

---

# 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 2, 2024

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: **1-8649**

### THE TORO COMPANY

(Exact name of registrant as specified in its charter)

**Delaware**

State or Other Jurisdiction of  
Incorporation or Organization

**41-0580470**

I.R.S. Employer Identification No.

**8111 Lyndale Avenue South  
Bloomington, Minnesota 55420-1196  
Telephone Number: (952) 888-8801**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, par value \$1.00 per share</b>	<b>TTC</b>	<b>New York Stock Exchange</b>

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

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 29, 2024 was 104,406,800.

---

THE TORO COMPANY  
FORM 10-Q  
TABLE OF CONTENTS

Description	Page Number
<a href="#"><u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u></a>	<a href="#"><u>3</u></a>
<b><u>PART I.</u></b>	
<b><u>Item 1.</u></b>	<a href="#"><u>Financial Statements</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Earnings (Unaudited)</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u></a>
	<a href="#"><u>Condensed Consolidated Balance Sheets (Unaudited)</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Stockholders' Equity (Unaudited)</u></a>
	<a href="#"><u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u></a>
<b><u>Item 2.</u></b>	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>
	<a href="#"><u>Company Overview</u></a>
	<a href="#"><u>Results of Operations</u></a>
	<a href="#"><u>Business Segments</u></a>
	<a href="#"><u>Financial Position</u></a>
	<a href="#"><u>Non-GAAP Financial Measures</u></a>
	<a href="#"><u>Critical Accounting Policies and Estimates</u></a>
<b><u>Item 3.</u></b>	<a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>
<b><u>Item 4.</u></b>	<a href="#"><u>Controls and Procedures</u></a>
<b><u>PART II.</u></b>	
<b><u>Item 1.</u></b>	<a href="#"><u>Legal Proceedings</u></a>
<b><u>Item 1A.</u></b>	<a href="#"><u>Risk Factors</u></a>
<b><u>Item 2.</u></b>	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>
<b><u>Item 5.</u></b>	<a href="#"><u>Other Information</u></a>
<b><u>Item 6.</u></b>	<a href="#"><u>Exhibits</u></a>
	<a href="#"><u>Signatures</u></a>

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 that we believe to be reasonable. 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," "outlook," "guidance," "forecast," "goal," "anticipate," "continue," "plan," "estimate," "project," "target," "improve," "believe," "become," "should," "could," "will," "would," "possible," "may," "likely," "intend," "can," "pursue," "potential," "pro forma," "approximately," variations of such words 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; the anticipated impacts of current global supply chain disruptions, the inflationary environment, current wars and international sanctions and geopolitical tensions, tight labor markets and other macroeconomic factors; our business strategies, priorities, goals, and commitments; acquisitions and any impairment, restructuring, or other charges in connection therewith or resulting therefrom; business and productivity initiatives and anticipated sales growth, profitability, cost savings and other benefits associated therewith; 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 are only projections and involve risks and uncertainties that could cause actual results to differ materially from those projected or implied in the forward-looking statements. 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, such as but not limited to: economic uncertainty; business slowdowns, suspensions or delays of production and commercial activity; slow or negative economic growth rates or recessionary conditions; reduced or negative consumer confidence; reduced consumer spending levels; changing consumer preferences; inflationary or deflationary pressures; higher short-term, mortgage, and other interest rates; increased or prolonged high or low unemployment rates and tight labor markets; higher costs, longer lead times and reduced availability of commodities, components, parts, and accessories, including as a result of transportation-related costs, inflation, changing prices, foreign currency fluctuations, tariffs, and/or duties; slowdowns or reductions in levels of interest in the game of golf or golf course activity, development, renovation, or improvement; golf course closures; reduced customer, governmental or municipal spending; reduced infrastructure spending; reduced levels of home ownership, construction, or sales; home foreclosures; the impact of U.S. federal debt, state debt, and sovereign debt defaults; reduced credit availability or unfavorable credit terms for us or our distributors, dealers, or end-user customers; and general economic and political conditions and expectations;
- Effect that weather conditions or climate change have on demand for our products and operations, including our supply chain;
- Continuing disruption, and/or shortages in the availability of and the cost of commodities, components, parts, or accessories used in our products;
- Our ability to maintain appropriate inventory levels, including as a result of global supply chain disruptions or changes in purchasing patterns by customers, and if we underestimate or overestimate demand for our products, and the effect of inventory management decisions of our distribution channel customers;
- Risks associated with our acquisitions and alliances, strong customer relations, and new joint ventures, investments, or partnerships and our failure to successfully complete divestitures or other restructuring activities, including without limitation our ability to integrate acquired businesses and to address material issues both identified and not uncovered during our due diligence review, loss of substantial customers, and the ability of acquired companies or our alliances, joint ventures, investments or partnerships to achieve satisfactory operating results, including results being accretive to earnings, realization of synergies and expected cash flow generation, which could lead to impairment, restructuring, and other charges;
- Our ability to continue to enhance existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance, including in particular alternative power, smart connected, and autonomous solutions;
- Changes in our product mix;
- Effect of competition;
- Our ability to cost-effectively expand and renovate existing facilities, open and manage new or acquired facilities, move production between manufacturing facilities, and/or any disruption at or near any of our facilities or other operations or those of our suppliers, distribution channel customers, mass retailers, or home centers where our products are sold;

[Table of Contents](#)

- Our ability to retain our executive officers or other key employees, attract and retain other qualified employees or successfully implement executive officer, key employee or other leadership or employee transitions and any failure by us, or our suppliers or distribution channel partners, to hire and/or retain a labor force to enhance existing products and develop and market new products, adequately staff manufacturing operations, perform service or warranty work or other necessary activities, or allow employees to adequately and safely perform their jobs;
- Changes in composition of, financial viability of, and the relationships with, our distribution channel customers;
- Risks associated with our credit arrangements and ratings and any material change in the availability or terms of, or termination or disruption of, credit offered to our customers, distributors, and dealers;
- Risks associated with our international operations, including but not limited to the effect of foreign currency exchange rate fluctuations and compliance with foreign legal and regulatory requirements, current wars and international sanctions and geopolitical tensions, political risks associated with the potential instability of governments and legal systems in countries in which we or our customers or suppliers conduct business, and other current and potential conflicts;
- Our failure to comply with all applicable legal and regulatory requirements and the effect of product quality issues, product liability claims, and other litigation to which we are or may be subject;
- Our ability to obtain and protect our intellectual property and other proprietary rights or operate our business without infringing upon the intellectual property or other proprietary rights of others;
- Failure of our information systems or information security practices or those of our business partners or third-party service providers to adequately perform and/or protect sensitive or confidential information;
- Risks associated with a possible U.S. governmental shutdown and its impact on the U.S. economy, capital markets and our business;
- Our ability to achieve our financial projections or other business initiatives, including our recently announced Amplifying Maximum Productivity ("AMP") initiative, in the time periods that we anticipate or at all;
- Changes in accounting or tax standards and policies and/or assumptions utilized in determining accounting tax estimates; and
- Impact of increased scrutiny on our environmental, social and governance ("ESG") practices and our ability to meet our ESG company goals.

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 our subsequent filings with the SEC.

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 our subsequent SEC filings, as well as others that we may consider immaterial or do not anticipate at this time. These 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 SEC.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**THE TORO COMPANY AND SUBSIDIARIES**  
Condensed Consolidated Statements of Earnings (Unaudited)  
(Dollars and shares in millions, except per share data)

	<b>Three Months Ended</b>	
	<b>February 2, 2024</b>	<b>February 3, 2023</b>
Net sales	\$ 1,001.9	\$ 1,148.8
Cost of sales	657.4	752.9
Gross profit	344.5	395.9
Selling, general and administrative expense	255.9	259.5
Operating earnings	88.6	136.4
Interest expense	(16.2)	(14.1)
Other income, net	7.7	9.0
Earnings before income taxes	80.1	131.3
Provision for income taxes	15.2	24.4
Net earnings	\$ 64.9	\$ 106.9
Basic net earnings per share of common stock	\$ 0.62	\$ 1.02
Diluted net earnings per share of common stock	\$ 0.62	\$ 1.01
Weighted-average number of shares of common stock outstanding — Basic	104.4	104.5
Weighted-average number of shares of common stock outstanding — Diluted	104.7	105.6

See accompanying Notes to Condensed Consolidated Financial Statements.

**THE TORO COMPANY AND SUBSIDIARIES**  
Condensed Consolidated Statements of Comprehensive Income (Unaudited)  
(Dollars in millions)

	<b>Three Months Ended</b>	
	<b>February 2, 2024</b>	<b>February 3, 2023</b>
Net earnings	\$ 64.9	\$ 106.9
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	7.3	21.2
Derivative instruments, net of tax of \$( 1.9); \$(5.9), respectively	(5.3)	(16.7)
Other comprehensive income, net of tax	2.0	4.5
Comprehensive income	\$ 66.9	\$ 111.4

See accompanying Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

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

	February 2, 2024	February 3, 2023	October 31, 2023
<b>ASSETS</b>			
Cash and cash equivalents	\$ 198.5	\$ 174.0	\$ 193.1
Receivables, net	489.1	377.3	407.4
Inventories, net	1,177.1	1,131.4	1,087.8
Prepaid expenses and other current assets	101.8	75.0	110.5
Total current assets	1,966.5	1,757.7	1,798.8
Property, plant, and equipment, net	639.2	584.1	641.7
Goodwill	451.2	584.6	450.8
Other intangible assets, net	531.5	577.1	540.1
Right-of-use assets	121.8	74.6	125.3
Investment in finance affiliate	48.4	45.7	50.6
Deferred income taxes	20.3	11.7	14.2
Other assets	22.2	19.4	22.8
Total assets	\$ 3,801.1	\$ 3,654.9	\$ 3,644.3
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current portion of long-term debt	\$ 6.8	\$ —	\$ —
Accounts payable	421.8	475.2	430.0
Accrued liabilities	474.5	496.8	499.1
Short-term lease liabilities	18.8	16.0	19.5
Total current liabilities	921.9	988.0	948.6
Long-term debt, less current portion	1,179.8	1,091.0	1,031.5
Long-term lease liabilities	108.4	60.7	112.1
Deferred income taxes	0.4	31.4	0.4
Other long-term liabilities	42.7	39.6	40.8
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 104,013,541 shares as of February 2, 2024, 104,283,002 shares as of February 3, 2023, and 103,843,485 shares as of October 31, 2023	104.0	104.3	103.8
Retained earnings	1,478.9	1,368.5	1,444.1
Accumulated other comprehensive loss	(35.0)	(28.6)	(37.0)
Total stockholders' equity	1,547.9	1,444.2	1,510.9
Total liabilities and stockholders' equity	\$ 3,801.1	\$ 3,654.9	\$ 3,644.3

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 millions)

