**The Henry Fund**
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# The Toro Company (TTC)

**April 16, 2021**

**Industrials – Machinery Manufacturing**

**Stock Rating** **BUY**

## Investment Thesis

With conservative modeling and strengthening economic tailwinds, we recommend a buy rating for The Toro Company (TTC). Our $154 discounted cash flow and economic profit modeling give a substantial 36.4% upside. Toro is a stable investment that looks attractive in a value positive environment.

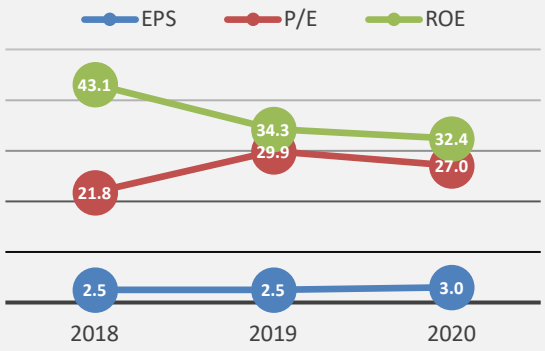
**Drivers of Thesis**

- Using conservative revenue projections and consistent cost forecasts, our models produced substantial upside.
- There are significant economic tailwinds with signs that the economy is recovering after the pandemic. Per capita disposable income is on the rise and expected to grow on average over the next few years. Likewise, the homeownership rate and nonresidential construction spending are trending in the right direction, all of which boost demand for Toro products.
- Toro is seen as a stable investment with a solid value proposition. In a market that is rotating toward value stocks, now might be the time to expand our holdings in this company.

**Risks to Thesis**

- Toro has completed three acquisitions in the last two years, for nearly the cost of $1 billion—CMW, Venture Products, and Left Hand Robotics. There are clear strategies behind these acquisitions, but they will need to be monitored closely to insure that they do not destroy value instead of create it. CMW exposes Toro more to oil and gas industry volatility.
- The competitive landscape will soon be tightening. Stanley Black and Decker is about to purchase the remaining stake of MTD Products, which would make them the largest player in the US lawn and garden equipment industry. This will make the competitive landscape tougher for Toro, so there will be less margin for error should any of their initiatives not pan out.

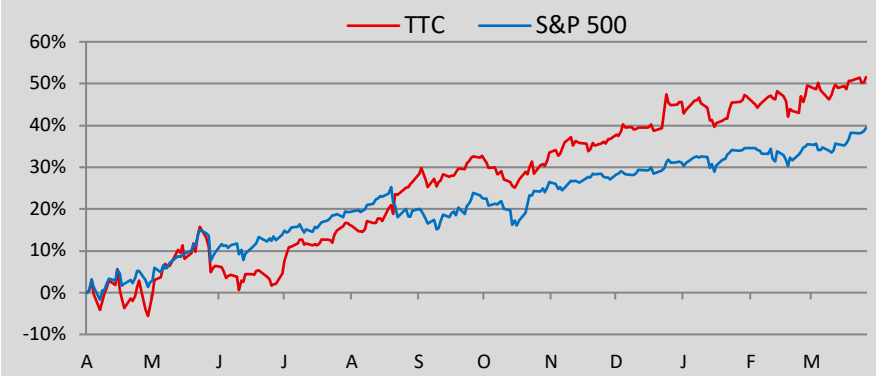
| Target Price | $120-155 |
|---|---|
| Henry Fund DCF-EP | $154 |
| Henry Fund DDM | $110 |
| Relative Multiple | $70 |
| **Price Data** | |
| Current Price | $112.80 |
| 52wk Range | $57.89 – 116.50 |
| Consensus 1yr Target | $106.50 |
| **Key Statistics** | |
| Market Cap (B) | $12.0 |
| Shares Outstanding (M) | 107.6 |
| Institutional Ownership | 84.2% |
| Beta | 0.83 |
| Dividend Yield | 0.93% |
| Est. 5yr Growth | 11.6% |
| Price/Earnings (TTM) | 34.9 |
| Price/Earnings (FY1) | 36.5 |
| Price/Sales (TTM) | 3.5 |
| Price/Book (mrq) | 10.3 |
| **Profitability** | |
| Operating Margin | 13.7% |
| Profit Margin | 10.6% |
| Return on Assets (TTM) | 13.0% |
| Return on Equity (TTM) | 34.2% |




## Earnings Estimates

| Year | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| EPS | $2.56 | $2.57 | $3.06 | $3.50 | $3.84 | $4.36 |
| HF est. | | | | $3.09 | $3.15 | $3.40 |
| growth | *3.64%* | *0.39%* | *19.07%* | *1.09%* | *1.91%* | *7.95%* |

## 12 Month Performance




## Company Description

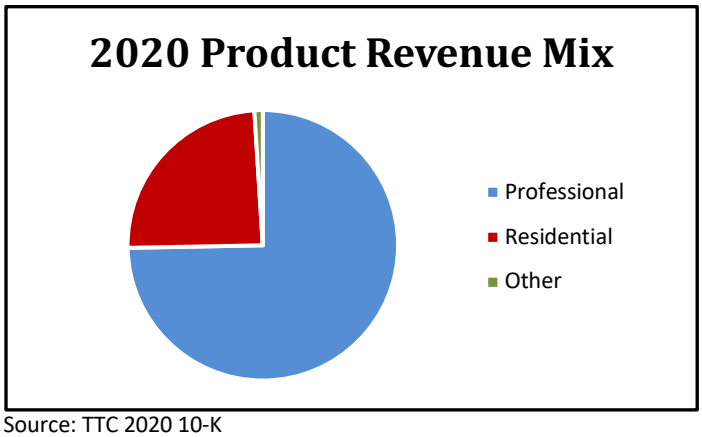
The Toro Company (TTC) is an original equipment manufacturer based in Bloomington, Minnesota, a suburb of the Twin Cities. The company was founded in 1914 and manufactures professional and residential products for the maintenance of turfs, lawns, and gardens. Net sales for 2020 were $3,378.8 million, up from $3138.1 million for 2019, a 7.7% increase YoY, largely due to Residential segment growth.

## COMPANY DESCRIPTION

The Toro Company (TTC) is an original equipment manufacturer based in Bloomington, Minnesota, a suburb of the Twin Cities. The company was founded in 1914 and manufactures professional and residential products for the maintenance of turfs, lawns, and gardens.

### Revenue Analysis

The bulk of Toro's business operations are classified into two revenue segments: Professional and Residential. For anything outside these two segments, there is a catchall category labelled "Other" that includes earnings (loss) from domestic distribution companies, corporate activities, and the elimination of intersegment revenues and expenses. TTC sells their products worldwide through a network of distributors, dealers, retailers, and rental and home centers, as well as direct to consumer online. For 2020, segment percentages broke at 74.7%, 24.3%, and 1% for each respectively, as seen below:



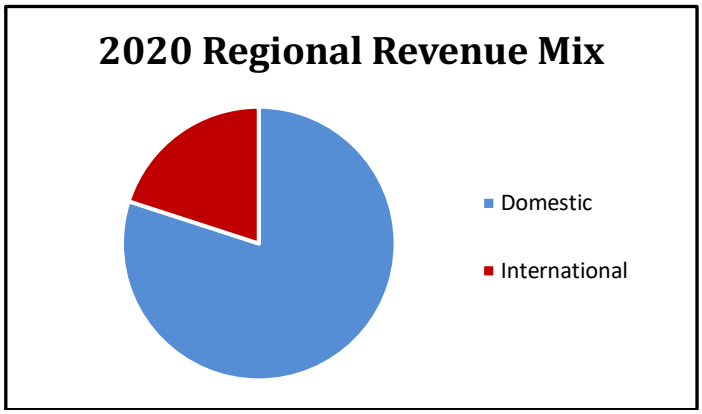

Source: TTC 2020 10-K

Though specific margin numbers are not quoted, management recognizes revenue mix as having a material effect on financial performance, identifying the Professional segment as more profitable than the Residential segment. This certainly effected 2020 earnings, as Residential outperformed Professional segment growth to the tune of 24.1% to 3.3% growth per segment. This was coming off of 2019 were those numbers were essentially reversed at 1.1% Residential growth and 25.5% growth. More on this in the COVID-19 Impact section below.[1]

Net sales for 2020 were $3,378.8 million, up from $3138.1 million for 2019, a 7.7% increase YoY. Three factors drove this growth: first, incremental net sales in the Professional segment from the Venture Products and CMW acquisitions. Second, Incremental shipments of Residential segment zero-turn riding mowers and walk power mowers mostly as a result of expanded retail channels. Finally, strong retail demand for Residential products due to new and enhanced products, auspicious weather in key regions, and homeowner interest in the care of their property during the COVID-19 pandemic. Further analysis below explores pandemic effects that offset sales gains.

The US market dominates Toro's business, with roughly 80% domestic and 20% international sales for 2020. Foreign revenue dipped 6.5% from $724.9 million in 2019 to $678.1 million in 2020, contributing to a five percent gain in domestic sales against international for the year. This was primarily a result of decreased golf and grounds equipment and irrigation equipment business segments in international markets.

Revenue modeling details are below here: Valuation.



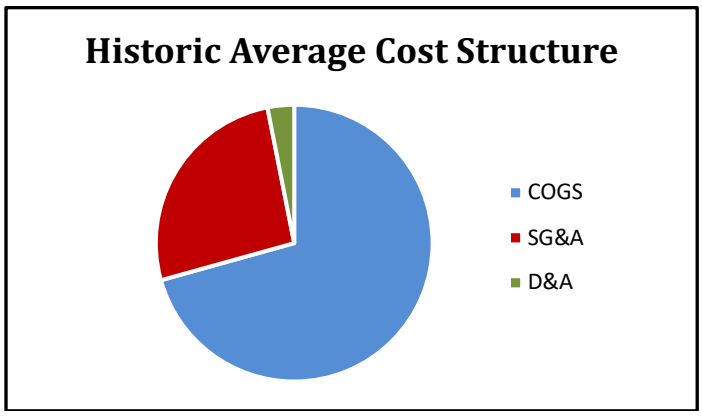

Source: TTC 2020 10-K

### Cost Structure

Cost of sales primarily consists of materials and supplies consumed in the manufacturing process, along with manufacturing labor and direct overhead expenses necessary to convert those materials and supplies into finished goods. Inbound and outbound shipping costs, service charges, depreciation and amortization, and discounting are all contributing factors to the cost of sales.

Selling, general, and administrative expenses consist of standard costs such as payroll and benefits, facility maintenance, product warranties, and depreciation and amortization of non-manufacturing tangible and intangible assets. It also includes advertising, engineering and research, and stock-based compensation expenses, all

of which are highlighted in the company's 10-K report. Noteworthy, despite the pandemic, Toro was able to continue to grow their engineering and research budget, with 2020, 2019, and 2018 totals coming in at $124.1, $109.1, and $83.5, respectively.[1]




Source: *Mergent*

Over the historic period (2011 through 2020), Toro averaged a 35.2% gross profit and 12.2% operating profit. The company cited targeted cost saving measures to offset negative pandemic effects, resulting in a slight operating profit bump from 10.4% in 2019 to 12.6% in 2020. These years, however, were lower than both 2017 and 2018, which posted 14.2% and 14.3% respectively. Recent acquisition activity (discussed below in the next section) in 2019 and 2020 may be dragging operating margins down. The company's primary cost exposure is from price fluctuations of the commodities used to build their products. They buy these on contract from global suppliers with production outlays in mind and do not hedge with option or derivative contracts.[1]

## ESG Analysis

The Toro Company ranks 7th out of 486 companies in the machinery industry group in the Sustainalytics ESG risk rating system. With a score of 18.8, they edge into the low risk category, which ranges from 10 to 20 on Sustainalytics scoring system. They come in with a low exposure rating, meaning the company does not have much exposure to material ESG issues, and an average management rating, meaning the company's practices and policies toward ESG are average by group comparison. Kubota Corporation and Deere & Co. both score better than Toro, with 16.6 and 16.9 ratings respectively, representing the 1st and 5th spots in the group of 486 companies. The industry as a whole seems to be well represented at the top of the charts, with Toro comparatively lower than key competitors but not by much.[2] Here is how the key players fare:

| | Rank | Score | Exposure | Management |
|---|---|---|---|---|
| Kubota Corp. | 1st | 14.9 | Low | Strong |
| Deere & Co. | 5th | 16.7 | Low | Strong |
| The Toro Co. | 7th | 18.8 | Low | Average |
| Husqvarna Group | 104th* | 19.5 | Medium | Average |

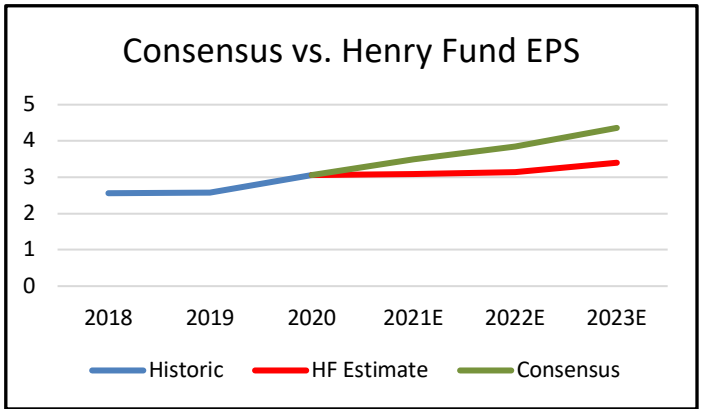
Source: Sustainalytics (*Husqvarna in different group; ALG not scored)

In 2019, Toro was awarded with a WaterSense Excellence Award by the US Environmental Protection Agency for work to combat water waste and promote water efficiency through education and product development. A major component of this effort was the company's *Land. Water. Thrive.* initiative. This program couples employees with smallholder farmers in developing countries, designed to improve productivity and agricultural water practices while also strengthening employee empathy and the company's customer-focused method of problem solving.[3]

# RECENT DEVELOPMENTS

## Earnings Announcement – March 4, 2021

Toro started 2021 with a hot quarter, posting a third consecutive period with an earnings beat. Net sales were up 13.7% YoY to $873.0 million, with a healthy but below average Professional segment growth of 9.3% and banner growth of 31.3% for their Residential segment. This was driven by demand for commercial landscape zero-turn mowers in the Professional segment and snow removal and battery-powered products in the Residential segment. Management is guiding investors to anticipate 6 to 8 percent revenue growth for the year, with adjusted EPS forecasted between $3.35 and $3.45 for 2021. Consensus is estimating slightly higher at $3.50, where we come in




Data Source: *FactSet* and Henry Fund Model

under at $3.09. Our model has gross and operating margins ticking slightly back up after 2021, where management and perhaps consensus are more optimistic that cost savings measures can continue to be developed and deployed after the pandemic.

Other notables from the earnings report include a decent bump in their operating profit YoY, up 430 basis points to 16.2%, and $59.8 million returned to shareholders through dividends and a resumption of stock buybacks. They also paid down $90 million in debt, and their liquidity position sat around $1 billion as of January 29, 2021.[4]

## CMW and Venture Products Acquisitions

On March 2, 2020, Toro completed the acquisition of Venture Products, which was a privately-owned turf, landscape, and snow and ice management machinery equipment manufacturer. The transaction expanded their Professional segment and broadened their dealer network. They also purchased the real estate associated with Venture Products' operations from a third party. The purchase totaled $163.2 million, and revenue from this acquisition had an incremental impact on the Professional segment's net sales, contributing $58.3 million for 2020. Though incremental, the company considers this revenue an immaterial impact on earnings.

