



# THE TORO COMPANY

Q1 2023 EARNINGS RELEASE

March 9, 2023





# Safe Harbor

This presentation contains forward-looking statements, which are being made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current assumptions and expectations of future events and often can be identified by words such as "believe," "forward," "future," "goal," "guidance," "improve," "may," "outlook," "plan," "should," "target" and "would," variations of such words or the negative thereof, and similar expressions or future dates. Forward-looking statements in this presentation include our fiscal 2023 financial guidance. Forward-looking statements involve risks and uncertainties that could cause actual events and results to differ materially from those projected or implied. Such risks and uncertainties include: adverse worldwide economic conditions, including inflationary pressures; disruption at or in proximity to our facilities, those of our distribution channel customers, mass retailers or home centers where our products are sold, or suppliers; fluctuations in the cost or availability of commodities, components, parts and accessories; the effect of abnormal weather patterns; the level of growth or contraction in our key markets; and other risks and uncertainties described in our most recent annual report on Form 10-K, subsequent quarterly reports on Form 10-Q or current reports on Form 8-K, and other filings with the Securities and Exchange Commission. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances occurring or existing after the date of this presentation.

This presentation also contains non-GAAP financial measures and more information about our use of such non-GAAP financial measures, as well as a reconciliation of the most directly comparable historical U.S. GAAP financial measures to the corresponding historical non-GAAP financial measures, which can be found in our related financial filings in the section titled "Non-GAAP Financial Measures".

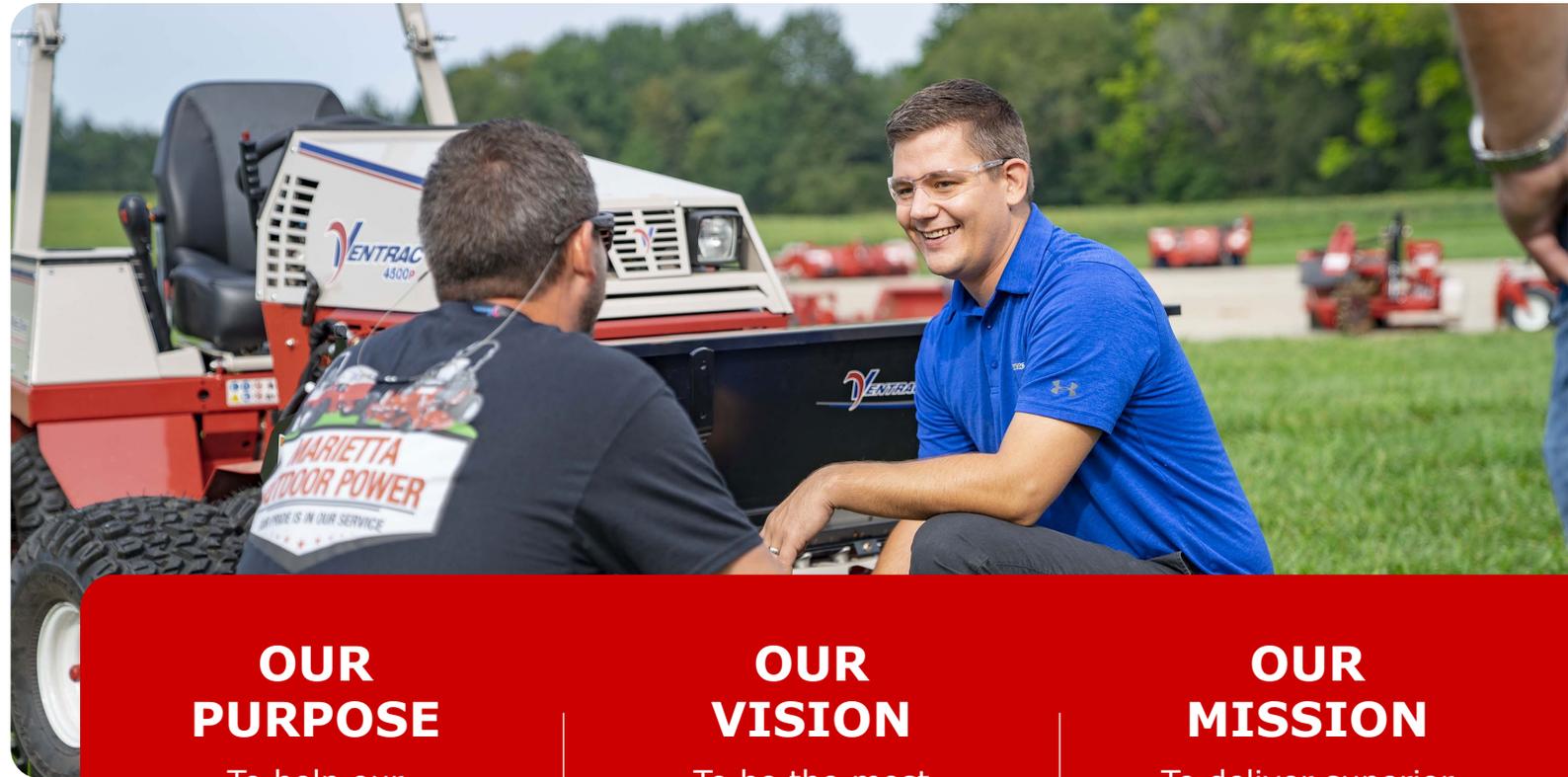
*All financial results contained within this presentation are based on fiscal quarter ending January 31 figures*



