Ross: Greetings, everyone. Thanks for joining this next session of the B of A Global Industrials Conference. My name is Ross Gelardi. For those of you that don't know me, I'm the senior analyst based in the US at B of A. We are absolutely delighted to host Toro today for the next session. We've got Chairman and CEO Rick Olson, and Chief Financial Officer Renee Peterson.

We've covered Toro now for a little over a year and we're really happy to have them back again this year at the conference. For a fresh update, I think Rick and Renee, you were going to go through some of the highlights from your deck and then we'll go into Q&A. If everybody has any questions, feel free to just send them through the system and we'll squeeze them in there. But thanks so much for being here, guys. Over to you.

Rick: Thanks, Ross, and thank you to everyone that's joined us and happy to share, good afternoon to everyone and happy to share a little bit more about the Touro Company. As we go here, I'm going to just go through some selected pieces of the investor deck, as Ross pointed out.

So first of all, the Safe Harbor. I'm sure you're familiar with these. I'm not going to spend a lot of time here. I'll just get right into who we are.

And a lot of the times when we're in these kinds of presentations people like to gloss over what looks like boilerplate kind of mission/vision purpose slide. But if you're new to Toro Company, I would caution you to make sure you understand this because this is what we deeply believe and this is what drives us. So we get out of bed in the morning driven by the idea of helping our customers succeed in improving the beauty, sustainability, and productivity of the land.

And we do that or we want to earn the right to be the market share leader in each of the markets that we serve and we do that through providing incredibly cool, innovative products and solutions for them and supporting them throughout the lifetime of their product and their lifetime, as they've never experienced before.

And the thread that runs through all of that is relationships. And we're happy to do transactions if we need to, but what we really seek out is long-term relationships. And on many of our businesses, we have very long-term relationships, including those that go back to the founding of the company more than 100 years ago, so we have 100-year relationships. And if I'm meeting a new potential customer for the first time, I really tell them we're looking for a 100-year relationship and we hope that you'll be one of those relationships. So it's important to understand a little bit about what drives us before we get into some of the performance metrics.

A little bit about our splits. And this is interesting because it's really changed throughout my career. I've worked for the Toro Company for more than three decades. And when I started this was largely a residential business. Snow throwers and lawn mowers were really what the company was about at that time, even though it was founded on professional-grade products. Throughout those 30 years, it's really transitioned. All the businesses have grown. It's not like a portion of the business has reduced. But we've grown the professional business much faster, at a greater rate, and really look to the characteristics. Those are products that are used as part of a business context; more of a B2B type of arrangement. They're usually part of a capital planned budgeting process and less subject to some of the seasonal changes that happen on the residential side.

Residential is still a very important business to us. It's about 25%. We've got strong channel partners across both of the two reporting segments, virtually exclusive channel for golf and grounds on the professional side, as well as the underground business now, which is largely Ditch Witch and that's especially important on the professional side from a support standpoint and aftermarket support.

On the residential side, we split the business between mass and our dealer network. We actually have more dealer points than we do on the mass side, but both are important. That dealer network is extremely important from a support standpoint, so regardless of where an individual may buy the product, we know that at any moment they're not far away from a Toro dealer if they need to speak with someone or have some service completed.

Some of the performance metrics. These are readily available. But roughly a little more than 10% growth over the last five years; operating margin about 13 point, or excuse me, just under 13%; five-year adjusted earnings per share growth of just under 12%; and return on invested capital of 20.8%.

If you look at the history of return on invested capital, the best example is probably 2015 and the years that followed. As we make investments in acquisitions, we do see typically a slight reduction in return on invested capital, but we're driven to continue to drive that up, back to our traditional levels as we work on the integration process, synergies, and growth associated with those acquisitions.

So just to take a little closer look at the two major reporting segments. The first in professional and some of the businesses that make up that business or that reporting segment. In the professional segment, the underground and specialty construction business is the largest segment of that, just slightly larger than the next one I'm going to talk about.

