

# Toro Company (TTC)

Industrials – Machinery

Apr. 14, 2020

Stock Rating

**HOLD**

## Investment Thesis

We recommend a HOLD on Toro Company. The company has been growing through acquisitions. We believe the company TTC will outperform its peers by new products and a higher margin. However, our model largely depends on the driver from new products and is sensitive to the real impact of COVID-19. We project a short term impact on Toro due to the virus. We anticipate short-term recession (3-6 months) caused by the pandemic.

### Drivers of Thesis

- We expect FY 20 TTC professional segment sales growth to be positive (2.26%) driven by the Charles Machine Works (CMW) acquisition. We expect organic sales to be flat to down single digits due to lower demand impacted by Covid-19. Residential sales will be negative (-9.17%) due to low demand caused by high employment rate and low disposable personal income. We see future revenue after the pandemic to be positive as the market will recover itself from the pause.
- We see TTC's gross margins expanding to around 35% in the long term. New product innovations lead to more productive and fuel-efficient machines, while impact of tariff, and commodity costs continue.

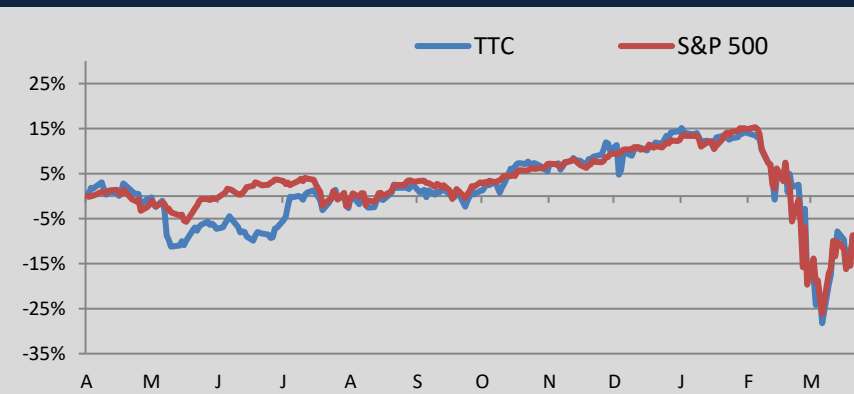
### Risks to Thesis

- Our model did not anticipate weaker-than-anticipated economic environment; unfavorable weather conditions and/or currency movements; higher raw material and energy costs.
- Our rating is supported mostly by new product introductions, growth in the product line and acquisition benefits. Our model is sensitive to weaker-than-expected demand due to the pandemic.

## Earnings Estimates

Year	2017	2018	2019	2020E	2021E	2022E
EPS	\$1.87	\$2.10	\$2.57	\$2.70	\$2.75	\$2.87
growth	-11.00%	36.59%	0.37%	5.06%	2.00%	4.52%

## 12 Month Performance



## Target Price

\$61 - \$69

Henry Fund DCF	\$68.09
Henry Fund DDM	\$46.01
Relative Multiple	\$33.18

### Price Data

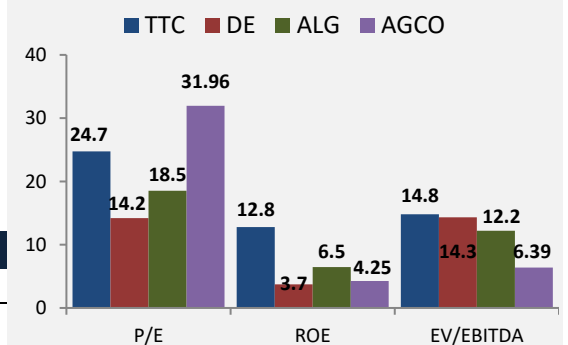
Current Price	\$65.51
52wk Range	\$52.07 – \$84.26
Consensus 1yr Target	\$62.00

### Key Statistics

Market Cap (M)	\$6771
Shares Outstanding (M)	106.77
Institutional Ownership	84.4%
Five Year Beta	0.88
Dividend Yield	1.6%
First Trading Date	Jan. 21 '72
Price/Earnings (TTM)	24.74
Price/Earnings (FY1)	19.34
Price/Sales (TTM)	2.11
Price/Book	7.63

### Profitability

Gross Margin	35.44%
EBITDA Margin	12.74%
Return on Assets (TTM)	12.78%
Return on Equity (TTM)	35.42%



## Company Description

The Toro Company (Ticker: TTC) designs, produces and sells professional lawn maintenance equipment and services, field and agricultural micro-irrigation systems, landscaping equipment, and housing yard and snow removal products. The company is based in the Minneapolis suburb of Bloomington, Minnesota. The company's brands include Toro, Exmark, Irritrol, Hayter, Pope, Unique Lighting Systems, Lawn-Boy, and Lawn Genie.

## EXECUTIVE SUMMARY

We recommend a HOLD for Toro Company. The company currently has the highest gross profit margin in the industry due to the sales from professional equipment. We expect the margin continues to grow in the future as the company launches new products with better fuel efficiency. Additionally, we believe the Toro’s latest acquisition of Charles Machine Works (CMW) will generate more international sales in the future.

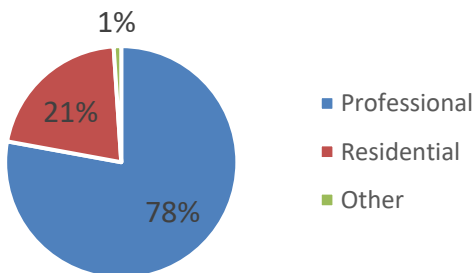
We do expect a short term bearing on TTC due to low demand caused by the pandemic. In the longer term, we believe the economy will resume with short-term (3-6 month) recession caused by the virus.

Overall, we recommend HOLD with a potential downside of 2% - 5% with the expectation that the company’s value decreases due to the long-than-expected pandemic period.

## COMPANY DESCRIPTION

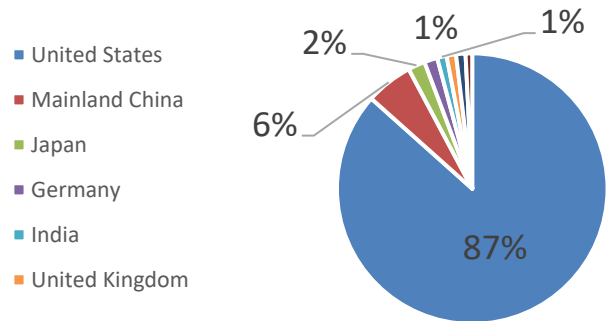
The Toro Company (Ticker: TTC) designs, produces and sells professional lawn maintenance equipment and services, field and agricultural micro-irrigation systems, landscaping equipment, and housing yard and snow removal products. The company is based in the Minneapolis suburb of Bloomington, Minnesota. The company’s brands include Toro, Exmark, Irritrol, Hayter, Pope, Unique Lighting Systems, Lawn-Boy, and Lawn Genie. The company’s principal segments are Professional and Residential. The company’s geographical regions include the United States, Europe, Australia, Canada, and Latin America, and Asia<sup>1</sup>.

2019 Sales by Product Segment



Source: TTC 2019 10K

2019 Sales by Geographic Region



Source: TTC 2019 10K

### Company Strategy

Toro focuses on the growth and continuous improvement at the firm, which includes a heavyweight on new products. In the past two years, Toro’s 35% of annual sales are from driven from new products<sup>1</sup>. While developing new products, the company also keeps close control over efficiency by pursuing continuous improvements in manufacturing processes. According to the company report, Toro has flexible assembly lines that can handle a comprehensive product mix to meet customers’ demands.

Geographical wise, Toro believes International markets will be a significant driver for creating revenue growth as the company intends to invest in new products designed specifically for international markets and customers. TTC believes that it has many opportunities for growth overseas, and it has established a goal of expanding global sales at a faster rate than overall sales. Driven by CMW acquisition, the company’s international sales grew to 12.7% in FY 19<sup>1</sup>. The company continues to use acquisition as the company strategy to expand overseas markets.

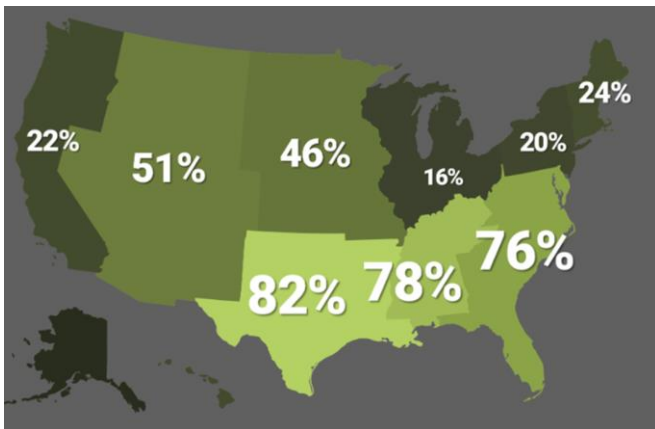
### Professional Segment

The Professional segment focuses on clients in several markets, including landscape contractors, sports fields and grounds, residential and commercial irrigation, golf courses, and micro-irrigation. Professional products are sold mainly through distributors and dealers to professional users engaged in creating landscapes, irrigating agricultural fields and orchards, and maintaining turfs, such as golf courses, sports fields, municipal properties, and residential and commercial landscapes.