# 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.





# Q1 2023 Key Messages

1

Delivered top-line growth in both segments, as demand for our innovative products remained strong, especially in key professional markets

2

Supply chain continued to improve which, combined with our disciplined operational execution, drove manufacturing efficiencies and professional segment volume growth

3

Posted profitability improvement in both segments, with net price realization and productivity gains driving a 200-basis point improvement in total company \*adjusted operating earnings as a percentage of net sales

4

Reiterated full-year fiscal 2023 guidance of net sales growth in the range of 7% to 10% and \*adjusted diluted EPS in the range of \$4.70 to \$4.90 per diluted share



# Q1 2023 Financial Highlights

(Year-over-year comparisons below)

**+23.2%**

NET SALES  
GROWTH

Driven primarily by higher shipments of products broadly across the Professional segment, net price realization, and incremental revenue from the Intimidator Group acquisition

**+230 bps**

GROSS MARGIN

Driven primarily by net price realization and productivity improvements, 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

**+200 bps**

ADJUSTED OPERATING  
EARNINGS MARGIN\*

In addition to gross margin improvement, we benefitted from net sales leverage, partially offset by higher warranty expense

**A strong start to fiscal 2023**

# Q1 2023 Other Notable Highlights



## Suite of Products with HyperCell System Grows

Providing all-day run time for Toro and Exmark-branded turf equipment, specialty construction solutions, and many golf applications



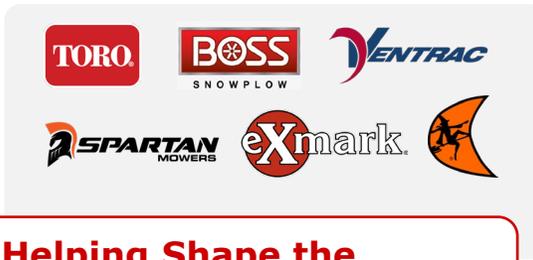
## Engaging with our Communities

Extended 25-year commitment of supporting nonprofit organization First Tee, which helps young people develop character and life skills through the game of golf



## Also Leveraging Flex-Force 60V Platform

Featured in new Revolution Series line of commercial-grade handheld tools geared to professionals, an incremental addressable market



## Helping Shape the Future of our Workforce

Announced 5-year partnership with The Atlanta University Center Consortium, to fund scholarships and internships for Black engineering students

## The Toro Company is a leading provider of products and solutions

for the outdoor environment, including:

