

Edgar Filing: TORO CO - Form 10-Q

TORO CO

Form 10-Q

March 06, 2019

false--10-31Q120190000737758YesfalseLarge Accelerated FilerTORO

COfalseP2MP1YP2YP3YP10Y0.200.2251.001.001.001750000001750000001750000001064346551056006521057465381064

0000737758 2018-11-01 2019-02-01 0000737758 2019-02-27 0000737758 2017-11-01 2018-02-02 0000737758

2019-02-01 0000737758 2018-10-31 0000737758 2018-02-02 0000737758 ttc:NonvotingPreferredStockMember

2018-10-31 0000737758 ttc:VotingPreferredStockMember 2018-02-02 0000737758

ttc:NonvotingPreferredStockMember 2019-02-01 0000737758 ttc:VotingPreferredStockMember 2018-10-31

0000737758 ttc:NonvotingPreferredStockMember 2018-02-02 0000737758 ttc:VotingPreferredStockMember

2019-02-01 0000737758 2017-10-31 0000737758 us-gaap:AccumulatedOtherComprehensiveIncomeMember

2017-10-31 0000737758 us-gaap:RetainedEarningsMember 2018-11-01 2019-02-01 0000737758

us-gaap:RetainedEarningsMember 2017-11-01 2018-02-02 0000737758 us-gaap:RetainedEarningsMember

2019-02-01 0000737758 us-gaap:RetainedEarningsMember 2017-10-31 0000737758 us-gaap:CommonStockMember

2018-10-31 0000737758 us-gaap:CommonStockMember 2017-11-01 2018-02-02 0000737758

us-gaap:RetainedEarningsMember 2018-02-02 0000737758

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-11-01 2018-02-02 0000737758

us-gaap:RetainedEarningsMember 2018-10-31 0000737758 us-gaap:CommonStockMember 2017-10-31 0000737758

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-02-02 0000737758 us-gaap:CommonStockMember

2019-02-01 0000737758 2018-11-01 0000737758 us-gaap:AccumulatedOtherComprehensiveIncomeMember

2018-10-31 0000737758 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-11-01 2019-02-01

0000737758 us-gaap:RetainedEarningsMember 2018-11-01 0000737758 us-gaap:CommonStockMember 2018-11-01

2019-02-01 0000737758 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-02-01 0000737758

us-gaap:CommonStockMember 2018-02-02 0000737758 ttc:RedIronMember 2019-02-01 0000737758

ttc:RedIronMember 2018-11-01 2019-02-01 0000737758 ttc:RedIronMember

ttc:TwinCityFederalInventoryFinanceIncorporatedSecuredRevolvingCreditFacilityMember 2019-02-01 0000737758

ttc:RedIronMember 2019-01-31 0000737758 ttc:RedIronMember 2017-11-01 2018-02-02 0000737758

us-gaap:OtherIntangibleAssetsMember 2019-02-01 0000737758 us-gaap:DevelopedTechnologyRightsMember

2018-11-01 2019-02-01 0000737758 us-gaap:PatentsMember 2019-02-01 0000737758 us-gaap:TradeNamesMember

2019-02-01 0000737758 us-gaap:CustomerRelationshipsMember 2019-02-01 0000737758

us-gaap:NoncompeteAgreementsMember 2019-02-01 0000737758 us-gaap:CustomerRelationshipsMember

2018-11-01 2019-02-01 0000737758 us-gaap:PatentsMember 2018-11-01 2019-02-01 0000737758

us-gaap:OtherIntangibleAssetsMember 2018-11-01 2019-02-01 0000737758

us-gaap:DevelopedTechnologyRightsMember 2019-02-01 0000737758 us-gaap:TradeNamesMember 2018-11-01

2019-02-01 0000737758 us-gaap:NoncompeteAgreementsMember 2018-11-01 2019-02-01 0000737758

us-gaap:TradeNamesMember 2018-10-31 0000737758 us-gaap:CustomerRelationshipsMember 2018-10-31

0000737758 us-gaap:CustomerRelationshipsMember 2017-11-01 2018-10-31 0000737758

us-gaap:OtherIntangibleAssetsMember 2018-10-31 0000737758 us-gaap:DevelopedTechnologyRightsMember

2017-11-01 2018-10-31 0000737758 us-gaap:PatentsMember 2018-10-31 0000737758

us-gaap:NoncompeteAgreementsMember 2017-11-01 2018-10-31 0000737758 us-gaap:PatentsMember 2017-11-01

2018-10-31 0000737758 us-gaap:NoncompeteAgreementsMember 2018-10-31 0000737758 2017-11-01 2018-10-31

0000737758 us-gaap:TradeNamesMember 2017-11-01 2018-10-31 0000737758

us-gaap:DevelopedTechnologyRightsMember 2018-10-31 0000737758 us-gaap:OtherIntangibleAssetsMember

2017-11-01 2018-10-31 0000737758 ttc:CorporateReconcilingItemsAndEliminationsMember 2018-10-31

0000737758 us-gaap:OperatingSegmentsMember ttc:ResidentialSegmentMember 2018-11-01 2019-02-01

0000737758 us-gaap:OperatingSegmentsMember ttc:ResidentialSegmentMember 2019-02-01 0000737758

us-gaap:OperatingSegmentsMember ttc:ResidentialSegmentMember 2018-10-31 0000737758

us-gaap:OperatingSegmentsMember ttc:ProfessionalSegmentMember 2018-11-01 2019-02-01 0000737758

ttc:CorporateReconcilingItemsAndEliminationsMember 2019-02-01 0000737758

ttc:CorporateReconcilingItemsAndEliminationsMember 2018-11-01 2019-02-01 0000737758

us-gaap:OperatingSegmentsMember ttc:ProfessionalSegmentMember 2019-02-01 0000737758

Edgar Filing: TORO CO - Form 10-Q

us-gaap:OperatingSegmentsMember ttc:ProfessionalSegmentMember 2018-10-31 0000737758  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-10-31 0000737758  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-11-01 2019-02-01 0000737758  
us-gaap:AccumulatedTranslationAdjustmentMember 2018-11-01 2019-02-01 0000737758  
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-11-01 2019-02-01 0000737758  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-02-02 0000737758  
us-gaap:AccumulatedTranslationAdjustmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-10-31 0000737758  
us-gaap:AccumulatedTranslationAdjustmentMember 2018-10-31 0000737758  
us-gaap:AccumulatedTranslationAdjustmentMember 2017-10-31 0000737758  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-10-31 0000737758  
us-gaap:AccumulatedTranslationAdjustmentMember 2019-02-01 0000737758  
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2019-02-01 0000737758  
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2017-10-31 0000737758  
us-gaap:AccumulatedTranslationAdjustmentMember 2018-02-02 0000737758  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2019-02-01 0000737758  
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-02-02 0000737758  
ttc:StockOptionAwardsMember 2017-11-01 2018-02-02 0000737758 ttc:StockOptionAwardsMember 2018-11-01  
2019-02-01 0000737758 us-gaap:RestrictedStockMember 2018-11-01 2019-02-01 0000737758  
us-gaap:PerformanceSharesMember 2017-11-01 2018-02-02 0000737758 us-gaap:PerformanceSharesMember  
2018-11-01 2019-02-01 0000737758 us-gaap:StockCompensationPlanMember 2017-11-01 2018-02-02 0000737758  
us-gaap:StockCompensationPlanMember 2018-11-01 2019-02-01 0000737758 us-gaap:RestrictedStockMember  
2017-11-01 2018-02-02 0000737758 us-gaap:StockCompensationPlanMember ttc:BoardOfDirectorsMember  
2018-11-01 2019-02-01 0000737758 srt:MaximumMember us-gaap:PerformanceSharesMember 2018-11-01  
2019-02-01 0000737758 srt:MinimumMember us-gaap:PerformanceSharesMember 2018-11-01 2019-02-01  
0000737758 ttc:RestrictedStockAndRestrictedStockUnitAwardsMember 2017-11-01 2018-02-02 0000737758  
ttc:RestrictedStockAndRestrictedStockUnitAwardsMember 2018-11-01 2019-02-01 0000737758  
us-gaap:StockCompensationPlanMember ttc:BoardOfDirectorsMember 2017-11-01 2018-02-02 0000737758  
ttc:StockOptionAwardsMember ttc:NonemployeeMember 2018-11-01 2019-02-01 0000737758  
ttc:StockOptionAwardsMember ttc:CertainEmployeesMember 2018-11-01 2019-02-01 0000737758  
ttc:StockOptionAwardsMember ttc:BoardOfDirectorsMember 2018-11-01 2019-02-01 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember 2017-11-01 2018-02-02 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember 2018-02-02 0000737758  
us-gaap:IntersegmentEliminationMember ttc:ResidentialSegmentMember 2018-11-01 2019-02-01 0000737758  
us-gaap:OperatingSegmentsMember ttc:ProfessionalSegmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:IntersegmentEliminationMember ttc:ResidentialSegmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:IntersegmentEliminationMember 2017-11-01 2018-02-02 0000737758  
us-gaap:IntersegmentEliminationMember ttc:ProfessionalSegmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember ttc:ResidentialSegmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember ttc:ResidentialSegmentMember 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember ttc:ProfessionalSegmentMember 2018-02-02 0000737758  
us-gaap:IntersegmentEliminationMember 2018-11-01 2019-02-01 0000737758  
us-gaap:IntersegmentEliminationMember ttc:ProfessionalSegmentMember 2018-11-01 2019-02-01 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:CashFlowHedgingMember us-gaap:CostOfSalesMember  
2017-11-01 2018-02-02 0000737758 us-gaap:CashFlowHedgingMember us-gaap:OtherIncomeMember 2017-11-01  
2018-02-02 0000737758 us-gaap:ForeignExchangeForwardMember us-gaap:CashFlowHedgingMember  
us-gaap:SalesMember 2017-11-01 2018-02-02 0000737758 us-gaap:ForeignExchangeForwardMember  
us-gaap:CashFlowHedgingMember us-gaap:OtherIncomeMember 2018-11-01 2019-02-01 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:CashFlowHedgingMember us-gaap:SalesMember 2018-11-01

Edgar Filing: TORO CO - Form 10-Q

2019-02-01 0000737758 us-gaap:CashFlowHedgingMember us-gaap:CostOfSalesMember 2018-11-01 2019-02-01  
0000737758 us-gaap:ForeignExchangeForwardMember us-gaap:CashFlowHedgingMember  
us-gaap:OtherIncomeMember 2017-11-01 2018-02-02 0000737758 us-gaap:CashFlowHedgingMember  
us-gaap:SalesMember 2018-11-01 2019-02-01 0000737758 us-gaap:ForeignExchangeForwardMember  
us-gaap:CashFlowHedgingMember us-gaap:CostOfSalesMember 2018-11-01 2019-02-01 0000737758  
us-gaap:CashFlowHedgingMember us-gaap:OtherIncomeMember 2018-11-01 2019-02-01 0000737758  
us-gaap:CashFlowHedgingMember us-gaap:CostOfSalesMember 2017-11-01 2018-02-02 0000737758  
us-gaap:CashFlowHedgingMember us-gaap:SalesMember 2017-11-01 2018-02-02 0000737758  
us-gaap:ForeignExchangeForwardMember 2019-02-01 0000737758 us-gaap:ForeignExchangeForwardMember  
us-gaap:NondesignatedMember us-gaap:OtherIncomeMember 2018-11-01 2019-02-01 0000737758  
us-gaap:NondesignatedMember us-gaap:OtherIncomeMember 2017-11-01 2018-02-02 0000737758  
us-gaap:NondesignatedMember us-gaap:OtherIncomeMember 2018-11-01 2019-02-01 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:NondesignatedMember us-gaap:OtherIncomeMember 2017-11-01  
2018-02-02 0000737758 us-gaap:CashFlowHedgingMember 2017-11-01 2018-02-02 0000737758  
us-gaap:CashFlowHedgingMember 2018-11-01 2019-02-01 0000737758  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:DesignatedAsHedgingInstrumentMember 2018-10-31 0000737758 us-gaap:AccruedLiabilitiesMember  
us-gaap:ForeignExchangeForwardMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-02-02  
0000737758 us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:DesignatedAsHedgingInstrumentMember 2018-02-02 0000737758  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:DesignatedAsHedgingInstrumentMember 2019-02-01 0000737758  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:NondesignatedMember 2018-10-31 0000737758 us-gaap:AccruedLiabilitiesMember  
us-gaap:ForeignExchangeForwardMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-10-31  
0000737758 us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:NondesignatedMember 2018-02-02 0000737758 us-gaap:AccruedLiabilitiesMember  
us-gaap:ForeignExchangeForwardMember us-gaap:DesignatedAsHedgingInstrumentMember 2019-02-01  
0000737758 us-gaap:AccruedLiabilitiesMember us-gaap:ForeignExchangeForwardMember  
us-gaap:NondesignatedMember 2019-02-01 0000737758 us-gaap:AccruedLiabilitiesMember  
us-gaap:ForeignExchangeForwardMember us-gaap:NondesignatedMember 2018-02-02 0000737758  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:NondesignatedMember 2019-02-01 0000737758 us-gaap:AccruedLiabilitiesMember  
us-gaap:ForeignExchangeForwardMember us-gaap:NondesignatedMember 2018-10-31 0000737758  
us-gaap:ForeignExchangeForwardMember 2018-02-02 0000737758 us-gaap:ForeignExchangeForwardMember  
2018-10-31 0000737758 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel1Member  
us-gaap:FairValueMeasurementsRecurringMember 2019-02-01 0000737758  
us-gaap:FairValueMeasurementsRecurringMember 2019-02-01 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsRecurringMember 2019-02-01 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2019-02-01 0000737758 us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2019-02-01 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueMeasurementsRecurringMember 2019-02-01  
0000737758 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2019-02-01  
0000737758 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2019-02-01  
0000737758 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueMeasurementsRecurringMember  
2018-02-02 0000737758 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel1Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758 us-gaap:FairValueInputsLevel1Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel3Member