Products include zero-turn-radius riding mowers, heavy-duty walk-behind mowers, compact utility loaders, rotary mowers, aerators, blowers, sprinkler heads and valves, and drip irrigation products. The Professional segment contributes 79 percent of revenues in the fiscal year-end on Oct. 31, 2019<sup>1</sup>.

While the COVID-19 impacts the human body, there's no evidence indicates, the virus reduces the growing speed of the grass. According to the National Golf Foundation, as of the week ending Apr. 5, 2020, 44% of US golf courses were still open for play<sup>2</sup>. In much of the south, golf courses remain open for play. Among the closed sessions, most golf courses are also closed due to the offseason, not the virus.

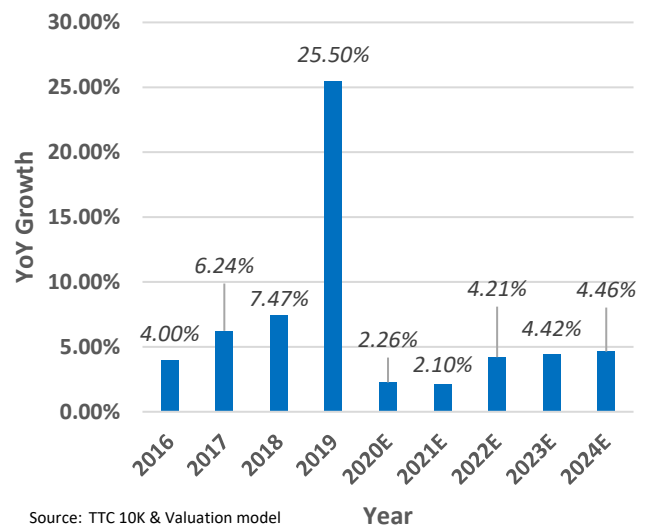
**% of Golf Courses Remain Open in the U.S.  
(As of April 5, 2020)**



Source: National Golf Foundation

As the NBA announced it would bring back the season on June no later than August 2020<sup>4</sup>, we project other sports, especially grass related sports, will be back during the similar period. We believe Toro's increasing sales from back-to-schedule games in the fall will offset the impact of COVID-19. Hence, we do not expect Toro's sale in the professional segment will have a significant effect due to the virus. Overall, we project the professional segment sale will grow slowly in 2020 (2.26%) and 2021 (2.10%). Below is a forecast of our projections.

**Professional Segment Sales YoY Growth**  
%

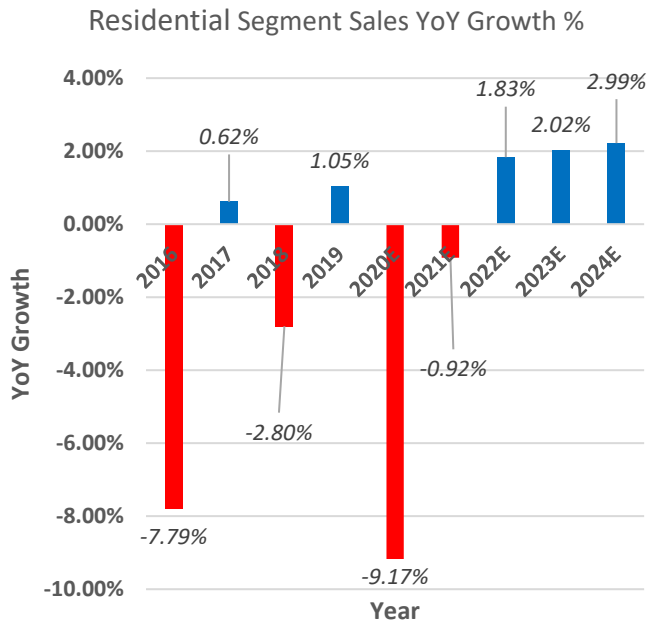


Source: TTC 10K & Valuation model

## Residential Segment

The Residential segment contributes to 21% of revenues in the fiscal year ends on Oct. 31, 2019<sup>1</sup>. The section consists of walk power mowers, riding mowers and garden tractors, electric leaf blowers and grass trimmers, snow removal products, and retail irrigation products. These products are sold to homeowners through hardware retailers, home centers and the Internet. Home Depot accounted for less than 10% of the company's sales in FY 19<sup>1</sup>.

Due to the increasing number of unemployment claims (17 million unemployment claims were filed as of Apr. 7, 2020<sup>3</sup>) and decreasing personal disposal income caused by COVID-19, we believe the residential segment will decrease significantly in 2020 and 2021. We project residential sales to drop 22% to 23% in 2020 and drop 5% to 2.5% in 2021. Our projection is below.



## RECENT DEVELOPMENTS

### Q1 Earnings

Toro reported Q1 sales on Mar. 5, 2020. The company sales grew 27.3% Y/Y to \$767.48M, with Charles Machine Works and Residential segment being the key drivers of reliable performance. Divisions wise, sales in the professional segment increased 30.7% Y/Y to \$594.72M; the residential segment grew 14.3% Y/Y to \$165.85M; the other segment expanded 147.6% Y/Y to \$6.91M. The company's Q1 Gross margin expanded by 178 bps to 37.5% and operating margin expanded by 26 bps to 11.9%<sup>5</sup>.

Toro's net cash used in operating activities was \$23.3M, compared to cash provided \$25.98M a year ago. The company's Q1 accounts receivable increased 42.4% from last year and reached to \$321.3M. TTC's net inventories increased 77.4% Y/Y to \$739M. The company expects net sales of approximately \$3.6B in fiscal 2020 and Adjusted EPS in the range of \$3.33 to \$3.40<sup>5</sup>. However, the company later withdrew the company guidance due to the COVID-19 impact.

### Company updates on COVID-19 Impact

On Mar. 30, 2020, Toro company provided a business update on the actions it is taking as a result of the novel coronavirus (COVID-19) pandemic. The company has

asked employees who can work remotely to do so and has implemented health and safety protocols to safeguard the employees who perform jobs in the facilities. The company also promises to provide two weeks of pay for employees who have the virus.

Production-wise, Toro plans to only continue operations which is critical to the business. The company intends to temporarily suspend production or reducing levels of production at certain facilities because of the virus, including anticipated reduced demand for products in certain businesses.

We do not expect the company will have cash flow issues due to COVID-19 as the company does not have significant debt maturities until April 2020. Additionally, due to the current economic uncertainties, the company entered into a three-year term loan agreement for \$190 million to refinance revolving credit facility borrowings incurred in connection with the Venture Products, Inc. acquisition and to add incremental liquidity. With the funding of the term loan, the company will have liquidity of approximately \$810 million, including cash on hand and unutilized availability under its \$600 million revolving credit facility<sup>6</sup>.

Toro states the company currently cannot predict the level of COVID-19 impact on the business and financial outcomes for the second quarter of the fiscal year 2020, as well as the remainder of fiscal 2020. Accordingly, The Toro Company is withdrawing its fiscal 2020 second quarter and full-year guidance provided in its Form 8-K and its Quarterly Report on Form 10-Q, each filed on Mar. 5, 2020. The company is not updating any outlook currently until the second-quarter earnings announcement and conference call on Jun. 4, 2020. We project Toro's total revenue growth YoY will down 10% -15% in 2020 due to the virus.

## INDUSTRY TRENDS

### Trade War & Tariff Impact

Since 2018, and continuing into 2020, trade wars and tariff has been a hot topic among global investors. While the trade war was mainly between the US and China, the concern did levy to most US trading partners. Currently, the US has a 25% tariff on Chinese steel and a 10% tariff on Chinese aluminum<sup>8</sup>. The same tariff on Canada and Mexico was lifted in May 2019 as the US entered USMCA with Canada and Mexico<sup>9</sup>. Although it seems tariffs have the

most impact companies in the industrial sector (machinery sub-industries), we anticipate minimal impacts to companies' earnings and operations. The major reason is that machinery companies can fight tariffs by changing supply chains and passing the tariff to consumers by updating the final pricing.