Turf & landscape maintenance

Snow & ice management

Underground utility construction

Rental/specialty construction

Irrigation

Outdoor lighting solutions



# Financials

# Q1 2023 Consolidated Results

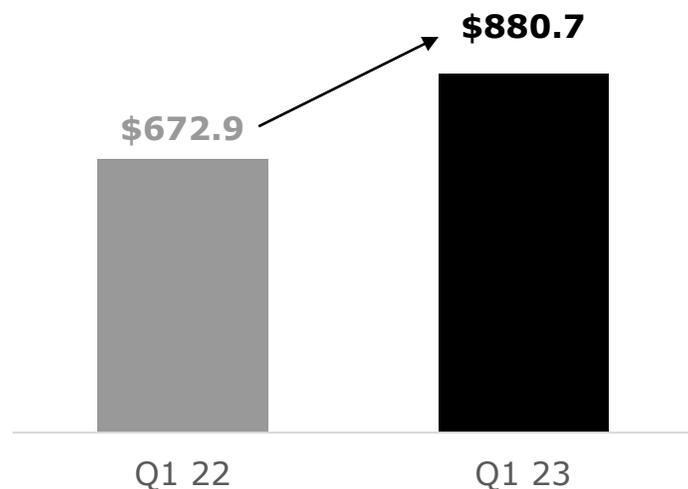
Net price realization, Professional segment volume growth, and productivity improvements drove record results

	REPORTED			ADJUSTED*		
	Q1 23	Q1 22	Change from Q1 22	Q1 23	Q1 22	Change from Q1 22
<b>Net Sales</b>	<b>\$1,148.8M</b>	<b>\$932.7M</b>	<b>+23.2%</b>	<b>\$1,148.8M</b>	<b>\$932.7M</b>	<b>+23.2%</b>
Gross Profit (\$)	\$395.9M	\$300.5M	+31.8%	\$396.1M	\$300.5M	+31.8%
Gross Margin (% of Net Sales)	34.5%	32.2%	+230 bps	34.5%	32.2%	+ 230 bps
<b>Operating Earnings (\$)</b>	<b>\$136.4M</b>	<b>\$91.6M</b>	<b>+48.9%</b>	<b>\$136.9M</b>	<b>\$92.6M</b>	<b>+47.7%</b>
<b>Operating Earnings Margin (% of Net Sales)</b>	<b>11.9%</b>	<b>9.8%</b>	<b>+210 bps</b>	<b>11.9%</b>	<b>9.9%</b>	<b>+200 bps</b>
Earnings Before Income Taxes	\$131.3M	\$87.1M	+50.7%	\$131.8M	\$88.2M	+49.5%
Net Earnings	\$106.9M	\$69.5M	+53.7%	\$103.6M	\$69.7M	+48.7%
Diluted EPS	\$1.01	\$0.66	+53.0%	\$0.98	\$0.66	+48.5%

# Professional Segment Results

## NET SALES (in millions)

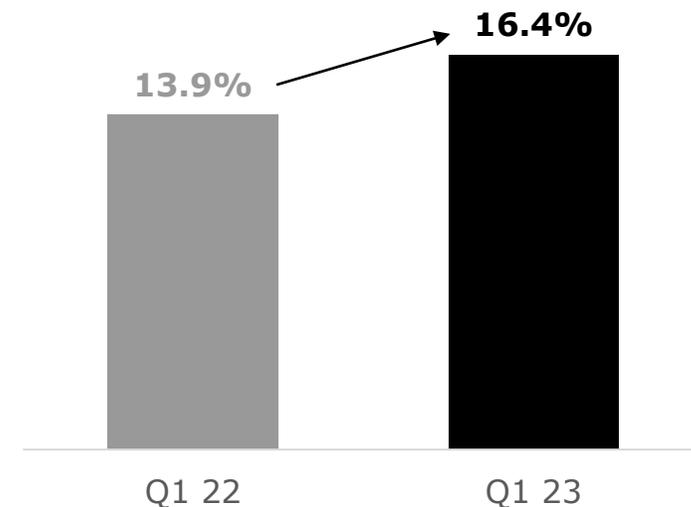
**+30.9%**



**Increase** was primarily driven by **higher shipments** of products broadly across the segment, **net price realization**, and incremental revenue from the first quarter fiscal 2022 acquisition of the **Intimidator Group**

