



TORO®



# THE TORO COMPANY

Q4 2022 EARNINGS RELEASE

DECEMBER 21, 2022





# Overview

# The Toro Company:

**Built on Strong Relationships and Our Legacy of Excellence**



## OUR PURPOSE

To help our customers enrich the beauty, productivity and sustainability of the land.



## OUR VISION

To be the most trusted leader in solutions for the outdoor environment. Every day. Everywhere.



## OUR MISSION

To deliver superior innovation and to deliver superior customer care.







# Q4 2022 Key Messages

1

Record fourth-quarter results, driven by strong professional segment momentum, as well as increased profitability from net price realization and productivity improvements

2

Professional segment demand was broad-based, and the biggest constraint remained our ability to fulfill the heightened backlog of orders given the current supply chain environment

3

Residential segment demand continued to normalize off the higher base established over the past few years, reflecting more typical seasonal trends and weather patterns

4

Introducing full-year fiscal 2023 guidance of \*adjusted diluted EPS in the range of \$4.70 to \$4.90 per diluted share, and entering the new fiscal year well-positioned in attractive end markets



# Q4 2022 Financial Highlights

(Year-over-year comparisons below)

**+22.0%**

NET SALES  
GROWTH

Driven primarily by net price realization, incremental revenue from the Intimidator Group acquisition, and higher shipments of zero-turn mowers, golf & grounds equipment, and snow & ice management solutions

**+390 bps**

GROSS MARGIN

The increase in gross margin was primarily due to net price realization, productivity improvements, and favorable mix, partially offset by higher material, freight and manufacturing costs, as well as the addition of the Intimidator Group at a lower initial gross margin than the company average

**+520 bps**

ADJUSTED OPERATING  
EARNINGS MARGIN\*

In addition to gross margin improvement, we benefitted from net sales leverage and lower incentive costs

