

TTC Earnings Call Transcript

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Quarter: 4

Operator: Good day, ladies and gentlemen, and welcome to The Toro Company's Fourth Quarter Earnings Conference Call. My name is Gigi, and I will be your coordinator for today. At this time, all participants are in 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, Heather Lilly, Vice President, Corporate Affairs and Relations. Please proceed, Ms. Lilly.

Heather Lilly: Good morning, everyone, and thank you for joining us for The Toro Company's Fourth Quarter and Year-End 2025 Earnings Conference Call. I am Heather Lilly, Head of Investor Relations. On the line with me today are Rick Olson, Chairman and Chief Executive Officer, Edric Funk, President and Chief Operating Officer, and Angie Drake, Vice President and Chief Financial Officer. Rick, Edric, and Angie will provide an overview of our fourth quarter and full year results, which were released earlier this morning, and discuss our priorities and outlook for fiscal 2026. Following their remarks, we will open the phone lines for a question and answer session. As a reminder, any forward-looking statements that 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 will 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 numbers are included in this morning's press release, which, along with the fourth quarter presentation containing supplemental information, is posted in the Investor Information section of our corporate website. With that, I will turn the call over to Rick.

Rick Olson: Thanks, Heather, and good morning, everyone. Our team remains focused on leveraging our diverse portfolio of leading brands, controlling what we can control, and driving operational excellence. In doing so, we delivered fourth quarter sales and adjusted EPS that exceeded our expectations. We achieved a full-year professional segment earnings margin of 19.4%, demonstrating the resilience and quality of our core business that represents about 80% of our portfolio. We generated record free cash flow of \$578 million, a conversion rate of 146%, returned \$441 million to shareholders through dividends and share repurchases, increased our AMP savings target to \$125 million by the end of 2026, and continued investing in technology and innovation that enhance our customer productivity. We beat our sales expectation for the fourth quarter, reporting consolidated net sales of \$1.07 billion. Fourth quarter Professional segment margin grew to 19.2%. This increase was driven by sustained momentum in the underground construction business and better-than-anticipated growth in snow and ice management. Adjusted diluted earnings per share for the fourth quarter were \$0.91. This reflected year-over-year earnings improvement in both segments, offset by higher expenses related to the restoration of employee incentive compensation. For the full year, we hit the higher end of our net sales guidance, reporting total consolidated net sales of \$4.5 billion. That was down 1.6% from fiscal 2024, with a significant portion of this decrease attributable to the strategic divestitures of company-owned dealers and our pulp product line. We delivered adjusted earnings per diluted share of \$4.20, beating both our current year EPS guidance of about \$4.15 and \$4.17 reported last year. These results were incredibly strong, given the challenging environment of the past two years. Through our focus on key