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

**+250 bps**

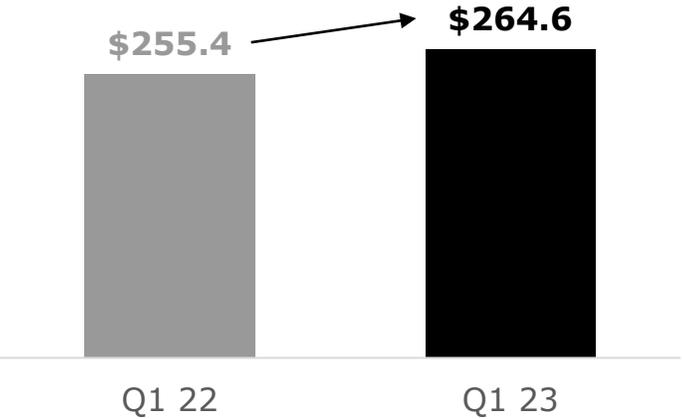


**Increase** was primarily due to **net price realization**, **net sales leverage**, and **productivity improvements**, partially offset by **higher material, freight, and manufacturing costs**, and the addition of the **Intimidator Group** at a lower initial margin than the segment average

# Residential Segment Results

## NET SALES (in millions)

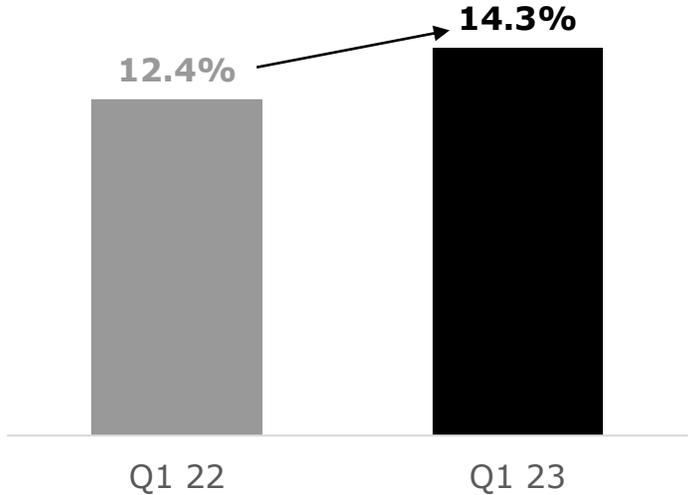
**+3.6%**



**Increase** was primarily driven by **net price realization** and **higher shipments of zero turn riding mowers**, partially offset by **lower shipments of snow products**

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

**+190 bps**

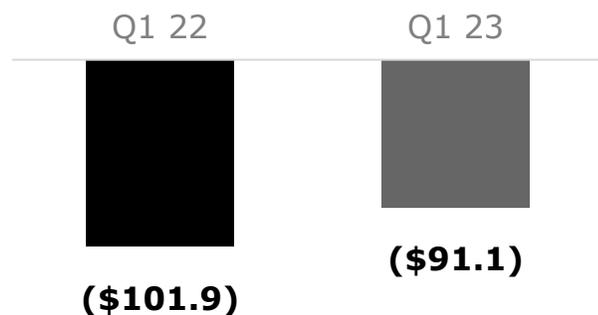


**Increase** was primarily driven by **net price realization** and **productivity improvements**, partially offset by **higher material, freight, and manufacturing costs**, and **higher SG&A expense**

# Strong Balance Sheet and Resilient Free Cash Flow

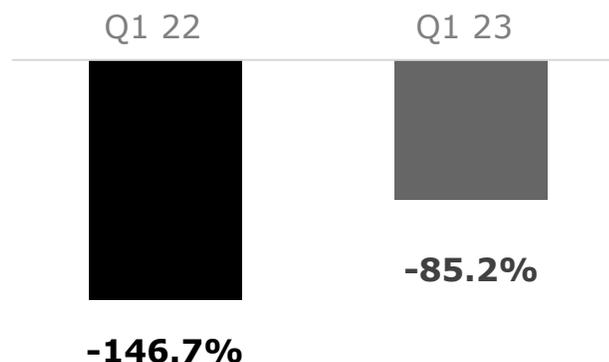
## Free Cash Flow\* (Three months ended)