Not only tariff won't impact companies in industrial sector (machinery sub-industries), they would also benefit from the trade war. In January 2020, the US and China signed the Phase 1 trade deal. The deal includes partial tariff rollbacks and expansion of trade purchases to \$200 billion in US goods & services. Among \$200 billion purchasing agreement, \$80 billion target manufactured goods including machinery, autos, auto parts, aircraft, and semiconductors<sup>8</sup>. We believe, in short term, the target purchase would bring a decent revenue for companies in the industry. We project the benefit will also be delayed due to the COVID-19 impact

## Federal Infrastructure Spending

In early January 2020, Trump administration proposed the plan for rebuilding infrastructure in the US. The infrastructure spending plan, which has been quoted between \$1 trillion and \$2 trillion. As the plan would spur projects of various sizes, driving significant increases in demand and new-build and maintenance work, the industrial sector, especially the machinery industry will benefit most from additional growth generated by the plan.

However, we do not plan to be announced until 2021, after the presidential election. Additionally, we project a high level of delay on the announcement of the program due to the publication of COVID-19 Stimulus Bill, which is a \$2 trillion stimulus package to battle the harmful effects of the COVID-19 pandemic.

COVID-19 Stimulus Bill is monthly used the direct payment to American families and expanding the unemployment insurance. A portion of the package is also used to waive the federal student loan payments and interest. Compare to the infrastructure spending, and there's only \$25 billion will be used in assisting the infrastructure (Transit Fund).

## Oversupplied Steel

While the global is taking costs and fighting the virus, companies in the machinery industry are benefiting from the COVID-19 outbreak. Due to the coronavirus shutdown, auto manufacturing and other types of steel-based

manufacturing and construction have halted around the globe, erasing steel mills' primary customers. Hence, steel scrap prices are crashing. Steel scrap is the feedstock for mills with electric arc furnaces, which have also cut production due to the virus. Scrap prices fell from \$250/gross ton to \$150/gross ton as there are so few transactions taking place<sup>10</sup>.

According to the World Steel Association, China produced 993 million metric tons of crude steel during 2019, accounting for 54% of the global production for the year. Before the virus outbreak in China, China had produced 154 million metric tons of crude steel, which account for 46% of the world<sup>10</sup>. With the oversupply and decreased demand globally wise, China has decided to slow down production. Additionally, restricted imports and exports among nations further driving down the price of steel. We project the price of steel will continue to decrease until the end of April, which brings increasing gross margin for companies in the machinery industry. On the other hand, we believe the benefit of low-price steel only exists in the short term. In the long run, the steel supply-demand will balance; the price will move back to the original place. Additionally, Trump's 25% of steel tariff is still in place and won't be lifted soon.

## MARKETS AND COMPETITION

Toro produces various types of products, including professional lawn maintenance equipment and services, field and agricultural micro-irrigation systems, landscaping equipment, and housing yard and snow removal products. The company's products are mainly focused on Agricultural & Farm sub-industry. The following companies operate a similar business in the Agricultural & Farm sub-industry.

Deere & Co. (Ticker: *DE*) engages in the manufacturing and distribution of equipment used in agriculture, construction, forestry, and turf care. It operates through the following segments: Agriculture and Turf, Construction and Forestry, and Financial Services. The Agriculture and Turf segment focuses on the distribution and manufacturing of a full line of agriculture and turf equipment and related service parts. The Construction and Forestry segment offers machines and service parts used in construction, earthmoving, road building, material handling, and timber harvesting. The Financial Services segment finances sales and leases by John Deere dealers of new and used agriculture and turf equipment and construction and forestry equipment<sup>11</sup>.

Alamo Group, Inc. (Ticker: *ALG*) engages in the design and manufacture of agricultural equipment and infrastructure maintenance equipment for governmental and industrial use. Its products include tractor-mounted mowing and other vegetation maintenance equipment, street sweepers, excavators, vacuum trucks, snow removal equipment, zero-turn radius mowers, agricultural implements, and related aftermarket parts<sup>12</sup>.

AGCO Corp. (Ticker: *AGCO*) engages in the manufacture and distribution of agricultural equipment and related replacement parts. The firm's products include tractors, combines, self-propelled sprayers, hay tools, forage equipment, seeding and tillage equipment, implements, and grain storage and protein production systems. Its brands include Challenger, Fendt, GSI, Massey Ferguson, Valtra, and Fella<sup>13</sup>.

We decided to compare TTC with those companies to seek Toro's stand in the industry.

	<b>TTC</b>	<b>DE</b>	<b>ALG</b>	<b>AGCO</b>
<b>Market Cap</b>	6.69B	45.71B	1.17B	3.91B
<b>Enterprise Value</b>	7.64B	87.74B	1.58B	5.08B
<b>Employees</b>	9,329	73,489	4,270	20,961
<b>Dividend Yield (TTM)</b>	1.46%	2.09%	0.51%	1.23%

Source: FactSet

Comparing all four companies, DE is the largest in the industry in terms of the market cap, enterprise value, and employee size. All four companies are in the mature state as TTC was founded in 1914<sup>1</sup>, DE was founded in 1837<sup>11</sup>, ALG was founded in 1969<sup>12</sup>, AGCO was founded in 1990<sup>13</sup>. The comparison is useful for us to build the model, as CV growth of the company is expected.

	<b>TTC</b>	<b>DE</b>	<b>ALG</b>	<b>AGCO</b>
<b>Gross Profit Margin</b>	35.44%	23.39%	24.70%	21.95%
<b>EBIT Margin</b>	12.74%	10.85%	8.92%	5.79%
<b>EBITDA Margin</b>	15.62%	15.75%	11.60%	8.80%
<b>Net Income Margin</b>	8.62%	8.42%	5.62%	1.38%
<b>Return on Equity</b>	35.42%	28.12%	11.68%	4.16%
<b>Return on Asset</b>	12.78%	3.72%	6.45%	4.25%

Source: FactSet

Comparing to margins, TTC has the highest margins among all the companies. TTC's primary revenue is generated from the professional segment, which contains mostly the sports machinery and components. On average, the gross margin of sports goods ranges from 30%-37%<sup>14</sup>. It is reasonable TTC has higher margins, while other companies

only focus on agricultural equipment and related replacement parts.

	<b>TTC</b>	<b>DE</b>	<b>ALG</b>	<b>AGCO</b>
<b>P/E (FWD)</b>	19.24	19.67	25.64	15.40
<b>P/E (TTM)</b>	20.85	14.57	16.73	11.73
<b>P/S</b>	2.11	1.18	1.03	0.44
<b>EV/EBITDA</b>	14.82	14.33	12.20	1.38
<b>P/Cash Flow</b>	24.16	10.04	13.16	5.26

Source: FactSet

Comprising to the valuation perspective, TTC is trading at the highest P/E (TTM) among all the companies. Investors are bullish about TTC due to the recent acquisitions. TTC's international sales expanded to 12.7% in FY 2019 after the acquisition. Before COVID-19, investors estimate TTC's L-T growth rate of 12%, ALG L-T growth rate of 10%, DE L-T growth rate of 1.1%, AGCO L-T growth rate of 4.3%. Investors justify ALG's high P/E (FWD) believes in growing revenue generated from the company's new segment. ALG acquired Morbark, LLC, in Oct 2019 for a total consideration of approximately \$352 million on a debt-free basis and subject to certain post-closing adjustments. This includes the products sold under the Morbark, Rayco, Denis Cimaf, and Boxer brand names. Morbark is a leading manufacturer of equipment and aftermarket parts for the forestry tree maintenance, biomass, land management, and recycling markets<sup>15</sup>.

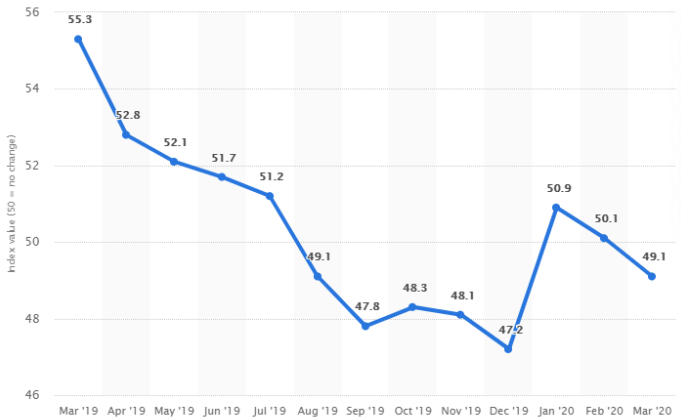
## ECONOMIC OUTLOOK

### Purchasing Managers' Index

Purchasing Managers' Index (PMI) is an important indicator of the industrial sector, indicating the status of the industry. PMI measures composed of five seasonally adjusted diffusion indexes. The five measures are evenly weighted within the PMI and comprise new orders, production, employment, supplier deliveries and inventories.

