

# THE TORO COMPANY

Serving Customers Through Superior Innovation and Superior Customer Care

Raymond James 40<sup>th</sup> Annual Institutional Investors Conference

March 4, 2019

Richard M. Olson

Chairman and Chief Executive Officer



## OUR PURPOSE

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

## OUR VISION

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

## OUR MISSION

To deliver superior innovation and to deliver superior customer care.

# Help Our Customers

# Most Trusted

# Superior Innovation & Superior Customer Care



## OUR GUIDING PRINCIPLES

The Toro Company's success is founded on a long history of caring relationships based on trust and integrity. These relationships are the foundation on which we build market leadership with the best in innovative products and solutions to make outdoor environments beautiful, productive, and sustainable. We are entrusted to strengthen this legacy of excellence.

# Caring Relationships

# SAFE HARBOR

- This presentation contains forward-looking statements regarding our proposed acquisition of The Charles Machine Works, Inc., our business, future financial and operating results made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.
- These forward-looking statements are based on management's current assumptions and expectations of future events.
- Actual events and results may differ from those predicted, including for the proposed acquisition, delays in completing the transaction or not completing it at all; delays or failure by Toro in achieving expected synergies and EPS impact; integration challenges; and unanticipated liabilities or exposures.
- Please refer to the cautionary statement and risk factors in our most recent annual report on Form 10-K, subsequent quarterly reports on Form 10-Q, and other filings with the Securities and Exchange Commission.
- This presentation also contains Non-GAAP financial measures and more information about our use of such Non-GAAP financial measures, as well as a reconciliation of the most directly comparable GAAP financial measure to the corresponding Non-GAAP financial measure, can be found in our related financial filings in the section titled "Non-GAAP Financial Measures."

# INVESTMENT SUMMARY

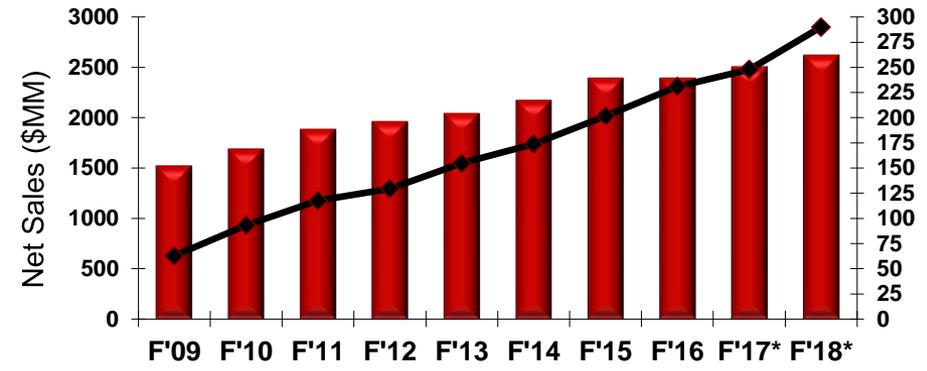
(NYSE: TTC)

## Summary & Financial Performance

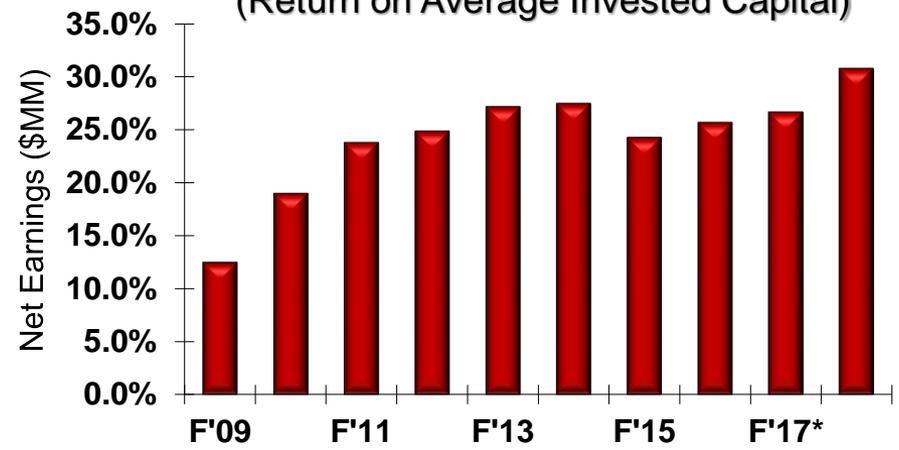
- Rich History and Deep Expertise in Solutions for the Outdoor Environment & Development of Distribution and Customer Care Networks
- Diverse Portfolio of Markets & Products
- Innovation & Brand Leadership
- Strong Financial Performance



(Net Sales & Earnings)



(Return on Average Invested Capital)



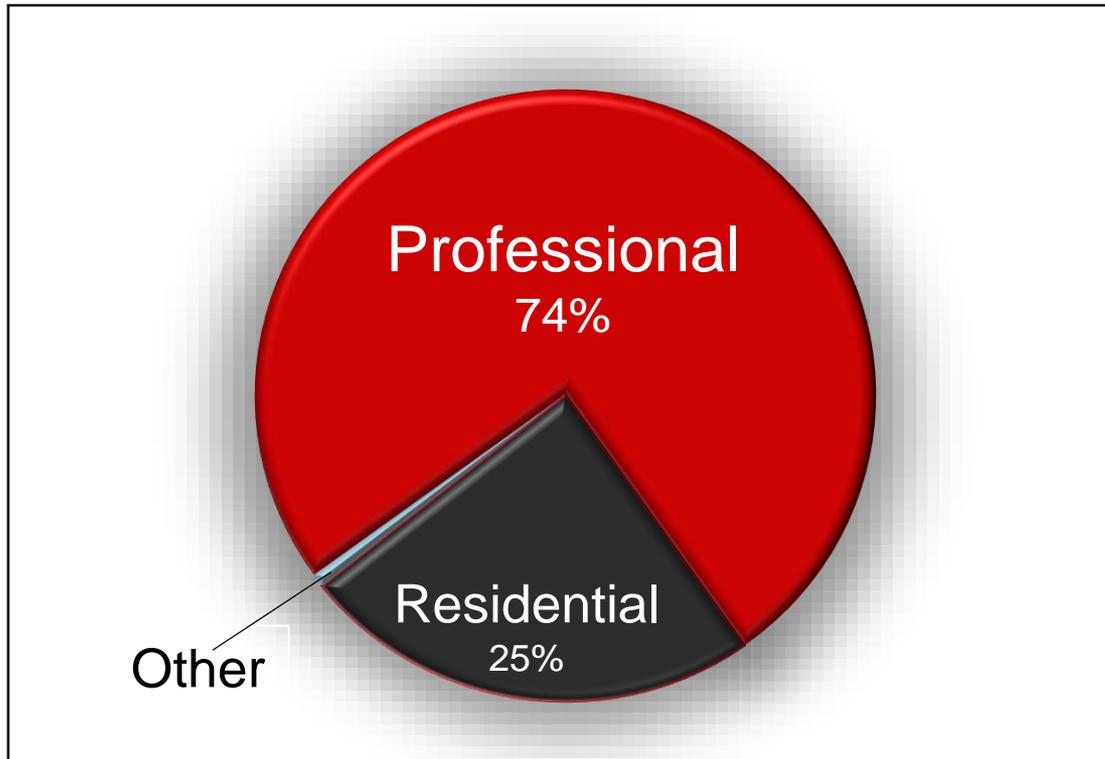
\*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation



# DIVERSE PORTFOLIO

F'18 REVENUES—\$2.6 BILLION

## Segments



**Professional**  
F'18 Sales: \$1.95B  
F'18 Segment Earnings: 20.5%

**Residential**  
F'18 Sales: \$650M  
F'18 Segment Earnings: 9.9%

## Products



# PROFESSIONAL SEGMENT

## Landscape and Grounds Market

Turf  
Equipment

Snow & Ice  
Management

Irrigation &  
Lighting

Rental &  
Specialty  
Construction



- Serving Contractor Needs Year-Round
- Heavy Use Drives Replacement & Parts
- TTC Advantage
  - Leverage Brand & Product Leadership
  - Product Innovation, Durability & Quality



# PROFESSIONAL SEGMENT

## Golf Market



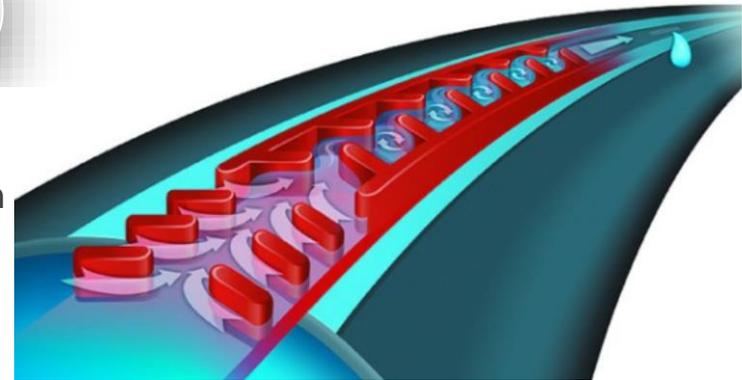
- Turf Equipment & Irrigation Systems
- TTC Advantage
  - Innovation & Performance—Share Gain & Margin Expansion
  - Strong Network of Distributors, Relationships & Customer Care



## Micro-Irrigation Market



- Fundamentals & Opportunities
  - Efficient Water Use & Higher Demand for Food Production
  - Increase Yields & Reduce Resources (e.g. Water, Energy, Fertilizer)
- TTC Advantage
  - Product Quality & Innovation—Blue Stripe® and AquaTraxx®
  - Leverage Investments in New Geographic Markets



	Flood	Center Pivot	Micro
<b>Acreage</b>	50%	40%	10%
<b>Efficiency</b>	40%	70%	90%+

# RESIDENTIAL SEGMENT

## For the Homeowner



- Walk-Behind & ZTR Mowers, Snow Throwers, Handheld Maintenance Products
- TTC Advantage
  - Powerful Brands
  - Leadership in Product Innovation, Quality & Durability
  - Strong Home Center Relationship
  - Strong Servicing Dealer Network



Customer Reviews

***"I love the snow blower it had no problems whatsoever working through the ice and snow. I'm very pleased with this product."***

LawrenceSanders - Ohio  
Great Product

# CHARLES MACHINE WORKS OVERVIEW

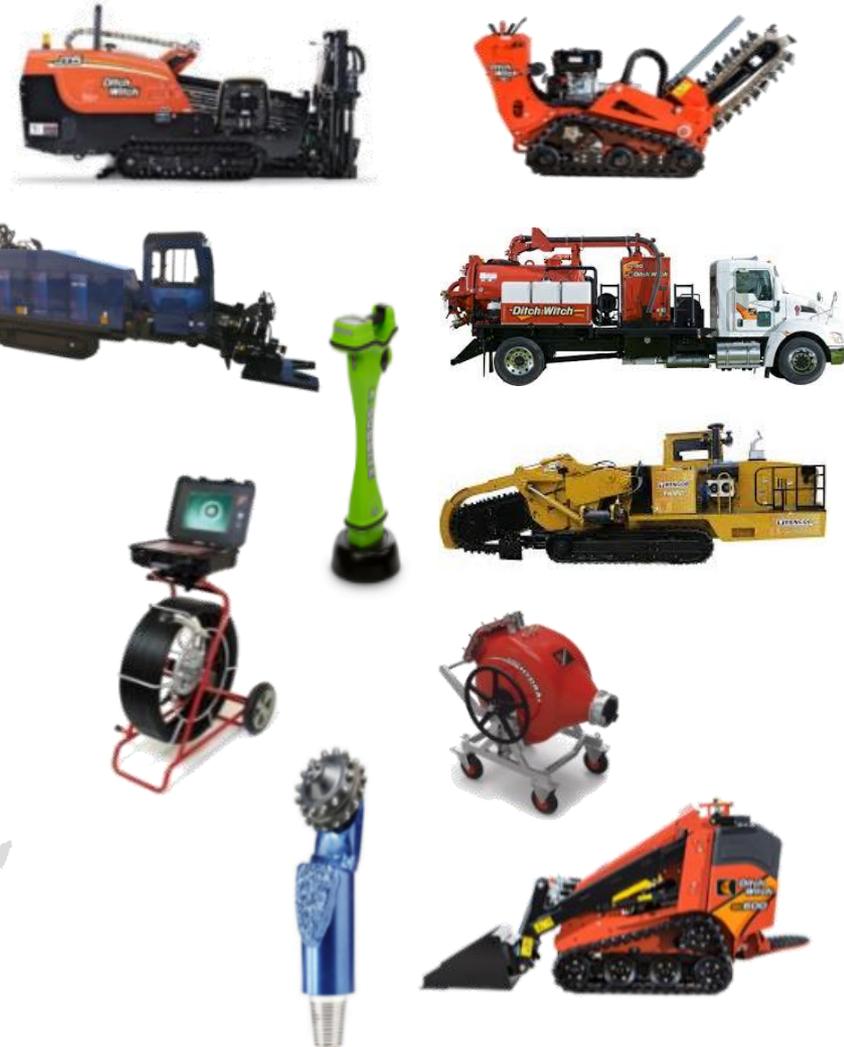
## Summary

- Portfolio of leading brands
  - Ditch Witch® , American Augers®, Subsite®, Trencor®, Hammerhead®, Radius®, MTI®
- Global network of world class dealers
- Founded in 1902; HQ Perry, OK
  - 2,100 global employees

