UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended August 4, 2023

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period from to
Commission File Number: **1-8649**

THE TORO COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**41-0580470**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.

8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196
Telephone Number: (952) 888-8801
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	**TTC**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's common stock outstanding as of August 31, 2023 was 103,844,080.

THE TORO COMPANY
FORM 10-Q
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we or others on our behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on our web sites or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions that we believe to be reasonable. Forward-looking statements are based on our current expectations of future events and often can be identified in this report and elsewhere by using words such as "expect," "strive," "outlook," "guidance," "forecast," "goal," "anticipate," "continue," "plan," "estimate," "project," "target," "improve," "believe," "become," "should," "could," "will," "would," "possible," "may," "likely," "intend," "can," "pursue," "potential," "pro forma," variations of such words or the negative thereof, and similar expressions or future dates. Our forward-looking statements generally relate to our future performance, including our anticipated operating results, liquidity requirements, and financial condition; the anticipated impacts of current global supply chain disruptions, the inflationary environment, the war between Ukraine and Russia and the related sanctions and geopolitical tensions, tight labor markets and other macroeconomic factors; our business strategies, priorities, goals, and commitments; acquisitions and business initiatives; and the effect of laws, rules, policies, regulations, tax reform, new accounting pronouncements, and outstanding litigation on our business and future performance.

Forward-looking statements are only projections and involve risks and uncertainties that could cause actual results to differ materially from those projected or implied in the forward-looking statements. The following are some of the factors known to us that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements:

- Adverse economic conditions and outlook in the United States and in other countries in which we conduct business, such as but not limited to: economic uncertainty; business slowdowns, suspensions or delays of production and commercial activity; slow or negative economic growth rates or recessionary conditions; reduced or negative consumer confidence; reduced consumer spending levels; changing consumer preferences; inflationary or deflationary pressures; higher short-term, mortgage, and other interest rates; increased or prolonged high or low unemployment rates and tight labor markets; higher costs, longer lead times and reduced availability of commodities, components, parts, and accessories, including as a result of transportation-related costs, inflation, changing prices, foreign currency fluctuations, tariffs, and/or duties; slowdowns or reductions in levels of interest in the game of golf or golf course activity, development, renovation, or improvement; golf course closures; reduced customer, governmental or municipal spending; reduced infrastructure spending; reduced levels of home ownership, construction, or sales; home foreclosures; the impact of U.S. federal debt, state debt, and sovereign debt defaults; reduced credit availability or unfavorable credit terms for us or our distributors, dealers, or end-user customers; and general economic and political conditions and expectations;
- Effect that weather conditions or climate change have on demand for our products and operations, including our supply chain;
- Continuing disruption, and/or shortages in the availability of and the cost of commodities, components, parts, or accessories used in our products;
- Our ability to maintain appropriate inventory levels, including as a result of global supply chain disruptions or changes in purchasing patterns by customers, and if we underestimate or overestimate demand for our products, and the effect of inventory management decisions of our distribution channel customers;
- Risks associated with our acquisitions and alliances, strong customer relations, and new joint ventures, investments, or partnerships and our failure to successfully complete divestitures or other restructuring activities, including without limitation our ability to integrate acquired businesses and to address material issues both identified and not uncovered during our due diligence review, loss of substantial customers, and the ability of acquired companies or our alliances, joint ventures, investments or partnerships to achieve satisfactory operating results, including results being accretive to earnings, realization of synergies and expected cash flow generation, which could lead to impairment, restructuring, and other charges;
- Our ability to continue to enhance existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance;
- Changes in our product mix;
- Effect of competition;
- Our ability to cost-effectively expand and renovate existing facilities, open and manage new or acquired facilities, move production between manufacturing facilities, and/or any disruption at or near any of our facilities or other operations or those of our suppliers, distribution channel customers, mass retailers, or home centers where our products are sold;
- Our ability to retain our executive officers or other key employees, attract and retain other qualified employees or successfully implement executive officer, key employee or other leadership or employee transitions and any failure by us, or our suppliers or distribution channel partners, to hire and/or retain a labor force to enhance existing products and

develop and market new products, adequately staff manufacturing operations, perform service or warranty work or other necessary activities, or allow employees to adequately and safely perform their jobs;
- Changes in composition of, financial viability of, and the relationships with, our distribution channel customers;
- Risks associated with our credit arrangements and ratings and any material change in the availability or terms of, or termination or disruption of, credit offered to our customers, distributors, and dealers;
- Risks associated with our international operations, including but not limited to the effect of foreign currency exchange rate fluctuations and compliance with foreign legal and regulatory requirements, the war between Ukraine and Russia and the related sanctions and geopolitical tensions, political risks associated with the potential instability of governments and legal systems in countries in which we or our customers or suppliers conduct business, and other potential conflicts;
- Our failure to comply with all applicable legal and regulatory requirements and the effect of product quality issues, product liability claims, and other litigation to which we are or may be subject;
- Our ability to obtain and protect our intellectual property and other proprietary rights or operate our business without infringing upon the intellectual property or other proprietary rights of others;
- Failure of our information systems or information security practices or those of our business partners or third-party service providers to adequately perform and/or protect sensitive or confidential information;
- Risks associated with a possible U.S. governmental shutdown and its impact on the U.S. economy, capital markets and our business;
- Our ability to achieve our financial projections or other business initiatives in the time periods that we anticipate or at all;
- Changes in accounting or tax standards and policies and/or assumptions utilized in determining accounting tax estimates; and
- Impact of increased scrutiny on our environmental, social and governance (“ESG”) practices, our ability to meet our ESG company goals and recent and SEC rule making on ESG, as well as cybersecurity, stock repurchase, executive compensation and other disclosures.

For more information regarding these and other uncertainties and factors that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements or otherwise could materially adversely affect our business, financial condition, or operating results, see our most recently filed Annual Report on Form 10-K, Part I, Item 1A, "Risk Factors;" Part II, Item 1A, "Risk Factors" of this report; and our subsequent filings with the SEC.

All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. We caution readers not to place undue reliance on any forward-looking statement which speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, the risks described in our most recent Annual Report on Form 10-K, Part I, Item 1A, "Risk Factors" and Part II, Item 1A, "Risk Factors" of this report, and our subsequent SEC filings, as well as others that we may consider immaterial or do not anticipate at this time. These risks and uncertainties are not exclusive and further information concerning the company and our businesses, including factors that potentially could materially affect our financial results or condition, may emerge from time to time. We make no commitment to revise or update any forward-looking statements in order to reflect actual results, events or circumstances occurring or existing after the date any forward-looking statement is made, or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures we make on related subjects in our future Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K we file with or furnish to the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	August 4, 2023	July 29, 2022	August 4, 2023	July 29, 2022
Net sales	$ 1,081,784	$ 1,160,550	$ 3,569,950	$ 3,342,678
Cost of sales	709,430	760,644	2,321,951	2,236,927
Gross profit	372,354	399,906	1,247,999	1,105,751
Selling, general and administrative expense	240,163	236,858	760,585	680,500
Non-cash impairment charges	151,263	—	151,263	—
Operating (loss) earnings	(19,072)	163,048	336,151	425,251
Interest expense	(14,987)	(9,182)	(43,822)	(24,219)
Other income, net	5,496	3,225	21,241	8,262
(Loss) earnings before income taxes	(28,563)	157,091	313,570	409,294
Income tax (benefit) provision	(13,600)	31,941	54,208	83,509
Net (loss) earnings	$ (14,963)	$ 125,150	$ 259,362	$ 325,785
Basic net (loss) earnings per share of common stock	$ (0.14)	$ 1.19	$ 2.48	$ 3.10
Diluted net (loss) earnings per share of common stock	$ (0.14)	$ 1.19	$ 2.46	$ 3.08
Weighted-average number of shares of common stock outstanding — Basic	104,286	104,827	104,479	104,931
Weighted-average number of shares of common stock outstanding — Diluted	104,286	105,448	105,409	105,754

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)
(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	August 4, 2023	July 29, 2022	August 4, 2023	July 29, 2022
Net (loss) earnings	$ (14,963)	$ 125,150	$ 259,362	$ 325,785
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(2,013)	(5,792)	16,974	(21,190)
Derivative instruments, net of tax of $(199); $863; $(5,799); and $4,895, respectively	606	2,472	(14,441)	16,043
Other comprehensive (loss) income, net of tax	(1,407)	(3,320)	2,533	(5,147)
Comprehensive (loss) income	$ (16,370)	$ 121,830	$ 261,895	$ 320,638

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in thousands, except per share data)

	August 4, 2023	July 29, 2022	October 31, 2022
ASSETS			
Cash and cash equivalents	$ 147,926	$ 231,564	$ 188,250
Receivables, net	390,677	350,657	332,713
Inventories, net	1,112,692	939,274	1,051,109
Prepaid expenses and other current assets	80,493	82,861	103,279
Total current assets	1,731,788	1,604,356	1,675,351
Property, plant, and equipment, net	624,963	531,816	571,661
Goodwill	451,264	583,803	583,297
Other intangible assets, net	549,190	595,141	585,832
Right-of-use assets	116,623	73,349	76,121
Investment in finance affiliate	48,528	31,389	39,349
Deferred income taxes	41,711	961	5,310
Other assets	21,823	19,134	19,077
Total assets	$ 3,585,890	$ 3,439,949	$ 3,555,998
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	$ —	$ 65,000	$ —
Accounts payable	407,366	487,030	578,624
Accrued liabilities	482,304	443,557	469,242
Short-term lease liabilities	17,828	15,675	15,747
Total current liabilities	907,498	1,011,262	1,063,613
Long-term debt, less current portion	1,061,309	990,616	990,768
Long-term lease liabilities	101,221	60,921	63,604
Deferred income taxes	109	50,332	44,272
Other long-term liabilities	38,670	40,216	42,040
Stockholders' equity:			
Preferred stock, par value $1.00 per share, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	—	—	—
Common stock, par value $1.00 per share, authorized 175,000,000 shares; issued and outstanding 103,834,891 shares as of August 4, 2023, 104,193,673 shares as of July 29, 2022, and 103,969,805 shares as of October 31, 2022	103,835	104,194	103,970
Retained earnings	1,403,840	1,213,551	1,280,856
Accumulated other comprehensive loss	(30,592)	(31,143)	(33,125)
Total stockholders' equity	1,477,083	1,286,602	1,351,701
Total liabilities and stockholders' equity	$ 3,585,890	$ 3,439,949	$ 3,555,998

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	August 4, 2023	**July 29, 2022**
Cash flows from operating activities:		
Net earnings	$ 259,362	$ 325,785
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash income from finance affiliate	(14,099)	(5,814)
Distributions from (Contributions to) finance affiliate, net	4,920	(4,905)
Depreciation of property, plant, and equipment	56,551	54,269
Amortization of other intangible assets	26,828	24,760
Stock-based compensation expense	14,382	17,105
Non-cash impairment charges	151,263	—
Other	720	3,893
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Receivables, net	(52,757)	(38,118)
Inventories, net	(46,580)	(173,000)
Other assets	(74,258)	(32,483)
Accounts payable	(174,743)	(24,858)
Other liabilities	3,076	7,929
Net cash provided by operating activities	154,665	154,563
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(105,700)	(75,772)
Proceeds from insurance claim	7,114	—
Business combinations, net of cash acquired	(20,971)	(402,386)
Asset acquisitions, net of cash acquired	—	(7,225)
Proceeds from asset disposals	399	197
Proceeds from sale of a business	—	4,605
Net cash used in investing activities	(119,158)	(480,581)
Cash flows from financing activities:		
Borrowings under debt arrangements	515,000	700,000
Repayments under debt arrangements	(445,000)	(335,000)
Proceeds from exercise of stock options	19,398	4,440
Payments of withholding taxes for stock awards	(3,748)	(2,308)
Purchases of TTC common stock	(60,040)	(110,004)
Dividends paid on TTC common stock	(106,505)	(94,401)
Other	(1,525)	—
Net cash (used in) provided by financing activities	(82,420)	162,727
Effect of exchange rates on cash and cash equivalents	6,589	(10,757)
Net decrease in cash and cash equivalents	(40,324)	(174,048)
Cash and cash equivalents as of the beginning of the fiscal period	188,250	405,612
Cash and cash equivalents as of the end of the fiscal period	$ 147,926	$ 231,564

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of May 5, 2023	$ 104,136	$ 1,485,046	$ (29,185)	$ 1,559,997
Cash dividends paid on common stock - $0.34 per share	—	(35,417)	—	(35,417)
Issuance of 56,006 shares of common stock under stock-based compensation plans	56	1,791	—	1,847
Stock-based compensation expense	—	3,634	—	3,634
Purchase of 356,757 shares of common stock	(357)	(36,251)	—	(36,608)
Other comprehensive loss	—	—	(1,407)	(1,407)
Net loss	—	(14,963)		(14,963)
Balance as of August 4, 2023	$ 103,835	$ 1,403,840	$ (30,592)	$ 1,477,083
Balance as of October 31, 2022	$ 103,970	$ 1,280,856	$ (33,125)	$ 1,351,701
Cash dividends paid on common stock - $1.02 per share	—	(106,505)	—	(106,505)
Issuance of 490,469 shares of common stock under stock-based compensation plans	490	18,922	—	19,412
Stock-based compensation expense	—	14,382	—	14,382
Contribution of 14,270 shares of common stock to a deferred compensation trust	(14)	—	—	(14)
Purchase of 611,113 shares of common stock	(611)	(63,177)	—	(63,788)
Other comprehensive income	—	—	2,533	2,533
Net earnings	—	259,362		259,362
Balance as of August 4, 2023	$ 103,835	$ 1,403,840	$ (30,592)	$ 1,477,083
Balance as of April 29, 2022	$ 104,568	$ 1,146,771	$ (27,823)	$ 1,223,516
Cash dividends paid on common stock - $0.30 per share	—	(31,447)	—	(31,447)
Issuance of 80,153 shares of common stock under stock-based compensation plans	81	2,112	—	2,193
Stock-based compensation expense	—	5,972	—	5,972
Purchase of 454,482 shares of common stock	(455)	(35,007)	—	(35,462)
Other comprehensive loss	—	—	(3,320)	(3,320)
Net earnings	—	125,150	—	125,150
Balance as of July 29, 2022	$ 104,194	$ 1,213,551	$ (31,143)	$ 1,286,602
Balance as of October 31, 2021	$ 105,206	$ 1,071,922	$ (25,996)	$ 1,151,132
Cash dividends paid on common stock - $0.90 per share	—	(94,401)	—	(94,401)
Issuance of 233,491 shares of common stock under stock-based compensation plans	234	4,239	—	4,473
Stock-based compensation expense	—	17,105	—	17,105
Contribution of 33,162 shares of common stock to a deferred compensation trust	(33)	—	—	(33)
Purchase of 1,212,390 shares of common stock	(1,213)	(111,099)	—	(112,312)
Other comprehensive loss	—	—	(5,147)	(5,147)
Net earnings	—	325,785	—	325,785
Balance as of July 29, 2022	$ 104,194	$ 1,213,551	$ (31,143)	$ 1,286,602

See accompanying Notes to Condensed Consolidated Financial Statements.

1 Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by United States ("U.S.") generally accepted accounting principles ("GAAP") for complete financial statements. Unless the context indicates otherwise, the terms "company," "TTC," "we," "our," or "us" refer to The Toro Company and its consolidated subsidiaries. All intercompany accounts and transactions have been eliminated from the unaudited Condensed Consolidated Financial Statements.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements include all adjustments, consisting primarily of recurring accruals, considered necessary for the fair presentation of the company's consolidated financial position, results of operations, and cash flows for the periods presented. Due to seasonality within the industries in which the company's businesses operate, among other factors, operating results for the nine months ended August 4, 2023 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2023.

The company’s fiscal year ends on October 31 and quarterly results are reported based on three-month periods that generally end on the Friday closest to the calendar quarter end. For comparative purposes, however, the company’s second and third quarters always include exactly 13 weeks of results so that the quarter end date for these two quarters is not necessarily the Friday closest to the calendar month end.

For further information regarding the company's basis of presentation, refer to the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in the company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2022. The policies described in that report are used for preparing the company's quarterly reports on Form 10-Q.