Edgar Filing: TORO CO - Form 10-Q

us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758 us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758 us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758  
us-gaap:FairValueMeasurementsRecurringMember 2018-02-02 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueMeasurementsRecurringMember 2018-10-31  
0000737758 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-10-31  
0000737758 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-10-31  
0000737758 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel1Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-10-31 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-10-31 0000737758  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-10-31 0000737758  
us-gaap:FairValueMeasurementsRecurringMember 2018-10-31 0000737758 us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-10-31 0000737758 ttc:ProductRevenueMember  
srt:MaximumMember 2018-11-01 2019-02-01 0000737758 ttc:ServiceRevenueMember srt:MinimumMember  
2018-11-01 2019-02-01 0000737758 ttc:ServiceRevenueMember srt:MaximumMember 2018-11-01 2019-02-01  
0000737758 2020-11-01 2019-02-01 0000737758 ttc:ProductRevenueMember srt:MinimumMember 2018-11-01  
2019-02-01 0000737758 2019-02-02 2019-02-01 0000737758 ttc:WarrantyRevenueMember srt:MaximumMember  
2018-11-01 2019-02-01 0000737758 ttc:WarrantyRevenueMember srt:MinimumMember 2018-11-01 2019-02-01  
0000737758 2021-11-01 2019-02-01 0000737758 us-gaap:OperatingSegmentsMember  
ttc:EquipmentProductsAndServicesMember ttc:ProfessionalSegmentMember 2017-11-01 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember ttc:EquipmentProductsAndServicesMember ttc:ResidentialSegmentMember  
2018-11-01 2019-02-01 0000737758 us-gaap:OperatingSegmentsMember ttc:IrrigationMember  
ttc:ProfessionalSegmentMember 2018-11-01 2019-02-01 0000737758 us-gaap:OperatingSegmentsMember  
country:US ttc:ProfessionalSegmentMember 2018-11-01 2019-02-01 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember country:US 2017-11-01 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember ttc:EquipmentProductsAndServicesMember ttc:ProfessionalSegmentMember  
2018-11-01 2019-02-01 0000737758 ttc:CorporateReconcilingItemsAndEliminationsMember ttc:IrrigationMember  
2018-11-01 2019-02-01 0000737758 us-gaap:OperatingSegmentsMember us-gaap:NonUsMember  
ttc:ResidentialSegmentMember 2017-11-01 2018-02-02 0000737758 country:US 2017-11-01 2018-02-02  
0000737758 us-gaap:OperatingSegmentsMember country:US ttc:ResidentialSegmentMember 2017-11-01 2018-02-02  
0000737758 us-gaap:OperatingSegmentsMember ttc:EquipmentProductsAndServicesMember  
ttc:ResidentialSegmentMember 2017-11-01 2018-02-02 0000737758 us-gaap:OperatingSegmentsMember  
ttc:IrrigationMember ttc:ProfessionalSegmentMember 2017-11-01 2018-02-02 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember ttc:EquipmentProductsAndServicesMember 2018-11-01  
2019-02-01 0000737758 ttc:IrrigationMember 2018-11-01 2019-02-01 0000737758 country:US 2018-11-01  
2019-02-01 0000737758 ttc:EquipmentProductsAndServicesMember 2018-11-01 2019-02-01 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember us-gaap:NonUsMember 2018-11-01 2019-02-01 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember ttc:EquipmentProductsAndServicesMember 2017-11-01  
2018-02-02 0000737758 us-gaap:OperatingSegmentsMember us-gaap:NonUsMember  
ttc:ResidentialSegmentMember 2018-11-01 2019-02-01 0000737758 ttc:EquipmentProductsAndServicesMember  
2017-11-01 2018-02-02 0000737758 us-gaap:OperatingSegmentsMember us-gaap:NonUsMember  
ttc:ProfessionalSegmentMember 2018-11-01 2019-02-01 0000737758 us-gaap:OperatingSegmentsMember  
country:US ttc:ProfessionalSegmentMember 2017-11-01 2018-02-02 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember us-gaap:NonUsMember 2017-11-01 2018-02-02 0000737758  
ttc:CorporateReconcilingItemsAndEliminationsMember ttc:IrrigationMember 2017-11-01 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember us-gaap:NonUsMember ttc:ProfessionalSegmentMember 2017-11-01  
2018-02-02 0000737758 us-gaap:OperatingSegmentsMember ttc:IrrigationMember ttc:ResidentialSegmentMember

2017-11-01 2018-02-02 0000737758 ttc:IrrigationMember 2017-11-01 2018-02-02 0000737758  
us-gaap:OperatingSegmentsMember ttc:IrrigationMember ttc:ResidentialSegmentMember 2018-11-01 2019-02-01  
0000737758 us-gaap:OperatingSegmentsMember country:US ttc:ResidentialSegmentMember 2018-11-01 2019-02-01  
0000737758 us-gaap:NonUsMember 2018-11-01 2019-02-01 0000737758 us-gaap:NonUsMember 2017-11-01  
2018-02-02 0000737758 ttc:CorporateReconcilingItemsAndEliminationsMember country:US 2018-11-01 2019-02-01  
0000737758 ttc:CharlesMachineWorksIncMember us-gaap:ScenarioForecastMember  
us-gaap:SubsequentEventMember 2019-05-04 2019-08-02 xbrli:pure xbrli:shares ttc:segment iso4217:USD  
iso4217:USD xbrli:shares  
[Table of Contents](#)

# 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 February 1, 2019

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

## THE TORO COMPANY

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**1-8649**

(Commission File Number)

**41-0580470**

(I.R.S. Employer Identification Number)

**8111 Lyndale Avenue South  
Bloomington, Minnesota 55420**

**Telephone Number: (952) 888-8801**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Edgar Filing: TORO CO - Form 10-Q

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 February 27, 2019 was 106,110,375.

---

Table of Contents**THE TORO COMPANY  
INDEX TO FORM 10-Q**

	<b>Page Number</b>
<b><u>PART I. FINANCIAL INFORMATION:</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Statements of Earnings (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Stockholders' Equity (Unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<u>23</u>
<b><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>	<u>36</u>
<b><u>Item 4. Controls and Procedures</u></b>	<u>37</u>
<b><u>PART II. OTHER INFORMATION:</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	<u>38</u>
<b><u>Item 1A. Risk Factors</u></b>	<u>38</u>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<u>39</u>
<b><u>Item 5. Other Information</u></b>	<u>39</u>
<b><u>Item 6. Exhibits</u></b>	<u>40</u>
<u>Signatures</u>	<u>41</u>

Table of Contents**PART I. FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

## THE TORO COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings (Unaudited)

(Dollars and shares in thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>February 1,</b>	<b>February 2,</b>
	<b>2019</b>	<b>2018</b>
Net sales	\$602,956	\$ 548,246
Cost of sales	387,339	344,007
Gross profit	215,617	204,239
Selling, general and administrative expense	145,563	137,317
Operating earnings	70,054	66,922
Interest expense	(4,742 )	(4,818 )
Other income, net	4,708	4,281
Earnings before income taxes	70,020	66,385
Provision for income taxes	10,480	43,781
Net earnings	\$59,540	\$ 22,604
Basic net earnings per share of common stock	\$0.56	\$ 0.21
Diluted net earnings per share of common stock	\$0.55	\$ 0.21
Weighted-average number of shares of common stock outstanding — Basic	106,258	107,225
Weighted-average number of shares of common stock outstanding — Diluted	107,781	109,855

See accompanying Notes to Condensed Consolidated Financial Statements.

## THE TORO COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

	<b>Three Months Ended</b>	
	<b>February 1,</b>	<b>February 2,</b>
	<b>2019</b>	<b>2018</b>
Net earnings	\$59,540	\$ 22,604
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	3,431	10,872
Derivative instruments, net of tax of \$(1,352) and \$(579), respectively	(4,009 )	(2,779 )
Other comprehensive income (loss), net of tax	(578 )	8,093
Comprehensive income	\$58,962	\$ 30,697

See accompanying Notes to Condensed Consolidated Financial Statements.



Table of Contents

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

	<b>February 1, 2019</b>	<b>February 2, 2018</b>	<b>October 31, 2018</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$249,965	\$219,730	\$289,124
Receivables, net	225,528	198,736	193,178
Inventories, net	416,650	439,343	358,259
Prepaid expenses and other current assets	41,789	43,039	54,076
Total current assets	933,932	900,848	894,637
Property, plant and equipment, gross	950,640	883,462	928,981
Less accumulated depreciation	671,370	649,014	657,522
Property, plant and equipment, net	279,270	234,448	271,459
Deferred income taxes	39,589	44,752	38,252
Goodwill	227,091	205,954	225,290
Other intangible assets, net	104,017	102,366	105,649
Other assets	38,915	28,438	35,697
Total assets	\$1,622,814	\$1,516,806	\$1,570,984
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>			
Current portion of long-term debt	\$—	\$13,000	\$—
Accounts payable	281,526	266,586	256,575
Accrued liabilities	283,452	292,903	276,060
Total current liabilities	564,978	572,489	532,635
Long-term debt, less current portion	312,551	302,465	312,549
Deferred income taxes	1,410	1,839	1,397
Other long-term liabilities	49,478	59,232	55,487
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 105,746,538 shares as of February 1, 2019, 106,434,655 shares as of February 2, 2018, and 105,600,652 shares as of October 31, 2018	105,747	106,435	105,601
Retained earnings	613,165	490,373	587,252
Accumulated other comprehensive loss	(24,515)	(16,027)	(23,937)
Total stockholders' equity	694,397	580,781	668,916
Total liabilities and stockholders' equity	\$1,622,814	\$1,516,806	\$1,570,984

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## THE TORO COMPANY AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	<b>Three Months Ended</b>	
	<b>February 1,</b>	<b>February 2,</b>
	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Net earnings	\$59,540	\$ 22,604
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash income from finance affiliate	(2,429 )	(2,192 )
Contributions to finance affiliate, net	(459 )	(252 )
Provision for depreciation and amortization	15,583	15,226
Stock-based compensation expense	3,924	3,124
Deferred income taxes	(1,225 )	19,682
Other	—	(26 )
Changes in operating assets and liabilities, net of effect of acquisitions:		
Receivables, net	(31,331 )	(12,989 )
Inventories, net	(52,380 )	(107,017 )
Prepaid expenses and other assets	8,119	(2,588 )
Accounts payable, accrued liabilities, deferred revenue and other long-term liabilities	26,643	72,523
Net cash provided by operating activities	25,985	8,095
Cash flows from investing activities:		
Purchases of property, plant and equipment	(14,180 )	(10,784 )
Proceeds from asset disposals	3	—
Investment in unconsolidated entities	(150 )	—
Acquisitions, net of cash acquired	(12,498 )	—
Net cash used in investing activities	(26,825 )	(10,784 )
Cash flows from financing activities:		
Payments on long-term debt	—	(18,017 )
Proceeds from exercise of stock options	7,569	4,436
Payments of withholding taxes for stock awards	(1,872 )	(3,077 )
Purchases of Toro common stock	(20,043 )	(50,066 )
Dividends paid on Toro common stock	(23,923 )	(21,425 )
Net cash used in financing activities	(38,269 )	(88,149 )
Effect of exchange rates on cash and cash equivalents	(50 )	312
Net decrease in cash and cash equivalents	(39,159 )	(90,526 )
Cash and cash equivalents as of the beginning of the fiscal period	289,124	310,256
Cash and cash equivalents as of the end of the fiscal period	\$249,965	\$ 219,730

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## THE TORO COMPANY AND SUBSIDIARIES

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

	<b>Common Stock</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Stockholders' Equity</b>
Balance as of October 31, 2018	\$ 105,601	\$ 587,252	\$ (23,937 )	\$ 668,916
Cash dividends paid on common stock - \$0.225 per share	—	(23,923 )	—	(23,923 )
Issuance of 537,786 shares for stock options exercised and restricted stock units vested	538	5,627	—	6,165
Stock-based compensation expense	—	3,924	—	3,924
Contribution of stock to a deferred compensation trust	—	1,404	—	1,404
Purchase of 391,900 shares of common stock	(392 )	(21,523 )	—	(21,915 )
Cumulative transition adjustment due to the adoption of ASU 2014-09	—	864	—	864
Other comprehensive loss	—	—	(578 )	(578 )
Net earnings	—	59,540	—	59,540
Balance as of February 1, 2019	\$ 105,747	\$ 613,165	\$ (24,515 )	\$ 694,397
Balance as of October 31, 2017	\$ 106,883	\$ 534,329	\$ (24,120 )	\$ 617,092
Cash dividends paid on common stock - \$0.20 per share	—	(21,425 )	—	(21,425 )
Issuance of 506,991 shares for stock options exercised and restricted stock units vested	507	2,492	—	2,999
Stock-based compensation expense	—	3,124	—	3,124
Contribution of stock to a deferred compensation trust	—	1,437	—	1,437
Purchase of 955,308 shares of common stock	(955 )	(52,188 )	—	(53,143 )
Other comprehensive income	—	—	8,093	8,093
Net earnings	—	22,604	—	22,604
Balance as of February 2, 2018	\$ 106,435	\$ 490,373	\$ (16,027 )	\$ 580,781

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE TORO COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

February 1, 2019

**Note 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," "Toro," "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. Since the company's business is seasonal, operating results for the three months ended February 1, 2019 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2019.

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 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, 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, 2018. The policies described in that report are used for preparing quarterly reports.

***Accounting Policies***

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 reserves, allowance for doubtful accounts, pension and post-retirement accruals, self-insurance accruals, useful lives for tangible and definite-lived intangible assets, and future cash flows associated with impairment testing for goodwill, indefinite-lived intangible assets and other long-lived assets. 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 circumstances, historical experience, and actuarial valuations. 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 current 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 Adopted***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2014-09, *Revenue from Contracts with Customers* that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date of this standard by one year. The company adopted ASU 2014-09 effective November 1, 2018, during the first quarter of fiscal 2019, using the modified retrospective method of adoption, which was applied to all contracts for which the company's performance obligations were not completed as of October 31, 2018. In adopting ASU 2014-09, the company elected the following allowable exemptions or practical expedients:

Portfolio approach practical expedient relative to the estimation of variable consideration.

## Table of Contents

• Shipping and handling practical expedient to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities.

• Costs of obtaining a contract practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset is one year or less.

