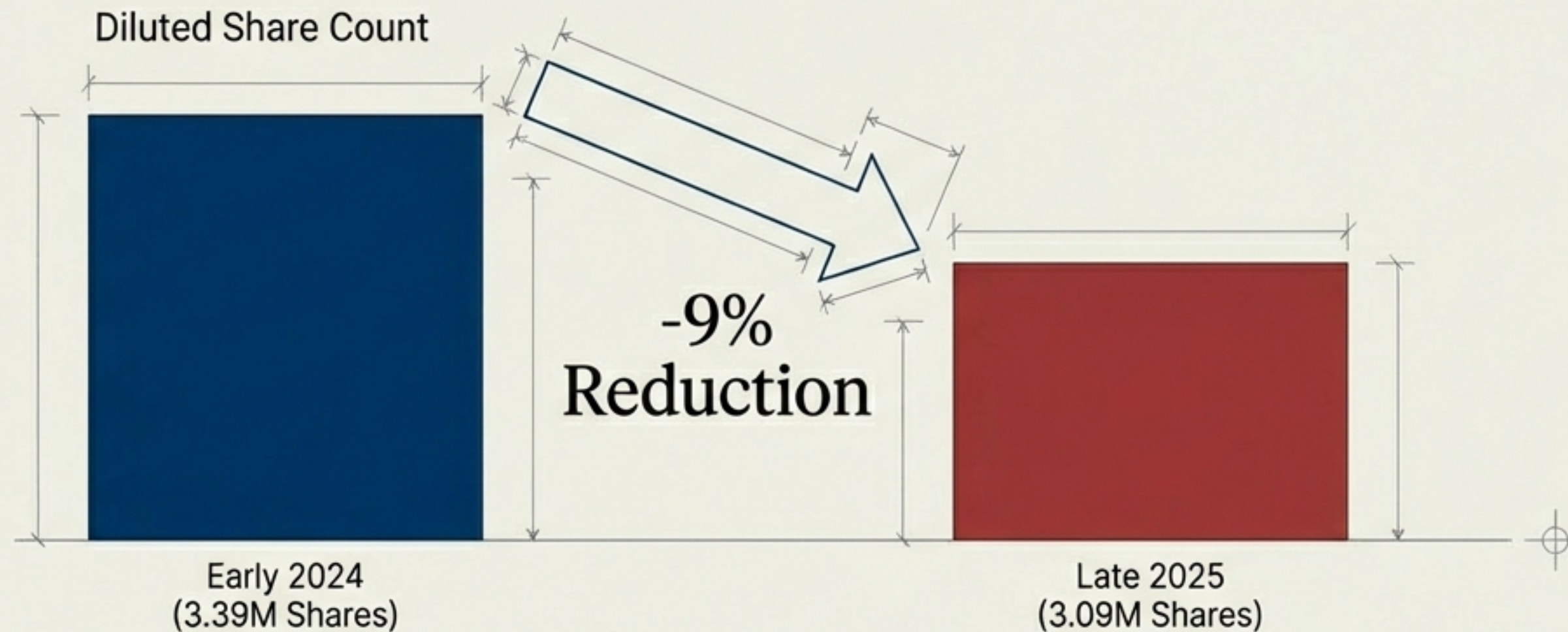
Homebuilders burn their backlog annually. A 15% starting deficit requires a massive increase in sales-to-closing velocity to catch up. Revenue decline in Q1/Q2 2026 is mathematically probable.

Geographic Resilience

The Mid-Atlantic (DC/VA/MD) remains a buffer with steady pricing (\$527.9k avg), outperforming volatile Sun Belt markets.

Capital Allocation: The ‘Cannibal’ Strategy

“Reducing the denominator to manufacture EPS growth.”



Philosophy

Management ruthlessly deploys Free Cash Flow into share repurchases, regardless of cycle timing.