growth markets and deliberate efforts to improve productivity, we are strengthening our competitive position and accelerating our performance. Specifically, we continue to invest in our golf and grounds, underground specialty construction businesses, reflecting the multiyear secular growth trajectory we anticipate for those markets. Our acquisition of Tornado Infrastructure Equipment, which closed last week, is a great example of the strategic investments we are making to better serve customers facing complex infrastructure projects. Tornado is a leading manufacturer of vacuum excavation and industrial equipment solutions for the underground construction, power transmission, and energy markets. Their products are designed to safely excavate around critical infrastructure to minimize the risk of damage. We are excited to expand our geographic presence and product portfolio as we welcome Tornado to The Toro Company. Additionally, we continue to protect both our profit margins and market competitiveness through significant productivity improvement and thoughtful net price realization. Our multiyear Amplifying Maximum Productivity, or AMP, program has already delivered annualized run-rate cost savings of \$86 million. Some of the actions that are driving these savings include strategic facility closures, reducing our operational footprint by more than 1 million square feet, a reduction in salaried workforce of nearly 15%, and divestitures of non-core businesses and product lines totaling approximately \$60 million in revenue. These actions, combined with thoughtful supply chain strategies and selective price increases, enabled us to mitigate the effect of tariffs and maintain strong margins in fiscal 2025. Additionally, we are pleased to announce that we are increasing our AMP run-rate savings target to \$125 million or more by 2026, up from our original target of at least \$100 million. We are also carefully managing inventory levels across the spectrum, from raw materials to finished goods. As our lead times have recovered to more normal levels, customers are ordering closer to need, positioning us for a clean start as we enter 2026. Largely due to improvements in working capital, our free cash flow for the year was a record \$578 million. This resulted in a free cash flow conversion rate of 146%. We continue to launch products at the forefront of innovation in alternative power, smart connected products, and autonomous solutions that differentiate our offerings and drive significant customer value. Our autonomous GeoLink fairway mower is receiving very positive reviews. It is another excellent example of our expanding technology portfolio. In particular, golf course and commercial customers who are facing labor shortages and budget constraints have expressed their excitement about the tremendous efficiencies inherent in the mower's autonomous capabilities. Customers are also enthusiastic about our Toro Grandstand Multiforce, a stand-on mower that allows them to attach a plow, power broom, and bagging system. The result is higher productivity across all seasons. For landscapers and homeowners with acreage, we recently introduced our X Mark Radius, a zero-turn mower with product styling and features that mirror the highly successful Lazer Z. Collectively, our actions are enhancing our customer productivity, strengthening our operations and market-leading position, and sustaining our profitable growth. I want to thank our employees and channel partners for their diligence in advancing our product innovations and technology-driven solutions and supporting our efficiency initiatives. Now, Angie will share additional insights for our fourth quarter and full-year results and provide our outlook for 2026.

Angie Drake: Thank you, Rick, and good morning, everyone. We delivered strong fourth quarter results that exceeded our expectations and demonstrated the strength of our diversified portfolio, market-leading innovation, and commitment to operational excellence. As a result, our full-year 2025 sales and earnings also outperformed our guidance. Both the Professional and Residential segments contributed stronger-than-anticipated sales across multiple businesses, which drove favorable year-over-year operating leverage in the fourth quarter. Professional segment net sales in the fourth quarter were \$910 million, virtually equal to last year's exceptionally strong performance. Net price realization and higher shipments of underground and snow and ice products nearly offset anticipated lower shipments in golf, ground, and zero-turn mowers, as well as the impact of prior year divestitures. Professional segment earnings for the fourth quarter were \$174.7 million, up 2.9% year-over-year. The resulting earnings margin in the quarter was 19.2%, up 60 basis points from last year, primarily due to net price realization and productivity improvements. This was partially offset by higher material and manufacturing costs and lower net sales volume. For the full year, professional segment net sales, which comprise about 80% of the total company, rose 1.9% to \$3.62 billion. Full-year Professional segment earnings were \$702.5 million, and earnings margin was 19.4%. This was up from \$638.9