• Immaterial goods or services practical expedient to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

• Sales taxes practical expedient to exclude sales taxes and other similar taxes from the transaction price.

• Exemption to not disclose the unfulfilled performance obligation balance for contracts with an original length of one year or less.

Upon adoption of ASU 2014-09, the company recognized an immaterial transition adjustment within the company's fiscal 2019 beginning retained earnings balance on the Condensed Consolidated Balance Sheets for the cumulative effect of the change in accounting standard. Results for reporting periods beginning after November 1, 2018 are presented under the guidelines of Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, while prior reporting period amounts have not been adjusted and continue to be reported under ASC 605, *Revenue Recognition*. The adoption of ASU 2014-09 did not materially impact the amount of revenue recognized or any other financial statement line item as of and for the three months ended February 1, 2019. Additionally, the company identified and implemented the appropriate changes to its business processes, information systems, and internal controls to support the preparation of financial information, which did not materially affect the company's internal controls over financial reporting. Refer to Note 14, *Revenue*, for the additional disclosures required under ASC 606.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. The amended guidance was adopted in the first quarter of fiscal 2019 and did not have a material impact on the company's Condensed Consolidated Financial Statements.

## **Note 2 — Acquisitions**

### ***Northeastern U.S. Distribution Company***

Effective November 30, 2018, during the first quarter of fiscal 2019, the company completed the acquisition of substantially all of the assets of, and assumed certain liabilities for, a Northeastern U.S. distribution company. The purchase price of this acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price recorded as goodwill. This acquisition was immaterial based on the company's Consolidated Financial Condition and Results of Operations. Additional purchase accounting disclosures have been omitted given the immateriality of this acquisition in relation to the company's Consolidated Financial Condition and Results of Operations.

### ***L.T. Rich Products, Inc.***

Effective March 19, 2018, during the second quarter of fiscal 2018, the company completed the acquisition of substantially all of the assets of, and assumed certain liabilities for, L.T. Rich Products, Inc., a manufacturer of professional zero-turn spreader/sprayers, aerators, and snow and ice management equipment. The addition of these products broadens and strengthens the company's Professional segment solutions for landscape contractors and grounds professionals. The purchase price of this acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price recorded as goodwill. This acquisition was immaterial based on the company's Consolidated Financial Condition and Results of Operations.

Additional purchase accounting disclosures have been omitted given the immateriality of this acquisition in relation to the company's Consolidated Financial Condition and Results of Operations.

**Note 3 — Investment in Joint Venture**

In fiscal 2009, the company and TCF Inventory Finance, Inc. ("TCFIF"), a subsidiary of TCF National Bank, established Red Iron Acceptance, LLC ("Red Iron"), a joint venture in the form of a Delaware limited liability company that primarily provides inventory financing to certain distributors and dealers of the company's products in the U.S. On November 29, 2016, during the first quarter of fiscal 2017, the company entered into amended agreements for its Red Iron joint venture with TCFIF. As a result, the amended term of Red Iron will continue until October 31, 2024, subject to two-year extensions thereafter. Either the company or TCFIF may elect not to extend the amended term, or any subsequent term, by giving one-year written notice to the other party.

The company owns 45 percent of Red Iron and TCFIF owns 55 percent of Red Iron. The company accounts for its investment in Red Iron under the equity method of accounting. The company and TCFIF each contributed a specified amount of the estimated

Table of Contents

cash required to enable Red Iron to purchase the company's inventory financing receivables and to provide financial support for Red Iron's inventory financing programs. Red Iron borrows the remaining requisite estimated cash utilizing a \$550 million secured revolving credit facility established under a credit agreement between Red Iron and TCFIF. The company's total investment in Red Iron as of February 1, 2019 was \$25.4 million. The company has not guaranteed the outstanding indebtedness of Red Iron.

The company has agreed to repurchase products repossessed by Red Iron and the TCFIF Canadian affiliate, up to a maximum aggregate amount of \$7.5 million in a calendar year. Under the repurchase agreement between Red Iron and the company, Red Iron provides financing for certain dealers and distributors. These transactions are structured as an advance in the form of a payment by Red Iron to the company on behalf of a distributor or dealer with respect to invoices financed by Red Iron. 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 Red Iron and the dealers and distributors, Red Iron provides loans to the dealers and distributors for the advances paid by Red Iron to the company. The net amount of receivables financed for dealers and distributors under this arrangement for the three months ended February 1, 2019 and February 2, 2018 were \$428.8 million and \$386.3 million, respectively. As of January 31, 2019, Red Iron's total assets were \$501.7 million and total liabilities were \$445.2 million.

**Note 4 — Inventories**

Inventories are valued at the lower of cost or net realizable value, with cost determined by the last-in, first-out ("LIFO") method for a majority of the company's inventories and the first-in, first-out ("FIFO") method for all other inventories. The company establishes a reserve for excess, slow-moving, and obsolete inventory that is equal to the difference between the cost and estimated net realizable value for that inventory. These reserves are based on a review and comparison of current inventory levels to planned production, as well as planned and historical sales of the inventory.

Inventories were as follows:

<b>(Dollars in thousands)</b>	<b>February 1, 2019</b>	<b>February 2, 2018</b>	<b>October 31, 2018</b>
Raw materials and work in process	\$ 124,458	\$ 114,150	\$ 115,280
Finished goods and service parts	364,393	391,994	315,179
Total FIFO value	488,851	506,144	430,459
Less: adjustment to LIFO value	72,201	66,801	72,200
Total inventories, net	\$ 416,650	\$ 439,343	\$ 358,259

**Note 5 — Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill by reportable segment for the first three months of fiscal 2019 were as follows:

<b>(Dollars in thousands)</b>	<b>Professional</b>	<b>Residential</b>	<b>Other</b>	<b>Total</b>
Balance as of October 31, 2018	\$ 214,827	\$ 10,463	\$—	\$225,290
Goodwill acquired	—	—	1,534	1,534
Translation adjustments	215	52	—	267
Balance as of February 1, 2019	\$ 215,042	\$ 10,515	\$1,534	\$227,091





Table of Contents

The components of other intangible assets as of February 1, 2019 were as follows:

<b>(Dollars in thousands)</b>	<b>Weighted-Average Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Patents	9.9	\$ 18,255	\$ (12,524 )	\$ 5,731
Non-compete agreements	5.5	6,891	(6,794 )	97
Customer-related	18.5	89,702	(24,929 )	64,773
Developed technology	7.6	31,079	(28,774 )	2,305
Trade names	5.0	2,319	(1,850 )	469
Other	1.0	800	(800 )	—
Total amortizable	14.2	149,046	(75,671 )	73,375
Non-amortizable - trade names		30,642	—	30,642
Total other intangible assets, net		\$ 179,688	\$ (75,671 )	\$ 104,017

The components of other intangible assets as of October 31, 2018 were as follows:

<b>(Dollars in thousands)</b>	<b>Weighted-Average Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Patents	9.9	\$ 18,235	\$ (12,297 )	\$ 5,938
Non-compete agreements	5.5	6,872	(6,771 )	101
Customer-related	18.5	89,622	(23,653 )	65,969
Developed technology	7.6	31,029	(28,471 )	2,558
Trade names	5.0	2,307	(1,805 )	502
Other	1.0	800	(800 )	—
Total amortizable	14.3	148,865	(73,797 )	75,068
Non-amortizable - trade names		30,581	—	30,581
Total other intangible assets, net		\$ 179,446	\$ (73,797 )	\$ 105,649

Amortization expense for definite-lived intangible assets during the first quarter of fiscal 2019 and fiscal 2018 was \$1.8 million and \$1.9 million, respectively. Estimated amortization expense for the remainder of fiscal 2019 and succeeding fiscal years is as follows: fiscal 2019 (remainder), \$5.0 million; fiscal 2020, \$6.2 million; fiscal 2021, \$5.7 million; fiscal 2022, \$5.6 million; fiscal 2023, \$5.2 million; fiscal 2024, \$4.9 million; and after fiscal 2024, \$40.8 million.

**Note 6 — Stockholders' Equity*****Accumulated Other Comprehensive Loss***

Components of accumulated other comprehensive loss ("AOCL"), net of tax, were as follows:

<b>(Dollars in thousands)</b>	<b>February 1, February 2, October 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2018</b>
Foreign currency translation adjustments	\$ 26,280	\$ 10,162	\$ 29,711
Pension and post-retirement benefits	561	2,281	561
Cash flow derivative instruments	(2,326 )	3,584	(6,335 )
Total accumulated other comprehensive loss	\$ 24,515	\$ 16,027	\$ 23,937



Table of Contents

The components and activity of AOCL for the first three months of fiscal 2019 and 2018 were as follows:

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension and Post-Retirement Benefits	Cash Flow Hedging Derivative Instruments	Total
Balance as of October 31, 2018	\$ 29,711	\$ 561	\$ (6,335 )	\$23,937
Other comprehensive (income) loss before reclassifications	(3,431 )	—	5,490	2,059
Amounts reclassified from AOCL	—	—	(1,481 )	(1,481 )
Net current period other comprehensive (income) loss	(3,431 )	—	4,009	578
Balance as of February 1, 2019	\$ 26,280	\$ 561	\$ (2,326 )	\$24,515

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension and Post-Retirement Benefits	Cash Flow Hedging Derivative Instruments	Total
Balance as of October 31, 2017	\$ 21,303	\$ 2,012	\$ 805	\$24,120
Other comprehensive (income) loss before reclassifications	(11,141 )	269	3,612	(7,260 )
Amounts reclassified from AOCL	—	—	(833 )	(833 )
Net current period other comprehensive (income) loss	(11,141 )	269	2,779	(8,093 )
Balance as of February 2, 2018	\$ 10,162	\$ 2,281	\$ 3,584	\$16,027

For additional information on the components reclassified from AOCL to the respective line items within net earnings for the company's cash flow hedging derivative instruments, refer to Note 12, *Derivative Instruments and Hedging Activities*.

**Note 7 — Stock-Based Compensation**

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

(Dollars in thousands)	Three Months Ended February 2, 2019		February 2, 2018
Stock option awards	\$1,835	\$ 1,175	
Restricted stock units	693	1,005	
Performance share awards	804	414	
Unrestricted common stock awards	592	530	
Total compensation cost for stock-based awards	\$3,924	\$ 3,124	

During the first quarter of fiscal years 2019 and 2018, 10,090 and 8,388 shares, respectively, of fully vested unrestricted common stock awards were granted to certain members of the company's Board of Directors as a component of their compensation for their service on the Board of Directors and are recorded in selling, general and administrative expense in the Condensed Consolidated Statements of Earnings.

**Stock Option Awards**

Under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (the "2010 plan"), 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 on an annual basis in the first quarter of the company's fiscal year. Options generally vest one-third each year over a three-year period and have a ten-year term. Other 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 is generally recognized for these awards over the vesting period. 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 2010 plan. In that case, the fair value of the options is expensed in the fiscal year of grant because generally the option holder must be employed

Table of Contents

as of the end of the fiscal year in which the options are granted in order for the options to continue to vest following retirement. Similarly, if a non-employee director has served on the company's Board of Directors for ten full fiscal years or more, the awards vest immediately upon retirement, and 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 the Black-Scholes valuation method with the assumptions noted in the table below. 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 directors are expected to exercise their stock options, which is primarily based on historical exercise experience. The company groups executive officers and non-employee directors for valuation purposes based on similar historical exercise behavior. Expected stock price volatilities are 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. 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 for options granted in the following fiscal periods:

	<b>Fiscal 2019</b>	<b>Fiscal 2018</b>
Expected life of option in years	6.31	6.05
Expected stock price volatility	19.84%	20.60%
Risk-free interest rate	2.77%	2.21%
Expected dividend yield	1.18%	0.97%
Per share weighted-average fair value at date of grant	\$12.81	\$14.29

***Performance Share Awards***

Under the 2010 plan, 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 and businesses of the company, which are generally measured over a three-year period. The number of shares of common stock a participant receives will 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 as of 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 2019 and 2018 was \$59.58 and \$65.40, respectively.

***Restricted Stock Unit Awards***

Under the 2010 plan, restricted stock unit awards are generally granted to certain employees that 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. Such awards may have performance-based rather than time-based vesting requirements. Compensation cost equal to the grant date fair value, which 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, is recognized for these awards over the vesting period. The per share weighted-average fair value of restricted stock unit awards granted during the first three months of fiscal 2019 and 2018 was \$58.53 and \$65.93, respectively.

Table of Contents**Note 8 — Per Share Data**

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

(Shares in thousands)	<b>Three Months Ended</b>	
	<b>February 1, 2019</b>	<b>February 2, 2018</b>
<i>Basic</i>		
Weighted-average number of shares of common stock	106,216	107,173
Assumed issuance of contingent shares	42	52
Weighted-average number of shares of common stock and assumed issuance of contingent shares	106,258	107,225
<i>Diluted</i>		
Weighted-average number of shares of common stock and assumed issuance of contingent shares	106,258	107,225
Effect of dilutive securities	1,523	2,630
Weighted-average number of shares of common stock, assumed issuance of contingent shares, and effect of dilutive securities	107,781	109,855

Incremental shares from options and restricted stock units are computed under the treasury stock method. Options to purchase 786,262 and 305,911 shares of common stock during the first three months of fiscal 2019 and 2018, respectively, were excluded from diluted net earnings per share because they were anti-dilutive.

**Note 9 — 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 management organizes segments for making operating and investment decisions and assessing performance. The company has determined it has nine operating segments and has aggregated certain of those operating segments into two reportable segments: Professional and Residential. The aggregation of the company's operating segments is based on the operating 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. These Other activities consist of the company's wholly-owned domestic distribution companies, the company's corporate activities, and the elimination of intersegment revenues and expenses.

