

# TTC Earnings Call Transcript

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**Quarter: 2**

Operator: Good day, ladies and gentlemen, and welcome to The Toro Company Second Quarter Earnings Conference Call. My name is Joshua Wilson, and I will be the coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end of today's conference. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's conference, Jeremy Stefan, Director of Investor Relations. Please proceed, Mr. Stefan.

Jeremy Stefan: Good morning, everyone, and thank you for joining us for The Toro Company's Second Quarter 2025 Earnings Conference Call. On the line with me today are Rick Olson, Chairman and Chief Executive Officer, and Angie Drake, Vice President and Chief Financial Officer. During this call, Rick and Angie will provide their insights on our second quarter results, which were released earlier this morning, along with our outlook and priorities for the remainder of the year. Following their remarks, we'll open the phone lines for a question and answer session. As a reminder, any forward-looking statements we make this morning are subject to risks and uncertainties, including those described in today's earnings release, investor presentation, and most recent SEC filings, and may cause actual results to differ materially from those contemplated by these statements. Also, in our remarks, we'll refer to certain non-GAAP financial measures, which we believe are important in evaluating the company's performance. Reconciliations of all non-GAAP numbers to the most directly comparable GAAP number are included in this morning's press release, along with the second quarter presentation containing supplemental information, which is posted in the Investor Information section of our corporate website. With that, I will now turn the call over to Rick.

Rick Olson: Thanks, Jeremy, and good morning, everyone. Our team has remained focused on leveraging the strength of our diverse portfolio of leading brands, controlling what we can control in a dynamic environment, and driving operational excellence across the organization. In doing so, we exceeded our adjusted earnings per share expectation for the quarter, took decisive actions to overcome near-term headwinds, executed on our playbook to mitigate tariffs, and we continue to introduce new innovative products and solutions that enhance customer productivity at a time when it's needed most. These priorities remain at the forefront of our efforts as we navigate the current environment. For the second quarter, we grew adjusted earnings per share to \$1.42, exceeding our expectations. At the same time, we continued to return cash to shareholders through dividends and share repurchases. These results reflect our team's commitment to operational excellence, despite a dynamic macroeconomic environment and unfavorable regional weather that pressured top-line growth in some businesses. Revenue in the quarter declined 2.3% year over year to \$1.3 billion as weak consumer confidence coupled with a late spring in many regions created near-term headwinds for products sold to homeowners. This was partially offset by continued strength in our golf and grounds businesses, where demand for our innovative products remains robust. We continue to see positive results from our AMP program, which now has generated \$70 million of run-rate savings and remains on track to deliver \$100 million by 2027. As a reminder, in fiscal 2024, we made adjustments to our workforce, manufacturing footprint, and portfolio. And in the current fiscal year, we have reduced our global salaried workforce by an additional 10%. Also in Q2, we took actions to rationalize our operational footprint in the residential segment by winding down production in one of our plants in

Mexico and transitioning that production to existing facilities in the United States. This move will improve fixed cost absorption and efficiency while ensuring we continue to deliver exceptional products and service to our customers. This action also underscores the strength of our supply chain strategies we have in place to mitigate tariff headwinds, which in this dynamic environment we estimate in fiscal 2025 to be approximately 3% of our annual cost of goods sold. Many of these strategies were implemented beginning in 2018 and give us a competitive advantage today. The vast majority of our professional products are manufactured in the United States. And while we do manufacture primarily residential and irrigation products in Mexico, virtually all are USMCA qualified, now making them exempt from Mexico-specific tariffs. Our sourcing team has been working with our suppliers to optimize our supply chain to remain agile in any environment. In addition, we will continue to thoughtfully implement price increases, ensuring our products remain competitive while protecting our profit margins and fueling investments in our future. Finally, I'll share some highlights from the quarter that showcase our continued product innovation, leadership in technology-driven solutions, and customer-focused strategies, all of which reinforce our confidence in The Toro Company's future. Market trends across our professional businesses remain robust. Golf continues its sustained momentum with strong participation levels driving equipment investments, while underground construction is benefiting from the compelling runway of infrastructure projects we've been discussing. Our innovation in alternative power, smart connected products, and autonomous solutions continues to drive significant customer value and differentiates our offerings. During the quarter, our BOSS business introduced several new products, including our new ColdFront Technology electrical system with smart forward headlights. This system seamlessly enables smart integration of the plow and our new EVX Plus smart spreader through a common truck harness. These advancements are aligned with our long-term strategy of helping customers be more productive through technology and innovation. Earlier this year, we expanded our electric construction portfolio to include new E2500 Ultra Buggies with high lift and swivel capabilities, and our new eDingo TX750 in both narrow and wide track formats. These products leverage our hypercell power system, allowing customers to get eight hours of runtime. They're designed to work together on a job site to maximize efficiency and productivity. Additionally, because they are quiet and do not produce exhaust emissions, they provide exceptional value for customers working indoors. In our residential segment, we were awarded the 2024 ACE Hardware Vendor of the Year. This prestigious award recognizes select corporate-wide vendor partners that delivered substantial sales growth, differentiated innovative products, and excellent customer service. The award is a tremendous honor and serves as a significant milestone in our corporate partnership with Ace Hardware that began back in 2015. Throughout the 110-year history of The Toro Company, we have consistently found ways to successfully navigate the most difficult environments. With our proven track record of resilience and agility and our team's commitment to execute with discipline, I am confident that our deliberate actions will advance our strategic priorities and position us for sustainable profitable growth. With that, I will turn the call over to Angie.