## Production Footprint



## Key Products



# STRATEGIC RATIONALE

*GREAT BRANDS - GREAT PRODUCTS - GREAT CHANNELS*

- Strong underground construction brands
- Complements Toro's specialty construction portfolio
  - Best-in-class dealer network
  - Long-standing customer relationships
  - Breadth of product offerings
- Expands business in adjacent growth areas
  - Infrastructure (water, wastewater)
  - Telecom (fiber optics, 5G)
  - Utilities (gas, electricity)
- Well aligned with Toro's values and performance-based culture
  - Focus on innovation
  - Importance of long-term relationships
  - Commitment to community
- Anticipate significant cost synergies and working capital improvement opportunities



**Driving growth and long-term value creation for shareholders**

# DRIVING CONTINUOUS IMPROVEMENT THROUGH EMPLOYEE INITIATIVES



F'01 – F'03

- ✓ Goal to achieve 5% PAT



F'04 – F'06

- ✓ Goal to achieve "6%+" PAT
- ✓ Goal to drive 8% 3 year compound revenue growth
- ✓ Began LEAN journey



F'07 – F'09

- Goal to drive 3 year compound revenue growth of 8%
- Goal to achieve "7%+" PAT
- ✓ Working capital as % of sales "in the teens"



F'10

- ✓ Singular Goal – 5% PAT



F'11 – F'14

- \$100M+ organic growth each year
- ✓ 12%+ operating earnings by end of F'14



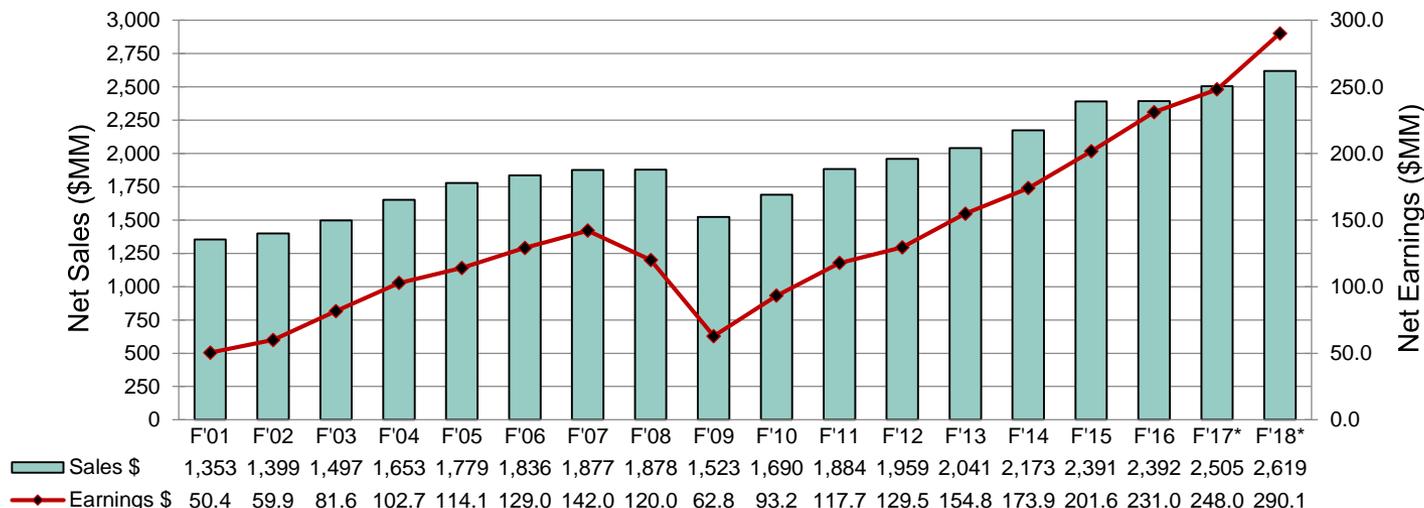
F'15 – F'17

- 5% or more organic growth each year
- ✓ 13%+ operating earnings by end of F'17
- Working capital below 13% by end of F'17



F'18 – F'20

- 5% or more organic growth each year
- 15.5% or more operating earnings by end of F'20



\*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation

# CORPORATE RESPONSIBILITY

- The Toro Company continually seeks to improve its energy efficiency and reduce the environmental footprint of its global manufacturing facilities.
- The Toro Company's values-based culture governs how our people conduct business, interact with each other, and support our customers.
- The Toro Company was founded on an unwavering conviction to conduct business according to the highest standards of ethical behavior.
- The Toro Company believes that along with its industry leadership and financial success comes a responsibility to give back to the communities in which our employees live and work.
- As we strive to attract and retain the very best employees, we are committed to fostering an atmosphere that embraces diversity and supports Toro's programs and policies related to equal opportunity.
- The Toro Company is committed to developing innovative and safe products that yield performance, productivity and environmental benefits for our customers.

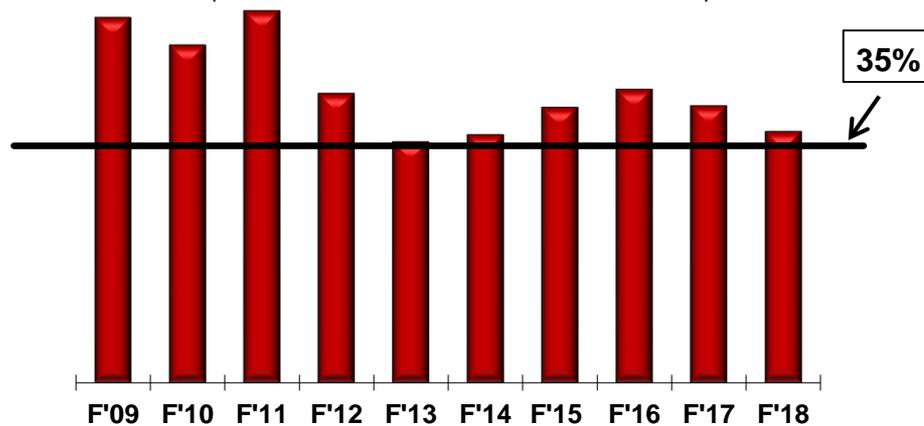


- Leadership Through Innovation
  - Sustained 3%+ Investment in Research & Engineering
  - Passion to Address Customers Unmet Needs
  - Drive Market Share Gains & Margin Expansion
- Acquisitions
  - Bias for Professional, Global, Water & Technology
  - Seeking Platforms for Growth—Adjacencies to Core Businesses
  - Diligent Process—Right Opportunity & Price



