The Toro Company (TTC)

Updated December 21st, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$113	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$12 B
Fair Value Price:	$103	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	12/27/2022
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date[1]:**	01/11/2023
Dividend Yield:	1.2%	**5 Year Price Target**	$166	**Years Of Dividend Growth:**	14
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	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 $4.5 billion in annual revenue and a market capitalization of $12 billion. 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 13th, 2022, Toro increased its dividend for the 14th consecutive year, by 13% to $0.34 per share quarterly.

Toro reported fourth quarter and FY 2022 results on December 21st, 2022. Q4 net sales improved 22% year-over-year to $1.17 billion. Adjusted earnings per diluted share increased 98% to $1.11 in Q4 2022. Adjusted operating margin for the quarter was 12.8%, unchanged from the same prior-year period.

Leadership initiated their fiscal 2023 outlook which guides for net sales growth of 7% to 10% and adjusted EPS in the range of $4.70 to $4.90 per diluted share, a solid 14.3% year-over-year increase at the midpoint.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.31	$1.51	$1.78	$2.06	$2.41	$2.67	$3.00	$3.02	$3.62	$4.20	***$4.80***	***$7.73***
DPS	$0.28	$0.40	$0.50	$0.60	$0.70	$0.80	$0.90	$1.00	$1.05	$1.20	***$1.36***	***$2.19***
Shares[2]	117	114	112	109	108	107	108	108	107.5	105.3	***104.0***	***100.0***

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 13.8% annually since 2013, although the past five years have seen 11.7% 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 10% 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 mid- to high-single digit sales increases as remaining the norm along with a small tailwind from buybacks. Toro has made a habit of boosting gross margins slowly but surely over the long term, and as pricing and productivity increase, that should remain the case despite current uncertainty over inflation and supply chain disruptions. In addition, higher volume and acquisition synergies should produce further downward pressure on SG&A costs as a percentage of revenue. The company is prioritizing investments in technology areas such as alternative power, smart connected and autonomous to ensure the

[1] Estimate

[2] In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

company 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 a double-digit rate as well and moving up towards $2.19 annually from the current $1.36. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.1	20.6	19	20.6	25.9	22.3	23.8	28.4	29.0	25.0	***23.5***	***21.5***
Avg. Yld.	1.2%	1.3%	1.5%	1.4%	1.1%	1.3%	1.3%	1.3%	1.0%	1.3%	***1.2%***	***1.3%***

Toro's price-to-earnings multiple is overvalued today at 23.5 times earnings based on our 2023 forecast, and we believe the valuation will shrink to meet our estimated valuation of 21.5 times earnings. We therefore see a headwind of 1.8% to total annual returns from a contracting valuation over time. However, once Toro builds up the technology side of the business, it may warrant a higher PE. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	21%	21%	26%	28%	29%	29%	30%	30%	33%	29%	***28%***	***28%***

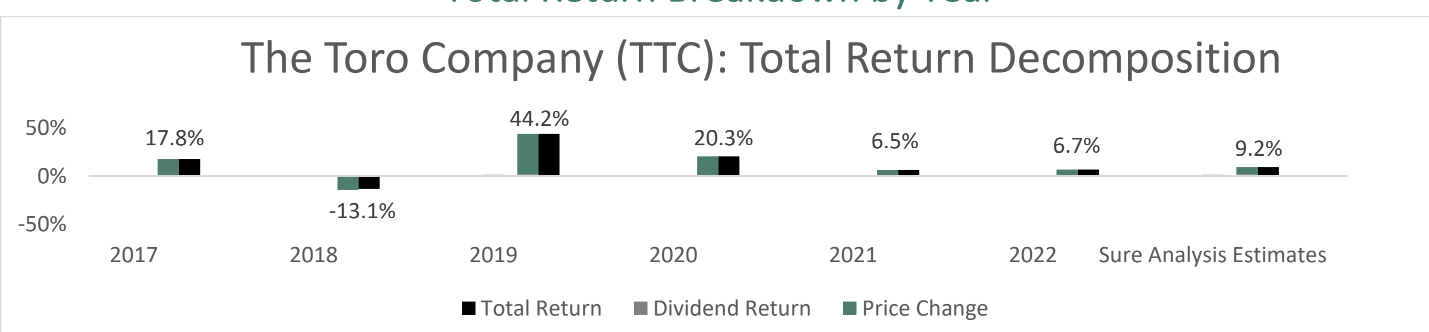
The payout ratio remains exceptionally low so the dividend is safe and should continue to grow in the years to come at roughly the rate of earnings. However, Toro is much more interested in investing for growth than it is in becoming an income stock, so we see the yield as remaining around 1.0% to 1.5% 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 to the business.