Angie Drake: Thank you, Rick, and good morning, everyone. We were pleased to deliver adjusted diluted EPS growth in the quarter, highlighted by Professional segment growth and profitability improvement. Consolidated net sales for the quarter were \$1.32 billion, down slightly from Q2 last year. Reported EPS was \$1.37 per diluted share, compared to \$1.38 in the second quarter of last year. Adjusted EPS was \$1.42 per diluted share, up from \$1.40. Now to the segment results. Professional segment net sales for the second quarter were just over \$1 billion, up about 1% year over year. This increase was primarily driven by higher shipments of golf and grounds products. This was partially offset by lower shipments of underground products, largely due to the divestitures of construction equipment dealers and lower shipments of specialty construction equipment, more specifically compact utility loaders. Professional segment earnings for the second quarter were \$202 million, up 6% year over year. Professional segment earnings margin was 19.9%, up from 19%. The 90 basis point increase in profitability was primarily due to product mix and productivity improvements. This was partially offset by higher material and manufacturing costs. The margin improvement we are seeing in the Professional segment demonstrates the quality and resilience of its businesses, which continue to be our primary growth and profit drivers. Residential segment net sales for the second quarter were \$297 million, down 11% year over year. The decrease was primarily driven by lower shipments of Watt

Power Mowers, zero-turn mowers, and portable power products, and the pump products divestiture last year. These factors were partially offset by higher shipments of snow products and lower sales promotions and incentives. Residential segment earnings for the quarter were \$16 million compared to \$36 million last year. Residential segment earnings margin was 5.4% compared to 10.8%. The decrease was largely due to higher material, manufacturing, and freight costs, lower net sales volume, and inventory valuation adjustments. These were partially offset by productivity improvements and lower sales promotions and incentives. Turning to our operating results for the total company. Our reported and adjusted gross margins were 33.1% and 33.4%, respectively, for the quarter. This compares to 33.6% for both in the same period last year. Current quarter reported gross margin reflects higher AMP charges compared to last year. Additional year-over-year changes on both a reported and adjusted basis were primarily due to higher material and manufacturing costs, partially offset by product mix and productivity improvements. SG&A; expense as a percentage of net sales for the quarter was 19.8%, up slightly from 19.7% a year ago. The change was primarily due to lower net sales volume. Operating earnings margin was 13.3%, down from 13.9% in the same period last year. On an adjusted basis, operating earnings margin was 13.7%, down from 14.2%. The reported effective tax rate for the second quarter was 18.9% compared with 19.2% last year. The decrease was primarily due to a more favorable geographic mix of earnings this year. This was partially offset by lower tax benefits recorded as excess tax deductions for stock-based compensation in the current year period. The adjusted effective tax rate for the second quarter was 18.7% compared with 19.8% a year ago, primarily driven by the geographic mix of earnings. Free cash flow through the second quarter was \$84.7 million, a slight decrease on a year-over-year basis and largely due to changes in working capital. During the quarter, we deployed \$100 million towards share repurchases, bringing our year-to-date total to \$200 million. This reflects our confidence in cash generation and our commitment to returning capital to shareholders while maintaining balance sheet flexibility. Looking ahead to the remainder of the year across the two segments, our Professional segment outlook remains largely unchanged with continued growth expected in golf and grounds and underground construction. Most importantly, as a United States-based company, the vast majority of our professional products are manufactured here, which strategically positions the segment and overall company favorably in the current macroeconomic environment. Within the residential segment, our actions to adjust our manufacturing footprint in Mexico combined with the USMCA qualified tariff exemptions position us well from a cost standpoint and competitively. However, current macroeconomic factors, including high interest rates, are resulting in persistent elevated levels of caution from homeowners. Looking ahead to the third quarter of fiscal 2025, we anticipate total company net sales to be flat to slightly up compared to the prior year. We expect Professional segment net sales to be up mid-single digits and Residential segment net sales to be down high teens compared to the same period last year. Shifting to third quarter profitability, we expect total company adjusted operating margin to be similar year over year with slightly higher Professional segment earnings margin and lower Residential segment earnings margin. Overall, we expect our third quarter fiscal 2025 adjusted diluted EPS to be slightly higher than last year's \$1.18. Based on what we know today and our expectations for the third quarter, we are adjusting our fiscal 2025 guidance to incorporate additional macro headwinds for products sold to homeowners. Trade downs and delayed spending, especially on big-ticket items, have created a larger drag than originally planned. Given those factors, we now expect total year revenue will be flat to down 3% from fiscal 2024. We expect the Professional segment to be up slightly year over year, while revenue from the Residential segment is expected to be down mid-teens. We continue to expect total company adjusted gross margin and adjusted operating earnings as a percentage of net sales to improve on a year-over-year basis. Looking at segment profitability, we continue to expect Professional segment earnings margin will expand versus the prior year. However, economic headwinds from homeowners are expected to pressure Residential segment earnings margin, resulting in a year-over-year decline. Finally, we are slightly reducing our range for adjusted diluted EPS to be \$4.15 to \$4.30, which at midpoint implies year-over-year growth of 1% even with a likely decline in revenue. These revised projections also assume normal weather patterns aligned with historical averages for the remainder of the fiscal year. Additional adjustments to our full-year guidance include interest expense of about \$59 million and an adjusted effective tax rate of 19%. The strategic actions we've discussed, our AMP