And now the biggest portion of that is the underground construction business, which is largely the Ditch Witch and related brands that we have that were part of the Charles Machine Works acquisition in 2019. These are products that are focused on underground utilities, communications. And their byline really is to be the authority on utilities and cable throughout the entire lifecycle; initial installation, inspection, replacement, rejuvenation, etcetera. So that's the horizontal drill and trencher market. Both of the two products at the top are Mini Skid Steer products. Those are under the Ditch Witch and Toro brand.

We actually invented this product category with the original Toro branded Dingo. And they were initially invented by us for landscape contractor applications. So where access through a gate to a backyard or a garden was important. But they have scaled up over the last 15 years because they are so incredibly productive relative to a traditional skid steer sit down product where you have to crawl inside of a cage, etcetera, because there's so much typically on and off that happens as part of those jobs. So again, very strong network of channel partners, longstanding customers, and continue to have great growth opportunity.

The big drivers before the pandemic; the 5G installation, which is maybe 10% of the way completed at this point. During the pandemic there was a realization of the broadband divide and driving investments and bringing broadband to the most remote areas. And then the biggest driver here in North America, and I know there's been similar investments around the world, but the infrastructure legislation that is about $1 trillion here in the US, many large segments of that are focused on addressing utilities underground and building out a modern infrastructure for communications.

The just slightly, slightly smaller, roughly the same size professional portion is landscaping grounds. Turf equipment. And we have the biggest portion of that is the Zero Turn Mower category. We have a leading market share in that area with about just under 25% share. There are a number of competitors, but there are a handful of leading competitors. That really hasn't changed a whole lot over time. But the leading brands for us would be across the eXmark brand, the Toro brand, and now the Spartan brand that was part of an acquisition in January of this year.

These are these heavy-use products so they're used by contractors. They're typically using them sun up to sun down. Much higher use case than residential. And the importance of the dealer network and support through parts, service, and so forth is exceptionally high. It's equally as important as the product itself.

One of the really cool things that's happening in this area is the conversion to zero emission products. And we introduced last fall at the industry show, and we'll be bringing them to market this summer, but a full line of landscape contractor fully capable, zero compromise products that are lithium ion-based called the

Revolution. And if you want to see what that looks like, there's a dedicated website called Revolution, toro.revolution.com, if you want to take look at that.

The third area I'll talk about under the professional segment is the snow and ice management. This is professional snow and ice management and it falls between a municipal snow and ice management; large plows and so forth. We don't really focus so much on that. And it's above the residential homeowner type of application. So these are contractors that are focused on snow and ice management.

We've got the individual leading brand and growth leader in Boss. There's a company called Douglas Dynamics that has a larger overall market share across several brands, but Boss would be the leading individual brand. And a product that we introduced a couple years ago, in the left picture there, if you take a look, this is called the Snowrator, and it's a brand new category. It takes the place of between 5 and 10 shovelers that would normally be part of – ancillary part of a snow removal contractor's world.

On the right side, this was an acquisition in 2020 called Ventrac. It's really a multi-use tractor that's focused on a lot of different applications. More than 50% of those products are used for snow removal, in addition to slope applications, rough mowing, and I think 30 different attachments that go on the front. That's a high growth area for us and a very attractive addition to our portfolio.

And then there is one other segment, and one of the most important segments of the professional business is golf. We're the only supplier that has both equipment and irrigation. It's always been important in terms of visibility of deals that are happening, but it's even more important as technology becomes a huge enabler for this business. So the ability to tie the two most important pieces of a golf course management system together, the irrigation system and equipment, is extremely valuable. And that's unique to us.

We have essentially dedicated channel in this area worldwide. About half the golf courses in the world are outside of the United States, half are in United States. We have a similar market share in this area worldwide, and that's more than 50% on both golf and equipment. And if you have the opportunity, I would just call out the open in July is a fantastic place to see all of the Toro equipment in action, above and below ground. And St. Andrews has been a fantastic partner from an environmental standpoint. They operate in a sensitive environmental area and they count on us with zero emission products to be part of that story in water conservation capabilities.

