



# The Toro Company (TTC)

Updated March 21<sup>st</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$89	<b>5 Year CAGR Estimate:</b>	7.4%	<b>Market Cap:</b>	\$9.4 B
<b>Fair Value Price:</b>	\$95	<b>5 Year Growth Estimate:</b>	4.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/28/2024
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.2%	<b>Dividend Payment Date<sup>1</sup>:</b>	04/12/2024
<b>Dividend Yield:</b>	1.6%	<b>5 Year Price Target</b>	\$118	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

The Toro Company was founded in 1914 as an engine manufacturer, providing power to early tractors. The company quickly shifted focus to mowers and in the century since, it has grown to a market capitalization of \$9.4 billion and generates \$4.6 billion in annual revenue. Toro operates in North America as well as internationally, with three quarters of total revenue coming from the U.S.

In January 2022, Toro acquired the Intimidator Group. The acquisitions added the complementary Spartan line of professional zero-turn mowers to Toro's roster. The addition of the Intimidator Group to Toro's business positions them well to gain customers and geographic exposure. The purchase was completed with cash on hand and existing credit facilities.

On December 12<sup>th</sup>, 2023, Toro increased its dividend for the 15<sup>th</sup> consecutive year, by 6% to \$0.36 per share quarterly. Toro reported first quarter 2024 results on March 7<sup>th</sup>, 2024. Q1 net sales declined 13% year-over-year to \$1.0 billion. Adjusted earnings per diluted share decreased 35% to \$0.64 in Q1 2024 and adjusted operating margin for the quarter was 9.2% compared to 11.9% in the same prior-year period.

Leadership reaffirmed its fiscal 2024 outlook, guiding for low-single-digit total net sales growth, and adjusted EPS in the range of \$4.25 to \$4.35.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.51	\$1.78	\$2.06	\$2.41	\$2.67	\$3.00	\$3.02	\$3.62	\$4.20	\$4.21	<b>\$4.30</b>	<b>\$5.36</b>
<b>DPS</b>	\$0.40	\$0.50	\$0.60	\$0.70	\$0.80	\$0.90	\$1.00	\$1.05	\$1.20	\$1.36	<b>\$1.44</b>	<b>\$2.12</b>
<b>Shares<sup>2</sup></b>	114	112	109	108	107	108	108	108	105	105	<b>104</b>	<b>100</b>

Toro's earnings-per-share has moved higher every year since 2009, an impressive feat that not many companies can claim. Indeed, it has managed to grow earnings at an average rate of 12.1% annually since 2014, although the past five years have seen 9.5% annual growth. Toro has managed to grow both organically and through acquisitions over the years, and we see that continuing with average annual earnings-per-share growth of 4.5% moving forward.

Toro will achieve this robust result with new acquisitions, like its recent purchase of Intimidator Group and Left Hand Robotics, and previously Charles Machine Works, as well as organic sales increases. We see single digit sales increases as reasonable in a normalized environment along with a small tailwind from buybacks. Additionally, higher volume and acquisition synergies should produce further downward pressure on SG&A costs as a percentage of revenue. Toro announced Amplifying Maximum Productivity (AMP), its multi-year initiative, which would result in over \$100 million of annualized cost savings expected by fiscal 2027.

<sup>1</sup> Estimate

<sup>2</sup> In millions

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The company is prioritizing investments in technology areas such as alternative power, smart connected and autonomous to ensure it can achieve future growth. Toro's historical levels of growth as well as its recent performance are both strong indicators of more earnings upside in the coming years.

We see the dividend growing at an 8% rate as well, moving up towards \$2.12 annually from the current \$1.44. Toro may be an income stock one day but will not likely be anytime soon; growth is the priority, and it is working.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.6	19.0	20.6	25.9	22.3	23.8	28.4	29.0	25.0	24.1	<b>20.7</b>	<b>22.0</b>
Avg. Yld.	1.3%	1.5%	1.4%	1.1%	1.3%	1.3%	1.3%	1.0%	1.0%	1.3%	<b>1.6%</b>	<b>1.8%</b>

Toro's price-to-earnings multiple is below our estimate of fair value today at 20.7 times earnings based on our 2024 forecast. We therefore see a tailwind of 1.2% to total annual returns from an expanding valuation over time. We see the yield as remaining roughly where it is today as the dividend keeps pace with stock price appreciation.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	26%	28%	29%	29%	30%	30%	33%	29%	29%	32%	<b>33%</b>	<b>39%</b>

The payout ratio remains about a third of earnings, so the dividend is safe and should continue to grow in the years to come. However, Toro is much more interested in investing for growth than it is in becoming an income stock, so we see the yield as remaining around 1.0% to 2.0% for the foreseeable future.