transformational productivity initiative, and our tariff mitigation strategies, are delivering immediate benefits and positioning us for improved operating leverage as markets normalize. Our Professional segment continues to perform well, our innovation pipeline remains robust, and our strong cash generation supports our investments in continued growth as well as returning capital to shareholders. We are navigating today's environment from a position of strength, supported by our market leadership, operational excellence, and the financial flexibility to create long-term value. This disciplined approach to managing through cycles while investing in our future is how we build enduring value for all stakeholders. With that, I'll turn the call back to Rick.

Rick Olson: Thank you, Angie. Before opening up the call for Q&A, I want to thank our employees and channel for their dedication and reinforce what you've heard this morning. We remain committed to driving long-term value for all stakeholders. We delivered EPS ahead of our expectations in the second quarter, despite tariff headwinds, macroeconomic conditions, and a delayed start to spring. We're taking decisive actions to align with near-term demand in certain businesses by adjusting headcount, manufacturing footprint, and our portfolio. We are actively mitigating tariffs by optimizing our U.S.-based manufacturing network and capabilities, strategically working with our suppliers to adjust global sourcing, and both quickly and thoughtfully increasing prices while keeping our products competitive and maintaining margins. And finally, we are investing in technology and innovation, which enables us to introduce new products and solutions that enhance customer productivity at a time when it's needed most. With that, we will open up the call for questions. Thank you.

Operator: Ladies and gentlemen, if you wish to ask a question, please press 1 followed by 1 on your telephone keypad. If your question has been answered or you wish to withdraw your question, please press 1 followed by 1 again. Our first question comes from Tim Wojs with Baird. You may proceed.

Tim Wojs: Hey, everybody. Good morning. Thanks for all the details. Maybe just to start, Rick. I guess in the landscape business within the pro segment, the inventory in that channel had, I think, still been kind of high coming into this season. Where does that kind of stand now? And, I guess, how did the landscape contractor business kind of perform itself in the quarter and pro?

Rick Olson: Sure. I'd be happy to address that. First of all, we talked about, we really talked about for the last year about adjustments to our field inventory, particularly in the landscape contractor area. And last quarter, we talked about the opportunity to adjust that during the spring selling season. So we've largely returned to where we would like to be in that category. The exception would be the slower start to spring. So shipments in the spring were as expected, but the delay of start of spring has it a little bit higher. That's really reflected in our guide for the rest of the year, making sure that we watch that field inventory more closely. So we feel much better about our field inventory position, a little bit higher in the landscape and the residential area because of the start of spring, but otherwise, feeling okay about it.

Tim Wojs: Okay. Okay. And then on the residential business, I mean, is that really kind of the primary area where the guidance has been revised? And I guess when you look at the resi business, is it kind of broad-based across the customer channels and products? Or is it specific to, you know, maybe the independent dealers or home centers? Or just a little bit of color on the residential business specifically?