Final Thoughts & Recommendation

We see Toro as attractive for those seeking growth. We estimate total annual returns of 9.2% for the next five years consisting of the current 1.2% dividend yield and 10% earnings growth, offset by an unfavorable impact from the valuation. Toro would not be appropriate for those investors seeking a strong current yield or deep value, but given its strong growth outlook, we still find the stock attractive. However, given the rise in share price, we are downgrading Toro from a buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,041	2,173	2,391	2,392	2,505	2,619	3,138	3,379	3,960	4,515
Gross Profit	725	773	836	875	921	941	1,048	1,190	1,338	1,505
Gross Margin	35.5%	35.6%	35.0%	36.6%	36.8%	35.9%	33.4%	35.2%	33.8%	33.3%
SG&A Exp.	494	510	537	540	566	568	723	763	820	929
D&A Exp.	54	53	63	64	65	61	88	96	99	109
Operating Profit	231	263	299	334	355	373	325	426	518	576
Operating Margin	11.3%	12.1%	12.5%	14.0%	14.2%	14.2%	10.4%	12.6%	13.1%	12.8%
Net Profit	155	174	202	231	268	272	274	330	410	443
Net Margin	7.6%	8.0%	8.4%	9.7%	10.7%	10.4%	8.7%	9.8%	10.4%	9.8%
Free Cash Flow	172	111	193	334	302	275	244	461	451	154
Income Tax	72	83	89	99	85	100	48	77	90	109

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,003	1,192	1,304	1,385	1,494	1,571	2,331	2,853	2,936	3,556
Cash & Equivalents	183	315	126	274	310	289	152	480	406	188
Accounts Receivable	147	151	171	158	176	185	221	223	253	333
Inventories	240	275	335	307	329	358	652	652	738	1,051
Goodwill & Int. Ass.	120	116	315	303	309	331	715	832	842	1,169
Total Liabilities	644	784	841	835	877	902	1,471	1,738	1,785	2,204
Accounts Payable	136	124	152	175	212	257	319	364	503	579
Long-Term Debt	224	375	378	351	332	313	701	791	691	991
Shareholder's Equity	359	409	462	550	617	669	860	1,115	1,151	1,352
LTD/E Ratio	0.62	0.92	0.82	0.64	0.54	0.47	0.82	0.71	0.60	0.73

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	16.0%	15.8%	16.2%	17.2%	18.6%	17.7%	14.0%	12.7%	14.2%	13.7%
Return on Equity	46.1%	45.3%	46.3%	45.6%	45.9%	42.3%	35.9%	33.4%	36.2%	35.4%
ROIC	27.7%	25.5%	24.8%	26.5%	28.9%	28.2%	21.6%	19.0%	21.9%	21.2%
Shares Out.	117	114	112	109	108	107	108	108	107.5	105.6
Revenue/Share	17.27	18.85	21.06	21.36	22.52	24.10	29.03	31.09	36.50	42.73
FCF/Share	1.46	0.97	1.70	2.98	2.72	2.53	2.26	4.25	4.16	1.45

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