The following tables present the summarized financial information concerning the company's reportable segments:

**(Dollars in thousands)**

<b>Three Months Ended February 1, 2019</b>	<b>Professional</b>	<b>Residential</b>	<b>Other</b>	<b>Total</b>
Net sales	\$ 455,006	\$ 145,158	\$ 2,792	\$ 602,956
Intersegment gross sales	13,609	99	(13,708 )	—
Earnings (loss) before income taxes	87,978	13,072	(31,030 )	70,020
Total assets	\$ 959,768	\$ 235,520	\$ 427,526	\$ 1,622,814

**(Dollars in thousands)**

<b>Three Months Ended February 2, 2018</b>	<b>Professional</b>	<b>Residential</b>	<b>Other</b>	<b>Total</b>
Net sales	\$ 403,669	\$ 142,507	\$ 2,070	\$ 548,246
Intersegment gross sales	6,458	56	(6,514 )	—



Edgar Filing: TORO CO - Form 10-Q

Earnings (loss) before income taxes	75,912	15,713	(25,240 )	66,385
Total assets	\$ 904,597	\$ 249,845	\$362,364	\$1,516,806

13

---

Table of Contents

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

(Dollars in thousands)	Three Months Ended	
	February 1, 2019	February 2, 2018
Corporate expenses	\$(28,314 )	\$(24,401 )
Interest expense	(4,742 )	(4,818 )
Other income	2,026	3,979
Total operating loss	\$(31,030 )	\$(25,240 )

**Note 10 — Contingencies — Litigation**

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 typically involved in commercial disputes, employment 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 regularly reviews certain patents issued by the U.S. Patent and Trademark Office and foreign patent offices. Management believes these activities help minimize its risk of being a defendant in patent infringement litigation. The company is currently involved in patent litigation cases, including cases by or against competitors, where it is asserting and defending against claims of patent infringement. Such cases are at varying stages in the litigation process.

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 its Consolidated Results of Operations, Financial Position, or Cash Flows.

**Note 11 — 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. 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. Warranty coverage generally does not cover operator abuse or improper use. An authorized company distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement and are credited for the cost of repairs, labor, and other expenses as long as the repairs meet the company's prescribed standards. Warranty expense is accrued at the time of sale based 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, the historical length of time between the sale and resulting warranty claim, and other minor factors. Special warranty reserves are also accrued for major rework campaigns. Service support outside of the warranty

period is provided by authorized distributors and dealers at the customer's expense. 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 14, *Revenue*.

Table of Contents

The changes in accrued warranties were as follows:

(Dollars in thousands)	Three Months Ended	
	February 2, 2019	February 2, 2018
Beginning balance	\$76,214	\$ 74,155
Warranty provisions	10,556	10,570
Warranty claims	(10,815 )	(9,840 )
Changes in estimates	790	—
Ending balance	\$76,745	\$ 74,885

**Note 12 — 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, 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 actively manages the exposure of its foreign currency exchange rate risk by entering into various derivative instruments to hedge against such risk, authorized under company policies that place 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, foreign plant operations, and 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 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 Earnings is the same as that of the underlying exposure. Results of cash flow hedging instruments, and the related excluded components, of sales and foreign plant operations are recorded in net sales and cost

15

---

Table of Contents

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. Results of cash flow hedges of intercompany loans are recorded in other income, net as an offset to the remeasurement of the foreign loan balance.

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 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 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 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 Earnings.

As of February 1, 2019, the notional amount outstanding of forward contracts designated as cash flow hedging instruments was \$255.9 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 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:

<b>(Dollars in thousands)</b>	<b>February 1, 2019</b>	<b>February 2, 2018</b>	<b>October 31, 2018</b>
Derivative assets:			
<i>Derivatives designated as cash flow hedging instruments:</i>			
Prepaid expenses and other current assets			
Forward currency contracts	\$ 4,333	\$ 974	\$ 8,596
<i>Derivatives not designated as cash flow hedging instruments:</i>			
Prepaid expenses and other current assets			
Forward currency contracts	1,503	180	2,305
Total assets	\$ 5,836	\$ 1,154	\$ 10,901
Derivative liabilities:			
<i>Derivatives designated as cash flow hedging instruments:</i>			
Accrued liabilities			
Forward currency contracts	\$ 30	\$ 5,411	\$ —

*Derivatives not designated as cash flow hedging instruments:*

Accrued liabilities			
Forward currency contracts	3	2,678	13
Total liabilities	\$ 33	\$ 8,089	\$ 13

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

Table of Contents

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 in its Condensed Consolidated Balance Sheets.

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

<b>(Dollars in thousands)</b>	<b>February 1, 2019</b>	<b>February 2, 2018</b>	<b>October 31, 2018</b>
<b>Derivative assets:</b>			
<i>Forward currency contracts:</i>			
Gross amounts of recognized assets	\$ 5,837	\$ 1,154	\$ 10,901
Gross liabilities offset in the Consolidated Balance Sheets	(1	) —	—
Net amounts of assets presented in the Consolidated Balance Sheets	\$ 5,836	\$ 1,154	\$ 10,901
<b>Derivative liabilities:</b>			
<i>Forward currency contracts:</i>			
Gross amounts of recognized liabilities	\$ (33	) \$ (8,089	) \$ (13
Gross assets offset in the Consolidated Balance Sheets	—	—	—
Net amounts of liabilities presented in the Consolidated Balance Sheets	\$ (33	) \$ (8,089	) \$ (13

The following table presents the impact and location of the amounts reclassified from AOCL into net earnings on the Condensed Consolidated Statements of Earnings and the impact of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the company's derivatives designated as cash flow hedging instruments for the three months ended February 1, 2019 and February 2, 2018:

<b>(Dollars in thousands)</b>	<b>Three Months Ended</b>			
	<b>Gain (Loss)</b>		<b>Loss Recognized in</b>	
	<b>Reclassified from</b>	<b>AOCL into</b>	<b>Earnings</b>	<b>Loss Recognized in</b>
	<b>February 1,</b>	<b>February 2,</b>	<b>February 1,</b>	<b>February 2,</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<i>Derivatives designated as cash flow hedging instruments:</i>				
<b>Forward currency contracts:</b>				
Net sales	\$1,238	\$ (1,011	) \$ (3,481	) \$ (2,678
Cost of sales	243	178	(528	) (101
Total derivatives designated as cash flow hedging instruments	\$ 1,481	\$ (833	) \$ (4,009	) \$ (2,779

For the first quarter of fiscal 2019 and fiscal 2018, the company did not discontinue cash flow hedge accounting on any forward currency contracts designated as cash flow hedging instruments. As of February 1, 2019, the company expects to reclassify approximately \$2.1 million of gains from AOCL to earnings during the next twelve months.



Table of Contents

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

(Dollars in thousands) Three Months Ended	Gain (Loss) Recognized in Earnings on Cash Flow Hedging Instruments					
	February 1, 2019			February 2, 2018		
	Net Sales	Cost of Sales	Other Income, Net	Net Sales	Cost of Sales	Other Income, Net
Total Consolidated Statements of Earnings income (expense) amounts in which the effects of cash flow hedging instruments are recorded	\$602,956	\$(387,339)	\$4,708	\$548,246	\$(344,007)	\$4,281
<i>Gain (loss) on derivatives designated as cash flow hedging instruments:</i>						
Forward currency contracts:						
Amount of gain (loss) reclassified from AOCL into earnings	1,238	243	—	(1,011)	178	—
Gain (loss) on components excluded from effectiveness testing recognized in earnings based on changes in fair value	\$1,223	\$62	\$—	\$(21)	\$(25)	\$—

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

(Dollars in thousands)	Three Months Ended	
	February 1, 2019	February 2, 2018
<i>Loss on derivatives not designated as cash flow hedging instruments</i>		
Forward currency contracts:		
Other income, net	\$(1,063)	\$(1,816)
Total loss on derivatives not designated as cash flow hedging instruments	\$(1,063)	\$(1,816)

**Note 13 — 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 forward currency contracts is determined based on observable market transactions of forward currency prices and spot currency rates as of the reporting date. There were no transfers between the levels of the fair value hierarchy during the three months ended February 1, 2019 and February 2, 2018, or the twelve months ended October 31, 2018.

Table of Contents

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 February 1, 2019, February 2, 2018, and October 31, 2018, according to the valuation technique utilized to determine their fair values:

**(Dollars in thousands)** **Fair Value Measurements Using Inputs Considered as:**  
**February 1, 2019** **Fair Value** **Level 1** **Level 2** **Level 3**

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Forward currency contracts	\$ 5,836	\$ —	\$ 5,836	\$ —
Total assets	\$ 5,836	\$ —	\$ 5,836	\$ —
Liabilities:				
Forward currency contracts	\$ 33	\$ —	\$ 33	\$ —
Total liabilities	\$ 33	\$ —	\$ 33	\$ —

**(Dollars in thousands)** **Fair Value Measurements Using Inputs Considered as:**  
**February 2, 2018** **Fair Value** **Level 1** **Level 2** **Level 3**

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Forward currency contracts	\$ 1,154	\$ —	\$ 1,154	\$ —
Total assets	\$ 1,154	\$ —	\$ 1,154	\$ —
Liabilities:				
Forward currency contracts	\$ 8,089	\$ —	\$ 8,089	\$ —
Total liabilities	\$ 8,089	\$ —	\$ 8,089	\$ —

**(Dollars in thousands)** **Fair Value Measurements Using Inputs Considered as:**  
**October 31, 2018** **Fair Value** **Level 1** **Level 2** **Level 3**

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Forward currency contracts	\$ 10,901	\$ —	\$ 10,901	\$ —
Total assets	\$ 10,901	\$ —	\$ 10,901	\$ —
Liabilities:				
Forward currency contracts	\$ 13	\$ —	\$ 13	\$ —
Total liabilities	\$ 13	\$ —	\$ 13	\$ —

***Non-recurring 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. Assets acquired and liabilities assumed as part of acquisitions are measured at fair value.

***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.

Table of Contents**Note 14 — Revenue**

The company enters into contracts with its customers for the sale of products or rendering of services in the ordinary course of business. A contract with commercial substance exists at the time the company receives and accepts a purchase order under a sales contract with a customer. The company recognizes revenue when, or as, performance obligations under the terms of a contract with its customer are satisfied, which occurs with the transfer of control of product or services. Control is typically transferred to the customer at the time a product is shipped, or in the case of certain agreements, when a product is delivered or as services are rendered. Revenue is recognized based on the transaction price, which is measured as the amount of consideration the company expects to receive in exchange for transferring a product or rendering services pursuant to the terms of the contract with a customer. The amount of consideration the company receives and the revenue the company recognizes varies with changes in sales promotions and incentives offered to customers, as well as anticipated product returns. A provision is made at the time revenue is recognized as a reduction of the transaction price for expected product returns, rebates, floor plan costs, and other sales promotion and incentive expenses. If a contract contains more than one performance obligation, the transaction price is allocated to each performance obligation based on the relative standalone selling price of the respective promised good or service. The company does not recognize revenue in situations where collectability from the customer is not probable, and defers the recognition of revenue until collection is probable or payment is received and performance obligations are satisfied.

Freight and shipping revenue billed to customers concurrent with revenue producing activities is included within revenue and the cost for freight and shipping is recognized as an expense within cost of sales when control has transferred to the customer. Shipping and handling activities that occur after control of the related products is transferred are treated as a fulfillment activity rather than a promised service, and therefore, are not considered a performance obligation. Sales, use, value-added, and other excise taxes the company collects concurrent with revenue producing activities are excluded from revenue. Incremental costs of obtaining a contract for which the performance obligations will be satisfied within the next twelve months are expensed as incurred. Incidental items, including goods or services, that are immaterial in the context of the contract are recognized as expense when incurred. Additionally, the company has elected not to disclose the balance of unfulfilled performance obligations for contracts with a contractual term of twelve months or less.

The following tables disaggregate our reportable segment net sales by major product type and geographic market:

<b>Three Months Ended February 1, 2019</b>	<b>Professional</b>	<b>Residential</b>	<b>Other</b>	<b>Total</b>
Revenue by product type:				
Equipment	\$ 387,550	\$ 133,510	\$ 1,969	\$523,029
Irrigation	67,456	11,648	823	79,927
Total net sales	\$ 455,006	\$ 145,158	\$ 2,792	\$602,956

Revenue by geographic market:				
United States	\$ 348,104	\$ 110,515	\$ 2,792	\$461,411
Foreign Countries	106,902	34,643	—	141,545
Total net sales	\$ 455,006	\$ 145,158	\$ 2,792	\$602,956

<b>Three Months Ended February 2, 2018</b>	<b>Professional</b>	<b>Residential</b>	<b>Other</b>	<b>Total</b>
Revenue by product type:				
Equipment	\$ 328,642	\$ 129,307	\$ 1,268	\$459,217
Irrigation	75,027	13,200	802	89,029
Total net sales	\$ 403,669	\$ 142,507	\$ 2,070	\$548,246

Revenue by geographic market:

Edgar Filing: TORO CO - Form 10-Q

United States	\$ 295,690	\$ 103,696	\$2,070	\$401,456
Foreign Countries	107,979	38,811	—	146,790
Total net sales	\$ 403,669	\$ 142,507	\$2,070	\$548,246

20

---

## Table of Contents

### ***Product Revenue***

The company's product revenues are generated through sales of manufactured equipment and irrigation products, including related replacement parts and accessories. For the majority of the company's products, control is transferred and revenue is recognized when the product is shipped from the company's manufacturing facility or distribution center to the company's customers, which primarily consist of distributors, dealers, and mass retailers. In certain situations, the company transfers control and recognizes revenue when delivery to the customer has occurred. Additionally, the company ships some of its products to a key retailer's distribution centers on a consignment basis. The company retains control of its products stored at the key retailer's distribution centers. As the company's products are removed from the distribution centers by the key retailer and shipped to the key retailer's stores, control is transferred from the company to the key retailer. At that time, the company invoices the key retailer and recognizes revenue for these consignment transactions. The company does not offer a right of return for products shipped to the key retailer's stores from the distribution centers.

When product sales are financed by the company's joint venture, Red Iron, the transactions are structured as an advance in the form of a payment by Red Iron to the company on behalf of a customer with respect to invoices financed by Red Iron. These payments extinguish the obligation of the customer to make payment to the company under the terms of the applicable invoice. Under a separate agreement between Red Iron and the customer, Red Iron provides a loan to the customer for the advances paid by Red Iron to the company. The company's sales of product to customers that do not elect to finance purchases through Red Iron are generally on open account with terms that generally approximate 30 to 120 days and the resulting receivables are included within receivables, net on the Condensed Consolidated Balance Sheets.