Rick Olson: You're right. It's the residential business, but the reason why we use the word homeowner is because it's the residential business plus that portion of our landscape contractor business that is sold to homeowners, homeowners that desire a professional-level product. Both of those areas are absolutely the prime drivers of the reduction that you're seeing. And the factors really are the two major factors are, first of all, just the macroeconomic environment and the sense of consumer confidence that's out there for those buyers. Whether it's the tariff dynamics, the inflation, interest rates, and so forth. And when they do buy, they're tending to buy down, down ticket a little bit or down the line a little bit. So that does affect our margins a little bit as we go more towards entry-level products. So that's the macro factor that's in play. And then the other factor is just, as I mentioned, the timing of spring. We lost a lot of the first portion of average spring, if you will, in April with a slower warm-up. Actually really across the US, but the South particularly was slow to warm. So those are the two major factors. A lot of strength across the professional business in general. And we usually don't talk about the other, the opposite side of the landscape contractor, but the contractor portion of that business has remained strong throughout this process and continues to be very strong today. Landscape contractors are built

very healthy position, a little bit better snow year last year, they did snow work and came into the season very strong. So that's been great. It's also helped by the introduction of new products. So Exmark has seen a really nice surge with the introduction of the new laser platform there, which is kind of the icon of the industry.

Tim Wojs: Okay. Okay. Great. And then just the last one I had. On the underground business, I mean, you had called it out in the script about it being down year over year, but then on the other hand, you're also talking about pretty good demand metrics or you're encouraged by what you're seeing from a demand perspective. So can you just kind of tie those two things together? Was it last year kind of backlog normalization was happening? And this that's just creating a tough comp? Or how would you kind of marry the business being down but seeing good demand?

Rick Olson: Yeah. So if you look at the impact in the current quarter, the two, actually, three major factors really are the sale of two dealers, and that's kind of normal for us in making transitions of ownership to be involved with that process. So, the dealers and then reselling them to the new owners. So that was the biggest factor. We had some rationalization of SKUs for non-core products. So just kind of doing portfolio management on our line, if you will, taking out some of the non-performing SKUs. Then we mentioned last time, we're making tremendous progress in this area, but the startup of some new products, particularly product design specifically for the telecommunications business. We're through those startup challenges, but still ramping that up and making great progress at this point. We remain extraordinarily excited about this business. Long term, very positive about the drivers over the next several years and have tremendously long runway. If you think of the drivers of fiber, utilities work, that's happening, and specifically the data infrastructure, the building of data centers, and all of the infrastructure that needs to go with that, the power that we're all talking about that's needed for those centers, all of that gets installed underground and uses our equipment. Think a good proxy would be to look at some of the key customers in those areas, the area use these products, so DICOM, Quanta, MasTec, that's good places to look, and they're all, you know, signaling very positive outlooks for their business as well.

Tim Wojs: Can you tell us anything? You might mention the trade show that you attended in April.

Rick Olson: Yeah. A month ago, you know, just to talk about this as a worldwide phenomenon, we were at the trade show in Germany, largest equipment trade show in Europe. And I was there with our underground team, and the demands and excitement from those contractors is incredible. The amount of work that is ahead of them in Europe is quite amazing, whether it's the infrastructure or hydrogen that we talked about, massive kind of rerouting of where power is coming from, so large transmission cables that are going underground. We are also introducing specific products that will be tailored to that work in Europe. So we're very excited about this business.

Tim Wojs: Thanks for all the details. Good luck on the rest of the year.

Rick Olson: Thank you, Tim.

Operator: Thank you. Our next question comes from Samuel Darkatsh with Raymond James. You may proceed.

Samuel Darkatsh: I am. Doing well. How are you?

Rick Olson: I'm well. Thank you.

Samuel Darkatsh: Wanted to explore some of the tariff disclosures that you had today. You're mentioning it's 3% of COGS, which is, I don't know, around a hundred million bucks or so. Can you be more specific in terms of which countries and what sorts of either products or components this is referring to?

Rick Olson: Yeah. We can do that. I mean, just to set the foundation, as we've talked about, the majority of our products are manufactured in the United States. And virtually all of our professional products are produced in the United States. And most of our supply base is also based in the United States. Our exposure to China from a supply standpoint is about 3% or so. And if you think about the products that we talked about that are produced in Mexico, those are all USMCA qualified. We've been through a qualification process for those. Then to get to your kind of core question, the biggest driver is, first of all, even though it's a small percentage, if you project the potential tariffs for the rest of the year, China is still the number one category. So even though it's very small, if you're looking at the 100 plus percent potential tariff returning, that becomes still a significant number of the 100 less than \$100

million that you're talking about. Second category would be steel and aluminum. And just since the announcement yesterday, it's a little bit of a challenger for the top category with China. And then after that would be the general reciprocal tariffs across other countries at this point. So that's really the kind of the big three breakdowns that probably takes the 80% of through the tariff.

Angie Drake: Yeah, and I think it's important just to reiterate that we plan to mitigate all of that, virtually all of that through our actions this year.

Samuel Darkatsh: Right. Which is my next question. So the mitigation, is that dollar for dollar? Is that rate for rate? And would there still be pressure from a tariff standpoint, maybe second quarter, third quarter, and then neutral to positive in the fourth quarter? I know you're looking to offset it in its entirety. Just trying to get a sense of the trajectory.

