TORO CO
Form 10-K
December 22, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended October 31, 2017
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to
THE TORO COMPANY
(Exact name of registrant as specified in its charter)

Delaware	1-8649	41-0580470
(State of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

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	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý
The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing price of the common stock on May 5, 2017, the last business day of the registrant's most recently completed second fiscal quarter, as reported by the New York Stock Exchange, was approximately $7.2 billion.

The number of shares of the registrant's common stock outstanding as of December 15, 2017 was 106,620,468.
Documents Incorporated by Reference: Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Shareholders expected to be held March 20, 2018 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

Introduction

The Toro Company was incorporated in Minnesota in 1935 as a successor to a business founded in 1914 and reincorporated in Delaware in 1983. Unless the context indicates otherwise, the terms "company," "Toro," "we," "our," or "us" refer to The Toro Company and its consolidated subsidiaries. Our executive offices are located at 8111 Lyndale Avenue South, Bloomington, Minnesota, 55420-1196, and our telephone number is (952)-888-8801. Our web site for corporate and investor information is www.thetorocompany.com, which also contains links to our branded product sites. The information contained on our web sites or connected to our web sites is not incorporated by reference into this Annual Report on Form 10-K (this "report") and should not be considered part of this report.

We design, manufacture, and market professional turf maintenance equipment and services, turf irrigation systems, landscaping equipment and lighting products, snow and ice management products, agricultural micro-irrigation systems, rental and specialty construction equipment, and residential yard and snow thrower products. We produced our first mower for golf course use in 1921 when we mounted five reel mowers on a Toro tractor, and we introduced our first lawn mower for residential use in 1935. We have continued to enhance our product lines over the more than 100 years we have been in business. We classify our operations into three reportable business segments: Professional, Residential, and Distribution. Our Distribution segment, which consists of our wholly owned domestic distributorship, has been combined with our corporate activities and elimination of intersegment revenues and expenses and is presented as “Other." Net sales of our three reportable segments accounted for the following percentages of our consolidated net sales for fiscal 2017: Professional, 72 percent; Residential, 27 percent; and Other, 1 percent.

Our products are advertised and sold worldwide through a network of distributors, dealers, mass retailers, hardware retailers, home centers, as well as online (direct to end-users) under the primary trademarks of Toro®, Exmark®, BOSS®, Irritrol®, Hayter®, Pope®, PERROT®, Unique Lighting Systems®, and Lawn-Boy® most of which are registered in the United States ("U.S.") and/or in the primary countries outside the U.S. where we market such products. This report also contains trademarks, trade names, and service marks that are owned by other persons or entities, such as The Home Depot, Inc. ("The Home Depot").

We emphasize quality and innovation in our products, customer service, manufacturing, and marketing. We strive to provide well-built, dependable products supported by an extensive service network. We have committed funding for research, development, and engineering in order to improve and enhance existing products and develop new products. Through these efforts, we seek to be responsive to trends that may affect our target markets now and in the future. 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 plan to continue to pursue targeted acquisitions using a disciplined approach that adds value while complementing our existing brands and product portfolio.

Our purpose is to help our customers enrich the beauty, productivity, and sustainability of the land. Our vision is to be the most trusted leader in solutions for the outdoor environment. Every day. Everywhere. Our mission is to deliver superior innovation and to deliver superior customer care.

Products by Market

We strive to be a leader in adapting advanced technologies to products and services that provide solutions for turf care maintenance, landscapes, agricultural fields, rental and specialty construction, snow and ice management, and residential demands. The following is a summary of our products, by market, for our Professional segment and our products for our Residential segment:

Professional Segment

We design professional turf, landscape and lighting, rental and specialty construction, snow and ice management, and agricultural products and market them worldwide through a network of distributors and dealers, as well as directly to government customers, rental companies, and large retailers. These channel partners then sell our products primarily to professional users engaged in creating, renovating, and illuminating landscapes; irrigating turf and agricultural fields; installing, repairing, and replacing underground utilities; managing snow and ice needs; maintaining turf, such as golf courses, sports fields, municipal properties, as well as residential and commercial landscapes.