## Vitality Index

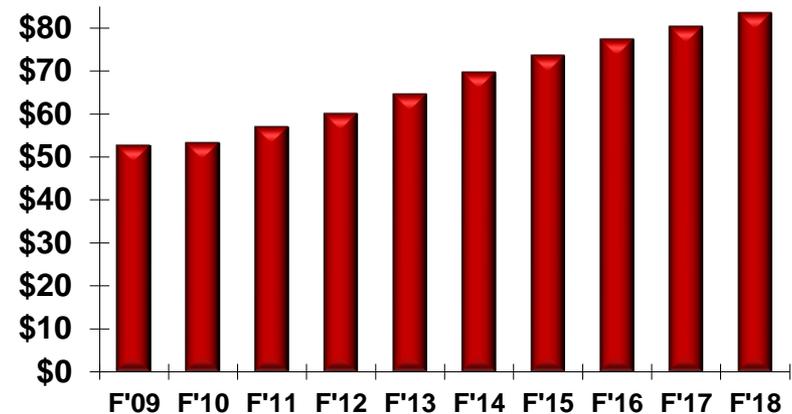
(Percent of Sales from New Products\*)



\*Introduced in Current & Previous Two Fiscal Years

## R&E Investment

(In Millions)



# CAPITAL DEPLOYMENT

Cash From Operations



▣ Free Cash Flow Conversion to Approximate Net Income Over Time

Operating and Growth Needs

- Internal Productive Assets
- Acquisitions & Alliances



▣ Target Debt-to-EBITDA Ratio of 1-2x

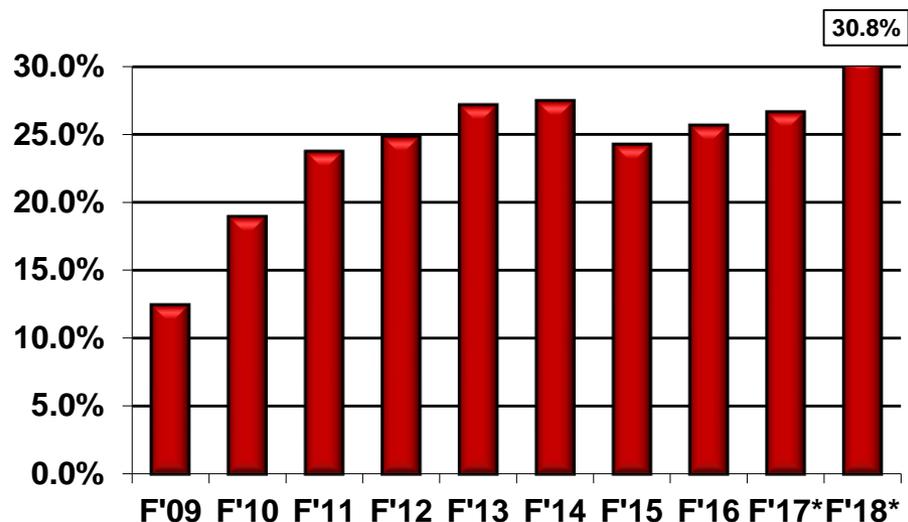
Return to Shareholders

- Regular Dividends (30-40% of 3-Yr Average Reported EPS)
- Share Repurchases

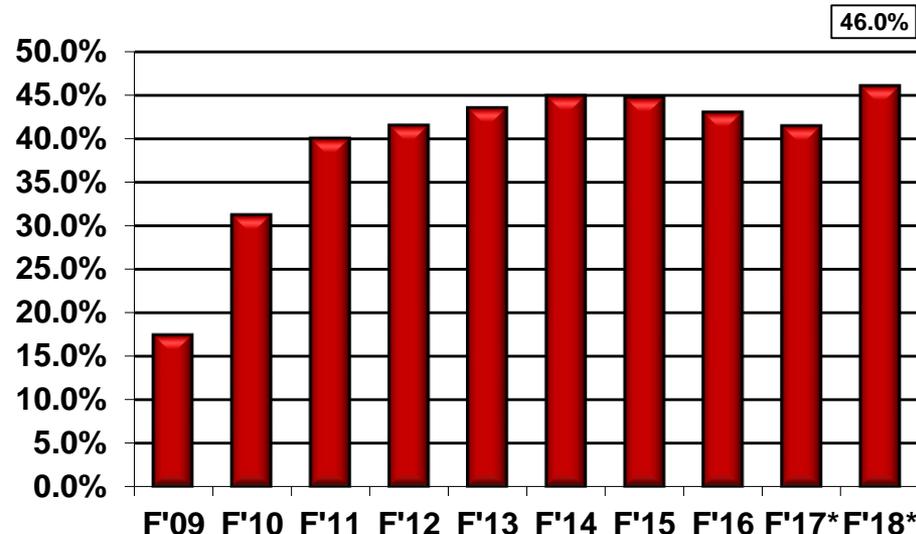
(\$ millions)	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17	F'18
Operating Cash Flow	\$193	\$120	\$200	\$234	\$197	\$250	\$384	\$361	\$365
Capital Expenditures	\$49	\$57	\$43	\$49	\$71	\$56	\$51	\$58	\$90
Strategic Acquisitions (net of cash)	\$10	\$15	\$10	\$2	\$1	\$198	\$0	\$24	\$31
Dividends Paid	\$24	\$25	\$26	\$32	\$45	\$56	\$66	\$76	\$85
Share Repurchases	\$136	\$130	\$93	\$99	\$102	\$106	\$110	\$159	\$160
Total Capital Deployed	\$218	\$227	\$172	\$183	\$219	\$416	\$227	\$318	\$367
% of Operating Cash Flow	113%	190%	86%	78%	111%	167%	59%	88%	101%