Product revenue is recognized based on the transaction price, which is measured as the amount of consideration the company expects to receive in exchange for transferring control of a product to a customer. When determining the transaction price, the company estimates variable consideration by applying the portfolio approach practical expedient under ASC 606. The primary sources of variable consideration for the company are rebate programs, volume incentive programs, floor plan and retail financing programs, cash discounts, and product returns. These sales promotions and incentives are recorded as a reduction to revenue at the time of the initial sale. The company estimates variable consideration related to equipment and irrigation products sold under its sales promotion and incentive programs using the expected value method, which is based on sales terms with customers, historical experience, field inventory levels, volume purchases, and known changes in relevant trends. There are no material instances where variable consideration is constrained and not recorded at the initial time of sale. Additionally, the company may offer to its customers the right to return eligible equipment and irrigation products, replacement parts, and accessories. Returns are recorded as a reduction to revenue based on anticipated sales returns estimated from sales terms, historical experience, and trend analysis. The company records obligations for returns within accrued liabilities in the Condensed Consolidated Balance Sheets and the right-of-return asset in prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets. The refund liability and right-of-return asset are remeasured for changes in the estimate at each reporting date with a corresponding adjustment to net sales and cost of sales within the Condensed Consolidated Statements of Earnings.

### ***Service Revenue***

In certain cases, the company renders service contracts to customers, which typically range from 12 to 36 months. The company receives payment at the inception of the service contract and recognizes revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the performance obligations under the service contract.

### ***Warranty Revenue***

In addition to the standard warranties offered by the company on its equipment and irrigation products intended to provide assurance that the product will function as expected, the company also sells separately priced extended warranty coverage on select products for a prescribed period after the standard warranty period expires, which typically range from 12 to 24 months. The company receives payment at the inception of the separately priced extended warranty contract and recognizes revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the performance obligations under the separately priced extended warranty contract.

***Contract Liabilities***

Contract liabilities relate to deferred revenue recognized for payments received at contract inception in advance of the company's performance under the contract and generally relates to the sale of separately priced extended warranty and service contracts. The company recognizes revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the performance obligations under the separately priced extended warranty and service contracts. As of February 1, 2019 and October 31, 2018, \$14.6 million and \$14.0 million, respectively, of unearned revenue associated with outstanding separately priced

Table of Contents

extended warranty and service contracts was reported within accrued liabilities and other long-term liabilities in the Condensed Consolidated Balance Sheets. For the three months ended February 1, 2019, the company recognized \$1.6 million of the October 31, 2018 unearned revenue balance within net sales in the Condensed Consolidated Statements of Earnings. The company expects to recognize approximately \$4.2 million of the October 31, 2018 unearned amount within net sales throughout the remainder of fiscal 2019, \$4.4 million in fiscal 2020, and \$3.8 million thereafter.

**Note 15 — Subsequent Events**

On February 14, 2019, the company entered into a definitive merger agreement ("merger agreement") with The Charles Machine Works, Inc. ("CMW"), a privately held Oklahoma corporation. CMW designs, manufactures, and sells a range of products to serve the underground construction market, including horizontal directional drills, walk and ride trenchers, utility loaders, vacuum excavators, asset locators, pipe rehabilitation solutions, and after-market tools. Subject to the terms and conditions of the merger agreement, the company has agreed to pay \$700 million in cash ("merger consideration"), subject to certain working capital, net debt, and other adjustments as set forth in the merger agreement. The company plans to fund the merger consideration and transaction expenses with cash on hand and debt, including borrowings from the company's unsecured senior revolving credit facility and/or other potential additional financing arrangements that the company may pursue. On March 1, 2019, the U.S. Federal Trade Commission granted early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"), with respect to the transactions contemplated by the merger agreement. The early termination of the waiting period under the HSR Act satisfies one of the conditions to the closing of the merger. The closing of the merger remains subject to the satisfaction or waiver of the remaining closing conditions set forth in the merger agreement, including regulatory approval by the German Federal Cartel Office. The company expects the transaction to close prior to the end of the company's fiscal third quarter.

The company has evaluated all additional 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.



Table of Contents

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 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 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
- Forward-Looking Information

We have provided non-GAAP financial measures, which are not calculated or presented in accordance with accounting principles generally accepted in the United States ("GAAP"), as information supplemental and in addition to the financial measures presented in this report that are calculated and presented in accordance with GAAP. This MD&A contains certain non-GAAP financial measures, consisting of adjusted net earnings, adjusted net earnings per diluted share, and an adjusted effective tax rate as measures of our operating performance. Management believes these measures may be useful in performing meaningful comparisons of past and present operating results, to understand the performance of our ongoing operations, and how management views the business. Reconciliations of adjusted non-GAAP financial measures to the most directly comparable reported GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A. These measures, however, should not be construed as an alternative to any other measure of performance determined in accordance with GAAP.

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, 2018. 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 "Forward-Looking Information" located at the end of Part I, Item 2 of this report for more information.

**COMPANY OVERVIEW**

The Toro Company is in the business of designing, manufacturing, and marketing professional turf maintenance equipment and services, turf irrigation systems, landscaping equipment and lighting products, snow and ice management products, agricultural irrigation systems, rental and specialty construction equipment, and residential yard and snow thrower products. We sell our products worldwide through a network of distributors, dealers, mass retailers, hardware retailers, home centers, as well as online (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. These Other activities consist of earnings (loss) from our wholly-owned domestic distribution companies, corporate activities, and the elimination of intersegment revenues and expenses.

On February 14, 2019, we entered into a definitive merger agreement ("merger agreement") with The Charles Machine Works, Inc. ("CMW"), a privately held Oklahoma corporation. CMW designs, manufactures, and sells a range of products to serve the underground construction market, including horizontal directional drills, walk and ride trenchers, utility loaders, vacuum excavators, asset locators, pipe rehabilitation solutions, and after-market tools. Subject to the terms and conditions of the merger agreement, we have agreed to pay \$700 million in cash ("merger consideration"), subject to certain working capital, net debt, and other adjustments as set forth in the merger agreement. We plan to fund the merger consideration and transaction expenses with cash on hand and debt, including borrowings from our unsecured senior revolving credit facility and/or other potential additional financing arrangements that we may pursue. On March 1, 2019, the U.S. Federal Trade Commission granted early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"), with respect to the transactions contemplated by the merger agreement. The early termination of the waiting period under the HSR Act satisfies one of the conditions to the closing of the merger. The closing of the merger remains subject to the satisfaction or waiver of the remaining closing conditions set forth in the merger agreement, including regulatory approval by the German Federal Cartel Office. We expect the transaction to close prior to the end of our fiscal third quarter.

Table of Contents

**RESULTS OF OPERATIONS**

**Overview**

For the first quarter of fiscal 2019, our net sales increased 10.0 percent, as compared to the first quarter of fiscal 2018. Professional segment net sales increased 12.7 percent for the first quarter comparison, primarily due to strong channel demand and successful new product introductions for our landscape contractor zero-turn riding mowers and golf and grounds equipment, meaningful price increases across our product lines, increased shipments of our snow and ice management products, and sales of new products as a result of our acquisition of L.T. Rich Products, Inc. ("L.T. Rich"). The Professional segment net sales increase was partially offset by reduced shipments of our ag-irrigation and irrigation products. Residential segment net sales increased 1.9 percent for the first quarter comparison, mainly due to meaningful price increases across our product lines, strong retail demand for our snow products, and increased shipments of walk power mowers driven by strong channel demand ahead of our key selling season. The Residential segment net sales increase was partially offset by reduced shipments of our portable power products and Pope-branded irrigation products primarily due to unfavorable weather conditions in key regions and decreased sales of zero-turn riding mowers primarily due to timing of shipments compared to the prior fiscal year comparative period.

Net earnings for the first quarter of fiscal 2019 were \$59.5 million compared to \$22.6 million for the first quarter of fiscal 2018. The increase was primarily due to the one-time charges related to the Tax Cuts and Jobs Act ("Tax Act") incurred during the first quarter of fiscal 2018. Adjusted net earnings for the first quarter of fiscal 2019 were \$55.2 million compared to \$52.1 million for the prior year comparative period, an increase of 5.8 percent. Our adjusted net earnings growth for the first quarter of fiscal 2019 was primarily attributable to strong sales growth, leveraging our selling, general, and administrative ("SG&A") expenses over higher sales volumes, and lower direct marketing expense, partially offset by incremental acquisition-related expenses. Reconciliations of adjusted non-GAAP financial measures to the most directly comparable reported GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

We increased our cash dividend for the first quarter of fiscal 2019 by 12.5 percent to \$0.225 per share compared to the \$0.20 per share cash dividend paid in the first quarter of fiscal 2018.

Inventory levels decreased \$22.7 million, or 5.2 percent, as of the end of the first quarter of fiscal 2019, primarily due to lower finished goods inventory driven by higher sales across the Professional and Residential segments, the benefit of inventory management initiatives, and the impact of foreign currency exchange rates. These inventory decreases were partially offset by higher work in process inventory mainly due to inclement weather resulting in production downtime and incremental inventory for our acquisition of L.T. Rich. Accounts receivable increased \$26.8 million, or 13.5 percent, primarily due to timing of sales across the Professional and Residential segments, partially offset by the impact of foreign currency exchange rates. As of the end of the first quarter of fiscal 2019, field inventory levels were higher primarily due to higher Professional segment field inventory for our landscape contractor zero-turn riding mowers and golf and grounds equipment driven by strong channel demand in anticipation of the upcoming spring selling season, partially offset by lower Residential segment snow product inventory driven by strong retail demand due to higher snowfall totals in key regions.

**Three-Year Employee Initiative - "Vision 2020"**

Our current multi-year employee initiative, "Vision 2020", which began with our 2018 fiscal year, focuses on driving profitable growth with an emphasis on innovation and serving our customers, which we believe will generate further momentum for the organization. Through our Vision 2020 initiative, we have set specific internal goals intended to help us drive organic revenue and operating earnings growth.

***Organic Revenue Growth***

We intend to pursue strategic growth of our existing businesses and product categories with an organic revenue goal to achieve at least five percent or more of organic revenue growth in each of the three fiscal years of this initiative. For purposes of this goal, we define organic revenue growth as the increase in net sales, less net sales from acquisitions that occurred in the current fiscal year.

***Operating Earnings***

Additionally, as part of our Vision 2020 initiative growth goals, we have set an operating earnings goal to increase operating earnings as a percentage of net sales to 15.5 percent or higher by the end of fiscal 2020.

Table of Contents**Net Sales**

Worldwide consolidated net sales for the first quarter of fiscal 2019 were \$603.0 million, up 10.0 percent compared to \$548.2 million in the first quarter of fiscal 2018. The net sales increase for the quarter comparison was primarily due to strong channel demand and successful new product introductions of landscape contractor zero-turn riding mowers and golf and grounds equipment, meaningful price increases across our product lines, increased shipments of our Residential and Professional snow and ice management products, increased shipments of walk power mowers driven by strong channel demand ahead of our key selling season, and sales of new products as a result of our acquisition of L.T. Rich Products, Inc. The net sales increase was partially offset by lower sales of our ag-irrigation products, reduced shipments of our portable power products and Pope-branded irrigation products primarily due to unfavorable weather conditions in key regions, decreased sales of zero-turn riding mowers primarily due to timing of shipments compared to the prior fiscal year comparative period, and decreased sales of our irrigation products.

Net sales in international markets decreased by 3.6 percent for the first quarter of fiscal 2019. The net sales decrease for the quarter comparison was mainly due to lower sales of our ag-irrigation products, reduced shipments of our Pope-branded irrigation products primarily due to unfavorable weather conditions, decreased shipments of our Residential and Professional segment zero-turn riding mowers, and decreased sales of our Hayter-branded walk power mowers. The net sales decrease was partially offset by increased shipments of walk power mowers and snow product driven by strong channel demand and favorable weather conditions throughout Europe, as well as increased shipments of our Perrot-branded irrigation products. Changes in foreign currency exchange rates resulted in a decrease of our net sales of approximately \$2.1 million for the first quarter of fiscal 2019.

The following table summarizes the major operating costs and other income as a percentage of net sales:

	<b>Three Months</b>			
	<b>Ended</b>			
	<b>February 2,</b>		<b>February 2,</b>	
	<b>2019</b>	<b>2018</b>		
Net sales	100.0%	100.0	%	
Cost of sales	(64.2 )	(62.7	)	
Gross profit	35.8	37.3		
Selling, general and administrative expense	(24.2 )	(25.1	)	
Operating earnings	11.6	12.2		
Interest expense	(0.8 )	(0.9	)	
Other income, net	0.8	0.8		
Provision for income taxes	(1.7 )	(8.0	)	
Net earnings	9.9	4.1	%	%

**Gross Profit**

As a percentage of net sales, gross profit for the first quarter of fiscal 2019 was 35.8 percent, a decrease of 150 basis points when compared to the first quarter of fiscal 2018. This decrease was primarily due to the unfavorable impact of commodity cost increases and tariff-related expenses on purchased raw materials and component parts, the unfavorable accounting impact associated with our acquisition of a Northeastern U.S. distribution company, and unfavorable product mix within the Professional segment, partially offset by improved net price realization driven by price increases across our product lines, as well as productivity initiatives.

**Selling, General, and Administrative Expense**

SG&A expense increased \$8.2 million, or 6.0 percent, for the first quarter of fiscal 2019. As a percentage of net sales, SG&A expense decreased 90 basis points for the first quarter of fiscal 2019. The decrease as a percentage of net sales for the first quarter comparison was primarily due to leveraging of expenses over higher sales volume and decreased direct marketing expense, partially offset by incremental acquisition-related costs and increased engineering expense for new product development.

**Interest Expense**

Interest expense decreased by 1.6 percent for the first quarter of fiscal 2019.

Table of Contents

**Other Income, Net**

Other income, net for the first quarter of fiscal 2019 increased \$0.4 million when compared to the first quarter of fiscal 2018. The increase was primarily due to higher interest income on marketable securities and higher earnings from our equity investment in Red Iron, partially offset by lower gains realized on foreign currency exchange rate fluctuations.