Accounting Policies and Estimates

In preparing the Condensed Consolidated Financial Statements in conformity with U.S. GAAP, management must make decisions that impact the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures, including disclosures of contingent assets and liabilities. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. Estimates are used in determining, among other items, sales promotion and incentive accruals, incentive compensation accruals, income tax accruals, inventory valuation, warranty accruals, allowances for current expected credit losses, pension accruals, self-insurance accruals, legal accruals, right-of-use assets and lease liabilities, useful lives for tangible and finite-lived intangible assets, future cash flows associated with impairment testing for goodwill, indefinite-lived intangible assets and other long-lived assets, and valuations of the assets acquired and liabilities assumed in a business combination or an asset acquisition, when applicable. These estimates and assumptions are based on management’s best estimates and judgments at the time they are made and are generally derived from management's understanding and analysis of the relevant and current circumstances, historical experience, and actuarial and other independent external third-party specialist valuations, when applicable. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with certainty, actual amounts could differ significantly from those estimated at the time the Condensed Consolidated Financial Statements are prepared.

New Accounting Pronouncements

In November 2021, the Financial Accounting Standards Board ("FASB") issued ASU No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The update increases the transparency of government assistance including annual disclosure of the types of assistance, an entity’s accounting for the assistance, and the effect of the assistance on an entity’s financial statements. The amended guidance will become effective for the company for the fiscal 2023 annual period. The adoption of this standard is not expected to have a material impact on the company's Consolidated Financial Statements or annual disclosures.

The company believes that all other recently issued accounting pronouncements from the FASB that the company has not noted above will not have a material impact on its Condensed Consolidated Financial Statements or do not apply to its operations.

2 Business Combinations

Dealer Acquisition

On May 9, 2023, during the third quarter of fiscal 2023, the company completed the acquisition of substantially all of the assets of, and assumed certain liabilities for, a U.S. based dealer of underground construction equipment. The purchase price of this acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value and no goodwill or indefinite-lived intangible assets were recorded. The company finalized the purchase accounting for this acquisition during the third quarter of fiscal 2023. Additional purchase accounting disclosures have been omitted due to immateriality of this acquisition in relation to the company's Consolidated Financial Condition and Results of Operations.

Intimidator Group

On January 13, 2022 ("the closing date"), during the first quarter of fiscal 2022, the company acquired the privately-held Intimidator Group ("Intimidator") for net aggregate purchase consideration of $399.8 million ("the purchase price"). Intimidator primarily designs, manufactures, markets, and sells a commercial-grade line of zero-turn mowers under the Spartan® brand, which are intended to provide innovative turf management solutions to landscape contractors and other customers including homeowners who prefer professional solutions. The acquisition of Intimidator broadened the company's Professional reportable segment and expanded its manufacturing footprint and dealer network.

Purchase Accounting

The company accounted for the acquisition in accordance with the accounting standards codification guidance for business combinations, whereby the purchase price was allocated to the acquired net tangible and intangible assets of Intimidator based on their fair values as of the closing date. During the first quarter of fiscal 2023, the company completed its valuation of income taxes to finalize the purchase price allocation.

The following table summarizes the allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed. These fair values are based on internal company and independent external third-party valuations:

(Dollars in thousands)	**January 13, 2022**
Cash and cash equivalents	$ 975
Receivables	6,954
Inventories	34,608
Prepaid expenses and other current assets	513
Property, plant, and equipment	27,447
Right-of-use assets	344
Goodwill	163,731
Other intangible assets:	
Indefinite-lived trade name	99,100
Finite-lived trade names	3,260
Finite-lived customer-related	80,500
Finite-lived backlog	1,340
Accounts payable	(8,535)
Accrued liabilities	(9,152)
Short-term lease liabilities	(100)
Long-term lease liabilities	(244)
Total fair value of net assets acquired	400,741
Less: cash and cash equivalents acquired	(975)
Total purchase price	$ 399,766

The goodwill recognized is primarily attributable to the expected future cash flows, the value of the workforce, and expected synergies, including customer and dealer growth opportunities, expanding existing product lines, and cost reduction initiatives. Key areas of expected cost synergies include increased purchasing power for commodities, components, parts and accessories, and supply chain consolidation. The goodwill resulting from the acquisition of Intimidator was recognized within the company's Professional segment. The acquisition was considered an asset purchase for income tax purposes and as a result, the goodwill arising from the transaction is deductible. There were no purchase accounting adjustments recorded in fiscal 2023 that impacted the carrying value of goodwill acquired.

Other Intangible Assets Acquired

The allocation of the purchase price to the net assets acquired resulted in the recognition of $184.2 million of value for other intangible assets as of the closing date. The fair values of the acquired trade names, customer-related, and backlog intangible assets were determined using the income approach whereby an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The useful lives of the other intangible assets were determined based on the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for entity-specific factors including legal, regulatory, contractual, competitive, economic, and/or other factors that may limit the useful life of the respective intangible asset. As of the closing date, the acquired finite-lived intangible assets had a weighted average useful life of 9.5 years. The fair values of the trade names were determined using the relief from royalty method, which is based on the hypothetical royalty stream that would be received if the company were to license the respective trade name and were based on expected future revenues from the respective trade name. The weighted-average useful life of the finite-lived trade name intangible assets was determined to be 9.8 years as of the closing date. The fair values of the customer-related and backlog intangible assets were determined using the excess earnings method and were based on the expected operating cash flows attributable to the respective intangible asset, which were determined by deducting expected economic costs, including operating expenses and contributory asset charges, from the revenue expected to be generated from the respective intangible asset. As of the closing date, the weighted-average useful life of the customer-related and backlog intangible assets were determined to be 9.6 years and 9 months, respectively.

Impairment

During the preparation of the financial statements for the third quarter of fiscal 2023, the company recorded an impairment charge of $18.0 million related to the indefinite-lived Spartan trade name intangible asset. Further, during the same period, the company recorded an impairment charge of $133.3 million related to goodwill of the Intimidator reporting unit. For additional information regarding these impairment charges, refer to Note 5, *Goodwill and Other Intangible Assets, Net*.

3 Segment Data

The company's businesses are organized, managed, and internally grouped into segments based on similarities in products and services. Segment selection is based on the manner in which the company's chief operating decision maker organizes segments for making operating and investment decisions and assessing performance. The company has identified twelve operating segments and has aggregated certain of those operating segments into two reportable segments: Professional and Residential. The aggregation of the company's segments is based on the segments having the following similarities: economic characteristics, types of products and services, types of production processes, type or class of customers, and method of distribution. The company's remaining activities are presented as "Other" due to their insignificance. The company's Other activities consist of the company's wholly-owned domestic distribution company, the company's corporate activities, and the elimination of intersegment revenues and expenses.

The following tables present summarized financial information concerning the company’s reportable business segments and Other activities (dollars in thousands):

Three Months Ended August 4, 2023	Professional	Residential	Other	Total
Net sales	$ 896,321	$ 175,314	$ 10,149	$ 1,081,784
Intersegment gross sales (eliminations)	11,640	39	(11,679)	—
Earnings (loss) before income taxes[1]	$ 13,049	$ 3,848	$ (45,460)	$ (28,563)

Nine Months Ended August 4, 2023	Professional	Residential	Other	Total
Net sales	$ 2,845,714	$ 705,765	$ 18,471	$ 3,569,950
Intersegment gross sales (eliminations)	35,471	99	(35,570)	—
Earnings (loss) before income taxes[1]	384,621	64,411	(135,462)	313,570
Total assets	$ 2,723,127	$ 537,834	$ 324,929	$ 3,585,890

Three Months Ended July 29, 2022	Professional	Residential	Other	Total
Net sales	$ 886,232	$ 269,962	$ 4,356	$ 1,160,550
Intersegment gross sales (eliminations)	10,436	15	(10,451)	—
Earnings (loss) before income taxes	$ 166,191	$ 26,348	$ (35,448)	$ 157,091

Nine Months Ended July 29, 2022	Professional	Residential	Other	Total
Net sales	$ 2,484,927	$ 845,039	$ 12,712	$ 3,342,678
Intersegment gross sales (eliminations)	23,201	50	(23,251)	—
Earnings (loss) before income taxes	424,833	95,203	(110,742)	409,294
Total assets	$ 2,625,481	$ 407,218	$ 407,250	$ 3,439,949

[1] The Professional reportable segment earnings (loss) before income taxes includes $151.3 million of non-cash impairment charges recorded during the preparation of the financial statements for the third quarter of fiscal 2023 related to the Intimidator operating segment. For additional information regarding the impairment charges, refer to Note 5, *Goodwill and Other Intangible Assets, Net*.

The following table presents the details of operating loss before income taxes for the company's Other activities:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
Corporate expenses	$ (33,999)	$ (30,816)	$ (110,694)	$ (94,359)
Interest expense	(14,987)	(9,182)	(43,822)	(24,219)
Earnings from the company's wholly-owned domestic distribution company and other income, net	3,526	4,550	19,054	7,836
Total operating loss	$ (45,460)	$ (35,448)	$ (135,462)	$ (110,742)

4 Revenue

The following tables disaggregate the company's reportable segment net sales by major product type and geographic market (dollars in thousands):

Three Months Ended August 4, 2023	**Professional**	**Residential**	**Other**	**Total**
Revenue by product type:				
Equipment	$ 777,284	$ 169,070	$ 5,214	$ 951,568
Irrigation	119,037	6,244	4,935	130,216
Total net sales	$ 896,321	$ 175,314	$ 10,149	$ 1,081,784
Revenue by geographic market:				
United States	$ 690,810	$ 145,861	$ 10,149	$ 846,820
International countries	205,511	29,453	—	234,964
Total net sales	$ 896,321	$ 175,314	$ 10,149	$ 1,081,784

Nine Months Ended August 4, 2023	**Professional**	**Residential**	**Other**	**Total**
Revenue by product type:				
Equipment	$ 2,486,947	$ 682,770	$ 11,512	$ 3,181,229
Irrigation	358,767	22,995	6,959	388,721
Total net sales	$ 2,845,714	$ 705,765	$ 18,471	$ 3,569,950
Revenue by geographic market:				
United States	$ 2,225,498	$ 569,295	$ 18,471	$ 2,813,264
International countries	620,216	136,470	—	756,686
Total net sales	$ 2,845,714	$ 705,765	$ 18,471	$ 3,569,950

Three Months Ended July 29, 2022	**Professional**	**Residential**	**Other**	**Total**
Revenue by product type:				
Equipment	$ 780,738	$ 265,469	$ 1,102	$ 1,047,309
Irrigation	105,494	4,493	3,254	113,241
Total net sales	$ 886,232	$ 269,962	$ 4,356	$ 1,160,550
Revenue by geographic market:				
United States	$ 710,386	$ 229,666	$ 4,356	$ 944,408
International countries	175,846	40,296	—	216,142
Total net sales	$ 886,232	$ 269,962	$ 4,356	$ 1,160,550

Nine Months Ended July 29, 2022	**Professional**	**Residential**	**Other**	**Total**
Revenue by product type:				
Equipment	$ 2,149,549	$ 823,536	$ 6,207	$ 2,979,292
Irrigation	335,378	21,503	6,505	363,386
Total net sales	$ 2,484,927	$ 845,039	$ 12,712	$ 3,342,678
Revenue by geographic market:				
United States	$ 1,969,933	$ 703,234	$ 12,712	$ 2,685,879
International countries	514,994	141,805	—	656,799
Total net sales	$ 2,484,927	$ 845,039	$ 12,712	$ 3,342,678

Contract Liabilities

Contract liabilities relate to deferred revenue recognized for cash consideration received at contract inception in advance of the company's performance under the respective contract and generally relate to the sale of separately priced extended warranty contracts, service contracts, and non-refundable customer deposits. The company recognizes revenue over the term of the contract in proportion to the costs expected to be incurred in satisfying the performance obligations under the separately priced extended warranty and service contracts. For non-refundable customer deposits, the company recognizes revenue as of the point in time in which the performance obligation has been satisfied under the contract with the customer, which typically occurs upon change in control at the time a product is shipped. As of August 4, 2023 and October 31, 2022, $25.0 million and $28.0 million, respectively, of deferred revenue associated with outstanding separately priced extended warranty contracts, service contracts, and non-refundable customer deposits was reported within accrued liabilities and other long-term liabilities in the Condensed Consolidated Balance Sheets. For the three and nine months ended August 4, 2023, the company recognized $3.5 million and $12.4 million, respectively, of the October 31, 2022 deferred revenue balance within net sales in the Condensed Consolidated Statements of (Loss) Earnings. The company expects to recognize approximately $2.3 million of the October 31, 2022 deferred revenue amount within net sales throughout the remainder of fiscal 2023, $8.0 million in fiscal 2024, and $5.3 million thereafter.

5 Goodwill and Other Intangible Assets, Net

Impairment

Goodwill and indefinite-lived intangible assets are assessed for impairment at least annually during the fourth quarter of each fiscal year unless events or changes in circumstances indicate that impairment may have occurred prior to the annual assessment. Goodwill is assessed for impairment at the reporting unit level and the company's reporting units are its 12 operating segments. Indefinite-lived intangible assets are assessed for impairment at the individual indefinite-lived intangible asset or asset group level, as appropriate. Through the second quarter of fiscal 2023, the company previously assessed qualitative factors, including overall financial performance such as actual and projected cash flows, revenues, and earnings, and concluded it was not more likely than not that the indefinite-lived Spartan trade name intangible asset was impaired nor that the fair value of the Intimidator reporting unit was less than its carrying amount.

During the preparation of the financial statements for the third quarter of fiscal 2023, the company identified deterioration in year-to-date fiscal 2023 results of Intimidator compared to previous expectations and resulting downward revisions to the company's projected future results of Intimidator made during the third quarter of fiscal 2023 as part of the company's annual long range strategic planning process, including future expected cash flows, which were significantly lower than previously expected. The underperformance was attributable to summer seasonality trends that did not materialize primarily due to reduced retail demand from homeowners who prefer professional solutions. This reduced retail demand from homeowners who prefer professional solutions was driven by persistent hot and dry weather patterns across key regions, coupled with a number of macro factors, including higher interest rates, economic uncertainty, and consumer spending preferences following the exceptional demand during the pandemic. Additionally, the company had previously replenished the Intimidator customer channel, which, combined with the reduced retail demand, caused a significant reduction in shipments and customer reorders during the third quarter of fiscal 2023, as well as a material reduction in projected future financial results for Intimidator.

Based on the above factors, the company concluded it was more likely than not that the indefinite-lived Spartan trade name intangible asset was impaired and that the fair value of the Intimidator reporting unit was less than its carrying amount. As such, the company performed quantitative impairment analyses to compare the fair value of the Spartan trade name intangible asset and the Intimidator reporting unit with their respective carrying amounts. Prior to the end of the third quarter of fiscal 2023, the company did not have a material uncertainty associated with the assets of the Intimidator reporting unit, and therefore, did not previously report an early warning disclosure.

The fair value of the Spartan trade name was determined using the relief-from-royalty method under the income approach which utilized various inputs and assumptions, including projected revenues from the company's forecasting process, assumed royalty rates that could be payable if the company did not own the intangible asset, terminal growth rates applied to forecasted revenues, and a discount rate. The fair value of the Intimidator reporting unit under the quantitative goodwill impairment test was determined using a discounted cash flow model under the income approach which utilized various inputs and assumptions, including projected operating results and growth rates from the company's forecasting process, applicable tax rates, estimated capital expenditures and depreciation, estimated changes in working capital, terminal growth rates applied to projected operating results in the terminal period, and a weighted-average cost of capital rate. Inputs used to estimate these fair values included significant unobservable inputs that reflect the company's assumptions about the inputs that market participants would use and, therefore, the fair value assessments are classified within Level 3 of the fair value hierarchy.

As a result of these analyses, at the end of the third quarter of fiscal 2023, the company recorded an impairment charge of $18.0 million related to the indefinite-lived Spartan trade name intangible asset reported under the Professional segment. Further, during the same period, the company recorded an impairment charge of $133.3 million related to goodwill of the Intimidator reporting unit also reported under the Professional segment. Subsequent to these impairment charges, the remaining balance of the indefinite-lived Spartan trade name intangible asset was $81.1 million and the remaining balance of goodwill for the Intimidator reporting unit was $30.5 million. The charges are included in the Non-cash impairment charges caption on the Condensed Consolidated Statements of (Loss) Earnings. These impairment charges resulted in a $36.7 million income tax benefit (deferred tax asset) associated with the remaining tax deductible basis in goodwill and other intangible assets.