On April 1, 2019, Toro completed the purchase of Charles Machine Works (CMW), a manufacturer of professional products that serve the underground construction market, primarily for oil and gas companies. The company is based in Oklahoma, expanding Toro's geographical footprint into previously unoccupied territory and now representing their largest manufacturing facility. At $685 million, this acquisition price was quite a bit higher than the Venture Products' total. Toro considers CMW's contribution to their Professional net sales and earnings incremental but not immaterial. Respectively, the acquisition added $291.8 million and $19.4 million to Toro's Professional segment for fiscal year 2020.[1]

## Left Hand Robotics Acquisition

Just at the beginning of March of this year, Toro announced it had acquired Left Hand Robotics. This move supports Toro's strategy of leadership in next generation technologies, including alternative power, smart connected, and autonomous products. The terms of the transaction are not yet disclosed. Left Hand was founded in 2016 and developed a robotic mower, robotic snow blower, and a system christened Bolt that can be attached to conventional tractors to make them autonomous. All together, they raised $8.9 million in funding through their various rounds of funding before being acquired by Toro. They are based in Longmont, Colorado.

Each of these moves are fairly strategic, expanding business in current Professional segment markets, expanding the company's construction product operations, and increasing the company's technological footprint. Concerning effects on Toro's margins, the Venture Products purchase fits most closely into existing operations, so integrating it into company policies and cost structures should be more feasible. The CMW purchase was a bit ill-timed, considering CMW is tied to the oil and gas economy, but some of those losses from the pandemic are being gained back with oil's recovery. Left Hand is mostly a technology investments, so the returns are not expected to be immediate. For Venture and CMW, Toro issued debt or utilized revolving credit facilities, but the details of the left hand acquisition are still unknown.[5, 6]

## COVID-19 Impact

Effects of the pandemic were mainly due to broader systemic economic effects, yet they were still material to the business. TTC was not immune to disrupted supply chains, facility closures, and the cost of implementing new health and safety protocols. Like most businesses during the pandemic, TTC saw significant dips in demand for their products. This came most notably in their golf and grounds, construction, and landscaping contractor business. Golf and ground and landscaping contractor curtailment was mainly a result of a lack of willingness to invest in new equipment, where the construction slowdown was a particular result of the hit to oil and gas construction projects.

Residential sales have been a positive during the beginning of the pandemic recovery, resulting in an increase of that segment as a total percentage of TTC total revenue. While any increase is welcome, because it is not accompanied by Professional segment gains, this development has adversely effected the company's gross margins, which is also expected throughout 2021. To combat the worsening gross margin outlook, TTC engaged in several costs savings measures across many facets of their operations. They intent to keep many of these in place throughout 2021 and perhaps beyond.[1]

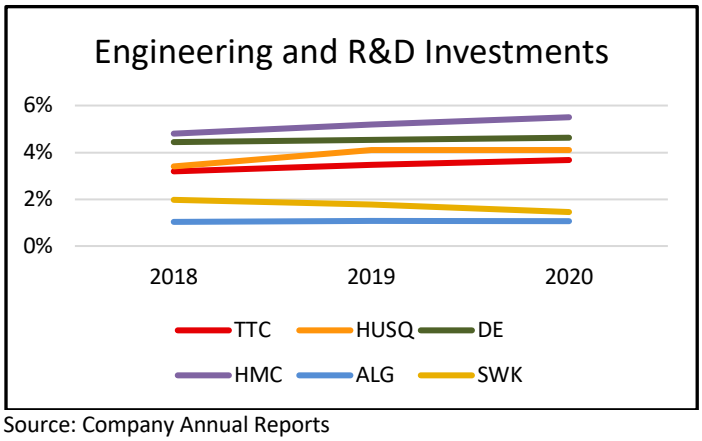
## Insider Selling

Insiders own less than 2% of company shares, with no buying in the last twelve months and $17.3 million worth of selling over that time period. Officers, VPs, and directors make up these transactions, with the CFO selling the largest amount worth $6.3 million last September. At most, this is a weak indicator, one that we do not take too seriously. 2020 totals are only slightly elevated over 2019.[7]

## Technological Developments

Technological advances are expected to effect this industry in two key ways: 1) product development; and, 2) manufacturing efficiencies. For the latter, improving battery performance will propel the shift to battery-powered equipment, allowing end users to get more usability for each battery charge. Additionally, robotic mowers are expected to achieve widespread penetration in Europe and to become more established in the US market, especially because improved battery life and navigation tech will boost adoption for use on larger US yards. Awareness of robotic mowers in the US is low, however, so extensive marketing is required to speed this along. Finally regarding products, fuel efficiency has been a major focus of tech advances recently, promising to complement the gains around battery development.[8]

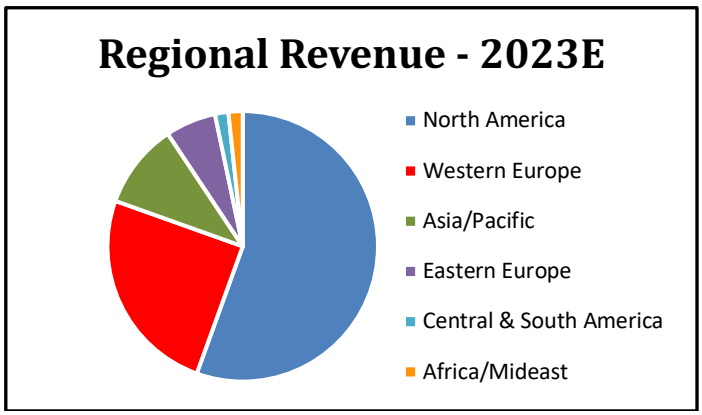
The largest players in this industry have been integrating computer-aiding manufacturing into their processes for years and are expected to continue to do so. Considering that manufacturing processes are labor-intensive, automation is a focus to reduce labor costs.[9] The chart below shows each company's annual investments in engineering projects and research and development, with Honda outpacing the pack and ALG and SWK far behind:




Source: Company Annual Reports

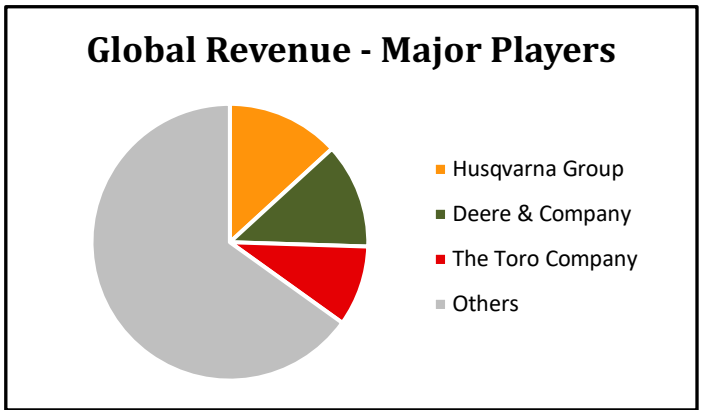
## MARKETS AND COMPETITION

Outlook is positive for the global lawn and garden equipment market, with an expected CAGR of 2.6% lifting global revenue to $26.4 billion by 2023. North America and Western Europe dominate this market, accounting for 77% of the global market, due mainly to wealth and cultural and historic significance behind lawn and garden maintenance. Asia/Pacific, Central and South America, Eastern Europe, and Africa/Mideast round out the rest of the regions for global lawn and garden equipment industry. The chart below shows a breakdown of each regions' expected market share by 2023:




Source: The Freedonia Group

Husqvarna, Deere, and Toro account for nearly 34.9% of the global market. Wide-ranging products, economies of scale, and reputations for technical expertise and product quality across both residential and commercial segments set these companies apart from the rest of the field.[8]

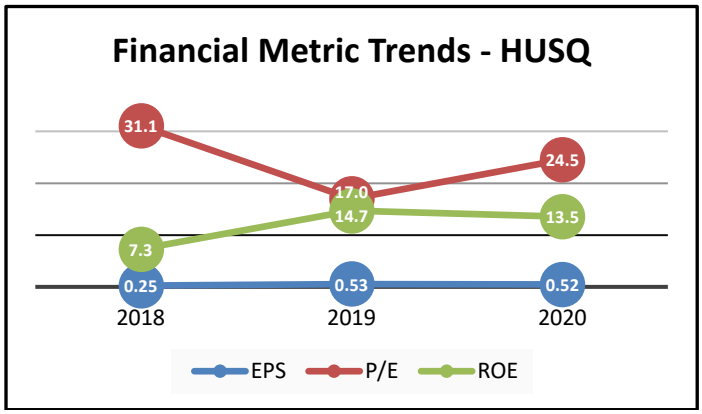



Source: The Freedonia Group

## Husqvarna Group – $124.95 (+16.1% YTD)

At over 330 years in operation, Husqvarna Group (HUSQ-B.ST) has broadly expanded their product line through the

years, ranging today from outdoor power, garden watering, and construction cutting equipment. They are based in Stockholm, Sweden, and conduct over half of their business in the European market (55%). As a company, they have a strong focus on sustainability, leading the industry toward a low-carbon, resource-smart economy. Since 2015, they have cut carbon by 32% out of their supply chain, operations, and the end-use of their products. In April 2018, the company acquired a 25% stake in Franklin Robotics, which is developing a solar-powered weed-eating robot.[8, 10]




Source: Macrotrends

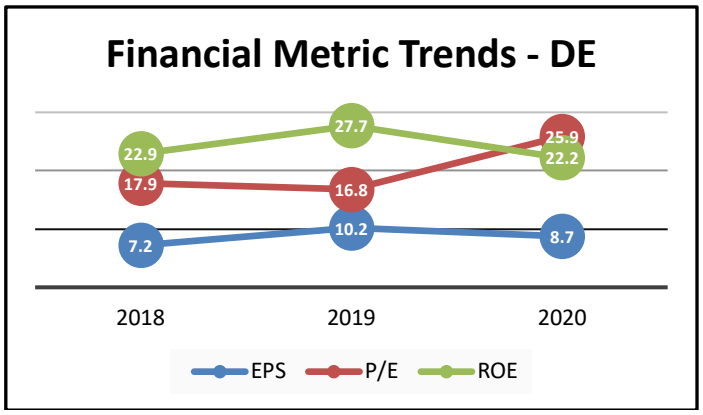
Though 2020 was a challenging year, the company met important financial metrics, including sales growth, operating margin, and capital efficiency goals. Below is a table that delineates these successes:

| | Sales Growth | Oper. Margin | Capital Efficiency |
|---|---|---|---|
| 2019 | 1% | 9.30% | 27.30% |
| 2020 Goal | 2% | >10% | <=25% |
| 2020 Realized | 6% | 10.70% | 24.40% |

Source: Husqvarna Group 2020 Annual Report

## Deere & Company – $383.07 (+43.1% YTD)

Just behind Husqvarna in this market, DE generates just under $3 billion per year in sales globally, representing about 13% of the market. The US accounts for the lion's share of their presence in this market, generating 69% of their lawn and garden business. DE's well-developed agricultural equipment distribution network has helped them gain market share in the lawn and garden equipment sector, especially in emerging markets like Central and South America. Headquartered in Moline, Illinois, they are the most recognizable agricultural equipment brand in the US and enjoy intense brand loyalty.

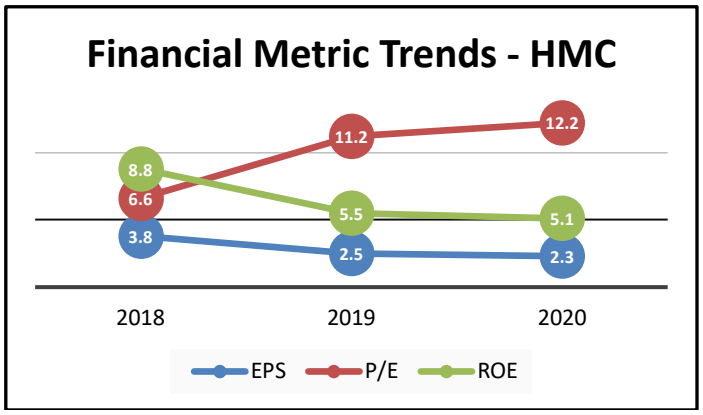



Source: Macrotrends

With a fiscal year that ends October 31st, DE is the only company other than Toro that currently has a Q1 2021 earnings release. They saw gains in total revenue and across all division revenues but financial services, which saw a slight decrease of 9% but a net income gain of 69%. All sales for the quarter topped $9.1 billion for a 19% gain and an increase in net income of 137% to $1.2 billion. Diluted EPS more than doubled for the quarter YoY. This is good news for DE, since 2020 was not a great year in total, with revenue and net income dipping 9% and 15% respectively for the year.[8, 11]

## Honda Motor Co. – $30.67 (+10.5% YTD)

Not primarily known for their presence in this industry, this automaker also produces riding and standing mowers, snow blowers, and other industry relevant products. Over the five years to 2019, Honda Motor Company (HMC) has had a CAGR of 3.6% culminating in $608.2 million in revenue. Honda invests heavily in R&D, accounting for 5% of company revenue. A fair portion of this is industry-relevant investment, especially in robotics, where Honda has introduced the *Miimo* autonomous robotic mower to the US market. Other investments include an electric



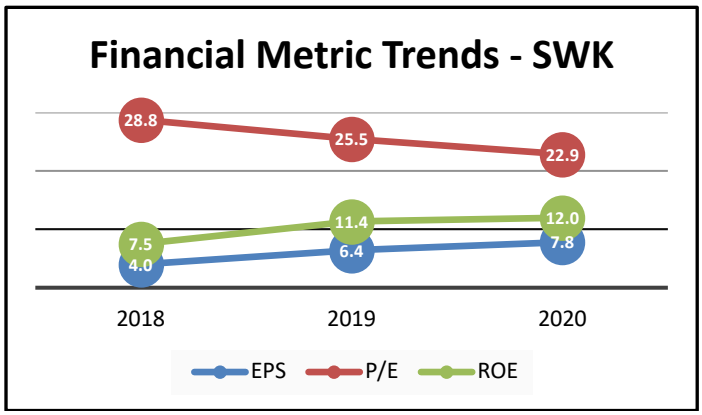

Source: Macrotrends

mower launched in the US and Japan in 2017 that has boosted sales growth.[8]

HMC beat earnings estimates in their most recently reported quarter, released February 9th. Consensus had earnings per share at $0.75, but Honda more than doubled expectations with $1.58 EPS. This was on revenue that also outpaced consensus by nearly a billion dollars, $36.12 versus $35.27. Year over year, earnings were also substantially higher, with the $1.58 compared to just $0.61. This has been Honda's best performance in over a decade and the second consecutive quarter with earnings over $1 per share.[9, 12]

## Stanley Black & Decker – $205.38 (+21.3% YTD)

Stanley Black & Decker, Inc., (SWK) has a very similar product offering to Toro in both the Professional and Residential segments. They produce lawn and garden equipment for commercial and home use, as well as significant sales to the oil and gas industry, competing with products made by Toro's recently acquired CMW division. The company was founded in 1843 and is headquartered today in New Britain, Connecticut.

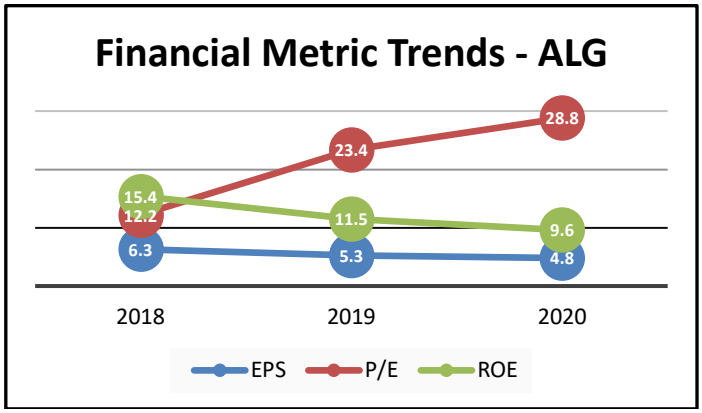



Source: Macrotrends

SWK performed well in the fourth quarter of 2020, seeing revenue increase over the previous fourth quarter of 19% to $4.4 billion and operating and net income YoY increases of 107.5% and 130.2% respectively. Full year numbers were also up, most notably a record amount of free cash flow at $1.7 billion, which was 136% of net income and an increase of 55% YoY. Management is guiding continued positivity, with full year adjusted EPS projected between $9.70 and $10.30 for 2021. The key to monitor with SWK will be its anticipated exercise of the option to purchase the remaining 80% of MTD Products, a privately-held company who is the largest player in the US lawn and garden market. The exercise option expires this July.[8, 13]

## Alamo Group Inc. – $159.04 (+15.5% YTD)

Alamo Group Inc. (ALG) produces a wide variety of agricultural and ag-adjacent equipment. They are the smallest company compared in this report, with a market cap of $1.8 billion and total annual sales of $1.1 billion. The company has 30 manufacturing facilities globally and uses independent dealers and distributors to move their product. As their name indicates, they are headquartered in Texas and have been manufacturing since the mid 1950s. Since the early 2000s, ALG has grown substantially through purchases and acquisitions, averaging over an acquisition a year between 2000 and 2020. The US represents the lion's share of their total revenue, with just under 70% gained domestically. ALG's lawn and garden product line includes tractor mounted and push mowers, maintenance equipment, rotary cutters, and backhoes. The company focuses on commercial end use, generating $41.7 million in industry-relevant sales in 2019, a 0.4% market share.