**Provision for Income Taxes**

The effective tax rate for the first quarter of fiscal 2019 was 15.0 percent compared to 66.0 percent in the first quarter of 2018. The decrease in the effective tax rate for the quarter comparison was driven by the significant impact of the Tax Act on the effective tax rate for fiscal 2018, due to the one-time remeasurement of deferred tax assets and liabilities, which resulted in a non-cash discrete tax charge of \$20.5 million, and the one-time calculation of the deemed repatriation tax, which resulted in a discrete tax charge of \$12.6 million, payable over eight years.

The adjusted effective tax rate for the first quarter of fiscal 2019 was 21.2 percent, compared to an adjusted effective tax rate of 21.5 percent in the same period last year. The adjusted effective tax rate for the first quarter of fiscal 2019 excludes a benefit of \$4.4 million for the excess tax deduction for share-based compensation. The adjusted effective tax rate for the first quarter of fiscal 2018 excludes one-time charges associated with the Tax Act of \$33.1 million and a benefit of \$3.6 million for the excess tax deduction for share-based compensation. Reconciliations of adjusted non-GAAP financial measures to the most directly comparable reported GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

**Net Earnings**

Net earnings for the first quarter of fiscal 2019 were \$59.5 million, or \$0.55 per diluted share, compared to \$22.6 million, or \$0.21 per diluted share, for the first quarter of fiscal 2018. The increase in net earnings for the quarter comparison was driven by the significant impact of the Tax Act on net earnings for the first quarter of fiscal 2018. As previously mentioned, the impact from the enactment of the Tax act for the first quarter of fiscal 2018 was driven by the one-time remeasurement of deferred tax assets and liabilities, which resulted in a non-cash discrete tax charge of \$20.5 million, and the one-time calculation of the deemed repatriation tax, which resulted in a discrete tax charge of \$12.6 million, payable over eight years. The unfavorable impact of these one-time charges for the first quarter of fiscal 2018 was partially offset by a benefit of \$4.9 million resulting from the reduction in the federal corporate tax rate.

Adjusted net earnings for the first quarter of fiscal 2019 were \$55.2 million, or \$0.51 per diluted share, compared to \$52.1 million, or \$0.48 per diluted share, for the first quarter of fiscal 2018, an increase of 6.3 percent per diluted share. The primary factors contributing to the adjusted net earnings increase for the first quarter comparison included strong sales growth, leveraging our SG&A expenses over higher sales volumes, and lower direct marketing expense, partially offset by incremental acquisition-related expenses. The first quarter of fiscal 2019 adjusted net earnings excludes a benefit of \$4.4 million, or \$0.04 per diluted share, for the excess tax deduction for share-based compensation. The first quarter of fiscal 2018 adjusted net earnings excludes a benefit of \$3.6 million, or \$0.03 per diluted share, for the excess tax deduction for share-based compensation and one-time charges associated with the Tax Act of \$33.1 million, or \$0.30 per diluted share.

In addition, as a result of reduced shares outstanding from repurchases of our common stock, first quarter fiscal 2019 net earnings per diluted share and adjusted net earnings per diluted share were benefited by approximately \$0.01 per diluted share. Reconciliations of adjusted non-GAAP financial measures to the most directly comparable reported GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.





Table of Contents**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 includes earnings (loss) from our wholly-owned domestic distribution companies, corporate activities, other income, and interest expense. Corporate activities include general corporate expenditures (finance, human resources, legal, information services, public relations, and similar activities) and other unallocated corporate assets and liabilities, such as corporate facilities and deferred tax assets and liabilities.

The following table summarizes net sales for our reportable business segments and Other activities:

(Dollars in thousands)	Three Months Ended			
	February 2019	February 2018	\$ Change	% Change
Professional	\$455,006	\$403,669	\$51,337	12.7 %
Residential	145,158	142,507	2,651	1.9
Other	2,792	2,070	722	34.9
Total net sales*	\$602,956	\$548,246	\$54,710	10.0 %

\*Includes international net sales of: \$141,545 \$146,790 \$(5,245 ) (3.6 )%

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

(Dollars in thousands)	Three Months Ended			
	February 2019	February 2018	\$ Change	% Change
Professional	\$87,978	\$75,912	\$12,066	15.9 %
Residential	13,072	15,713	(2,641 )	(16.8 )
Other	(31,030 )	(25,240 )	(5,790 )	(22.9 )
Total segment earnings	\$70,020	\$66,385	\$3,635	5.5 %

**Professional Segment***Segment Net Sales*

Worldwide net sales for our Professional segment increased 12.7 percent for the first quarter of fiscal 2019. The Professional segment net sales increase for the first quarter comparison was primarily due to strong channel demand for our landscape contractor zero-turn riding mowers and golf and grounds equipment in anticipation of the upcoming spring selling season; meaningful price increases across our product lines; successful new product introductions for our diesel-powered Exmark® Lazer Z™ and Toro® Z Master® zero-turn riding mowers, Outcross® turf tractor, and Dingo® TXL 2000; increased shipments of our BOSS® snow and ice management products, and sales of new products as a result of our acquisition of L.T. Rich. The Professional segment net sales increase was partially offset by reduced shipments of our ag-irrigation and irrigation products.

*Segment Earnings*

Professional segment earnings for the first quarter of fiscal 2019 increased by 15.9 percent compared to the first quarter of fiscal 2018 and increased to 19.3 percent from 18.8 percent when expressed as a percentage of net sales for the quarter comparison. As a percentage of net sales, the Professional segment earnings increase was primarily due to

leveraging SG&A expense over higher sales volume and lower direct marketing expense, as Professional segment gross margin was down due to the unfavorable impact of commodity costs, tariff-related expenses on purchased components and raw materials, and product mix, partially offset by meaningful price increases across our product lines, as well as productivity initiatives.

Table of Contents

**Residential Segment**

*Segment Net Sales*

Worldwide net sales for our Residential segment for the first quarter of fiscal 2019 increased 1.9 percent compared to the first quarter of fiscal 2018. The Residential segment net sales increase for the first quarter comparison was primarily driven by meaningful price increases across our product lines, strong retail demand for our snow products, and increased shipments of walk power mowers driven by strong channel demand ahead of our key selling season. The Residential segment net sales increase was partially offset by reduced shipments of our portable power products and Pope-branded irrigation products primarily due to unfavorable weather conditions in key regions and decreased sales of zero-turn riding mowers primarily due to timing of shipments compared to the prior fiscal year comparative period.

*Segment Earnings*

Residential segment earnings for the first quarter of fiscal 2019 decreased 16.8 percent compared to the first quarter of fiscal 2018, and when expressed as a percentage of net sales, decreased to 9.0 percent from 11.0 percent. As a percentage of net sales, the Residential segment earnings decrease was mainly driven by decreased gross margin due to the unfavorable impact of commodity costs and tariff-related expenses on purchased components and raw materials, partially offset by meaningful price increases across our product lines, productivity initiatives, and lower SG&A expense as a percentage of net sales driven by lower advertising, administrative, and warranty costs.

**Other Activities**

*Other Net Sales*

Net sales for our Other activities include sales from our wholly owned domestic distribution companies less sales from the Professional and Residential segments to the distribution companies. Net sales for our Other activities in the first quarter of fiscal 2019 increased by \$0.7 million, mainly due to increased sales of our golf and grounds equipment through our wholly owned domestic distribution companies.

*Other Operating Loss*

The operating loss for our Other activities increased \$5.8 million for the first quarter of fiscal 2019, primarily due to the unfavorable accounting impact associated with our acquisition of a Northeastern U.S. distribution company, higher corporate expense, incremental acquisition-related costs, and lower gains realized on foreign currency exchange rate fluctuations, partially offset by higher interest income on marketable securities, and higher earnings for our equity investment in Red Iron.

**FINANCIAL POSITION**

**Working Capital**

Our strategy continues to place emphasis on improving asset utilization with a focus on reducing the amount of working capital in the supply chain, adjusting production plans, and maintaining or improving order replenishment and service levels to end-users. We calculate our average net working capital as average net accounts receivable plus average net inventory, less average accounts payable as percentage of net sales for a rolling twelve month period. Our average net working capital as a percentage of net sales was 13.5 percent and 13.8 percent for the twelve months ended February 1, 2019 and February 2, 2018, respectively.

Inventory levels were down \$22.7 million, or 5.2 percent, as of the end of the first quarter of fiscal 2019 compared to the end of the first quarter of fiscal 2018, primarily due to lower finished goods inventory driven by higher sales across the Professional and Residential segments, the benefit of inventory management initiatives, and the impact of foreign currency exchange rates, partially offset by higher work in process inventory mainly due to inclement weather resulting in production downtime and incremental inventory for our acquisition of L.T. Rich. Accounts receivable as of the end of the first quarter of fiscal 2019 increased \$26.8 million, or 13.5 percent, compared to the end of the first quarter of fiscal 2018, primarily due to timing of sales across the Professional and Residential segments near quarter end, partially offset by the impact of foreign currency exchange rates. Our average days sales outstanding for receivables improved to 29.8 days, based on sales for the last twelve months ended February 1, 2019, compared to 30.1 days for the twelve months ended February 2, 2018. In addition, accounts payable increased \$14.9 million, or 5.6 percent, as of the end of our first quarter of fiscal 2019 compared to the end of the first quarter of fiscal 2018, mainly due to negotiating more favorable payment terms with suppliers as a component of our working capital initiatives.

## Table of Contents

### **Cash Flow**

Cash provided by operating activities for the first three months of fiscal 2019 increased \$17.9 million compared to the first three months of fiscal 2018, primarily due to higher net earnings and benefits of inventory management initiatives, partially offset by a lower year-over-year benefit of extending accounts payable terms with suppliers as a component of our working capital initiatives. Cash used in investing activities increased \$16.0 million during the first three months of fiscal 2019 compared to the first three months of fiscal 2018, primarily due to cash utilized for the acquisition of a Northeastern U.S. distribution company and increased capital spending driven by the expansion and renovation of our Tomah, Wisconsin manufacturing facility. Cash used in financing activities for the first three months of fiscal 2019 decreased \$49.9 million compared to the first three months of fiscal 2018, mainly due to less cash utilized for common stock repurchases and long-term debt repayments, partially offset by increased common stock dividends paid.

### **Liquidity and Capital Resources**

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, payroll and other administrative costs, capital expenditures, establishment of new facilities, expansion and renovation of existing facilities, as well as for financing receivables from customers that are not financed with Red Iron. Our accounts receivable balances historically increase between January and April as a result of typically higher sales volumes and extended payment terms made available to our customers, and typically decrease between May and December when payments are received. We believe that the funds available through existing, and potential future, financing arrangements and forecasted cash flows will be sufficient to provide the necessary capital resources for our anticipated working capital needs, capital expenditures, investments, debt repayments, quarterly cash dividend payments, common stock repurchases, and our pending acquisition of CMW for at least the next twelve months. We plan to fund the merger consideration and transaction expenses related to our pending acquisition of CMW with cash on hand and debt, including borrowings from our unsecured senior revolving credit facility and/or other potential additional financing arrangements that we may pursue. As of February 1, 2019, cash and short-term investments held by our foreign subsidiaries were approximately \$107.5 million.

Seasonal cash requirements are financed from operations, cash on hand, and with borrowings under our \$600.0 million unsecured senior five-year revolving credit facility that expires in June 2023, as applicable. Included in our \$600.0 million revolving credit facility is a \$10.0 million sublimit for standby letters of credit and a \$30.0 million sublimit for swingline loans. At our election, and with the approval of the named borrowers on the revolving credit facility and the election of the lenders to fund such increase, the aggregate maximum principal amount available under the facility may be increased by an amount up to \$300.0 million. Funds are available under the revolving credit facility for working capital, capital expenditures, and other lawful corporate purposes, including, but not limited to, acquisitions and common stock repurchases, subject in each case to compliance with certain financial covenants described below.

Loans under the revolving credit facility (other than swingline loans) bear interest at a variable rate generally based on LIBOR or an alternative variable rate based on the highest of the Bank of America prime rate, the federal funds rate or a rate generally based on LIBOR, in each case subject to an additional basis point spread that is calculated based on the better of the leverage ratio (as measured quarterly and defined as the ratio of (a) total indebtedness to (b) consolidated earnings before interest and taxes plus depreciation and amortization expense) and debt rating of Toro. Swingline loans under the revolving credit facility bear interest at a rate determined by the swingline lender or an alternative variable rate based on the highest of the Bank of America prime rate, the federal funds rate or a rate generally based on LIBOR, in each case subject to an additional basis point spread that is calculated based on the better of the leverage ratio and debt rating of Toro. Interest is payable quarterly in arrears. Our debt rating for long-term unsecured senior, non-credit enhanced debt was unchanged during the first quarter of fiscal 2019, and has

remained unchanged subsequent to the announcement of our pending acquisition of CMW, by Standard and Poor's Ratings Group at BBB and by Moody's Investors Service at Baa3. If our debt rating falls below investment grade and/or our leverage ratio rises above 1.50, the basis point spread we currently pay on outstanding debt under the revolving credit facility would increase. However, the credit commitment could not be canceled by the banks based solely on a ratings downgrade.

Our revolving credit facility contains standard covenants, including, without limitation, financial covenants, such as the maintenance of minimum interest coverage and maximum leverage ratios; and negative covenants, which among other things, limit disposition of assets, consolidations and mergers, restricted payments, liens, and other matters customarily restricted in such agreements. Most of these restrictions are subject to certain minimum thresholds and exceptions. Under the revolving credit facility, we are not limited in the amount for payments of cash dividends and common stock repurchases as long as, both before and after giving pro forma effect to such payments, our leverage ratio from the previous quarter compliance certificate is less than or equal to 3.5 (or, at our option (which we may exercise twice during the term of the facility) after certain acquisitions with aggregate consideration in excess of \$75.0 million, for the first four quarters following the exercise of such option, is less than or equal to 4.0), provided that immediately after giving effect of any such proposed action, no default or event of default would exist. As of

## Table of Contents

February 1, 2019, we were not limited in the amount for payments of cash dividends and common stock repurchases. We were in compliance with all covenants related to the credit agreement for our revolving credit facility as of February 1, 2019, and we expect to be in compliance with all covenants during the remainder of fiscal 2019. If we were out of compliance with any covenant required by this credit agreement following the applicable cure period, the banks could terminate their commitments unless we could negotiate a covenant waiver from the banks. In addition, our long-term senior notes, debentures, and any amounts outstanding under the revolving credit facility could become due and payable if we were unable to obtain a covenant waiver or refinance our borrowings under our credit agreement.