Goodwill

The changes in the carrying amount of goodwill by reportable segment for the first nine months of fiscal 2023 were as follows:

(Dollars in thousands)	Professional	Residential	Other	Total
Balance as of October 31, 2022	$ 573,031	$ 10,266	$ —	$ 583,297
Non-cash impairment charge	(133,263)	—	—	(133,263)
Translation adjustments	1,080	150	—	1,230
Balance as of August 4, 2023	$ 440,848	$ 10,416	$ —	$ 451,264

Other Intangible Assets, Net

The components of other intangible assets, net as of August 4, 2023, July 29, 2022, and October 31, 2022 were as follows (dollars in thousands):

August 4, 2023	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	$ 18,218	$ (15,864)	$ 2,354
Non-compete agreements	5.5	6,858	(6,851)	7
Customer-related	15.7	329,059	(101,952)	227,107
Developed technology	7.1	102,108	(60,776)	41,332
Trade names	13.7	10,740	(3,921)	6,819
Backlog and other	0.6	5,730	(5,730)	—
Total finite-lived	13.2	472,713	(195,094)	277,619
Indefinite-lived - trade names		271,571	—	271,571
Total other intangible assets, net		$ 744,284	$ (195,094)	$ 549,190

July 29, 2022	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	$ 18,252	$ (15,178)	$ 3,074
Non-compete agreements	5.5	6,887	(6,861)	26
Customer-related	16.0	321,113	(78,017)	243,096
Developed technology	7.1	102,013	(50,412)	51,601
Trade names	13.7	10,689	(3,267)	7,422
Backlog and other	0.6	5,730	(5,280)	450
Total finite-lived	13.4	464,684	(159,015)	305,669
Indefinite-lived - trade names		289,472	—	289,472
Total other intangible assets, net		$ 754,156	$ (159,015)	$ 595,141

October 31, 2022	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	$ 18,210	$ (15,317)	$ 2,893
Non-compete agreements	5.5	6,851	(6,829)	22
Customer-related	16.0	320,959	(83,805)	237,154
Developed technology	7.1	101,915	(53,001)	48,914
Trade names	13.8	10,667	(3,395)	7,272
Backlog and other	0.6	5,730	(5,505)	225
Total finite-lived	13.4	464,332	(167,852)	296,480
Indefinite-lived - trade names		289,352	—	289,352
Total other intangible assets, net		$ 753,684	$ (167,852)	$ 585,832

Amortization expense for finite-lived intangible assets for the three and nine months ended August 4, 2023 was $8.9 million and $26.8 million, respectively. Amortization expense for finite-lived intangibles assets for the three and nine months ended July 29, 2022 was $9.1 million and $24.8 million, respectively. As of August 4, 2023, estimated amortization expense for the remainder of fiscal 2023 and succeeding fiscal years is as follows:

(Dollars in thousands)	August 4, 2023
2023 (remaining)	$ 8,905
2024	34,568
2025	31,715
2026	30,534
2027	25,601
2028	22,305
Thereafter	123,991
Total estimated amortization expense	$ 277,619

6 Indebtedness

The following is a summary of the company's indebtedness:

(Dollars in thousands)	August 4, 2023	July 29, 2022	October 31, 2022
$600 million revolving credit facility, due October 2026	$ 70,000	$ 65,000	$ —
$270 million term loan, due October 2026	270,000	270,000	270,000
$200 million term loan, due April 2027	200,000	200,000	200,000
3.81% series A senior notes, due June 2029	100,000	100,000	100,000
3.91% series B senior notes, due June 2031	100,000	100,000	100,000
3.97% senior notes, due June 2032	100,000	100,000	100,000
7.8% debentures, due June 2027	100,000	100,000	100,000
6.625% senior notes, due May 2037	124,148	124,086	124,102
Less: unamortized debt issuance costs	2,839	3,470	3,334
Total long-term debt	1,061,309	1,055,616	990,768
Less: current portion of long-term debt	—	65,000	—
Long-term debt, less current portion	$ 1,061,309	$ 990,616	$ 990,768

As of August 4, 2023, principal payments required on the company's outstanding indebtedness, based on the maturity dates defined within the company's debt arrangements, for the remainder of fiscal 2023 and succeeding fiscal years are as follows:

(Dollars in thousands)		August 4, 2023
2023 (remaining)	$	—
2024		—
2025		37,000
2026		333,000
2027		270,000
2028		—
Thereafter		425,000
Total principal payments required	$	1,065,000

Covenants

The company is in compliance with all covenants under the company's outstanding indebtedness as of August 4, 2023.

7 Inventories, Net

The company uses a combination of inventory valuation methods. Inventories are valued at the lower of cost or net realizable value, with cost determined by the first-in, first-out ("FIFO") and average cost methods for certain of the company's inventories. All remaining inventories are valued at the lower of cost or market, with cost determined under the last-in, first-out ("LIFO") method. As needed, the company records an inventory valuation adjustment for excess, slow-moving, and obsolete inventory that is equal to the excess of the cost of the inventory over the estimated net realizable value or market value for the inventory depending on the inventory costing method. Such inventory valuation adjustment is based on a review and comparison of current inventory levels to planned production, as well as planned and historical sales of the inventory. The inventory valuation adjustment to net realizable value or market value establishes a new cost basis of the inventory that cannot be subsequently reversed.

Inventories, net were as follows:

(Dollars in thousands)		August 4, 2023		July 29, 2022		October 31, 2022
Raw materials and work in process	$	435,070	$	402,719	$	482,884
Finished goods and service parts		847,494		672,042		738,097
Total FIFO and average cost value		1,282,564		1,074,761		1,220,981
Less: adjustment to LIFO value		169,872		135,487		169,872
Total inventories, net	$	1,112,692	$	939,274	$	1,051,109

8 Property, Plant, and Equipment, Net

Property, plant, and equipment assets are carried at cost less accumulated depreciation. The company generally accounts for depreciation of property, plant, and equipment utilizing the straight-line method over the estimated useful lives of the assets. Buildings and leasehold improvements are generally depreciated over 10 to 40 years, machinery and equipment are generally depreciated over three to 15 years, tooling is generally depreciated over three to five years, and computer hardware and software and website development costs are generally depreciated over two to five years. Expenditures for major renewals and improvements, which substantially increase the useful lives of existing assets, are capitalized. Costs associated with general maintenance and repairs are expensed as incurred within cost of sales or selling, general and administrative expense in the Condensed Consolidated Statements of (Loss) Earnings depending on the nature and use of the related asset. Interest is capitalized during the construction period for significant capital projects.

Property, plant, and equipment, net was as follows:

(Dollars in thousands)	August 4, 2023	July 29, 2022	October 31, 2022
Land and land improvements	$ 63,020	$ 57,169	$ 59,550
Buildings and leasehold improvements	331,052	326,111	324,343
Machinery and equipment	585,337	535,303	557,588
Tooling	235,417	221,290	225,865
Computer hardware and software	108,211	96,834	104,713
Construction in process	204,317	141,503	144,418
Property, plant, and equipment, gross	1,527,354	1,378,210	1,416,477
Less: accumulated depreciation	902,391	846,394	844,816
Property, plant, and equipment, net	$ 624,963	$ 531,816	$ 571,661

9 Product Warranty Guarantees

The company’s products are warranted to provide assurance that the product will function as expected and to ensure customer confidence in design, workmanship, and overall quality. Standard warranty coverage is generally provided for specified periods of time and on select products’ hours of usage and generally covers parts, labor, and other expenses for non-maintenance repairs. In addition to the standard warranties offered by the company on its products, the company also sells separately priced extended warranty coverage on select products for a prescribed period after the original warranty period expires. For additional information on the contract liabilities associated with the company's separately priced extended warranties, refer to Note 4, *Revenue*.

At the time of sale, the company recognizes expense and records an accrual by product line for estimated costs in connection with forecasted future warranty claims. The company's estimate of the cost of future warranty claims is based primarily on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, and the historical length of time between the sale and resulting warranty claim. The company periodically assesses the adequacy of its warranty accruals based on changes in these factors and records any necessary adjustments if the cost of actual claims experience indicates that adjustments to the company's warranty accrual are necessary. Additionally, from time to time, the company may also establish warranty accruals for its estimate of the costs necessary to settle major rework campaigns on a product-specific basis during the period in which the circumstances giving rise to the major rework campaign become known and when the costs to satisfactorily address the situation are both probable and estimable. The warranty accrual for the cost of a major rework campaign is primarily based on an estimate of the cost to repair each affected unit and the number of affected units expected to be repaired.

The changes in accrued warranties were as follows:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	August 4, 2023	July 29, 2022	August 4, 2023	July 29, 2022
Beginning balance	$ 153,947	$ 126,830	$ 134,541	$ 116,783
Changes in accrual related to warranties during the period (1)	20,521	20,873	69,956	59,757
Acquisitions	—	2,466	—	5,663
Payments made during the period (1)	(24,099)	(20,580)	(60,842)	(52,143)
Changes in accrual related to pre-existing warranties (1)	962	1,429	7,676	958
Ending balance	$ 151,331	$ 131,018	$ 151,331	$ 131,018

(1) Presentation of prior period changes in accrued warranties has been conformed to the current year presentation. There was no impact to the balance of accrued warranties in any period.

10 Investment in Joint Venture

The company is party to a joint venture with Huntington Distribution Finance, Inc. ("HDF"), a subsidiary of The Huntington National Bank, established as Red Iron Acceptance, LLC ("Red Iron"), the primary purpose of which is to provide customer inventory financing to certain distributors and dealers of certain of the company's products in the U.S. The company has also entered into a limited inventory repurchase agreement with Red Iron. For additional information regarding the customer financing aspect of the arrangement, as well as the limited inventory purchase agreement, refer to Note 14, *Commitments and Contingencies*.

The company owns 45 percent of Red Iron and HDF owns 55 percent of Red Iron. The company accounts for its investment in Red Iron under the equity method of accounting. The company and HDF each contributed a specified amount of the estimated cash required to enable Red Iron to purchase the company's floor plan financing receivables and to provide financial support for Red Iron's floor plan financing programs. Red Iron borrows the remaining requisite estimated cash utilizing an $800.0 million secured revolving credit facility established under a credit agreement between Red Iron and HDF. The company's total investment in Red Iron as of August 4, 2023, July 29, 2022 and October 31, 2022 was $48.5 million, $31.4 million, and $39.3 million, respectively. The company has not guaranteed the outstanding indebtedness of Red Iron.

11 Stock-Based Compensation

Compensation costs related to stock-based compensation awards were as follows:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
Stock option awards	$ 1,984	$ 2,664	$ 6,287	$ 7,207
Performance share awards	(195)	1,697	1,923	5,235
Restricted stock unit awards	1,845	1,611	5,086	4,034
Unrestricted common stock awards	—	—	1,086	629
Total compensation cost for stock-based compensation awards	$ 3,634	$ 5,972	$ 14,382	$ 17,105

Stock Option Awards

Stock options are granted with an exercise price equal to the closing price of the company's common stock on the date of grant, as reported by the New York Stock Exchange. Options are generally granted to executive officers, other employees, and non-employee members of the company's Board of Directors ("Board") on an annual basis in the first quarter of the company's fiscal year but may also be granted throughout the fiscal year in connection with hiring, mid-year promotions, leadership transition, or retention, as needed and applicable. Options generally vest one-third each year over a three-year period and have a ten-year term but in certain circumstances, the vesting requirement may be modified such that options granted to certain employees vest in full on the three-year anniversary of the date of grant and have a ten-year term. Compensation cost equal to the grant date fair value determined under the Black-Scholes valuation method is generally recognized for these awards over the vesting period. Compensation cost recognized for other employees not considered executive officers and non-employee Board members is net of estimated forfeitures, which are determined at the time of grant based on historical forfeiture experience. Stock options granted to executive officers and other employees are subject to accelerated expensing if the option holder meets the retirement definition set forth in the company's stock-based compensation plans. In that case, the fair value of the options is expensed in the fiscal year of grant because generally, if the option holder is employed as of the end of the fiscal year in which the options are granted, such options will not be forfeited but continue to vest according to their schedule following retirement. Similarly, if a non-employee Board member has served on the company's Board for ten full fiscal years or more, the awards will not be forfeited but continue to vest according to their schedule following retirement. Therefore, the fair value of the options granted is fully expensed on the date of the grant.

The fair value of each stock option is estimated on the date of grant using various inputs and assumptions under the Black-Scholes valuation method. The expected life is a significant assumption as it determines the period for which the risk-free interest rate, stock price volatility, and dividend yield must be applied. The expected life is the average length of time in which executive officers, other employees, and non-employee Board members are expected to exercise their stock options, which is primarily based on historical exercise experience. The company groups executive officers and non-employee Board members for valuation purposes based on similar historical exercise behavior. Expected stock price volatility is based on the daily movement of the company's common stock over the most recent historical period equivalent to the expected life of the option. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. The expected dividend yield is estimated over the expected life based on the company's historical cash dividends paid, expected future cash dividends and dividend yield, and expected changes in the company's stock price.

The table below illustrates the weighted-average valuation assumptions used under the Black-Scholes valuation method for options granted in the first nine months of the following fiscal periods:

	Fiscal 2023	Fiscal 2022
Expected life of option in years	6.31	6.19
Expected stock price volatility	25.20%	23.74%
Risk-free interest rate	3.79%	1.31%
Expected dividend yield	0.95%	0.94%
Per share weighted-average fair value at date of grant	$33.21	$22.55

Performance Share Awards

The company grants performance share awards to executive officers and other employees under which they are entitled to receive shares of the company's common stock contingent on the achievement of performance goals of the company, which are generally measured over a three-year period. The number of shares of common stock a participant receives can be increased (up to 200 percent of target levels) or reduced (down to zero) based on the level of achievement of performance goals and will vest at the end of a three-year period. Performance share awards are generally granted on an annual basis in the first quarter of the company's fiscal year. Compensation cost is recognized for these awards on a straight-line basis over the vesting period based on the per share fair value, which is equal to the closing price of the company's common stock on the date of grant, and the probability of achieving each performance goal. The per share weighted-average fair value of performance share awards granted during the first quarter of fiscal 2023 and 2022 was $112.14 and $98.41, respectively. No performance share awards were granted during the second or third quarters of fiscal 2023 and 2022.

Restricted Stock Unit Awards

Restricted stock unit awards are generally granted to certain employees who are not executive officers. Occasionally, restricted stock unit awards may be granted, including to executive officers, in connection with hiring, mid-year promotions, leadership transition, or retention. Restricted stock unit awards generally vest one-third each year over a three-year period, or vest in full on the three-year anniversary of the date of grant. Compensation cost equal to the grant date fair value, net of estimated forfeitures, is recognized for these awards over the vesting period. The grant date fair value is equal to the closing price of the company's common stock on the date of grant multiplied by the number of shares subject to the restricted stock unit awards and estimated forfeitures are determined on the grant date based on historical forfeiture experience. The per share weighted-average fair value of restricted stock unit awards granted during the first nine months of fiscal 2023 and 2022 was $103.46 and $89.19, respectively.

Unrestricted Common Stock Awards

During the first nine months of fiscal 2023 and 2022, 10,329 and 6,453 shares, respectively, of fully vested unrestricted common stock awards were granted to certain Board members as a component of their compensation for their service on the Board and were recorded within selling, general and administrative expense in the Condensed Consolidated Statements of (Loss) Earnings. Additionally, the Company's Board members may elect to convert a portion or all of their calendar year annual retainers otherwise payable in cash into shares of the company's common stock. No shares of fully vested unrestricted common stock awards were granted during the second or third quarters of fiscal 2023 and 2022.

12 Stockholders' Equity

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss ("AOCL"), net of tax, within the Condensed Consolidated Statements of Stockholders' Equity were as follows:

(Dollars in thousands)	August 4, 2023	July 29, 2022	October 31, 2022
Foreign currency translation adjustments	$ 34,347	$ 40,725	$ 51,321
Pension benefits	3,621	3,899	3,621
Cash flow derivative instruments	(7,376)	(13,481)	(21,817)
Total accumulated other comprehensive loss	$ 30,592	$ 31,143	$ 33,125

The components and activity of AOCL, net of tax, for the three and nine month periods ended August 4, 2023 and July 29, 2022 were as follows:

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of May 5, 2023	$ 32,334	$ 3,621	$ (6,770)	$ 29,185
Other comprehensive loss before reclassifications	2,013	—	2,574	4,587
Amounts reclassified from AOCL	—	—	(3,180)	(3,180)
Net current period other comprehensive loss (income)	2,013	—	(606)	1,407
Balance as of August 4, 2023	$ 34,347	$ 3,621	$ (7,376)	$ 30,592

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2022	$ 51,321	$ 3,621	$ (21,817)	$ 33,125
Other comprehensive (income) loss before reclassifications	(16,974)	—	27,200	10,226
Amounts reclassified from AOCL	—	—	(12,759)	(12,759)
Net current period other comprehensive (income) loss	(16,974)	—	14,441	(2,533)
Balance as of August 4, 2023	$ 34,347	$ 3,621	$ (7,376)	$ 30,592

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of April 29, 2022	$ 34,933	$ 3,899	$ (11,009)	$ 27,823
Other comprehensive loss (income) before reclassifications	5,792	—	(632)	5,160
Amounts reclassified from AOCL	—	—	(1,840)	(1,840)
Net current period other comprehensive loss (income)	5,792	—	(2,472)	3,320
Balance as of July 29, 2022	$ 40,725	$ 3,899	$ (13,481)	$ 31,143

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2021	$ 19,535	$ 3,899	$ 2,562	$ 25,996
Other comprehensive loss (income) before reclassifications	21,190	—	(14,448)	6,742
Amounts reclassified from AOCL	—	—	(1,595)	(1,595)
Net current period other comprehensive loss (income)	21,190	—	(16,043)	5,147
Balance as of July 29, 2022	$ 40,725	$ 3,899	$ (13,481)	$ 31,143

For additional information on the components reclassified from AOCL to the respective line items in net earnings for derivative instruments refer to Note 16, *Derivative Instruments and Hedging Activities*.