A PMI reading over 50 or 50% indicates growth or expansion of the US manufacturing sector as compared to the previous month, while a reading under 50 suggests contraction. A reading at 50 indicates that the number of manufacturers reporting better business is equal to those stating business is worse.

## PMI in the United States from March 2019 to March 2020



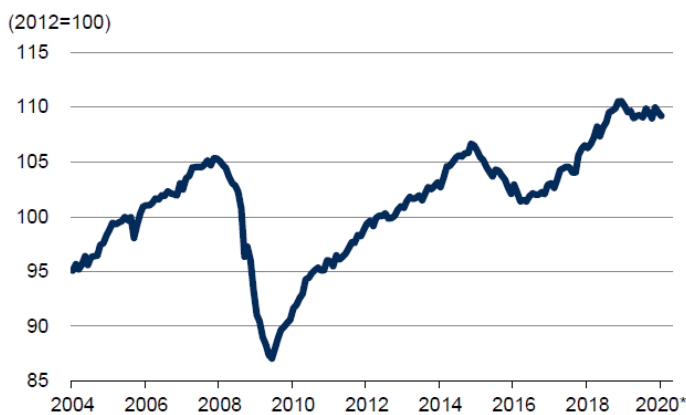
Source: Statista

The Purchasing Managers' Index (PMI) declined to 49.1% in March 2020 from 50.1% of previous month. We forecast the PMI to continuously decrease and main around 47% during the pandemic and raise to 50% after the pandemic.

## Industrial Production

The index is reported by the Federal Reserve Board in the middle of each month for the previous month indexes, measuring the seasonally adjusted output of the US manufacturing, mining and utility segments. The current base year is currently 2012 (2012=100).

### U.S. Industrial Production



Source: Federal Reserve Board

While the first quarter GDP is still under charting, industrial production became an important index for the industry as the index reflects the sign of the economic condition.

In Feb 2020, the IP index averaged 109.6, down 0.9% from 110.1 in the prior year period. Due to the pandemic, we

project the index to decrease 5% to 8% for next few months. Overall, for 2020 and 2021, we expect the index to expand 0.5% to 1.5%.

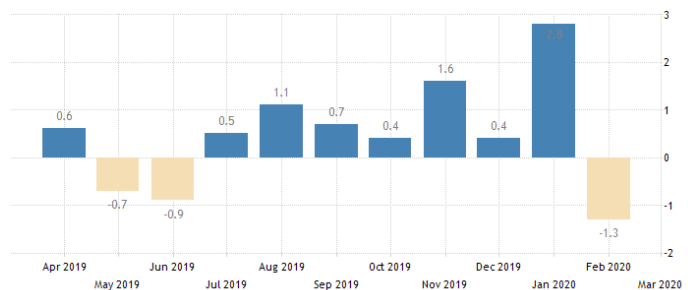
## Construction Spending

Construction spending measures the amount of spending on new construction. Construction spending is important for the industry and TTC as the companies' demand is highly correlated with construction spending.

Construction spending during February 2020 was estimated at a seasonally adjusted annual rate of \$1,366.7 billion, 1.3 percent ( $\pm 0.8$  percent) below the revised January estimate of \$1,384.5 billion. The February figure is 6.0 percent ( $\pm 1.2$  percent) above the February 2019 estimate of \$1,289.0 billion. During the first two months of this year, construction spending amounted to \$193.5 billion, 8.2 percent ( $\pm 1.2$  percent) above the \$178.8 billion for the same period in 2019<sup>16</sup>.

We project the Construction spending to slow down and turn into negative percentage growth due to the pandemic. We estimate the spending will down 2% - 5% in April, and down 5% - 8% in March. On the other hand, we believe the impact will be short term. In the long term, the construction spending will back to the equilibrium ( $\pm 0.5$  percent to  $\pm 1.2$  percent increase per month)

### Changes in United States Construction Spending



Source: US Census Bureau

## INVESTMENT POSITIVES

- Companies in the industry most benefit from a strong economy. We believe COVID-19 impact will be short term. In the long run, the TTC will benefit from the US-China trade deal and the Federal Infrastructure Spending plan.

- Combining low debt and sufficient cash on hand, we think TTC position itself well against the pandemic impact. We believe TTC will continue to acquire companies in the long run to obtain more market shares.
- We expect FY 20 TTC professional segment sales growth to be positive (2.26%) driven by the Charles Machine Works (CMW) acquisition. We expect organic sales to be flat to down single digits due to lower demand impacted by COVID-19. Residential sales will be negative (-9.17%) due to weak demand caused by a high employment rate and low disposable personal income. We see future revenue after the pandemic to be positive as the market will recover itself from the pause.
- We see TTC's gross margins expanding to around 35% in the long term. New product innovations lead to more productive and fuel-efficient machines, while the impact of the tariff, and commodity costs continue.

## INVESTMENT NEGATIVES

- Our model did not anticipate weaker-than-anticipated economic environment; unfavorable weather conditions and currency movements; higher raw material and energy costs; We didn't build a recession caused by COVID-19 into the model. On average, the street anticipates more than a 60% chance of a recession in the next five years.
- Our rating is supported mostly by new product introductions, growth in the product line, and acquisition benefits. Our model is sensitive to weaker-than-expected demand due to the pandemic. Our model is also weak in forecasting the real economic impact due to COVID-19.

## VALUATION

### Model Selection

We choose the DCF / EP model as our primary valuation. The Dividend Discount Model projects a much lower price as the model believes TTC will cut the dividend in 2020, which we think is unreasonable. Toro covers products from industrial machinery to the agriculture systems, while its direct competitors operating in the agriculture and farm field. We do not think relative PE reflects the real value of the company. We believe DCF is the best

way to combine all our estimates and forecast the company value over the long term.

### Revenue

We anticipate TTC's revenue growth as -0.24% in 2020 due to the COVID-19 impact. The impact will continue to influence the company with some degrees in 2021. We project the TTC's revenue growth to be 1.50% in 2021. Our model anticipates the market will gradually recover from 2022. Our terminal growth rate is at 3.20% (2029E). The terminal growth rate is calculated by looking at the company's CAGR over the past 12 years with the pandemic impact.

### Cost of Goods Sold

We assume TTC's COGS base keeps a stable % of sales based on the historical data. Due to the new product introductions, growth in the product line, we project the COGS will decrease and maintain the rate of around 64%.

### Cost of Equity

Risk-Free Rate:	0.67%
Beta:	0.88
Equity Risk Premium:	6.15%
Cost of Equity:	6.08%

We have used the CAPM model to calculate the cost of equity. The risk-free rate is the rate from a 10-year US Treasury note. The equity risk premium is quoted from Henry Fund. The Beta is calculated from the Bloomberg Beta based on TTC's weekly and monthly Beta. With that, we have calculated TTC's Cost of Equity of 6.08%.

### Cost of Debt

Risk-Free Rate:	0.67%
Implied Default Premium:	3.57%
Pre-tax Cost of Debt:	4.24%
Marginal Tax Rate:	16.07%
After-Tax Cost of Debt:	3.56%

The marginal tax rate was calculated based on the company's federal and local tax, as well as the tax rate in foreign countries. We have used the last two years' average marginal tax rate of 19.10% as our assumption. Hence, we had the after-tax cost of debt of 2.79%

### WACC

The market value of TTC's Equity is calculated by multiplying the price per share (\$65.51) with the total



shares outstanding (106.77 million); the full MV of Equity is around \$6 billion. The market value of debt is calculated by summing different components: Short-term Debt & Current portion Long term Debt; Long-Term Debt; Noncontrolling interest in subsidiaries; PV of operating leases. The total MV of debt is around \$772 million. Hence, TTC's weights of equity and debt are 90.05% and 9.95%, respectively.

## KEYS TO MONITOR

There are a few things that will be important to monitor for TTC. Commodity Prices are the important index to watch as the company is the primary consumer of several raw materials and commodities, including steel, copper, oil, and natural gas. Another key to monitor is the company's production automation. By automating certain aspects of manufacturing production and processes, TTC can reduce labor costs, improve consistency of product quality, and production efficiency, which will increase the overall margin. We also recommend a close track to the pandemic impact on the US's GDP, and the unemployment rate as our model is weak in forecasting the true economic impact due to COVID-19.