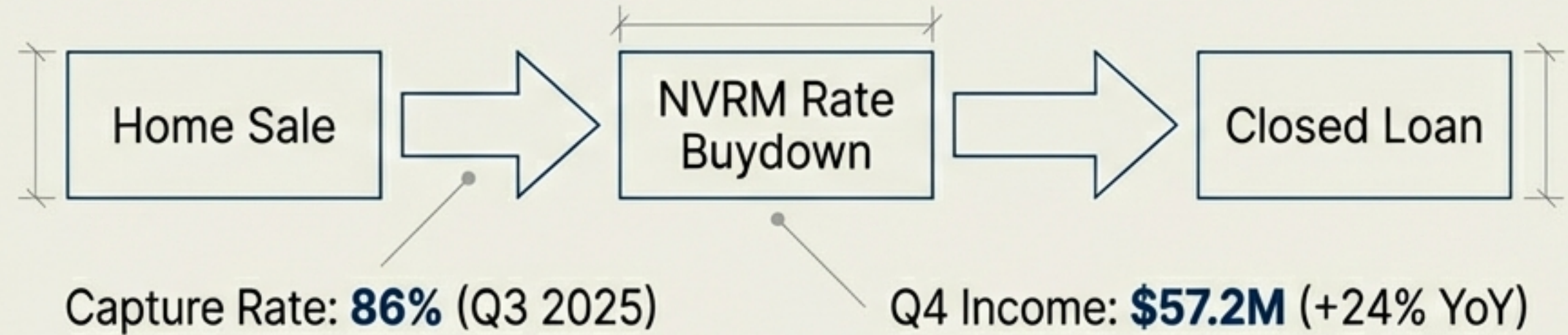
Zero dividends. This provides a constant bid for the stock and creates a floor for per-share value.

2025 Execution:

- Total Repurchased: ~\$1.82 Billion
- Impact: Returned ~9% of market cap to shareholders in a single year.

Hidden Defenses: Mortgage Banking & Manufacturing

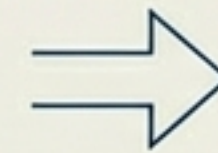
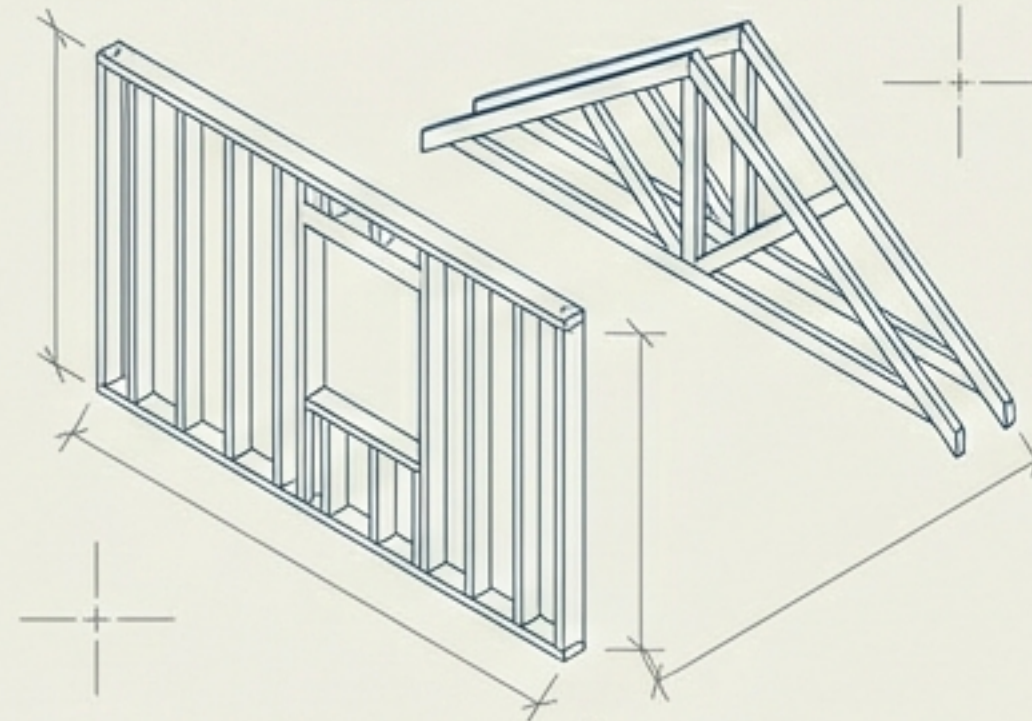
NVR Mortgage (NVRM)



Vital for “Financial Engineering”—structuring rate buydowns to close sales in a high-rate environment.