13 Per Share Data

Reconciliations of basic and diluted weighted-average number of shares of common stock outstanding were as follows:

	Three Months Ended		Nine Months Ended	
(Shares in thousands)	**August 4, 2023**	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
Basic				
Weighted-average number of shares of common stock	104,286	104,827	104,473	104,924
Assumed issuance of contingent shares	—	—	6	7
Weighted-average number of shares of common stock outstanding - Basic	104,286	104,827	104,479	104,931
Diluted				
Weighted-average number of shares of common stock outstanding - Basic	104,286	104,827	104,479	104,931
Effect of dilutive shares	—	621	930	823
Weighted-average number of shares of common stock outstanding - Diluted	104,286	105,448	105,409	105,754

The effect of dilutive shares from stock option awards and restricted stock unit awards is computed under the treasury stock method. Stock option awards to purchase 1,410,092 and 1,066,621 shares of common stock during the third quarter of fiscal 2023 and 2022, respectively, and to purchase 483,650 and 896,184 shares of common stock during the first nine months of fiscal 2023 and 2022, respectively, were excluded from the computation of diluted net (loss) earnings per share of common stock because they were anti-dilutive.

14 Commitments and Contingencies

Customer Financing Arrangements

Inventory Financing

The company is party to inventory financing arrangements with Red Iron, Huntington Commercial Finance Canada, Inc. ("HCFC"), and other third-party financial institutions (collectively, the "financial institutions") which provide inventory financing to certain dealers and distributors of certain of the company's products in the U.S. and internationally. These financing arrangements are structured as an advance in the form of a payment by the financial institutions to the company on behalf of a distributor or dealer with respect to invoices financed by the financial institution. These payments extinguish the obligation of the dealer or distributor to make payment to the company under the terms of the applicable invoice.

Under separate agreements between the financial institutions and the dealers and distributors, the financial institutions provide loans to the dealers and distributors for the advances paid by the financial institutions to the company. Under these financing arrangements, down payments are not required, and depending on the finance program for each product line, finance charges are incurred by the company, shared between the company and the distributor and/or the dealer, or paid by the distributor or dealer. The financial institutions retain a security interest in the distributors' and dealers' financed inventories and such inventories are monitored regularly through audits. Financing terms to the distributors and dealers require payment as the inventory, which secures the indebtedness, is sold to end-users or when payment otherwise become due under the agreements between the financial institutions and the distributors and dealers, whichever occurs first. Rates are generally indexed to the Secured Overnight Financing Rate ("SOFR"), or an alternative variable rate, plus a fixed percentage that differs based on whether the financing is for a distributor or dealer. Rates may also vary based on the product that is financed.

The net amount of receivables financed for dealers and distributors under this arrangement with Red Iron for the nine months ended August 4, 2023 and July 29, 2022 were $2,160.8 million and $1,886.1 million, respectively. The total amount of net receivables outstanding under this arrangement with Red Iron as of August 4, 2023, July 29, 2022, and October 31, 2022 were $1,010.5 million, $690.7 million and $776.1 million, respectively. The total amount of receivables due from Red Iron to the company as of August 4, 2023, July 29, 2022, and October 31, 2022 were $30.4 million, $14.4 million and $17.7 million, respectively.

The net amount of receivables financed for dealers and distributors under the arrangements with HCFC and the other third-party financial institutions for the nine months ended August 4, 2023 and July 29, 2022 were $367.6 million and $458.9 million, respectively. As of August 4, 2023, July 29, 2022, and October 31, 2022, $187.2 million, $205.1 million and $220.0 million of receivables financed by HCFC and the other third-party financial institutions were outstanding, respectively.

Inventory Repurchase Agreements

The company has entered into a limited inventory repurchase agreement with Red Iron and HCFC under which the company has agreed to repurchase certain repossessed products, up to a maximum aggregate amount of $7.5 million in a calendar year. Additionally, as a result of the company's floor plan financing agreements with the other third-party financial institutions, the company also entered into inventory repurchase agreements with the other third-party financial institutions. Under such inventory repurchase agreements, the company has agreed to repurchase products repossessed by the other third-party financial institutions. As of August 4, 2023, July 29, 2022 and October 31, 2022, the company was contingently liable to repurchase up to a maximum amount of $118.8 million, $79.9 million and $80.0 million, respectively, of inventory related to receivables under these inventory repurchase agreements. The company's financial exposure under these inventory repurchase agreements is limited to the difference between the amount paid to Red Iron, HCFC or other third-party financing institutions for repurchases of inventory and the amount received upon subsequent resale of the repossessed product. The company has repurchased immaterial amounts of inventory pursuant to such arrangements for the nine months ended August 4, 2023 and July 29, 2022.

Litigation

From time to time, the company is party to litigation in the ordinary course of business. Such matters are generally subject to uncertainties and to outcomes that are not predictable with assurance and that may not be known for extended periods of time. Litigation occasionally involves claims for punitive, as well as compensatory, damages arising out of the use of the company’s products. Although the company is self-insured to some extent, the company maintains insurance against certain product liability losses. The company is also subject to litigation and administrative and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for personal injury, remedial investigations or clean-up and other costs and damages. The company is also occasionally involved in commercial disputes, employment or employment-related disputes, and patent litigation cases in which it is asserting or defending against patent infringement claims. To prevent possible infringement of the company’s patents by others, the company periodically reviews competitors’ products. To avoid potential liability with respect to others’ patents, the company reviews certain patents issued by the U.S. Patent and Trademark Office and foreign patent offices. The company believes these activities help minimize its risk of being a defendant in patent infringement litigation.

The company records a liability in its Condensed Consolidated Financial Statements for costs related to claims, including future legal costs, settlements, and judgments, where the company has assessed that a loss is probable and an amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that a material loss may have been incurred. In the opinion of management, the amount of liability, if any, with respect to these matters, individually or in the aggregate, will not materially affect the company's consolidated results of operations, financial position, or cash flows.

In situations where the company receives, or expects to receive, a favorable ruling related to a litigation settlement, the company follows the accounting standards codification guidance for gain contingencies. The company does not allow for the recognition of a gain contingency within its Condensed Consolidated Financial Statements prior to the settlement of the underlying events or contingencies associated with the gain contingency. As a result, the consideration related to a gain contingency is recorded in the Condensed Consolidated Financial Statements during the period in which all underlying events or contingencies are resolved and the gain is realized.

15 Leases

The company enters into contracts that are, or contain, operating lease agreements for certain property, plant, or equipment assets utilized in the normal course of business, such as buildings for manufacturing facilities, office space, distribution centers, and warehouse facilities; land for product testing sites; machinery and equipment for research and development activities, manufacturing and assembly processes, and administrative tasks; and vehicles for sales, service, marketing, and distribution activities. Contracts that explicitly or implicitly relate to property, plant, and equipment are assessed at inception to determine if the contract is, or contains, a lease. Such contracts for operating lease agreements convey the company's right to direct the use of, and obtain substantially all of the economic benefits from, an identified asset for a defined period of time in exchange for consideration. The lease term begins and is determined upon lease commencement, which is the point in time when the company takes possession of the identified asset, and generally includes all non-cancelable periods. Lease expense for the company's operating leases is recognized on a straight-line basis over the lease term and is recorded within cost of sales or selling, general and administrative expense within the Condensed Consolidated Statements of (Loss) Earnings as dictated by the nature and use of the underlying asset. The company does not recognize right-of-use assets and lease liabilities, but does recognize expense on a straight-line basis, for short-term operating leases which have a lease term of 12 months or less and do not include an option to purchase the underlying asset.

Lease payments are determined at lease commencement and generally represent fixed lease payments as defined within the respective lease agreement or, in the case of certain lease agreements, variable lease payments that are measured as of the lease commencement date based on the prevailing index or market rate. Future adjustments to variable lease payments are defined and scheduled within the respective lease agreement and are determined based upon the prevailing market or index rate at the time of the adjustment relative to the market or index rate determined at lease commencement. Certain other lease agreements contain variable lease payments that are determined based upon actual utilization of the identified asset. Such future adjustments to variable lease payments and variable lease payments based upon actual utilization of the identified asset are not included within the determination of lease payments at commencement but rather, are recorded as variable lease expense in the period in which the variable lease cost is incurred.

Right-of-use assets represent the company's right to use an underlying asset throughout the lease term and lease liabilities represent the company's obligation to make lease payments arising from the lease agreement. The company accounts for operating lease liabilities at lease commencement and on an ongoing basis as the present value of the minimum remaining lease payments under the respective lease term. Minimum remaining lease payments are generally discounted to present value based the estimated incremental borrowing rate at lease commencement as the rate implicit in the lease is generally not readily determinable. Right-of-use assets are measured as the amount of the corresponding operating lease liability for the respective operating lease agreement, adjusted for prepaid or accrued lease payments, the remaining balance of any lease incentives received, unamortized initial direct costs, and impairment of the operating lease right-of-use asset, as applicable.

The following table presents the lease expense incurred on the company’s operating, short-term, and variable leases:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
Operating lease expense	$ 6,117	$ 3,833	$ 19,047	$ 16,304
Short-term lease expense	1,543	303	3,455	3,445
Variable lease expense	50	12	132	12
Total lease expense	$ 7,710	$ 4,148	$ 22,634	$ 19,761

The following table presents supplemental cash flow information related to the company's operating leases:

	Nine Months Ended	
(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**
Operating cash flows for amounts included in the measurement of lease liabilities	$ 16,477	$ 14,129
Right-of-use assets obtained in exchange for lease obligations	$ 54,065	$ 18,236

The following table presents other lease information related to the company's operating leases:

	August 4, 2023	**July 29, 2022**	**October 31, 2022**
Weighted-average remaining lease term of operating leases in years	9.2	6.2	6.0
Weighted-average discount rate of operating leases	4.12 %	2.99 %	3.53 %

The following table reconciles the total undiscounted future cash flows based on the anticipated future minimum operating lease payments by fiscal year for the company's operating leases to the present value of operating lease liabilities recorded within the Condensed Consolidated Balance Sheets as of August 4, 2023:

(Dollars in thousands)	**August 4, 2023**
2023 (remaining)	$ 4,112
2024	23,287
2025	21,269
2026	15,574
2027	12,078
Thereafter	68,393
Total future minimum operating lease payments	144,713
Less: imputed interest	25,664
Present value of operating lease liabilities	$ 119,049

16 Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The company is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales to third-party customers, sales and loans to wholly-owned foreign subsidiaries, costs associated with foreign plant operations, and purchases from suppliers. The company's primary currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, the Japanese yen, the Chinese renminbi, and the Romanian new leu against the U.S. dollar, as well as the Romanian new leu against the Euro.

To reduce its exposure to foreign currency exchange rate risk, the company enters into various derivative instruments to hedge against such risk, authorized under a company policy that places controls on these hedging activities, with counterparties that are highly rated financial institutions. The company's policy does not allow the use of derivative instruments for trading or speculative purposes. The company has also made an accounting policy election to use the portfolio exception with respect to measuring counterparty credit risk for derivative instruments and to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position with each counterparty.

The company's hedging activities primarily involve the use of forward currency contracts to hedge most foreign currency transactions, including forecasted sales and purchases denominated in foreign currencies. The company uses derivative instruments only in an attempt to limit underlying exposure from foreign currency exchange rate fluctuations and to minimize earnings and cash flow volatility associated with foreign currency exchange rate fluctuations. Decisions on whether to use such derivative instruments are primarily based on the amount of exposure to the currency involved and an assessment of the near-term market value for each currency.

The company recognizes all derivative instruments at fair value on the Condensed Consolidated Balance Sheets as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as a cash flow hedging instrument.

Cash Flow Hedging Instruments

The company formally documents relationships between cash flow hedging instruments and the related hedged transactions, as well as its risk-management objective and strategy for undertaking cash flow hedging instruments. This process includes linking all cash flow hedging instruments to the forecasted transactions, such as sales to third-parties and costs associated with foreign plant operations, including purchases from suppliers. At the cash flow hedge's inception and on an ongoing basis, the company formally assesses whether the cash flow hedging instruments have been highly effective in offsetting changes in the cash flows of the hedged transactions and whether those cash flow hedging instruments may be expected to remain highly effective in future periods.

Changes in the fair values of the spot rate component of outstanding, highly effective cash flow hedging instruments included in the assessment of hedge effectiveness are recorded in other comprehensive income within AOCL on the Condensed Consolidated Balance Sheets and are subsequently reclassified to net earnings within the Condensed Consolidated Statements of (Loss) Earnings during the same period in which the cash flows of the underlying hedged transaction affect net earnings. Changes in the fair values of hedge components excluded from the assessment of effectiveness are recognized immediately in net earnings under the mark-to-market approach. The classification of gains or losses recognized on cash flow hedging instruments and excluded components within the Condensed Consolidated Statements of (Loss) Earnings is the same as that of the underlying exposure. Results of cash flow hedging instruments, and the related excluded components, of sales and costs associated with foreign plant operations, including purchases from suppliers, are recorded in net sales and cost of sales, respectively. The maximum amount of time the company hedges its exposure to the variability in future cash flows for forecasted trade sales and purchases is two years.

When it is determined that a derivative instrument is not, or has ceased to be, highly effective as a cash flow hedge, the company discontinues cash flow hedge accounting prospectively. The gain or loss on the dedesignated derivative instrument remains in AOCL and is reclassified to net earnings within the same Condensed Consolidated Statements of (Loss) Earnings line item as the underlying exposure when the forecasted transaction affects net earnings. When the company discontinues cash flow hedge accounting because it is no longer probable, but it is still reasonably possible that the forecasted transaction will occur by the end of the originally expected period or within an additional two-month period of time thereafter, the gain or loss on the derivative instrument remains in AOCL and is reclassified to net earnings within the same Condensed Consolidated Statements of (Loss) Earnings line item as the underlying exposure when the forecasted transaction affects net earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were in AOCL are immediately recognized in net earnings within other income, net in the Condensed Consolidated Statements of (Loss) Earnings. In all situations in which cash flow hedge accounting is discontinued and the derivative instrument remains outstanding, the company carries the derivative instrument at its fair value on the Condensed Consolidated Balance Sheets, recognizing future changes in the fair value within other income, net in the Condensed Consolidated Statements of (Loss) Earnings.

As of August 4, 2023, the notional amount outstanding of forward currency contracts designated as cash flow hedging instruments was $306.9 million.

Derivatives Not Designated as Cash Flow Hedging Instruments

The company also enters into foreign currency contracts that include forward currency contracts to mitigate the remeasurement of specific assets and liabilities on the Condensed Consolidated Balance Sheets. These contracts are not designated as cash flow hedging instruments. Accordingly, changes in the fair value of hedges of recorded balance sheet positions, such as cash, receivables, payables, intercompany notes, and other various contractual claims to pay or receive foreign currencies other than the functional currency, are recognized immediately in other income, net, on the Condensed Consolidated Statements of (Loss) Earnings together with the transaction gain or loss from the hedged balance sheet position.

The following table presents the fair value and location of the company's derivative instruments on the Condensed Consolidated Balance Sheets:

(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**	**October 31, 2022**
Derivative assets:			
Derivatives designated as cash flow hedging instruments:			
Prepaid expenses and other current assets			
Forward currency contracts	$ 9,940	$ 17,723	$ 27,733
Derivatives not designated as cash flow hedging instruments:			
Prepaid expenses and other current assets			
Forward currency contracts	3,823	4,618	5,523
Total derivative assets	$ 13,763	$ 22,341	$ 33,256
Derivative liabilities:			
Derivatives designated as cash flow hedging instruments:			
Accrued liabilities			
Forward currency contracts	$ 76	$ —	$ —
Derivatives not designated as cash flow hedging instruments:			
Accrued liabilities			
Forward currency contracts	14	18	—
Total derivative liabilities	$ 90	$ 18	$ —

The company entered into an International Swap Dealers Association ("ISDA") Master Agreement with each counterparty that permits the net settlement of amounts owed under their respective contracts. The ISDA Master Agreement is an industry standardized contract that governs all derivative contracts entered into between the company and the respective counterparty. Under these master netting agreements, net settlement generally permits the company or the counterparty to determine the net amount payable or receivable for contracts due on the same date or in the same currency for similar types of derivative transactions. The company records the fair value of its derivative instruments at the net amount on its Condensed Consolidated Balance Sheets.