Golf Market

Products for the golf course market include large reel and rotary riding products for fairway, rough, and trim cutting; riding and walking mowers for putting greens and specialty areas; greens rollers; turf sprayer equipment; utility vehicles; aeration equipment; and bunker maintenance equipment. Our Reelmaster® 3555-D and Reelmaster® 3575-D, fairway mowers feature a lighter design and are engineered to be more productive and fuel efficient with reduced turf compaction. These mowers, as well as most other Reelmaster® and Greensmaster® models, include our EdgeSeries™ Reels that feature enhanced reel material and geometry designed to facilitate a more accurate cut and improved after-cut appearance while reducing required maintenance.

We manufacture and market underground irrigation systems for the golf course market, including sprinkler heads, controllers, turf sensors, and electric, battery-operated, and hydraulic valves. These irrigation systems are designed to use computerized management systems and a variety of other technologies to help users manage their consumption of water. Several of our golf course sprinklers are equipped with an innovative TruJectory™ feature that provides an adjustable angle of nozzle trajectory, as well as enhanced water distribution control. Our Network VP® Satellite combines modular flexibility, ease of use, and increased control in a single controller with programming to the individual station level that supports station-based flow management. Our Turf Guard® wireless soil monitoring systems are designed to measure and communicate soil moisture, salinity, and temperature through sensors to a user's software. Our R Series™ conversion assemblies enable the upgrade of select competitive sprinklers to our technologies, such as the above-mentioned TruJectory™ or ratcheting riser. Our INFINITY® Series golf course sprinklers with the Smart Access® feature are designed to provide easy access to critical components of the sprinkler without needing to dig. Our popular Lynx® central control system allows superintendents to control the irrigation of their course from a web-enabled device, or via our National Support Network, which provides remote troubleshooting. Our Geolink® precision spray system for Multi Pro® sprayers is the industry's first turf-based precision spray system designed to allow repeatable sub-inch location accuracy and individual nozzle control that benefits distribution control.

Landscape Contractor Equipment Market

We market products to landscape contractors under the Toro and Exmark brands. Products for the landscape contractor market include zero-turn radius riding mowers, heavy-duty walk behind mowers, mid-size walk behind mowers, stand-on mowers, as well as turf renovation and tree care equipment. We offer some products with electronic fuel injection engine options, which are designed to provide improved fuel efficiency and lower emissions. In fiscal 2017, we unveiled our next-generation RED™ Technology, which utilizes our RED™ controller that is designed to provide operators with on-board intelligence and machine health monitoring to enhance performance, power, and efficiency on Exmark Lazer Z® and Lazer Z® diesel zero-turn mowers.

In late fiscal 2016, we introduced the Exmark Radius® line of zero-turn radius riding mowers featuring a heavy-duty fabricated frame and improved control and handling in order to provide commercial durability, reliability, and comfort. Additionally, we introduced the Toro TITAN® HD line of zero-turn radius riding mowers which features a heavy-duty fabricated frame, our patented Turbo Force® deck and the ability to attach tools and other accessories to the mower with innovative tool-mounting brackets.

Sports Fields and Grounds Equipment Market

Products for the sports fields and grounds market include riding rotary and reel mowers and attachments, aerators, and debris management products, which include versatile debris vacuums, blowers, and sweepers. In 2017 we acquired the Regnerbau Calw GmbH ("Perrot") irrigation business which manufactures and markets PERROT®-branded irrigation products that provide solutions for a variety of applications. The PERROT®

VP3, our piston drive, valve-in-head, pop-up sprinkler is designed to provide full coverage of sports fields without the need to have sprinklers installed on the field. The new nozzle technology on the VP3 is designed to provide casting ranges with high distribution conformity while saving water. In addition, we offer the PERROT® TRITON-L which is designed to have high rotation speed, high stability of the water jet, and top-serviceability. Other products include infield grooming equipment and multipurpose vehicles, such as the Toro Workman® GTX introduced in late fiscal 2016, that can be used for turf maintenance, towing, and industrial hauling. These products are sold through distributors and dealers, who then sell to owners and/or managers of sports fields, governmental properties, and residential and commercial landscapes, as well as directly to government customers.