Rick Olson: Our estimate is based on the known tariffs and the timing of when those tariffs would turn to the higher levels in some cases. So the impact is actually, correct me if I'm wrong, Angie, but probably greater in the fourth quarter. If you look at those larger tariffs coming back. And with regard to offsetting them, it is dollar for dollar offsetting. We understand potential pressure on margin. We'll continue to work on that. And then just the tools that we're using there, price is kind of where we go at the end, where we can't make up the net difference. But we go to productivity. Very grateful that we had already launched the AMP initiative, extraordinarily helpful in the current environment where we've got some unforeseen new costs related to the tariffs. We're taking advantage of the strategies that we have put in place since 2018, reducing exposure to China specifically. And the team is very oriented towards productivity and efficiency in this environment. Relates even to our the announcement that we made in our prepared remarks about reducing our footprint in Mexico as well.

Samuel Darkatsh: Is the 90,000,000, is that an annualized number? Is that just for fiscal twenty five? How should we think about because especially since you're saying it's mostly 4Q?

Angie Drake: Yeah. That's gonna be for fiscal twenty twenty five. So that's based on your Mhmm. So on an annualized basis, Angie, what is the what is the number look like?

Angie Drake: Yeah. We haven't shared that. Sam. What we're thinking is that if we we calculate that based on what we know today, and what those executive orders are saying that we'll go back place potentially. After this pause, it'll be about that 90,000,000 ish for 25 only.

Rick Olson: My last question sorry, Rick. The yeah. Sam, I think the where we're coming from there is just how dynamic this is. We're we're challenged to calculate what it is for '25 with the ups and downs. I think any estimate that we would give you for the for following years would be, you know, way out there.

Samuel Darkatsh: My last question on the resi margins was the inventory valuation adjustment the primary negative variance versus your plan, and and what was the amount of that valuation adjustment? Does it continue? Was it one off? That kind of thing.

Angie Drake: That, was the primary. We, you know, we saw decreased sales year over year. Also some increased production costs, but the inventory valuation was a big factor, a big driver in that profitability. That is kind of a one off. I mean, it is the fact that we're looking at at our businesses and really trying to to manage what we need to do right now, but also thinking about our battery adoption rates. You know, those are lower than than we had expected them to be. So when we talk about this in our sustainability report, we talk about battery being 20% of our business. And today, that's somewhere around 7%. So just being, realistic about, reserving some of that excess inventory as we as we think about battery as well. Overall now with the I'm sorry. Overall, I'd say we're taking actions. Improve our our long term, Sam, and, make sure that we can create value in the future with that residential. Segment.

Samuel Darkatsh: What was the amount of the allowance of evaluation adjustment?

Angie Drake: I don't think we've shared that. You should see some information in the queue.

Samuel Darkatsh: Perfect. Thank you very much.

Angie Drake: Mhmm. Thanks, Sam.

Operator: Thank you. Our next question comes from David MacGregor with Longbow Research. You may proceed.

David MacGregor: Yes. Good morning, everyone. Want to start off by just asking about price good morning. I wanted to start off by just asking about price cost. And you called out materials cost as a headwind for both professional and residential. Given the pricing actions that you've taken in 2Q and

early 3Q, do you expect to fully cover that cost inflation and whatever incremental tariff pressures may occur in the second half.

Angie Drake: Our price for Q2, our price will be slightly up, really driven kind of by less promotion and incentives in our residential space. And our cost was more. So if we look forward to Q3, we haven't guided but our price should be up based on the implemented tariff price actions that we have taken. And overall, for the full year, we expect our price to be slightly higher than our normal 1% to two but we also expect to see higher costs.

David MacGregor: Right. I guess I'm just trying to get a sense of you've you've you've indicated that you expect to fully offset the, tariff pressures. You're calling out materials headwinds in both segments. And I'm just wondering if there's also enough that's been provided for in terms of the pricing initiatives and the reduced promotional actions that we're not gonna be talking about material headwinds in the second half.

Angie Drake: Yeah, I think what we're working on those product costs and material headwinds. Luckily, our AMP transformational productivity initiative is helping mitigate some of those, costs as well. So timing for that initiative has been very good. and a total of We were able to deliver another \$6,000,000 in run rate savings in the quarter \$70,000,000, for year to date. So or actually project to date. For the initiatives. So those are also helping to offset some of those material costs that you mentioned. I believe the largest category within AMP would be cost of goods sold.

David MacGregor: It's directly working on those. Yeah. From our supply base. Mhmm. Okay. Same portion. That's helpful. That's helpful. Thank you. Second question, just on POS sell through. Can you just talk about did you see this quarter in both residential and landscape, contractor? I realized weather was an issue, and we've talked about that. But just even taking that into consideration, can you just talk about sell through and maybe more importantly, how the quarter ended and if you can talk at all about what you're seeing here in May. Just trying to get a sense of how that velocity may be picking up.