And then the other reporting segment that we have is residential. It's an important segment to us, but a smaller piece. The largest portion of that for us would be the

Zero Turn category in terms of dollars of that category. Snow is another important piece. And then we really are excited and continue to see great things happening on the battery side with the introduction of our 60-volt platform about two years ago. And it's a relatively smaller portion of our business today. I think it has to be the fastest growing piece today. And based on a commitment that we made a number of years ago, we put ourselves in a position to be agnostic about what the power source is. So we are enabled to, if customers would like a zero emission solution as a homeowner, we have the pieces that they need to do that. And if they choose to have a conventional gas product, we continue to have – actually growing market share in that area at the same time that we grow our battery solutions.

And just a few final comments, the last couple slides here. Technology and innovation have been key to the Toro Company's success for more than 100 years. And it's really the commitment that we have to continue to invest in research and development, even in down cycles in the economy. And those have been some of the periods where we've launched out of economic cycles with just a shocking array of new products and introductions.

The R&D spend as a percentage of sales, roughly 3.8%, I think it was for 2021. The key is, as you can see, the uptick the last several years as we've made acquisitions. Because there is an interrelatedness of the technology, we've been able to leverage those spends as they're added to our overall spend to do something that is a multiple beyond just the incremental dollars because we can leverage; especially technology, robotics, smart and connected products are areas that were leveraging across the entire portfolio.

We drive the innovation through something called the Vitality Index. And that's the expectation from each of our businesses that 35% of their revenue comes from products that were introduced in the current or the prior two years. And you can see we've been at that level and you can see where we dip down. There's a plan to make sure that we get back above that. We find that's highly correlated with continued growth of the company. It's actually difficult to do on the commercial side because those are long development cycles and they tend to be less turnover in terms of model desire within the marketplace, but a big driver for us.

But I would just come back to our battery story from a professional side. We've been taking advanced orders for the Revolution series, that's pictured on the last slide here, and the response has been fantastic.

One of the interesting areas, one of the lead customers in this area would be municipalities and tax supported customers because they're under mandates at this point. So a number of cities – California will be coming in 2024, but already a lot of cities are mandating that at least for their own fleets and their own properties, they want zero emission products and we're in a position to be able to meet that need. And it circles back to our original goal of helping our customers be successful. In this case, it's providing zero emission products that are zero compromise that are practical solutions.

Horizon 360 is there, but it's really the technology that ties this together. It provides fleet management and system management to help, again, those customers that are managing landscape contractor fleets, golf fleets be able to do that more effectively.

I think that brings us to the end. I know I went quickly there, Ross, but hopefully covered some of the high points.

Ross: No, that's great, Rick. Let's talk a little bit more about Revolution. I know you guys are really excited about that product category. How is it price competitively and what sort of other offerings are you seeing? I mean Deere is also talking a lot more about their electrified offering. That hasn't been, at least publicly, like something they've really addressed all that much until recently. And there's certainly a lot of product on the market, more on the residential side. But kind of what else is out there and what differentiates your electrified offering.

Rick: In any of a category where a product is or progress is happening, innovation is happening, there are early players. And so, there are smaller companies that have offered commercial-grade products. I mean when we look at those products, we would not put the Toro brand on them. So I think what's differentiated in this point is this is a run-all-day Toro promise with a Toro brand on it type of product for commercial customers. And it really has to do with dialing in the exact nature of the battery system itself, the battery management system, the duty cycles that are associated with these types of products, which are relatively unique relative to other applications.

And then for us, it's really leveraging across our entire portfolio. So even machines that are not necessarily directly related, it could be a material handling buggy on the construction side versus Zero Turn Mower. Those individual customers may not know that those products exist in each other's world. But the underlying technology, we've created a leverage structure for how we designed and scaled the battery to be able to be useful for both.

And so, that's the approach that we've taken. It's more than five years in the making of that specific process. But it's the hypercell technology. It allows you to have all of those advantages, whether it's a smaller power application and continue to scale it up by adding cells and still get the benefits of the full feature product.

Ross: Your product development. I mean you talked about your R&D averaging 3.5 to 4% of sales. I mean how do you balance the investment in your conventional gas-powered product lines across the business versus the zero emission category, which we could all debate the timing of how that plays out in the future. But it certainly seem like it's going to play out increasingly over the next decade. So do you still continue to invest aggressively in your conventional product line or how should we think about that?

