Snow Gets Toro Off to Strong Start for 2014

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BLOOMINGTON, Minn.- The Toro Company (NYSE: TTC) today reported net earnings of $25.9 million, or $0.44 per share, on net sales of $446 million for its fiscal 2014 first quarter ended January 31, 2014. In the comparable fiscal 2013 period, the company delivered net earnings of $31.4 million, or $0.53 per share, on net sales of $444.7 million.

"Significant snowfall across key North American markets this winter season spurred retail demand for our snow products-helping to drive sales for the quarter and providing a solid start to our 2014 fiscal year," said Michael J. Hoffman, Toro’s chairman and chief executive officer.

"The combination of more abundant snow conditions, stronger international demand and solid execution by our team helped us to temper the challenging year-over-year quarterly comparisons we faced due to the Tier 4 diesel engine transition that accelerated sales of large turf equipment into our first quarter last year. In addition, we finished our first quarter more favorably situated in terms of field inventory levels as compared to last year, considering that pre-Tier 4 equipment sales last year went into our channel while snow products sold this year moved all the way through to end-user customers," said Hoffman.

"Looking ahead to our primary selling season, we are well-positioned across our businesses to drive retail sales and increase our market share. Golf course development and renovations continue to progress and customers and channel partners alike are excited about our innovative new equipment and irrigation offerings, including those featured at the recent Golf Industry Show-the Sand Pro zero turn mechanical bunker rake, the Multi Pro advanced spraying systems, and the INFINITY golf sprinklers with unique SMART ACCESS to internal components," Hoffman continued.

"Landscape contractor equipment sales are poised to benefit from the additional revenues generated by contractors this winter, as well as the increased demand we expect for our zero turn radius mowers featuring new electronic fuel injection and onboard intelligence technologies. Global food demand and increased water use restrictions continue to drive the need for more efficient irrigation solutions for agriculture, including our new Neptune¬ thin wall drip line with flat emitter technology.

"Although we are optimistic, it is early in our fiscal year, our peak selling season is still in front of us and we remain mindful of the challenges we could face if we encounter unfavorable swings in economic or weather conditions. As such, we will continue to focus on the things we can control-product innovation, customer service, and market execution-as well as our Destination 2014 goals of driving revenue growth and further improving productivity," Hoffman concluded.

The company now expects revenue growth for fiscal 2014 to be about 5 to 6 percent, and net earnings per share to be about $2.90 to $2.95. For the second quarter, the company expects net earnings per share to be about $1.45 to $1.50.

Professional

Professional segment net sales for the first quarter totaled $295.5 million, down 10.2 percent from the same period last year. This decrease primarily was attributable to strong channel demand in the first quarter of last fiscal year that was not repeated this year for large turf equipment subject to the Tier 4 diesel engine emission requirements that began phasing in for products manufactured after Jan. 1, 2013.

Sales benefitted from pre-season shipments of landscape maintenance equipment, including our zero turn radius products with electronic fuel injection and onboard intelligence technologies, in anticipation of retail demand.

Rental and construction equipment sales grew on increased demand for our products, including recently acquired products newly introduced under the Toro brand. Global micro-irrigation sales increased with continued demand for more efficient irrigation solutions for agriculture. Worldwide golf irrigation sales benefitted as customers continued to select our innovative system offerings for new course projects and existing course renovations.

Professional segment earnings for the first quarter totaled $47.5 million, down 21.9 percent from the same period last year.

Residential

Residential segment net sales for the first quarter totaled $147.6 million, up 22.0 percent from the same period last year. This increase primarily was driven by retail demand for our snow products due to significant snowfall across key North American markets this winter season. Sales also benefitted from pre-season shipments of domestic residential zero turn radius mowers in anticipation of the continuing transition of consumers to this mowing platform, as well as additional shipments of handheld solutions. Offsetting such increases were unfavorable currency exchange rates, primarily relating to the Australian dollar versus the U.S. dollar.

Residential segment earnings for the first quarter totaled $18.1 million, up 49.2 percent from the same period last year.

OPERATING RESULTS

Gross margin for the first quarter was 36.7 percent, a decrease of 60 basis points compared to the same period last year, primarily due to product mix but also affected by unfavorable currency exchange rates and slightly higher commodity costs, somewhat offset by realized pricing.

Selling, general and administrative (SG&A) expense as a percent of sales for the first quarter was 27.6 percent, an increase of 70 basis points compared to the same period last year, primarily due to higher administrative expense, including health care costs, warranty expense, and incremental expense relating to our recently completed China micro-irrigation acquisition, somewhat offset by lower warehousing expense.

First quarter operating earnings as a percent of sales were 9.1% compared to 10.4% in the same period last year.

First quarter interest expense was down 11.7 percent to $3.8 million compared to the same period last year.

The effective tax rate for the first quarter was 33.2 percent compared with 27.7 percent in the same period last year when the company benefited from the retroactive reinstatement of the Federal Research and Engineering Tax Credit.

Accounts receivable at the end of the first quarter totaled $199.8 million, up 10.8 percent from the same period last year. Net inventories were $304.9 million, down 9.2 percent from the same period last year. Trade payables were $192.7 million, up 14.5 percent compared to the same period last year.