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**The Toro Company**

Revenue Decomposition (in Millions)

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Total Revenue</b>	<b>1,958.69</b>	<b>2,041.43</b>	<b>2,172.69</b>	<b>2,390.88</b>	<b>2,392.18</b>	<b>2,505.18</b>	<b>2,618.65</b>	<b>3,138.08</b>	<b>3,130.49</b>	<b>3,177.44</b>	<b>3,296.09</b>	<b>3,426.22</b>	<b>3,569.20</b>	<b>3,726.67</b>	<b>3,875.70</b>	<b>4,016.15</b>	<b>4,148.04</b>	<b>4,271.46</b>
Professional	1,329.50	1,425.26	1,477.58	1,639.66	1,705.31	1,811.71	1,947.00	2,443.45	2498.69	2551.25	2658.59	2776.02	2904.78	3046.25	3179.77	3305.21	3422.56	3531.92
Residential	607.44	594.41	672.44	725.68	669.13	673.25	654.41	661.27	600.63	595.12	606.04	618.26	631.99	647.41	662.43	677.02	691.19	704.94
Other	21.75	21.76	22.67	25.53	17.73	20.22	17.24	33.36	31.16	31.06	31.47	31.93	32.44	33.00	33.50	33.92	34.29	34.60
<b>Total Revenue Growth %</b>	<b>3.97%</b>	<b>4.22%</b>	<b>6.43%</b>	<b>10.04%</b>	<b>0.05%</b>	<b>4.72%</b>	<b>4.53%</b>	<b>19.84%</b>	<b>-0.24%</b>	1.50%	3.73%	3.95%	4.17%	4.41%	4.00%	3.62%	3.28%	2.98%
Professional Growth %	7.30%	7.20%	3.67%	10.97%	4.00%	6.24%	7.47%	25.50%	2.26%	2.10%	4.21%	4.42%	4.64%	4.87%	4.38%	3.94%	3.55%	3.20%
Residential Growth %	-2.64%	-2.14%	13.13%	7.92%	-7.79%	0.62%	-2.80%	1.05%	-9.17%	-0.92%	1.83%	2.02%	2.22%	2.44%	2.32%	2.20%	2.09%	1.99%
Other Growth %	3.60%	0.05%	4.18%	12.63%	-30.56%	14.05%	-14.76%	93.54%	-6.59%	-0.33%	1.32%	1.45%	1.59%	1.75%	1.49%	1.27%	1.08%	0.92%
<b>Total Revenue % of Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Professional % of Total	67.88%	69.82%	68.01%	68.58%	71.29%	72.32%	74.35%	77.86%	79.82%	80.29%	80.66%	81.02%	81.38%	81.74%	82.04%	82.30%	82.51%	82.69%
Residential % of Total	31.01%	29.12%	30.95%	30.35%	27.97%	26.87%	24.99%	21.07%	19.19%	18.73%	18.39%	18.05%	17.71%	17.37%	17.09%	16.86%	16.66%	16.50%
Other % of Total	1.11%	1.07%	1.04%	1.07%	0.74%	0.81%	0.66%	1.06%	1.00%	0.98%	0.95%	0.93%	0.91%	0.89%	0.86%	0.84%	0.83%	0.81%



**The Toro Company**  
Balance Sheet (In Millions)

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Assets</b>																		
Cash & Equivalents	125.86	182.99	314.87	126.28	273.56	310.26	289.12	151.83	455.10	688.61	933.54	1,162.60	1,398.69	1,641.80	1,896.57	2,156.19	2,426.21	2,705.27
Accounts Receivable	147.41	157.17	158.16	177.01	163.27	183.07	193.18	268.77	268.55	272.36	282.64	293.74	306.03	319.52	332.30	344.34	355.65	366.23
Inventories	251.12	240.09	274.60	334.51	307.03	328.99	358.26	651.66	642.88	656.18	678.78	708.57	735.54	768.26	798.84	827.87	855.01	880.47
Prepaid expenses and other current assets	24.44	33.26	33.58	34.78	35.16	37.57	54.08	50.63	50.73	52.54	55.72	59.23	59.30	62.27	65.15	67.73	69.92	71.63
Deferred Tax Assets	63.31	39.76	42.82	38.10	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>612.13</b>	<b>653.27</b>	<b>824.04</b>	<b>710.68</b>	<b>779.01</b>	<b>859.89</b>	<b>894.64</b>	<b>1,122.89</b>	<b>1,417.26</b>	<b>1,669.68</b>	<b>1,950.69</b>	<b>2,222.13</b>	<b>2,499.56</b>	<b>2,791.85</b>	<b>3,092.87</b>	<b>3,396.13</b>	<b>3,706.80</b>	<b>4,023.61</b>
Property, Plant & Equipment, gross	234.16	239.23	258.33	288.14	286.14	300.22	332.74	525.02	521.54	530.42	551.33	574.24	599.40	627.10	653.48	678.51	702.20	724.54
Less: Accum. Dep & Amort	(53.63)	(54.13)	(53.14)	(63.14)	(64.10)	(64.99)	(61.28)	(87.70)	(86.05)	(87.52)	(90.97)	(94.75)	(98.90)	(103.47)	(107.82)	(111.95)	(115.86)	(119.55)
Property, Plant & Equipment, net	180.52	185.10	205.20	225.00	222.04	235.23	271.46	437.32	435.49	442.90	460.36	479.49	500.50	523.63	545.65	566.56	586.34	604.99
Deferred Tax Assets	-	-	26.08	28.57	57.23	64.08	38.25	6.25	7.16	7.33	7.70	8.06	8.35	8.68	8.98	9.15	9.42	9.69
Goodwill	92.00	91.91	91.85	195.53	194.78	205.03	225.29	362.25	362.25	362.25	362.25	362.25	362.25	362.25	362.25	362.25	362.25	362.25
Intangible Assets	32.07	28.31	23.83	119.01	108.09	103.74	105.65	352.37	361.90	362.06	378.31	391.82	408.92	426.57	443.83	459.81	474.96	489.07
Other Assets	18.48	44.16	21.43	24.87	23.42	25.82	35.70	49.46	50.04	50.63	51.25	51.89	52.56	53.24	53.90	54.57	55.25	55.95
<b>Total Assets</b>	<b>935.20</b>	<b>1,002.75</b>	<b>1,192.42</b>	<b>1,303.66</b>	<b>1,384.57</b>	<b>1,493.79</b>	<b>1,570.98</b>	<b>2,330.55</b>	<b>2,634.08</b>	<b>2,894.86</b>	<b>3,210.56</b>	<b>3,515.65</b>	<b>3,832.14</b>	<b>4,166.21</b>	<b>4,507.48</b>	<b>4,848.47</b>	<b>5,195.03</b>	<b>5,545.56</b>
<b>Liabilities</b>																		
Curr. Portion LT Debt	1.86	-	27.46	23.36	22.48	26.26	-	79.91	81.78	82.80	85.46	88.31	91.33	94.74	97.99	101.04	103.91	106.60
Accounts Payable	124.81	136.16	124.27	152.02	174.67	211.75	256.58	319.23	337.26	332.77	350.15	361.40	377.82	393.79	409.90	424.57	438.61	451.61
Accrued Liabilities	198.10	209.99	208.63	214.78	221.05	233.09	231.67	297.95	287.19	292.71	303.45	314.76	330.32	343.11	357.08	370.03	382.25	393.86
Other Current Liabilities	53.36	42.70	40.06	53.58	45.64	50.69	44.39	59.88	60.62	62.02	62.75	65.21	67.21	71.35	74.24	76.79	79.04	81.40
<b>Total Current Liabilities</b>	<b>378.12</b>	<b>388.85</b>	<b>400.42</b>	<b>443.73</b>	<b>463.84</b>	<b>521.80</b>	<b>532.64</b>	<b>756.97</b>	<b>766.85</b>	<b>770.31</b>	<b>801.81</b>	<b>829.68</b>	<b>866.69</b>	<b>902.99</b>	<b>939.22</b>	<b>972.44</b>	<b>1,003.80</b>	<b>1,033.46</b>
Long-Term Debt	223.48	223.54	347.32	354.82	328.48	305.63	312.55	620.90	633.30	641.23	661.79	683.89	707.26	733.70	758.83	782.48	804.73	825.50
Deferred Revenue	11.14	10.90	10.95	11.37	11.83	24.76	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Tax Liabilities	2.28	5.97	-	0.01	-	1.73	1.40	50.58	57.21	58.63	61.56	64.40	66.72	69.37	71.75	73.15	75.32	77.45
Other LT Liabilities	7.77	14.75	25.01	31.57	30.39	22.78	55.49	42.52	43.67	44.79	47.38	52.87	50.97	53.76	56.29	58.67	60.79	61.93
<b>Total Liabilities</b>	<b>622.80</b>	<b>644.01</b>	<b>783.69</b>	<b>841.49</b>	<b>834.54</b>	<b>876.70</b>	<b>902.07</b>	<b>1,470.97</b>	<b>1,501.03</b>	<b>1,514.95</b>	<b>1,572.55</b>	<b>1,630.84</b>	<b>1,691.63</b>	<b>1,759.82</b>	<b>1,826.09</b>	<b>1,886.74</b>	<b>1,944.63</b>	<b>1,998.34</b>
<b>Shareholders' Equity</b>																		
Common Stock & Additional paid-in Capital	58.27	56.79	55.68	54.65	108.43	106.88	105.60	106.74	128.90	151.05	173.21	173.21	173.21	173.21	173.21	173.21	173.21	173.21
Retained earnings	264.11	314.52	368.75	437.36	480.04	534.33	587.25	784.89	1,004.16	1,228.85	1,464.80	1,711.60	1,967.30	2,233.18	2,508.18	2,788.53	3,077.18	3,374.01
Accumulated other comprehensive Income (loss)	(9.97)	(12.57)	(15.71)	(29.84)	(38.44)	(24.12)	(23.94)	(32.05)	-	-	-	-	-	-	-	-	-	-
<b>Total Equity</b>	<b>312.40</b>	<b>358.74</b>	<b>408.73</b>	<b>462.17</b>	<b>550.04</b>	<b>617.09</b>	<b>668.92</b>	<b>859.58</b>	<b>1,133.06</b>	<b>1,379.91</b>	<b>1,638.01</b>	<b>1,884.81</b>	<b>2,140.51</b>	<b>2,406.39</b>	<b>2,681.39</b>	<b>2,961.74</b>	<b>3,250.39</b>	<b>3,547.22</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>935.20</b>	<b>1,002.75</b>	<b>1,192.42</b>	<b>1,303.66</b>	<b>1,384.57</b>	<b>1,493.79</b>	<b>1,570.98</b>	<b>2,330.55</b>	<b>2,634.08</b>	<b>2,894.86</b>	<b>3,210.56</b>	<b>3,515.65</b>	<b>3,832.14</b>	<b>4,166.21</b>	<b>4,507.48</b>	<b>4,848.47</b>	<b>5,195.03</b>	<b>5,545.56</b>