Rick: I think one way to think about it is, we kind of split our development and engineering dollars. Some of it is just making incremental improvements to existing product lines. That doesn't change as much. But the other portion is the new breakthrough product portions of the development priorities. That's really where we've been able to transition, pretty substantially, over to next generation technologies. So it's not really necessarily sacrificing.

We know we have to continue to maintain and continue to improve and have maintenance on existing products. But we've been able to take those future dollars that might have in the past gone towards a future gas product and repurpose those to the three technology areas that we have, which are alternative power, mainly battery; number two, smart and connected products; and number three, autonomous and robotic. I mean it's just – with our team working in those areas for a long time, it's really satisfying to the entire team to see those products come to market and get such a great response.

We introduced the fully Autonomous Fairway Mower at the Golf Show in February. And it's fun for our engineers to go there and see customers taking selfies in front of the first practical fairway robot that leaves the shed, goes out, mows a fairway, and moves on the next one. Does it with parallel lines and with just an incredible array of technology to make that happen. So it's fun for our team and it's very motivating to be part of that transition.

Ross: So your conventional product line in a $100 oil and record gasoline price environment, I mean how do we think about that? Not from a cost perspective, from a demand perspective. Do you see any risk that this replacement cycle, particularly in the landscaping side, starts to slow with energy prices as elevated they are?

And certainly you've got a lot out of exciting new products out there, but maybe the market's not willing to pay the premium yet and still isn't totally convinced in the performance attributes of a lot of the zero emission product that's out there. I don't mean that as any type of critique on your product line. But how do your customers' sort of deal with this right now, and are they incentivized to just sort of wait on ordering new equipment?

Rick: In terms of the sensitivity relative to fuel prices, we're talking about commercial. Just as a note, on the residential side the overall fuel cost typically for a residential customer, maybe fill up their hand gas tank a couple times a year, so even if it were double, it's another $20 or something like that.

On the commercial side, fuel is a significant budget item, but the job has to be done. So regardless of what their choices are, they need some kind of a solution or they're out of business, whether it's a landscape contractor, a city or a golf course. So what they do start to look for is fuel saving solutions. And the most extreme of those would be to buy a battery fleet. But we have a lot of options that either substantially improve productivity or substantially reduce fuel usage. And even our hybrid solutions for fairways today reduce fuel by 30 or 40% percent. So that's a significant reduction in what sometimes is maybe the second or third largest budget line item.

The cost of the equipment and the depreciation of the equipment tends to be down the list after labor, fuel, chemicals; those types of things. The actual cost of the equipment in a commercial operation is further down the list in terms of their top expenses. So it does provide opportunity, even with more costly equipment. If there's a payoff, a return on investment on fuel savings or even the ability to operate in extended hours because something is quiet or operates with customers that demand zero emission solutions, that there's a payoff for paying more for the equipment.

Ross: And how about your margins for your zero emission product? As you say, the selling price is higher, but I would imagine you're producing in relatively small volumes right now. So if you're not at scale yet, are some of these products margin diluted for the first couple of years?

Rick: That's not the case, though.

Ross: Not the case.

Rick: We're agnostic with regard to the margins.

Ross: Okay. Got it. Talk about underground a bit. I mean as you said, rental specialty and underground is now the biggest part of your Pro segment. I mean on paper the growth drivers of underground are very clear and very attractive. It really ______ issue, like a lot of companies is on the production side. And do you have any visibility on when production rates for a lot of these products, when you can really sort of satisfy this backlog? I mean does it feel months away? Does it feel quarters away? Does it feel a year away? And what are the bottlenecks there? Because, like I said, on paper there seems like there's all the potential in the world and it's production more than anything else that's kind of gotten in the way of

CMW and your underground assets maybe living up to the potential that they seem to present.

Rick: Ross, I think you touched on an area that's probably one of the most important things to understand about where we are as a company right now. I mean just as a benchmark, to add on to what you're saying, typically we would end the year. I think 2020 was $300 million of back order. That was a record at that time. Usually it's more $100 to $200 million. We don't usually even talk about back orders because we'll be able to supply product within the next 30 or 60 days.