Source: Macrotrends

Alamo Group ended 2020 in the opposite manner than Deere, with revenue underperforming for the quarter but up for the year. Numbers were down across the board in Q4, with revenue of $288.6 million, net income of $8.1 million, and diluted EPS of $0.68 for 3.8%, 15.6%, and 16% decreases respectively. The numbers for the year were mixed, with record high sales of $1.16 billion but a decrease in net income of 10% to %56.6 million. One notable metric from ALG's earnings report is a $354.1 million order backlog. This represents a 35.6% increase YoY and is a combination of growth and complications from pandemic production and supply chain disruptions.

This presents both a logistical challenge and an opportunity for growth.[9, 14]

The following table compares each company's earnings per share, price-to-earnings ratio, and return on equity, color-coded to show the low and high companies per each metric. Toro has the highest return on equity and second highest price-to-earnings ratio, even with one of the lowest earnings per share for 2020.

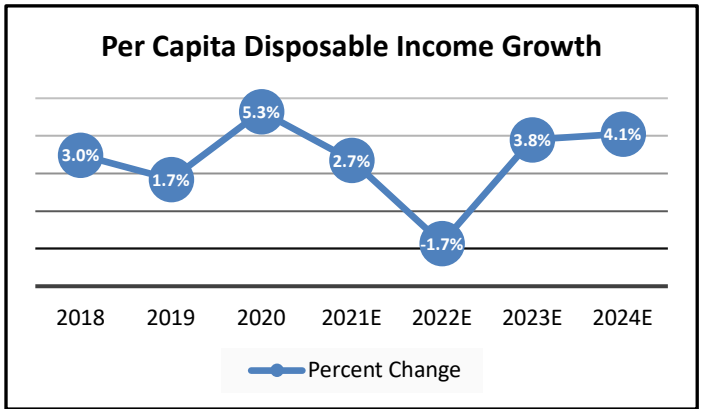
| 2020 | EPS | P/E | ROE |
|---|---|---|---|
| TTC | 3 | 27 | 32.4 |
| HUSQ | 0.52 | 24.5 | 13.5 |
| DE | 8.7 | 25.9 | 22.2 |
| HMC | 2.3 | 12.2 | 5.1 |
| SWK | 7.8 | 22.9 | 12 |
| ALG | 4.8 | 28.8 | 9.6 |

Source: Macrotrends and Company Reports

## ECONOMIC OUTLOOK

### Per Capita Disposable Income

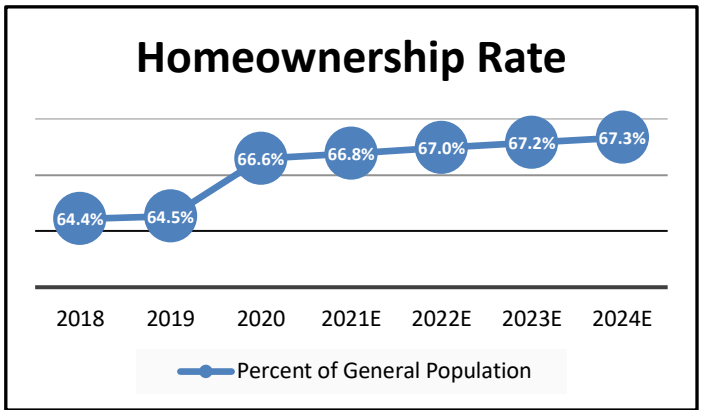
This indicator is pretty simple. As end-user's disposable income increases, they are more likely to spend on new equipment to improve their lawn and garden maintenance. Recent years had seen wage growth through tight job markets and increased minimum wages, resulting in an increase in disposable income. For 2019, per capita disposable income grew 1.7%. The trend was anticipated to continue through 2020, but then the pandemic hit. With massive job losses and salary curtailments, the trend was expected to reverse, but federal unemployment benefits and stimulus checks have help strengthen disposable income, as well as personal savings rates. These factors, as well as a recovering economy, are expected to continue to push disposable income up throughout this year. Per capita disposable income is estimated at $48,983 for 2021, increasing up to $56,077 by 2026. The 5-year trailing CAGR is 3.02%, where the 5-year forecasted CAGR is 2.74%.[15]




Source: IBIS*World*

### Homeownership Rate and Nonresidential Construction Value

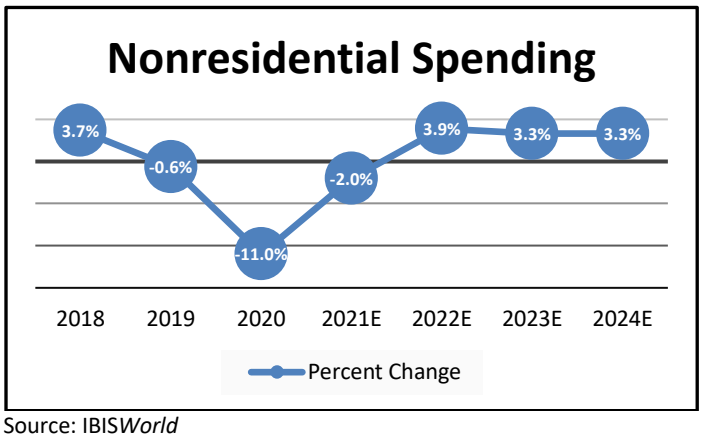
When homeownership increases and the value of commercial properties increase through additions of lawns and gardens, the downstream demand for Toro's products grows. Though Toro does not typically sell directly to these end use customers, distributors and retailers track these cues and increase or decrease orders accordingly. At just 63.0%, homeownership hit an all-time low in the second quarter of 2016, before it began to bounce back upward over the last few years. The five years up to 2021 saw an average annual growth of 1.05%, with the homeownership rate expected to top out at 66.77% for the year. Growth over the next five years is expected to slow to just over a quarter percent at 0.27%, and the forecasted value in 2026 is 67.67%. Homeownership growth over the long-term, meaning the next couple of decades, is expected to slow due to aging demographics and slower population growth.[9, 16, 17, 18, 19]




Source: IBIS*World*

Though nonresidential spending began to recover in 2017 and 2018 after a few rough years of commodity price decline, monetary policy wariness, and political uncertainly (Brexit and 2016 US election), these same factors again tamped down growth in 2019. The coronavirus pandemic has not helped matters, and the continued uncertainly of economic recovery is expected to hamper this metric throughout the rest of this year. The lagging nature of this indicator (nonresidential construction usually takes longer to plan) and the

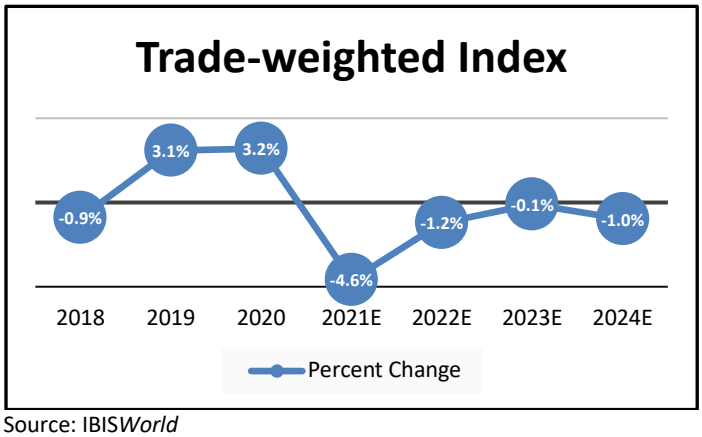
anticipated recovery in 2022 and 2023 will push its growth in the coming years. Coupled with expected repatriation of certain capital-intensive manufacturing production, compounded annual growth from 2021 through 2026 is forecasted at 3.12%, where the trailing five years had a negative growth rate of 1.31%.[9, 20]




Source: IBIS*World*

## Trade-weighted Index (TWI)

The strength or weakness of the dollar compared to foreign currencies can have an effect on the value of Toro's products abroad and the value of foreign products domestically. If the index increases (indicating a weakening dollar), US products become less competitive overseas as their prices are forced to rise. Conversely, in such a scenario, foreign products' pricing on the US market becomes more favorable, gaining a competitive edge. Since Toro conducts nearly 80% of its business in the US, this is a particular disadvantage with an depreciating dollar. DE and ALG are in the same position, but Husqvarna is uniquely positioned to benefit.




Source: IBIS*World*

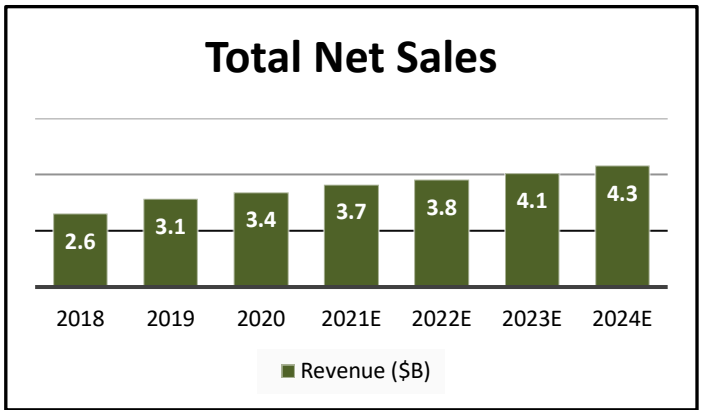
The TWI has had 0.04% CAGR the five years up to 2021, with an estimated value of 105.8 index points for the year. The five year forecasted growth is fairly stagnant, with a negative 0.86% CAGR bringing the index down to 101.3 points in 2026. With economies recovering around the globe, investors will welcome more risk and move away from the safe-haven of the US dollar. Though movement in the TWI is forecasted slightly downward, three macroeconomic factors could influence this forecast: first, China's growing weight in the TWI and their potential shifts in monetary policy could weaken the dollar. Second, broader geopolitical trade tensions could hurt the dollar, though some of that might already be priced into the TWI. Finally, global interest rate movements as the world economies open may adversely position the dollar against other currencies.[18]

# VALUATION

## Revenue and Cost Assumptions

### Revenue Assumptions

Over the historic period, Toro revenue has grown at a 6.83% average annually. 2019 was a banner year, representing the highest growth rate over the period with 19.84% growth, but this was largely influenced by the acquisition activity discussed in the Recent Development section above (here). Despite the pandemic, Toro stayed in the black for 2020 and finished the year with just over 7.5% growth. Guidance from management for 2021 puts growth between 6 and 8 percent, and the consensus puts the next three years' growth at 8.09%, 4.76%, and 5.88%, respectively. With a strong 2021 Q1 performance and general optimism about the economic drivers supporting Toro growth, we are comfortable following this guidance and adopting the consensus for our modeling. For the years beyond guidance and consensus, we began with the

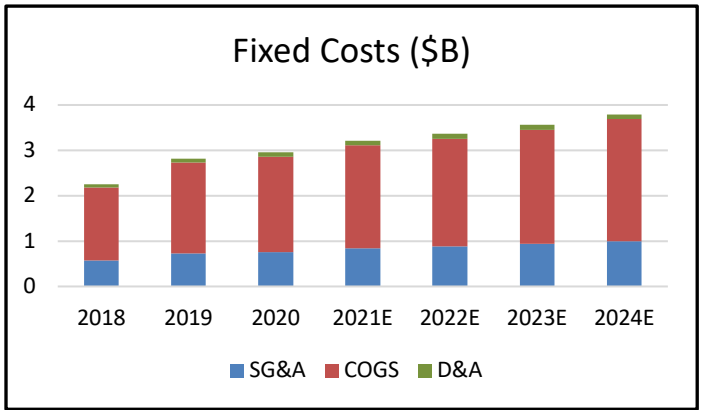



Source: Henry Fund Model

historic growth rate but drew that down over the years to a terminal growth rate of 3.83% in the final three years of our model.

**Cost Assumptions**

Toro has a fairly consistent cost structure over the historic period, with COGS and SG&A combined ranging from 83.23% to 87.63% of sales and averaging 62.16% and 23.05% respectively. First quarter performance for fiscal year 2021 (November 2020 through January 2021) saw a substantial increase in operating margin from 11.9% to 16.2% YoY, but it is uncertain whether it was sales growth or cost savings that drove this improvement. The gross margin YoY was fairly consistent, but the SG&A saw a sharp dip from 25.6% to 19.9%, although this too can be explained by non-cost-saving, pandemic-related anomalous factors. Because of this ambiguity, we used the historic cost structure averages in the forecast horizon, despite certain cost-saving measures introduced during the pandemic that are expected to continue through 2021 and perhaps beyond.




Source: Henry Fund Model

## Depreciation, Amortization, and CapEx

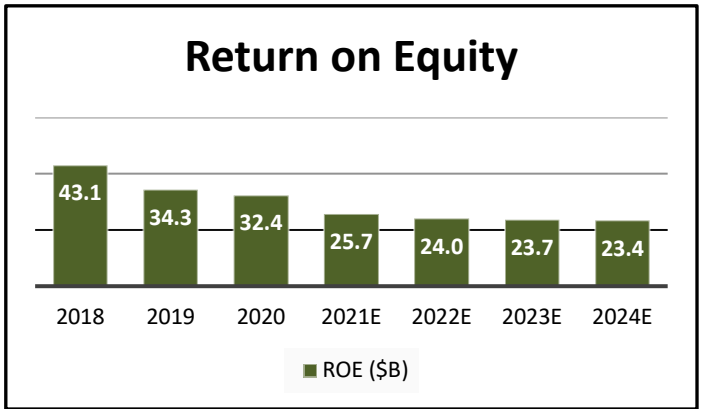
We began analyzing depreciation by finding the implied depreciation rate over the historic period, dividing the depreciation expense by the beginning net PPE of each given year then averaging those rates over the period. This gave us an implied rate of 22.80%, which we imputed for the forecast horizon. This needed to be adjusted, however, when we began analyzing our capital expenditures. For CapEx, we followed guidance for 2021, then calculated it as a percentage of sales for the remaining forecasted years. We felt comfortable with this because the guidance given was close to the historic average of CapEx to sales.

The problem with this, however, was that depreciation and amortization in the forecasted cash flow was significantly higher than CapEx. Since we took forecasted amortization directly from the company's 10-K report outlays, the only remedy was to adjust depreciation. Upon further scrutiny, we noticed a significant dip in the implied depreciation rate in the final historic year. Every year prior, the rate ranged from 22.74% to 26.70%, but the final year was just 17.40%. Like the revenue growth spike in 2019, this was a result of a significant increase in PPE from the acquisitions of CMW and Venture Products. As such, we brought the forecasted depreciation rate down to that final historic year level. This corrected the imbalance in the CapEx to depreciation and amortization ratio to a level we found agreeable.

## Margins and Profitability

Our consistent cost structuring resulted in consistent margins across the board, as one would expect, giving us a gross profit around 35%, an operating profit around 12%, and net earnings around 9% for the forecast years. We are comfortable with this consistency not only because it fits well with the historic data but also because the company is viewed by most as a stable investment and management aims to keep that perception.