## The Toro Company

### Forecasted Cash Flow Statement

<b>Fiscal Years Ending Dec. 31</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>
<b>Operating Activities</b>										
Net Income attributable to Toro	289.18	296.33	311.17	325.49	337.22	350.65	362.67	369.72	380.68	391.45
Depreciation & Amortization	(1.64)	1.47	3.45	3.78	4.15	4.57	4.35	4.13	3.91	3.69
Accounts Receivable	0.22	(3.81)	(10.28)	(11.10)	(12.29)	(13.49)	(12.79)	(12.04)	(11.31)	(10.58)
Inventories	8.78	(13.30)	(22.61)	(27.78)	(28.97)	(32.72)	(30.58)	(29.02)	(27.15)	(25.46)
Prepaid expenses and other current assets	(0.10)	(1.81)	(3.18)	(3.51)	(0.07)	(2.97)	(2.88)	(2.58)	(2.19)	(1.71)
Accounts Payable	18.03	(4.48)	17.38	11.25	16.42	15.97	16.11	14.67	14.04	13.00
Income Tax Payable	(10.76)	5.52	10.74	11.31	15.56	12.79	13.98	12.95	12.21	11.61
Other Current Liabilities	0.75	1.40	0.73	2.45	2.01	4.13	2.89	2.55	2.25	2.36
<b>Net Operating Cash Flow</b>	<b>304.46</b>	<b>281.31</b>	<b>307.40</b>	<b>311.89</b>	<b>334.03</b>	<b>338.93</b>	<b>353.76</b>	<b>360.38</b>	<b>372.43</b>	<b>384.36</b>
<b>Investing Activities</b>										
Property, Plant & Equipment, gross	3.48	(8.88)	(20.91)	(22.91)	(25.16)	(27.70)	(26.38)	(25.04)	(23.68)	(22.34)
Deferred Tax Assets	(0.91)	(0.18)	(0.37)	(0.35)	(0.29)	(0.33)	(0.30)	(0.17)	(0.27)	(0.27)
Goodwill	-	-	-	-	-	-	-	-	-	-
Intangible Assets	(9.52)	(0.16)	(16.25)	(13.52)	(17.09)	(17.65)	(17.26)	(15.98)	(15.15)	(14.10)
Other Assets	(0.58)	(0.60)	(0.62)	(0.64)	(0.67)	(0.67)	(0.66)	(0.67)	(0.69)	(0.70)
<b>Net Investing Cash Flow</b>	<b>(7.53)</b>	<b>(9.82)</b>	<b>(38.14)</b>	<b>(37.43)</b>	<b>(43.22)</b>	<b>(46.36)</b>	<b>(44.60)</b>	<b>(41.86)</b>	<b>(39.79)</b>	<b>(37.41)</b>
<b>Financing Activities</b>										
ST Debt & Curr. Portion LT Debt	1.86	1.02	2.66	2.85	3.02	3.41	3.25	3.05	2.87	2.68
Long-Term Debt	12.40	7.93	20.57	22.10	23.37	26.44	25.14	23.65	22.24	20.77
Deferred Revenue	-	-	-	-	-	-	-	-	-	-
Deferred Tax Liabilities	6.63	1.41	2.94	2.83	2.32	2.66	2.38	1.39	2.17	2.13
Other LT Liabilities	1.14	1.13	2.59	5.49	(1.90)	2.79	2.52	2.38	2.12	1.14
Common Stock & APIC	22.16	22.16	22.16	-	-	-	-	-	-	-
Cash Dividend Paid	(69.91)	(71.63)	(75.22)	(78.68)	(81.52)	(84.76)	(87.67)	(89.38)	(92.02)	(94.63)
other income (loss)	32.05	-	-	-	-	-	-	-	-	-
<b>Net Financing Cash Flow</b>	<b>6.34</b>	<b>(37.99)</b>	<b>(24.32)</b>	<b>(45.41)</b>	<b>(54.72)</b>	<b>(49.46)</b>	<b>(54.39)</b>	<b>(58.90)</b>	<b>(62.62)</b>	<b>(67.90)</b>
<b>Net Change in Cash</b>	<b>303.27</b>	<b>233.51</b>	<b>244.94</b>	<b>229.06</b>	<b>236.09</b>	<b>243.11</b>	<b>254.77</b>	<b>259.62</b>	<b>270.02</b>	<b>279.06</b>
<b>Cash Beginning of Year</b>	<b>151.83</b>	<b>455.10</b>	<b>688.61</b>	<b>933.54</b>	<b>1,162.60</b>	<b>1,398.69</b>	<b>1,641.80</b>	<b>1,896.57</b>	<b>2,156.19</b>	<b>2,426.21</b>
<b>Cash Ending of Year</b>	<b>455.10</b>	<b>688.61</b>	<b>933.54</b>	<b>1,162.60</b>	<b>1,398.69</b>	<b>1,641.80</b>	<b>1,896.57</b>	<b>2,156.19</b>	<b>2,426.21</b>	<b>2,705.27</b>

## The Toro Company

Income Statement (in Millions)

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Net Sales</b>	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
COGS	62.90%	61.84%	61.96%	62.40%	60.76%	63.24%	61.73%	63.81%	63.00%	63.00%	63.00%	63.00%	63.00%	63.00%	63.00%	63.00%	63.00%	63.00%
Dep & Amort	2.74%	2.65%	2.45%	2.64%	2.68%	2.59%	2.34%	2.79%	2.75%	2.75%	2.76%	2.77%	2.77%	2.78%	2.78%	2.79%	2.79%	2.80%
<b>Gross Income</b>	<b>34.36%</b>	<b>35.50%</b>	<b>35.59%</b>	<b>34.96%</b>	<b>36.56%</b>	<b>34.16%</b>	<b>35.93%</b>	<b>33.39%</b>	<b>34.25%</b>	<b>34.25%</b>	<b>34.24%</b>	<b>34.23%</b>	<b>34.23%</b>	<b>34.22%</b>	<b>34.22%</b>	<b>34.21%</b>	<b>34.21%</b>	<b>34.20%</b>
SG&A Expense	23.87%	24.21%	23.48%	22.45%	22.58%	22.58%	21.69%	23.04%	23.22%	23.13%	23.00%	22.94%	23.00%	23.05%	23.11%	23.29%	23.32%	23.34%
<b>EBIT (Operating Income)</b>	<b>10.50%</b>	<b>11.30%</b>	<b>12.11%</b>	<b>12.51%</b>	<b>13.98%</b>	<b>11.58%</b>	<b>14.25%</b>	<b>10.36%</b>	<b>11.03%</b>	<b>11.11%</b>	<b>11.24%</b>	<b>11.30%</b>	<b>11.23%</b>	<b>11.17%</b>	<b>11.11%</b>	<b>10.92%</b>	<b>10.88%</b>	<b>10.86%</b>
Interest Expense	-0.86%	-0.79%	-0.71%	-0.78%	-0.81%	-0.76%	-0.73%	-0.92%	-0.80%	-0.80%	-0.78%	-0.78%	-0.77%	-0.76%	-0.76%	-0.76%	-0.76%	-0.76%
Other Income - Net	0.39%	0.60%	0.40%	0.45%	0.64%	0.69%	0.70%	0.83%	0.77%	0.80%	0.79%	0.80%	0.80%	0.80%	0.80%	0.81%	0.81%	0.81%
<b>Pre-tax Income</b>	<b>10.02%</b>	<b>11.11%</b>	<b>11.80%</b>	<b>12.17%</b>	<b>13.81%</b>	<b>11.50%</b>	<b>14.22%</b>	<b>10.27%</b>	<b>11.01%</b>	<b>11.11%</b>	<b>11.25%</b>	<b>11.32%</b>	<b>11.26%</b>	<b>11.21%</b>	<b>11.15%</b>	<b>10.97%</b>	<b>10.93%</b>	<b>10.92%</b>
Provision for income taxes	3.41%	3.52%	3.80%	3.74%	4.16%	3.41%	3.84%	1.53%	1.77%	1.79%	1.81%	1.82%	1.81%	1.80%	1.79%	1.76%	1.76%	1.75%
<b>Net Income</b>	<b>6.61%</b>	<b>7.59%</b>	<b>8.00%</b>	<b>8.43%</b>	<b>9.66%</b>	<b>8.09%</b>	<b>10.38%</b>	<b>8.73%</b>	<b>9.24%</b>	<b>9.33%</b>	<b>9.44%</b>	<b>9.50%</b>	<b>9.45%</b>	<b>9.41%</b>	<b>9.36%</b>	<b>9.21%</b>	<b>9.18%</b>	<b>9.16%</b>

