# Toro Company Reports Record Second Quarter Results

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BLOOMINGTON, Minn. – The Toro Company has reported net earnings of $87.1 million, or $1.51 per share, on a net sales increase of 5.8 percent to $745 million for its fiscal 2014 second quarter ended May 2, 2014. In the comparable fiscal 2013 period, the company delivered net earnings of $78.4 million, or $1.32 per share, on net sales of $704.5 million.

For the first six months, Toro reported net earnings of $113 million, or $1.95 per share, on a net sales increase of 3.6 percent to $1.191 billion. In the comparable fiscal 2013 period, the company posted net earnings of $109.8 million, or $1.85 per share, on net sales of $1.149 billion. Strong retail demand for snow products and landscape maintenance equipment, as well as contributions from its micro irrigation, construction and rental businesses, helped the company to surpass sales and earnings earned in the comparable fiscal 2013 period, which benefited from the Tier 4 diesel engine transition.

The company continues to expect 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 third quarter, the company expects net earnings per share to be about $0.82.

**SEGMENT RESULTS**
**Professional:**

– Professional segment net sales for the second quarter totaled $528.6 million, up 6.5 percent from the comparable fiscal 2013 period. Sales of landscape maintenance equipment increased on strong retail demand, including for our zero-turn radius mowers. Golf equipment and irrigation product sales were up due to channel optimism and demand for new product offerings, including the INFINITY sprinklers and Multi Pro advanced spraying system. Global micro irrigation sales increased with continued demand for more efficient solutions for agriculture and construction and rental equipment sales grew on channel demand for Toro(R) branded products. Slightly offsetting these increases were lower sales of professional products in international markets. For the first six months, professional segment net sales were $824 million, essentially flat with the comparable fiscal 2013 period. Sales benefited from strong retail demand for landscape maintenance equipment and increased demand for micro irrigation, construction and rental products, but were offset by sales in the first quarter of last fiscal year that benefited from the Tier 4 diesel engine transition and were not repeated this year.

– Professional segment earnings for the second quarter totaled $122.4 million, up 9 percent from the comparable fiscal 2013 period. For the first six months, professional segment earnings were $169.8 million, down 1.8 percent from the comparable fiscal 2013 period.

**Residential:**

– Residential segment net sales for the second quarter totaled $210.4 million, up 4.5 percent from the comparable fiscal 2013 period. Sales increased due to stronger domestic retail demand for our residential zero-turn mowing products, as customers continued to transition to this mowing platform. International demand for walk power mowers, as well as domestic demand for electric blowers and trimmers, also benefited sales for the quarter. Offsetting these increases were lower shipments of domestic walk power mowers and decreased sales in Australia due to unfavorable currency exchange and weather conditions. For the first six months, residential segment net sales were $357.9 million, up 11 percent from the comparable fiscal 2013 period. Sales for the period increased on strong retail demand for our snow products, primarily in the first quarter, due to significant snowfall across key North American markets, as well as increased channel and retail demand for residential zero turn mowing products and international demand for walk power mowers.

– Residential segment earnings for the second quarter totaled $23.8 million, down 3.5 percent from the comparable fiscal 2013 period. For the first six months, residential segment earnings were $42 million, up 13.9 percent from the comparable fiscal 2013 period.

**OPERATING RESULTS**

Gross margin for the second quarter was 35.5 percent, a decrease of 30 basis points compared to the same fiscal 2013 period, primarily due to higher commodity costs and unfavorable currency exchange rates, somewhat offset by realized pricing. For the first six months, gross margin was 35.9 percent, a decrease of 50 basis points, primarily due to higher commodity costs, segment mix and unfavorable currency exchange rates, somewhat offset by realized pricing.

Selling, general and administrative (SG&A) expense as a percent of sales for the second quarter was 17.9 percent, a decrease of 120 basis points compared to the same fiscal 2013 period. For the first six months, SG&A expense as a percent of sales was 21.5 percent, a decrease of 60 basis points. For both periods, the decrease primarily was due to lower administrative expense, including health care costs, somewhat offset by higher incentive expense.

Second quarter operating earnings as a percent of sales improved 90 basis points to 17.6 percent compared to the same fiscal 2013 period. For the first six months, operating earnings as a percentage of sales improved 10 basis points to 14.4 percent.

The effective tax rate for the second quarter was 32.6 percent, which is the same as the effective tax rate for the comparable fiscal 2013 period. For the first six months, the effective tax rate increased to 32.7 percent from 31.3 percent in the comparable fiscal 2013 period when the company benefited from the retroactive reinstatement of the Federal Research and Engineering Tax Credit in the first quarter.

Accounts receivable at the end of the second quarter totaled $313.5 million, up 1.9 percent from the same fiscal 2013 period. Net inventories were $302.5 million, down 2.4 percent from the same period last year. Trade payables were $236 million, up 15.8 percent compared to the same fiscal 2013 period, primarily due to recent component and commodity purchases in anticipation of product demand in the second half of our fiscal year.