Rick Olson: Yeah. We talked about the two big factors affecting homeowners. The first and probably the largest is the general consumer confidence that's in play as they're making a purchase decision. That means that they're probably more likely to buy the product if they need it versus if they want to buy it. And when they do buy it, they're they're kind of working down down product line range a little bit to more entry-level products. And then the late spring was the other factor. And we retail is good, to answer your question, in May. Much better than it was in April. Now into June continues to be solid. But in the current kind of with those macro clouds kind of hanging over, it's less likely that we would make up that April loss because of the delay of spring as we sometimes do in some years where the weather is ideal consumer confidence is higher. We've built that into our guidance that we do not expect to get back some of that early spring sales that we lost. We're making sure that we watch inventories to keep those in line as a result.

David MacGregor: Right. You mentioned that replacement demand or duress demand is holding up well. Discretionary demand maybe not so much. Can you just remind us in your major categories, the residential and maybe landscape contractor as well, how much of that's replacement to mill percentage you think of as being replacement demand versus more discretionary types of purchases?

Rick Olson: It was probably 90% eighty percent to ninety percent replacement. And maybe more precisely what I'm referring to is that kind of up and down the range. So you know, if you're feeling great about the economy and macro factors, you're more likely to go up our range and even jump into professional-level products. So we see more activity at the lower end of our range. And, you know, if you're buying it because you need it because, you know, either bought a new house, your previous product needs to be replaced, it's not functional, those types of things.

David MacGregor: And would you say landscape contractors 89% as well?

Rick Olson: Yes.

David MacGregor: K. And can you just remind us what percentage of landscape contractor is that kind of aspirational residential customer?

Rick Olson: We don't split that apart, but it is significant, and it is different by brand. The X Mark is going to be more professional on the professional side. Toro kind of crosses the range, it really starts with the strength in the residential area. And the Spartan brand is kind of in between in that prosumer space.

David MacGregor: Okay. Quick question on promotions. Can you just talk about how you use promotions in this environment? You talked about the fact that you're dialing that back. But yet, the Toro customer is conditioned, I would think, at this point to expect some level of promotional support just in terms of your seasonal sales events. How can you just talk about how you use promotions at this point? Particularly given the need to sort of manage the tariff exposure and pass that through?

Angie Drake: Sure. Yes. I wouldn't say that we're dialing back our promotions, so we did mention that promotion and citizen were a little bit lower for residential in Q2. And that was really related to the comp from last year. If you remember, we had high field inventory. We were working through some of those issues, and so our promotions and incentives were just a bit higher in fiscal twenty four than they were this year. Still using those promotions and incentives to get product out the door in, our residential landscape contractor business certainly. And continue to see that throughout the rest of this year.

David MacGregor: Okay. Okay, good. Last question for me is on capital allocation. On the share repurchases, dollars 200,000,000. If my model's correct, that's the highest midyear allocation in Toro's history. Dollars 200,000,000. I guess the obvious question, what does that does that portend for the second half of this year? Just how are you thinking about that?

Angie Drake: Sure. Yes. We were to report that that we, repurchased \$200,000,000 year to date. We just have high confidence in our ability to generate cash. Typically, as you know, we generate the majority of our cash in the second half. But we have a disciplined approach to our capital allocation, and that really remains unchanged. So we'll take an opportunistic approach to our share repurchases as well. But first, we will invest in ourselves, continue to invest in research and development, innovation and technology, M and A where that's applicable, continue to pay dividends to our shareholders. And then finally, number four is share repurchases. So going to continue to look at that through the rest of the year, and we have continued repurchase shares in Q3.

David MacGregor: Right. And any change in your CapEx expectations?

Angie Drake: No change there.

David MacGregor: No change there. Wonderful. Thanks very much. I appreciate the answers.

Angie Drake: Thank you. Thank you, David.

Operator: Thank you. Our next question comes from Eric Bosshard with Cleveland Research Company. You may proceed.

Eric Bosshard: Thanks. Good morning. Rick, I I I thought your your comments about a bit more normal May and spring starting to show up. Were helpful. I'm curious the reduction in the revenue guide for the back half of the year, what's notably different She said you had upside in the second quarter. What's different in the assumptions in the back half of the year?

Rick Olson: It's the reduction is really being driven by that the homeowner behavior. As absolutely the dominant portion of that. So it is acknowledging that what happens in April, we're not going to get those sales back from a later spring, especially in an environment where confidence is lower for those customers. So it's really the homeowner. It shows up in residential directly, and it shows up in professional by virtue of the products that are purchased by homeowners that landscape contractor category. So it's you're right. It's in it's in those areas.