**The Toro Company**  
Balance Sheet (In Millions)

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
<b>Assets</b>																		
Cash & Equivalents	6.43%	8.96%	14.49%	5.28%	11.44%	12.38%	11.04%	4.84%	14.54%	21.67%	28.32%	33.93%	39.19%	44.06%	48.94%	53.69%	58.49%	63.33%
Accounts Receivable	7.53%	7.70%	7.28%	7.40%	6.82%	7.31%	7.38%	8.56%	8.58%	8.57%	8.58%	8.57%	8.57%	8.57%	8.57%	8.57%	8.57%	8.57%
Inventories	12.82%	11.76%	12.64%	13.99%	12.83%	13.13%	13.88%	20.77%	20.54%	20.65%	20.59%	20.62%	20.61%	20.62%	20.61%	20.61%	20.61%	20.61%
Prepaid expenses and other current assets	1.25%	1.63%	1.55%	1.45%	1.47%	1.50%	2.07%	1.61%	1.62%	1.65%	1.69%	1.73%	1.66%	1.67%	1.68%	1.69%	1.69%	1.68%
Deferred Tax Assets	3.23%	1.95%	1.97%	1.59%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Current Assets</b>	<b>31.25%</b>	<b>32.00%</b>	<b>37.93%</b>	<b>29.72%</b>	<b>32.56%</b>	<b>34.32%</b>	<b>34.16%</b>	<b>35.78%</b>	<b>45.27%</b>	<b>52.55%</b>	<b>59.18%</b>	<b>64.86%</b>	<b>70.03%</b>	<b>74.92%</b>	<b>79.80%</b>	<b>84.56%</b>	<b>89.36%</b>	<b>94.20%</b>
Property, Plant & Equipment, gross	11.95%	11.72%	11.89%	12.05%	11.96%	11.98%	12.71%	16.73%	16.66%	16.69%	16.73%	16.76%	16.79%	16.83%	16.86%	16.89%	16.93%	16.96%
Less: Accum. Dep & Amort	-2.74%	-2.65%	-2.45%	-2.64%	-2.68%	-2.59%	-2.34%	-2.79%	-2.75%	-2.75%	-2.76%	-2.77%	-2.77%	-2.78%	-2.78%	-2.79%	-2.79%	-2.80%
Property, Plant & Equipment, net	9.22%	9.07%	9.44%	9.41%	9.28%	9.39%	10.37%	13.94%	13.91%	13.94%	13.97%	13.99%	14.02%	14.05%	14.08%	14.11%	14.14%	14.16%
Deferred Tax Assets	0.00%	0.00%	1.20%	1.19%	2.39%	2.56%	1.46%	0.20%	0.23%	0.23%	0.23%	0.24%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%
Goodwill	4.70%	4.50%	4.23%	8.18%	8.14%	8.18%	8.60%	11.54%	11.57%	11.40%	10.99%	10.57%	10.15%	9.72%	9.35%	9.02%	8.73%	8.48%
Intangible Assets	1.64%	1.39%	1.10%	4.98%	4.52%	4.14%	4.03%	11.23%	11.56%	11.39%	11.48%	11.44%	11.46%	11.45%	11.45%	11.45%	11.45%	11.45%
Other Assets	0.94%	2.16%	0.99%	1.04%	0.98%	1.03%	1.36%	1.58%	1.16%	1.19%	1.22%	1.26%	1.29%	1.28%	1.23%	1.25%	1.26%	1.26%
<b>Total Assets</b>	<b>47.75%</b>	<b>49.12%</b>	<b>54.88%</b>	<b>54.53%</b>	<b>57.88%</b>	<b>59.63%</b>	<b>59.99%</b>	<b>74.27%</b>	<b>97.62%</b>	<b>104.64%</b>	<b>111.03%</b>	<b>116.35%</b>	<b>121.21%</b>	<b>125.70%</b>	<b>130.22%</b>	<b>134.72%</b>	<b>139.30%</b>	<b>143.94%</b>
<b>Liabilities</b>																		
Curr. Portion LT Debt	0.09%	0.00%	1.26%	0.98%	0.94%	1.05%	0.00%	2.55%	2.61%	2.61%	2.59%	2.58%	2.56%	2.54%	2.53%	2.52%	2.51%	2.50%
Accounts Payable	6.37%	6.67%	5.72%	6.36%	7.30%	8.45%	9.80%	10.17%	10.77%	10.47%	10.62%	10.55%	10.59%	10.57%	10.58%	10.57%	10.57%	10.57%
Accrued Liabilities	10.11%	10.29%	9.60%	8.98%	9.24%	9.30%	8.85%	9.49%	9.17%	9.21%	9.21%	9.19%	9.25%	9.21%	9.21%	9.21%	9.22%	9.22%
Other Current Liabilities	2.72%	2.09%	1.84%	2.24%	1.91%	2.02%	1.70%	1.91%	1.94%	1.95%	1.90%	1.90%	1.88%	1.91%	1.92%	1.91%	1.91%	1.91%
<b>Total Current Liabilities</b>	<b>19.30%</b>	<b>19.05%</b>	<b>18.43%</b>	<b>18.56%</b>	<b>19.39%</b>	<b>20.83%</b>	<b>20.34%</b>	<b>24.12%</b>	<b>24.50%</b>	<b>24.24%</b>	<b>24.33%</b>	<b>24.22%</b>	<b>24.28%</b>	<b>24.23%</b>	<b>24.23%</b>	<b>24.21%</b>	<b>24.20%</b>	<b>24.19%</b>
Long-Term Debt	11.41%	10.95%	15.99%	14.84%	13.73%	12.20%	11.94%	19.79%	20.23%	20.18%	20.08%	19.96%	19.82%	19.69%	19.58%	19.48%	19.40%	19.33%
Deferred Revenue	0.57%	0.53%	0.50%	0.48%	0.49%	0.99%	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Tax Liabilities	0.12%	0.29%	0.00%	0.00%	0.00%	0.07%	0.05%	1.61%	1.83%	1.85%	1.87%	1.88%	1.87%	1.86%	1.85%	1.82%	1.82%	1.81%
Other LT Liabilities	0.40%	0.72%	1.15%	1.32%	1.27%	0.91%	2.12%	1.35%	1.39%	1.41%	1.44%	1.54%	1.43%	1.44%	1.45%	1.46%	1.47%	1.45%
<b>Total Liabilities</b>	<b>31.80%</b>	<b>31.55%</b>	<b>36.07%</b>	<b>35.20%</b>	<b>34.89%</b>	<b>35.00%</b>	<b>34.45%</b>	<b>46.87%</b>	<b>47.95%</b>	<b>47.68%</b>	<b>47.71%</b>	<b>47.60%</b>	<b>47.40%</b>	<b>47.22%</b>	<b>47.12%</b>	<b>46.98%</b>	<b>46.88%</b>	<b>46.78%</b>
<b>Shareholders' Equity</b>																		
Common Stock & Additional paid-in Capital	2.97%	2.78%	2.56%	2.29%	4.53%	4.27%	4.03%	3.40%	4.12%	4.75%	5.25%	5.06%	4.85%	4.65%	4.47%	4.31%	4.18%	4.06%
Retained earnings	13.48%	15.41%	16.97%	18.29%	20.07%	21.33%	22.43%	25.01%	32.08%	38.67%	44.44%	49.96%	55.12%	59.92%	64.72%	69.43%	74.18%	78.99%
Accumulated other comprehensive Income (loss)	-0.51%	-0.62%	-0.72%	-1.25%	-1.61%	-0.96%	-0.91%	-1.02%	-	-	-	-	-	-	-	-	-	-
<b>Total Equity</b>	<b>15.95%</b>	<b>17.57%</b>	<b>18.81%</b>	<b>19.33%</b>	<b>22.99%</b>	<b>24.63%</b>	<b>25.54%</b>	<b>27.39%</b>	<b>36.19%</b>	<b>43.43%</b>	<b>49.70%</b>	<b>55.01%</b>	<b>59.97%</b>	<b>64.57%</b>	<b>69.18%</b>	<b>73.75%</b>	<b>78.36%</b>	<b>83.04%</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>47.75%</b>	<b>49.12%</b>	<b>54.88%</b>	<b>54.53%</b>	<b>57.88%</b>	<b>59.63%</b>	<b>59.99%</b>	<b>74.27%</b>	<b>84.14%</b>	<b>91.11%</b>	<b>97.41%</b>	<b>102.61%</b>	<b>107.37%</b>	<b>111.79%</b>	<b>116.30%</b>	<b>120.72%</b>	<b>125.24%</b>	<b>129.83%</b>