Compared to the historic period, we take a modest approach to return on equity (ROE) and return on invested capital (ROIC). From 2011 to 2020, the ROE dropped steadily from 44.11% to 29.57%. For the first few years of our forecasted period, our ROE hovers around the mid-20 percentiles but drops to 18.91% in our terminal year (2030). The historic ROIC has a less demonstrable pattern than the ROE, being as high as 55.01% in 2018 but as low as 28.27% in 2020, although this seem anomalous as perhaps a result of the pandemic. We keep the ROIC

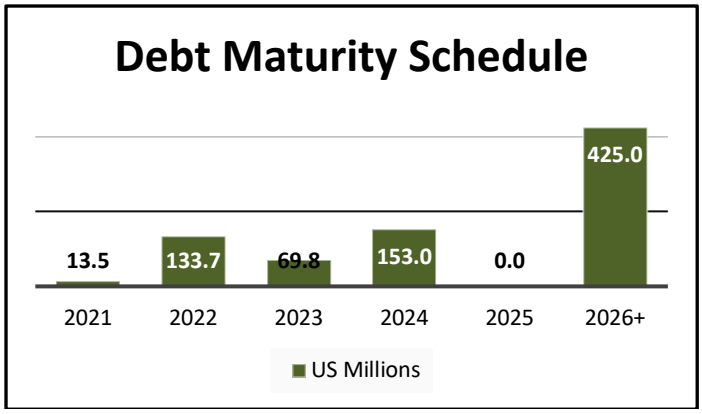



Source: Henry Fund Model and Macrotrends

similar to 2020's numbers for the start of the forecast period but build it up over time to get closer to the historic average. This is mainly due to our NOPLAT growth outpacing the growth of invested capital. Our terminal year ROIC is 38.63%.

## Debt Analysis

Toro has investment-grade status with an S&P rating of BBB, meaning they have adequate capacity to meet their obligations but may be sensitive to adverse economic conditions. They issued a 30-year bond in 2007 with a coupon rate of 6.625% that has traded at a premium since 2010. This bond's last trading price was $129.59, with a yield-to-maturity of 4.095%. We used this rate as our pre-tax cost of debt in our WACC calculations.




Source: TTC 2020 10-K

## Model Comparisons

Our discounted cash flow and economic profit modeling yielded a price of $154, which offers an upside of 36.4%, and our dividend discount model came in at just below the current trading price of $112.80 at $110, for a slight downside of 3.2%. We are satisfied with these models and focus our target price between $120 and $155, so we see TTC as undervalued and recommend to buy.

The relative price-to-earning valuation model produced a much lower price than the DCF-EP and DDM, with a range of $62 to $70. This seems to be due to elevated earnings estimates that lower the estimated PE ratio. If analysts are being optimistic in their earnings estimates, this will depress the average PE across these comparative companies. For this reason, we do not find confidence in the relative price-to-earnings model.

| Ticker | Company | Price | EPS 2021E | EPS 2022E | P/E 21 | P/E 22 |
|---|---|---|---|---|---|---|
| DE | Deere & Company | $383.07 | $15.79 | $18.29 | 24.26 | 20.94 |
| TSCO | Tractor Supply Company | $181.08 | $6.74 | $7.24 | 26.87 | 25.01 |
| GFF | Griffon Corporation | $27.39 | $1.70 | $1.90 | 16.11 | 14.42 |
| AGCO | AGCO Corporation | $151.88 | $7.34 | $8.34 | 20.69 | 18.21 |
| KUBTY | Kubota Corporation | $118.86 | $4.85 | $5.83 | 24.51 | 20.39 |
| OSK | Oshkosh Corporation | $121.02 | $5.81 | $7.62 | 20.83 | 15.88 |
| HUSQ-B.ST | Husqvarna AB | $124.95 | $5.64 | $6.26 | 22.15 | 19.96 |
| PLOW | Douglas Dyanamics, Inc. | $47.00 | $1.75 | $2.15 | 26.86 | 21.86 |
| Source: Henry Fund Model | | | | Average | 22.78 | 19.58 |

## Summary

With steady revenue growth, a consistent cost structure, and modest returns, we view TTC as a stable investment. Couple that with some economic tailwinds and modeling that produces a substantial upside and we cannot help but recommend a buy rating for TTC. Our DCF-EP model produced upside of 36.36% with a price of $154.81 and our DDM came in just above the current trading price. This puts our target price between $120 and $155.

## KEYS TO MONITOR

The following are key indicators to follow to gauge Toro's performance over the next six to twelve months:

- **Acquisition integration**: because acquisitions can just as easily destroy value as they can create it, Toro's recent acquisitions need to be monitored for signs that they are a drag on the company's performance, particularly CMW and Left Hand. CMW creates exposure to the oil and gas industry, which can be volatile, and Left Hand's technology might not pay off.
- **Economic indicators**: the investor will want to keep an eye on the indicators listed in the Economic Outlook section—per capita disposable income, homeownership rate, nonresidential spending, and trade-weighted index. These are the dials that when turned will determine how well Toro performs.
- **SWK acquisition of MTD Products**: Stanley Black and Decker is about to purchase the remaining stake of MTD Products, which would make them the largest player in the US lawn and garden equipment industry. This will make the competitive landscape tougher for Toro, so there will be less margin for error should any of their initiatives not pan out.

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**The Toro Company**

*Revenue Decomposition*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue by product type: | | | | | | | | | | | | | |
| Professional | 1947.0 | 2443.4 | 2523.5 | 2702.48 | 2831.24 | 2997.7 | 3202.5 | 3421.3 | 3620.8 | 3795.7 | 3941.1 | 4092.1 | 4248.8 |
| | 7.47% | 25.50% | 3.27% | 7.09% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |
| Residential | 654.4 | 661.3 | 820.7 | 876.48 | 918.24 | 972.2 | 1038.7 | 1109.6 | 1174.3 | 1231.0 | 1278.2 | 1327.2 | 1378.0 |
| | -2.80% | 1.05% | 24.12% | 6.79% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |
| Other | 17.2 | 33.4 | 34.6 | 36.52 | 38.26 | 40.5 | 43.3 | 46.2 | 48.9 | 51.3 | 53.3 | 55.3 | 57.4 |
| | -14.76% | 93.54% | 3.75% | 5.51% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |
| Total | 2618.7 | 3138.1 | 3378.8 | 3652.0 | 3826.0 | 4051.0 | 4327.7 | 4623.3 | 4892.9 | 5129.3 | 5325.8 | 5529.8 | 5741.7 |
| | 4.53% | 19.84% | 7.67% | 8.09% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |
| | | | | | | | | | | | | | |
| Revenue by geographic market: | | | | | | | | | | | | | |
| United States | 1975.6 | 2413.2 | 2700.7 | 2827.5 | 2962.2 | 3136.4 | 3350.7 | 3579.6 | 3788.3 | 3971.3 | 4123.4 | 4281.4 | 4445.4 |
| | | 22.15% | 11.92% | 4.70% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |
| International | 643.1 | 724.9 | 678.1 | 824.5 | 863.8 | 914.6 | 977.0 | 1043.8 | 1104.6 | 1158.0 | 1202.4 | 1248.4 | 1296.3 |
| | | 12.73% | -6.46% | 21.58% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |
| Total | 2618.7 | 3138.1 | 3378.8 | 3652.0 | 3826.0 | 4051.0 | 4327.7 | 4623.3 | 4892.9 | 5129.3 | 5325.8 | 5529.8 | 5741.7 |
| | | 19.84% | 7.67% | 8.09% | 4.76% | 5.88% | 6.83% | 6.83% | 5.83% | 4.83% | 3.83% | 3.83% | 3.83% |

**The Toro Company**

*Income Statement*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 2618.7 | 3138.1 | 3378.8 | 3652.0 | 3826.0 | 4051.0 | 4327.7 | 4623.3 | 4892.9 | 5129.3 | 5325.8 | 5529.8 | 5741.7 |
| Depreciation | 53.5 | 69.3 | 76.1 | 81.4 | 87.3 | 90.0 | 93.3 | 97.4 | 102.1 | 107.2 | 112.6 | 118.0 | 123.4 |
| Amortization | 7.8 | 18.4 | 19.5 | 19.5 | 18.3 | 16.5 | 15.5 | 13.9 | 26.8 | 26.8 | 26.8 | 26.8 | 26.8 |
| Cost of sales less D&A | 1616.4 | 2002.4 | 2093.4 | 2270.2 | 2378.4 | 2518.2 | 2690.3 | 2874.0 | 3041.6 | 3188.5 | 3310.7 | 3437.5 | 3569.2 |
| **Gross profit (loss)** | **941.0** | **1048.0** | **1189.8** | **1280.9** | **1342.1** | **1426.2** | **1528.6** | **1638.1** | **1722.4** | **1806.7** | **1875.7** | **1947.5** | **2022.3** |
| | | | | | | | | | | | | | |
| Selling, general, & administrative expense | 567.9 | 722.9 | 763.4 | 841.7 | 881.8 | 933.7 | 997.5 | 1065.6 | 1127.8 | 1182.2 | 1227.5 | 1274.6 | 1323.4 |
| **Operating earnings (loss)** | **373.1** | **325.0** | **426.4** | **439.1** | **460.2** | **492.5** | **531.1** | **572.4** | **594.7** | **624.4** | **648.1** | **672.9** | **698.9** |
| | | | | | | | | | | | | | |
| Interest expense | 19.1 | 28.8 | 33.2 | 32.1 | 39.1 | 39.8 | 40.9 | 42.2 | 43.8 | 45.0 | 46.2 | 47.1 | 48.2 |
| Other income (expenses), net | 18.4 | 25.9 | 13.9 | 23.8 | 16.3 | 16.7 | 17.3 | 18.0 | 17.6 | 17.8 | 19.9 | 18.9 | 19.1 |
| Earnings (loss) before income taxes | 372.4 | 322.1 | 407.1 | 430.8 | 437.4 | 469.4 | 507.6 | 548.2 | 568.5 | 597.3 | 621.8 | 644.7 | 669.8 |
| | | | | | | | | | | | | | |
| Provision for income taxes | 100.5 | 48.2 | 77.4 | 98.2 | 99.7 | 107.0 | 115.7 | 125.0 | 129.6 | 136.2 | 141.8 | 147.0 | 152.7 |
| **Net earnings (loss)** | **271.9** | **274.0** | **329.7** | **332.6** | **337.7** | **362.4** | **391.9** | **423.2** | **438.8** | **461.1** | **480.1** | **497.7** | **517.1** |
| | | | | | | | | | | | | | |
| Weighted average shares outstanding - basic | 106.4 | 106.8 | 107.7 | 107.5 | 107.2 | 106.6 | 106.1 | 105.7 | 105.2 | 104.7 | 104.0 | 103.3 | 102.6 |
| Year end shares outstanding | 105.6 | 106.7 | 107.6 | 107.5 | 106.9 | 106.4 | 105.9 | 105.4 | 105.0 | 104.4 | 103.6 | 102.9 | 102.2 |
| Net earnings (loss) per share-basic | 2.56 | 2.57 | 3.06 | 3.09 | 3.15 | 3.40 | 3.69 | 4.01 | 4.17 | 4.40 | 4.62 | 4.82 | 5.04 |
| Dividends per common share | 0.80 | 0.90 | 1.00 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 | 2.00 |
| Dividend payout | 85.5 | 95.0 | 106.7 | 118.3 | 129.0 | 139.0 | 148.9 | 158.8 | 168.7 | 178.6 | 187.8 | 196.9 | 205.8 |
| EPS growth | 3.64% | 0.39% | 19.07% | 1.07% | 1.86% | 7.88% | 8.65% | 8.47% | 4.10% | 5.62% | 4.83% | 4.41% | 4.59% |

**The Toro Company**

*Balance Sheet*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash & cash equivalents | 289.1 | 151.8 | 479.9 | 840.9 | 970.3 | 1116.8 | 1284.2 | 1471.4 | 1667.5 | 1855.0 | 2044.6 | 2243.4 | 2453.2 |
| Total receivables, net | 193.2 | 268.8 | 261.1 | 276.0 | 289.1 | 306.2 | 327.1 | 349.4 | 369.8 | 387.6 | 402.5 | 417.9 | 433.9 |
| Inventories, net | 358.3 | 651.7 | 652.4 | 521.4 | 546.3 | 578.4 | 617.9 | 660.1 | 698.6 | 732.3 | 760.4 | 789.5 | 819.8 |
| Prepaid expenses & other current assets | 54.1 | 50.6 | 34.2 | 53.0 | 55.5 | 58.8 | 62.8 | 67.1 | 71.0 | 74.4 | 77.3 | 80.2 | 83.3 |
| Total current assets | 894.6 | 1122.9 | 1427.6 | 1691.3 | 1861.2 | 2060.2 | 2291.9 | 2548.0 | 2806.8 | 3049.4 | 3284.7 | 3531.0 | 3790.2 |
| Property, plant & equipment, gross | 929.0 | 1141.7 | 1240.2 | 1355.2 | 1458.2 | 1567.2 | 1683.8 | 1808.3 | 1940.0 | 2078.1 | 2221.5 | 2370.4 | 2525.0 |
| Less: accumulated depreciation | 657.5 | 704.4 | 772.2 | 853.7 | 940.9 | 1031.0 | 1124.3 | 1221.7 | 1323.7 | 1431.0 | 1543.6 | 1661.6 | 1784.9 |
| Property, plant & equipment, net | 271.5 | 437.3 | 467.9 | 501.5 | 517.2 | 536.3 | 559.5 | 586.6 | 616.3 | 647.1 | 677.9 | 708.8 | 740.1 |
| Deferred income taxes | 38.3 | 6.3 | 6.5 | 35.8 | 36.4 | 39.1 | 42.2 | 45.6 | 47.3 | 49.7 | 51.7 | 53.6 | 55.7 |
| Investment in finance affiliate | 22.5 | 24.1 | 19.7 | 21.0 | 22.4 | 23.8 | 25.4 | 27.0 | 28.7 | 30.6 | 32.6 | 34.7 | 36.9 |
| Goodwill | 225.3 | 362.3 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 | 424.1 |
| Other intangible assets, net | 105.6 | 352.4 | 408.3 | 388.8 | 370.5 | 354.0 | 338.5 | 324.6 | 297.8 | 271.0 | 244.1 | 217.3 | 190.5 |
| Right-of-use assets | - | - | 78.8 | 86.1 | 92.6 | 99.5 | 106.9 | 114.8 | 123.2 | 132.0 | 141.1 | 150.5 | 160.3 |
| Other assets | 35.7 | 49.5 | 20.3 | 43.2 | 45.2 | 47.9 | 51.2 | 54.6 | 57.8 | 60.6 | 62.9 | 65.4 | 67.9 |
| **TOTAL ASSETS** | **1571.0** | **2330.5** | **2853.2** | **3191.8** | **3369.6** | **3584.8** | **3839.7** | **4125.3** | **4402.0** | **4664.4** | **4919.2** | **5185.4** | **5465.7** |
| | | | | | | | | | | | | | |
| Current portion of long-term debt | - | 79.9 | 99.9 | 13.5 | 133.7 | 69.8 | 153.0 | 0.0 | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 |
| Accounts payable | 256.6 | 319.2 | 364.0 | 339.6 | 355.8 | 376.7 | 402.4 | 429.9 | 455.0 | 477.0 | 495.3 | 514.2 | 533.9 |
| Short-term lease liabilities | - | - | 15.4 | 16.9 | 18.2 | 19.5 | 21.0 | 22.5 | 24.2 | 25.9 | 27.7 | 29.5 | 31.5 |
| Accrued warranty | 76.2 | 96.6 | 107.1 | 116.1 | 121.7 | 128.8 | 137.6 | 147.0 | 155.6 | 163.1 | 169.3 | 175.8 | 182.6 |
| Accrued advertising & marketing programs | 89.5 | 103.4 | 98.9 | 114.1 | 119.5 | 126.6 | 135.2 | 144.4 | 152.9 | 160.2 | 166.4 | 172.8 | 179.4 |
| Accrued compensation & benefit costs | 50.9 | 76.9 | 58.8 | 79.6 | 83.4 | 88.3 | 94.3 | 100.8 | 106.7 | 111.8 | 116.1 | 120.6 | 125.2 |
| Accrued insurance | 7.9 | 11.2 | 13.5 | 18.8 | 19.7 | 20.9 | 22.3 | 23.8 | 25.2 | 26.4 | 27.4 | 28.5 | 29.6 |
| Accrued interest | 7.2 | 9.9 | 10.1 | 7.6 | 8.1 | 8.6 | 9.1 | 9.7 | 10.4 | 11.0 | 11.7 | 12.5 | 13.3 |
| Other accrued liabilities | 44.4 | 59.9 | 88.2 | 81.1 | 85.0 | 90.0 | 96.2 | 102.7 | 108.7 | 114.0 | 118.3 | 122.9 | 127.6 |
| Accrued liabilities | 276.1 | 357.8 | 376.5 | 417.4 | 437.4 | 463.2 | 494.8 | 528.5 | 559.4 | 586.6 | 609.4 | 633.0 | 657.6 |
| Total current liabilities | 532.6 | 757.0 | 855.8 | 787.4 | 945.0 | 929.2 | 1071.2 | 981.0 | 1123.6 | 1174.5 | 1217.3 | 1261.8 | 1308.0 |
| Total long-term debt | 312.5 | 700.8 | 791.1 | 966.0 | 985.9 | 1014.1 | 1050.0 | 1090.5 | 1123.6 | 1154.4 | 1181.2 | 1208.9 | 1237.8 |
| Less current portion | - | 79.9 | 99.9 | 13.5 | 133.7 | 69.8 | 153.0 | 0.0 | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 |
| Long-term debt, less current portion | 312.5 | 620.9 | 691.3 | 952.5 | 852.2 | 944.3 | 897.0 | 1090.5 | 1038.6 | 1069.4 | 1096.2 | 1123.9 | 1152.8 |
| Long-term lease liabilities | - | - | 66.6 | 72.8 | 78.4 | 84.2 | 90.5 | 97.2 | 104.2 | 111.7 | 119.4 | 127.4 | 135.7 |
| Deferred income taxes | 1.4 | 50.6 | 70.4 | 49.0 | 49.7 | 53.4 | 57.7 | 62.3 | 64.6 | 67.9 | 70.7 | 73.3 | 76.2 |
| Other long-term liabilities | 30.6 | 42.5 | 54.3 | 37.6 | 39.4 | 41.7 | 44.6 | 47.6 | 50.4 | 52.9 | 54.9 | 57.0 | 59.2 |
| **TOTAL LIABILITIES** | **902.1** | **1471.0** | **1738.4** | **1899.3** | **1964.7** | **2052.8** | **2161.0** | **2278.7** | **2381.5** | **2476.3** | **2558.4** | **2643.4** | **2731.8** |
| | | | | | | | | | | | | | |
| Common stock | 105.6 | 106.7 | 107.6 | 130.8 | 154.0 | 177.2 | 200.5 | 223.7 | 246.9 | 251.6 | 251.6 | 251.6 | 251.6 |
| Retained earnings (accumulated deficit) | 587.3 | 784.9 | 1041.5 | 1196.0 | 1285.1 | 1389.0 | 1512.4 | 1657.3 | 1807.8 | 1970.8 | 2143.5 | 2324.8 | 2516.5 |
| Accumulated comprehensive income (loss) | -23.9 | -32.0 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 | -34.3 |
| **TOTAL STOCKHOLDERS' EQUITY (DEFICIT)** | **668.9** | **859.6** | **1114.8** | **1292.5** | **1404.9** | **1532.0** | **1678.6** | **1846.7** | **2020.5** | **2188.1** | **2360.8** | **2542.1** | **2733.8** |