million and 18% in fiscal 2024, underscoring our commitment to cost improvement and our purpose for cost reduction measures. In our residential segment, fourth quarter net sales were \$147 million, which were 5.1% lower than the prior year but exceeded our expectations due to net price realization and higher shipments of snow products, reflecting channel enthusiasm for preseason stocking. Additionally, through our deliberate measures to reduce costs, improve productivity, and achieve pricing, we delivered higher-than-expected fourth quarter residential segment earnings and outperformed prior year results by \$13 million. For the full year, residential segment net sales were \$858.4 million, down 14% from the prior year. Full-year earnings were \$35.8 million, 4.2% of segment net sales. This compares with fiscal 2024 earnings and earnings margin of \$78.4 million and 7.9%, respectively. Now turning to our consolidated results for the fourth quarter and full year. Consolidated net sales for the quarter of \$1.07 billion were down 0.9% from Q4 last year, due to lower shipments in both segments and prior year divestitures, partially offset by net price realization. For the full year, net sales were \$4.51 billion, essentially in line with 2024 net sales, adjusting for the impact of divestitures. Our fourth quarter adjusted gross margin of 34.5% improved from 32.3% in the prior fiscal year, primarily due to net price realization and productivity improvements, partially offset by lower net sales volume, higher material and manufacturing costs, and product mix. Full-year adjusted gross margin was 34.1%, compared to 33.9% in fiscal 2024. This increase was primarily due to net price realization and productivity improvements, partially offset by lower net sales volume, higher material and manufacturing costs, and inventory valuation adjustments. SG&A expense for both the quarter and the year was 22.5% of net sales, a 30 basis point increase from Q4 a year ago and up 80 basis points from full-year 2024. The change for both periods was primarily due to lower net sales volume, partially offset by cost savings. In summary, our fourth quarter adjusted earnings per diluted share were \$0.91, compared to \$0.95 in the prior year. The change was driven by higher expenses related to restored employee incentives, mostly offset by an increase in both professional and residential segment earnings. For the full year, adjusted earnings per diluted share were \$4.20, compared to \$4.17 in fiscal 2024. Primary drivers include higher professional segment earnings and share repurchases, partially offset by lower residential segment earnings. Turning to our cash flow and balance sheet. Our free cash flow for the year was a record \$587 million, a meaningful year-over-year increase that was largely due to net favorable changes in working capital. This resulted in a free cash flow conversion rate of 146%. Additionally, we returned \$441 million to shareholders in fiscal 2025 through dividends and share repurchases, demonstrating continued confidence in our ability to generate cash and our commitment to value creation. Our balance sheet remains strong and continues to provide financial flexibility. Our leverage ratio of 1.3 times is healthy and well within our stated target range. We continue to take a disciplined approach to capital deployment by prioritizing strategic investments to drive profitable growth through both organic opportunities and acquisitions. We have generated strong positive momentum in our return on invested capital. Looking ahead to fiscal 2026, we are thoughtfully balancing the strengths and growth opportunities within our businesses with the ongoing pressures of the macro environment. We are excited about our recent acquisition of Tornado and the longer-term growth trajectory of the vacuum excavation industry. We are poised to execute on the continued strong demand for our underground construction business. This demand is being driven by new infrastructure installation projects and ongoing maintenance of existing networks. We are continuing to leverage our leadership in golf course equipment and irrigation and are being proactive in attracting new customers and opportunities for our grounds business. Recent snowfall in key regions across the country is an encouraging sign, and we are prepared to capitalize on the favorable weather trends. We remain committed to delivering on our new higher AMP target by 2027. At the same time, we remain cautious about macro factors, including inflation and interest rates, that may continue to pressure consumer confidence. However, we believe the steps we have taken position us well to benefit as the environment improves. For fiscal 2026, we expect annual total company net sales to rise 2% to 5%, reflecting professional segment sales that are expected to grow mid-single digits and residential segment sales that are expected to decline low to mid-single digits. We anticipate total company adjusted gross margin to improve in 2026, underscoring the strength of our business model and our ability to navigate cost pressures while continuing to invest in innovation. We expect this adjusted gross margin improvement, combined with our continued focus on productivity and prudent management of tariffs and other inflationary pressures, to drive higher