	Three Months Ended	
	February 2, 2024	February 3, 2023
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 64.9	\$ 106.9
<b>Adjustments to reconcile net earnings to net cash used in operating activities:</b>		
Non-cash income from finance affiliate	(5.0)	(3.8)
Distributions from (contributions to) finance affiliate, net	7.2	(2.6)
Depreciation of property, plant, and equipment	22.0	19.2
Amortization of other intangible assets	8.7	9.1
Stock-based compensation expense	8.4	5.2
Other	1.1	—
<b>Changes in operating assets and liabilities, net of the effect of acquisitions:</b>		
Receivables, net	(80.2)	(42.5)
Inventories, net	(86.4)	(76.8)
Other assets	6.5	(1.6)
Accounts payable	(10.3)	(103.6)
Other liabilities	(29.1)	21.6
Net cash used in operating activities	(92.2)	(68.9)
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment	(19.1)	(29.3)
Proceeds from insurance claim	—	7.1
Proceeds from asset disposals	—	0.3
Net cash used in investing activities	(19.1)	(21.9)
<b>Cash flows from financing activities:</b>		
Net borrowings under the revolving credit facility <sup>1</sup>	155.0	100.0
Proceeds from exercise of stock options	1.5	14.0
Payments of withholding taxes for stock awards	(2.2)	(2.6)
Dividends paid on TTC common stock	(37.6)	(35.5)
Other	(2.6)	(1.5)
Net cash provided by financing activities	114.1	74.4
Effect of exchange rates on cash and cash equivalents	2.6	2.2
Net increase (decrease) in cash and cash equivalents	5.4	(14.2)
Cash and cash equivalents as of the beginning of the fiscal period	193.1	188.2
Cash and cash equivalents as of the end of the fiscal period	\$ 198.5	\$ 174.0

<sup>1</sup> Presentation of prior year revolving credit facility and long-term debt activity has been conformed to the current year presentation. There was no change to net cash provided by financing activities.

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 millions, except per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of October 31, 2023	\$ 103.8	\$ 1,444.1	\$ (37.0)	\$ 1,510.9
Cash dividends paid on common stock - \$0.36 per share	—	(37.6)	—	(37.6)
Issuance of 248,137 shares of common stock under stock-based compensation plans, less contribution of 54,526 shares to a deferred compensation trust	0.2	1.3	—	1.5
Stock-based compensation expense	—	8.4	—	8.4
Purchase of 23,555 shares of common stock	—	(2.2)	—	(2.2)
Other comprehensive income	—	—	2.0	2.0
Net earnings	—	64.9	—	64.9
Balance as of February 2, 2024	\$ 104.0	\$ 1,478.9	\$ (35.0)	\$ 1,547.9
Balance as of October 31, 2022	\$ 104.0	\$ 1,280.8	\$ (33.1)	\$ 1,351.7
Cash dividends paid on common stock - \$0.34 per share	—	(35.5)	—	(35.5)
Issuance of 351,032 shares of common stock under stock-based compensation plans, less contribution of 14,270 shares to a deferred compensation trust	0.3	13.7	—	14.0
Stock-based compensation expense	—	5.2	—	5.2
Purchase of 23,565 shares of common stock	—	(2.6)	—	(2.6)
Other comprehensive income	—	—	4.5	4.5
Net earnings	—	106.9	—	106.9
Balance as of February 3, 2023	\$ 104.3	\$ 1,368.5	\$ (28.6)	\$ 1,444.2

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

February 2, 2024

## **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," "TTC," "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. Due to seasonality within the industries in which the company's businesses operate, among other factors, operating results for the three months ended February 2, 2024 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2024.

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 calendar 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 regarding the company's basis of presentation, 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, 2023. The policies described in that report are used for preparing the company's quarterly reports on Form 10-Q.

### ***Accounting Policies and Estimates***

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 accruals, allowances for current expected credit losses, pension accruals, self-insurance accruals, legal accruals, right-of-use assets and lease liabilities, useful lives for tangible and finite-lived intangible assets, future cash flows associated with impairment testing for goodwill, indefinite-lived intangible assets and other long-lived assets, and valuations of the assets acquired and liabilities assumed in a business combination or an asset acquisition, when applicable. 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 and current circumstances, historical experience, and actuarial and other independent external third-party specialist valuations, when applicable. 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 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***

In December 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to income tax disclosures, which is designed to enhance the transparency and decision usefulness of income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amended guidance will become effective for the company's fiscal 2026 annual period. The company is currently evaluating the impact of this new standard on its Condensed Consolidated Financial Statements and related disclosures.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which is intended to enhance reportable segment disclosure requirements, primarily through additional, more detailed disclosures about significant segment expenses. The ASU requires disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), an amount for other segment items by reportable segment and a description of its composition, and the title and position of the CODM and an explanation of how the CODM uses the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources. The ASU also requires all annual disclosures currently required by Topic 280 to be included in interim periods. The amended

guidance will become effective for the company's fiscal 2025 annual period, and interim periods beginning with the first quarter of fiscal 2026. The company is currently evaluating the impact of this new standard on its Condensed Consolidated Financial Statements and related disclosures.

In September 2022, the FASB issued ASU No. 2022-04, Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations. The new standard requires disclosure of the key terms of supplier finance programs, the associated obligations outstanding, and a description of where those obligations are presented in the balance sheet. Additionally, effective for the company's fiscal 2025 annual period, the new standard requires a rollforward of the associated obligations outstanding during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid. The amended guidance was adopted in the first quarter of fiscal 2024 and did not have a material impact on the company's Condensed Consolidated Financial Statements. For additional information regarding the company's supplier finance program, refer to Note 13, *Commitments and Contingencies*.

The company believes that all other recently issued accounting pronouncements from the FASB that the company has not noted above will not have a material impact on its Condensed Consolidated Financial Statements or do not apply to its operations.

## 2 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 the company's chief operating decision maker organizes segments for making operating and investment decisions and assessing performance. The company has identified twelve operating segments and has aggregated certain of those operating segments into two reportable segments: Professional and Residential. The aggregation of the company's segments is based on the 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. The company's Other activities consist of the company's wholly-owned domestic distribution company, the company's corporate activities, and the elimination of intersegment revenues and expenses.

The following tables present summarized financial information concerning the company's reportable business segments and Other activities (dollars in millions):

Three Months Ended February 2, 2024	Professional	Residential	Other	Total
Net sales	\$ 756.5	\$ 240.1	\$ 5.3	\$ 1,001.9
Intersegment gross sales (eliminations)	10.7	0.1	(10.8)	—
Earnings (loss) before income taxes	112.8	23.5	(56.2)	80.1
Total assets	\$ 2,761.1	\$ 654.7	\$ 385.3	\$ 3,801.1

  

Three Months Ended February 3, 2023	Professional	Residential	Other	Total
Net sales	\$ 880.7	\$ 264.6	\$ 3.5	\$ 1,148.8
Intersegment gross sales (eliminations)	10.9	—	(10.9)	—
Earnings (loss) before income taxes	144.1	37.8	(50.6)	131.3
Total assets	\$ 2,782.8	\$ 541.2	\$ 330.9	\$ 3,654.9

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

(Dollars in millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
Corporate expenses	\$ (48.1)	\$ (43.7)
Interest expense	(16.2)	(14.1)
Earnings from the company's wholly-owned domestic distribution company and other income, net	8.1	7.2
Total operating loss	\$ (56.2)	\$ (50.6)

### 3 Revenue

The following tables disaggregate the company's reportable segment net sales by major product type and geographic market (dollars in millions):

Three Months Ended February 2, 2024	Professional	Residential	Other	Total
Revenue by product type:				
Equipment	\$ 647.0	\$ 231.9	\$ 4.6	\$ 883.5
Irrigation	109.5	8.2	0.7	118.4
Total net sales	\$ 756.5	\$ 240.1	\$ 5.3	\$ 1,001.9
Revenue by geographic market:				
United States	\$ 586.1	\$ 205.5	\$ 5.3	\$ 796.9
International countries	170.4	34.6	—	205.0
Total net sales	\$ 756.5	\$ 240.1	\$ 5.3	\$ 1,001.9
Three Months Ended February 3, 2023	Professional	Residential	Other	Total
Revenue by product type:				
Equipment	\$ 778.3	\$ 253.4	\$ 2.4	\$ 1,034.1
Irrigation	102.4	11.2	1.1	114.7
Total net sales	\$ 880.7	\$ 264.6	\$ 3.5	\$ 1,148.8
Revenue by geographic market:				
United States	\$ 696.5	\$ 203.4	\$ 3.5	\$ 903.4
International countries	184.2	61.2	—	245.4
Total net sales	\$ 880.7	\$ 264.6	\$ 3.5	\$ 1,148.8

#### Contract Liabilities

Contract liabilities relate to deferred revenue recognized for cash consideration received at contract inception in advance of the company's performance under the respective contract and generally relate to the sale of separately priced extended warranty contracts, service contracts, and non-refundable customer deposits. The company recognizes revenue over the term of the contract in proportion to the costs expected to be incurred in satisfying the performance obligations under the separately priced extended warranty and service contracts. For non-refundable customer deposits, the company recognizes revenue as of the point in time in which the performance obligation has been satisfied under the contract with the customer, which typically occurs upon change in control at the time a product is shipped. As of February 2, 2024 and October 31, 2023, \$27.6 million and \$25.6 million, respectively, of deferred revenue associated with outstanding separately priced extended warranty contracts, service contracts, and non-refundable customer deposits was reported within accrued liabilities and other long-term liabilities in the Condensed Consolidated Balance Sheets. For the three months ended February 2, 2024, the company recognized \$3.4 million of the October 31, 2023 deferred revenue balance within net sales in the Condensed Consolidated Statements of Earnings. The company expects to recognize approximately \$8.6 million of the October 31, 2023 deferred revenue amount within net sales throughout the remainder of fiscal 2024, \$ 7.8 million in fiscal 2025, and \$5.8 million thereafter.