So of that baseline of 150, let's say $1 million typical. We ended 2021 with $1.6 billion of back order, and the largest portion of that is on the professional side. It's a double challenge because, as you know, if you split the – look at the two segments, the most profitable portion of our business is on the professional side.

So the professional side, if it's golf, underground businesses, some parts of landscape contractor, some parts of construction have been the most constrained with supply chain, that's a significant factor for us. That is where our intensity is right now to be able to relieve those constraints. And we, as indicated in the earnings call, see the signs of improvement in those areas. Internally we are seeing some definite and significant improvements.

Simple external factors like less absentee related to COVID has allowed us to put more days of low absenteeism together where we can continuously operate. Our suppliers are seeing that same benefit. It has a little bit of a delayed reaction for us, but we're starting to see those signs of improvement. It will take some time for those suppliers to be able to dig out of the backlog that they're in. But we are seeing the signs of improvement at this point. And we have built that into our factors for the second half of this year and we expect that to be a steady improvement going into next year as well.

Ross: But I mean if you look at your revenue growth outlook, I mean some of it's from acquisitions, a fair it's from price. I mean you don't really have a lot of volume growth. It doesn't seem like from the outside in your outlook. So when does the backlog actually – when does it get produced? I mean are we just going to – are you going to just have a big backlog for a couple of years and just like slowly trip away at it and will customers wait around for a year and a half to get the product? I'm just trying to get a better sense of the timing here because when do you see this real production map and what is really the issue? I mean is it just everything across supply chain? Is it gas engines? Like _____ shortages.

Rick: So specifically if you look at commercial, the professional products are where the greater constraints are. In contrast to resident, a lot of the suppliers and the components for the residential side, their largest market is probably the lawn and garden business. So if you make an engine that's designed for a Walk Power Mower, there's not a lot of transference to other kinds of markets. So as they start to get healthy, all of the benefit goes only to one market. That's what we're seeing. That's why we're probably talking more about residential than we have typically because we are able to build additional product there that's helped to fuel the growth in residential.

On the commercial side, those products are higher horsepower engines, drive train systems like hydraulic systems, hydraulic pumps and _____, wire harnesses, the electronics that go into those. Those are relatively common across a lot of different industries; so agriculture, construction, other specialty equipment, road equipment, and our commercial professional products for golf and grounds and for underground would fall in that same category.

So those suppliers have just been hammered with demand as there was a delay in '20 or our customers didn't make those capital acquisitions. That piled on top of 2021. And our products are not discretionary and they're consumed as they're used. So for turf products, the grass continues to grow whether there is a recession or not, and that usage just gets pushed out to the next year. You can't say, well, I'm just going to skip that cycle and we'll pick it up later. So it compounds and that's been true across a lot of industries that are hitting those same suppliers at the same time.

We're speaking to them multiple times per day about their progress and their plan to improve output, add capacity, get healthy in a lot of different ways, and we're tracking every day. But that's the underlying challenges. Those suppliers are – it's as much demand, being overwhelmed by the demand as it is there are issues themselves.

Ross: And the backlog and pricing, I mean how does that work? That $1.6 billion in backlog, is it priced appropriately or was a lot of it booked during a period where the input costs were a lot lower. And can you go and reprice backlog.

Rick: For the most part, we would not honor long-term pricing if it's a contract with delivery much later. We have a few cases and a few businesses where we do honor pricing from the original contract. Just to give an example. If we win a municipal bid, that's an extensive bid process and it's got guidelines that if you fall outside of this range, then it starts the whole process over again; those kinds of things. Commitments, too, in those cases.

For the most part were staying as current as we can on pricing. And the benefit that we've built into the second half of the year is partially the realization of those older prices rolling off with commitments that we had made even extending back into last year. So that's part of the story of the second half of this year. Renee, anything you want to comment on.

Renee: I was just going to say, and demand continues to be really strong from a retail perspective. So, Ross, what we're seeing is we're satisfying some of our order backlog, but then new orders are coming in. So it really has been retail demand has been very strong. Our field inventory is lower than ideally what we would like, as well as our customers, so we see beyond that. We believe still there's going to be very strong retail demand for a period of time. Beyond that, they'll want to build their field inventory back up to a level that they're more comfortable with.