adjusted operating earnings margin for the year. This total company outlook reflects a range of 18.5% to 19.5% professional segment earnings margin in 2026 and a range of 6% to 8% residential segment earnings margin as we build on our 2025 progress. Our guidance also reflects mid-single-digit earnings growth for the near term, with a clear path to higher growth over time as we execute on margin expansion and innovation priorities. As a result, we expect full-year 2026 adjusted earnings per diluted share to be in the range of \$4.35 to \$4.50. This assumes interest expense of approximately \$65 million, an adjusted effective tax rate of about 21%, and capital expenditures of \$90 million to \$100 million. Furthermore, we remain committed to returning value to shareholders through dividends and share repurchases and are confident in our ability to generate cash. As we announced last week, we have raised our quarterly dividend from \$0.38 to \$0.39, and our Board of Directors authorized the repurchase of up to an additional 6 million shares of TTC's common stock. We expect to repurchase shares at a rate similar to last year and anticipate a free cash flow conversion rate of greater than 100% in 2026. Our outlook for first-quarter performance reflects the natural seasonality of our business and our current conservative view of economic factors, including homeowner and consumer sentiment. We expect total company net sales in Q1 to be up slightly from the prior year, with professional segment sales up mid-single digits and residential segment sales down high teens. Professional segment earnings margin is expected to be flat in the quarter, and residential segment earnings margin is expected to be lower. For the total company, adjusted earnings per diluted share are expected to be flat to slightly lower than last year's first quarter. As a reminder, from an earnings perspective, our first quarter is typically the smallest of the fiscal year and can carry seasonal cost headwinds. With the growing traction of our AMP initiatives, we expect margin momentum to build as we move through 2026. Though the environment continues to pose some challenges, we are steadfast in our approach to driving operational excellence and thoughtfully managing factors within our control. We are confident this discipline, combined with continued innovations that improve our customers' productivity, will drive sustained profitable growth and deliver meaningful shareholder value. With that, I will turn the call over to Edric.

Edric Funk: Thank you, Angie, and good morning, everyone. As evidenced by our better-than-expected results for the year, our decisive actions are enabling us to increase the resilience of our business and to build momentum for future growth. We are strengthening our product portfolio and competitive positioning, strategically investing in technology solutions and markets with strong multiyear growth drivers, like golf, grounds, and underground construction. Our pipeline of new products and features that provide value for our customers is robust, and we are excited by the future potential of several innovations that are still early in their growth life cycle. For example, golf course superintendents will benefit from two new software-as-a-service irrigation products. Our LINX Drive central control system is a mobile version of our industry-leading platform that is changing the way superintendents manage golf course irrigation. It gives users increased flexibility and control, allowing them to address issues in real-time and to improve their efficiency through enhanced communication capabilities while on the move. Our AI-enabled spatial adjust software, which was released in November, integrates with Toro irrigation systems for even more precise water management. It works with turf rad soil moisture sensors to optimize the amount of water used on fairways, automatically recommending daily water application rates to achieve the user-defined target moisture level. Feedback from users who participated in our pilot program was extremely positive, including frequent mention of both improved turf uniformity and playing conditions. Driven by what we expect to be a third consecutive year of record US golf rounds played, we have experienced exceptional growth in golf equipment sales and irrigation projects. In addition to the continued momentum in golf, we are also increasing our focus on grounds opportunities within municipalities, universities, sports fields, and other markets. We are also actively pursuing opportunities to capitalize on the growing demand for underground construction equipment, which is being propelled by aging infrastructure, the growth in data centers, and energy and telecommunications projects. Our Tornado acquisition is an exciting development in this space, building on our existing relationship with Tornado as a strategic supplier to Ditch Witch. It enables us to expand our reach and capitalize on accelerated growth in vacuum excavation. Furthermore, we are executing on our commitment to operational excellence through disciplined implementation of our AMP productivity program and optimization of our global supply chain. Our efforts have helped us mitigate increases in

materials and manufacturing costs, streamline our supply chain operations, and better align our production capacity with demand. We also continue to prioritize our relationships with key partners, and we are committed to building on our legacy of engagement to ensure mutual success and customer satisfaction. Last month, we hosted our Toro University hands-on training event for more than 300 members of our distributor partners who span geographies and markets. We equipped them to sell and service our new products so that customers realize the exceptional value we collectively deliver. In addition, we recently celebrated an incredible one hundred-year relationship with a key distributor partner, Smith Turf and Irrigation. This long-tenured partnership is a testament to the importance we place on building and sustaining strong relationships. As we look ahead, the factors that contributed to our growth for one hundred and eleven years continue to be critical drivers of our performance. Investing in growth markets and innovation, maintaining our operational discipline and focus on productivity improvement, and keeping our customers' needs front and center with support from loyal partners. All of these remain key priorities of The Toro Company's strategy and culture, and they are absolutely foundational to our future success. Now Rick has a few closing remarks.