In millions



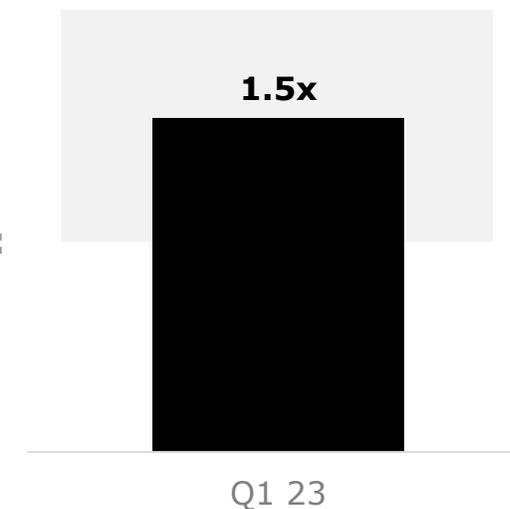
## Free Cash Flow Conversion (Three months ended)

Goal:  
100%  
over  
time



## Gross Debt to EBITDA Ratio\*

Target  
Range:  
1.0x-  
2.0x



Free cash flow was a use of cash in Q1, as expected. We expect the majority of our operating cash flow to be generated in the second half of the fiscal year, aligned with typical cash flow patterns pre-pandemic.

# 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

## Q1 2023 Comments

Invested \$29.3M to fund new product investments, advanced manufacturing technologies, and capacity for growth

Celebrated one-year anniversary of The Intimidator Group acquisition – this acquisition strengthens our position in attractive zero-turn mower market

Returned \$35.5M to shareholders via regular dividends, representing a payout increase of 13% year-over-year

No shares were repurchased during the first quarter

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

# Reiterate Fiscal 2023 Guidance



Net Sales Growth (%)	7% to 10%
Adjusted Operating Earnings Margin* (%)	Higher than Fiscal 2022
Adjusted Diluted EPS* (\$)	\$4.70 to \$4.90
Capital Expenditures (\$)	\$150M to \$175M
Depreciation & Amortization (\$)	~\$130M
Interest Expense	~\$55M
Adjusted Effective Tax Rate* (%)	~21%
Free Cash Flow (FCF) Conversion** (%)	~100%



# 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

**THE TORO COMPANY AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Earnings (Unaudited)**  
**(Dollars and shares in thousands, except per-share data)**

	<b>Three Months Ended</b>	
	<b>February 3, 2023</b>	<b>January 28, 2022</b>
Net sales	\$ 1,148,840	\$ 932,650
Cost of sales	752,916	632,174
Gross profit	395,924	300,476
Gross margin	34.5 %	32.2 %
Selling, general and administrative expense	259,497	208,850
Operating earnings	136,427	91,626
Interest expense	(14,124)	(7,013)
Other income, net	9,011	2,534
Earnings before income taxes	131,314	87,147
Provision for income taxes	24,454	17,637
Net earnings	\$ 106,860	\$ 69,510
Basic net earnings per share of common stock	\$ 1.02	\$ 0.66
Diluted net earnings per share of common stock	\$ 1.01	\$ 0.66
Weighted-average number of shares of common stock outstanding — Basic	104,501	105,037
Weighted-average number of shares of common stock outstanding — Diluted	105,577	106,048

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

	<b>Three Months Ended</b>	
	<b>February 3, 2023</b>	<b>January 28, 2022</b>
<b>Segment net sales</b>		
Professional	\$ 880,660	\$ 672,885
Residential	264,615	255,402
Other	3,565	4,363
Total net sales*	\$ 1,148,840	\$ 932,650
*Includes international net sales of:	\$ 245,337	\$ 194,986

	<b>Three Months Ended</b>	
	<b>February 3, 2023</b>	<b>January 28, 2022</b>
<b>Segment earnings (loss) before income taxes</b>		
Professional	\$ 144,076	\$ 93,272
Residential	37,832	31,760
Other	(50,594)	(37,885)
Total segment earnings before income taxes	\$ 131,314	\$ 87,147