**The Toro Company**

*Historical Cash Flow Statement*

| *Fiscal Years Ending Oct. 31* | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | | | | |
| Net earnings (loss) | 117.7 | 129.5 | 154.8 | 173.9 | 201.6 | 231.0 | 267.7 | 271.9 | 274.0 | 329.7 |
| Non-cash loss (income) from finance affiliate | - | - | -7.1 | -7.3 | -8.4 | -9.6 | -10.0 | -11.1 | -11.9 | -7.7 |
| Distributions from finance affiliate, net | - | - | - | - | - | - | 8.1 | 9.2 | 10.3 | 12.1 |
| Depreciation of property, plant & equipment | 43.5 | 46.8 | 48.2 | 47.1 | 50.3 | 53.4 | 54.7 | 53.5 | 69.3 | 76.1 |
| Amortization of other intangible assets | 5.0 | 6.8 | 5.9 | 6.0 | 12.8 | 10.7 | 10.3 | 7.8 | 18.4 | 19.5 |
| Total Depreciation & Amortization | 48.5 | 53.6 | 54.1 | 53.1 | 63.1 | 64.1 | 65.0 | 61.3 | 87.7 | 95.6 |
| Fair value step-up adjustment to acquired inventory | - | - | - | - | - | - | - | - | 39.4 | 4.0 |
| Provision for depreciation, amortization & impairment losses | 48.5 | 53.6 | 54.1 | 53.1 | 63.1 | 64.1 | 65.0 | - | - | - |
| Provision for depreciation & amortization | - | - | - | - | - | - | - | 61.3 | - | - |
| Equity losses (income) from affiliates | -5.7 | -6.0 | - | - | - | - | - | - | - | - |
| Stock-based compensation expense | 8.5 | 9.5 | 10.2 | 11.3 | 10.8 | 10.6 | 13.5 | 12.2 | 13.4 | 15.4 |
| Deferred income taxes | -2.0 | -0.2 | 0.1 | -4.7 | 0.2 | 10.1 | -6.9 | 25.3 | -6.2 | 2.3 |
| Loss (gain) on disposal of property, plant, & equipment | -0.1 | -0.1 | - | - | - | - | - | - | - | - |
| Other adjustments | - | - | 0.0 | 0.0 | -0.1 | -0.5 | 0.2 | 0.5 | 6.4 | 0.5 |
| Receivables, net | -2.9 | -0.5 | -11.9 | -5.0 | -25.6 | 15.8 | -17.7 | -10.4 | -11.0 | 15.2 |
| Inventories, net | -25.7 | -22.0 | 9.4 | -37.2 | -52.7 | 23.2 | -15.6 | -29.8 | -104.8 | 21.0 |
| Prepaid expenses & other assets | -7.1 | -6.7 | -6.8 | -3.2 | -0.6 | -0.9 | -3.4 | -11.7 | 9.7 | 11.8 |
| Accounts payable, accrued liabilities, deferred revenue, & oth | -17.3 | 28.7 | 19.0 | 1.5 | 48.5 | 18.1 | 59.9 | 47.5 | 30.5 | 39.5 |
| Net cash flows from operating activities | 113.9 | 185.8 | 221.9 | 182.4 | 236.9 | 361.9 | 360.7 | 364.8 | 337.4 | 539.4 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | | | | |
| Purchases of property, plant, & equipment | -57.4 | -43.2 | -49.4 | -71.1 | -56.4 | -50.7 | -58.3 | -90.1 | -92.9 | -78.1 |
| Proceeds from asset disposals | 0.7 | 0.5 | 0.4 | 0.5 | 0.2 | 0.3 | 0.2 | 0.2 | 4.7 | 0.2 |
| Distributions from (investments in) finance affiliate, net | 3.0 | 5.1 | 6.3 | 5.7 | 4.3 | 9.8 | - | - | - | - |
| Decrease (increase) in other assets | -0.4 | - | - | - | - | - | - | - | - | - |
| Proceeds from sale of a business | - | - | - | - | - | 1.5 | - | - | 12.9 | - |
| Investments in unconsolidated entities | - | - | - | - | - | - | - | -6.8 | -0.2 | - |
| Purchase of noncontrolling interest | - | - | - | - | - | - | -1.5 | - | - | - |
| Acquisitions, net of cash acquired | -15.2 | -9.7 | -2.1 | -0.7 | -198.3 | - | -24.2 | -31.2 | -697.5 | -138.2 |
| Net cash flows from investing activities | -69.3 | -47.3 | -44.8 | -65.7 | -250.3 | -39.1 | -83.8 | -127.9 | -772.9 | -216.1 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | | | | | |
| Short-term debt repayments, net | -0.8 | -0.9 | -0.4 | 19.5 | -21.3 | -1.2 | - | - | - | - |
| Borrowings under debt arrangements | - | - | - | - | - | - | - | - | 900.0 | 636.0 |
| Repayments under debt arrangements | -1.9 | -1.9 | -1.7 | - | -7.2 | -24.1 | -19.1 | -19.8 | -511.0 | -546.0 |
| Issuance (repayments) of long-term debt | - | - | - | 129.6 | - | - | - | - | - | - |
| Proceeds from exercise of stock options | 14.5 | 20.3 | 9.8 | 7.2 | 9.2 | 20.2 | 10.3 | 17.2 | 29.3 | 22.2 |
| Excess tax benefits from stock-based awards | 3.0 | 9.0 | 6.1 | 8.9 | 8.5 | 12.5 | - | - | - | - |
| Payments of withholding taxes for stock awards | - | - | - | - | - | - | -1.3 | -4.1 | -2.7 | -2.1 |
| Redemption of preferred stock | - | - | - | - | - | - | 0.0 | - | - | - |
| Purchases of Toro common stock | -130.0 | -93.4 | -99.6 | -103.0 | -107.0 | -112.0 | -159.4 | -160.4 | -20.0 | - |
| Dividends paid on Toro common stock | -25.0 | -26.2 | -32.5 | -45.0 | -55.5 | -65.9 | -75.8 | -85.0 | -96.1 | -107.7 |
| Net cash flows from financing activities | -140.1 | -93.0 | -118.3 | 17.0 | -173.4 | -170.4 | -245.3 | -252.1 | 299.5 | 2.4 |
| Effect of exchange rates on cash & cash equivalents | -1.0 | -0.5 | -1.7 | -1.8 | -1.8 | -5.2 | 5.0 | -5.9 | -1.2 | 2.4 |
| Net increase (decrease) in cash & cash equivalents | -96.5 | 45.0 | 57.1 | 131.9 | -188.6 | 147.3 | 36.7 | -21.1 | -137.3 | 328.1 |
| Cash & cash equivalents as of the beginning of the fiscal peri | 177.4 | 80.9 | 125.9 | 183.0 | 314.9 | 126.3 | 273.6 | 310.3 | 289.1 | 151.8 |
| Cash & cash equivalents as of the end of the fiscal period | 80.9 | 125.9 | 183.0 | 314.9 | 126.3 | 273.6 | 310.3 | 289.1 | 151.8 | 479.9 |
| Cash paid during the fiscal year for interest | 17.1 | 17.1 | 17.1 | 16.9 | 18.1 | 19.9 | 19.5 | 20.0 | 30.2 | 34.1 |
| Cash paid during the fiscal year for income taxes | 60.3 | 58.7 | 76.2 | 76.3 | 77.0 | 82.2 | 97.1 | 75.8 | 54.7 | 69.5 |

**The Toro Company**

*Forecasted Cash Flow Statement*

| *Fiscal Years Ending Oct. 31* | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | | | | |
| Net Income | 332.6 | 337.7 | 362.4 | 391.9 | 423.2 | 438.8 | 461.1 | 480.1 | 497.7 | 517.1 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | | | | |
| Add: Depreciation and amortization expense | 100.9 | 105.6 | 106.5 | 108.8 | 111.3 | 128.9 | 134.1 | 139.4 | 144.8 | 150.2 |
| Changes (increases or decreases) in working capital accounts: | | | | | | | | | | |
| Total receivables, net | -14.9 | -13.1 | -17.0 | -20.9 | -22.3 | -20.4 | -17.9 | -14.9 | -15.4 | -16.0 |
| Inventories, net | 131.0 | -24.8 | -32.1 | -39.5 | -42.2 | -38.5 | -33.7 | -28.1 | -29.1 | -30.2 |
| Prepaid expenses & other current assets | -18.8 | -2.5 | -3.3 | -4.0 | -4.3 | -3.9 | -3.4 | -2.9 | -3.0 | -3.1 |
| Right-of-use assets | -7.3 | -6.5 | -6.9 | -7.4 | -7.9 | -8.4 | -8.8 | -9.1 | -9.5 | -9.8 |
| Other assets | -22.8 | -2.1 | -2.7 | -3.3 | -3.5 | -3.2 | -2.8 | -2.3 | -2.4 | -2.5 |
| Accounts payable | -24.3 | 16.2 | 20.9 | 25.7 | 27.5 | 25.1 | 22.0 | 18.3 | 19.0 | 19.7 |
| Accrued liabilities | 40.9 | 20.0 | 25.8 | 31.6 | 33.8 | 30.9 | 27.2 | 22.8 | 23.7 | 24.6 |
| Deferred income taxes | -50.8 | 0.2 | 1.0 | 1.2 | 1.2 | 0.6 | 0.9 | 0.7 | 0.7 | 0.8 |
| Other long-term liabilities | -16.6 | 1.8 | 2.3 | 2.9 | 3.0 | 2.8 | 2.4 | 2.0 | 2.1 | 2.2 |
| **Net cash provided by operating activities** | **449.8** | **432.3** | **456.9** | **487.0** | **519.8** | **552.8** | **581.1** | **606.1** | **628.6** | **652.9** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | | | | |
| Investment in finance affiliate | -1.3 | -1.4 | -1.4 | -1.5 | -1.6 | -1.7 | -1.9 | -2.0 | -2.1 | -2.2 |
| Capital expenditures | -115.0 | -103.0 | -109.1 | -116.5 | -124.5 | -131.7 | -138.1 | -143.4 | -148.9 | -154.6 |
| **Net cash used for investing activities** | **-116.3** | **-104.4** | **-110.5** | **-118.1** | **-126.1** | **-133.5** | **-140.0** | **-145.4** | **-151.0** | **-156.8** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | | | | | |
| Current portion long-term debt | -86.4 | 120.2 | -63.9 | 83.2 | -153.0 | 85.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term lease liabilities | 1.4 | 1.3 | 1.4 | 1.5 | 1.6 | 1.6 | 1.7 | 1.8 | 1.9 | 1.9 |
| Long-term debt less current portion | 261.2 | -100.3 | 92.1 | -47.2 | 193.5 | -51.9 | 30.8 | 26.8 | 27.7 | 28.9 |
| Long-term lease liabilities | 6.2 | 5.5 | 5.9 | 6.3 | 6.7 | 7.1 | 7.4 | 7.7 | 8.0 | 8.3 |
| Payments of dividends | -118.3 | -129.0 | -139.0 | -148.9 | -158.8 | -168.7 | -178.6 | -187.8 | -196.9 | -205.8 |
| Proceeds from issuance of common stock | 23.2 | 23.2 | 23.2 | 23.2 | 23.2 | 23.2 | 4.6 | 0.0 | 0.0 | 0.0 |
| Repurchases of common stock | -59.8 | -119.6 | -119.6 | -119.6 | -119.6 | -119.6 | -119.6 | -119.6 | -119.6 | -119.6 |
| **Net cash provided by financing activities** | **27.6** | **-198.6** | **-199.9** | **-201.6** | **-206.5** | **-223.2** | **-253.6** | **-271.1** | **-278.8** | **-286.2** |
| **NET INCREASE (DECREASE) IN CASH** | **361.0** | **129.4** | **146.5** | **167.3** | **187.2** | **196.1** | **187.5** | **189.6** | **198.8** | **209.8** |
| **CASH, BEGINNING OF YEAR** | **479.9** | **840.9** | **970.3** | **1116.8** | **1284.2** | **1471.4** | **1667.5** | **1855.0** | **2044.6** | **2243.4** |
| **CASH, END OF YEAR** | 840.9 | 970.3 | 1116.8 | 1284.2 | 1471.4 | 1667.5 | 1855.0 | 2044.6 | 2243.4 | 2453.2 |