As of February 1, 2019, we had \$312.6 million outstanding in long-term debt that includes \$100.0 million of 7.8 percent debentures due June 15, 2027, \$123.9 million of 6.625 percent senior notes due May 1, 2037, and \$91.0 million outstanding under our revolving credit facility. The February 1, 2019 long-term debt amounts were partially offset by debt issuance costs and deferred charges of \$2.3 million related to our outstanding long-term debt. As of February 2, 2018, we had \$315.5 million outstanding in long-term debt that includes \$100.0 million of 7.8 percent debentures due June 15, 2027, \$123.8 million of 6.625 percent senior notes due May 1, 2037, and a \$94.3 million term loan. The February 2, 2018 long-term debt amounts were partially offset by debt issuance costs and deferred charges of \$2.6 million related to our outstanding long-term debt. As of February 2, 2018, we had no outstanding borrowings under our revolving credit facility that was in place at that time. Our revolving credit facility is classified as long-term debt within our Consolidated Balance Sheets as we have the ability to extend the outstanding borrowings under the revolving credit facility for the full-term of the facility and we currently intend to keep the balance outstanding for at least twelve months. However, our current intention to keep the balance of our revolving credit facility outstanding for at least the next twelve months would be changed as a result of the closing of our pending acquisition of CMW, as we would then intend to place a renewed focus on debt repayment, including amounts outstanding under the revolving credit facility. In addition to the \$91.0 million outstanding under our revolving credit facility as of February 1, 2019, we had \$1.5 million outstanding under the sublimit for standby letters of credit and \$507.5 million of unutilized availability under our revolving credit facility as of February 1, 2019. Further, our domestic and non-U.S. operations maintain import letters of credit in the aggregate amount of approximately \$13.7 million. As of February 1, 2019, we had \$3.5 million of outstanding letters of credit.

## **Cash Dividends**

Our Board of Directors approved a cash dividend of \$0.225 per share for the first quarter of fiscal 2019 that was paid on January 9, 2019. This was an increase of 12.5 percent over our cash dividend of \$0.20 per share for the first quarter of fiscal 2018.

## **Share Repurchases**

During the first quarter of fiscal 2019, we continued to repurchase shares of our common stock in the open market, thereby reducing our total shares outstanding. As a result of the pending acquisition of CMW, we expect to curtail repurchasing shares of our common stock throughout the remainder of fiscal 2019.

## **Customer Financing Arrangements and Contractual Obligations**

Our Red Iron joint venture with TCFIF provides inventory financing to certain distributors and dealers of our products in the U.S. that enables them to carry representative inventories of our products. Some independent international dealers continue to finance their products with a third party finance company. This third party financing company purchased \$7.8 million of receivables from us during the first three months of fiscal 2019. As of February 1, 2019, \$11.9 million of receivables financed by a third party financing company, excluding Red Iron, were outstanding. Our customer financing arrangements and contractual obligations are described in further detail within our most recently

filed Annual Report on Form 10-K. There have been no material changes to such arrangements and obligations, other than our merger agreement with CMW and agreements with investment banking partners and other service providers in connection with such transaction.

### **Inflation**

We are subject to the effects of inflation, deflation, and changing prices. In the first three months of fiscal 2019, the average cost of commodities and components purchased were higher compared to the average cost of commodities and components purchased in the first three months of fiscal 2018. We strategically work to mitigate the impact of inflation on the cost of commodities and components that affect our product lines; however, we anticipate that the average cost for some commodities and components will be higher for the remainder of fiscal 2019, as compared to fiscal 2018. Historically, we have mitigated, and we currently expect that we would mitigate, any commodity and component cost increases, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, utilizing Lean methods, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate.



Table of Contents**NON-GAAP FINANCIAL MEASURES**

We have provided non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, as information supplemental and in addition to the most directly comparable financial measures that are calculated and presented in accordance with GAAP. Such 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 GAAP financial measures. The non-GAAP financial measures may differ from similar measures used by other companies.

The following table provides a reconciliation of financial measures calculated and reported in accordance with GAAP, as well as adjusted non-GAAP financial measures, for the three month periods ended February 1, 2019 and February 2, 2018. We believe these measures may be useful in performing meaningful comparisons of past and present operating results, to understand the performance of our ongoing operations, and how management views the business.

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

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

<sup>1</sup> Signed into law on December 22, 2017, the Tax Act, reduced the U.S. federal corporate tax rate from 35.0 percent to 21.0 percent, effective January 1, 2018, resulting in a blended U.S. federal statutory tax rate of 23.3 percent for the fiscal year ended October 31, 2018. This reduction in rate required the re-measurement of the company's net deferred taxes as of the date of enactment, which resulted in a non-cash charge of \$20.5 million during the three month period ended February 2, 2018.

<sup>2</sup> The Tax Act imposed a one-time deemed repatriation tax on the company's historical undistributed earnings and profits of foreign affiliates, which resulted in a charge of \$12.6 million during the three month period ended February 2, 2018, payable over eight years.

<sup>3</sup> In the first quarter of fiscal 2017, we adopted Accounting Standards Update No. 2016-09, Stock-based Compensation: Improvements to Employee Share-based Payment Accounting, which requires that any excess tax deduction for share-based compensation be immediately recorded within income tax expense. We recorded discrete tax benefits of \$4.4 million and \$3.6 million as excess tax deductions for share-based compensation during the three month periods ended February 1, 2019 and February 2, 2018, respectively.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no material changes to our critical accounting policies and estimates since our most recent Annual Report on Form 10-K for the fiscal year ended October 31, 2018. 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, 2018 for a discussion of our critical accounting policies and estimates.

**New Accounting Pronouncements to be Adopted**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which, among other things, requires lessees to recognize most leases on-balance sheet. The standard requires the recognition of right-of-use assets ("ROU assets")

and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The standard also requires a greater level of quantitative and qualitative disclosures regarding the nature of the entity's leasing activities than were previously required under U.S. GAAP. In January 2018, the FASB issued ASU No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, which provides an optional transition practical expedient to not evaluate existing or expired land easements under the amended lease guidance. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 (Leases)*, which provides narrow amendments to clarify how to apply certain aspects of the new lease standard. Additionally, in July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an alternative transition method that

## Table of Contents

permits an entity to use the effective date of ASU No. 2016-02 as the date of initial application through the recognition of a cumulative effect adjustment to the opening balance of retained earnings upon adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease standard will continue to be in accordance with current GAAP under ASC Topic 840, Leases. ASU No. 2016-02, as augmented by ASU No. 2018-01, ASU No. 2018-10, and ASU No. 2018-11 (the "amended guidance"), will become effective for the company commencing in the first quarter of fiscal 2020.

In order to identify and evaluate the impact of the amended guidance on the company's Consolidated Financial Statements, Notes to Consolidated Financial Statements, business processes, internal controls, and information systems, the company has established a cross-functional project management team. This cross-functional project management team is tasked with evaluating the potential implications of the amended guidance, including compiling and analyzing existing explicit lease agreements, reviewing contractual agreements for embedded leases, determining the discount rate to be used in valuing ROU assets and lease liabilities under new and existing leases, and assessing the changes to the company's accounting policies, business processes, internal controls, and information systems that may be necessary to comply with the provisions and all applicable financial statement disclosures required by the amended guidance. At this point in the company's evaluation process, the company has compiled and analyzed existing explicit lease agreements, completed its initial assessment of its business and system requirements, and has selected its third-party lease accounting software solution. The company is in the process of implementing its third-party lease accounting software solution, assessing the impact to its internal control environment; evaluating the impact of the amended guidance on its accounting policies, business processes and procedures, and information systems; and, where applicable, reviewing contractual agreements for embedded leases.

The company will adopt the amended guidance on November 1, 2019, the first quarter of fiscal 2020, under the alternative cumulative effect transition method. Upon adoption, the company will recognize ROU assets and corresponding lease liabilities for its operating lease agreements within its Consolidated Balance Sheets. While the company's evaluation of the amended guidance and related implementation activities are ongoing and incomplete, based on the results of the company's evaluation process to date, the company believes the adoption of the amended guidance may have a material impact on the company's Consolidated Balance Sheets, Notes to Consolidated Financial Statements, business processes, internal controls, and information systems. However, the company does not believe the adoption of the amended guidance will have a material impact on the company's Consolidated Statements of Earnings and Consolidated Statements of Cash Flows.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which expands the scope of ASC Topic 718 to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in an entity's own operations and supersedes the guidance in ASC Topic 505-50. The amended guidance will become effective for us commencing in the first quarter of fiscal 2020. Early adoption is permitted but not prior to adopting ASC Topic 606, *Revenue from Contracts with Customers*. We are currently evaluating the impact of this new standard on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The amended guidance will become effective in the first quarter of fiscal 2021. Early adoption is permitted for any removed or modified disclosures. The company is currently evaluating the impact of this new standard on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans (Topic 715)*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. The amended guidance will become effective in the first quarter of fiscal 2021. Early adoption is permitted. The

company is currently evaluating the impact of this new standard on its Consolidated Financial Statements.

We believe that all other recently issued accounting pronouncements from the FASB that we have not noted above, will not have a material impact on our Consolidated Financial Statements or do not apply to our operations.

Table of Contents**FORWARD-LOOKING INFORMATION**

*This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and that are subject to the safe harbor created by those sections. 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. 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," "looking ahead," "outlook," "guidance," "forecast," "goal," "optimistic," "anticipate," "continue," "plan," "estimate," "project," "believe," "should," "could," "will," "would," "possible," "may," "likely," "intend," "can," "seek," "potential," "pro forma," 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; our business strategies and goals; the pending acquisition of CMW; 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 involve risks and uncertainties that could cause actual results to differ materially from those projected or implied. 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 could adversely affect our net sales and earnings, which include but are not limited to recessionary conditions; slow or negative economic growth rates; the impact of U.S. federal debt, state debt and sovereign debt defaults and austerity measures by certain European countries; slow down or reductions in levels of golf course development, renovation, and improvement; golf course closures; reduced levels of home ownership, construction, and sales; home foreclosures; negative consumer confidence; reduced consumer spending levels; increased unemployment rates; prolonged high unemployment rates; higher commodity and component costs and fuel prices; inflationary or deflationary pressures; reduced credit availability or unfavorable credit terms for our distributors, dealers, and end-user customers; higher short-term, mortgage, and other interest rates; and general economic and political conditions and expectations.

Weather conditions, including unfavorable weather conditions exacerbated by global climate changes or otherwise, may reduce demand for some of our products and adversely affect our net sales and operating results, or may affect the timing of demand for some of our products and may adversely affect net sales and operating results in subsequent periods.

Fluctuations in foreign currency exchange rates have in the past affected our operating results and could continue to result in declines in our net sales and net earnings.

Increases in the cost, or disruption in the availability, of raw materials, components, parts and accessories containing various commodities that we purchase, such as steel, aluminum, petroleum and natural gas-based resins, linerboard, copper, lead, rubber, engines, transmissions, transaxles, hydraulics, electric motors, and other commodities and components, and increases in our other costs of doing business, such as transportation costs or increased tariffs, duties or other charges as a result of changes to U.S. or international trade policies or agreements have in the past affected our profit margins and businesses and could continue to result in declines in our profit margins and businesses.

Our Professional segment net sales are dependent upon certain factors, including golf course revenues and the amount of investment in golf course renovations and improvements; the level of new golf course development and golf course closures; the extent to which property owners outsource their lawn care and snow and ice removal activities; residential and commercial construction activity; continued acceptance of, and demand for, ag-irrigation solutions; the timing and occurrence of winter weather conditions; demand for our products in the rental and specialty construction markets; availability of cash or credit to Professional segment customers on acceptable terms to finance new product

purchases; and the amount of government revenues, budget, and spending levels for grounds maintenance equipment.

Our Residential segment net sales are dependent upon consumers buying our products at dealers, mass retailers, and home centers, such as The Home Depot, Inc.; the amount of product placement at mass retailers and home centers; consumer confidence and spending levels; changing buying patterns of customers; and the impact of significant sales or promotional events.

Our financial performance, including our profit margins and net earnings, can be impacted depending on the mix of products we sell during a given period, as our Professional segment products generally have higher profit margins than our Residential segment products. Similarly, within each segment, if we experience lower sales of products that generally carry higher profit margins, our financial performance, including profit margins and net earnings, could be negatively impacted.

We intend to grow our business in part through acquisitions, including our pending acquisition of CMW, and alliances, strong customer relations, and new joint ventures and partnerships, which could be risky and harm our business, reputation, financial condition, and operating results, particularly if we are not able to successfully integrate such acquisitions and

Table of Contents

alliances, joint ventures, and partnerships. If previous or future acquisitions do not produce the expected results or integration into our operations takes more time than expected, our business could be harmed. We cannot guarantee previous or future acquisitions, alliances, joint ventures or partnerships will in fact produce any benefits.

Our ability to manage our inventory levels to meet our customers' demand for our products is important for our business. If we underestimate or overestimate demand for our products and do not maintain appropriate inventory levels, our net sales and/or working capital could be negatively impacted.

Our business and operating results are subject to the inventory management decisions of our distribution channel customers. Any adjustments in the carrying amount of inventories by our distribution channel customers may impact our inventory management and working capital goals as well as operating results.

Changes in the composition of, financial viability of, and/or the relationships with, our distribution channel customers could negatively impact our business and operating results.

We face intense competition in all of our product lines with numerous manufacturers, including from some competitors that have larger operations and financial resources than us. We may not be able to compete effectively against competitors' actions, which could harm our business and operating results.

A significant percentage of our consolidated net sales is generated outside of the United States, and we intend to continue to expand our international operations. Our international operations also require significant management attention and financial resources; expose us to difficulties presented by international economic, political, legal, regulatory, accounting, and business factors, including implications of withdrawal by the U.S. from, or revision to, international trade agreements, foreign trade or other policy changes between the U.S. and other countries, weakened international economic conditions, or the United Kingdom's process for exiting the European Union; and may not be successful or produce desired levels of net sales. In addition, a portion of our international net sales are financed by third parties. The termination of our agreements with these third parties, any material change to the terms of our agreements with these third parties or in the availability or terms of credit offered to our international customers by these third parties, or any delay in securing replacement credit sources, could adversely affect our sales and operating results.