**A record quarter of strong growth and execution**

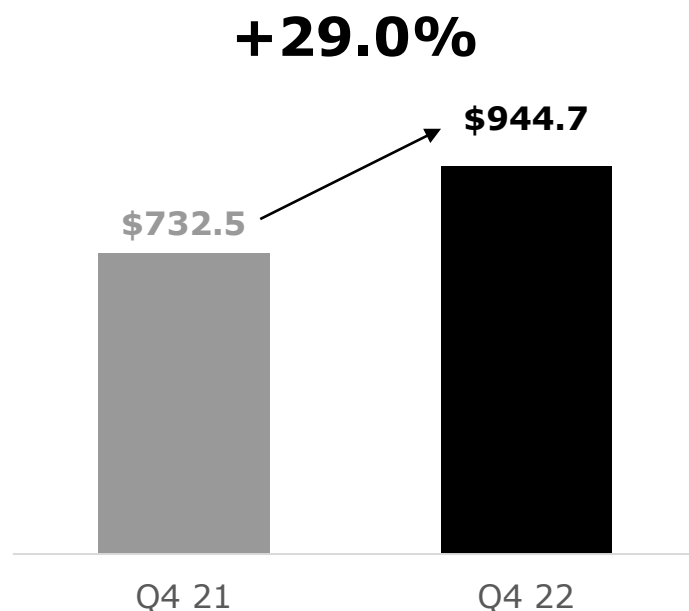




# Financials

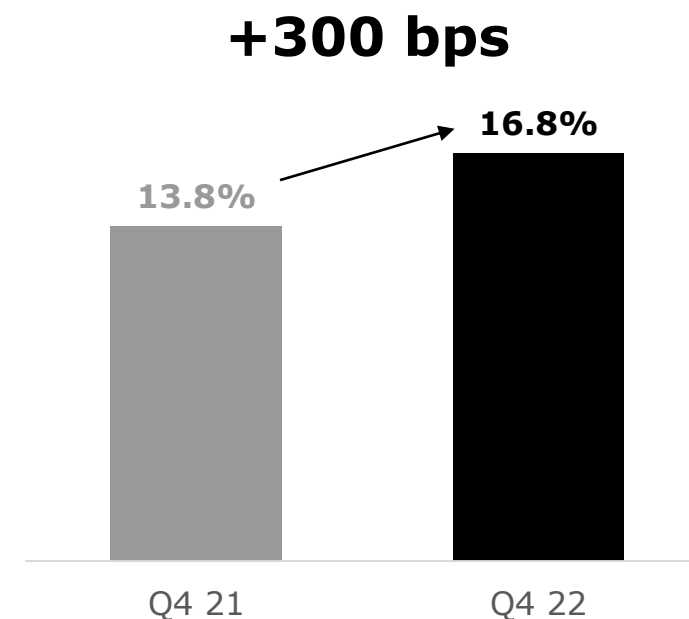
# Professional Segment Results

## NET SALES (in millions)



**Increase** was driven primarily by **net price realization**, **incremental revenue** from the Intimidator Group acquisition in the first quarter of fiscal 2022, and **higher shipments** of zero-turn mowers, golf and grounds equipment, and snow and ice management solutions

## SEGMENT EARNINGS RATE (as a percentage of net sales)



**Increase** was primarily due to **net price realization**, **net sales leverage**, and **productivity improvements**, partially offset by **higher material, freight, and manufacturing costs**, and the **addition of the Intimidator Group** at a lower initial margin than the segment average

# Strong Balance Sheet and Resilient Free Cash Flow

## Free Cash Flow\* (Twelve months ended)

In millions

**\$153.7 \***

2022

## Free Cash Flow Conversion\* (Twelve months ended)

Goal:  
100%  
over  
time

**34.7%\***

2022

## Gross Debt to EBITDA Ratio\*

Target  
Range:  
1.0x-  
2.0x

**1.4x**

Q4 2022

**Free cash flow conversion\* was lower than typical as we prioritized working capital investments in the current supply chain environment, to serve our customers better. We expect a conversion rate of ~100% in 2023.**



# Effective Capital Deployment

## Consistent Strategy

1

Capital expenditures supporting organic growth with high returns

2

Strategic approach to acquisitions with disciplined process and proven track record

3

Established dividend with increases commensurate with earnings growth

4

Excess cash deployed to repurchase shares with a goal to at least offset dilution over time

## 2022 Comments

Invested \$143M to fund new product investments, advanced manufacturing technologies, and capacity for growth

First quarter acquisition of The Intimidator Group strengthens position in attractive zero-turn mower market

Returned \$126M to shareholders via regular dividends

Returned \$140M to shareholders via share repurchases

**Disciplined capital allocation drives value for all stakeholders**



# Investment Thesis

1

Well positioned to win with deep expertise, leading market share positions, and best-in-class distribution and service networks – all of which create high barriers to entry

2

Favorable macro factors, steady replacement cycle and customer-centric innovation drive future organic growth

3

Building on a foundation of demonstrated consistent financial performance and cash flow generation

4

Financial headroom for strategic investments and disciplined approach to capital allocation enables delivery of value to all stakeholders





# ■ APPENDIX





**Segment Data (Unaudited)**  
**(Dollars in thousands)**

<b>Segment net sales</b>	<b>Three Months Ended</b>		<b>Twelve Months Ended</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Professional	\$ 944,680	\$ 732,542	\$ 3,429,607	\$ 2,929,600
Residential	223,526	225,225	1,068,565	1,010,077
Other	3,778	2,888	16,490	19,907
Total net sales*	\$ 1,171,984	\$ 960,655	\$ 4,514,662	\$ 3,959,584
*Includes international net sales of:	\$ 222,367	\$ 188,709	\$ 879,166	\$ 827,630

<b>Segment earnings (loss) before income taxes</b>	<b>Three Months Ended</b>		<b>Twelve Months Ended</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Professional	\$ 159,160	\$ 101,048	\$ 583,993	\$ 507,327
Residential	17,525	11,874	112,728	121,516
Other	(33,433)	(43,624)	(144,175)	(129,025)
Total segment earnings before income taxes	\$ 143,252	\$ 69,298	\$ 552,546	\$ 499,818