Angie Drake: I would just add to that, Eric, that the environment just remains so dynamic. And so for our consumers, it's dynamic, but for also for our professional customers and continuing to watch our field inventories too. So continuing to watch what what we're pushing into the field and but, importantly, we're seeing continued growth in golf and grounds, underground, and then our our contractor space. So overall, the outlook is is positive for the year from from a demand perspective.

Eric Bosshard: Okay. Okay. The second question on the the underground, construction equipment, ditch which business I understand there's some moving parts with the dealers and and the other pieces. I also know this business has got quite a lengthy backlog that provides, ongoing support for demand. Is that underlying demand or the is the new order trend the same that it's been? Is it better? Is it worse? Just trying to to get a sense of the the underlying demand, in this business.

Rick Olson: Yes. The base business and demand remains strong for the factors that I talked about. And the backlog, we are having an impact on the backlog. We're obviously working that down to meet our customers' expectations. But no change to the demand profile from our perspective. We continue to

see strong demand as we go forward. We are managing that backlog down to be the factor that we didn't talk much about yet. Yeah. The backlog, as we've said in the past, will probably not be back to normal levels for that business until fiscal twenty six. We still have low field inventory, low channel inventory for those underground construction dealers as well.

Rick Olson: But just as a reminder, I'm back. Both for that business and for golf and grounds, it is our desire to reduce the backlog make sure that we meet our customer expectations for availability.

Eric Bosshard: Okay. In the in the current quarter, reduction or or down revenue in this business, this should be a one This I mean, with the amount of backlog and with no change to demand, like, this business should generate growth as we move forward. This should just be a two q result that's that's unique. Is that the right way to think about it?

Rick Olson: We we expect it to continue continue to grow at those one off items were the biggest factors in which you saw this quarter.

Angie Drake: Yes. And those are just related to a comp year over year. So the sales of dealers and the some of the SKU rationalization.

Eric Bosshard: Will be a comp. Okay. Okay. And then the last question I just had, the clarity in on the tariffs in terms of offset, I get that AMP and the cost out and productivity is the lion's share of what you're doing. Does the pricing I guess, a two part question. First of all, is the pricing more skewed to pro and away from residential? And then two, how would you characterize the traction that you're having with these price increase efforts that you put in place?

Angie Drake: I'll start, Rick, and jump in here. I'd say the pricing is is not skewed either way. It's really kind of across the board. And we've got both prices and surcharges. So, both of those are there. And it would be skewed to the later half of the year, obviously, just implementing those price increases sometime in May. So we'll continue to see that throughout the rest of this year.

Rick Olson: Yes, Steve. The only thing I would add is it's a very surgical process based on the specific markets and the specific product lines. So it's specific to the business, obviously very dynamic environment competitively and with the tariffs themselves. So so we didn't do blanket increases across the company. We did a very specific to the businesses.

Eric Bosshard: Thank you very much.

Operator: Thank you. And as a reminder, to ask a question, please press Our next question comes from Ted Jackson with Northland Capital. You may proceed.

Ted Jackson: Thanks very much. Good morning, Rick, Angie, Jeremy. Morning. So first question, just kinda more for curiosity. If my memory is right, with second quarter, you were still going through some last year, you were still going through your kind of the the stocking for Lowe's. And if that's true, and what what the decline in residential in if you were to normalize for that? You know, we were down eleven point four percent and but, I mean, if you you had a pretty tough comp, if my memory correct. Have you taken a look and and kinda what it would have been in a more basis?

Rick Olson: And so we have a little trouble hearing you, but if you're talking about the the Lowe's comp that definitely is a factor last year, the first year with Lowe's. You know, stocking the stores and so forth was still taking place. In the second quarter. So the other the other factor I would just mention is snow. That's part of the equation. So based on the flow through the season, the actual snow season, that product would be shipped through normally in the third quarter is the biggest quarter. So we've included a lower snow projection. That was a a factor in the second quarter as well. Second quarter is not a huge snow snow quarter, but it was one of the factors. The biggest things were the overall macro situation with the homeowner and the timing of spring. The comp to last year with Lowe's is a legitimate call out to as well.

Ted Jackson: And then a little bit of Yeah. I get snow. Can can I mean, do you hear me better now? I don't know. I can't do much about it if you can't Okay. No. I just I was just kinda curious, like, if you were to normalize for Lowe's, what the what what your what would it what would it look like? I mean, you know, I mean, I assume you'd be it wouldn't be down, you know, 11 plus percent. I'd assume kinda curious on a more organic basis what it might have looked That was my question. And I have a couple more.

Rick Olson: I think if you put the normal spring back in, it just wipes that out. So it's it's a the the spring is a bigger factor than the lows is. It kinda dwarfs.