### 4 Goodwill and Other Intangible Assets, Net

#### Goodwill

The changes in the carrying amount of goodwill by reportable segment for the first three months of fiscal 2024 were as follows:

(Dollars in millions)	Professional	Residential	Other	Total
Balance as of October 31, 2023	\$ 440.5	\$ 10.3	\$ —	\$ 450.8
Translation adjustments	0.3	0.1	—	0.4
Balance as of February 2, 2024	\$ 440.8	\$ 10.4	\$ —	\$ 451.2

[Table of Contents](#)

**Other Intangible Assets, Net**

The components of other intangible assets, net as of February 2, 2024, February 3, 2023, and October 31, 2023 were as follows (dollars in millions):

February 2, 2024	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	\$ 18.2	\$ (16.2)	\$ 2.0
Customer-related	15.8	327.6	(112.7)	214.9
Developed technology	7.1	102.1	(65.6)	36.5
Trade names	13.7	10.7	(4.2)	6.5
Total finite-lived	13.6	458.6	(198.7)	259.9
Indefinite-lived - trade names		271.6	—	271.6
Total other intangible assets, net		\$ 730.2	\$ (198.7)	\$ 531.5

  

February 3, 2023	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	\$ 18.3	\$ (15.5)	\$ 2.8
Non-compete agreements	5.5	6.9	(6.9)	—
Customer-related	16.0	321.3	(89.9)	231.4
Developed technology	7.1	102.1	(55.8)	46.3
Trade names	13.7	10.7	(3.6)	7.1
Backlog and other	0.6	5.7	(5.7)	—
Total finite-lived	13.4	465.0	(177.4)	287.6
Indefinite-lived - trade names		289.5	—	289.5
Total other intangible assets, net		\$ 754.5	\$ (177.4)	\$ 577.1

  

October 31, 2023	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	\$ 18.2	\$ (16.0)	\$ 2.2
Non-compete agreements	5.5	6.9	(6.9)	—
Customer-related	15.8	327.5	(106.7)	220.8
Developed technology	7.1	102.0	(63.1)	38.9
Trade names	13.7	10.7	(4.0)	6.7
Backlog and other	0.6	5.7	(5.7)	—
Total finite-lived	13.3	471.0	(202.4)	268.6
Indefinite-lived - trade names		271.5	—	271.5
Total other intangible assets, net		\$ 742.5	\$ (202.4)	\$ 540.1

## Table of Contents

Amortization expense for finite-lived intangible assets for the three months ended February 2, 2024 was \$ 8.7 million. Amortization expense for finite-lived intangibles assets for the three months ended February 3, 2023 was \$9.1 million. As of February 2, 2024, estimated amortization expense for the remainder of fiscal 2024 and succeeding fiscal years is as follows:

(Dollars in millions)	February 2, 2024
2024 (remaining)	\$ 25.8
2025	31.7
2026	30.5
2027	25.6
2028	22.3
2029	20.4
Thereafter	103.6
Total estimated amortization expense	\$ 259.9

## 5 Indebtedness

The following is a summary of the company's indebtedness:

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
\$600 million revolving credit facility, due October 2026	\$ 195.0	\$ 100.0	\$ 40.0
\$270 million term loan, due October 2026	270.0	270.0	270.0
\$200 million term loan, due April 2027	200.0	200.0	200.0
3.81% series A senior notes, due June 2029	100.0	100.0	100.0
3.91% series B senior notes, due June 2031	100.0	100.0	100.0
3.97% senior notes, due June 2032	100.0	100.0	100.0
7.8% debentures, due June 2027	100.0	100.0	100.0
6.625% senior notes, due May 2037	124.2	124.1	124.2
Less: unamortized debt issuance costs	2.6	3.1	2.7
Total long-term debt	1,186.6	1,091.0	1,031.5
Less: current portion of long-term debt	6.8	—	—
Long-term debt, less current portion	\$ 1,179.8	\$ 1,091.0	\$ 1,031.5

As of February 2, 2024, principal payments required on the company's outstanding indebtedness, based on the maturity dates defined within the company's debt arrangements, for the remainder of fiscal 2024 and succeeding fiscal years are as follows:

(Dollars in millions)	February 2, 2024
2024 (remaining)	\$ —
2025	37.0
2026	458.0
2027	270.0
2028	—
2029	100.0
Thereafter	325.0
Total principal payments required	\$ 1,190.0

### Covenants

The company is in compliance with all covenants under the company's outstanding indebtedness as of February 2, 2024.

## 6 Inventories, Net

The company uses a combination of inventory valuation methods. Inventories are valued at the lower of cost or net realizable value, with cost determined by the first-in, first-out ("FIFO") and average cost methods for certain of the company's inventories. All remaining inventories are valued at the lower of cost or market, with cost determined under the last-in, first-out ("LIFO")

## [Table of Contents](#)

method. As needed, the company records an inventory valuation adjustment for excess, slow-moving, and obsolete inventory that is equal to the excess of the cost of the inventory over the estimated net realizable value or market value for the inventory depending on the inventory costing method. Such inventory valuation adjustment is based on a review and comparison of current inventory levels to planned production, as well as planned and historical sales of the inventory. The inventory valuation adjustment to net realizable value or market value establishes a new cost basis of the inventory that cannot be subsequently reversed.

Inventories, net were as follows:

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
Raw materials and work in process	\$ 431.0	\$ 498.3	\$ 400.3
Finished goods and service parts	902.8	803.0	844.2
Total FIFO and average cost value	1,333.8	1,301.3	1,244.5
Less: adjustment to LIFO value	156.7	169.9	156.7
Total inventories, net	\$ 1,177.1	\$ 1,131.4	\$ 1,087.8

## **7 Property, Plant, and Equipment, Net**

Property, plant, and equipment assets are carried at cost less accumulated depreciation. The company generally accounts for depreciation of property, plant, and equipment utilizing the straight-line method over the estimated useful lives of the assets. Buildings and leasehold improvements are generally depreciated over 10 to 40 years, machinery and equipment are generally depreciated over three to 15 years, tooling is generally depreciated over three to five years, and computer hardware and software and website development costs are generally depreciated over two to five years. Expenditures for major renewals and improvements, which substantially increase the useful lives of existing assets, are capitalized. Costs associated with general maintenance and repairs are expensed as incurred within cost of sales or selling, general and administrative expense in the Condensed Consolidated Statements of Earnings depending on the nature and use of the related asset. Interest is capitalized during the construction period for significant capital projects.

Property, plant, and equipment, net was as follows:

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
Land and land improvements	\$ 69.4	\$ 61.4	\$ 69.0
Buildings and leasehold improvements	356.2	327.7	355.8
Machinery and equipment	625.6	559.8	624.6
Tooling	260.7	227.0	260.4
Computer hardware and software	98.9	105.5	98.0
Construction in process	151.8	169.1	133.2
Property, plant, and equipment, gross	1,562.6	1,450.5	1,541.0
Less: accumulated depreciation	923.4	866.4	899.3
Property, plant, and equipment, net	\$ 639.2	\$ 584.1	\$ 641.7

## **8 Product 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. Standard 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. 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 3, *Revenue*.

At the time of sale, the company recognizes expense and records an accrual by product line for estimated costs in connection with forecasted future warranty claims. The company's estimate of the cost of future warranty claims is based primarily 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, and the historical length of time between the sale and resulting warranty claim. The company periodically assesses the adequacy of its warranty accruals based on changes in these factors and records any necessary adjustments if the cost of actual claims experience indicates that adjustments to the company's warranty accrual are necessary.

## [Table of Contents](#)

Additionally, from time to time, the company may also establish warranty accruals for its estimate of the costs necessary to settle major rework campaigns on a product-specific basis during the period in which the circumstances giving rise to the major rework campaign become known and when the costs to satisfactorily address the situation are both probable and estimable. The warranty accrual for the cost of a major rework campaign is primarily based on an estimate of the cost to repair each affected unit and the number of affected units expected to be repaired.

The changes in accrued warranties were as follows:

(Dollars in millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
Beginning balance	\$ 143.9	\$ 134.5
Changes in accrual related to warranties issued during the period	16.7	23.3
Payments made during the period	(20.6)	(18.7)
Changes in accrual related to pre-existing warranties	2.4	6.0
Ending balance	\$ 142.4	\$ 145.1

## **9 Investment in Joint Venture**

The company is party to a joint venture with Huntington Distribution Finance, Inc. ("HDF"), a subsidiary of The Huntington National Bank, established as Red Iron Acceptance, LLC ("Red Iron"), the primary purpose of which is to provide customer inventory financing to certain distributors and dealers of certain of the company's products in the U.S. The company has also entered into a limited inventory repurchase agreement with Red Iron. For additional information regarding the customer financing aspect of the arrangement, as well as the limited inventory purchase agreement, refer to Note 13, *Commitments and Contingencies*.

The company owns 45 percent of Red Iron and HDF owns 55 percent of Red Iron. The company accounts for its investment in Red Iron under the equity method of accounting. The company and HDF each contributed a specified amount of the estimated cash required to enable Red Iron to purchase the company's floor plan financing receivables and to provide financial support for Red Iron's floor plan financing programs. Red Iron borrows the remaining requisite estimated cash utilizing an \$1,350.0 million secured revolving credit facility established under a credit agreement between Red Iron and HDF. The company's total investment in Red Iron as of February 2, 2024, February 3, 2023 and October 31, 2023 was \$48.4 million, \$45.7 million, and \$50.6 million, respectively. The company has not guaranteed the outstanding indebtedness of Red Iron.

## **10 Stock-Based Compensation**

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

(Dollars in millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
Stock option awards	\$ 4.8	\$ 1.7
Performance share awards	1.1	0.8
Restricted stock unit awards	1.9	1.6
Unrestricted common stock awards	0.6	1.1
Total compensation cost for stock-based compensation awards	\$ 8.4	\$ 5.2

### **Stock Option Awards**

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 ("Board") on an annual basis in the first quarter of the company's fiscal year but may also be granted throughout the fiscal year in connection with hiring, mid-year promotions, leadership transition, or retention, as needed and applicable. Options generally vest one-third each year over a three-year period and have a ten-year term but in certain circumstances, the vesting requirement may be modified such that 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 determined under the Black-Scholes valuation method is generally recognized for these awards over the vesting period. Compensation cost recognized for other employees not considered executive officers and non-employee Board members is net of estimated forfeitures, which are determined at the time of grant based on historical forfeiture experience. Stock options granted to executive officers and other employees are subject to accelerated expensing if the option holder meets

## [Table of Contents](#)

the retirement definition set forth in the company's stock-based compensation plans. In that case, the fair value of the options is expensed in the fiscal year of grant because generally, if the option holder is employed as of the end of the fiscal year in which the options are granted, such options will not be forfeited but continue to vest according to their schedule following retirement. Similarly, if a non-employee Board member has served on the company's Board for ten full fiscal years or more, the awards will not be forfeited but continue to vest according to their schedule following retirement. 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 various inputs and assumptions under the Black-Scholes valuation method. 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 Board members are expected to exercise their stock options, which is primarily based on historical exercise experience. The company groups executive officers and non-employee Board members for valuation purposes based on similar historical exercise behavior. Expected stock price volatility is 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. The expected 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 used under the Black-Scholes valuation method for options granted in the first three months of the following fiscal periods:

	Fiscal 2024	Fiscal 2023
Expected life of option in years	6.38	6.32
Expected stock price volatility	26.75%	25.19%
Risk-free interest rate	3.94%	3.79%
Expected dividend yield	1.15%	0.95%
Per share weighted-average fair value at date of grant	\$30.42	\$33.23

### **Performance Share Awards**

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, which are generally measured over a three-year period. The number of shares of common stock a participant receives can 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, which is equal to the closing price of the company's common stock on 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 2024 and 2023 was \$99.60 and \$112.14, respectively.