**THE TORO COMPANY AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
**(Dollars in thousands)**

	October 31, 2022	October 31, 2021
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 188,250	\$ 405,612
Receivables, net	332,713	310,279
Inventories, net	1,051,109	738,170
Prepaid expenses and other current assets	103,279	35,124
Total current assets	1,675,351	1,489,185
Property, plant, and equipment, net	571,661	487,731
Goodwill	583,297	421,680
Other intangible assets, net	585,832	420,041
Right-of-use assets	76,121	66,990
Investment in finance affiliate	39,349	20,671
Deferred income taxes	5,310	5,800
Other assets	19,077	24,042
Total assets	\$ 3,555,998	\$ 2,936,140

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Accounts payable	\$	578,624	\$	503,116
Accrued liabilities		469,242		419,620
Short-term lease liabilities		15,747		14,283
Total current liabilities		1,063,613		937,019
Long-term debt		990,768		691,242
Long-term lease liabilities		63,604		55,752
Deferred income taxes		44,272		50,397
Other long-term liabilities		42,040		50,598
Stockholders' equity:				
Preferred stock		—		—
Common stock		103,970		105,206
Retained earnings		1,280,856		1,071,922
Accumulated other comprehensive loss		(33,125)		(25,996)
Total stockholders' equity		1,351,701		1,151,132
Total liabilities and stockholders' equity	\$	3,555,998	\$	2,936,140



**THE TORO COMPANY AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**(Dollars in thousands)**

	<b>Twelve Months Ended</b>	
	<b>2022</b>	<b>2021</b>
Cash flows from operating activities:		
Net earnings	\$ 443,342	\$ 409,880
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash income from finance affiliate	(8,801)	(5,704)
(Contributions to)/Distributions from finance affiliate, net	(9,877)	4,779
Depreciation of property, plant and equipment	74,922	75,468
Amortization of other intangible assets	33,887	23,848
Fair value step-up adjustment to acquired inventory	535	—
Stock-based compensation expense	22,116	21,809
Deferred income taxes	(12,264)	(22,899)
Other	(682)	457
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Receivables, net	(19,301)	(52,260)
Inventories, net	(285,891)	(98,266)
Prepaid expenses and other assets	(30,297)	2,953
Accounts payable, accrued liabilities, and other liabilities	89,483	195,404
Net cash provided by operating activities	297,172	555,469



# Non-GAAP Financial Measures

This presentation contains certain non-GAAP financial measures, which are not calculated or presented in accordance with U.S. GAAP, as information supplemental and in addition to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP. The non-GAAP financial measures included within this presentation, as applicable, consist of gross profit, gross margin, operating earnings, earnings before income taxes, net earnings, net earnings per diluted share and the effective tax rate, each as adjusted, as well as free cash flow, free cash flow conversion percentage, return on average invested capital and return on average equity.

Management believes that the presentation of these non-GAAP measures provides useful information to investors and that these measures may assist investors in evaluating our core operational performance and cash flows, as a measure of our liquidity.

This Appendix includes a reconciliation of the historical non-GAAP financial measures used in the presentation to the most directly historical comparable GAAP financial measures.

Reconciliations of forward-looking non-GAAP guidance to projected U.S. GAAP guidance is not provided because it would require an unreasonable effort to do so.

Non-GAAP financial measures have limitations as analytical tools, and should not be considered in isolation, or as a substitute for, our financial measures prepared in accordance with U.S. GAAP.

Investors should note that any non-GAAP financial measure we use may not be the same non-GAAP financial measure, and may not be calculated in the same manner, as that of other companies.