## The Toro Company

### Weighted Average Cost of Capital (WACC) Estimation

#### Cost of Equity:

Risk-Free Rate	0.67%
Beta	0.88
Equity Risk Premium	6.15%
<b>Cost of Equity</b>	<b>6.08%</b>

#### Cost of Debt:

Risk-Free Rate	0.67%
Implied Default Premium	3.57%
Pre-Tax Cost of Debt	4.24%
Marginal Tax Rate	16.07%
<b>After-Tax Cost of Debt</b>	<b>3.56%</b>

#### Market Value of Common Equity:

Total Shares Outstanding	106772082
Current Stock Price	\$65.51
<b>MV of Equity</b>	<b>\$ 6,994,639,091.82</b>

#### MV Weights

90.05%

#### Market Value of Debt:

ST Debt & Curr. Portion LT Debt	\$ 79,914,000.00
Long-Term Debt	\$ 620,899,000.00
PV of Operating Leases	\$ 72,019,318.81
<b>MV of Total Debt</b>	<b>\$ 772,832,318.81</b>

9.95%

#### Market Value of the Firm

\$ 7,767,471,410.63

100.00%

#### Estimated WACC

5.83%

## The Toro Company

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

### Key Inputs:

CV Growth of NOPLAT	1.00%
CV Year ROIC	60.98%
WACC	5.83%
Cost of Equity	6.08%

Fiscal Years Ending Dec. 31	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029CV
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### DCF Model:

Free Cash Flow (FCF)	959.08	297.13	305.71	318.57	328.16	338.42	352.81	359.90	373.08	385.07
Continuing Value (CV)										8248.9
CF to Discount	959.08	297.13	305.71	318.57	328.16	338.42	352.81	359.90	373.08	8248.9
Discount Rate	1.06	1.12	1.19	1.25	1.33	1.41	1.49	1.57	1.67	1.67
PV of FCF	906.24	265.29	257.91	253.95	247.18	240.87	237.27	228.70	224.01	4,953.06

### Value of Operating Assets:

	7814.5
+ Excess Cash	89.07
- ST Debt & Curr. Portion LT Debt	(79.91)
- PV operating lease	(72.02)
- Long term Debt	(620.90)

### Value of Equity

7130.7

### Shares Outstanding

106.77

Intrinsic Value of Last FYE

\$ 66.78

### Implied Price as of Today

\$68.09

### EP Model:

NOPLAT	306.25	308.30	324.43	338.57	350.07	363.80	375.90	382.33	394.21	405.17
Beg. IC	1,153.40	500.57	511.74	530.46	550.46	572.36	597.74	620.83	643.27	664.41
ROIC	26.55%	61.59%	63.40%	63.82%	63.60%	63.56%	62.89%	61.58%	61.28%	60.98%
WACC	5.83%	5.83%	5.83%	5.83%	5.83%	5.83%	5.83%	5.83%	5.83%	5.83%
EP	238.99	279.11	294.59	307.63	317.97	330.43	341.04	346.13	356.70	366.43
CV										7,584.54
Discount Rate	1.06	1.12	1.19	1.25	1.33	1.41	1.49	1.57	1.67	1.67
PV of FCF	225.82	249.20	248.53	245.23	239.51	235.18	229.36	219.95	214.18	4,554.12

Beg. IC

1,153.40

### PV of Operating Assets

7,814.5

+ Excess Cash	89.07
- ST Debt & Curr. Portion LT Debt	(79.91)
- PV operating lease	(72.02)
- Long term Debt	(620.90)

### Value of Equity

7,130.71

### Shares Outstanding

106.77

Intrinsic Value of Equity

\$ 66.78

### Price Today

\$68.09



## The Toro Company

Relative Valuation Models

Ticker	Company	Price	EPS 2020E	EPS 2021E	P/E 20	P/E 21
DE	Deere & Company	\$139.80	7.25	9.17	19.28	15.25
ALG	Alamo Group, Inc.	\$39.77	5.70	7.19	6.98	5.53
AGCO	AGCO Corp.	\$35.94	3.37	4.59	10.66	7.83
			Average		<b>12.31</b>	<b>9.54</b>

TTC	The Toro Company	\$65.51	2.70	2.75	24.3	23.8
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### Implied Relative Value:

P/E (EPS20) \$ 33.18

P/E (EPS21) \$ 26.22



**The Toro Company**  
Sensitivity Tables

**CV NOPLAT Growth**

	\$68.09	0.40%	0.60%	0.80%	1.00%	1.40%	1.60%	1.80%
<b>WACC</b>	3.20%	127.14	134.72	143.57	154.03	181.92	201.09	225.74
	3.40%	118.33	124.77	132.20	140.87	163.40	178.42	197.20
	3.60%	110.63	116.15	122.46	129.73	148.25	160.28	175.00
	5.04%	74.86	77.08	79.50	82.17	88.37	92.02	96.11
	4.00%	97.81	101.96	106.63	111.92	124.94	133.08	142.71
	4.20%	92.41	96.05	100.11	104.69	115.79	122.63	130.60
	4.40%	87.56	90.76	94.32	98.30	107.86	113.66	120.35

**Beta**

	\$68.09	0.20	0.40	0.60	0.88	1.00	1.20	1.4
<b>Risk-Free Rate</b>	0.30%	462.02	182.41	113.00	73.29	63.58	51.99	43.88
	0.40%	411.14	173.79	109.58	71.81	62.46	51.22	43.33
	0.50%	370.31	165.93	106.36	70.39	61.37	50.48	42.79
	0.67%	316.75	154.08	101.29	68.09	59.60	49.26	41.90
	0.80%	285.15	146.08	97.73	66.43	58.32	48.37	41.24
	1.00%	247.13	135.27	92.70	64.02	56.44	47.05	40.27
	1.50%	185.16	114.06	82.09	58.69	52.22	44.05	38.02

**Pre-Tax Cost of Debt**

	\$68.09	1.00%	2.05%	3.25%	4.24%	3.65%	4.85%	5.05%
<b>Equity Risk Premium</b>	4.51%	99.42	97.55	95.52	93.94	94.87	93.00	92.70
	4.71%	94.71	93.04	91.23	89.81	90.65	88.97	88.70
	4.91%	90.42	88.92	87.30	86.02	86.78	85.26	85.02
	6.15%	70.46	69.66	68.79	68.09	68.50	67.67	67.54
	5.31%	82.88	81.67	80.35	79.31	79.93	78.69	78.49
	5.51%	79.55	78.46	77.27	76.33	76.88	75.76	75.58
	7.00%	61.12	60.58	59.98	59.50	59.79	59.21	59.12

**COGS (excl. dep.) as % of sales**

	\$68.09	40.00%	55.00%	60.05%	63.00%	70.00%	72.00%	74.00%
<b>Marginal Tax Rate</b>	14.57%	215.69	120.13	87.98	69.17	24.57	11.83	(0.91)
	15.07%	214.60	119.52	87.53	68.81	24.44	11.76	(0.92)
	15.57%	213.51	118.90	87.07	68.45	24.30	11.69	(0.93)
	16.07%	212.41	118.29	86.62	68.09	24.16	11.61	(0.94)
	16.57%	211.32	117.67	86.17	67.73	24.03	11.54	(0.95)
	17.07%	210.23	117.06	85.71	67.37	23.89	11.47	(0.96)
	17.57%	209.13	116.44	85.25	67.00	23.75	11.39	(0.97)