### **Restricted Stock Unit Awards**

Restricted stock unit awards are generally granted to certain employees who 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. Compensation cost equal to the grant date fair value, net of estimated forfeitures, is recognized for these awards over the vesting period. The grant date fair value 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 and estimated forfeitures are determined on the grant date based on historical forfeiture experience. The per share weighted-average fair value of restricted stock unit awards granted during the first three months of fiscal 2024 and 2023 was \$98.73 and \$109.78, respectively.

### **Unrestricted Common Stock Awards**

During the first three months of fiscal 2024 and 2023, 7,544 and 10,329 shares, respectively, of fully vested unrestricted common stock awards were granted to certain Board members as a component of their compensation for their service on the Board and were recorded within selling, general and administrative expense in the Condensed Consolidated Statements of Earnings. Additionally, the Company's Board members may elect to convert a portion or all of their calendar year annual retainers otherwise payable in cash into shares of the company's common stock.

## 11 Stockholders' Equity

### Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss ("AOCL"), net of tax, within the Condensed Consolidated Statements of Stockholders' Equity were as follows:

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
Foreign currency translation adjustments	\$ 34.4	\$ 30.1	\$ 41.7
Pension benefits	4.3	3.6	4.3
Cash flow derivative instruments	(3.7)	(5.1)	(9.0)
Total accumulated other comprehensive loss	\$ 35.0	\$ 28.6	\$ 37.0

The components and activity of AOCL, net of tax, for the three month periods ended February 2, 2024 and February 3, 2023 were as follows:

(Dollars in millions)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2023	\$ 41.7	\$ 4.3	\$ (9.0)	\$ 37.0
Other comprehensive (income) loss before reclassifications	(7.3)	—	3.0	(4.3)
Amounts reclassified from AOCL	—	—	2.3	2.3
Net current period other comprehensive (income) loss	(7.3)	—	5.3	(2.0)
Balance as of February 2, 2024	\$ 34.4	\$ 4.3	\$ (3.7)	\$ 35.0

(Dollars in millions)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2022	\$ 51.3	\$ 3.6	\$ (21.8)	\$ 33.1
Other comprehensive (income) loss before reclassifications	(21.2)	—	21.6	0.4
Amounts reclassified from AOCL	—	—	(4.9)	(4.9)
Net current period other comprehensive (income) loss	(21.2)	—	16.7	(4.5)
Balance as of February 3, 2023	\$ 30.1	\$ 3.6	\$ (5.1)	\$ 28.6

For additional information on the components reclassified from AOCL to the respective line items in net earnings for derivative instruments refer to Note 15, *Derivative Instruments and Hedging Activities*.

## 12 Per Share Data

Reconciliation of basic and diluted weighted-average number of shares of common stock outstanding was as follows:

(Shares in millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
Weighted-average number of shares of common stock outstanding - Basic	104.4	104.5
Effect of dilutive shares	0.3	1.1
Weighted-average number of shares of common stock outstanding - Diluted	104.7	105.6

The effect of dilutive shares from stock option awards and restricted stock unit awards is computed under the treasury stock method. Stock option awards to purchase 850,327 and 268,737 shares of common stock during the first quarter of fiscal 2024 and 2023, respectively, were excluded from the computation of diluted net earnings per share of common stock because they were anti-dilutive.

## 13 Commitments and Contingencies

### ***Customer Financing Arrangements***

#### *Inventory Financing*

The company is party to inventory financing arrangements with Red Iron, Huntington Commercial Finance Canada, Inc. ("HCFC"), and other third-party financial institutions (collectively, the "financial institutions") which provide inventory financing to certain dealers and distributors of certain of the company's products in the U.S. and internationally. These financing arrangements are structured as an advance in the form of a payment by the financial institutions to the company on behalf of a distributor or dealer with respect to invoices financed by the financial institution. 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 the financial institutions and the dealers and distributors, the financial institutions provide loans to the dealers and distributors for the advances paid by the financial institutions to the company. Under these financing arrangements, down payments are not required, and depending on the finance program for each product line, finance charges are incurred by the company, shared between the company and the distributor and/or the dealer, or paid by the distributor or dealer. The financial institutions retain a security interest in the distributors' and dealers' financed inventories and such inventories are monitored regularly through audits. Financing terms to the distributors and dealers require payment as the inventory, which secures the indebtedness, is sold to end-users or when payment otherwise become due under the agreements between the financial institutions and the distributors and dealers, whichever occurs first. Rates are generally indexed to the Secured Overnight Financing Rate ("SOFR"), or an alternative variable rate, plus a fixed percentage that differs based on whether the financing is for a distributor or dealer. Rates may also vary based on the product that is financed.

The net amount of receivables financed for dealers and distributors under this arrangement with Red Iron for the three months ended February 2, 2024 and February 3, 2023 were \$425.6 million and \$674.4 million, respectively. The total amount of net receivables outstanding under this arrangement with Red Iron as of February 2, 2024, February 3, 2023, and October 31, 2023 were \$963.9 million, \$942.0 million and \$1,019.0 million, respectively. The total amount of receivables due from Red Iron to the company as of February 2, 2024, February 3, 2023, and October 31, 2023 were \$25.6 million, \$17.3 million and \$34.4 million, respectively.

The net amount of receivables financed for dealers and distributors under the arrangements with HCFC and the other third-party financial institutions for the three months ended February 2, 2024 and February 3, 2023 were \$131.0 million and \$111.3 million, respectively. As of February 2, 2024, February 3, 2023, and October 31, 2023, \$202.6 million, \$166.1 million and \$234.7 million, respectively, of receivables financed by HCFC and the other third-party financial institutions were outstanding.

#### *Inventory Repurchase Agreements*

The company has entered into a limited inventory repurchase agreement with Red Iron and HCFC under which the company has agreed to repurchase certain repossessed products, up to a maximum aggregate amount of \$7.5 million in a calendar year. Additionally, as a result of the company's floor plan financing agreements with the other third-party financial institutions, the company also entered into inventory repurchase agreements with the other third-party financial institutions. Under such inventory repurchase agreements, the company has agreed to repurchase products repossessed by the other third-party financial institutions. As of February 2, 2024, February 3, 2023 and October 31, 2023, the company was contingently liable to repurchase up to a maximum amount of \$28.7 million, \$79.4 million, and \$32.2 million, respectively, of inventory related to receivables under these inventory repurchase agreements. The company's financial exposure under these inventory repurchase agreements is limited to the difference between the amount paid to Red Iron, HCFC or other third-party financing institutions for repurchases of inventory and the amount received upon subsequent resale of the repossessed product. The company has repurchased immaterial amounts of inventory pursuant to such arrangements for the three months ended February 2, 2024 and February 3, 2023.

#### ***Supplier Finance Program***

The company has a supply chain finance service agreement with a third-party financial institution to provide a web-based platform that facilitates the ability of participating suppliers to finance payment obligations from the company with the third-party financial institution. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the company prior to their scheduled due dates at a discounted price to the third-party financial institution. The company's obligations to its suppliers, including amounts due and scheduled payment dates, are not affected by suppliers' decisions to finance amounts under this supply chain finance arrangement. The company guarantees its payment obligations under the supply chain finance arrangement with the third-party financial institution. The company does not pledge assets as security to the suppliers or the third-party financial institution. As of February 2, 2024, February 3, 2023 and October 31, 2023, \$103.2 million, \$159.7 million, and \$99.6 million, respectively, of the company's outstanding payment obligations were

financed by participating suppliers through the third-party financial institution's supply chain finance web-based platform. These obligations are presented within accounts payable in the Condensed Consolidated Balance Sheets.

**Litigation**

From time to time, 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 occasionally involved in commercial disputes, employment or employment-related 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 reviews certain patents issued by the U.S. Patent and Trademark Office and foreign patent offices. The company believes these activities help minimize its risk of being a defendant in patent infringement litigation.

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 the company's consolidated results of operations, financial position, or cash flows.

In situations where the company receives, or expects to receive, a favorable ruling related to a litigation settlement, the company follows the accounting standards codification guidance for gain contingencies. The company does not allow for the recognition of a gain contingency within its Condensed Consolidated Financial Statements prior to the settlement of the underlying events or contingencies associated with the gain contingency. As a result, the consideration related to a gain contingency is recorded in the Condensed Consolidated Financial Statements during the period in which all underlying events or contingencies are resolved and the gain is realized.

## **14 Leases**

The company enters into contracts that are, or contain, operating lease agreements for certain property, plant, or equipment assets utilized in the normal course of business, such as buildings for manufacturing facilities, office space, distribution centers, and warehouse facilities; land for product testing sites; machinery and equipment for research and development activities, manufacturing and assembly processes, and administrative tasks; and vehicles for sales, service, marketing, and distribution activities. Contracts that explicitly or implicitly relate to property, plant, and equipment are assessed at inception to determine if the contract is, or contains, a lease. Such contracts for operating lease agreements convey the company's right to direct the use of, and obtain substantially all of the economic benefits from, an identified asset for a defined period of time in exchange for consideration. The lease term begins and is determined upon lease commencement, which is the point in time when the company takes possession of the identified asset, and generally includes all non-cancelable periods. Lease expense for the company's operating leases is recognized on a straight-line basis over the lease term and is recorded within cost of sales or selling, general and administrative expense within the Condensed Consolidated Statements of Earnings as dictated by the nature and use of the underlying asset. The company does not recognize right-of-use assets and lease liabilities, but does recognize expense on a straight-line basis, for short-term operating leases which have a lease term of 12 months or less and do not include an option to purchase the underlying asset.

Lease payments are determined at lease commencement and generally represent fixed lease payments as defined within the respective lease agreement or, in the case of certain lease agreements, variable lease payments that are measured as of the lease commencement date based on the prevailing index or market rate. Future adjustments to variable lease payments are defined and scheduled within the respective lease agreement and are determined based upon the prevailing market or index rate at the time of the adjustment relative to the market or index rate determined at lease commencement. Certain other lease agreements contain variable lease payments that are determined based upon actual utilization of the identified asset. Such future adjustments to variable lease payments and variable lease payments based upon actual utilization of the identified asset are not included within the determination of lease payments at commencement but rather, are recorded as variable lease expense in the period in which the variable lease cost is incurred.

[Table of Contents](#)

Right-of-use assets represent the company's right to use an underlying asset throughout the lease term and lease liabilities represent the company's obligation to make lease payments arising from the lease agreement. The company accounts for operating lease liabilities at lease commencement and on an ongoing basis as the present value of the minimum remaining lease payments under the respective lease term. Minimum remaining lease payments are generally discounted to present value based on the estimated incremental borrowing rate at lease commencement as the rate implicit in the lease is generally not readily determinable. Right-of-use assets are measured as the amount of the corresponding operating lease liability for the respective operating lease agreement, adjusted for prepaid or accrued lease payments, the remaining balance of any lease incentives received, unamortized initial direct costs, and impairment of the operating lease right-of-use asset, as applicable.