Angie Drake: Yeah. Because the lights were Oh. A big factor, not consumer, but also for the channel and and then mass as well.

Ted Jackson: Okay. And then, my next question, just kind of going into working capital and thinking about the second half of the year. You know, so if the the outlook for the second half of the year is you know, not what you had expected, you know, at the beginning of the of the quarter. For what what does that do in terms of working I mean, where are you you know, particularly with regards to inventories, does that leave you a little you know, heavier on that front and something to work through as we get through the year. Just so maybe a little color in terms of how to think about know, second half working capital at Toro given the revised.

Angie Drake: Mhmm. That's a that's a great question. So overall, if we think about just working capital and inventory, we are a little higher on finished goods driven by the late spring that we've been talking about. But sequentially, we're actually down in net inventory about 1%. We are working our lower we are working our work in process down it is lower. And continuing to drive, you know, productivity and manufacturing output in some of our areas of backlog for sure. But that continues to be an area of focus for us. So as we talked about earlier with some of those inventory valuations, we're we're working through and moving through some of our excess and obsolete inventory. So continuing to focus and move that working capital number down along with our inventory.

Ted Jackson: Okay. And then my third and final question, just shifting back over to tariffs. If one was to take an optimistic viewpoint with regards to Trump's ability to bring a deal across the finish line with someone like China, because, you know, he is a negotiator and a transactional guy. Would that change your guidance if you were to see, say, the reprieve that we had with regards to tariffs with China and everyone else, become permanent. Would you come back out and be changing your guidance?

Rick Olson: I mean, there could be some positive pickups. There are so many moving pieces to this. There are also you know, tariffs in other directions. So the best thinking is is reflected in our guidance. As we talked about, a lot of the tariff impact as it comes back to the higher levels would be in the fourth quarter. So we'll certainly give you guidance as we get into the next earnings release. We'll obviously know much more about the outlook in those cases. That'll be the time that we can talk about how that looks for the rest of the year again.

Ted Jackson: But so but can you guys right now, in your guidance, you're expecting tariffs to snap back to these ridiculous levels. So all else being equal, you know, if we see an extension or some kind of deal that's better than that, all else being equal, there would be an there would be an improvement for you.

Rick Olson: We we have included all of those tariffs. Yes.

Angie Drake: Okay. Yeah. You're And to the higher rates.

Ted Jackson: Mhmm.

Angie Drake: So so that could be if something could go better or worse, that is one of those items, Ted, that it could go better if if tariffs don't pop back to the levels that we expect them to with the executive orders.

Ted Jackson: Okay. That's it for me. Thank you very much for taking my questions.

Angie Drake: Thanks, Thank you.

Operator: Thank you. Our next question comes from David MacGregor with Longbow Research. May proceed.

David MacGregor: Yes. Thanks for taking the follow-up. I just had a just on the tariffs, we're on that. I guess I'm thinking competitively and if there's any comment that you'd be willing to provide us in terms of how these tariffs impact your competitive position? And then, I guess I'm also looking for some clarity, and I'm get a little wonky here on you. But if you're competitors are sustaining two thirty two tariff exposure, through the steel and aluminum are they also exposed to the IEPA 10% tariff on top of that? Or is it one or the other?

Rick Olson: You're talking about competitors?

David MacGregor: Competitors. Yeah. Your your your numbers are so small that I think I'd really like to get your perspective on the competitive dynamic here.

Angie Drake: I don't know that we can speak to the competitors necessarily. So I'm not sure. I'm

interested in the tariff exposure. I'm just wondering competitively how I mean, is this providing you with an advantage, do you feel? Do you expect to gain a little market share as a consequence of tariff regimen?

Rick Olson: A few so yeah, maybe a couple comments in that area. On the professional side, we're fairly similarly positioned, I would say, more on the homeowner type of products. If you take in all the factors like exposure to China, the fact that we're a US company, and the strategies that we put in place since 2018, we believe we're in a very solid competitive position.

David MacGregor: Then can you are you able to talk at all about the two thirty two versus IEPA? Are are they cumulative, or are they mutually exclusive?

Angie Drake: I believe they're mutually exclusive, but don't quote me on that, David. I you know, at the stackable and, you know, non stackable, changing constantly. So it's such a dynamic environment. We're continuing to watch it every day.

Rick Olson: Yeah. I think we mentioned before we have the task force together. They're working on all the details of what was announced yesterday. And we'll be able to provide more information as we go on that.

David MacGregor: I appreciate the comment. Thank you very much.

Angie Drake: You bet. Thank you. Thank you.

Operator: Thank you. This concludes the question and answer session. Mr. Stefan, please proceed to closing remarks.

Jeremy Stefan: Thank you, everyone, for your questions and interest in The Toro Company. We look forward to talking to you again in September to discuss our fiscal 2025 third quarter results.

Operator: Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.