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

	February 3, 2023	January 28, 2022	October 31, 2022
<b>ASSETS</b>			
Cash and cash equivalents	\$ 174,037	\$ 192,959	\$ 188,250
Receivables, net	377,262	366,270	332,713
Inventories, net	1,131,438	832,072	1,051,109
Prepaid expenses and other current assets	74,957	45,962	103,279
<b>Total current assets</b>	<b>1,757,694</b>	<b>1,437,263</b>	<b>1,675,351</b>
Property, plant, and equipment, net	584,147	507,549	571,661
Goodwill	584,550	576,940	583,297
Other intangible assets, net	577,064	600,797	585,832
Right-of-use assets	74,573	78,306	76,121
Investment in finance affiliate	45,726	24,119	39,349
Deferred income taxes	11,747	3,938	5,310
Other assets	19,445	24,133	19,077
<b>Total assets</b>	<b>\$ 3,654,946</b>	<b>\$ 3,253,045</b>	<b>\$ 3,555,998</b>

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

	February 3, 2023	January 28, 2022	October 31, 2022
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>			
Current portion of long-term debt	\$ —	\$ 100,000	\$ —
Accounts payable	475,218	474,483	578,624
Accrued liabilities	496,793	395,739	469,242
Short-term lease liabilities	15,962	15,842	15,747
<b>Total current liabilities</b>	<b>987,973</b>	<b>986,064</b>	<b>1,063,613</b>
Long-term debt, less current portion	1,091,015	991,354	990,768
Long-term lease liabilities	60,680	65,760	63,604
Deferred income taxes	31,444	50,382	44,272
Other long-term liabilities	39,663	39,936	42,040
<b>Stockholders' equity:</b>			
Preferred stock	—	—	—
Common stock	104,283	104,529	103,970
Retained earnings	1,368,493	1,040,634	1,280,856
Accumulated other comprehensive loss	(28,605)	(25,614)	(33,125)
<b>Total stockholders' equity</b>	<b>1,444,171</b>	<b>1,119,549</b>	<b>1,351,701</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,654,946</b>	<b>\$ 3,253,045</b>	<b>\$ 3,555,998</b>

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

	<b>Three Months Ended</b>	
	<b>February 3, 2023</b>	<b>January 28, 2022</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 106,860	\$ 69,510
<b>Adjustments to reconcile net earnings to net cash used in operating activities:</b>		
Non-cash income from finance affiliate	(3,809)	(1,398)
Contributions to finance affiliate, net	(2,568)	(2,050)
Depreciation of property, plant and equipment	19,152	18,487
Amortization of other intangible assets	9,129	6,456
Stock-based compensation expense	5,224	5,225
Other	(5)	146
<b>Changes in operating assets and liabilities, net of the effect of acquisitions:</b>		
Receivables, net	(42,495)	(50,599)
Inventories, net	(76,769)	(59,171)
Prepaid expenses and other assets	(1,588)	(4,187)
Accounts payable, accrued liabilities, and other liabilities	(81,980)	(72,462)
<b>Net cash used in operating activities</b>	<b>(68,849)</b>	<b>(90,043)</b>

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

Cash flows from investing activities:		
Purchases of property, plant and equipment	(29,329)	(11,903)
Proceeds from insurance claim	7,114	—
Business combinations, net of cash acquired	—	(401,494)
Proceeds from asset disposals	265	26
Net cash used in investing activities	(21,950)	(413,371)
Cash flows from financing activities:		
Borrowings under debt arrangements	170,000	400,000
Repayments under debt arrangements	(70,000)	—
Proceeds from exercise of stock options	14,029	1,150
Payments of withholding taxes for stock awards	(2,647)	(1,381)
Purchases of TTC common stock	—	(75,000)
Dividends paid on TTC common stock	(35,516)	(31,469)
Other	(1,475)	—
Net cash provided by financing activities	74,391	293,300
Effect of exchange rates on cash and cash equivalents	2,195	(2,539)
Net decrease in cash and cash equivalents	(14,213)	(212,653)
Cash and cash equivalents as of the beginning of the fiscal period	188,250	405,612
Cash and cash equivalents as of the end of the fiscal period	\$ 174,037	\$ 192,959