**The Toro Company**

*Common Size Income Statement*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Depreciation | 2.04% | 2.21% | 2.25% | 2.23% | 2.28% | 2.22% | 2.16% | 2.11% | 2.09% | 2.09% | 2.11% | 2.13% | 2.15% |
| Amortization | 0.30% | 0.59% | 0.58% | 0.53% | 0.48% | 0.41% | 0.36% | 0.30% | 0.55% | 0.52% | 0.50% | 0.49% | 0.47% |
| Cost of sales less D&A | 61.73% | 63.81% | 61.96% | 62.16% | 62.16% | 62.16% | 62.16% | 62.16% | 62.16% | 62.16% | 62.16% | 62.16% | 62.16% |
| **Gross profit (loss)** | **35.93%** | **33.39%** | **35.21%** | 35.07% | 35.08% | 35.21% | 35.32% | 35.43% | 35.20% | 35.22% | 35.22% | 35.22% | 35.22% |
| Selling, general, & administrative expense | 21.69% | 23.04% | 22.59% | 23.05% | 23.05% | 23.05% | 23.05% | 23.05% | 23.05% | 23.05% | 23.05% | 23.05% | 23.05% |
| **Operating earnings (loss)** | **14.25%** | **10.36%** | **12.62%** | 12.02% | 12.03% | 12.16% | 12.27% | 12.38% | 12.15% | 12.17% | 12.17% | 12.17% | 12.17% |
| Interest expense | 0.73% | 0.92% | 0.98% | 0.88% | 1.02% | 0.98% | 0.94% | 0.91% | 0.89% | 0.88% | 0.87% | 0.85% | 0.84% |
| Interest income | 0.09% | 0.09% | 0.04% | 0.03% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% |
| Retail financing revenue | 0.05% | 0.04% | 0.03% | 0.25% | 0.03% | 0.03% | 0.03% | 0.02% | 0.02% | 0.02% | 0.02% | 0.02% | 0.02% |
| Foreign currency exchange rate gain (loss) | 0.04% | 0.05% | 0.06% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% |
| Non-cash income from finance affiliate | 0.43% | 0.38% | 0.23% | 0.25% | 0.24% | 0.23% | 0.23% | 0.20% | 0.19% | 0.18% | 0.18% | 0.18% | 0.17% |
| Miscellaneous income | 0.12% | 0.12% | 0.09% | 0.08% | 0.08% | 0.08% | 0.08% | 0.09% | 0.07% | 0.07% | 0.10% | 0.07% | 0.07% |
| Other income (expenses), net | 0.70% | 0.83% | 0.41% | 0.65% | 0.42% | 0.41% | 0.40% | 0.39% | 0.36% | 0.35% | 0.37% | 0.34% | 0.33% |
| Earnings (loss) before income taxes | 14.22% | 10.27% | 12.05% | 11.80% | 11.43% | 11.59% | 11.73% | 11.86% | 11.62% | 11.64% | 11.68% | 11.66% | 11.67% |
| Provision for income taxes | 3.84% | 1.53% | 2.29% | 2.69% | 2.61% | 2.64% | 2.67% | 2.70% | 2.65% | 2.65% | 2.66% | 2.66% | 2.66% |
| **Net earnings (loss)** | **10.38%** | **8.73%** | **9.76%** | **9.11%** | **8.83%** | **8.95%** | **9.06%** | **9.15%** | **8.97%** | **8.99%** | **9.01%** | **9.00%** | **9.01%** |
| Weighted average shares outstanding - basic | 4.06% | 3.40% | 3.19% | 2.94% | 2.80% | 2.63% | 2.45% | 2.29% | 2.15% | 2.04% | 1.95% | 1.87% | 1.79% |
| Year end shares outstanding | 4.03% | 3.40% | 3.18% | 2.94% | 2.79% | 2.63% | 2.45% | 2.28% | 2.15% | 2.03% | 1.95% | 1.86% | 1.78% |
| Net earnings (loss) per share-basic | 0.10% | 0.08% | 0.09% | 0.08% | 0.08% | 0.08% | 0.09% | 0.09% | 0.09% | 0.09% | 0.09% | 0.09% | 0.09% |
| Dividends per common share | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% |
| Foreign currency translation adjustments | -0.32% | -0.04% | 0.19% | 0.18% | 0.17% | 0.16% | 0.15% | 0.14% | 0.13% | 0.13% | 0.12% | 0.12% | 0.11% |

**The Toro Company**

*Common Size Balance Sheet*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Cash & cash equivalents | 11.04% | 4.84% | 14.20% | 23.03% | 25.36% | 27.57% | 29.67% | 31.83% | 34.08% | 36.16% | 38.39% | 40.57% | 42.73% |
| Total receivables, net | 7.38% | 8.56% | 7.73% | 7.56% | 7.56% | 7.56% | 7.56% | 7.56% | 7.56% | 7.56% | 7.56% | 7.56% | 7.56% |
| Inventories, net | 13.68% | 20.77% | 19.31% | 14.28% | 14.28% | 14.28% | 14.28% | 14.28% | 14.28% | 14.28% | 14.28% | 14.28% | 14.28% |
| Prepaid expenses & other current assets | 2.07% | 1.61% | 1.01% | 1.45% | 1.45% | 1.45% | 1.45% | 1.45% | 1.45% | 1.45% | 1.45% | 1.45% | 1.45% |
| Total current assets | 34.16% | 35.78% | 42.25% | 46.31% | 48.65% | 50.86% | 52.96% | 55.11% | 57.36% | 59.45% | 61.68% | 63.85% | 66.01% |
| Property, plant & equipment, gross | 35.48% | 36.38% | 36.70% | 37.11% | 38.11% | 38.69% | 38.91% | 39.11% | 39.65% | 40.51% | 41.71% | 42.87% | 43.98% |
| Less: accumulated depreciation | 25.11% | 22.45% | 22.86% | 23.38% | 24.59% | 25.45% | 25.98% | 26.42% | 27.05% | 27.90% | 28.98% | 30.05% | 31.09% |
| Property, plant & equipment, net | 10.37% | 13.94% | 13.85% | 13.73% | 13.52% | 13.24% | 12.93% | 12.69% | 12.59% | 12.62% | 12.73% | 12.82% | 12.89% |
| Deferred income taxes | 1.46% | 0.20% | 0.19% | 0.98% | 0.95% | 0.96% | 0.98% | 0.99% | 0.97% | 0.97% | 0.97% | 0.97% | 0.97% |
| Investment in finance affiliate | - | - | 0.58% | 0.58% | 0.58% | 0.59% | 0.59% | 0.58% | 0.59% | 0.60% | 0.61% | 0.63% | 0.64% |
| Goodwill | 8.60% | 11.54% | 12.55% | 11.61% | 11.08% | 10.47% | 9.80% | 9.17% | 8.67% | 8.27% | 7.96% | 7.67% | 7.39% |
| Other intangible assets, net | 4.03% | 11.23% | 12.08% | 10.65% | 9.68% | 8.74% | 7.82% | 7.02% | 6.09% | 5.28% | 4.58% | 3.93% | 3.32% |
| Right-of-use assets | - | - | 2.33% | 2.36% | 2.42% | 2.46% | 2.47% | 2.48% | 2.52% | 2.57% | 2.65% | 2.72% | 2.79% |
| Other assets | 1.36% | 1.58% | 0.60% | 1.18% | 1.18% | 1.18% | 1.18% | 1.18% | 1.18% | 1.18% | 1.18% | 1.18% | 1.18% |
| **TOTAL ASSETS** | **59.99%** | **74.27%** | **84.44%** | **87.40%** | **88.07%** | **88.49%** | **88.72%** | **89.23%** | **89.97%** | **90.94%** | **92.37%** | **93.77%** | **95.19%** |
| | | | | | | | | | | | | | |
| Current portion of long-term debt | - | 2.55% | 2.96% | 0.37% | 3.49% | 1.72% | 3.54% | 0.00% | 1.74% | 1.66% | 1.60% | 1.54% | 1.48% |
| Accounts payable | 9.80% | 10.17% | 10.77% | 9.30% | 9.30% | 9.30% | 9.30% | 9.30% | 9.30% | 9.30% | 9.30% | 9.30% | 9.30% |
| Accrued warranty | 2.91% | 3.08% | 3.17% | 3.18% | 3.18% | 3.18% | 3.18% | 3.18% | 3.18% | 3.18% | 3.18% | 3.18% | 3.18% |
| Accrued advertising & marketing programs | 3.42% | 3.30% | 2.93% | 3.12% | 3.12% | 3.12% | 3.12% | 3.12% | 3.12% | 3.12% | 3.12% | 3.12% | 3.12% |
| Accrued compensation & benefit costs | 1.94% | 2.45% | 1.74% | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% |
| Accrued insurance | 0.30% | 0.36% | 0.40% | 0.52% | 0.52% | 0.52% | 0.52% | 0.52% | 0.52% | 0.52% | 0.52% | 0.52% | 0.52% |
| Accrued interest | 0.28% | 0.32% | 0.30% | 0.21% | 0.21% | 0.21% | 0.21% | 0.21% | 0.21% | 0.22% | 0.22% | 0.23% | 0.23% |
| Other accrued liabilities | 1.70% | 1.91% | 2.61% | 2.22% | 2.22% | 2.22% | 2.22% | 2.22% | 2.22% | 2.22% | 2.22% | 2.22% | 2.22% |
| Accrued liabilities | 10.54% | 11.40% | 11.14% | 11.43% | 11.43% | 11.43% | 11.43% | 11.43% | 11.43% | 11.44% | 11.44% | 11.45% | 11.45% |
| Total current liabilities | 20.34% | 24.12% | 25.33% | 21.56% | 24.70% | 22.94% | 24.75% | 21.22% | 22.96% | 22.90% | 22.86% | 22.82% | 22.78% |
| Total long-term debt | 11.94% | 22.33% | 23.41% | 26.45% | 25.77% | 25.03% | 24.26% | 23.59% | 22.96% | 22.51% | 22.18% | 21.86% | 21.56% |
| Less current portion | - | 2.55% | 2.96% | 0.37% | 3.49% | 1.72% | 3.54% | 0.00% | 1.74% | 1.66% | 1.60% | 1.54% | 1.48% |
| Long-term debt, less current portion | 11.94% | 19.79% | 20.46% | 26.08% | 22.27% | 23.31% | 20.73% | 23.59% | 21.23% | 20.85% | 20.58% | 20.32% | 20.08% |
| Long-term lease liabilities | - | - | 1.97% | 1.99% | 2.05% | 2.08% | 2.09% | 2.10% | 2.13% | 2.18% | 2.24% | 2.30% | 2.36% |
| Deferred revenue | 0.95% | - | - | - | - | - | - | - | - | - | - | - | - |
| Deferred income taxes | 0.05% | 1.61% | 2.08% | 1.34% | 1.30% | 1.32% | 1.33% | 1.35% | 1.32% | 1.32% | 1.33% | 1.33% | 1.33% |
| Other long-term liabilities | 1.17% | 1.35% | 1.61% | 1.03% | 1.03% | 1.03% | 1.03% | 1.03% | 1.03% | 1.03% | 1.03% | 1.03% | 1.03% |
| **TOTAL LIABILITIES** | **34.45%** | **46.87%** | **51.45%** | **52.01%** | **51.35%** | **50.67%** | **49.93%** | **49.29%** | **48.67%** | **48.28%** | **48.04%** | **47.80%** | **47.58%** |
| | | | | | | | | | | | | | |
| Common stock | 4.03% | 3.40% | 3.18% | 3.58% | 4.03% | 4.38% | 4.63% | 4.84% | 5.05% | 4.90% | 4.72% | 4.55% | 4.38% |
| Retained earnings (accumulated deficit) | 22.43% | 25.01% | 30.82% | 32.75% | 33.59% | 34.29% | 34.95% | 35.85% | 36.95% | 38.42% | 40.25% | 42.04% | 43.83% |
| Foreign currency translation adjustments | -1.13% | -0.99% | -0.73% | -0.67% | -0.64% | -0.60% | -0.57% | -0.53% | -0.50% | -0.48% | -0.46% | -0.44% | -0.43% |
| Pension & post-retirement benefits | -0.02% | -0.15% | -0.15% | -0.14% | -0.13% | -0.13% | -0.12% | -0.11% | -0.10% | -0.10% | -0.10% | -0.09% | -0.09% |
| Adjustments to employee retirement benefits, net of tax | - | - | - | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Cash flow derivative instruments | 0.24% | 0.12% | -0.14% | -0.13% | -0.12% | -0.11% | -0.11% | -0.10% | -0.09% | -0.09% | -0.09% | -0.08% | -0.08% |
| Accumulated comprehensive income (loss) | -0.91% | -1.02% | -1.01% | -0.94% | -0.90% | -0.85% | -0.79% | -0.74% | -0.70% | -0.67% | -0.64% | -0.62% | -0.60% |
| **TOTAL STOCKHOLDERS' EQUITY (DEFICIT)** | **25.54%** | **27.39%** | **32.99%** | **35.39%** | **36.72%** | **37.82%** | **38.79%** | **39.94%** | **41.29%** | **42.66%** | **44.33%** | **45.97%** | **47.61%** |