The following table presents the lease expense incurred on the company's operating, short-term, and variable leases:

(Dollars in millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
Operating lease expense	\$ 9.2	\$ 6.1
Short-term lease expense	1.0	0.9
Total lease expense	\$ 10.2	\$ 7.0

The following table presents supplemental cash flow information related to the company's operating leases:

(Dollars in millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
Right-of-use assets obtained in exchange for lease obligations	\$ 1.6	\$ 1.9
Operating cash flows for amounts included in the measurement of lease liabilities	\$ 7.5	\$ 6.2

The following table presents other lease information related to the company's operating leases:

	February 2, 2024	February 3, 2023	October 31, 2023
Weighted-average remaining lease term of operating leases in years	9.2	5.8	9.3
Weighted-average discount rate of operating leases	4.87 %	3.61 %	4.83 %

The following table reconciles the total undiscounted future cash flows based on the anticipated future minimum operating lease payments by fiscal year for the company's operating leases to the present value of operating lease liabilities recorded within the Condensed Consolidated Balance Sheets as of February 2, 2024:

(Dollars in millions)	February 2, 2024
2024 (remaining)	\$ 18.1
2025	23.8
2026	17.8
2027	14.2
2028	12.0
Thereafter	69.7
Total future minimum operating lease payments	155.6
Less: imputed interest	28.4
Present value of operating lease liabilities	\$ 127.2

## 15 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, costs associated with 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 enters into various derivative instruments to hedge against such risk, authorized under a company policy that places 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 and costs associated with foreign plant operations, including 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 costs associated with foreign plant operations, including purchases from suppliers, are recorded in net sales and cost 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.

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 redesignated 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 2, 2024, the notional amount outstanding of forward currency contracts designated as cash flow hedging instruments was \$ 368.6 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:

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
Derivative assets:			
<i>Derivatives designated as cash flow hedging instruments:</i>			
Prepaid expenses and other current assets			
Forward currency contracts	\$ 6.9	\$ 7.8	\$ 13.7
<i>Derivatives not designated as cash flow hedging instruments:</i>			
Prepaid expenses and other current assets			
Forward currency contracts	2.9	2.8	3.1
Total derivative assets	\$ 9.8	\$ 10.6	\$ 16.8
Derivative liabilities:			
<i>Derivatives designated as cash flow hedging instruments:</i>			
Accrued liabilities			
Forward currency contracts	\$ —	\$ 1.4	\$ —
<i>Derivatives not designated as cash flow hedging instruments:</i>			
Accrued liabilities			
Forward currency contracts	—	0.1	—
Total derivative liabilities	\$ —	\$ 1.5	\$ —

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 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 on its Condensed Consolidated Balance Sheets.

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

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
Derivative assets:			
<i>Forward currency contracts:</i>			
Gross amount of derivative assets	\$ 10.6	\$ 11.1	\$ 16.8
Derivative liabilities offsetting derivative assets	0.8	0.5	—
Net amount of derivative assets	\$ 9.8	\$ 10.6	\$ 16.8
Derivative liabilities:			
<i>Forward currency contracts:</i>			
Gross amount of derivative liabilities	\$ —	\$ 1.5	\$ —
Derivative assets offsetting derivative liabilities	—	—	—
Net amount of derivative liabilities	\$ —	\$ 1.5	\$ —

[Table of Contents](#)

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 2, 2024 and February 3, 2023:

(Dollars in millions)	Three Months Ended			
	Gain Reclassified from AOCL into Earnings		(Loss) Gain Recognized in OCI on Derivatives	Derivatives
	February 2, 2024	February 3, 2023	February 2, 2024	February 3, 2023
<i>Derivatives designated as cash flow hedging instruments:</i>				
Forward currency contracts:				
Net sales	\$ 0.9	\$ 4.1	\$ (5.7)	\$ (17.3)
Cost of sales	1.4	0.8	0.4	0.6
Total derivatives designated as cash flow hedging instruments	\$ 2.3	\$ 4.9	\$ (5.3)	\$ (16.7)

The company recognized immaterial gains and losses within other income, net in the Condensed Consolidated Statements of Earnings during the first quarter of fiscal 2024 and fiscal 2023, respectively, due to the discontinuance of cash flow hedge accounting on certain forward currency contracts designated as cash flow hedging instruments. As of February 2, 2024, the company expects to reclassify approximately \$3.6 million of gains from AOCL to earnings during the next twelve months.

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 millions)	Gain Recognized in Earnings on Cash Flow Hedging Instruments			
	February 2, 2024		February 3, 2023	
	Net Sales	Cost of Sales	Net Sales	Cost of Sales
<i>Condensed Consolidated Statements of Earnings income (expense) amounts in which the effects of cash flow hedging instruments are recorded</i>				
\$ (657.4)	\$ 1,001.9	\$ (657.4)	\$ 1,148.8	\$ (752.9)
<i>Gain on derivatives designated as cash flow hedging instruments:</i>				
Forward currency contracts:				
Amount of gain reclassified from AOCL into earnings	0.9	1.4	4.1	0.8
Gain on components excluded from effectiveness testing recognized in earnings based on changes in fair value	\$ 0.8	\$ 0.7	\$ 1.2	\$ 0.6

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 millions)	Three Months Ended	
	February 2, 2024	February 3, 2023
	Net Sales	Cost of Sales
<i>Loss on derivatives not designated as cash flow hedging instruments</i>		
Forward currency contracts:		
Other loss, net	\$ (1.1)	\$ (3.4)
Total loss on derivatives not designated as cash flow hedging instruments	\$ (1.1)	\$ (3.4)

## 16 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 such forward currency contracts is determined based on observable market transactions of forward currency prices and spot currency rates as of the reporting date.

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 2, 2024, February 3, 2023, and October 31, 2023, according to the valuation technique utilized to determine their fair values (dollars in millions):

Fair Value Measurements Using Inputs Considered as:						
February 2, 2024	Fair Value	Level 1	Level 2	Level 3		
Assets:						
Forward currency contracts	\$ 9.8	\$ —	\$ 9.8	\$ —		
Total assets	\$ 9.8	\$ —	\$ 9.8	\$ —		
Liabilities:						
Forward currency contracts	\$ —	\$ —	\$ —	\$ —		
Total liabilities	\$ —	\$ —	\$ —	\$ —		

  

Fair Value Measurements Using Inputs Considered as:						
February 3, 2023	Fair Value	Level 1	Level 2	Level 3		
Assets:						
Forward currency contracts	\$ 10.6	\$ —	\$ 10.6	\$ —		
Total assets	\$ 10.6	\$ —	\$ 10.6	\$ —		
Liabilities:						
Forward currency contracts	\$ 1.5	\$ —	\$ 1.5	\$ —		
Total liabilities	\$ 1.5	\$ —	\$ 1.5	\$ —		

October 31, 2023	Fair Value	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Forward currency contracts	\$ 16.8	\$ —	\$ 16.8	\$ —
Total assets	\$ 16.8	\$ —	\$ 16.8	\$ —
<b>Liabilities:</b>				
Forward currency contracts	\$ —	\$ —	\$ —	\$ —
Total liabilities	\$ —	\$ —	\$ —	\$ —

#### **Nonrecurring 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 a business combination are also measured at fair value on a non-recurring basis during the measurement period allowed by the accounting standards codification guidance for business combinations when applicable. Alternatively, under a cost accumulation model, the company measures the fair values of net assets acquired as part of an asset acquisition before allocating the cost of the asset acquisition to the net assets acquired on the basis of their relative fair values.

#### **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. As of February 2, 2024, February 3, 2023, and October 31, 2023, the company's long-term debt included \$524.2 million, \$524.1 million, and \$524.2 million of gross fixed-rate debt that is not subject to variable interest rate fluctuations. The gross fair value of such long-term debt is determined using Level 2 inputs by discounting the projected cash flows based on quoted market rates at which similar amounts of debt could currently be borrowed. As of February 2, 2024, the estimated gross fair value of long-term debt with fixed interest rates was \$512.6 million compared to its gross carrying amount of \$ 524.2 million. As of February 3, 2023, the estimated gross fair value of long-term debt with fixed interest rates was \$520.5 million compared to its gross carrying amount of \$ 524.1 million. As of October 31, 2023, the estimated gross fair value of long-term debt with fixed interest rates was \$478.2 million compared to its gross carrying amount of \$ 524.2 million. For additional information regarding long-term debt with fixed interest rates, refer to Note 5, *Indebtedness*.

## **17 Subsequent Events**

On March 6, 2024, the SEC finalized its climate-related disclosure rules. The company is currently evaluating the impact on its Condensed Consolidated Financial Statements and related disclosures.

The company has evaluated all additional subsequent events and concluded that no other 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.

## 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 Condensed Consolidated 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 the context indicates otherwise, the terms "company," "TTC," "we," "our," or "us" refer to The Toro Company and its consolidated subsidiaries. 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, 2023. 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

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 "Cautionary Note Regarding Forward-Looking Statements" located at the beginning of this Quarterly Report on Form 10-Q for more information.

### **Non-GAAP Financial Measures**

Throughout this MD&A, we have provided financial and liquidity measures that are not calculated or presented in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") ("non-GAAP financial measures," "adjusted" before specified financial measures, and "non-GAAP liquidity measures"), as information supplemental and in addition to the most directly comparable financial measures presented in this Quarterly Report on Form 10-Q that are calculated and presented in accordance with U.S. GAAP. We believe that these non-GAAP financial measures, when considered in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP, provide investors with useful supplemental financial information to better understand our core operational performance and cash flows. These non-GAAP financial measures, however, should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the most directly comparable U.S. GAAP financial measures. Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

### **COMPANY OVERVIEW**

The Toro Company is in the business of designing, manufacturing, marketing, and selling professional turf maintenance equipment and services; turf irrigation systems; landscaping equipment and lighting products; snow and ice management products; agricultural irrigation systems; rental, specialty, and underground construction equipment; and residential yard and snow thrower products. Our purpose is to help our customers enrich the beauty, productivity, and sustainability of the land. Sustainability is integrated into our enterprise strategic priorities of accelerating profitable growth, driving productivity and operational excellence, and empowering our people. Our focus on alternative power, smart connected, and autonomous solutions, as well as our continued efforts to address sustainability-focused matters, including environmental, social, and governance priorities, are embedded as part of our "Sustainability Endures" initiative.

We sell our products worldwide through a network of distributors, dealers, mass retailers, hardware retailers, equipment rental centers, and home centers, as well as online and 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, as described in greater detail within the section titled "Business Segments" in this MD&A.

### **Productivity Initiative**

On December 20, 2023 we announced our new AMP initiative, which is a multi-year initiative intended to result in annualized cost savings of at least \$100 million by fiscal 2027, driven by sustainable supply-base, design-to-value, and route-to-market transformation. We intend to reinvest a portion of the savings from this initiative to further accelerate innovation and long-term growth.