The following table presents the effects of the master netting arrangements on the fair value of the company's derivative instruments that are recorded on the Condensed Consolidated Balance Sheets:

(Dollars in thousands)	August 4, 2023	July 29, 2022	October 31, 2022
Derivative assets:			
Forward currency contracts:			
Gross amount of derivative assets	$ 14,931	$ 22,424	$ 33,256
Derivative liabilities offsetting derivative assets	1,168	83	—
Net amount of derivative assets	$ 13,763	$ 22,341	$ 33,256
Derivative liabilities:			
Forward currency contracts:			
Gross amount of derivative liabilities	$ 95	$ 18	$ —
Derivative assets offsetting derivative liabilities	5	—	—
Net amount of derivative liabilities	$ 90	$ 18	$ —

The following table presents the impact and location of the amounts reclassified from AOCL into net earnings on the Condensed Consolidated Statements of (Loss) Earnings and the impact of derivative instruments on the Condensed Consolidated Statements of Comprehensive (Loss) Income for the company's derivatives designated as cash flow hedging instruments for the three and nine months ended August 4, 2023 and July 29, 2022:

	Three Months Ended			
	Gain Reclassified from AOCL into Earnings		(Loss) Gain Reclassified from AOCL into Earnings	
(Dollars in thousands)	August 4, 2023	July 29, 2022	August 4, 2023	July 29, 2022
Derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Net sales	$ 1,962	$ 1,640	$ (846)	$ 2,508
Cost of sales	1,218	200	1,452	(36)
Total derivatives designated as cash flow hedging instruments	$ 3,180	$ 1,840	$ 606	$ 2,472

	Nine Months Ended			
	Gain Reclassified from AOCL into Earnings		(Loss) Gain Recognized in OCI on Derivatives	
(Dollars in thousands)	August 4, 2023	July 29, 2022	August 4, 2023	July 29, 2022
Derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Net sales	$ 9,723	$ 1,431	$ (18,099)	$ 14,836
Cost of sales	3,036	164	3,658	1,207
Total derivatives designated as cash flow hedging instruments	$ 12,759	$ 1,595	$ (14,441)	$ 16,043

The company recognized immaterial gains and losses within other income, net in the Condensed Consolidated Statements of (Loss) Earnings during the third quarter and first nine months of fiscal 2023 and fiscal 2022, respectively, due to the discontinuance of cash flow hedge accounting on certain forward currency contracts designated as cash flow hedging instruments. As of August 4, 2023, the company expects to reclassify approximately $6.8 million of gains from AOCL to earnings during the next twelve months.

The following tables present the impact and location of derivative instruments on the Condensed Consolidated Statements of (Loss) Earnings for the company's derivatives designated as cash flow hedging instruments and the related components excluded from effectiveness testing:

	Gain (Loss) Recognized in Earnings on Cash Flow Hedging Instruments			
(Dollars in thousands)	**August 4, 2023**		**July 29, 2022**	
Three Months Ended	**Net Sales**	**Cost of Sales**	**Net Sales**	**Cost of Sales**
Condensed Consolidated Statements of (Loss) Earnings income (expense) amounts in which the effects of cash flow hedging instruments are recorded	$ 1,081,784	$ (709,430)	$ 1,160,550	$ (760,644)
Gain (loss) on derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Amount of gain reclassified from AOCL into earnings	1,962	1,218	1,640	200
(loss) gain on components excluded from effectiveness testing recognized in earnings based on changes in fair value	$ (356)	$ 762	$ 646	$ 627

	Gain (Loss) Recognized in Earnings on Cash Flow Hedging Instruments			
(Dollars in thousands)	**August 4, 2023**		**July 29, 2022**	
Nine Months Ended	**Net Sales**	**Cost of Sales**	**Net Sales**	**Cost of Sales**
Condensed Consolidated Statements of (Loss) Earnings income (expense) amounts in which the effects of cash flow hedging instruments are recorded	$ 3,569,950	$ (2,321,951)	$ 3,342,678	$ (2,236,927)
Gain (loss) on derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Amount of gain reclassified from AOCL into earnings	9,723	3,036	1,431	164
Gain (loss) on components excluded from effectiveness testing recognized in earnings based on changes in fair value	$ 2,036	$ 1,777	$ (930)	$ 1,180

The following table presents the impact and location of derivative instruments on the Condensed Consolidated Statements of (Loss) Earnings for the company's derivatives not designated as cash flow hedging instruments:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
(Loss) gain on derivatives not designated as cash flow hedging instruments				
Forward currency contracts:				
Other (loss) income, net	$ (2,730)	$ (344)	$ (4,530)	$ 3,639
Total gain (loss) on derivatives not designated as cash flow hedging instruments	$ (2,730)	$ (344)	$ (4,530)	$ 3,639

17 Fair Value Measurements

The company categorizes its assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Estimates of fair value for financial assets and financial liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value, and requires certain disclosures. The framework discusses valuation techniques such as the market approach (comparable market prices), the income approach (present value of future income or cash flows), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs reflecting management's assumptions about the inputs used in pricing the asset or liability.

Recurring Fair Value Measurements

The company's derivative instruments consist of forward currency contracts that are measured at fair value on a recurring basis. The fair value of such forward currency contracts is determined based on observable market transactions of forward currency prices and spot currency rates as of the reporting date.

The following tables present, by level within the fair value hierarchy, the company's financial assets and liabilities that are measured at fair value on a recurring basis as of August 4, 2023, July 29, 2022, and October 31, 2022, according to the valuation technique utilized to determine their fair values (dollars in thousands):

		Fair Value Measurements Using Inputs Considered as:		
August 4, 2023	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Forward currency contracts	$ 13,763	$ —	$ 13,763	$ —
Total assets	$ 13,763	$ —	$ 13,763	$ —
Liabilities:				
Forward currency contracts	$ 90	$ —	$ 90	$ —
Total liabilities	$ 90	$ —	$ 90	$ —

		Fair Value Measurements Using Inputs Considered as:		
July 29, 2022	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Forward currency contracts	$ 22,341	$ —	$ 22,341	$ —
Total assets	$ 22,341	$ —	$ 22,341	$ —
Liabilities:				
Forward currency contracts	$ 18	$ —	$ 18	$ —
Total liabilities	$ 18	$ —	$ 18	$ —

		Fair Value Measurements Using Inputs Considered as:		
October 31, 2022	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Forward currency contracts	$ 33,256	$ —	$ 33,256	$ —
Total assets	$ 33,256	$ —	$ 33,256	$ —
Liabilities:				
Forward currency contracts	$ —	$ —	$ —	$ —
Total liabilities	$ —	$ —	$ —	$ —

Nonrecurring Fair Value Measurements

The company measures certain assets and liabilities at fair value on a non-recurring basis. Assets and liabilities that are measured at fair value on a nonrecurring basis include long-lived assets, goodwill, and indefinite-lived intangible assets, which would generally be recorded at fair value as a result of an impairment charge. For additional information regarding impairment related fair value measurements, refer to Note 5, *Goodwill and Other Intangible Assets, Net.* Assets acquired and liabilities assumed as part of a business combination are also measured at fair value on a non-recurring basis during the measurement period allowed by the accounting standards codification guidance for business combinations when applicable. Alternatively, under a cost accumulation model, the company measures the fair values of net assets acquired as part of an asset acquisition before allocating the cost of the asset acquisition to the net assets acquired on the basis of their relative fair values. For additional information on the company's business combination and the related non-recurring fair value measurement of the assets acquired and liabilities assumed, refer to Note 2, *Business Combinations*.

Other Fair Value Disclosures

The carrying values of the company's short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term debt, including current maturities of long-term debt, when applicable, approximate their fair values due to their short-term nature. As of August 4, 2023, July 29, 2022, and October 31, 2022, the company's long-term debt included $524.1 million, $524.1 million, and $524.1 million of gross fixed-rate debt that is not subject to variable interest rate fluctuations. The gross fair value of such long-term debt is determined using Level 2 inputs by discounting the projected cash flows based on quoted market rates at which similar amounts of debt could currently be borrowed. As of August 4, 2023, the estimated gross fair value of long-term debt with fixed interest rates was $497.7 million compared to its gross carrying amount of $524.1 million. As of July 29, 2022, the estimated gross fair value of long-term debt with fixed interest rates was $541.0 million compared to its gross carrying amount of $524.1 million. As of October 31, 2022, the estimated gross fair value of long-term debt with fixed interest rates was $489.8 million compared to its gross carrying amount of $524.1 million. For additional information regarding long-term debt with fixed interest rates, refer to Note 6, *Indebtedness*.

18 Subsequent Events

The company has evaluated all subsequent events and concluded that no subsequent events have occurred that would require recognition in the Condensed Consolidated Financial Statements or disclosure in the Notes to the Condensed Consolidated Financial Statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our Condensed Consolidated Financial Statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Unless the context indicates otherwise, the terms "company," "TTC," "we," "our," or "us" refer to The Toro Company and its consolidated subsidiaries. This MD&A should be read in conjunction with the MD&A included in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. Unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior fiscal year. Our MD&A is presented as follows:

- Company Overview
- Results of Operations
- Business Segments
- Financial Position
- Non-GAAP Financial Measures
- Critical Accounting Policies and Estimates

This discussion contains various "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and we refer readers to the section titled "Cautionary Note Regarding Forward-Looking Statements" located at the beginning of this Quarterly Report on Form 10-Q for more information.

Non-GAAP Financial Measures

Throughout this MD&A, we have provided financial and liquidity measures that are not calculated or presented in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") ("non-GAAP financial measures," "adjusted" before specified financial measures, and "non-GAAP liquidity measures"), as information supplemental and in addition to the most directly comparable financial measures presented in this Quarterly Report on Form 10-Q that are calculated and presented in accordance with U.S. GAAP. We believe that these non-GAAP financial measures, when considered in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP, provide investors with useful supplemental financial information to better understand our core operational performance and cash flows. These non-GAAP financial measures, however, should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the most directly comparable U.S. GAAP financial measures. Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

COMPANY OVERVIEW

The Toro Company is in the business of designing, manufacturing, marketing, and selling professional turf maintenance equipment and services; turf irrigation systems; landscaping equipment and lighting products; snow and ice management products; agricultural irrigation systems; rental, specialty, and underground construction equipment; and residential yard and snow thrower products. Our purpose is to help our customers enrich the beauty, productivity, and sustainability of the land. Sustainability is integrated into our enterprise strategic priorities of accelerating profitable growth, driving productivity and operational excellence, and empowering our people. Our focus on alternative power, smart connected, and autonomous solutions, as well as our continued efforts to address sustainability-focused matters, including environmental, social, and governance priorities, are embedded as part of our "Sustainability Endures" initiative.

We sell our products worldwide through a network of distributors, dealers, mass retailers, hardware retailers, equipment rental centers, and home centers, as well as online and direct to end-users. We strive to provide innovative, well-built, and dependable products supported by an extensive service network. A significant portion of our net sales has historically been, and we expect will continue to be, attributable to new and enhanced products. We define new products as those introduced in the current and previous two fiscal years. We classify our operations into two reportable business segments: Professional and Residential. Our remaining activities are presented as "Other" due to their insignificance, as described in greater detail within the section titled "Business Segments" in this MD&A.

Acquisition of Intimidator Group

On January 13, 2022 ("the closing date"), during the first quarter of fiscal 2022, we acquired the privately-held Intimidator Group ("Intimidator"). Intimidator primarily designs, manufactures, markets, and sells a commercial-grade line of zero-turn mowers under the Spartan® brand, which are intended to provide innovative turf management solutions to landscape contractors and other customers including homeowners who prefer professional solutions. The acquisition of Intimidator broadened our Professional reportable segment and expanded our manufacturing footprint and dealer network. The aggregate purchase consideration was $399.8 million. Subsequent to the closing date, Intimidator's results of operations have been included within our Professional reportable segment in our Condensed Consolidated Financial Statements and had an incremental impact to our Professional reportable segment net sales for the first twelve months post acquisition, or through the first quarter of fiscal 2023. For the nine months ended August 4, 2023, Intimidator's results of operations had an incremental impact on our Professional segment net sales of $49.6 million. Intimidator's operations, excluding the non-cash impairment charges recorded at the end of the third quarter of fiscal 2023, had an immaterial impact on Professional segment earnings for the nine months ended August 4, 2023. For additional information regarding the acquisition, refer to Note 2, *Business Combinations*, in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Impairment

During the preparation of our financial statements for the third quarter of fiscal 2023, we identified deterioration in year-to-date fiscal 2023 results of Intimidator compared to previous expectations and resulting downward revisions to our projected future results of Intimidator made during the third quarter of fiscal 2023 as part of our annual long range strategic planning process, including future expected cash flows, which were significantly lower than previously expected. The underperformance was attributable to summer seasonality trends that did not materialize primarily due to reduced retail demand from homeowners who prefer professional solutions. This reduced retail demand from homeowners who prefer professional solutions was driven by persistent hot and dry weather patterns across key regions, coupled with a number of macro factors, including higher interest rates, economic uncertainty, and consumer spending preferences following the exceptional demand during the pandemic. Additionally, we had previously replenished the Intimidator customer channel, which, combined with the reduced retail demand, caused a significant reduction in shipments and customer reorders during the third quarter of fiscal 2023, as well as a material reduction in projected future financial results for Intimidator.

Based on the above factors, we concluded it was more likely than not that the indefinite-lived Spartan trade name intangible asset was impaired and that the fair value of the Intimidator reporting unit was less than its carrying amount. As such, we performed quantitative impairment analyses to compare the fair value of the Spartan trade name intangible asset and the Intimidator reporting unit with their respective carrying amounts.

As a result of these analyses, at the end of the third quarter of fiscal 2023, we recorded an impairment charge of $18.0 million related to the indefinite-lived Spartan trade name intangible asset reported under the Professional segment. Further, during the same period, we recorded an impairment charge of $133.3 million related to goodwill of the Intimidator reporting unit also reported under the Professional segment. Subsequent to these impairment charges, the remaining balance of the indefinite-lived Spartan trade name intangible asset is $81.1 million and the remaining balance of goodwill for the Intimidator reporting unit is $30.5 million. These impairment charges are included in the Non-cash impairment charges caption on the Condensed Consolidated Statements of (Loss) Earnings. These impairment charges resulted in a $36.7 million income tax benefit (deferred tax asset) associated with the remaining tax deductible basis in goodwill and other intangible assets.

RESULTS OF OPERATIONS

Overview

Consolidated net sales for the third quarter of fiscal 2023 were $1,081.8 million, down 6.8 percent compared to $1,160.6 million in the third quarter of fiscal 2022. For the first nine months of fiscal 2023, consolidated net sales were $3,570.0 million, up 6.8 percent compared to $3,342.7 million from the same period in the prior fiscal year.

Professional segment net sales for the third quarter of fiscal 2023 were $896.3 million, an increase of 1.1 percent compared to $886.2 million in the third quarter of the prior fiscal year. For the first nine months of fiscal 2023, Professional segment net sales were $2,845.7 million, an increase of 14.5 percent compared to $2,484.9 million in the prior fiscal year comparable period.

Residential segment net sales for the third quarter of fiscal 2023 were $175.3 million, a decrease of 35.1 percent compared to $270.0 million in the third quarter of the prior fiscal year. For the first nine months of fiscal 2023, Residential segment net sales were $705.8 million, a decrease of 16.5 percent compared to $845.0 million in the prior fiscal year comparable period.

Primarily as a result of the non-cash impairment charges, we incurred a net loss for the third quarter of fiscal 2023 of $15.0 million, or $0.14 net loss per diluted share, compared to net earnings of $125.2 million, or $1.19 per diluted share, for the third quarter of fiscal 2022. Net earnings for the first nine months of fiscal 2023 were $259.4 million, or $2.46 per diluted share, compared to $325.8 million, or $3.08 per diluted share, in the comparable fiscal 2022 period.