Rick Olson: Thank you, Edric. To close, I want to emphasize our confidence in The Toro Company's trajectory. The steps we are taking to enhance our customers' performance and increase our efficiency will strengthen our competitive advantage and drive continued profitable growth. In addition, we are being proactive and purposeful as we maintain a disciplined approach to capital allocation, balance sheet flexibility, and strong cash flow. Together with our strategic focus on key growth markets and operational improvements, these actions give us confidence that The Toro Company is positioned to deliver significant value to all our stakeholders for many years to come. Now, Edric, Angie, and I would be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press star, followed by one. If your question has been answered or you wish to withdraw your question, please press star, followed by one again. The first question comes from the line of David MacGregor from Longbow Research.

David MacGregor: Yes. Good morning, everyone. Congratulations on the strong quarter.

Rick Olson: Thanks, David. Good morning.

David MacGregor: Good morning. I wanted to start off by just asking a couple of questions around the guidance. The sales growth, 2% to 5%, Tornado is going to add a couple of hundred basis points. I am guessing you got a couple of hundred basis points of pricing in there as well. The implication for volume is still, I guess, a negative outlook. Can you just kind of walk us through the individual lines of business and just talk about the volume expectations for next year? Even if just anecdotally rather than quantitatively?

Rick Olson: Yeah. Sure. I can walk through a few of those. First of all, you did point out a good portion of the growth on the top line is due to the Tornado acquisition. But organically, we also can see continued strength on the pro side with the underground business continuing to be strong. Golf will continue to be strong, as we talked about in the prepared remarks. And really starting last quarter, but again, this quarter, we see the landscape contractor, particularly the true contractors, not as much the homeowner with acreage, but the true contractors through our Exmark brand, for example, really coming back strong and contributing to growth. We expect that to continue. On the residential side, this has been an extraordinary cycle that we have gone through. It started at the beginning of COVID. If you could just draw that sine wave, you know, the cross point where it crossed the midpoint was really the 2023. So that homeowner business has kind of been in recovery since then. And we are at the right side of that curve on the way back, but the rate at which that happens really will be determined by things like consumer confidence, the macroeconomic environment, interest rates, and so forth. So we have built a little bit more muted expectations on that side. So it is really a combination of all of those things. That is what we are looking at for next year. We have built in our best estimates. We have included the strong start to snow, but as that plays out through the rest of the season, that could be a positive for us if that trend continues. But we have worked everything into our guidance at this point. Does that answer your question, David?

David MacGregor: Yeah. If I could just maybe drill in on the residential, though, for a moment. You are guiding first quarter down high teens. I am guessing you know, you are factoring in some kind of an

improvement here because you are guiding the full year down low single to mid-single digits. So I guess just what do you see improving in residential in 2Q through 4Q? Are you expecting a restock in the channel to help you out there? Just maybe talk about how you are thinking about that guide improvement.

Rick Olson: Yeah. Go ahead, Angie.

Angie Drake: I was just gonna jump in and say, yes, we are comping to 8% down in the prior year, but we do expect some continued homeowner caution, as Rick mentioned, with the macro environment continuing to be what it is. But we have seen continued progress on productivity and cost savings, which are going to help our margin a little bit. But overall, snow, as Rick mentioned, could be favorable to us in residential as we have seen some, you know, we have got some encouraging signs helping us right now.

David MacGregor: Okay. Maybe I could shift and just ask you a couple of questions around the AMP program. You have popped up the guide from \$100 million to \$125 million, so congratulations on the progress there. I mean, can you just talk about the source of the extra \$25 million that was not in the first phase that you now see as being achievable? And do you need volume growth to get to that kind of performance?