# KEY PERFORMANCE MEASURES

Return on Average Invested Capital (%)\*



Return on Average Equity (%)\*

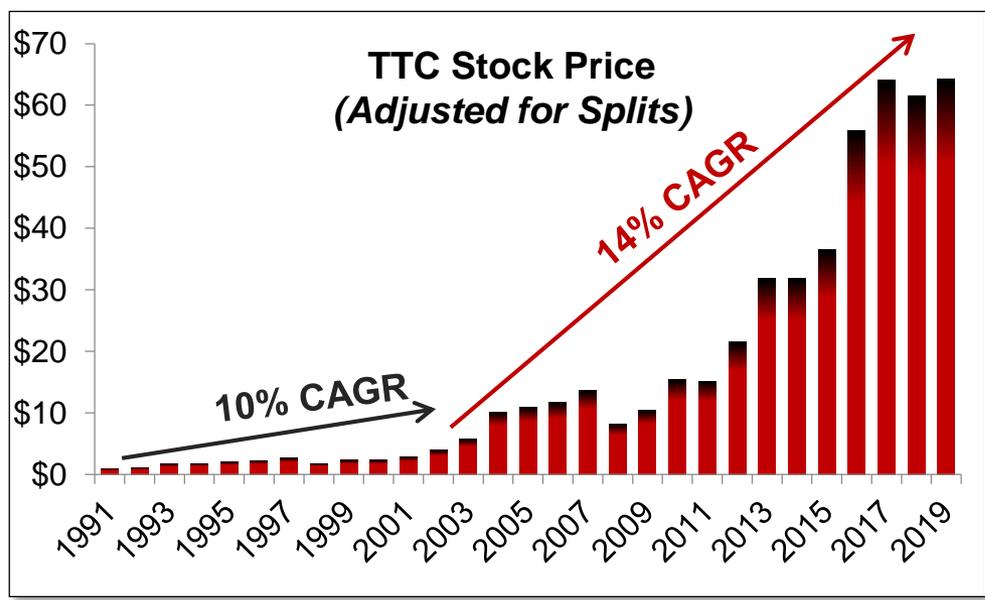
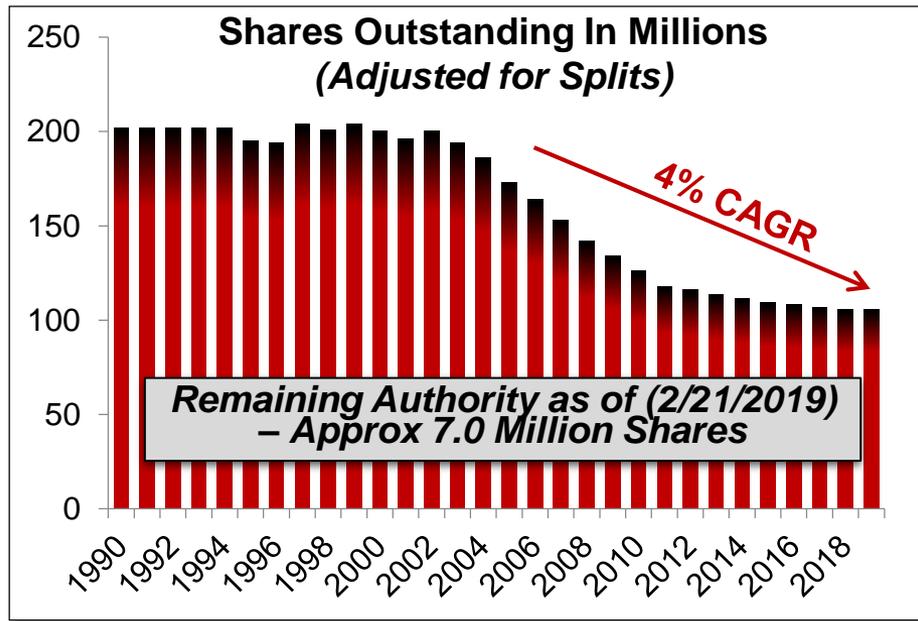
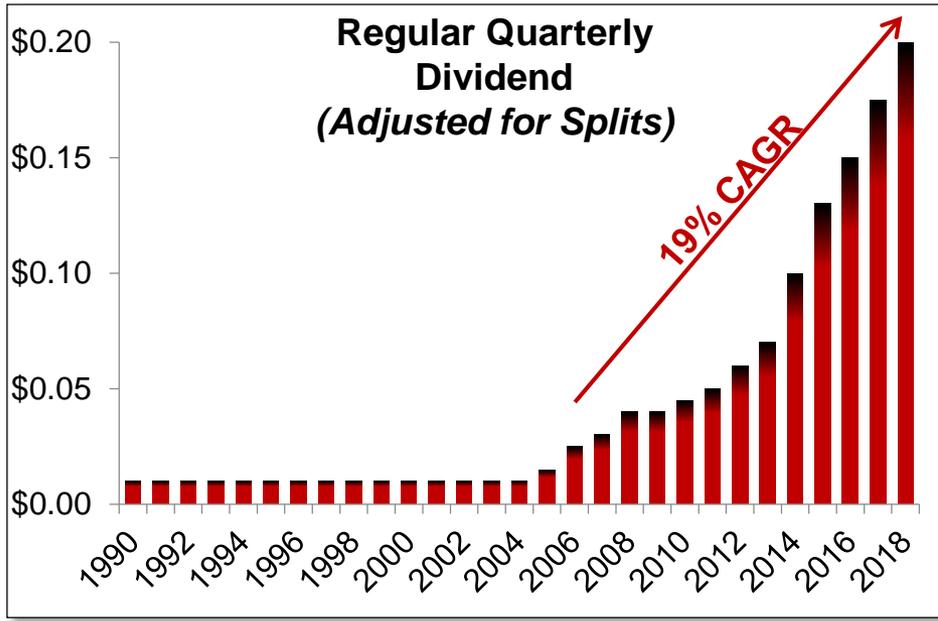


## Cash Flow

	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17	F'18
Operating Activities Net Cash	\$193.2M	\$119.9M	\$199.9M	\$234.4M	\$196.9M	\$249.6M	\$384.3M	\$360.7M	\$364.8M
Cap Ex	(\$48.7M)	(\$57.4M)	(\$43.2M)	(\$49.4M)	(\$71.1M)	(\$56.4M)	(\$50.7M)	(\$58.3M)	(\$90.1M)
<b>Free Cash Flow</b>	<b>\$144.5M</b>	<b>\$62.5M</b>	<b>\$156.7M</b>	<b>\$184.9M</b>	<b>\$125.8M</b>	<b>\$193.2M</b>	<b>\$333.6M</b>	<b>\$302.5M</b>	<b>\$274.7M</b>

\*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation

# INCREASING SHAREHOLDER VALUE



# SUMMARY

## GAINING MOMENTUM

### Building on a Solid Foundation

- Beginning our Second Century of Innovation, Relationships & Excellence
- Enduring Company Culture & Effective Employee Initiatives
- Demonstrated Consistent Financial Performance



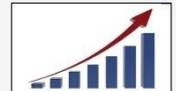
### Leveraging a High Value Business Model

- Diverse Portfolio with Strong Brands & Market Share
- Solid Financial Returns & Strong Balance Sheet
- Consistent Return of Value to Shareholders



### Driving Growth and Profitability

- Mid-Single Digit Growth Annually
- Market Share & Margin Expansion Opportunities
- Disciplined Process & Financial Capacity for Acquisitions





**APPENDIX****NON-GAAP FINANCIAL MEASURES**

- This presentation contains certain non-GAAP financial measures.
- Management believes that the presentation of the non-GAAP measures provides useful information to investors and that these measures may assist investors in evaluating our operations.
- This Appendix includes a reconciliation of the non-GAAP financial measures used in the presentation to the most directly comparable GAAP financial measure.
- Non-GAAP financial measures have limitations as analytical tools, and should not be considered in isolation, or as a substitute for, our financial results prepared in accordance with U.S. GAAP.
- Investors should note that any non-GAAP financial measure we use may not be the same non-GAAP financial measure, and may not be calculated in the same manner, as that of other companies.