**THE TORO COMPANY AND SUBSIDIARIES**  
**Reconciliation of Non-GAAP Financial Measures (Unaudited)**  
**(Dollars in thousands, except per-share data)**

The following table provides a reconciliation of the non-GAAP financial performance measures used in this press release and our related earnings call to the most directly comparable measures calculated and reported in accordance with U.S. GAAP for the three and twelve month periods ended October 31, 2022 and October 31, 2021:

	<b>Three Months Ended</b>		<b>Twelve Months Ended</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Gross profit	\$ 398,845	\$ 289,386	\$ 1,504,596	\$ 1,338,492
Acquisition-related costs <sup>1</sup>	225	—	1,650	—
Adjusted gross profit	\$ 399,070	\$ 289,386	\$ 1,506,246	\$ 1,338,492
Gross margin	34.0 %	30.1 %	33.3 %	33.8 %
Acquisition-related costs <sup>1</sup>	0.1 %	— %	0.1 %	— %
Adjusted gross margin	34.1 %	30.1 %	33.4 %	33.8 %
Operating earnings	\$ 150,412	\$ 74,160	\$ 575,663	\$ 518,280
Acquisition-related costs <sup>1</sup>	544	—	4,000	—
Litigation settlement, net <sup>2</sup>	—	—	—	(11,325)
Adjusted operating earnings	\$ 150,956	\$ 74,160	\$ 579,663	\$ 506,955
Operating earnings margin	12.8 %	7.7 %	12.8 %	13.1 %
Acquisition-related costs <sup>1</sup>	0.1 %	— %	— %	— %
Litigation settlement, net <sup>2</sup>	— %	— %	— %	(0.3)%
Adjusted operating earnings margin	12.9 %	7.7 %	12.8 %	12.8 %
Earnings before income taxes	\$ 143,252	\$ 69,298	\$ 552,546	\$ 499,818
Acquisition-related costs <sup>1</sup>	544	—	4,000	—
Litigation settlement, net <sup>2</sup>	—	—	—	(11,325)
Adjusted earnings before income taxes	\$ 143,796	\$ 69,298	\$ 556,546	\$ 488,493
Net earnings	\$ 117,557	\$ 60,108	\$ 443,342	\$ 409,880
Acquisition-related costs <sup>1</sup>	437	—	3,177	—
Litigation settlement, net <sup>2</sup>	—	(75)	—	(9,022)
Tax impact of stock-based compensation <sup>3</sup>	(734)	(339)	(2,303)	(8,185)
Adjusted net earnings	\$ 117,260	\$ 59,694	\$ 444,216	\$ 392,673
Diluted EPS	\$ 1.12	\$ 0.56	\$ 4.20	\$ 3.78
Acquisition-related costs <sup>1</sup>	—	—	0.03	—
Litigation settlement, net <sup>2</sup>	—	—	—	(0.08)
Tax impact of stock-based compensation <sup>3</sup>	(0.01)	—	(0.03)	(0.08)
Adjusted diluted EPS	\$ 1.11	\$ 0.56	\$ 4.20	\$ 3.62
Effective tax rate	17.9 %	13.3 %	19.8 %	18.0 %
Tax impact of stock-based compensation <sup>3</sup>	0.6 %	0.6 %	0.4 %	1.6 %
Adjusted effective tax rate	18.5 %	13.9 %	20.2 %	19.6 %