Angie Drake: Yes, thank you for asking. We continue to be really excited about the AMP initiative that we started in 2024. And did raise that target to have full run-rate savings by '27 to \$125 million. We are going to see that savings continue to come from the work streams that we had talked about initially. Those are really supply-based, designed to value, route to market, and then our operational efficiency. We made significant improvement in F25 and we will continue to see, you know, it just achieved better results than we expected to through F25. And so the momentum, we are going to continue to see that go forward. And we do not believe we need increased volume to get that. We have got a lot of engines working in that initiative right now and want to continue on that momentum.

David MacGregor: Great. And initially, you had thought you would take 50% of the gains to the bottom line, the other 50% would be reinvested. Could you just update us on where you are with that as of today? And how that target might change, evolve with the increase in the goal to \$125 million?

Angie Drake: Sure. Yes, we really expect to continue the same and reinvest up to as much as 50% of that. We probably had to over-index a little bit on the investment in the last couple of years, especially in F25, just due to the headwinds that we saw with tariffs, inflation, some transition expenses with some of our product moves and network optimization. But what we did continue to do is also take some of those funds and reinvest in innovation and technology to set ourselves up for future growth. So we would expect to continue to see that savings be somewhat reinvested up to the 50% level. But we have realized \$75 million of those savings in F25. And through the program to date, almost \$80 million.

David MacGregor: Right. Great news there. Last question for me. Just how you are thinking about raw material costs for '26? Thank you.

Angie Drake: Yes. So from our raw material costs, we expect to see some inflation early in the year, maybe kind of settling out about midyear. But overall, we have built all of those things to the best of our ability into our guidance.

David MacGregor: Thanks very much.

Rick Olson: Thanks, David.

Operator: One moment for our next question. Our next question comes from the line of Joshua Wilson from Raymond James.

Joshua Wilson: Good morning, and thanks for taking my questions.

Rick Olson: Good morning, Joshua.

Joshua Wilson: First, could you run through the different product categories and give us a sense of where channel inventories currently stand?

Rick Olson: We could go through each segment, but just overall, I would say, especially relative to the commentary for the last couple of years, we are in good shape from a channel inventory standpoint. Residential, it is very much tied to the earlier comments about how that flows this year and the rate of recovery. But, really, across the board, we are in good shape from a field standpoint. That helps us. For example, when we talk about snow, the field inventory is in a good place, so we should see the benefit of snow plays out. We really saw the benefit of that in the fourth quarter. Where our especially our

commercial contractors, we are seeing the outlook for snow and started to order because field inventory was in a better position that translated into orders for us. On the underground side, we are back closer to a better healthy position there, slightly lower than it should be. And the rest of the rest of the business, I would say, businesses, I would say, are in normal range. If you took an individual model here and there, it would be plus or minus from where you would like to have it, but much closer back to normal operating with the field inventory. So we are in good shape with field inventory. Spend a lot of work by a lot of people to make that happen, but we are in good shape today.

Joshua Wilson: That is good to hear. And I know you said your lead times have normalized. Could you give us a quantification of where your backlog was in the year?

Angie Drake: Yeah. We actually had backlog improved by \$100 million year over year. We typically give those results at the end of the year. And last year, we were sitting at \$1.2 billion. So had a \$400 million improvement in backlog. So overall, we feel like we are in really good shape. It is, you know, probably even still a little elevated to where we thought we would be at this time last year. But very strong demand continues in golf and ground, underground construction, and in our other businesses. And, you know, one of the key points there, I think, is that our lead times have come in. So folks may not be ordering and putting their orders on as far out as they once were, because just as a reminder, that is really all open order at that point in time.

Rick Olson: That really reflects our improvement in lead time. So we are lead times in some categories that were out two years. We are now able to deliver more closer to normal historically, sixty, ninety days type of period. So the confidence, we are gaining back the confidence of our customers to be able to order when they need it.

Joshua Wilson: And then looking at the 26 margin guidance for professional, of 18.5 to 19.5 versus the 19.4 you just reported, what are the positives and negatives that are leading you to that range? Year on year?