# NON-GAAP RECONCILIATIONS

## Return on Average Invested Capital (%)

(\$ in Millions)	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17*	F'18*
<b>Op Earn * (1-Tax Rate)</b>	\$75.6	\$99.8	\$124.2	\$135.7	\$157.5	\$178.4	\$207.2	\$233.7	\$249.3	\$290.6
<b>Avg. Quarterly Capital Utilized</b>	\$606.0	\$526.6	\$522.0	\$544.1	\$579.5	\$649.1	\$852.7	\$910.1	\$935.4	\$944.0
<b>ROIC</b>	<b>12.5%</b>	<b>19.0%</b>	<b>23.8%</b>	<b>24.9%</b>	<b>27.2%</b>	<b>27.5%</b>	<b>24.3%</b>	<b>25.7%</b>	<b>26.7%</b>	<b>30.8%</b>

$$\frac{\text{Operating Earnings* (1-Tax Rate)}}{\text{Avg. Quarterly Capital Utilized}} = \text{ROIC}$$

## Return on Average Equity (%)

(\$ in Millions)	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17*	F'18*
<b>Net Income</b>	\$62.8	\$93.2	\$117.7	\$129.5	\$154.8	\$173.9	\$201.6	\$231.0	\$248.0	\$290.1
<b>Avg. Quarterly Equity</b>	\$361.3	\$298.6	\$294.4	\$312.4	\$355.8	\$387.1	\$451.0	\$537.6	\$599.5	\$630.8
<b>ROAE</b>	<b>17.4%</b>	<b>31.2%</b>	<b>40.0%</b>	<b>41.5%</b>	<b>43.5%</b>	<b>44.9%</b>	<b>44.7%</b>	<b>43.0%</b>	<b>41.4%</b>	<b>46.0%</b>

$$\frac{\text{Net Income}}{\text{Avg. Quarterly Equity}} = \text{ROAE}$$

\*Non-GAAP Measures: F'17 & F'18 ROIC and ROAE are calculated with Adjusted Tax Rate and Adjusted Net Earnings

# FIRST QUARTER NON-GAAP RECONCILIATIONS

The following is a reconciliation for our reported net earnings, reported diluted earnings per share (EPS), and reported effective tax rate to our adjusted net earnings, adjusted diluted EPS, and adjusted effective tax rate:

(\$ In Thousands, Except Per-Share Data)	Net Earnings		Diluted EPS		Effective Tax Rate	
	February 1, 2019	February 2, 2018	February 1, 2019	February 2, 2018	February 1, 2019	February 2, 2018
<b>As Reported - GAAP</b>	\$59,540	\$22,604	\$0.55	\$0.21	15.0%	66.0%
<b>Impacts of tax reform:</b>						
<b>Net deferred tax asset revaluation</b>	--	20,513	--	0.19	--	(30.9)%
<b>Deemed repatriation tax</b>	--	12,600	--	0.11	--	(19.0)%
<b>Benefit of the excess tax deduction for share-based compensation</b>	(4,361)	(3,576)	(0.04)	(0.03)	6.2%	5.4%
<b>As Adjusted – Non-GAAP</b>	<b>\$55,179</b>	<b>\$52,141</b>	<b>\$0.51</b>	<b>\$0.48</b>	<b>21.2%</b>	<b>21.5%</b>

# EARNINGS HISTORY

## F'14 - F'18

(\$ millions except EPS)	F'14	F'15	F'16	F'17*	F18*
<b>Net Sales</b>	\$2,172.7	\$2,390.9	\$2,392.2	\$2,505.2	\$2,618.7
<b>Percent Growth</b>	6.4%	10.0%	0.1%	4.7%	4.5%
<b>Gross Profit</b>	\$773.3	\$835.9	\$874.6	\$920.8	\$941.0
<b>% of Sales</b>	35.6%	35.0%	36.6%	36.8%	35.9%
<b>SG&amp;A</b>	\$510.1	\$536.8	\$540.2	\$565.7	\$567.9
<b>% of Sales</b>	23.5%	22.5%	22.6%	22.6%	21.7%
<b>Operating Earnings</b>	\$263.2	\$299.1	\$334.4	\$355.1	\$373.1
<b>% of Sales</b>	12.1%	12.5%	14.0%	14.2%	14.2%
<b>Other (Inc)/Exp</b>	\$8.7	\$10.7	\$15.4	\$17.2	\$18.4
<b>Interest Expense</b>	-\$15.4	-\$18.8	-\$19.3	-\$19.1	-\$19.1
<b>Pretax Earnings</b>	\$256.4	\$291.0	\$330.5	\$353.2	\$372.4
<b>% of Sales</b>	11.8%	12.2%	13.8%	14.1%	14.2%
<b>Net Earnings*</b>	\$173.9	\$201.6	\$231.0	\$248.0	\$290.1
<b>% of Sales</b>	8.0%	8.4%	9.7%	9.9%	11.1%
<b>% Growth</b>	12.3%	15.9%	14.6%	7.4%	17.0%
<b>EPS*</b>	\$1.51	\$1.78	\$2.06	\$2.23	\$2.67
<b>% Growth</b>	15.3%	17.5%	15.7%	8.3%	19.7%