**The Toro Company**

*Value Driver Estimation*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **NOPLAT:** | **315.2** | **294.9** | **371.7** | **365.7** | **384.6** | **410.3** | **441.1** | **474.1** | **492.3** | **516.3** | **536.0** | **555.8** | **576.8** |
| NOPLAT growth | 11.41% | -6.46% | 26.06% | -1.63% | 5.18% | 6.68% | 7.50% | 7.49% | 3.84% | 4.88% | 3.81% | 3.69% | 3.77% |
| | | | | | | | | | | | | | |
| EBITDA: | | | | | | | | | | | | | |
| Net sales | 2618.7 | 3138.1 | 3378.8 | 3652.0 | 3826.0 | 4051.0 | 4327.7 | 4623.3 | 4892.9 | 5129.3 | 5325.8 | 5529.8 | 5741.7 |
| -Cost of sales less D&A | -1616.4 | -2002.4 | -2093.4 | -2270.2 | -2378.4 | -2518.2 | -2690.3 | -2874.0 | -3041.6 | -3188.5 | -3310.7 | -3437.5 | -3569.2 |
| -Depreciation and amortization | -61.3 | -87.7 | -95.6 | -100.9 | -105.6 | -106.5 | -108.8 | -111.3 | -128.9 | -134.1 | -139.4 | -144.8 | -150.2 |
| -Selling, general, & administrative expense | -567.9 | -722.9 | -763.4 | -841.7 | -881.8 | -933.7 | -997.5 | -1065.6 | -1127.8 | -1182.2 | -1227.5 | -1274.6 | -1323.4 |
| +Implied interest on leases | 3.3 | 2.8 | 3.0 | 3.2 | 3.5 | 3.8 | 4.1 | 4.4 | 4.7 | 5.0 | 5.4 | 5.8 | 6.2 |
| Total | 376.4 | 327.8 | 429.3 | 442.3 | 463.7 | 496.3 | 535.2 | 576.8 | 599.4 | 629.5 | 653.5 | 678.7 | 705.1 |
| | | | | | | | | | | | | | |
| Adjusted Taxes: | | | | | | | | | | | | | |
| Provision for income taxes | 100.5 | 48.2 | 77.4 | 98.2 | 99.7 | 107.0 | 115.7 | 125.0 | 129.6 | 136.2 | 141.8 | 147.0 | 152.7 |
| +Implied interest on leases | 0.7 | 0.6 | 0.7 | 0.7 | 0.8 | 0.9 | 0.9 | 1.0 | 1.1 | 1.2 | 1.2 | 1.3 | 1.4 |
| +Interest expense, net | -7.0 | -10.6 | -12.1 | -11.8 | -14.3 | -14.6 | -15.0 | -15.5 | -16.0 | -16.5 | -16.9 | -17.3 | -17.6 |
| -Retail financing revenue | -0.3 | -0.3 | -0.2 | -2.1 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| +/-Foreign currency exchange rate gain (loss) | -0.2 | -0.3 | -0.5 | -0.3 | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 |
| +/-Gain (loss) on asset disposals | - | 0.1 | - | - | - | - | - | - | - | - | - | - | - |
| +/-Gain (loss) on sale of business | - | - | - | - | - | - | - | - | - | - | - | - | - |
| -Non-cash income from finance affiliate | -2.4 | -2.6 | -1.7 | -2.1 | -2.1 | -2.1 | -2.2 | -2.1 | -2.2 | -2.2 | -2.2 | -2.2 | -2.2 |
| -Equity income (losses) from investments | - | - | - | - | - | - | - | - | - | - | - | - | - |
| +/-Litigation settlements, net of recoveries | -0.2 | -0.4 | - | - | - | - | - | - | - | - | - | - | - |
| +/-Net periodic benefit income on defined ben | - | -1.5 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| -Miscellaneous income | -0.7 | -0.8 | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 | -0.9 | -0.8 | -0.8 | -1.2 | -0.9 | -0.9 |
| -Other income (expenses), net | -4.0 | -5.7 | -3.2 | -5.4 | -3.7 | -3.8 | -4.0 | -4.1 | -4.0 | -4.1 | -4.5 | -4.3 | -4.4 |
| Total Adjusted Taxes | 86.4 | 26.8 | 59.9 | 76.6 | 79.1 | 86.1 | 94.2 | 102.7 | 107.0 | 113.1 | 117.5 | 122.9 | 128.3 |
| | | | | | | | | | | | | | |
| Change in Deferred Taxes | 25.3 | -6.2 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | | | |
| **Invested Capital (IC):** | **625.4** | **1314.9** | **1291.0** | **1252.0** | **1269.0** | **1295.4** | **1331.5** | **1374.9** | **1406.4** | **1436.9** | **1464.5** | **1493.1** | **1522.9** |
| | | | | | | | | | | | | | |
| Operating working capital: | | | | | | | | | | | | | |
| Normal cash | 126.7 | 151.9 | 163.5 | 176.8 | 185.2 | 196.1 | 209.5 | 223.8 | 236.8 | 248.3 | 257.8 | 267.6 | 277.9 |
| +Total receivables, net | 193.2 | 268.8 | 261.1 | 276.0 | 289.1 | 306.2 | 327.1 | 349.4 | 369.8 | 387.6 | 402.5 | 417.9 | 433.9 |
| +Inventories, net | 358.3 | 651.7 | 652.4 | 521.4 | 546.3 | 578.4 | 617.9 | 660.1 | 698.6 | 732.3 | 760.4 | 789.5 | 819.8 |
| +Prepaid expenses & other current assets | 54.1 | 50.6 | 34.2 | 53.0 | 55.5 | 58.8 | 62.8 | 67.1 | 71.0 | 74.4 | 77.3 | 80.2 | 83.3 |
| -Accounts payable | -256.6 | -319.2 | -364.0 | -339.6 | -355.8 | -376.7 | -402.4 | -429.9 | -455.0 | -477.0 | -495.3 | -514.2 | -533.9 |
| -Accrued liabilities | -276.1 | -357.8 | -376.5 | -417.4 | -437.4 | -463.2 | -494.8 | -528.5 | -559.4 | -586.6 | -609.4 | -633.0 | -657.6 |
| Total | 199.6 | 445.9 | 370.8 | 270.2 | 282.9 | 299.5 | 320.0 | 341.9 | 361.8 | 379.1 | 393.3 | 408.0 | 423.4 |
| | | | | | | | | | | | | | |
| Property, plant & equipment, net | 271.5 | 437.3 | 467.9 | 501.5 | 517.2 | 536.3 | 559.5 | 586.6 | 616.3 | 647.1 | 677.9 | 708.8 | 740.1 |
| +PV operating leases | 68.4 | 72.4 | 77.9 | 86.1 | 92.6 | 99.5 | 106.9 | 114.8 | 123.2 | 132.0 | 141.1 | 150.5 | 160.3 |
| +Other intangible assets, net | 105.6 | 352.4 | 408.3 | 388.8 | 370.5 | 354.0 | 338.5 | 324.6 | 297.8 | 271.0 | 244.1 | 217.3 | 190.5 |
| +Other assets | 35.7 | 49.5 | 20.3 | 43.2 | 45.2 | 47.9 | 51.2 | 54.6 | 57.8 | 60.6 | 62.9 | 65.4 | 67.9 |
| -Deferred revenue | -24.9 | - | - | - | - | - | - | - | - | - | - | - | - |
| -Other long-term liabilities | -30.6 | -42.5 | -54.3 | -37.6 | -39.4 | -41.7 | -44.6 | -47.6 | -50.4 | -52.9 | -54.9 | -57.0 | -59.2 |
| Total | 425.7 | 869.0 | 920.2 | 981.9 | 986.1 | 996.0 | 1011.5 | 1033.0 | 1044.6 | 1057.8 | 1071.2 | 1085.0 | 1099.6 |
| | | | | | | | | | | | | | |
| **Free Cash Flow (FCF):** | | | | | | | | | | | | | |
| NOPLAT | 315.2 | 294.9 | 371.7 | 365.7 | 384.6 | 410.3 | 441.1 | 474.1 | 492.3 | 516.3 | 536.0 | 555.8 | 576.8 |
| Change in IC | 52.3 | 689.5 | -23.9 | -39.0 | 17.0 | 26.4 | 36.0 | 43.5 | 31.5 | 30.5 | 27.6 | 28.6 | 29.9 |
| **FCF** | **262.9** | **-394.7** | **395.6** | **404.7** | **367.6** | **383.9** | **405.1** | **430.7** | **460.8** | **485.9** | **508.4** | **527.2** | **546.9** |
| | | | | | | | | | | | | | |
| **Return on Invested Capital (ROIC):** | | | | | | | | | | | | | |
| NOPLAT | 315.2 | 294.9 | 371.7 | 365.7 | 384.6 | 410.3 | 441.1 | 474.1 | 492.3 | 516.3 | 536.0 | 555.8 | 576.8 |
| Beginning IC | 573.0 | 625.4 | 1314.9 | 1291.0 | 1252.0 | 1269.0 | 1295.4 | 1331.5 | 1374.9 | 1406.4 | 1436.9 | 1464.5 | 1493.1 |
| **ROIC** | **55.01%** | **47.15%** | **28.27%** | **28.32%** | **30.72%** | **32.33%** | **34.05%** | **35.61%** | **35.81%** | **36.71%** | **37.31%** | **37.95%** | **38.63%** |
| | | | | | | | | | | | | | |
| **Economic Profit (EP):** | | | | | | | | | | | | | |
| Beginning IC | 573.0 | 625.4 | 1314.9 | 1291.0 | 1252.0 | 1269.0 | 1295.4 | 1331.5 | 1374.9 | 1406.4 | 1436.9 | 1464.5 | 1493.1 |
| x (ROIC - WACC) | 49.04% | 41.18% | 22.29% | 22.35% | 24.74% | 26.35% | 28.07% | 29.63% | 29.83% | 30.74% | 31.33% | 31.98% | 32.65% |
| **EP** | **281.0** | **257.5** | **293.1** | **288.5** | **309.8** | **334.4** | **363.6** | **394.5** | **410.1** | **432.3** | **450.2** | **468.3** | **487.5** |

**The Toro Company**

*Weighted Average Cost of Capital (WACC) Estimation*

| | | |
|---|---|---|
| **Cost of Equity:** | | *ASSUMPTIONS:* |
| Risk-Free Rate | 2.15% | *20-year Treasury bond* |
| Beta | 0.83 | *Average 1-year through 10-year, daily, weekly, monthly and* |
| Equity Risk Premium | 4.90% | *HF Consensus from historical risk premium* |
| **Cost of Equity** | **6.19%** | |
| | | |
| **Cost of Debt:** | | |
| Risk-Free Rate | 2.34% | *30-year Treasury bond* |
| Implied Default Premium | 1.76% | |
| Pre-Tax Cost of Debt | 4.10% | *YTM on company's 30-year corporate bond* |
| Marginal Tax Rate | 22.80% | |
| **After-Tax Cost of Debt** | **3.16%** | |

| | | |
|---|---|---|
| **Market Value of Common Equity:** | | **MV Weights** |
| Total Shares Outstanding | 107.6 | |
| Current Stock Price | $112.80 | |
| **MV of Equity** | **12,135.36** | 92.84% |
| | | |
| **Market Value of Debt:** | | |
| Current Portion of LTD | 99.9 | |
| Long-Term Debt | 691.3 | |
| Long-Term Lease Liabilities | 66.6 | |
| PV of Operating Leases | 77.9 | |
| **MV of Total Debt** | **935.71** | 7.16% |
| | | |
| **Market Value of the Firm** | **13,071.08** | 100.00% |

| | | |
|---|---|---|
| | **Estimated WACC** | **5.98%** |

**The Toro Company**

*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

| | |
|---|---|
| CV Growth of NOPLAT | 3.77% |
| CV Year ROIC | 38.63% |
| WACC | 5.98% |
| Cost of Equity | 6.19% |

| *Fiscal Years Ending Oct. 31* | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|
| **DCF Model:** | | | | | | | | | | |
| Free Cash Flow (FCF) | 404.7 | 367.6 | 383.9 | 405.1 | 430.7 | 460.8 | 485.9 | 508.4 | 527.2 | 546.9 |
| Continuing Value (CV) | | | | | | | | | | 23558.0 |
| PV of FCF | 381.8 | 327.3 | 322.5 | 321.1 | 322.2 | 325.3 | 323.6 | 319.6 | 312.7 | 13972.5 |
| Value of Operating Assets: | 16928.7 | | | | | | | | | |
| Non-Operating Adjustments | | | | | | | | | | |
| +Excess cash | 316.4 | | | | | | | | | |
| +Investment in finance affiliate | 19.7 | | | | | | | | | |
| -Current portion of LTD | -99.9 | | | | | | | | | |
| -Long-term debt | -691.3 | | | | | | | | | |
| -Long-term lease liabilities | -66.6 | | | | | | | | | |
| -PV Operating Leases | -77.9 | | | | | | | | | |
| -ESOP | -160.6 | | | | | | | | | |
| Value of Equity | 16168.5 | | | | | | | | | |
| Shares Outstanding | 107.6 | | | | | | | | | |
| Intrinsic Value of Last FYE | $ 150.29 | | | | | | | | | |
| **Implied Price as of Today** | $ 153.81 | | | | | | | | | |
| **EP Model:** | | | | | | | | | | |
| Economic Profit (EP) | 288.5 | 309.8 | 334.4 | 363.6 | 394.5 | 410.1 | 432.3 | 450.2 | 468.3 | 487.5 |
| Continuing Value (CV) | | | | | | | | | | 22064.9 |
| PV of EP | 272.3 | 275.8 | 281.0 | 288.3 | 295.2 | 289.5 | 288.0 | 283.0 | 277.8 | 13086.9 |
| Total PV of EP | 15637.6 | | | | | | | | | |
| Invested Capital (last FYE) | 1291.0 | | | | | | | | | |
| Value of Operating Assets: | 16928.7 | | | | | | | | | |
| Non-Operating Adjustments | | | | | | | | | | |
| +Excess cash | 316.4 | | | | | | | | | |
| +Investment in finance affiliate | 19.7 | | | | | | | | | |
| -Current portion of LTD | -99.9 | | | | | | | | | |
| -Long-term debt | -691.3 | | | | | | | | | |
| -Long-term lease liabilities | -66.6 | | | | | | | | | |
| -PV Operating Leases | -77.9 | | | | | | | | | |
| -ESOP | -160.6 | | | | | | | | | |
| Value of Equity | 16168.5 | | | | | | | | | |
| Shares Outstanding | 107.6 | | | | | | | | | |
| Intrinsic Value of Last FYE | $ 150.29 | | | | | | | | | |
| **Implied Price as of Today** | $ 153.81 | | | | | | | | | |

**The Toro Company**

*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

| *Fiscal Years Ending Oct. 31* | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|
| EPS | $ 3.09 | $ 3.15 | $ 3.40 | $ 3.69 | $ 4.01 | $ 4.17 | $ 4.40 | $ 4.62 | $ 4.82 | $ 5.04 |
| ***Key Assumptions*** | | | | | | | | | | |
| CV growth of NOPLAT | 3.77% | | | | | | | | | |
| CV Year ROE | 18.91% | | | | | | | | | |
| Cost of Equity | 6.19% | | | | | | | | | |
| ***Future Cash Flows*** | | | | | | | | | | |
| P/E Multiple (CV Year) | | | | | | | | | | 33.00 |
| EPS (CV Year) | | | | | | | | | | $ 5.04 |
| Future Stock Price | | | | | | | | | | $ 166.40 |
| Dividends Per Share | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 | |
| Discounted Cash Flows | 1.04 | 1.06 | 1.09 | 1.10 | 1.11 | 1.12 | 1.12 | 1.11 | 1.11 | $ 96.89 |
| Intrinsic Value as of Last FYE | $ 106.74 | | | | | | | | | |
| **Implied Price as of Today** | $ 109.24 | | | | | | | | | |

**The Toro Company**

*Relative Valuation Models*

| Ticker | Company | Price | EPS 2021E | EPS 2022E | P/E 21 | P/E 22 | Est. 5yr EPS gr. | PEG 21 | PEG 22 |
|---|---|---|---|---|---|---|---|---|---|
| DE | Deere & Company | $383.07 | $15.79 | $18.29 | 24.26 | 20.94 | 34.4 | 0.70 | 0.61 |
| TSCO | Tractor Supply Company | $181.08 | $6.74 | $7.24 | 26.87 | 25.01 | 11.1 | 2.41 | 2.25 |
| GFF | Griffon Corporation | $27.39 | $1.70 | $1.90 | 16.11 | 14.42 | 20.4 | 0.79 | 0.71 |
| AGCO | AGCO Corporation | $151.88 | $7.34 | $8.34 | 20.69 | 18.21 | 15.8 | 1.31 | 1.15 |
| KUBTY | Kubota Corporation | $118.86 | $4.85 | $5.83 | 24.51 | 20.39 | 3.2 | 7.66 | 6.37 |
| OSK | Oshkosh Corporation | $121.02 | $5.81 | $7.62 | 20.83 | 15.88 | 18.2 | 1.15 | 0.88 |
| HUSQ-B.ST | Husqvarna AB | $124.95 | $5.64 | $6.26 | 22.15 | 19.96 | 12.4 | 1.79 | 1.61 |
| PLOW | Douglas Dyanamics, Inc. | $47.00 | $1.75 | $2.15 | 26.86 | 21.86 | 15.0 | 1.79 | 1.46 |
| Source: Henry Fund Model | | | | Average | 22.78 | 19.58 | | 2.20 | 1.88 |
| TTC | The Toro Company | $112.80 | $3.09 | $3.15 | 36.5 | 35.8 | 11.6 | 3.1 | 3.1 |

**Implied Relative Value:**

| | |
|---|---|
| **P/E (EPS20)** | **$ 70.47** |
| **P/E (EPS21)** | **$ 61.70** |
| **PEG (EPS20)** | **$ 78.94** |
| **PEG (EPS21)** | **$ 68.65** |