## RESULTS OF OPERATIONS

### Overview

Consolidated net sales for the first quarter of fiscal 2024 were \$1,001.9 million, down 12.8 percent compared to \$1,148.8 million in the first quarter of fiscal 2023. Professional segment net sales for the first quarter of fiscal 2024 were \$756.5 million, a decrease of 14.1 percent compared to \$880.7 million in the first quarter of the prior fiscal year. Residential segment net sales for the first quarter of fiscal 2024 were \$240.1 million, a decrease of 9.3 percent compared to \$264.6 million in the first quarter of the prior fiscal year.

Net earnings for the first quarter of fiscal 2024 were \$64.9 million, or \$0.62 per diluted share, compared to net earnings of \$106.9 million, or \$1.01 per diluted share, for the first quarter of fiscal 2023. Adjusted net earnings for the first quarter of fiscal 2024 were \$66.5 million, or \$0.64 per diluted share, compared to \$103.6 million, or \$0.98 per diluted share, for the first quarter of fiscal 2023.

We continued our history of paying quarterly cash dividends and increased our cash dividend for the first quarter of fiscal 2024 by 5.9 percent to \$0.36 per share compared to \$0.34 per share paid in the first quarter of fiscal 2023.

Field inventory levels were higher as of the end of the first quarter of fiscal 2024 compared to the end of the first quarter of fiscal 2023, primarily driven by certain lawn care and snow and ice management products following the adverse weather conditions and macro factors experienced during the second half of fiscal 2023.

Our order backlog represents unfulfilled customer orders at a point in time. Our order backlog (including shipments beyond 12 months) was higher as of the end of the first quarter of fiscal 2024 compared to the end of the fourth quarter of fiscal 2023 due to normal seasonal trends. Our order backlog remains significantly elevated over what the company would consider normal, due to demand for underground and specialty construction and golf and grounds products continuing to outpace production of such products.

### Net Sales

Consolidated net sales for the first quarter of fiscal 2024 were \$1,001.9 million, down 12.8 percent compared to \$1,148.8 million in the first quarter of fiscal 2023. This net sales decrease was primarily driven by lower shipments of both Professional and Residential segment products.

Net sales in international markets decreased by \$40.4 million for the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023, primarily driven by lower shipments of both Residential and Professional segment products. Changes in foreign currency exchange rates resulted in an increase in our net sales of approximately \$0.8 million for the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023.

The following table summarizes our results of operations as a percentage of consolidated net sales:

	Three Months Ended	
	February 2, 2024	February 3, 2023
Net sales	100.0 %	100.0 %
Cost of sales	(65.6)	(65.5)
Gross profit	34.4	34.5
Selling, general and administrative expense	(25.6)	(22.6)
Operating earnings	8.8	11.9
Interest expense	(1.6)	(1.2)
Other income, net	0.8	0.7
Earnings before income taxes	8.0	11.4
Income tax provision	(1.5)	(2.1)
Net earnings	6.5 %	9.3 %

### Gross Profit and Gross Margin

Gross profit for the first quarter of fiscal 2024 was \$344.5 million, down 13.0 percent compared to \$395.9 million in the first quarter of fiscal 2023. Adjusted gross profit for the first quarter of fiscal 2024 was \$344.5 million, down 13.0 percent compared to \$396.1 million for the first quarter of fiscal 2023. Gross margin was 34.4 percent for the first quarter of fiscal 2024 compared to 34.5 percent for the first quarter of fiscal 2023, a decrease of 10 basis points. The slight decrease in gross margin was primarily due to unfavorable product mix within the Residential segment, mostly offset by favorable product mix within the Professional segment.

#### **Selling, General, and Administrative ("SG&A") Expense**

SG&A expense decreased \$3.6 million, or 1.4 percent, for the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023. As a percentage of net sales, SG&A expense increased 300 basis points for the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023. The increase in SG&A expense as a percentage of net sales for the first quarter comparison was primarily due to lower net sales volume.

#### **Interest Expense**

Interest expense increased \$2.1 million for the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023. The increase in interest expense was primarily due to higher average interest rates and higher average outstanding borrowings under our debt arrangements.

#### **Other Income, Net**

Other income, net decreased \$1.3 million for the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023. The decrease was primarily due to a favorable net legal settlement that was recognized in fiscal 2023 and did not repeat in fiscal 2024, partially offset by the favorable impact from derivative instruments and higher income from our Red Iron joint venture.

#### **Provision for Income Tax**

The effective tax rate for the first quarter of fiscal 2024 was 19.0 percent compared to 18.6 percent in the first quarter of fiscal 2023, primarily due to lower tax benefits recorded as excess tax deductions for stock-based compensation in the current-year period, partially offset by a more favorable geographic mix of earnings. The adjusted effective tax rate for the first quarter of fiscal 2024 was 20.8 percent compared to an adjusted effective tax rate of 21.4 percent in the first quarter of fiscal 2023, primarily driven by a more favorable geographic mix of earnings.

#### **Net Earnings**

The net earnings for the first quarter of fiscal 2024 were \$64.9 million, or \$0.62 per diluted share, compared to \$106.9 million, or \$1.01 per diluted share, for the first quarter of fiscal 2023. The decrease in net earnings per diluted share for the first quarter comparison was primarily due to lower Professional and Residential segment earnings. Adjusted net earnings for the first quarter of fiscal 2024 were \$66.5 million, or \$0.64 per diluted share, compared to \$103.6 million, or \$0.98 per diluted share, for the first quarter of fiscal 2023, a decrease of 34.7 percent per diluted share.

#### **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 included earnings (loss) from our wholly-owned domestic distribution company, Red Iron joint venture, corporate activities, other income, and interest expense. Corporate activities include general corporate expenditures, such as finance, human resources, legal, information services, public relations,

[Table of Contents](#)

and similar activities, as well as other unallocated corporate assets and liabilities, such as corporate facilities and deferred tax assets and liabilities. The following tables summarize net sales for our reportable business segments and Other activities:

(Dollars in millions)	Three Months Ended				
	February 2, 2024	February 3, 2023	Dollar Value Change	Percentage Change	
Professional	\$ 756.5	\$ 880.7	\$ (124.2)	(14.1)	%
Residential	240.1	264.6	(24.5)	(9.3)	
Other	5.3	3.5	1.8	51.4	
Total net sales*	\$ 1,001.9	\$ 1,148.8	\$ (146.9)	(12.8)	%
*Includes international net sales of:	\$ 205.0	\$ 245.4	\$ (40.4)	(16.5)	%

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

(Dollars in millions)	Three Months Ended				
	February 2, 2024	February 3, 2023	Dollar Value Change	Percentage Change	
Professional	\$ 112.8	\$ 144.1	\$ (31.3)	(21.7)	%
Residential	23.5	37.8	(14.3)	(37.8)	
Other	(56.2)	(50.6)	(5.6)	(11.1)	
Total segment earnings	\$ 80.1	\$ 131.3	\$ (51.2)	(39.0)	%

#### Professional Segment

##### Segment Net Sales

Worldwide net sales for our Professional segment for the first quarter of fiscal 2024 decreased 14.1 percent compared to the first quarter of fiscal 2023. The decrease was driven primarily by lower shipments of zero-turn mowers and snow and ice management products, partially offset by higher shipments of underground and specialty construction products, and golf and grounds equipment.

##### Segment Earnings

Professional segment earnings for the first quarter of fiscal 2024 decreased 21.7 percent compared to the first quarter of fiscal 2023, and Professional segment earnings margin decreased to 14.9 percent from 16.4 percent in the first quarter of fiscal 2023. The decrease in Professional segment earnings margin was primarily due to lower net sales volume, partially offset by favorable product mix.

#### Residential Segment

##### Segment Net Sales

Worldwide net sales for our Residential segment for the first quarter of fiscal 2024 decreased 9.3 percent compared to the first quarter of fiscal 2023. The decrease was primarily driven by lower shipments of snow products and zero-turn mowers, partially offset by higher shipments of walk-power mowers and portable power products.

##### Segment Earnings

Residential segment earnings for the first quarter of fiscal 2024 decreased 37.8 percent compared to the first quarter of fiscal 2023, and Residential segment earnings margin decreased to 9.8 percent from 14.3 percent in the first quarter of fiscal 2023. The decrease in Residential segment earnings margin for the first quarter of fiscal 2024 was largely driven by product mix.

#### Other Activities

##### Other Net Sales

Net sales for our Other activities includes sales from our wholly-owned domestic distribution company net of intersegment sales from the Professional and Residential segments to the distribution company. Net sales for our Other activities in the first quarter of fiscal 2024 increased by \$1.8 million compared to the same period in fiscal 2023.

#### **Other Operating Loss**

The operating loss for our Other activities for the first quarter of fiscal 2024 increased \$5.6 million compared to the first quarter of fiscal 2023 and was primarily due to higher corporate expenses and higher interest expense.

#### **FINANCIAL POSITION**

##### **Working Capital**

The macroeconomic environment remains challenging, but our supply chain is continuing to stabilize. Our ongoing goal is to maintain requisite inventory levels to meet our anticipated production requirements, avoid manufacturing delays, and meet the demand for our products, as well as working to ensure service parts availability for our customers. Accounts receivable as of the end of the first quarter of fiscal 2024 increased \$111.8 million, or 29.6 percent, compared to the end of the first quarter of fiscal 2023, primarily driven by timing of shipments to our mass channel and payment terms. Inventory levels were up \$45.7 million, or 4.0 percent, as of the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023, driven by higher finished goods balances, primarily due to lower shipments of zero-turn mowers and snow and ice management products, partially offset by reduced work in process balances driven by more reliable component availability and productivity improvements. Accounts payable decreased \$53.4 million, or 11.2 percent, as of the end of the first quarter of fiscal 2024 compared to the end of the first quarter of fiscal 2023, primarily driven by a reduction in purchases year over year.

#### **Cash Flow**

##### **Cash Flows from Operating Activities**

Cash used in operating activities for the first three months of fiscal 2024 was \$92.2 million compared to \$68.9 million for the first three months of fiscal 2023 mainly due to lower net earnings during the current fiscal year period compared to the prior fiscal year period.

##### **Cash Flows from Investing Activities**

Cash used in investing activities for the first three months of fiscal 2024 was \$19.1 million compared to \$21.9 million for the first three months of fiscal 2023. This decrease in cash used in investing activities was primarily driven by lower purchases of property, plant, and equipment, net of proceeds from insurance claim in the current fiscal year period compared to the prior fiscal year period.

##### **Cash Flows from Financing Activities**

Cash provided by financing activities for the first three months of fiscal 2024 was \$114.1 million compared to cash provided by financing activities for the first three months of fiscal 2023 of \$74.4 million. This increase in cash provided by financing activities was mainly due to higher net borrowings, partially offset by lower proceeds from exercise of stock options, in each case during the current fiscal year period compared to the prior fiscal year period.