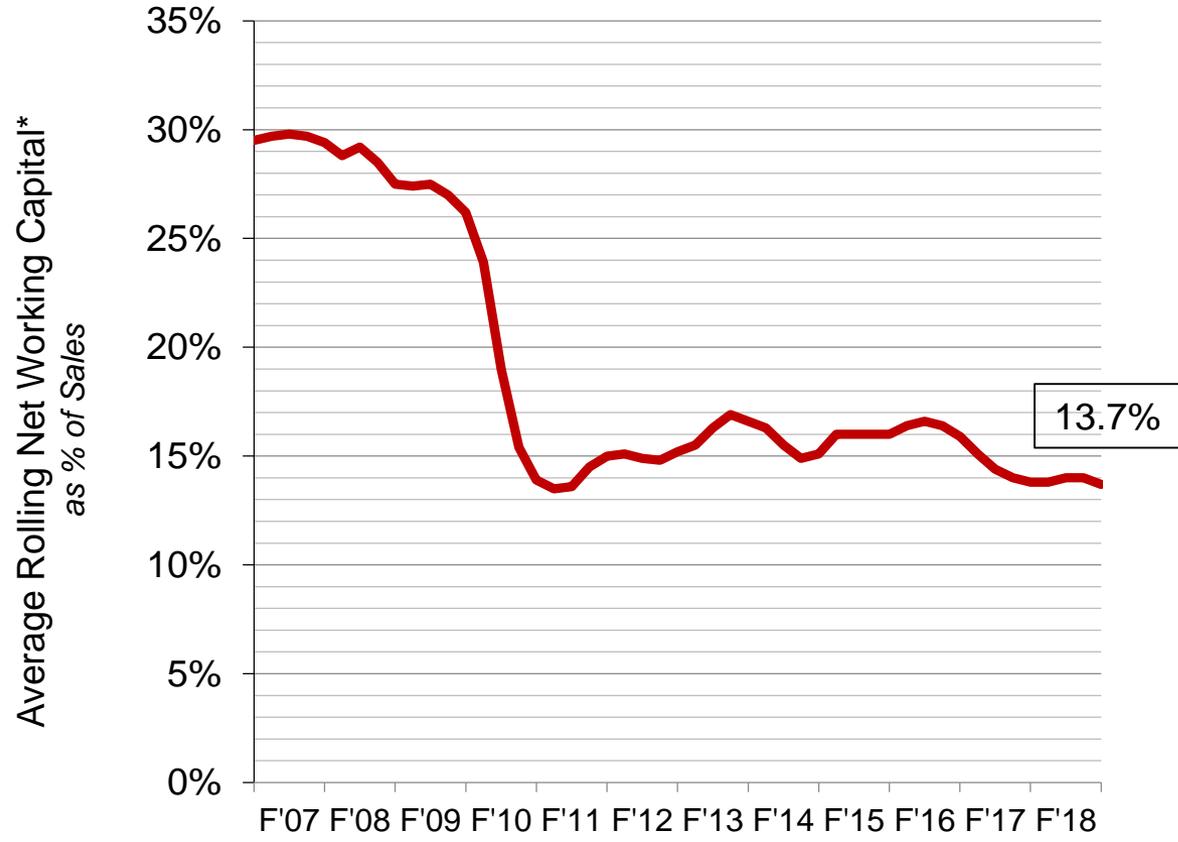
\*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation

# ***FYE BALANCE SHEET***

## ***F'14 - F'18***

<b>(\$ millions)</b>	<b>F'14</b>	<b>F'15</b>	<b>F'16</b>	<b>F'17</b>	<b>F'18</b>
<b>Cash</b>	<b>\$ 314.9</b>	<b>\$ 126.3</b>	<b>\$ 273.6</b>	<b>\$ 310.3</b>	<b>\$ 289.1</b>
<b>Accts Receivable</b>	<b>\$ 158.2</b>	<b>\$ 177.0</b>	<b>\$ 163.3</b>	<b>\$ 183.1</b>	<b>\$ 193.2</b>
<b>Inventory</b>	<b>\$ 274.6</b>	<b>\$ 334.5</b>	<b>\$ 307.0</b>	<b>\$ 329.0</b>	<b>\$ 358.3</b>
<b>Current Assets</b>	<b>\$ 781.2</b>	<b>\$ 672.6</b>	<b>\$ 779.0</b>	<b>\$ 859.9</b>	<b>\$ 894.6</b>
<b>Total Assets</b>	<b>\$1,188.9</b>	<b>\$1,300.4</b>	<b>\$1,384.6</b>	<b>\$1,493.8</b>	<b>\$1,571.0</b>
<b>Short-Term Debt</b>	<b>\$ 20.8</b>	<b>\$ 0.2</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>
<b>Current Portion LT Debt</b>	<b>\$ 6.6</b>	<b>\$ 23.1</b>	<b>\$ 22.5</b>	<b>\$ 26.3</b>	<b>\$ 0.0</b>
<b>Total Curr Liabilities</b>	<b>\$ 400.4</b>	<b>\$ 443.7</b>	<b>\$ 163.8</b>	<b>\$ 521.8</b>	<b>\$ 532.6</b>
<b>Long-Term Debt</b>	<b>\$ 343.8</b>	<b>\$ 351.6</b>	<b>\$ 328.5</b>	<b>\$ 305.6</b>	<b>\$ 312.5</b>
<b>Equity</b>	<b>\$ 408.7</b>	<b>\$ 462.2</b>	<b>\$ 550.0</b>	<b>\$ 617.1</b>	<b>\$ 668.9</b>
<b>Total Debt/Capital</b>	<b>47.6%</b>	<b>44.8%</b>	<b>39.0%</b>	<b>35.0%</b>	<b>31.8%</b>
<b>Average Debt</b>	<b>\$ 244.1</b>	<b>\$ 399.6</b>	<b>\$ 373.0</b>	<b>\$ 338.3</b>	<b>\$ 316.4</b>