- <sup>1</sup> On January 13, 2022, the company completed the acquisition of Intimidator. Acquisition-related costs for the three month period ended October 31, 2022 represent integration costs and acquisition-related costs for the twelve month period ended October 31, 2022 represent transaction and integration costs incurred in connection with the acquisition. No acquisition-related costs were incurred during the three and twelve month periods ended October 31, 2021.
- <sup>2</sup> On November 19, 2020, Exmark Manufacturing Company Incorporated ("Exmark"), a wholly-owned subsidiary of TTC, and Briggs & Stratton Corporation ("BGG") entered into a settlement agreement ("Settlement Agreement") relating to the decade-long patent infringement litigation that Exmark originally filed in May 2010 against Briggs & Stratton Power Products Group, LLC ("BSPPG"), a former wholly-owned subsidiary of BGG (Case No. 8:10CV187, U.S. District Court for the District of Nebraska) (the "Infringement Action"). The Settlement Agreement provided, among other things, that upon approval by the bankruptcy court, and such approval becoming final and nonappealable, BGG agreed to pay Exmark \$33.65 million ("Settlement Amount"). During January 2021, the first quarter of fiscal 2021, the Settlement Amount was received by Exmark in connection with the settlement of the Infringement Action and at such time, the underlying events and contingencies associated with the gain contingency related to the Infringement Action were satisfied. As such, the company recognized in SG&A expense within the Consolidated Statements of Earnings during the first quarter of fiscal 2021 (i) the gain associated with the Infringement Action and (ii) a corresponding expense related to the contingent fee arrangement with the company's external legal counsel customary in patent infringement cases equal to approximately 50 percent of the Settlement Amount. Additionally, during the third quarter of fiscal 2021, the company recorded a charge related to a legal settlement for a series of ongoing patent infringement disputes within SG&A expense in the Condensed Consolidated Statements of Earnings. Accordingly, litigation settlements, net represents the charge incurred for the settlement of the patent infringement disputes for the three month period ended October 31, 2021. Litigation settlements, net for the twelve month period ended October 31, 2021 represents the net amount recorded for the settlement of the Infringement Action, as well as the charge incurred for the settlement of the patent infringement disputes. No amounts were recorded for litigation settlement, net during the three and twelve month periods ended October 31, 2022.
- <sup>3</sup> The accounting standards codification guidance governing employee stock-based compensation requires that any excess tax deduction for stock-based compensation be immediately recorded within income tax expense. Employee stock-based compensation activity, including the exercise of stock options, can be unpredictable and can significantly impact our net earnings, net earnings per diluted share, and effective tax rate. These amounts represent the discrete tax benefits recorded as excess tax deductions for stock-based compensation during the three and twelve month periods ended October 31, 2022 and October 31, 2021.



## Reconciliation of Non-GAAP Liquidity Measures

The company defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. Free cash flow conversion percentage represents free cash flow as a percentage of net earnings. The company considers free cash flow and free cash flow conversion percentage to be non-GAAP liquidity measures that provide useful information to management and investors about the company's ability to convert net earnings into cash resources that can be used to pursue opportunities to enhance shareholder value, fund ongoing and prospective business initiatives, and strengthen the company's Consolidated Balance Sheets, after reinvesting in necessary capital expenditures required to maintain and grow the company's business.

The following table provides a reconciliation of non-GAAP free cash flow and free cash flow conversion percentage to net cash provided by operating activities, which is the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, for the twelve month periods ended October 31, 2022 and October 31, 2021:

(Dollars in thousands)	Twelve Months Ended	
	2022	2021
Net cash provided by operating activities	\$ 297,172	\$ 555,469
Less: Purchases of property, plant and equipment	143,478	104,012
Free cash flow	153,694	451,457
Net earnings	\$ 443,342	\$ 409,880
Free cash flow conversion percentage	34.7 %	110.1 %

# Gross Debt to EBITDA Ratio

	Q1 22	Q2 22	Q3 22	Q4 22	Total
Short Term Debt			\$65,000	-	-
Long Term Debt			\$990,616	\$990,768	\$990,768
<b>Gross Debt</b>			<b>\$1,055,616</b>	<b>\$990,768</b>	<b>\$990,768</b>
<b>Earnings Before Income Taxes</b>	<b>\$87,147</b>	<b>\$165,056</b>	<b>\$157,091</b>	<b>\$143,252</b>	<b>\$552,546</b>
Interest Expense	\$7,013	\$8,024	\$9,182	\$11,519	\$35,738
Depreciation and Amortization	\$24,943	\$28,007	\$26,079	\$29,780	\$108,809
<b>EBITDA</b>	<b>\$119,103</b>	<b>\$201,087</b>	<b>\$192,352</b>	<b>\$184,551</b>	<b>\$697,093</b>
<b>Leverage Ratio</b>					<b>1.4x</b>