Adjusted net earnings for the third quarter of fiscal 2023 were $99.4 million, or $0.95 per diluted share, compared to $125.1 million, or $1.19 per diluted share, for the third quarter of fiscal 2022. Adjusted net earnings for the first nine months of fiscal 2023 were $369.4 million, or $3.50 per diluted share, compared to $327.0 million, or $3.09 per diluted share, in the comparable fiscal 2022 period. Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

We continued our history of paying quarterly cash dividends and increased our cash dividend for the third quarter of fiscal 2023 by 13.3 percent to $0.34 per share compared to $0.30 per share paid in the third quarter of fiscal 2022. We also continued to repurchase shares of our common stock under our Board authorized repurchase program, thereby reducing our total shares outstanding. As a result of the combination of quarterly cash dividends and share repurchases, we returned $166.5 million of cash to our shareholders during the first nine months of fiscal 2023.

Field inventory levels were higher as of the end of the third quarter of fiscal 2023 compared to the end of the third quarter of fiscal 2022 primarily driven by channel replenishment and lower than anticipated retail demand from homeowners who prefer professional solutions.

Our order backlog represents unfulfilled customer orders at a point in time. Our order backlog (including shipments beyond 12 months) was slightly lower as of the end of the third quarter of fiscal 2023 compared to the end of the fourth quarter of fiscal 2022 primarily driven by improved manufacturing output and seasonal variability. Our order backlog remains significantly elevated over what the company would consider normal, due to demand for underground and specialty construction and golf and grounds products continuing to outpace production of such products.

Net Sales

Consolidated net sales for the third quarter of fiscal 2023 were $1,081.8 million, down 6.8 percent compared to $1,160.6 million in the third quarter of fiscal 2022. The decrease for the third quarter comparison was primarily driven by lower shipments in the Residential segment. For the year-to-date period of fiscal 2023, consolidated net sales were $3,570.0 million, up 6.8 percent compared to $3,342.7 million from the same period in the prior fiscal year. The increase for the year-to-date comparison was mainly driven by net price realization, higher shipments, and the incremental net sales attributable to the acquisition of Intimidator.

Net sales in international markets increased by $18.8 million and $99.9 million for the third quarter and year-to-date periods of fiscal 2023, respectively. Changes in foreign currency exchange rates resulted in a decrease in our net sales of approximately $1.3 million and $7.4 million for the third quarter and year-to-date periods of fiscal 2023, respectively. The international net sales increases for both the third quarter and year-to-date comparisons were primarily driven by higher shipments and net price realization in the Professional segment, partially offset by lower shipments in the Residential segment.

The following table summarizes our results of operations as a percentage of consolidated net sales:

	Three Months Ended		Nine Months Ended	
	August 4, 2023	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(65.6)	(65.5)	(65.0)	(66.9)
Gross profit	34.4	34.5	35.0	33.1
Selling, general and administrative expense	(22.2)	(20.5)	(21.3)	(20.4)
Non-cash impairment charges	(14.0)	—	(4.3)	—
Operating (loss) earnings	(1.8)	14.0	9.4	12.7
Interest expense	(1.4)	(0.8)	(1.2)	(0.7)
Other income, net	0.6	0.3	0.6	0.2
(Loss) earnings before income taxes	(2.6)	13.5	8.8	12.2
Income tax benefit (provision)	1.2	(2.7)	(1.5)	(2.5)
Net (loss) earnings	(1.4)%	10.8 %	7.3 %	9.7 %

Gross Profit and Gross Margin

Gross profit for the third quarter of fiscal 2023 was $372.4 million, down 6.9 percent compared to $399.9 million in the third quarter of fiscal 2022. Adjusted gross profit for the third quarter of fiscal 2023 was $372.4 million, down 7.0 percent compared to $400.3 million for the third quarter of fiscal 2022. Gross margin was 34.4 percent for the third quarter of fiscal 2023 compared to 34.5 percent for the third quarter of fiscal 2022, a decrease of 10 basis points. The decrease in gross margin for the third quarter comparison was primarily due to higher material costs, mostly offset by lower freight expense. Gross profit for the year-to-date period of fiscal 2023 was $1,248.0 million, up 12.9 percent compared to $1,105.8 million in the same period of fiscal 2022. Adjusted gross profit for the year-to-date period of fiscal 2023 was $1,248.2 million, up 12.7 percent compared to $1,107.2 million for the same period of fiscal 2022. Gross margin was 35.0 percent for the year-to-date period of fiscal 2023 compared to 33.1 percent for the prior fiscal year comparable period, an increase of 190 basis points. The increase in gross margin for year-to-date period of fiscal 2023 was primarily due to net price realization and productivity improvements, partially offset by higher material costs.

Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

Selling, General, and Administrative ("SG&A") Expense

SG&A expense increased $3.3 million, or 1.4 percent, for the third quarter of fiscal 2023 and increased $80.1 million, or 11.8 percent, for the year-to-date period of fiscal 2023 compared to the same respective periods of fiscal 2022. As a percentage of net sales, SG&A expense increased 170 basis points and increased 90 basis points for the third quarter and year-to-date periods of fiscal 2023, respectively, compared to the same respective periods of fiscal 2022. The increase in SG&A expense as a percentage of net sales for the third quarter comparison was primarily due to lower net sales, higher marketing costs, and increased investment in research and engineering. The increase in SG&A expense as a percentage of net sales for the year-to-date comparison was primarily due to higher marketing and warranty costs, partially offset by net sales leverage.

Non-Cash Impairment Charges

We recorded non-cash impairment charges of $151.3 million within our Professional segment related to Intimidator in the third quarter and year-to-date period of fiscal 2023. No impairment charges were recognized in the third quarter or year-to-date period of fiscal 2022.

Interest Expense

Interest expense increased $5.8 million and $19.6 million for the third quarter and year-to-date periods of fiscal 2023, respectively, compared to the same respective periods of fiscal 2022. The increase in interest expense for both the third quarter and year-to-date comparisons was primarily due to higher average interest rates.

Other Income, Net

Other income, net increased $2.3 million and $13.0 million for the third quarter and year-to-date periods of fiscal 2023, respectively, compared to the same respective periods of fiscal 2022. The increase for the third quarter comparison was primarily due to higher income from our Red Iron joint venture. The increase for the year-to-date comparison was primarily due to higher income from our Red Iron joint venture and the favorable impact from derivative instruments.

Income Tax (Benefit) Provision

The effective tax rate for the third quarter of fiscal 2023 was 47.6 percent compared to 20.3 percent in the third quarter of fiscal 2022. The effective tax rate for the year-to-date period of fiscal 2023 was 17.3 percent compared to 20.4 percent in the same period of fiscal 2022. The change in the effective tax rate for the third quarter comparison was primarily due to the tax benefit from non-cash impairment charges in the current-year period. The decrease in the effective tax rate for the year-to-date comparison was primarily due to the tax benefit from non-cash impairment charges and higher tax benefits recorded as excess tax deductions for stock compensation in the current-year period.

The adjusted effective tax rate for the third quarter of fiscal 2023 was 19.0 percent, compared to an adjusted effective tax rate of 20.7 percent in the third quarter of fiscal 2022. The decrease was primarily due to an increased benefit from the geographic mix of earnings in the current-year period. The adjusted effective tax rate for the year-to-date period of fiscal 2023 was 20.6 percent, compared to 20.8 percent in the same period of fiscal 2022.

Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures."

Net (Loss) Earnings

The net loss for the third quarter of fiscal 2023 was $15.0 million, or $0.14 net loss per diluted share, compared to net earnings of $125.2 million, or $1.19 per diluted share, for the third quarter of fiscal 2022. Net earnings for the first nine months of fiscal 2023 were $259.4 million, or $2.46 per diluted share, compared to $325.8 million, or $3.08 per diluted share, for the same period of fiscal 2022. The decrease in net earnings per diluted share for the third quarter comparison was primarily due to the non-cash impairment charges, lower Residential segment earnings, and higher interest expense. The decrease in net earnings per diluted share for the year-to-date comparison was primarily due to the non-cash impairment charges, lower Residential segment earnings, and higher interest expense, partially offset by strong Professional segment earnings. Adjusted net earnings for the third quarter of fiscal 2023 were $99.4 million, or $0.95 per diluted share, compared to $125.1 million, or $1.19 per diluted share, for the third quarter of fiscal 2022, a decrease of 20.2 percent per diluted share. Adjusted net earnings for the first nine months of fiscal 2023 were $369.4 million, or $3.50 per diluted share, compared to $327.0 million, or $3.09 per diluted share, for the same year-to-date period of fiscal 2022, an increase of 13.3 percent per diluted share.

Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

BUSINESS SEGMENTS

We operate in two reportable business segments: Professional and Residential. Segment earnings for our Professional and Residential segments are defined as earnings from operations plus other income, net. Our remaining activities are presented as "Other" due to their insignificance. Operating loss for our Other activities included earnings (loss) from our wholly-owned domestic distribution company, Red Iron joint venture, corporate activities, other income, and interest expense. Corporate activities include general corporate expenditures, such as finance, human resources, legal, information services, public relations, and similar activities, as well as other unallocated corporate assets and liabilities, such as corporate facilities and deferred tax assets and liabilities. The following tables summarize net sales for our reportable business segments and Other activities:

	Three Months Ended			
(Dollars in thousands)	August 4, 2023	July 29, 2022	Dollar Value Change	Percentage Change
Professional	$ 896,321	$ 886,232	$ 10,089	1.1 %
Residential	175,314	269,962	(94,648)	(35.1)
Other	10,149	4,356	5,793	133.0
Total net sales*	$ 1,081,784	$ 1,160,550	$ (78,766)	(6.8)%
*Includes international net sales of:	$ 234,964	$ 216,142	$ 18,822	8.7 %

	Nine Months Ended			
(Dollars in thousands)	August 4, 2023	July 29, 2022	Dollar Value Change	Percentage Change
Professional	$ 2,845,714	$ 2,484,927	$ 360,787	14.5 %
Residential	705,765	845,039	(139,274)	(16.5)
Other	18,471	12,712	5,759	45.3
Total net sales*	$ 3,569,950	$ 3,342,678	$ 227,272	6.8 %
*Includes international net sales of:	$ 756,686	$ 656,799	$ 99,887	15.2 %

The following tables summarize segment earnings for our reportable business segments and operating (loss) for our Other activities:

	Three Months Ended			
(Dollars in thousands)	August 4, 2023	July 29, 2022	Dollar Value Change	Percentage Change
Professional	$ 13,049	$ 166,191	$ (153,142)	(92.1)%
Residential	3,848	26,348	(22,500)	(85.4)
Other	(45,460)	(35,448)	(10,012)	(28.2)
Total segment (loss) earnings	$ (28,563)	$ 157,091	$ (185,654)	(118.2)%

	Nine Months Ended			
(Dollars in thousands)	August 4, 2023	July 29, 2022	Dollar Value Change	Percentage Change
Professional	$ 384,621	$ 424,833	$ (40,212)	(9.5)%
Residential	64,411	95,203	(30,792)	(32.3)
Other	(135,462)	(110,742)	(24,720)	(22.3)
Total segment earnings	$ 313,570	$ 409,294	$ (95,724)	(23.4)%

Professional Segment

Segment Net Sales

Worldwide net sales for our Professional segment for the third quarter of fiscal 2023 increased 1.1 percent compared to the third quarter of fiscal 2022. The increase was driven primarily by higher shipments of construction and golf and grounds products and net price realization, partially offset by lower shipments of lawn care equipment. Worldwide net sales for our Professional segment for the year-to-date period of fiscal 2023 increased 14.5 percent compared to the same period of fiscal 2022. The increase was driven primarily by higher shipments, net price realization, and the incremental net sales attributable to the acquisition of Intimidator.

Segment Earnings

Professional segment earnings for the third quarter of fiscal 2023 decreased 92.1 percent compared to the third quarter of fiscal 2022, and Professional segment earnings margin decreased to 1.5 percent from 18.8 percent in the third quarter of fiscal 2022. The decrease in Professional segment earnings margin was primarily due to the non-cash impairment charges and higher material and manufacturing costs, partially offset by productivity improvements and net price realization. Professional segment earnings for the year-to-date period of fiscal 2023 decreased 9.5 percent compared to the same period of fiscal 2022, and Professional segment earnings margin decreased to 13.5 percent from 17.1 percent in the year-to-date period of fiscal 2022. The decrease in Professional segment earnings margin was primarily due to the non-cash impairment charges and higher material costs, partially offset by net price realization, productivity improvements, and net sales leverage.

Residential Segment

Segment Net Sales

Worldwide net sales for our Residential segment for the third quarter of fiscal 2023 decreased 35.1 percent compared to the third quarter of fiscal 2022. The decrease was primarily driven by lower shipments of products broadly across the segment. Worldwide net sales for our Residential segment for the year-to-date period of fiscal 2023 decreased 16.5 percent compared to the same period of fiscal 2022. The decrease was primarily driven by lower shipments, partially offset by net price realization.

Segment Earnings

Residential segment earnings for the third quarter of fiscal 2023 decreased 85.4 percent compared to the third quarter of fiscal 2022, and Residential segment earnings margin decreased to 2.2 percent from 9.8 percent in the third quarter of fiscal 2022. The decrease in Residential segment earnings margin for the third quarter of fiscal 2023 was largely driven by lower sales volume and unfavorable product mix, partially offset by lower material costs. Residential segment earnings for the year-to-date period of fiscal 2023 decreased 32.3 percent compared to the same period of fiscal 2022, and Residential segment earnings margin decreased to 9.1 percent from 11.3 percent in the year-to-date period of fiscal 2022. The decrease in Residential segment earnings margin for the year-to-date period of fiscal 2023 was largely driven by lower sales volume and unfavorable product mix, partially offset by net price realization.

Other Activities

Other Net Sales

Net sales for our Other activities includes sales from our wholly-owned domestic distribution company net of intersegment sales from the Professional and Residential segments to the distribution company. Net sales for our Other activities in the third quarter of fiscal 2023 increased by $5.8 million compared to the same period in fiscal 2022. Net sales for our Other activities in the year-to-date period of fiscal 2023 increased by $5.8 million compared to the same period in fiscal 2022.

Other Operating Loss

The operating loss for our Other activities for the third quarter of fiscal 2023 increased $10.0 million compared to the third quarter of fiscal 2022 and was primarily due to higher interest expense and higher corporate expenses, partially offset by higher income from our Red Iron joint venture.

The operating loss for our Other activities for the year-to-date period of fiscal 2023 increased $24.7 million compared to the same period in fiscal 2022 and was primarily due to higher interest expense and higher corporate expenses, partially offset by higher income from our Red Iron joint venture and the favorable impact from derivative instruments.

FINANCIAL POSITION

Working Capital

The macroeconomic environment remains challenging and has continued to result in supply chain disruptions and difficult conditions for sourcing certain key components. Our continued goal is to maintain requisite inventory levels to meet our anticipated production requirements, avoid manufacturing delays, and meet the demand for our products, as well as attempting to ensure service parts availability for our customers. Accounts receivable as of the end of the third quarter of fiscal 2023 increased $40.0 million, or 11.4 percent, compared to the end of the third quarter of fiscal 2022, primarily driven by payment terms and higher International sales. Inventory levels were up $173.4 million, or 18.5 percent, as of the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022, primarily due to higher finished goods resulting from decreased demand for solutions sold to homeowners. Accounts payable decreased $79.7 million, or 16.4 percent, as of the end of the third quarter of fiscal 2023 compared to the end of the third quarter of fiscal 2022, primarily driven by a reduction in purchases year over year.

Cash Flow

Cash Flows from Operating Activities

Cash provided by operating activities for the first nine months of fiscal 2023 was $154.7 million compared to $154.6 million for the first nine months of fiscal 2022 mainly due to higher net earnings excluding our non-cash impairment charges, mostly offset by net unfavorable fluctuations in working capital, in each case during the current fiscal year period compared to the prior fiscal year period.

Cash Flows from Investing Activities

Cash used in investing activities for the first nine months of fiscal 2023 was $119.2 million compared to $480.6 million for the first nine months of fiscal 2022. This decrease in cash used in investing activities was primarily driven by cash used to acquire Intimidator in the prior fiscal year period, partially offset by higher purchases of property, plant, and equipment in the current fiscal year period.

Cash Flows from Financing Activities

Cash used in financing activities for the first nine months of fiscal 2023 was $82.4 million compared to cash provided by financing activities for the first nine months of fiscal 2022 of $162.7 million. This change in cash flows from financing activities was mainly due to lower net borrowings, partially offset by lower share repurchases, in each case during the current fiscal year period compared to the prior fiscal year period. The net borrowings incurred during the prior fiscal year period were used in part to acquire Intimidator.