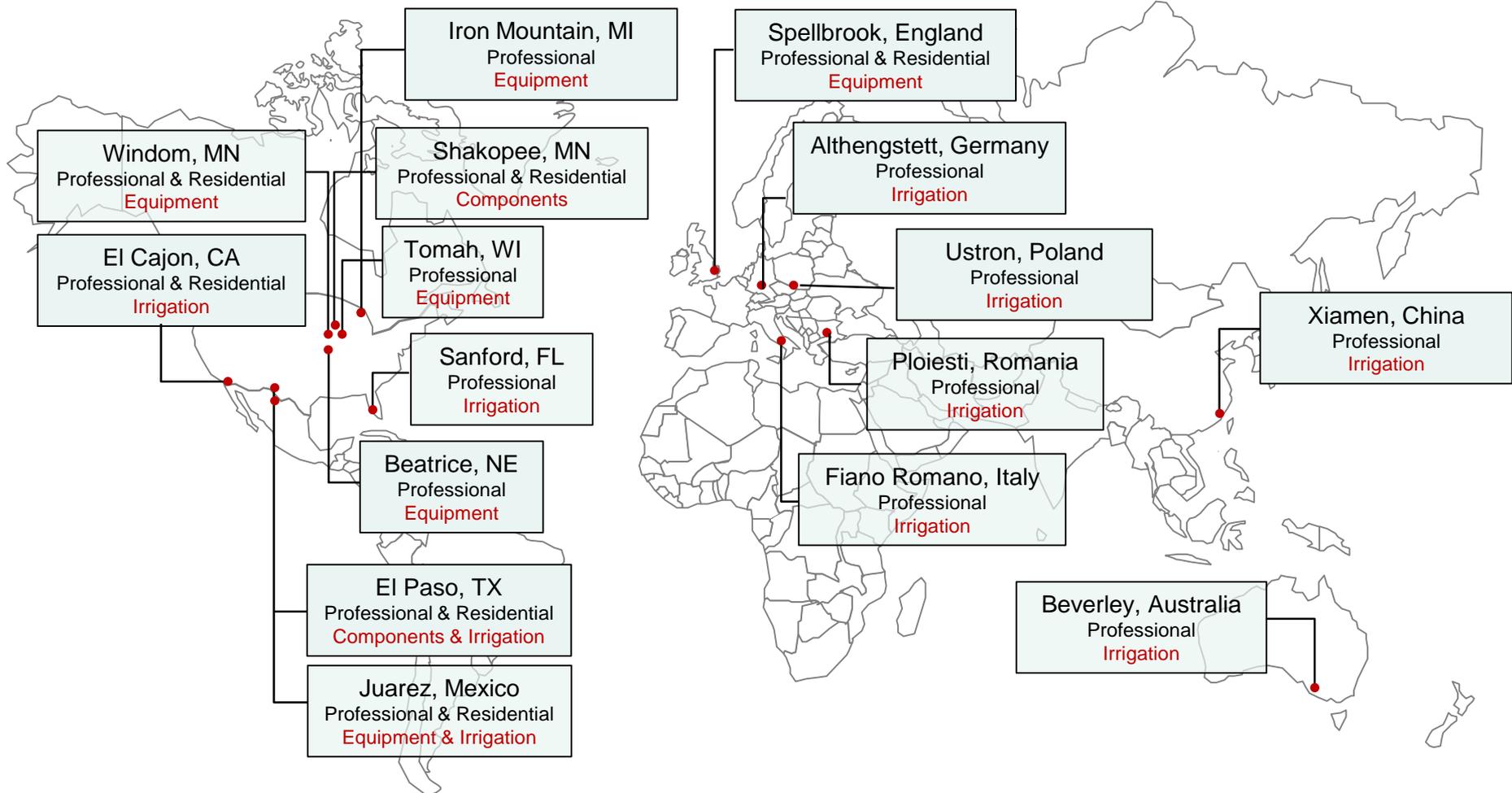
# WORKING CAPITAL IMPROVEMENT



- ### A Few Key Numbers
- Achieved long-term working capital goal at end of F'10
  - More than \$300M of average working capital freed up for other uses
    - A/R down over 50%
    - Inventory down over 30%
    - Payables up over 30%
  - Renewed focus on working capital with a goal to get "In the teens"

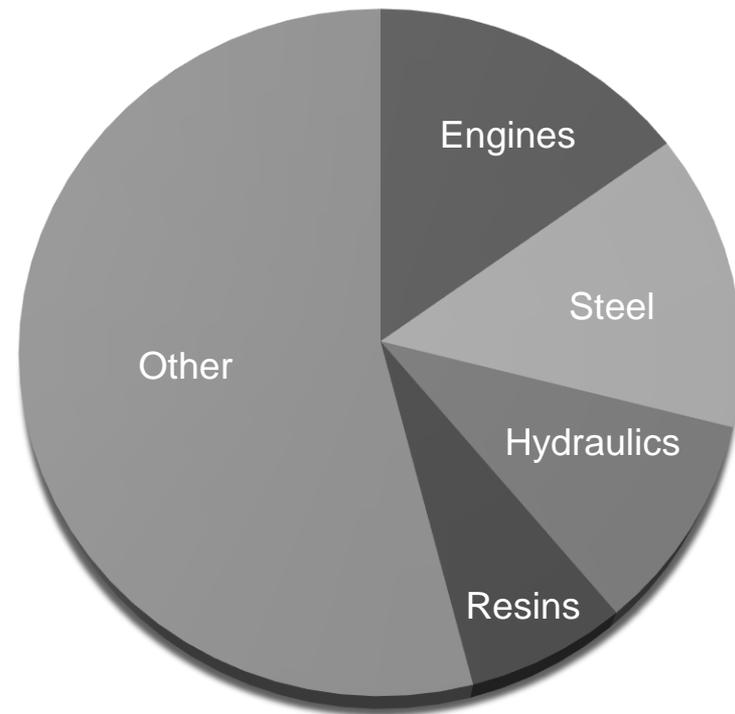
*\*Non-GAAP Measure:  
 Average net working capital as % of net sales for trailing 12 months  
 Net Working Capital = Accounts Receivable+ Net Inventory – Trade Payables*

# MANUFACTURING FACILITIES



# ***MATERIAL COSTS***

## Major Components of Cost of Goods Sold



# ***F'19 Q1 RESULTS***

***(RELEASED FEBRUARY 21, 2019)***

	F'19 Q1	▲ from F'18 Q1
<b>Revenues</b>	\$603.0M	+10.0%
<b>Gross Margin</b> (% of Revenues)	35.8%	-150 bps
<b>SG&amp;A</b> (% of Revenues)	24.2%	-90 bps
<b>Operating Earnings</b> (\$)	\$70.1M	+4.8%
<b>Operating Earnings</b> (% of Revenues)	11.6%	-60 bps
<b>Reported EPS</b>	\$0.55	+161.9%
<b>Adjusted EPS*</b>	\$0.51	+6.3%

*\*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation*

# TRANSACTION SUMMARY



CHARLES MACHINE WORKS  
THE UNDERGROUND AUTHORITY

- The Toro Company to acquire Charles Machine Works (CMW) for \$700M
  - 8x EBITDA, inclusive of \$30M anticipated annual run-rate synergies
  - CY18E revenues of \$725M
  - Immediately accretive to EPS\*
  - Expected to close by the end of F'2019 Q3, subject to customary regulatory approvals
  - Financed with new debt
- Manufactures and distributes equipment and parts for the professional contractor in the underground construction market
- Portfolio includes market-leading Ditch Witch® brand
  - Invented the underground utility construction industry
  - Largest business within CMW portfolio
- Will strengthen our well-diversified portfolio of products and dramatically enhances our underground and specialty construction business



\*Excludes purchase accounting adjustments and transaction related expenses



UNIQUE  
LIGHTING SYSTEMS®



HAYTER  
MAKERS OF THE FINEST MOWERS



Irritrol.