# 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 related earnings call to the most directly comparable measures calculated and reported in accordance with U.S. GAAP for the three month periods ended February 3, 2023 and January 28, 2022:

	<b>Three Months Ended</b>	
	<b>February 3, 2023</b>	<b>January 28, 2022</b>
Gross profit	\$ 395,924	\$ 300,476
Acquisition-related costs <sup>1</sup>	225	—
Adjusted gross profit	\$ 396,149	\$ 300,476
Operating earnings	\$ 136,427	\$ 91,626
Acquisition-related costs <sup>1</sup>	447	1,016
Adjusted operating earnings	\$ 136,874	\$ 92,642
Operating earnings margin	11.9 %	9.8 %
Acquisition-related costs <sup>1</sup>	— %	0.1 %
Adjusted operating earnings margin	11.9 %	9.9 %
Earnings before income taxes	\$ 131,314	\$ 87,147
Acquisition-related costs <sup>1</sup>	447	1,016
Adjusted earnings before income taxes	\$ 131,761	\$ 88,163
Net earnings	\$ 106,860	\$ 69,510
Acquisition-related costs <sup>1</sup>	351	804
Tax impact of stock-based compensation <sup>2</sup>	(3,605)	(620)
Adjusted net earnings	\$ 103,606	\$ 69,694
Diluted EPS	\$ 1.01	\$ 0.66
Acquisition-related costs <sup>1</sup>	—	0.01
Tax impact of stock-based compensation <sup>2</sup>	(0.03)	(0.01)
Adjusted diluted EPS	\$ 0.98	\$ 0.66
Effective tax rate	18.6 %	20.2 %
Tax impact of stock-based compensation <sup>2</sup>	2.8 %	0.7 %
Adjusted effective tax rate	21.4 %	20.9 %

- <sup>1</sup> On January 13, 2022, the company completed the acquisition of Intimidator. Acquisition-related costs for the three month period ended February 3, 2023 represent integration costs and acquisition-related costs for the three month period ended January 28, 2022 represent transaction and integration costs incurred in connection with the acquisition.
- <sup>2</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 month periods ended February 3, 2023 and January 28, 2022.

### 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, net of proceeds from insurance claim. 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 three month periods ended February 3, 2023 and January 28, 2022:

(Dollars in thousands)	Three Months Ended	
	February 3, 2023	January 28, 2022
Net cash used in operating activities	\$ (68,849)	\$ (90,043)
Less: Purchases of property, plant and equipment, net of proceeds from insurance claim	22,215	11,903
Free cash flow	(91,064)	(101,946)
Net earnings	\$ 106,860	\$ 69,510
Free cash flow conversion percentage	(85.2) %	(146.7) %

# Gross Debt to EBITDA Ratio

	Q2 22	Q3 22	Q4 22	Q1 23	Total
Short Term Debt	\$100,000	\$65,000	-	-	-
Long Term Debt	\$990,970	\$990,616	\$990,768	\$1,091,015	\$1,091,015
<b>Gross Debt</b>	<b>\$1,090,970</b>	<b>\$1,055,616</b>	<b>\$990,768</b>	<b>\$1,091,015</b>	<b>\$1,091,015</b>
<b>Earnings Before Income Taxes</b>	<b>\$165,056</b>	<b>\$157,091</b>	<b>\$143,252</b>	<b>\$131,314</b>	<b>\$596,713</b>
Interest Expense	\$8,024	\$9,182	\$11,519	\$14,124	\$42,849
Depreciation and Amortization	\$28,007	\$26,079	\$29,780	\$28,281	\$112,147
<b>EBITDA</b>	<b>\$201,087</b>	<b>\$192,352</b>	<b>\$184,551</b>	<b>\$173,719</b>	<b>\$751,709</b>
<b>Leverage Ratio</b>					<b>1.5x</b>