Liquidity and Capital Resources

As of August 4, 2023, we had available liquidity of $675.3 million, consisting of cash and cash equivalents of $147.9 million, of which $90.7 million was held by our foreign subsidiaries, and availability under our revolving credit facility of $527.4 million. We believe our current liquidity position, including the funds available through existing, and potential future, financing arrangements and forecasted cash flows from operations will be sufficient to provide the necessary capital resources for our anticipated working capital needs, payroll, and other administrative costs, capital expenditures, lease payments, purchase commitments, contractual obligations, acquisitions, investments, establishment of new facilities, expansion and renovation of existing facilities, financing receivables from customers that are not financed with Red Iron or other third-party financial institutions, contingent consideration payments, debt repayments, interest payments, quarterly cash dividend payments, and common stock repurchases, all as applicable, for at least the next twelve months.

Indebtedness

Our debt arrangements are described in further detail in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. The following is a summary of our indebtedness:

(Dollars in thousands)	August 4, 2023	July 29, 2022	October 31, 2022
$600 million revolving credit facility, due October 2026	$ 70,000	$ 65,000	$ —
$270 million term loan, due October 2026	270,000	270,000	270,000
$200 million term loan, due April 2027	200,000	200,000	200,000
3.81% series A senior notes, due June 2029	100,000	100,000	100,000
3.91% series B senior notes, due June 2031	100,000	100,000	100,000
3.97% senior notes, due June 2032	100,000	100,000	100,000
7.8% debentures, due June 2027	100,000	100,000	100,000
6.625% senior notes, due May 2037	124,148	124,086	124,102
Less: unamortized debt issuance costs	2,839	3,470	3,334
Total long-term debt	1,061,309	1,055,616	990,768
Less: current portion of long-term debt	—	65,000	—
Long-term debt, less current portion	$ 1,061,309	$ 990,616	$ 990,768

As of August 4, 2023, we had $70.0 million of outstanding borrowings under our revolving credit facility and $2.6 million outstanding under the sublimit for standby letters of credit, which resulted in $527.4 million of unutilized availability under our revolving credit facility.

We are in compliance with our debt covenants and other requirements of our revolving credit facility and term loan credit agreements, indentures, and private placement note purchase agreements.

Cash Dividends

Our Board of Directors approved a cash dividend of $0.34 per share for the third quarter of fiscal 2023 that was paid on July 12, 2023. This was an increase of 13.3 percent over our cash dividend of $0.30 per share for the third quarter of fiscal 2022. We expect to continue paying our quarterly cash dividend to shareholders for the remainder of fiscal 2023.

Share Repurchases

During the first nine months of fiscal 2023, we repurchased 577,115 shares of our common stock in the open market under our Board authorized repurchase program, thereby reducing our total shares outstanding. As of August 4, 2023, 6,949,491 shares remained available for repurchase under our Board authorized repurchase program. We expect to repurchase shares of our common stock throughout the remainder of fiscal 2023, depending on our cash balance, debt repayments, market conditions, our anticipated working capital needs, the price of our common stock, and/or other factors.

Customer Financing Arrangements

Our customer financing arrangements are described in further detail in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. There have been no material changes to our customer financing arrangements during the first nine months of fiscal 2023.

Inventory Financing

We are party to inventory financing arrangements with Red Iron, HCFC, and other third-party financial institutions which provide inventory financing to certain dealers and distributors of certain of our products in the U.S. and internationally.

The net amount of receivables financed for dealers and distributors under the arrangement with Red Iron for the nine month periods ended August 4, 2023 and July 29, 2022 were $2,160.8 million and $1,886.1 million, respectively. The total amount of net receivables outstanding under the arrangement with Red Iron as of August 4, 2023, July 29, 2022 and October 31, 2022 were $1,010.5 million, $690.7 million and $776.1 million, respectively. The total amount of receivables due from Red Iron to us as of August 4, 2023, July 29, 2022 and October 31, 2022 were $30.4 million, $14.4 million and $17.7 million, respectively.

The net amount of receivables financed for dealers and distributors under the arrangements with HCFC and the other third-party financial institutions for the nine month periods ended August 4, 2023 and July 29, 2022 were $367.6 million and $458.9 million, respectively. The total amount of net receivables outstanding under the arrangements with HCFC and the other third-party financial institutions as of August 4, 2023, July 29, 2022, and October 31, 2022 were $187.2 million, $205.1 million, and $220.0 million, respectively.

Inventory Repurchase Agreements

We have entered into a limited inventory repurchase agreement with Red Iron and HCFC under which we have agreed to repurchase certain repossessed products, up to a maximum aggregate amount of $7.5 million in a calendar year.

Additionally, as a result of our financing agreements with the other third-party financial institutions, we have also entered into inventory repurchase agreements with the other third-party financial institutions. Under such inventory repurchase agreements, we have agreed to repurchase products repossessed by the other third-party financial institutions. As of August 4, 2023, July 29, 2022, and October 31, 2022, we were contingently liable to repurchase up to a maximum amount of $118.8 million, $79.9 million, and $80.0 million, respectively, of inventory related to receivables under these inventory repurchase agreements.

Our financial exposure under these inventory repurchase agreements is limited to the difference between the amount paid to Red Iron, HCFC or other third-party financing institutions for repurchases of inventory and the amount received upon subsequent resale of the repossessed product. We have repurchased immaterial amounts of inventory pursuant to such arrangements for the nine months ended August 4, 2023 and July 29, 2022. However, a decline in retail sales or financial difficulties of our distributors or dealers could cause this situation to change and thereby require us to repurchase financed product, which could have an adverse effect on our results of operations, financial position, or cash flows.

NON-GAAP FINANCIAL MEASURES

We have provided in this Quarterly Report on Form 10-Q certain non-GAAP financial measures, which are not calculated or presented in accordance with U.S. GAAP, as information supplemental and in addition to the most directly comparable financial measures that are calculated and presented in accordance with U.S. GAAP. We use these non-GAAP financial measures in making operating decisions and assessing liquidity because we believe they provide meaningful supplemental information regarding our core operational performance and cash flows, as a measure of our liquidity, and provide us with a better understanding of how to allocate resources to both ongoing and prospective business initiatives. Additionally, these non-GAAP financial measures facilitate our internal comparisons to both our historical operating results and to our competitors' operating results by factoring out potential differences caused by charges and benefits not related to our regular, ongoing business, including, without limitation, certain non-cash, large, and/or unpredictable charges and benefits; acquisitions and dispositions; legal judgments, settlements, or other matters; and tax positions. We believe that these non-GAAP financial measures, when considered in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP, provide investors with useful supplemental financial information to better understand our core operational performance and cash flows. These non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the most directly comparable U.S. GAAP financial measures. The non-GAAP financial measures may differ from similar measures used by other companies.

Reconciliation of Non-GAAP Financial Measures

The following table provides a reconciliation of the non-GAAP financial performance measures used in this report to the most directly comparable measures calculated and reported in accordance with U.S. GAAP for the three and nine month periods ended August 4, 2023 and July 29, 2022:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands, except per share data)	**August 4, 2023**	**July 29, 2022**	**August 4, 2023**	**July 29, 2022**
Gross profit	$ 372,354	$ 399,906	$ 1,247,999	$ 1,105,751
Acquisition-related costs[1]	—	401	225	1,425
Adjusted gross profit	$ 372,354	$ 400,307	$ 1,248,224	$ 1,107,176
Operating (loss) earnings	$ (19,072)	$ 163,048	$ 336,151	$ 425,251
Acquisition-related costs[1]	—	704	447	3,456
Non-cash impairment charges[2]	151,263	—	151,263	—
Adjusted operating earnings	$ 132,191	$ 163,752	$ 487,861	$ 428,707
Operating (loss) earnings margin	(1.8)%	14.0 %	9.4 %	12.7 %
Acquisition-related costs[1]	— %	0.1 %	— %	0.1 %
Non-cash impairment charges[2]	14.0 %	— %	4.3 %	— %
Adjusted operating earnings margin	12.2 %	14.1 %	13.7 %	12.8 %
(Loss) earnings before income taxes	$ (28,563)	$ 157,091	$ 313,570	$ 409,294
Acquisition-related costs[1]	—	704	447	3,456
Non-cash impairment charges[2]	151,263	—	151,263	—
Adjusted earnings before income taxes	$ 122,700	$ 157,795	$ 465,280	$ 412,750
Income tax (benefit) provision	$ (13,600)	$ 31,941	$ 54,208	$ 83,509
Acquisition-related costs[1]	—	143	96	716
Non-cash impairment charges[2]	36,621	—	36,621	—
Tax impact of share-based compensation[3]	324	581	5,004	1,568
Adjusted income tax provision	$ 23,345	$ 32,665	$ 95,929	$ 85,793
Net (loss) earnings	$ (14,963)	$ 125,150	$ 259,362	$ 325,785
Acquisition-related costs, net of tax[1]	—	561	351	2,740
Non-cash impairment charges, net of tax[2]	114,642	—	114,642	—
Tax impact of stock-based compensation[3]	(324)	(581)	(5,004)	(1,568)
Adjusted net earnings	$ 99,355	$ 125,130	$ 369,351	$ 326,957
Net (loss) earnings per diluted share	$ (0.14)	$ 1.19	$ 2.46	$ 3.08
Acquisition-related costs, net of tax[1]	—	0.01	—	0.03
Non-cash impairment charges, net of tax[2]	1.09	—	1.09	—
Tax impact of stock-based compensation[3]	—	(0.01)	(0.05)	(0.02)
Adjusted net earnings per diluted share	$ 0.95	$ 1.19	$ 3.50	$ 3.09
Effective tax rate	47.6 %	20.3 %	17.3 %	20.4 %
Non-cash impairment charges[2]	(27.5)%	— %	1.7 %	— %
Tax impact of stock-based compensation[3]	(1.1)%	0.4 %	1.6 %	0.4 %
Adjusted effective tax rate	19.0 %	20.7 %	20.6 %	20.8 %

[1] On January 13, 2022, we completed our acquisition of Intimidator. Acquisition-related costs for the nine month period ended August 4, 2023 represent integration costs. Acquisition-related costs for the three and nine month periods ended July 29, 2022 represent transaction and integration costs. For additional information regarding the acquisition of Intimidator, refer to Note 2, *Business Combinations*, within the Notes to Condensed Consolidated Financial Statements included within Part I, Item 1 of this Quarterly Report on Form 10-Q.

[2] At the end of the third quarter of fiscal 2023, the company recorded non-cash impairment charges within our Professional reportable segment related to the Intimidator operating segment, as discussed in more detail under the heading "Company Overview-Impairment" in this section.

[3] The accounting standards codification guidance governing employee stock-based compensation requires that any excess tax deduction for stock-based compensation be immediately recorded within income tax expense. Employee stock-based compensation activity, including the exercise of stock options, can be unpredictable and can significantly impact our net earnings, net earnings per diluted share, and effective tax rate. These amounts represent the discrete tax benefits recorded as excess tax deductions for stock-based compensation during the three and nine month periods ended August 4, 2023 and July 29, 2022.

Reconciliation of Non-GAAP Liquidity Measures

We define free cash flow as net cash provided by operating activities less purchases of property, plant, and equipment, net of proceeds from insurance claim. Free cash flow conversion percentage represents free cash flow as a percentage of net earnings. We consider free cash flow and free cash flow conversion percentage to be non-GAAP liquidity measures that provide useful information to management and investors about our ability to convert net earnings into cash resources that can be used to pursue opportunities to enhance shareholder value, fund ongoing and prospective business initiatives, and strengthen our Condensed Consolidated Balance Sheets, after reinvesting in necessary capital expenditures required to maintain and grow our business. The following table provides a reconciliation of non-GAAP free cash flow and free cash flow conversion percentage to net cash provided by operating activities, which is the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, for the nine month periods ended August 4, 2023 and July 29, 2022:

	Nine Months Ended	
(Dollars in thousands)	**August 4, 2023**	**July 29, 2022**
Net cash provided by operating activities	$ 154,665	$ 154,563
Less: Purchases of property, plant, and equipment, net of proceeds from insurance claim	98,586	75,772
Free cash flow	56,079	78,791
Net earnings	$ 259,362	$ 325,785
Free cash flow conversion percentage	21.6 %	24.2 %

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to our critical accounting policies and estimates since our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. Refer to Part II, Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations", and Part II, Item 8, Note 1, *Summary of Significant Accounting Policies and Related Data*, within our Annual Report on Form 10-K for the fiscal year ended October 31, 2022 for a discussion of our critical accounting policies and estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk stemming from changes in foreign currency exchange rates, interest rates, and commodity costs. We are also exposed to equity market risk pertaining to the trading price of our common stock. Changes in these factors could cause fluctuations in our earnings and cash flows. There have been no material changes to the market risk information regarding equity market risk included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. Refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk", within our Annual Report on Form 10-K for the fiscal year ended October 31, 2022 for a complete discussion of our market risk. Refer below for further discussion on foreign currency exchange rate risk, interest rate risk, and commodity cost risk.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales to third-party customers, sales and loans to wholly-owned foreign subsidiaries, costs associated with foreign plant operations, and purchases from suppliers. Our primary foreign currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, the Japanese yen, the Chinese renminbi, and the Romanian new leu against the U.S. dollar, as well as the Romanian new leu against the Euro. Because our products are manufactured or sourced primarily from the U.S. and Mexico, a stronger U.S. dollar and Mexican peso generally have a negative impact on our results from operations, while a weaker U.S. dollar and Mexican peso generally have a positive effect.

To reduce our exposure to foreign currency exchange rate risk, we enter into various derivative instruments to hedge against such risk, authorized under a company policy that places controls on these hedging activities, with counterparties that are highly rated financial institutions. Decisions on whether to use such derivative instruments are primarily based on the amount of exposure to the currency involved and an assessment of the near-term market value for each currency. Our worldwide foreign currency exchange rate exposures are reviewed monthly. The gains and losses on our derivative instruments offset the changes in values of the related underlying exposures. Therefore, changes in the values of our derivative instruments are highly correlated with changes in the market values of underlying hedged items both at inception and over the life of the derivative instrument. For additional information regarding our derivative instruments, see Note 16, *Derivative Instruments and Hedging Activities*, in our Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The foreign currency exchange contracts in the table below have maturity dates in fiscal 2023 through fiscal 2025. All items are non-trading and stated in U.S. dollars. As of August 4, 2023, the average contracted rate, notional amount, fair value, and the gain (loss) at fair value of outstanding derivative instruments were as follows:

(Dollars in thousands, except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value	Gain (Loss) at Fair Value
Buy U.S. dollar/Sell Australian dollar	0.6928	$ 99,283	$ 104,087	$ 4,804
Buy U.S. dollar/Sell Canadian dollar	1.3189	40,337	40,754	417
Buy U.S. dollar/Sell Euro	1.1124	165,062	165,421	359
Buy U.S. dollar/Sell British pound	1.2610	48,549	48,288	(261)
Buy Mexican peso/Sell U.S. dollar	21.2350	$ 45,350	$ 53,703	$ 8,353

Our net investment in foreign subsidiaries translated into U.S. dollars is not hedged. Any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment, a component of accumulated other comprehensive loss in stockholders' equity on the Condensed Consolidated Balance Sheets, and would not impact net earnings.

Interest Rate Risk

Our interest rate risk relates primarily to fluctuations in variable interest rates on our revolving credit facility and term loan credit agreements, as well as the potential increase in the fair value of our fixed-rate long-term debt resulting from a potential decrease in interest rates. We generally do not use interest rate swaps to mitigate the impact of fluctuations in interest rates. We have no earnings or cash flow exposure due to interest rate risks on our fixed-rate long-term debt obligations. Our indebtedness as of August 4, 2023 includes $524.1 million of gross fixed-rate long-term debt that is not subject to variable interest rate fluctuations, $470.0 million of gross variable rate debt under our term loan credit agreements, and $70.0 million outstanding on our variable rate revolving credit facility.

Commodity Cost Risk

Most of the commodities, components, parts, and accessories used in our manufacturing process and end-products, or to be sold as standalone end-products, are exposed to commodity cost changes. These changes may be affected by several factors, including, for example, demand; inflation; deflation; changing prices; foreign currency fluctuations; tariffs; duties; trade regulatory actions; industry actions; and changes to international trade policies, agreements, and/or regulation and competitor activity, including antidumping and countervailing duties on certain products imported from foreign countries, such as certain engines imported into the U.S. from China.

Our primary cost exposures for commodities, components, parts, and accessories used in our products are with steel, aluminum, petroleum, and natural gas-based resins, linerboard, copper, lead, rubber, engines, transmissions, transaxles, hydraulics, electrification components, and others. Our largest spend categories for commodities, components, parts, and accessories are generally steel, engines, hydraulic components, transmissions, resin, aluminum, and electrification components, all of which we purchase from several suppliers around the world. We generally purchase commodities, components, parts, and accessories based upon market prices that are established with suppliers as part of the purchase process and generally attempt to obtain firm pricing from most of our suppliers for volumes consistent with planned production and estimates of wholesale and retail demand for our products.