#### **Liquidity and Capital Resources**

As of February 2, 2024, we had available liquidity of \$600.9 million, consisting of cash and cash equivalents of \$198.5 million, of which \$91.1 million was held by our foreign subsidiaries, and availability under our revolving credit facility of \$402.4 million. We believe our current liquidity position, including the funds available through existing, and potential future, financing arrangements and forecasted cash flows from operations will be sufficient to provide the necessary capital resources for our anticipated working capital needs, payroll, and other administrative costs, capital expenditures, lease payments, purchase commitments, contractual obligations, acquisitions, investments, establishment of new facilities, expansion and renovation of existing facilities, financing receivables from customers that are not financed with Red Iron or other third-party financial institutions, contingent consideration payments, debt repayments, interest payments, quarterly cash dividend payments, and common stock repurchases, all as applicable, for at least the next twelve months.

### Indebtedness

Our debt arrangements are described in further detail in our Annual Report on Form 10-K for the fiscal year ended October 31, 2023. The following is a summary of our indebtedness:

(Dollars in millions)	February 2, 2024	February 3, 2023	October 31, 2023
\$600 million revolving credit facility, due October 2026	\$ 195.0	\$ 100.0	\$ 40.0
\$270 million term loan, due October 2026	270.0	270.0	270.0
\$200 million term loan, due April 2027	200.0	200.0	200.0
3.81% series A senior notes, due June 2029	100.0	100.0	100.0
3.91% series B senior notes, due June 2031	100.0	100.0	100.0
3.97% senior notes, due June 2032	100.0	100.0	100.0
7.8% debentures, due June 2027	100.0	100.0	100.0
6.625% senior notes, due May 2037	124.2	124.1	124.2
Less: unamortized debt issuance costs	2.6	3.1	2.7
Total long-term debt	1,186.6	1,091.0	1,031.5
Less: current portion of long-term debt	6.8	—	—
Long-term debt, less current portion	\$ 1,179.8	\$ 1,091.0	\$ 1,031.5

As of February 2, 2024, we had \$195.0 million of outstanding borrowings under our revolving credit facility and \$2.6 million outstanding under the sublimit for standby letters of credit, which resulted in \$402.4 million of unutilized availability under our revolving credit facility.

We are in compliance with our debt covenants and other requirements of our revolving credit facility and term loan credit agreements, indentures, and private placement note purchase agreements.

### Cash Dividends

Our Board of Directors approved a cash dividend of \$0.36 per share for the first quarter of fiscal 2024 that was paid on January 11, 2024. This was an increase of 5.9 percent over our cash dividend of \$0.34 per share for the first quarter of fiscal 2023. We expect to continue paying our quarterly cash dividend to shareholders for the remainder of fiscal 2024.

### Share Repurchases

During the first three months of fiscal 2024, we did not repurchase shares of our common stock. As of February 2, 2024, 6,949,491 shares remained available for repurchase under our Board authorized repurchase program. We expect to repurchase shares of our common stock throughout the remainder of fiscal 2024, depending on our cash balance, debt repayments, market conditions, our anticipated working capital needs, the price of our common stock, and/or other factors.

### Customer Financing Arrangements

Our customer financing arrangements are described in further detail in our Annual Report on Form 10-K for the fiscal year ended October 31, 2023. There have been no material changes to our customer financing arrangements during the first three months of fiscal 2024.

### Inventory Financing

We are party to inventory financing arrangements with Red Iron, HCFC, and other third-party financial institutions which provide inventory financing to certain dealers and distributors of certain of our products in the U.S. and internationally.

The net amount of receivables financed for dealers and distributors under the arrangement with Red Iron for the three month periods ended February 2, 2024 and February 3, 2023 were \$425.6 million and \$674.4 million, respectively. The total amount of net receivables outstanding under the arrangement with Red Iron as of February 2, 2024, February 3, 2023 and October 31, 2023 were \$963.9 million, \$942.0 million and \$1,019.0 million, respectively. The total amount of receivables due from Red Iron to us as of February 2, 2024, February 3, 2023 and October 31, 2023 were \$25.6 million, \$17.3 million and \$34.4 million, respectively.

The net amount of receivables financed for dealers and distributors under the arrangements with HCFC and the other third-party financial institutions for the three month periods ended February 2, 2024 and February 3, 2023 were \$131.0 million and \$111.3 million, respectively. The total amount of net receivables outstanding under the arrangements with HCFC and the other third-party financial institutions as of February 2, 2024, February 3, 2023, and October 31, 2023 were \$202.6 million, \$166.1 million, and \$234.7 million, respectively.

*Inventory Repurchase Agreements*

We have entered into a limited inventory repurchase agreement with Red Iron and HCFC under which we have agreed to repurchase certain repossessed products, up to a maximum aggregate amount of \$7.5 million in a calendar year.

Additionally, as a result of our financing agreements with the other third-party financial institutions, we have also entered into inventory repurchase agreements with the other third-party financial institutions. Under such inventory repurchase agreements, we have agreed to repurchase products repossessed by the other third-party financial institutions. As of February 2, 2024, February 3, 2023, and October 31, 2023, we were contingently liable to repurchase up to a maximum amount of \$28.7 million, \$79.4 million, and \$32.2 million, respectively, of inventory related to receivables under these inventory repurchase agreements.

Our financial exposure under these inventory repurchase agreements is limited to the difference between the amount paid to Red Iron, HCFC or other third-party financing institutions for repurchases of inventory and the amount received upon subsequent resale of the repossessed product. We have repurchased immaterial amounts of inventory pursuant to such arrangements for the three months ended February 2, 2024 and February 3, 2023. However, a decline in retail sales or financial difficulties of our distributors or dealers could cause this situation to change and thereby require us to repurchase financed product, which could have an adverse effect on our results of operations, financial position, or cash flows.

**NON-GAAP FINANCIAL MEASURES**

We have provided in this Quarterly Report on Form 10-Q certain non-GAAP financial measures, which are not calculated or presented in accordance with U.S. GAAP, as information supplemental and in addition to the most directly comparable financial measures that are calculated and presented in accordance with U.S. GAAP. We use these non-GAAP financial measures in making operating decisions and assessing liquidity because we believe they provide meaningful supplemental information regarding our core operational performance and cash flows, as a measure of our liquidity, and provide us with a better understanding of how to allocate resources to both ongoing and prospective business initiatives. Additionally, these non-GAAP financial measures facilitate our internal comparisons to both our historical operating results and to our competitors' operating results by factoring out potential differences caused by charges and benefits not related to our regular, ongoing business, including, without limitation, certain non-cash, large, and/or unpredictable charges and benefits; acquisitions and dispositions; legal judgments, settlements, or other matters; and tax positions. We believe that these non-GAAP financial measures, when considered in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP, provide investors with useful supplemental financial information to better understand our core operational performance and cash flows. These 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 most directly comparable U.S. GAAP financial measures. The non-GAAP financial measures may differ from similar measures used by other companies.

**Reconciliation of Non-GAAP Financial Measures**

The following table provides a reconciliation of the non-GAAP financial performance measures used in this report to the most directly comparable measures calculated and reported in accordance with U.S. GAAP for the three month periods ended February 2, 2024 and February 3, 2023:

	<b>Three Months Ended</b>	
<b>(Dollars in millions, except per share data)</b>	<b>February 2, 2024</b>	<b>February 3, 2023</b>
Gross profit	\$ 344.5	\$ 395.9
Acquisition-related costs <sup>1</sup>	—	0.2
Adjusted gross profit	\$ 344.5	\$ 396.1
Operating earnings	\$ 88.6	\$ 136.4
Acquisition-related costs <sup>1</sup>	—	0.5
Productivity initiative <sup>2</sup>	3.9	—
Adjusted operating earnings	\$ 92.5	\$ 136.9
Operating earnings margin	8.8 %	11.9 %
Productivity initiative <sup>2</sup>	0.4 %	— %
Adjusted operating earnings margin	9.2 %	11.9 %
Earnings before income taxes	\$ 80.1	\$ 131.3
Acquisition-related costs <sup>1</sup>	—	0.5
Productivity initiative <sup>2</sup>	3.9	—
Adjusted earnings before income taxes	\$ 84.0	\$ 131.8
Income tax provision	\$ 15.2	\$ 24.4
Acquisition-related costs <sup>1</sup>	—	0.2
Productivity initiative <sup>2</sup>	0.8	—
Tax impact of share-based compensation <sup>3</sup>	1.5	3.6
Adjusted income tax provision	\$ 17.5	\$ 28.2
Net earnings	\$ 64.9	\$ 106.9
Acquisition-related costs, net of tax <sup>1</sup>	—	0.3
Productivity initiative, net of tax <sup>2</sup>	3.1	—
Tax impact of stock-based compensation <sup>3</sup>	(1.5)	(3.6)
Adjusted net earnings	\$ 66.5	\$ 103.6
Net earnings per diluted share	\$ 0.62	\$ 1.01
Productivity initiative, net of tax <sup>2</sup>	0.03	—
Tax impact of stock-based compensation <sup>3</sup>	(0.01)	(0.03)
Adjusted net earnings per diluted share	\$ 0.64	\$ 0.98
Effective tax rate	19.0 %	18.6 %
Tax impact of stock-based compensation <sup>3</sup>	1.8 %	2.8 %
Adjusted effective tax rate	20.8 %	21.4 %

<sup>1</sup> On January 13, 2022, we completed our acquisition of Intimidator Group. Acquisition-related costs for the three month period ended February 3, 2023 represent integration costs.

<sup>2</sup> In the first quarter of fiscal 2024, we launched a significant productivity initiative we have named AMP, as discussed in more detail under the heading "Company Overview-Productivity Initiative" in this section. We considered the nature, frequency, and scale of this initiative compared to our prior productivity initiatives when determining that the expenses associated with AMP, unlike our prior productivity initiatives, are not common, normal, recurring operating expenses and are not representative of our ongoing business operations. Productivity initiative charges for the three month period ended February 2, 2024 primarily represent third-party consulting costs.

## [Table of Contents](#)

<sup>3</sup> The accounting standards codification guidance governing employee stock-based compensation requires that any excess tax deduction for stock-based compensation be immediately recorded within income tax expense. Employee stock-based compensation activity, including the exercise of stock options, can be unpredictable and can significantly impact our net earnings, net earnings per diluted share, and effective tax rate. These amounts represent the discrete tax benefits recorded as excess tax deductions for stock-based compensation during the three month periods ended February 2, 2024 and February 3, 2023.