Manufacturing Efficiency

Facilities producing panelized walls and trusses.



Accelerates cycle time



Mitigates skilled labor shortages (framing)



Just-in-Time delivery upon option exercise

Peer Benchmarking: The Valuation Premium



The market assigns a premium to NVR for structural safety and ROIC leadership.

	Strategy	P/E Ratio	ROIC	Focus
NVR	100% Asset-Light / Specialist	16.8x	~45%	Regional Compounder
D.R. Horton (DHI)	Volume King / Asset-Lighter	12.0x	~17%	National Scale
Lennar (LEN)	Tech Giant / Hybrid	11.5x	~13%	National / Tech-Forward

Peers maintained higher margins in 2025 due to legacy land basis, but NVR commands the multiple due to superior ROIC and balance sheet safety (Net Cash position).

Risks & Headwinds: Where the Model Breaks



Impairments & Sunk Costs

→ **\$75.9M** in deposit write-offs in 2025. This proves the downside risk: if home prices drop significantly, NVR must walk away from deposits to save the balance sheet.



Brand Reputation

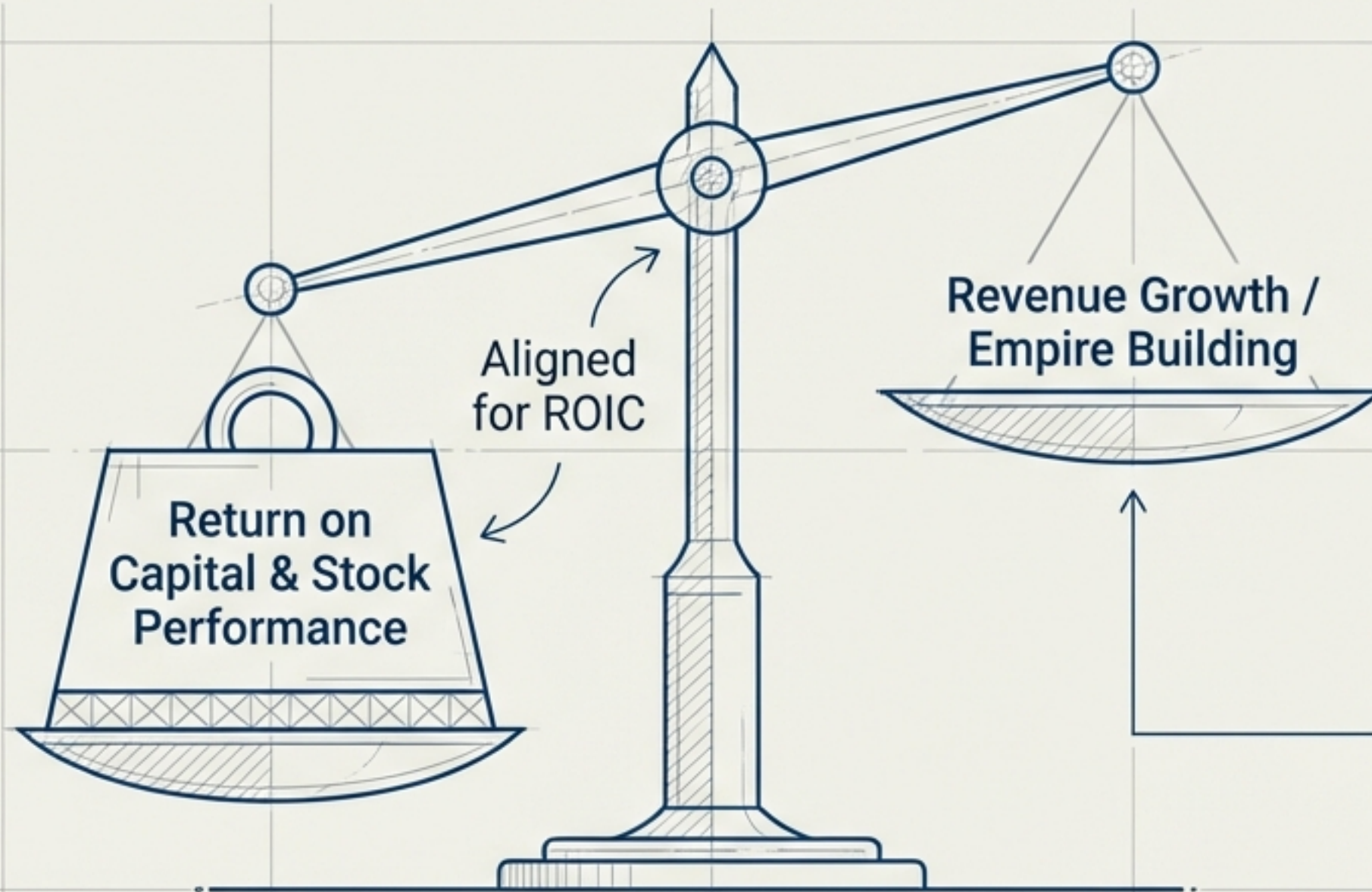
Recent sentiment (Ryan Homes) highlights **quality** and warranty complaints. In the social media age, reputation risk becomes financial risk.