Snow and Ice Management Market

Products for the snow and ice management market are marketed mainly in North America under the BOSS brand and include snowplows, salt and sand spreaders, and related parts, as well as accessories for light and medium duty trucks, all-terrain vehicles, utility task vehicles ("UTVs"), skid steers, and front-end loaders. These products are mainly sold through distributors and dealers, who then sell to end-users that in many cases are the same customers as those in our landscape contractor and grounds equipment markets, such as contractors, municipalities, and other governmental entities. In fiscal 2017, we introduced the QuickCube™ system, a de-icing product for use with skid-steers that utilizes weather-sealed refillable totes for both active salting and long-term, off-site, salt storage and the Forge™ 2.0 V-Box Spreader, a stainless steel hopper spreader with 2 cubic yards of capacity designed for optimal durability and serviceability. In addition, in fiscal 2017, we began offering the D-Force® system designed to maintain consistent hydraulic down force on straight blade plows to improve scraping performance while back-dragging.

Rental and Specialty Construction Market

Products for the rental and specialty construction market include compact utility loaders, walk-behind trenchers, stump grinders, and turf renovation products, many of which are also sold to landscape contractors. We also have a line of rental products that feature concrete and mortar mixers, material handlers, compaction equipment, and other concrete equipment. Our compact utility loaders are the cornerstone products for our rental and specialty construction businesses, which are designed to improve the efficiency in creation and renovation of landscapes. Our Dingo® TX 1000 compact utility loader provides market leading operating capacity in a lightweight, maneuverable design. We offer over 35 attachments for our compact utility loaders, including trenchers, augers, vibratory plows, and backhoes. In fiscal 2017, we introduced our MB TX 2500 Tracked Mud Buggy® featuring Endless Kevlar® reinforced tracks designed to increase job-site productivity by delivering high performance and outstanding traction on a wide range of terrains.

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Underground Construction Market
We manufacture a line of directional drills and riding trenchers used to install water, gas, electric, and telecommunication distribution systems. Our underground products are used by specialty contractors worldwide. In late fiscal 2017, we unveiled our innovative DD2226 directional drill featuring increased thrust, pull-back, and rotational torque designed to allow operators to pull back and turn larger reamers in tough ground conditions. The DD2226 also features our new SmartTouch® control mode designed to streamline pipe handling, reduce pipe loading cycle times, and increase overall productivity.
Residential/Commercial Irrigation and Lighting Market
Turf irrigation products marketed under the Toro and Irritrol brands include rotors; sprinkler bodies and nozzles; plastic, brass, and hydraulic valves; drip tubing and subsurface irrigation; electric control devices; and wired and wireless rain, freeze, climate, and soil sensors. These products are designed for use in residential and commercial turf irrigation applications and can be installed into new systems or used to replace or retrofit existing systems. Most of the product lines are designed for professionally installed, underground automatic irrigation. Electric controllers activate valves and sprinklers in a typical irrigation system. Both the Toro and Irritrol brands have received the the U.S. Environmental Protection Agency ("EPA") WaterSense award, as well as the EPA WaterSense certification for numerous irrigation controller families and models. Our Irritrol Climate Logic® smart device automatically adjusts irrigation system watering times based on real-time weather data from an on-site sensor combined with historical averages, while our award-winning Toro Precision™ Soil Sensor wirelessly transmits soil moisture content to an irrigation controller and signals whether or not watering is needed. Our Precision™ Spray Nozzles & Precision™ Soil Sensor are intended to deliver an optimum precipitation rate and superior distribution uniformity, resulting in the use of less water without affecting the health of landscapes. The EVOLUTION® controller is designed to be an intuitive, menu-based controller family that offers computer programming, lighting control, multiple soil sensors, smart add-ons, and downloadable updates through a USB device. The T5 Rotor with RapidSet® technology allows convenient arc adjustment with no tools, and the stainless steel model is designed for areas subject to heavy foot traffic and sandy soil conditions. Our SMRT Logic™ landscape control solution enables cloud-based landscape control of existing Toro and Irritrol irrigation controllers from any location when paired with our SMRTscape™ mobile app, or website, and an internet connection.
Our retail irrigation products are designed for homeowner installation and include sprinkler heads, valves, timers, sensors, and drip irrigation systems. The XTRA SMART® ECXTRA™ sprinkler timer and its intuitive, online Scheduling Advisor™ are designed to recommend the proper watering schedule based on the local weather, plant type, and sprinkler type.