### **Reconciliation of Non-GAAP Liquidity Measures**

We define free cash flow as net cash provided by operating activities less purchases of property, plant, and equipment, net of proceeds from insurance claim. Free cash flow conversion percentage represents free cash flow as a percentage of net earnings. We consider free cash flow and free cash flow conversion percentage to be non-GAAP liquidity measures that provide useful information to management and investors about our ability to convert net earnings into cash resources that can be used to pursue opportunities to enhance shareholder value, fund ongoing and prospective business initiatives, and strengthen our Condensed Consolidated Balance Sheets, after reinvesting in necessary capital expenditures required to maintain and grow our business. The following table provides a reconciliation of non-GAAP free cash flow and free cash flow conversion percentage to net cash provided by operating activities, which is the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, for the three month periods ended February 2, 2024 and February 3, 2023:

<b>(Dollars in millions)</b>	<b>Three Months Ended</b>	
	<b>February 2, 2024</b>	<b>February 3, 2023</b>
Net cash used in operating activities	\$ (92.2)	\$ (68.9)
Less: Purchases of property, plant, and equipment, net of proceeds from insurance claim	19.1	\$ 22.2
Free cash flow	(111.3)	\$ (91.1)
Net earnings	\$ 64.9	\$ 106.9
Free cash flow conversion percentage	(171.5)%	(85.2)%

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no material changes to our critical accounting policies and estimates since our Annual Report on Form 10-K for the fiscal year ended October 31, 2023. 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, 2023 for a discussion of our critical accounting policies and estimates.

### **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 equity market risk included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2023. 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, 2023 for a complete discussion of our market risk. Refer below for further discussion on foreign currency exchange rate risk, interest 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, costs associated with 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, and the Romanian new leu against the U.S. dollar, as well as the Romanian new leu against the Euro. Because our products are manufactured or sourced primarily from the U.S. 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 enter into various derivative instruments to hedge against such risk, authorized under a company policy that places controls on these hedging activities, with counterparties that are highly rated financial institutions. 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 the changes in values of the related underlying 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. For additional information regarding our derivative instruments, refer to Note 15, *Derivative Instruments and*

[Table of Contents](#)

*Hedging Activities*, in our Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The foreign currency exchange contracts in the table below have maturity dates in fiscal 2024 through fiscal 2026. All items are non-trading and stated in U.S. dollars. As of February 2, 2024, the average contracted rate, notional amount, fair value, and the gain (loss) at fair value of outstanding derivative instruments were as follows:

(Dollars in millions, except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value	Gain (Loss) at Fair Value
Buy U.S. dollar/Sell Australian dollar	0.6756	\$ 111.5	\$ 114.1	\$ 2.6
Buy U.S. dollar/Sell Canadian dollar	1.3332	52.0	52.3	0.3
Buy U.S. dollar/Sell Euro	1.1112	178.3	180.6	2.3
Buy U.S. dollar/Sell British pound	1.2545	54.4	53.7	(0.7)
Buy Mexican peso/Sell U.S. dollar	19.6327	\$ 62.4	\$ 67.7	\$ 5.3

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 accumulated other comprehensive loss in stockholders' equity on the Condensed Consolidated Balance Sheets, and would not impact net earnings.

#### Interest Rate Risk

Our interest rate risk relates primarily to fluctuations in variable interest rates on our revolving credit facility and term loan credit agreements, as well as the potential increase in the fair value of our fixed-rate long-term debt resulting from a potential decrease in interest rates. We generally do not use interest rate swaps to mitigate the impact of fluctuations in interest rates. We have no earnings or cash flow exposure due to interest rate risks on our fixed-rate long-term debt obligations. Our indebtedness as of February 2, 2024 includes \$524.2 million of gross fixed-rate long-term debt that is not subject to variable interest rate fluctuations, \$470.0 million of gross variable rate debt under our term loan credit agreements, and \$195.0 million outstanding on our variable rate revolving credit facility.

#### Commodity Cost Risk

Most of the commodities, components, parts, and accessories used in our manufacturing process and end-products, or to be sold as standalone end-products, are exposed to commodity cost changes. These changes may be affected by several factors, including, for example, demand; inflation; deflation; changing prices; foreign currency fluctuations; tariffs; duties; trade regulatory actions; industry actions; and changes to international trade policies, agreements, and/or regulation and competitor activity, including antidumping and countervailing duties on certain products imported from foreign countries, such as certain engines imported into the U.S. from China.

Our primary cost exposures for commodities, components, parts, and accessories used in our products are with steel, aluminum, petroleum, and natural gas-based resins, linerboard, copper, lead, rubber, engines, transmissions, transaxles, hydraulics, electrification components, and others. Our largest spend categories for commodities, components, parts, and accessories are generally steel, engines, hydraulic components, transmissions, resin, aluminum, and electrification components, all of which we purchase from several suppliers around the world. We generally purchase commodities, components, parts, and accessories based upon market prices that are established with suppliers as part of the purchase process and generally attempt to obtain firm pricing from most of our suppliers for volumes consistent with planned production and estimates of wholesale and retail demand for our products.

In any given period, we strategically attempt to mitigate potential unfavorable impact as a result of changes to the cost of commodities, components, parts, and accessories that affect our product lines through our productivity initiatives; however, our productivity initiatives may not be as effective as anticipated depending on macroeconomic cost trends for commodities, components, parts, and accessories costs and/or other factors. Our productivity initiatives include, but are not limited to, collaborating with suppliers, reviewing alternative sourcing options, substituting materials, SKU rationalization, utilizing Lean methods, engaging in internal cost reduction efforts, and utilizing tariff exclusions and duty drawback mechanisms, all as appropriate. When appropriate, we may also increase prices on some of our products to offset changes in the cost of commodities, components, parts, and accessories. To the extent that commodity and component costs increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, and/or our productivity initiatives and/or product price increases are less effective than anticipated and/or do not fully offset cost increases, we may experience a decline in our gross margins.

ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure 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 Chairman of the Board, President and Chief Executive Officer and our Vice President, Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chairman of the Board, President and Chief Executive Officer and our Vice President, 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 the Chairman of the Board, President and Chief Executive Officer and Vice President, Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the three month period ended February 2, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are a party to litigation in the ordinary course of business, including claims for punitive, as well as compensatory, damages arising out of the use of our products; litigation and administrative and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment; and commercial disputes, employment and employment-related disputes, and patent litigation cases. For a description of our material legal proceedings, refer to Note 13, *Commitments and Contingencies*, in our Notes to Condensed Consolidated Financial Statements under the heading "Litigation" included in Part I, 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 material risk factors known to us that could materially adversely affect our business, reputation, industry, operating results, or financial position 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, Part I, Item 1A. "Risk Factors." There has been no material change in those risk factors.

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

The following table sets forth information with respect to shares of the company's common stock purchased by the company during each of the three fiscal months in the company's first quarter ended February 2, 2024:

Period	Total Number of Shares (or Units) Purchased <sup>1,2,3</sup>	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs <sup>1,2</sup>	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>1,2</sup>
November 1, 2023 through December 1, 2023	—	\$ —	—	6,949,491
December 2, 2023 through December 29, 2023	—	—	—	6,949,491
December 30, 2023 through February 2, 2024	1,779	91.20	—	6,949,491
<b>Total</b>	<b>1,779</b>	<b>\$ 91.20</b>	<b>—</b>	<b>6,949,491</b>

<sup>1</sup> On December 4, 2018, the company's Board of Directors authorized the repurchase of 5,000,000 shares of the company's common stock in open-market or privately negotiated transactions. This authorized stock repurchase program has no expiration date but may be terminated by the company's Board of Directors at any time. The company did not repurchase any shares under this program during the period indicated above and 1,949,491 shares remained available to repurchase under this authorized stock repurchase program as of February 2, 2024.

<sup>2</sup> On December 13, 2022, the company's Board of Directors authorized the repurchase of an additional 5,000,000 shares of the company's common stock in open-market or privately negotiated transactions. This authorized stock repurchase 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 1,779 shares of the company's common stock purchased in open-market transactions at an average price of \$91.20 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in the company's deferred compensation plans. These 1,779 shares were not repurchased under the company's authorized stock repurchase programs described in notes 1 and 2 above.

**ITEM 5. OTHER INFORMATION****Rule 10b5-1 Plan and Non-Rule 10b5-1 Trading Arrangement Adoptions, Terminations, and Modifications**

During the company's first quarter ended February 2, 2024, none of its directors or "officers" (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of SEC Regulation S-K.

ITEM 6. EXHIBITS

(a)	Exhibit No.	Description
	<a href="#">3.1 and 4.1</a>	<a href="#">Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 18, 2008, Commission File No. 1-8649).</a>
	<a href="#">3.2 and 4.2</a>	<a href="#">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 as filed with the Securities and Exchange Commission on March 13, 2013, Commission File No. 1-8649).</a>
	<a href="#">3.3 and 4.3</a>	<a href="#">Amended and Restated Bylaws of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 30, 2023, Commission File No. 1-8649).</a>
4.4		Indenture dated as of January 31, 1997, between The Toro Company 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 as filed with the Securities and Exchange Commission on June 27, 1997, Commission File No. 1-8649). (Filed on paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
4.5		<a href="#">Indenture dated as of April 20, 2007, between The Toro Company 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).</a>
4.6		<a href="#">First Supplemental Indenture dated as of April 26, 2007, between The Toro Company 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 as filed with the Securities and Exchange Commission on April 26, 2007, Commission File No. 1-8649).</a>
4.7		<a href="#">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 as filed with the Securities and Exchange Commission on April 26, 2007, Commission File No. 1-8649).</a>
31.1		<a href="#">Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).</a>
31.2		<a href="#">Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).</a>
32		<a href="#">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).</a>
101		The following financial information from The Toro Company's Quarterly Report on Form 10-Q for the quarterly period ended February 2, 2024, filed with the SEC on March 7, 2024, formatted in Inline eXtensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Statements of Earnings for the three month periods ended February 2, 2024 and February 3, 2023, (ii) Condensed Consolidated Statements of Comprehensive Income for the three month periods ended February 2, 2024 and February 3, 2023, (iii) Condensed Consolidated Balance Sheets as of February 2, 2024, February 3, 2023, and October 31, 2023, (iv) Condensed Consolidated Statement of Cash Flows for the three month periods ended February 2, 2024 and February 3, 2023, (v) Condensed Consolidated Statements of Stockholders' Equity for the three month periods ended February 2, 2024 and February 3, 2023, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith).
104		Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

**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 7, 2024

By: /s/ Angela C. Drake

Angela C. Drake

Vice President, Chief Financial Officer

(duly authorized officer, principal financial officer, and principal accounting officer)

**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)  
(Section 302 of the Sarbanes-Oxley Act of 2002)**

I, Richard M. Olson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2024

/s/ Richard M. Olson

Richard M. Olson

Chairman of the Board, President and Chief Executive Officer  
(Principal Executive Officer)

---

**Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)  
(Section 302 of the Sarbanes-Oxley Act of 2002)**

I, Angela C. Drake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2024

*/s/* Angela C. Drake

Angela C. Drake

Vice President, Chief Financial Officer

(Principal Financial and Accounting Officer)

---

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended February 2, 2024 of The Toro Company (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Richard M. Olson, Chairman of the Board, President and Chief Executive Officer of the Company, and Angela C. Drake, Vice President, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard M. Olson

Richard M. Olson

Chairman of the Board, President and Chief Executive Officer

Date: March 7, 2024

/s/ Angela C. Drake

Angela C. Drake

Vice President, Chief Financial Officer

Date: March 7, 2024

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

---