The “Move-Up” Squeeze

NVR's ~\$464k ASP targets the move-up buyer. In a **Stagflation scenario** (High **Rates + Unemployment**), this demographic is squeezed harder than entry-level or luxury segments.

Governance & Incentives: Aligned for ROIC

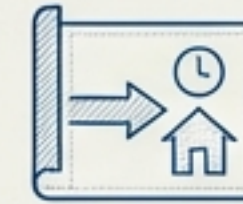


Key Policies



No Hedging/Pledging:

Executives must feel the full volatility of the stock.



Long Vesting Periods: Stock options align management with multi-year value creation.



Leadership: Paul Saville (Exec Chair) and Eugene Bredow (CEO) maintain a culture of extreme capital discipline.

Incentives are designed to prevent reckless land speculation during boom times.

2026 Outlook: Scenarios & Valuation



Valuation Verdict

Currently trading at ~16.8x P/E. DCF suggests 'Fairly Valued.' **Strategy:** Hold/Accumulate on Weakness.

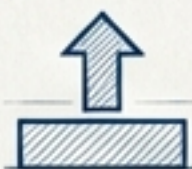
Investment Synthesis: The Bull vs. Bear Case



Bull Case



ROIC Spread: Sustainable ~30pt spread over WACC.



Shareholder Yield: ~9% yield via buybacks creates a floor.



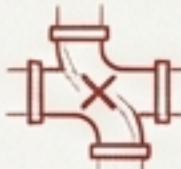
Safety: Fortress balance sheet protects against catastrophe.



Bear Case



Valuation: 17x earnings is rich for a company with shrinking revenues (-2%).



Pipeline: Backlog down 15% signals immediate headwinds.



Cycle Risk: The trough may not be in yet.

Final Verdict

NVR is the "Gold Standard" operating in a cyclical trough. 2026 is a transition year. The thesis is for long-term compounding. A core holding for quality portfolios.

Appendix: Key Financial Metrics

Fiscal Year 2024 vs Fiscal Year 2025

Metric	FY 2024	FY 2025	Change
Total Revenue	\$10.53B	\$10.32B	-2.0%
Net Income	\$1.68B	\$1.34B	-20.2%
Diluted EPS	\$506.69	\$436.55	-13.8%
Gross Margin	23.7%	21.2%	-250 bps
New Orders	22,560	20,410	-9.5%
Backlog (Units)	9,953	8,448	-15.1%
Backlog Value	\$4.79B	\$4.01B	-16.3%
Cancellation Rate (Q4)	16.9%	16.6%	-30 bps

Derived from NVR Q4 2025 and 2024 Earnings Releases.