Rick Olson: Yeah. On the positive side, some of the same benefits that we have seen from AMP that we have talked about, some of that will be offset with mix that is not quite as strong in '26 as it was in '25, and that just has a lot to do with which product lines we prioritize in production and ultimately ship to the field.

Angie Drake: And then the other thing I would add is just the addition of Tornado. So we will see some top-line growth from Tornado in the professional segment. However, it is not being fully accretive to the operating margin in the first year just due to acquisition costs and transaction costs. However, it is accretive to EBITDA.

Joshua Wilson: Got it. Thanks.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Ted Jackson from Northland.

Ted Jackson: Thanks. I have a couple left. So congrats on the quarter, first of all.

Rick Olson: Yeah.

Ted Jackson: I mean, I want you to know that I own two Toro snow blowers, and they have been getting heavy use so far this year. Heavy use.

Rick Olson: Fantastic. You cannot own enough. Two is not enough.

Ted Jackson: So first of all, the performance, you know, you had a step up in incentive comp this year. I mean, that is a good problem to have. When you look at your guidance for '26, what are your assumptions around incentive comp? How does that compare to '25?

Angie Drake: Yeah. Great question. That was a change as you look at Q4 year over year. Corporate expenses were a bit higher because of the easy comp that we saw in F24 because of incentives being restored. We have built back in normal incentive plans for our F26 plan. So those coming back in at a normal rate, which they have not been or were not over the past couple of years.

Ted Jackson: And what would like, if we were to say, like, a normal rate like, I do not know, some kind of percentage? Like, how would you define that just to kinda give us a baseline?

Angie Drake: Well, we typically try to budget those or build those into guidance at 100%. So, that is what, you know, whatever those incentive targets are, that would be 100%.

Ted Jackson: Okay. And then I am just shifting over to tariffs. You know, I mean, you provided some good color with regards to your expectations of their impact for this coming fiscal year and then, you

know, what you have seen in the last few fiscal years. As you kinda look through those assumptions, maybe give some highlights in terms of what is driving that and, you know, where you might see any kind of, you know, areas that could, you know, you could further mitigate that impact and what that might be. And then just how you know, given how fluid tariffs have been over the year, maybe just the confidence level you feel with regard to that outlook? That is it for me. Thank you.

Rick Olson: Yeah. Maybe just overarching. First of all, we have had a very focused team working on tariffs since the latter part of 2024. Anticipating tariffs. And throughout '25, as we mentioned in the remarks, we were able to offset the effect through productivity strategic moves, through, you know, selective price increases to be able to offset. As we look forward, so in 2025, we had a total of about \$65 million in tariffs that included \$20 to \$25 million that were there all the way back to 2018. If we look at the same number for 2026, that number is about \$100 million, and it really primarily reflects a full year of the tariffs that we experienced in 2025. Plus a small factor of a few additional tariffs. If you break that down for 2026, it is roughly 50% -ish, a little bit more than that is, February primarily steel and aluminum tariffs. The second largest category would be China-related tariffs, and we have a small exposure to China. We systematically reduced that exposure since 2018. But still, due to the size of the tariff, it is number two, but it is somewhere in the 15%, something like that. The remainder are general tariffs across different countries, the reciprocal tariffs. So that is kind of how it breaks down. With regard to variability of tariffs, we will be making sure that we understand the two thirty-two and some of the details of how those are calculated, make sure that we are accurate and optimized to mitigate those to the best of our ability. And then, you know, part of what you mentioned, Ted, in terms of the unknown of tariffs is built into our guidance. So it is reflected, you know, that there could be variability. We do not have the worst case built in. We do not have a best case built in either, but it is reflected in the way that we have guided for next year.

Ted Jackson: Okay. Thanks for the answer, Rick. Congrats again on the quarter.

Rick Olson: Thank you.

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

Heather Lilly: Thank you, everyone, for your questions and interest in The Toro Company. We look forward to talking with you again in March to discuss our first quarter 2026 results.

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