In any given period, we strategically attempt to mitigate potential unfavorable impact as a result of changes to the cost of commodities, components, parts, and accessories that affect our product lines through our productivity initiatives; however, our productivity initiatives may not be as effective as anticipated depending on macroeconomic cost trends for commodities, components, parts, and accessories costs and/or other factors. Our productivity initiatives include, but are not limited to, collaborating with suppliers, reviewing alternative sourcing options, substituting materials, SKU rationalization, utilizing Lean methods, engaging in internal cost reduction efforts, and utilizing tariff exclusions and duty drawback mechanisms, all as appropriate. When appropriate, we may also increase prices on some of our products to offset changes in the cost of commodities, components, parts, and accessories. To the extent that commodity and component costs increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, and/or our productivity initiatives and/or product price increases are less effective than anticipated and/or do not fully offset cost increases, we may experience a decline in our gross margins.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply our judgment in evaluating the cost-benefit relationship of possible internal controls.

Our management evaluated, with the participation of our Chairman of the Board, President and Chief Executive Officer and our Vice President, Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chairman of the Board, President and Chief Executive Officer and our Vice President, Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chairman of the Board, President and Chief Executive Officer and Vice President, Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

On January 13, 2022, during the first quarter of fiscal 2022, we completed the acquisition of Intimidator. Prior to this acquisition, Intimidator was a privately-held company not subject to the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC, or other corporate governance requirements to which public companies may be subject. In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting during the year of acquisition. As part of our ongoing integration activities, we are in the process of incorporating internal controls over significant processes specific to Intimidator that we believe are appropriate and necessary to account for the acquisition and to consolidate and report our financial results. We expect to complete our integration activities related to internal control over financial reporting for Intimidator during fiscal 2023. Accordingly, we expect to include Intimidator within our assessment of internal control over financial reporting as of October 31, 2023.

With the exception of internal control related integration activities associated with our acquisition of Intimidator, there was no change in our internal control over financial reporting that occurred during the three month period ended August 4, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to litigation in the ordinary course of business, including claims for punitive, as well as compensatory, damages arising out of the use of our products; litigation and administrative and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment; and commercial disputes, employment and employment-related disputes, and patent litigation cases. For a description of our material legal proceedings, see Note 14, *Commitments and Contingencies*, in our Notes to Condensed Consolidated Financial Statements under the heading "Litigation" included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated into this Part II, Item 1 by reference.

ITEM 1A. RISK FACTORS

We are affected by risks specific to us, as well as factors that affect all businesses operating in a global market. The material risk factors known to us that could materially adversely affect our business, reputation, industry, operating results, or financial position or could cause our actual results to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statement made in this report, are described in our most recently filed Annual Report on Form 10-K, Part I, Item 1A. "Risk Factors." There has been no material change in those risk factors, other than the updated risk factors below.

Economic and Operational Risks

Our Professional segment includes a variety of products that depend on certain and varied factors.

Our Professional segment includes a variety of products that are sold by distributors or dealers, or directly to government customers, rental companies, construction companies, professional and other users, including homeowners, engaged in maintaining and creating properties and landscapes, such as golf courses, sports fields, residential and commercial properties and landscapes, and governmental and municipal properties. Any one or a combination of the following factors, among others, many of which have been adversely impacted by COVID-19, have in the past resulted and could in the future result in a decrease in spending and demand for our products, resulting in an adverse effect on our Professional segment net sales and earnings:

- reduced revenue for golf courses resulting from a reduction in the level of interest in the game of golf and/or a decrease in rounds played, memberships, and/or food and beverage sales, as applicable;
- reduced investment in golf course renovations and improvements;
- the level of new golf course development and golf course closures;
- reduced consumer and business spending on property maintenance, such as lawn care and snow and ice removal activities;
- low or reduced levels of infrastructure improvements and other construction activities;
- decreased oil and gas construction activities;
- a decline in acceptance of, and demand for, ag-irrigation solutions for agricultural production;
- availability of cash or credit on acceptable terms for our customers to finance new product purchases; and
- customer and/or government budgetary constraints resulting in reduced spending for grounds maintenance or construction equipment.

Our Residential segment net sales depend on several factors, including product placement, consumer confidence and spending levels, changing buying patterns of customers and the impact of significant sales or promotional events.

The elimination, reduction, or changes in the placement of shelf space assigned to our Residential segment products at mass retailers and home centers have in the past adversely affected and in the future could adversely affect our Residential segment net sales. Our Residential segment net sales also depend upon the buying patterns of consumers and changes to buying patterns could result in reduced sales. For example, after the COVID-19 pandemic, consumers have shifted more of their spending away from home related products, including our Residential segment products, and back to other areas, compared to the historic levels of home related spending we experienced during the heights of the pandemic, which has adversely affected and may continue to adversely affect our Residential net sales. In addition, as consumers purchase products at home centers and mass retailers that typically offer broader and lower price points than dealers, demand for and sales of our Residential segment products purchased at mass retailers and home centers, as compared to dealers and hardware retailers, have increased, adversely affecting our margins. We believe that our diverse distribution channels and customer base should reduce the long-term impact on us if we were to lose any substantial customer, but the loss of any such customer, a significant reduction in sales to such customers, our inability to maintain adequate product placement at mass retailers and home centers or our inability to respond to future changes in buying patterns of consumers or new distribution channels could have a material adverse impact on our business and operating results. Furthermore, our quarterly or annual results have in the past and could in the future be impacted as a result of the timing of significant sales or promotional events for our Residential products.

Strategic Risks

Our strategy to pursue acquisitions and alliances, strong customer relations, and new joint ventures, investments, and partnerships involves risk.

One of our strategies is to drive growth in our businesses and expand our global presence through targeted acquisitions and alliances, strong customer relations, and new joint ventures, investments, and partnerships that add value and complement our existing brands and product portfolio. For example, in January 2022, we acquired the Intimidator Group, and more recently, we announced a strategic partnership with Lowe's.

Our continued ability to grow through acquisitions will depend, in part, on the availability of suitable target candidates at acceptable prices, terms, and conditions; our ability to compete effectively for acquisition candidates; and the availability of capital and personnel resources to complete such acquisitions and operate and integrate the acquired business effectively. Any acquisition, alliance, joint venture, investment, or partnership could impair our business, financial condition, reputation, and operating results. For instance, the benefits of an acquisition, or new alliance, joint venture, investment, or partnership may take more time than expected to achieve, or may not develop at all. Acquisitions, alliances, joint ventures, investments, and partnerships may involve a number of risks, the occurrence of which could adversely affect our business, reputation, financial condition, and operating results, including:

- diversion of management's attention to manage and integrate the acquired business;
- disruption to our existing operations and plans;
- inability to effectively manage our expanded operations;
- difficulties, delays, or unanticipated costs in integrating and assimilating information and financial systems, internal controls, operations, manufacturing processes and products or in realizing projected efficiencies, growth prospects, cost savings, and other synergies;
- inability to successfully integrate or develop a distribution channel for acquired product lines;
- loss of key employees, customers, distributors, or dealers of the acquired businesses or adverse effects on existing business relationships with suppliers, customers, distributors, and dealers;
- write-off of significant amounts of goodwill, other indefinite-lived intangible assets, and/or long-lived assets because of deterioration in the performance of an acquired business or product line, adverse market conditions, changes in the competitive landscape, changes in laws or regulations that restrict activities of an acquired business or product line, or other circumstances;
- delays or challenges in transitioning distributors and dealers of acquired businesses to available floor plan financing arrangements;
- violation of confidentiality, intellectual property, and non-compete obligations or agreements by employees of an acquired business or lack of or inadequate formal intellectual property protection mechanisms in place at an acquired business;
- adverse impact on overall profitability if our expanded operations do not achieve, or are delayed in achieving, the growth prospects, net sales, net earnings, cost and/or revenue synergies, or other financial results projected in our valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in our leverage and debt service requirements to pay acquisition purchase prices or other business venture investment costs, which could restrict our ability to access additional capital when needed, result in a decrease in our credit rating, or limit our ability to pursue other important elements of our business strategy;
- failure by acquired businesses or other business ventures to comply with applicable international, federal, and state product safety or other regulatory standards;
- infringement by acquired businesses or other business ventures of valid intellectual property rights of others;
- inaccurate assessment of additional post-acquisition or business venture investments, undisclosed, contingent or other liabilities or problems, unanticipated costs associated with an acquisition or other business venture, and despite the existence of representations, warranties and indemnities in any definitive agreement and/or a representation and warranty insurance policy, if applicable, an inability to recover or manage such liabilities and costs; and
- impacts as a result of purchase accounting adjustments, incorrect estimates made in the accounting for acquisitions, occurrence of non-recurring charges, or other potential financial accounting or reporting impacts.

For example, at the end of the third quarter of fiscal 2023, we recorded non-cash impairment charges of $18.0 million related to the indefinite-lived Spartan® trade name intangible asset and $133.3 million related to the goodwill of the Intimidator reporting unit. These impairment charges resulted in a $36.7 million income tax benefit (deferred tax asset) associated with the remaining tax deductible basis in goodwill and other intangible assets.

In addition, we need effective internal controls to provide reliable and accurate financial reports and to effectively prevent fraud. Integrating acquired businesses may make our systems and controls more complex and difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley

Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement, and maintain adequate control over our financial processes and reporting in the future, particularly in the context of acquisitions of other businesses, regardless of whether such acquired business was previously privately or publicly held. In fiscal 2022, we excluded the Intimidator Group in our assessment in accordance with applicable SEC guidance, and continue to integrate its controls into our internal control over financial reporting. Any difficulties in the assimilation of acquired businesses into our internal control framework could harm our operating results or cause us to fail to meet our financial reporting obligations.

Also, some acquisitions may require the consent of the lenders under our credit agreements. We cannot predict whether such approvals would be forthcoming or the terms on which the lenders would approve such acquisitions. These risks, among others, could be heightened if we complete a large acquisition or other business venture or multiple transactions within a relatively short period of time.

Financial Risks

We incurred non-cash impairment charges during the third quarter of fiscal 2023 which adversely affected our third quarter of fiscal 2023 operating results and we may be required to incur additional future impairment and other charges, which could adversely affect our operating results.

In connection with our acquisitions and other business combinations, including our January 2022 acquisition of Intimidator and March 2020 acquisition of Venture Products, applicable accounting standards require the net tangible and intangible assets of the acquired business to be recorded on our consolidated balance sheet at their fair values as of the date of acquisition and any excess in the purchase price paid by us over the fair value of net tangible and intangible assets of any acquired business to be recorded as goodwill. Goodwill and indefinite-lived intangible assets are not amortized, but are tested at least annually for impairment or more frequently as events and circumstances dictate. Goodwill is tested for impairment at the reporting unit level, which is generally an operating segment or underlying business component. Indefinite-lived intangible assets are tested for impairment at the individual indefinite-lived intangible asset or asset group level, as appropriate. Finite-lived intangible assets other than goodwill considered long-lived assets for impairment testing purposes, are tested for impairment as events and circumstances dictate, and are required to be amortized over their estimated useful lives and this amortization expense may be significant to our ongoing financial results.

If we determine that the anticipated future cash flows from our reporting units, indefinite-lived intangible assets or asset groups, or long-lived asset groups may be less than their respective carrying values, our goodwill, indefinite-lived intangible assets, and/or long-lived assets may be deemed to be impaired. If this occurs, applicable accounting rules may require us to write down the value of the goodwill, indefinite-lived intangible assets, and/or long-lived assets on our balance sheet to reflect the extent of any such impairment. Any such write-down of goodwill, indefinite-lived intangible assets, and/or long-lived assets would generally be recognized as a non-cash expense in our Consolidated Statements of Earnings for the accounting period during which any such write down occurs.

For example, at the end of the third quarter of fiscal 2023, we recorded non-cash impairment charges of $18.0 million related to the indefinite-lived Spartan trade name intangible asset and $133.3 million related to the goodwill of the Intimidator reporting unit. These impairment charges resulted in a $36.7 million income tax benefit (deferred tax asset) associated with the remaining tax deductible basis in goodwill and other intangible assets. As of August 4, 2023, we had goodwill of $451.3 million, which is maintained in various reporting units, including goodwill from the Intimidator and Venture Products business combinations, and indefinite-lived intangible assets of $271.6 million, which together comprise 20.2 percent of our total assets as of August 4, 2023. Any future impairment charges could be significant and could adversely affect our future consolidated operating results and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information with respect to shares of the company's common stock purchased by the company during each of the three fiscal months in the company's third quarter ended August 4, 2023:

Period	Total Number of Shares (or Units) Purchased[1,2,3]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs[1,2]	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[1,2]
May 6, 2023 through June 2, 2023	245,751	$ 104.47	245,751	7,052,065
June 3, 2023 through June 30 2023	102,574	97.47	102,574	6,949,491
July 1, 2023 through August 4, 2023	1,267	105.54	—	6,949,491
Total	349,592	$ 102.42	348,325	

[1] On December 4, 2018, the company's Board of Directors authorized the repurchase of 5,000,000 shares of the company's common stock in open-market or privately negotiated transactions. This authorized stock repurchase program has no expiration date but may be terminated by the company's Board of Directors at any time. The company repurchased 348,325 shares under this program during the period indicated above and as a result, 1,949,491 shares remained available to repurchase under this authorized stock repurchase program as of August 4, 2023.

[2] On December 13, 2022, the company's Board of Directors authorized the repurchase of an additional 5,000,000 shares of the company's common stock in open-market or privately negotiated transactions. This authorized stock repurchase program has no expiration date but may be terminated by the company's Board of Directors at any time. No shares were repurchased under this program during the time period indicated above.

[3] Includes 1,267 shares of the company's common stock purchased in open-market transactions at an average price of $105.54 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in the company's deferred compensation plans. These 1,267 shares were not repurchased under the company's authorized stock repurchase programs described in notes 1 and 2 above.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Plan and Non-Rule 10b5-1 Trading Arrangement Adoptions, Terminations, and Modifications

During the company's third quarter ended August 4, 2023, none of its directors or "officers" (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of SEC Regulation S-K.

ITEM 6. EXHIBITS

(a)

Exhibit No.	Description
3.1 and 4.1	Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 18, 2008, Commission File No. 1-8649).
3.2 and 4.2	Certificate of Amendment to Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 13, 2013, Commission File No. 1-8649).
3.3 and 4.3	Amended and Restated Bylaws of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 30, 2023, Commission File No. 1-8649).
4.4	Indenture dated as of January 31, 1997, between The Toro Company and First National Trust Association, as Trustee, relating to The Toro Company's 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 27, 1997, Commission File No. 1-8649). (Filed on paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
4.5	Indenture dated as of April 20, 2007, between The Toro Company and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on April 23, 2007, Registration No. 333-142282).
4.6	First Supplemental Indenture dated as of April 26, 2007, between The Toro Company and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 26, 2007, Commission File No. 1-8649).
4.7	Form of The Toro Company 6.625% Note due May 1, 2037 (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 26, 2007, Commission File No. 1-8649).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101	The following financial information from The Toro Company's Quarterly Report on Form 10-Q for the quarterly period ended August 4, 2023, filed with the SEC on September 7, 2023, formatted in Inline eXtensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Statements of (Loss) Earnings for the three and nine month periods ended August 4, 2023 and July 29, 2022, (ii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine month periods ended August 4, 2023 and July 29, 2022, (iii) Condensed Consolidated Balance Sheets as of August 4, 2023, July 29, 2022, and October 31, 2022, (iv) Condensed Consolidated Statement of Cash Flows for the nine month periods ended August 4, 2023 and July 29, 2022, (v) Condensed Consolidated Statements of Stockholders' Equity for the three and nine month periods ended August 4, 2023 and July 29, 2022, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE TORO COMPANY
(Registrant)

Date: September 7, 2023	By:	/s/ Angela C. Drake
		Angela C. Drake
		Vice President, Chief Financial Officer
		(duly authorized officer, principal financial officer, and principal accounting officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard M. Olson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 7, 2023

/s/ Richard M. Olson
Richard M. Olson
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Angela C. Drake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 7, 2023

/s/ Angela C. Drake
Angela C. Drake
Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended August 4, 2023 of The Toro Company (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Richard M. Olson, Chairman of the Board, President and Chief Executive Officer of the Company, and Angela C. Drake, Vice President, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard M. Olson
Richard M. Olson
Chairman of the Board, President and Chief Executive Officer
Date: September 7, 2023

/s/ Angela C. Drake
Angela C. Drake
Vice President, Chief Financial Officer
Date: September 7, 2023

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.