And you're probably well aware that our mix of finished goods versus _____ looks very different than it normally does. So we would also like to carry more finished goods. But in this kind of retail environment, we'll make sure we're meeting that retail demand first.

Ross: Gotcha. All right, good. We just got a few more minutes. Why was the residential business so strong in the first quarter from a topline perspective? I mean you sort of saw this like reacceleration. It was Zero Turn Mowers and so forth. Is there any type of like pipeline fill that's at a new customer, something that was going on or anything sort of out of the ordinary that that wouldn't be the type of growth that you find for the rest of the year?

Rick: The biggest driver, we've mentioned this over the last couple of years, but it's really the reboots of that business. So almost everything is new about our residential business. Honestly, we have new leadership that was put in place three plus years ago. We have completely rebooted our product line. We've rebooted our messaging, our marketing, our merchandising, and we've added new channel partners, specifically the Tractor Supply Company has been a big driver for us.

We've been modeling that the stay-at-home effect would fade over time. We fully expect that. But the underlying drivers that have been masked by that effect are in place and continue to accelerate. The path that they're on, from a growth standpoint, is pretty significant and it continues to be very strong. And our channel is hungry for the product, so what we can build we've got a home for.

Renee: We saw really strong growth across Walk Power Mower, across Zs, certainly battery was a component. And to your point, all of our channel partners really grew at a pretty good rate, within last year, as well as into the quarter.

Rick: And maybe tying back to the earlier comment, we were able to build additional residential products. So that was one of the factors is we did start to see some relief on the supply chain there, so it allowed us to build product that was in high demand.

Ross: And then can you just – I mean you touched on this a little bit earlier, but it was more on the Pro side. We've written a fair bit about gas engine shortages on the residential side. Are you seeing those alleviate at all? And just one of your big customers is testing some gas equipment removals in a few dozen stores this year. Can you comment on that? And then in those stores it's happening, do you see sort of a one-for-one tradeoff with your cordless offering? In other words, if you do have any volume backing off, do you make it up on the cordless side?

Rick: To the first question with regard to engines, engines have been one of the most highly managed commodities or components for the last 24 months, including ourselves. So they have been on allocation, I think, to every customer of an engine company. We've actually seen improvements in that area. And we do have longstanding partnering relationships with our engine suppliers and we have seen a nice improvement in availability. Steady, not overnight solutions type of thing, but kind of exceeding our expectations in those areas. So it is a key and continues to be, but we're seeing a little bit of improvement there.

And then on the electrification side of things, we try not to – we try to let our customers, our channel partners speak about their strategies themselves in most cases, but in this, I think it's pretty public that The Home Depot will be trying some electric-only locations. And where that happens, we're a part of that process. We have expanded skew placements in those cases. And for us, we're excited to see how that plays out. We're, again, agnostic if it's gas or electric for us.

And to your last point, where we do have a chance to sell an electric product, that opens up a world to our customers that they would not have otherwise been exposed to. Just buying a gas Walk Power Mower from us, that may be the only purchase, but when they buy a battery electric product from us, then there are 50 other attachments that we're going to market to them as great solutions, whether it's pole saws, trimmers, string trimmers, blowers, etcetera, that are fantastic products. So it provides an incremental boost to us where that happens.

It's a great trial, just looking at the 2024 requirements in California, and I think it's going to be very interesting to see how it plays out.

Ross: Gotcha. All right. Well, I think we're about out of time. But Rick and Renee, thanks so much for the rundown and the update on everything, all the exciting stuff happening at Toro. Very much enjoyed it and appreciated your participation at the conference today.

And to everybody on the line, hope you enjoyed that session. Feel free to follow up if you have any further questions and enjoy the rest of your day and conference. We're almost at the end of Day 3. But hope everybody's found the time fun and productive. All the best.

Rick: Thank you, Ross. Thank you, Ross. Really appreciate it.

Renee: Thank you.

Rick: Take care.

Ross: Bye-bye.

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