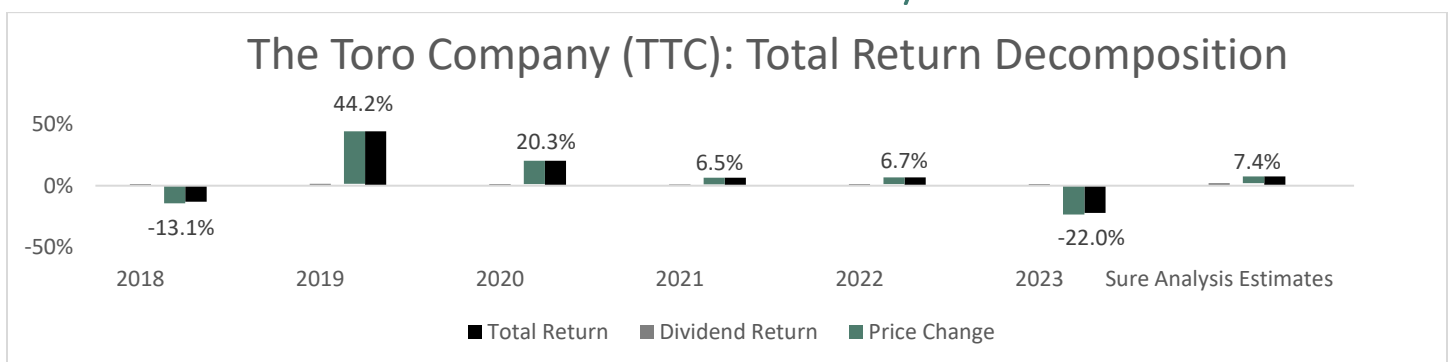
Toro's competitive advantage is its 100-year history in the mowing business. Its reputation and brand are respected and valued in the marketplace, and it remains a powerful player in its niche. That will not save it from economic downturns as the Great Recession certainly took its toll on earnings, but the recovery was swift and strong. While sales did drop a bit during the second quarter of 2020, third and fourth quarter TTC revenue increased, and we saw only a small COVID-19 impact on the business.

## Final Thoughts & Recommendation

Toro has underperformed the S&P 500 Index year-to-date, with its share price declining -7% compared to a 10% gain.

We are now forecasting total annual returns of 7.4% for the next five years, stemming from the current 1.6% dividend yield, 4.5% EPS growth, and 1.2% P/E multiple expansion. Toro would not be appropriate for those investors seeking a strong current yield or deep value, but the stock has an impressive earnings growth history. Toro maintains its hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	2,173	2,391	2,392	2,505	2,619	3,138	3,379	3,960	4,515	4,553
<b>Gross Profit</b>	773	836	875	921	941	1,048	1,190	1,338	1,505	1,578
<b>Gross Margin</b>	35.6%	35.0%	36.6%	36.8%	35.9%	33.4%	35.2%	33.8%	33.3%	34.7%
<b>SG&amp;A Exp.</b>	510	537	540	566	568	723	763	820	929	996
<b>D&amp;A Exp.</b>	53	63	64	65	61	88	96	99	109	119
<b>Operating Profit</b>	263	299	334	355	373	325	426	518	576	582
<b>Operating Margin</b>	12.1%	12.5%	14.0%	14.2%	14.2%	10.4%	12.6%	13.1%	12.8%	12.8%
<b>Net Profit</b>	174	202	231	268	272	274	330	410	443	330
<b>Net Margin</b>	8.0%	8.4%	9.7%	10.7%	10.4%	8.7%	9.8%	10.4%	9.8%	7.2%
<b>Free Cash Flow</b>	111	193	334	302	275	244	461	451	154	157
<b>Income Tax</b>	83	89	99	85	100	48	77	90	109	71

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	1,192	1,304	1,385	1,494	1,571	2,331	2,853	2,936	3,556	3,644
<b>Cash &amp; Equivalents</b>	315	126	274	310	289	152	480	406	188	193
<b>Accounts Receivable</b>	151	171	158	176	185	221	223	253	333	350
<b>Inventories</b>	275	335	307	329	358	652	652	738	1,051	1,088
<b>Goodwill &amp; Int. Ass.</b>	116	315	303	309	331	715	832	842	1,169	991
<b>Total Liabilities</b>	784	841	835	877	902	1,471	1,738	1,785	2,204	2,133
<b>Accounts Payable</b>	124	152	175	212	257	319	364	503	579	430
<b>Long-Term Debt</b>	375	378	351	332	313	701	791	691	991	1,032
<b>Shareholder's Equity</b>	409	462	550	617	669	860	1,115	1,151	1,352	1,511
<b>LTD/E Ratio</b>	0.92	0.82	0.64	0.54	0.47	0.82	0.71	0.60	0.73	0.68

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	15.8%	16.2%	17.2%	18.6%	17.7%	14.0%	12.7%	14.2%	13.7%	9.2%
<b>Return on Equity</b>	45.3%	46.3%	45.6%	45.9%	42.3%	35.9%	33.4%	36.2%	35.4%	23.0%
<b>ROIC</b>	25.5%	24.8%	26.5%	28.9%	28.2%	21.6%	19.0%	21.9%	21.2%	13.5%
<b>Shares Out.</b>	114	112	109	108	107	108	108	107.5	105.6	105.3
<b>Revenue/Share</b>	18.85	21.06	21.36	22.52	24.10	29.03	31.09	36.50	42.73	43.24
<b>FCF/Share</b>	0.97	1.70	2.98	2.72	2.53	2.26	4.25	4.16	1.45	1.49

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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