If we are unable to continue to enhance existing products, as well as develop and market new products, that respond to customer needs and preferences and achieve market acceptance, including by incorporating new or emerging technologies that may become preferred by our customers, we may experience a decrease in demand for our products, and our net sales could be adversely affected.

Any disruption, including as a result of natural or man-made disasters, climate change-related events, work slowdowns, strikes, or other events, at any of our facilities or in our manufacturing or other operations, or those of our distribution channel customers or suppliers, or our inability to cost-effectively expand existing facilities, open and manage new facilities, and/or move production between manufacturing facilities could adversely affect our business and operating results.

Our production labor needs fluctuate throughout the year and any failure by us to hire and/or retain a production labor force to adequately staff our manufacturing operations, or by our production labor force to adequately and safely perform their jobs could adversely affect our business, operating results, and reputation.

Management information systems are critical to our business. If our information systems or information security practices, or those of our business partners or third party service providers, fail to adequately perform and/or protect sensitive or confidential information, or if we, our business partners, or third party service providers experience an interruption in, or breach of, the operation of such systems or practices, including by theft, loss or damage from unauthorized access, security breaches, natural or man-made disasters, cyber attacks, computer viruses, malware, phishing, denial of service attacks, power loss or other disruptive events, our business, reputation, financial condition, and operating results could be adversely affected.

Our reliance upon patents, trademark laws, and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products. Our products may infringe the proprietary rights of others.

Our business, properties, and products are subject to governmental policies and regulations with which compliance may require us to incur expenses or modify our products or operations and non-compliance may result in harm to our

reputation and/or expose us to penalties. Governmental policies and regulations may also adversely affect the demand for some of our products and our operating results. In addition, changes in laws, policies, and regulations in the U.S. or other countries in which we conduct business also may adversely affect our financial results, including as a result of, (i) taxation and tax policy changes, tax rate changes, new tax laws, new or revised tax law interpretations or guidance, including as a result of the Tax Act, (ii) changes to, or adoption of new, healthcare laws or regulations, or (iii) changes to U.S. or international policies or trade agreements that could result in additional duties or other charges on raw materials, components, parts or accessories we import.

• Changes in accounting standards or assumptions in applying accounting policies could adversely affect our financial statements, including our financial results and financial condition.

• Climate change legislation, regulations, or accords may adversely impact our operations.



Table of Contents

Costs of complying with the various environmental laws related to our ownership and/or lease of real property, such as clean-up costs and liabilities that may be associated with certain hazardous waste disposal activities, could adversely affect our financial condition and operating results.

Legislative enactments could impact the competitive landscape within our markets and affect demand for our products.

We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws. The continued expansion of our international operations could increase the risk of violations of these laws in the future.

We are subject to product quality issues, product liability claims, and other litigation from time to time that could adversely affect our business, reputation, operating results, or financial condition.

If we are unable to retain our executive officers or other key employees, attract and retain other qualified personnel, or successfully implement executive officer, key employee or other qualified personnel transitions, we may not be able to meet strategic objectives and our business could suffer.

As a result of our Red Iron joint venture, we are dependent upon the joint venture to provide competitive inventory financing programs to certain distributors and dealers of our products. Any material change in the availability or terms of credit offered to our customers by the joint venture, challenges or delays in transferring new distributors and dealers from any business we might acquire to this financing platform, any termination or disruption of our joint venture relationship or any delay in securing replacement credit sources could adversely affect our net sales and operating results.

The terms of our credit arrangements and the indentures governing our senior notes and debentures could limit our ability to conduct our business, take advantage of business opportunities, and respond to changing business, market, and economic conditions. Additionally, we are subject to counterparty risk in our credit arrangements. If we are unable to comply with the terms of our credit arrangements and indentures, especially the financial covenants, our credit arrangements could be terminated and our senior notes, debentures, and any amounts outstanding under our revolving credit facility could become due and payable.

We are expanding and renovating our corporate and other facilities and could experience disruptions to our operations in connection with such efforts.

We may not achieve our projected financial information or other business initiatives, such as the goals of our "Vision 2020" initiative, in the time periods that we anticipate, or at all, which could have an adverse effect on our business, operating results and financial condition.

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" and Part II, Item 1A, "Risk Factors" of this report.

*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, as well as others that we may consider immaterial or do not anticipate at this time. The foregoing 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 Securities and Exchange Commission.*

Table of Contents

## 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 interest rate risk and equity market risk included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2018. 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, 2018 for a complete discussion of our market risk. Refer below for further discussion on foreign currency exchange 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, 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, the Romanian New Leu against the U.S. dollar, and the Romanian New Leu against the Euro. We may also experience foreign currency exchange rate exposure as a result of the volatility and uncertainty that may arise as a result of the United Kingdom's process for exiting the European Union. Because our products are manufactured or sourced primarily from the United States 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 actively manage the exposure of our foreign currency exchange rate risk by entering into various derivative instruments to hedge against such risk, authorized under company policies that place controls on these hedging activities, with counterparties that are highly rated financial institutions. Our policy does not allow the use of derivative instruments for trading or speculative purposes. 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 changes in values of the related 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.

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 accumulated other comprehensive loss ("AOCL") on the Condensed Consolidated Balance Sheets and are subsequently reclassified to net earnings within the Condensed Consolidated Statements of Earnings during the same period in which the cash flows of the underlying hedged transaction affect net earnings. Certain derivative instruments we hold do not meet the cash flow hedge accounting criteria or have components that are excluded from cash flow hedge accounting; therefore, changes in their fair value are recorded in the Condensed Consolidated Statements of Earnings within the same line item as that of the underlying exposure. For additional information regarding our derivative instruments, see Note 12 in our Notes to Condensed Consolidated Financial Statements under the heading "Derivative Instruments and Hedging Activities" included in Item 1 of this Quarterly Report on Form 10-Q.

The foreign currency exchange contracts in the table below have maturity dates in fiscal 2019 through fiscal 2021. All items are non-trading and stated in U.S. dollars. As of February 1, 2019, the average contracted rate, notional amount, and the gain at fair value of outstanding derivative instruments were as follows:

**(Dollars in thousands, except average contracted rate)**

	<b>Average Contracted Rate</b>	<b>Notional Amount</b>	<b>Gain at Fair Value</b>
Buy U.S. dollar/Sell Australian dollar	0.7408	\$101,633.5	\$1,658.6
Buy U.S. dollar/Sell Canadian dollar	1.3035	30,809.7	78.6
Buy U.S. dollar/Sell Euro	1.2095	145,130.1	3,340.1
Buy U.S. dollar/Sell British pound	1.3475	57,913.8	661.3
Buy Mexican peso/Sell U.S. dollar	20.4994	\$1,883.0	\$64.4

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 AOCL in stockholders' equity on the Consolidated Balance Sheets, and would not impact net earnings.

Table of Contents

***Commodity Cost Risk***

Most of the raw materials used in our products are exposed to commodity cost changes. Our primary commodity cost exposures are with steel, aluminum, petroleum and natural gas-based resins, and linerboard. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. We generally purchase commodities and components based upon market prices that are established with vendors as part of the purchase process and generally attempt to obtain firm pricing from most of our suppliers for volumes consistent with planned production. To the extent that commodity costs increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, we may experience a decline in our gross margins to the extent we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset increases in commodity costs. Additionally, we enter into fixed-price contracts for future purchases of natural gas in the normal course of operations as a means to manage natural gas price risks. Further information regarding changing costs of commodities is presented in Item 2 of this Quarterly Report on Form 10-Q, in the section titled "Inflation."

**ITEM 4. 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 Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and 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 our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. There was no change in our internal control over financial reporting that occurred during our first quarter ended February 1, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are a party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive, as well as compensatory, damages arising out of the use of our products. Although we are self-insured to some extent, we maintain insurance against certain product liability losses. We are 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. We are also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business. To prevent possible infringement of our patents by others, we periodically review competitors' products. To avoid potential liability with respect to others' patents, we regularly review certain patents issued by the United States Patent and Trademark Office and foreign patent offices. We believe these activities help us minimize our risk of being a defendant in patent infringement litigation. We are currently involved in patent litigation cases, including cases by or against competitors, where we are asserting and defending against claims of patent infringement. Such cases are at varying stages in the litigation process.

For a description of our material legal proceedings, see Note 10 in our Notes to Condensed Consolidated Financial Statements under the heading "Contingencies - Litigation" included in 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 significant factors known to us that could materially adversely affect our business, financial condition, or operating results 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 (Item 1A. Risk Factors). There has been no material change in those risk factors, with the exception of the addition of the following risk factor:

***Our pending acquisition of The Charles Machine Works, Inc. involves a number of risks, the occurrence of which could adversely affect our business, financial condition, and operating results.***

On February 14, 2019, we entered into a definitive merger agreement to acquire The Charles Machine Works, Inc. ("CMW"). The acquisition involves certain risks, the occurrence of which could adversely affect our business, financial condition, and operating results, including:

- delays in completing the acquisition within the expected time period and the risk that the merger may not be completed at all;
- diversion of management's attention to complete the acquisition and integrate CMW's operations thereafter;
- disruption to our existing operations and plans or inability to effectively manage our expanded operations after the closing of the acquisition;
- failure, difficulties or delays in securing, integrating and assimilating information, financial systems, internal controls, operations, manufacturing processes and products, or the distribution channel for CMW's businesses and product lines;
- potential loss of key CMW employees, suppliers, customers, distributors, or dealers or other adverse effects on existing business relationships with suppliers, customers, distributors, and dealers;
- adverse impact on overall profitability if our expanded operations do not achieve the growth prospects, net sales, earnings, cost or revenue synergies, or other financial results projected in our valuation models, or delays in the realization thereof;
- reallocation of amounts of capital from our other strategic initiatives;

as we intend to finance the acquisition and related transaction expenses with new debt, the expected increase in our leverage and debt service requirements could restrict our ability to access additional capital when needed or to pursue other important elements of our business strategy;

- inaccurate assessment of undisclosed, contingent or other liabilities, unanticipated costs associated with the acquisition, and despite the existence of representations, warranties and indemnities in the merger agreement and a representation and warranty insurance policy, an inability to recover or manage such liabilities and costs;

incorrect estimates made in the accounting for the acquisition or the potential future write-off of significant amounts of goodwill, intangible assets and/or other tangible assets if the CMW business does not perform in the future as expected; and

- other factors mentioned in our recently filed Annual Report on Form 10-K, Part I, Item 1A, “Risk Factors”.

Table of Contents

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

The following table sets forth information with respect to shares of our common stock purchased by the company during each of the three fiscal months in our first quarter ended February 1, 2019:

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased<sup>1,2,3</sup></b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs<sup>1,2</sup></b>	<b>Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs<sup>1,2</sup></b>
November 1, 2018 through November 30, 2018	—	\$ —	—	2,402,014
December 1, 2018 through December 28, 2018	269,386	55.68	269,386	7,132,628
December 29, 2018 through February 1, 2019	92,361	55.81	90,372	7,042,256
<b>Total</b>	<b>361,747</b>	<b>\$ 55.71</b>	<b>359,758</b>	

<sup>1</sup> On December 3, 2015, the company's Board of Directors authorized the repurchase of 8,000,000 shares of the company's common stock in open-market or privately negotiated transactions. This program has no expiration date but may be terminated by the company's Board of Directors at any time. The company repurchased 359,758 shares during the period indicated above under this program and 2,042,256 shares remained available to repurchase under this program as of February 1, 2019.

<sup>2</sup> On December 4, 2018, the company's Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of the company's common stock in open-market or privately negotiated transactions. This 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.

<sup>3</sup> Includes 1,989 units (shares) of the company's common stock purchased in open-market transactions at an average price of \$58.13 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in deferred compensation plans. These 1,989 shares were not repurchased under the company's repurchase programs described in footnotes 1 and 2 above.

## ITEM 5. OTHER INFORMATION

As previously announced on February 15, 2019, the company entered into a definitive merger agreement ("merger agreement") with The Charles Machine Works, Inc., a privately held Oklahoma corporation, on February 14, 2019. On March 1, 2019, the U.S. Federal Trade Commission granted early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), with respect to the transactions contemplated by the merger agreement. The early termination of the waiting period under the HSR Act satisfies one of the conditions to the closing of the merger. The closing of the merger remains subject to the satisfaction or waiver of the remaining closing conditions set forth in the merger agreement, including regulatory approval by the German Federal Cartel Office.



Table of Contents

ITEM 6. EXHIBITS

(a) Exhibit No. Description

- 2.1 Agreement and Plan of Merger dated as of February 14, 2019, by and among The Toro Company, The Charles Machine Works, Inc., Helix Company, Inc., and Agent 186 LLC as Shareholders' Agent (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated February 15, 2019, Commission File No. 1-8649).
- 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 dated June 17, 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 dated March 12, 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 dated July 19, 2016, Commission File No. 1-8649).
- 4.4 Indenture dated as of January 31, 1997, between Registrant 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 dated June 24, 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 Registrant 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 Registrant 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 dated April 23, 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 dated April 23, 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 February 1, 2019, filed with the SEC on March 6, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Earnings for the

three-month periods ended February 1, 2019 and February 2, 2018, (ii) Condensed Consolidated Statements of Comprehensive Income for the three-month periods ended February 1, 2019 and February 2, 2018, (iii) Condensed Consolidated Balance Sheets as of February 1, 2019, February 2, 2018, and October 31, 2018, (iv) Condensed Consolidated Statement of Cash Flows for the three-month periods ended February 1, 2019 and February 2, 2018, (v) Condensed Consolidated Statements of Stockholders' Equity for the three-month periods ended February 1, 2019 and February 2, 2018, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith).

Table of Contents

**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: March 6, 2019 By: /s/ Renee J.  
Peterson  
Renee J.  
Peterson  
Vice  
President,  
Treasurer  
and Chief  
Financial  
Officer  
(duly  
authorized  
officer,  
principal  
financial  
officer, and  
principal  
accounting  
officer)