**The Toro Company**

*Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding*

| | |
|---|---|
| Number of Options Outstanding (shares): | 2.6 |
| Average Time to Maturity (years): | 6.20 |
| Expected Annual Number of Options Exercised: | 0.4 |
| | |
| Current Average Strike Price: | $ 54.40 |
| Cost of Equity: | 6.19% |
| Current Stock Price: | $112.80 |

| *Fiscal Years Ending Oct. 31* | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|
| Increase in Shares Outstanding: | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.1 | | | |
| Average Strike Price: | $ 54.40 | $ 54.40 | $ 54.40 | $ 54.40 | $ 54.40 | $ 54.40 | $ 54.40 | | | |
| **Increase in Common Stock Account:** | **23.2** | **23.2** | **23.2** | **23.2** | **23.2** | **23.2** | **4.6** | | | |
| | | | | | | | | | | |
| Share Repurchases ($) | 59.8 | 119.6 | 119.6 | 119.6 | 119.6 | 119.6 | 119.6 | 119.6 | 119.6 | 119.6 |
| Expected Price of Repurchased Shares: | $ 112.80 | $ 118.66 | $ 124.82 | $ 131.30 | $ 138.12 | $ 145.29 | $ 152.84 | $ 160.77 | $ 169.12 | $ 177.91 |
| **Number of Shares Repurchased:** | **0.530** | **1.008** | **0.958** | **0.911** | **0.866** | **0.823** | **0.782** | **0.744** | **0.707** | **0.672** |
| | | | | | | | | | | |
| Shares Outstanding (beginning of the year) | 107.6 | 107 | 107 | 106 | 106 | 105 | 105 | 104 | 104 | 103 |
| Plus: Shares Issued Through ESOP | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 |
| Less: Shares Repurchased in Treasury | 0.530 | 1.008 | 0.958 | 0.911 | 0.866 | 0.823 | 0.782 | 0.744 | 0.707 | 0.672 |
| **Shares Outstanding (end of the year)** | **107.5** | **106.9** | **106.4** | **105.9** | **105.4** | **105.0** | **104.4** | **103.6** | **102.9** | **102.2** |

**The Toro Company**

*Valuation of Options Granted under ESOP*

| | |
|---|---|
| Current Stock Price | $112.80 |
| Risk Free Rate | 2.15% |
| Current Dividend Yield | 1.00% |
| Annualized St. Dev. of Stock Returns | 25.87% |

| Range of Outstanding Options | Number of Shares | Average Exercise Price | Average Remaining Life (yrs) | B-S Option Price | Value of Options Granted |
|---|---|---|---|---|---|
| Range 1 | 2.6 | 54.40 | 6.20 | $ 60.68 | $ 160.6 |
| Total | 2.6 | $ 54.40 | 6.20 | $ 67.06 | **$ 160.6** |

**The Toro Company**

*Present Value of Operating Lease Obligations*

| Fiscal Years Ending Oct. 31 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | 13.6 | 13.6 | 14.6 | 15.3 | 14.0 | 15.0 | 16.8 | 16.2 | 17.1 | 18.1 |
| Year 2 | 10.8 | 10.7 | 12.5 | 11.4 | 10.2 | 13.5 | 14.9 | 12.7 | 15.8 | 15.4 |
| Year 3 | 7.4 | 9.7 | 9.3 | 7.4 | 8.2 | 11.6 | 12.6 | 12.1 | 12.8 | 12.3 |
| Year 4 | 6.1 | 6.3 | 5.3 | 5.3 | 6.8 | 10.6 | 11.5 | 9.8 | 9.8 | 10.9 |
| Year 5 | 3.8 | 4.1 | 4.2 | 4.2 | 6.4 | 10.0 | 9.8 | 7.5 | 8.9 | 9.9 |
| Thereafter | 15.4 | 30.2 | 27.2 | 23.9 | 32.1 | 35.4 | 28.5 | 21.0 | 18.7 | 23.6 |
| Total Minimum Payments | 57.1 | 74.5 | 73.2 | 67.5 | 77.7 | 96.1 | 94.1 | 79.3 | 83.1 | 90.2 |
| Less: Cumulative Interest | 7.8 | 13.3 | 12.1 | 10.6 | 13.2 | 15.3 | 13.7 | 10.9 | 10.7 | 12.3 |
| **PV of Minimum Payments** | **49.3** | **61.2** | **61.0** | **56.9** | **64.4** | **80.9** | **80.4** | **68.4** | **72.4** | **77.9** |
| | | | | | | | | | | |
| **Implied Interest in Year 1 Payment** | **#REF!** | **2.0** | **2.5** | **2.5** | **2.3** | **2.6** | **3.3** | **3.3** | **2.8** | **3.0** |
| | | | | | | | | | | |
| Pre-Tax Cost of Debt | 4.10% | 4.10% | 4.10% | 4.10% | 4.10% | 4.10% | 4.10% | 4.10% | 4.10% | 4.10% |
| Years Implied by Year 6 Payment | 4.1 | 7.3 | 6.5 | 5.7 | 5.1 | 3.5 | 2.9 | 2.8 | 2.1 | 2.4 |
| Expected Obligation in Year 6 & Beyond | 3.781 | 4.127 | 4.212 | 4.204 | 6.35 | 10.042 | 9.833 | 7.5 | 8.9 | 9.919 |
| | | | | | | | | | | |
| Present Value of Lease Payments | | | | | | | | | | |
| PV of Year 1 | 13.0 | 13.1 | 14.1 | 14.7 | 13.4 | 14.4 | 16.1 | 15.6 | 16.4 | 17.4 |
| PV of Year 2 | 10.0 | 9.9 | 11.6 | 10.5 | 9.4 | 12.5 | 13.7 | 11.7 | 14.6 | 14.2 |
| PV of Year 3 | 6.6 | 8.6 | 8.3 | 6.5 | 7.3 | 10.3 | 11.1 | 10.7 | 11.3 | 10.9 |
| PV of Year 4 | 5.2 | 5.3 | 4.5 | 4.6 | 5.8 | 9.0 | 9.8 | 8.3 | 8.3 | 9.3 |
| PV of Year 5 | 3.1 | 3.4 | 3.4 | 3.4 | 5.2 | 8.2 | 8.0 | 6.1 | 7.3 | 8.1 |
| PV of 6 & beyond | 11.4 | 21.0 | 19.2 | 17.1 | 23.3 | 26.5 | 21.6 | 15.9 | 14.4 | 18.1 |
| Capitalized PV of Payments | 49.3 | 61.2 | 61.0 | 56.9 | 64.4 | 80.9 | 80.4 | 68.4 | 72.4 | 77.9 |

**The Toro Company**

*Sensitivity Tables*

Forecasted SGA%

| Forecasted COGS% \ Forecasted SGA% | 153.81 | 21.55% | 22.05% | 22.55% | 23.05% | 23.55% | 24.05% | 24.55% |
|---|---|---|---|---|---|---|---|---|
| 59.16% | 215.45 | 208.63 | 201.82 | 195.00 | 188.18 | 181.37 | 174.56 |
| 60.16% | 201.72 | 194.91 | 188.09 | 181.28 | 174.46 | 167.65 | 160.84 |
| 61.16% | 188.00 | 181.18 | 174.37 | 167.56 | 160.74 | 153.93 | 147.12 |
| 62.16% | 174.28 | 167.46 | 160.65 | 153.84 | 147.03 | 140.22 | 133.42 |
| 63.16% | 160.56 | 153.75 | 146.94 | 140.13 | 133.32 | 126.52 | 119.71 |
| 64.16% | 146.84 | 140.04 | 133.23 | 126.42 | 119.62 | 112.82 | 106.02 |
| 65.16% | 133.14 | 126.33 | 119.53 | 112.73 | 105.93 | 99.13 | 92.34 |

CV Growth of NOPLAT

| Cost of Equity \ CV Growth of NOPLAT | 153.81 | 3.11% | 3.31% | 3.51% | 3.71% | 3.91% | 4.11% | 4.31% |
|---|---|---|---|---|---|---|---|---|
| 5.75% | 147.39 | 157.79 | 170.22 | 185.33 | 204.09 | 228.01 | 259.56 |
| 5.95% | 136.56 | 145.31 | 155.63 | 167.97 | 182.99 | 201.68 | 225.55 |
| 6.15% | 127.16 | 134.60 | 143.28 | 153.51 | 165.76 | 180.70 | 199.31 |
| 6.35% | 118.91 | 125.30 | 132.68 | 141.27 | 151.42 | 163.58 | 178.44 |
| 6.55% | 111.62 | 117.16 | 123.48 | 130.78 | 139.30 | 149.36 | 161.44 |
| 6.75% | 105.14 | 109.96 | 115.43 | 121.69 | 128.91 | 137.35 | 147.34 |
| 6.95% | 99.32 | 103.56 | 108.32 | 113.73 | 119.92 | 127.08 | 135.44 |

CapEx as percent of sales

| Receivables % of sales \ CapEx as percent of sales | 153.81 | 1.81% | 2.01% | 2.21% | 2.41% | 2.61% | 2.81% | 3.01% |
|---|---|---|---|---|---|---|---|---|
| 6.06% | 179.91 | 173.93 | 168.16 | 162.58 | 157.20 | 152.00 | 146.97 |
| 6.56% | 179.46 | 173.49 | 167.72 | 162.16 | 156.79 | 151.60 | 146.58 |
| 7.06% | 179.01 | 173.05 | 167.29 | 161.74 | 156.38 | 151.19 | 146.19 |
| 7.56% | 178.55 | 172.60 | 166.86 | 161.32 | 155.96 | 150.79 | 145.79 |
| 8.06% | 178.10 | 172.16 | 166.43 | 160.90 | 155.55 | 150.39 | 145.40 |
| 8.56% | 177.65 | 171.72 | 166.00 | 160.48 | 155.14 | 149.99 | 145.01 |
| 9.06% | 177.20 | 171.28 | 165.57 | 160.05 | 154.73 | 149.58 | 144.61 |

Beta

| Equity Risk Premium \ Beta | 153.81 | 0.68 | 0.73 | 0.78 | 0.83 | 0.88 | 0.93 | 0.98 |
|---|---|---|---|---|---|---|---|---|
| 4.6% | 253.18 | 218.11 | 191.42 | 170.42 | 153.48 | 139.51 | 127.79 |
| 4.7% | 241.71 | 208.89 | 183.76 | 163.91 | 147.82 | 134.53 | 123.36 |
| 4.8% | 231.22 | 200.39 | 176.67 | 157.85 | 142.56 | 129.89 | 119.21 |
| 4.9% | 221.59 | 192.55 | 170.10 | 152.22 | 137.65 | 125.54 | 115.32 |
| 5.0% | 212.71 | 185.28 | 163.98 | 146.96 | 133.05 | 121.46 | 111.66 |
| 5.1% | 204.50 | 178.53 | 158.28 | 142.04 | 128.74 | 117.63 | 108.22 |
| 5.2% | 196.88 | 172.24 | 152.94 | 137.43 | 124.68 | 114.02 | 104.98 |

Marginal Tax Rate

| Pre-Tax Cost of Debt \ Marginal Tax Rate | 153.81 | 16.80% | 18.80% | 20.80% | 22.80% | 24.80% | 26.80% | 28.80% |
|---|---|---|---|---|---|---|---|---|
| 3.20% | 167.74 | 163.77 | 159.79 | 155.80 | 151.79 | 147.77 | 143.74 |
| 3.50% | 166.82 | 162.93 | 159.03 | 155.11 | 151.18 | 147.24 | 143.28 |
| 3.80% | 165.93 | 162.12 | 158.29 | 154.45 | 150.59 | 146.72 | 142.84 |
| 4.10% | 165.05 | 161.32 | 157.57 | 153.80 | 150.02 | 146.22 | 142.40 |
| 4.40% | 164.20 | 160.54 | 156.86 | 153.17 | 149.45 | 145.73 | 141.98 |
| 4.70% | 163.36 | 159.77 | 156.17 | 152.55 | 148.91 | 145.25 | 141.57 |
| 5.00% | 162.55 | 159.03 | 155.50 | 151.94 | 148.37 | 144.78 | 141.18 |

CV ROIC

| WACC \ CV ROIC | 153.81 | 31.25% | 35.25% | 39.25% | 43.25% | 47.25% | 51.25% | 55.25% |
|---|---|---|---|---|---|---|---|---|
| 5.21% | 233.55 | 236.84 | 239.46 | 241.60 | 243.37 | 244.87 | 246.15 |
| 5.51% | 192.29 | 194.95 | 197.06 | 198.79 | 200.22 | 201.43 | 202.46 |
| 5.81% | 163.15 | 165.35 | 167.11 | 168.55 | 169.74 | 170.74 | 171.60 |
| 6.11% | 141.46 | 143.33 | 144.83 | 146.05 | 147.06 | 147.91 | 148.64 |
| 6.41% | 124.69 | 126.31 | 127.60 | 128.65 | 129.53 | 130.27 | 130.90 |
| 6.71% | 111.33 | 112.75 | 113.88 | 114.81 | 115.57 | 116.22 | 116.77 |
| 7.01% | 100.44 | 101.70 | 102.70 | 103.52 | 104.20 | 104.77 | 105.26 |

**The Toro Company**

*Key Management Ratios*

| *Fiscal Years Ending Oct. 31* | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Liquidity Ratios:*** | | | | | | | | | | | | | |
| Current assets / current liabilities | 1.68 | 1.48 | 1.67 | 2.15 | 1.97 | 2.22 | 2.14 | 2.60 | 2.50 | 2.60 | 2.70 | 2.80 | 2.90 |
| Cash & cash equivalents / current liabilities | 0.54 | 0.20 | 0.56 | 1.07 | 1.03 | 1.20 | 1.20 | 1.50 | 1.48 | 1.58 | 1.68 | 1.78 | 1.88 |
| (Cash + accounts receivable) / current liabilities | 0.91 | 0.56 | 0.87 | 1.42 | 1.33 | 1.53 | 1.50 | 1.86 | 1.81 | 1.91 | 2.01 | 2.11 | 2.21 |
| ***Asset-Management Ratios:*** | | | | | | | | | | | | | |
| COGS / Average inventory | 4.70 | 3.97 | 3.21 | 3.87 | 4.46 | 4.48 | 4.50 | 4.50 | 4.48 | 4.46 | 4.44 | 4.44 | 4.44 |
| Sales / Total assets | 1.67 | 1.35 | 1.18 | 1.14 | 1.14 | 1.13 | 1.13 | 1.12 | 1.11 | 1.10 | 1.08 | 1.07 | 1.05 |
| Sales / Average accounts receivable | 13.92 | 13.59 | 12.75 | 13.60 | 13.54 | 13.61 | 13.67 | 13.67 | 13.61 | 13.54 | 13.48 | 13.48 | 13.48 |
| ***Financial Leverage Ratios:*** | | | | | | | | | | | | | |
| Total liabilities / Total assets | 0.57 | 0.63 | 0.61 | 0.60 | 0.58 | 0.57 | 0.56 | 0.55 | 0.54 | 0.53 | 0.52 | 0.51 | 0.50 |
| Total equity / Total assets | 0.43 | 0.37 | 0.39 | 0.40 | 0.42 | 0.43 | 0.44 | 0.45 | 0.46 | 0.47 | 0.48 | 0.49 | 0.50 |
| Debt / Equity ratio | 0.57 | 0.90 | 0.78 | 0.80 | 0.75 | 0.71 | 0.68 | 0.64 | 0.60 | 0.58 | 0.55 | 0.52 | 0.50 |
| ***Profitability Ratios:*** | | | | | | | | | | | | | |
| Net income / Total stockholders' equity | 40.65% | 31.87% | 29.57% | 25.73% | 24.04% | 23.66% | 23.35% | 22.92% | 21.72% | 21.07% | 20.34% | 19.58% | 18.91% |
| Net income / Total assets | 17.31% | 11.76% | 11.56% | 10.42% | 10.02% | 10.11% | 10.21% | 10.26% | 9.97% | 9.89% | 9.76% | 9.60% | 9.46% |
| Operating income / Revenue | 14.25% | 10.36% | 12.62% | 12.02% | 12.03% | 12.16% | 12.27% | 12.38% | 12.15% | 12.17% | 12.17% | 12.17% | 12.17% |
| ***Payout Policy Ratios:*** | | | | | | | | | | | | | |
| DPS / EPS | 31.25% | 35.02% | 32.68% | 35.57% | 38.09% | 38.25% | 37.91% | 37.45% | 38.37% | 38.60% | 38.99% | 39.41% | 39.67% |
| (Dividend + Repurchases) / Net income | 90.44% | 42.00% | 32.38% | 53.56% | 73.60% | 71.34% | 68.51% | 65.78% | 65.69% | 64.66% | 64.03% | 63.57% | 62.92% |
| Dividends Paid / Net Income | 31.44% | 34.69% | 32.38% | 35.58% | 38.19% | 38.35% | 38.00% | 37.53% | 38.44% | 38.73% | 39.13% | 39.55% | 39.80% |