We manufacture and market lighting products under the Unique Lighting Systems brand name consisting of a line of high quality, professionally installed lighting fixtures and transformers for residential and commercial landscapes. Our lighting product line is offered through distributors and landscape contractors that also purchase our irrigation products. The Light Logic™ remote control system provides operators with wireless scene control for landscape lighting and can upgrade existing systems with expanded control. Our Light Logic™ Plus system is designed to deliver cloud-based control from any location using a web-enabled computer or device for outdoor landscape features such as lighting, irrigation, and pond or fountain pumps.
Micro-Irrigation Market
Products for the micro-irrigation market include products that are designed to apply water precisely, including Aqua-Traxx® PBX drip tape, Neptune® flat emitter dripline, Blue Stripe® polyethylene tubing, BlueLine® drip line, and NGE® emitters, all used in agriculture, mining, and landscape applications. Global food demand and increased water use restrictions have continued to drive the need for more efficient irrigation solutions for agriculture, including our Aqua-Traxx® FC (flow control) drip tape that is designed to allow growers to achieve water uniformity while retaining flexibility to adjust system flow rates when needed. In addition to these core products, we offer a full complement of control devices and connection options to complete the system, including a software package used to help design drip irrigation systems. In fiscal 2017, we released the new Evolution® Ag controller that features simple and intuitive programming designed specifically for agricultural and horticultural growers to enable the grower to

control the opening and closing of irrigation and fertilizer valves reliably at any determined schedule. These products are sold mainly through dealers and distributors who then sell to end-users for use primarily in vegetable fields, fruit and nut orchards, vineyards, landscapes, and mines.

Residential Segment

We market our Residential segment products to homeowners through a variety of distribution channels, including outdoor power equipment distributors and dealers, mass retailers, hardware retailers, home centers, as well as online (direct to end-users). We also license our trademark on certain home solutions products as a means of expanding our brand presence.

Walk Power Mower Products

We manufacture and market numerous walk power mower models under our Toro and Lawn-Boy brand names, as well as the Hayter brand in the United Kingdom. Models differ as to cutting width, type of starter mechanism, method of grass clipping discharge, deck type, operational controls, and power sources, and are either self-propelled or push mowers. For the United Kingdom market, we offer a line of rear-roller walk power mowers, a design that provides a striped finish. In fiscal 2017, we launched our PoweReverse® technology on our Recycler® Personal Pace® walk power mower designed to enable homeowners to mow challenging areas with less effort

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by seamlessly propelling the mower through forward and backward operation.

Riding Products

We manufacture and market riding products under the Toro brand name. Riding products primarily consist of zero-turn radius mowers that are designed to save homeowners time by using superior maneuverability to cut around obstacles more quickly and easily than tractor technology. Our TimeCutter® SS and TimeCutter® MX zero-turn radius riding mowers are equipped with our Smart Speed® control system, which is designed to allow the operator to choose different ground speed ranges with the flip of a lever without changing the blade or engine speed. In fiscal 2017, we released the TimeCutter® HD that is designed to have improved comfort and strength but with the traditional versatility of our zero-turn radius mowers. We sell direct-collect riding mowers that are manufactured and sold in the European market. Many models of our riding products are available with a variety of engines, decks, transmissions, and accessories.

Home Solutions Products

We design and market home solutions products under the Toro and Pope brand names. Our Toro brand name products include yard tools such as electric, gas, and cordless grass trimmers; electric and cordless hedge trimmers; and electric, gas, and cordless blower-vacuums. In Australia, we design and market garden product offerings, such as underground, hose and hose-end retail irrigation products under the Pope brand name. In fiscal 2017, we introduced the all-new PowerPlex® family of hand-held 40V Max lithium ion products ideal for homeowners who value compact and easy-to-use products that rival the power and performance of gas powered models.

Snow Thrower Products

We manufacture and market a range of gas-powered single-stage and two-stage snow thrower models, as well as a range of electric snow thrower models. Single-stage snow throwers are walk behind units with lightweight four-cycle gasoline engines. Most single-stage snow thrower models include Power Curve® snow thrower technology, and some feature our Quick Shoot™ control system that is designed to enable operators to quickly change snow-throwing direction. Our pivoting scraper is designed to keep the rotor in constant contact with the pavement. Our two-stage snow throwers are generally designed for relatively large areas of deep and heavy snow. Our two-stage snow throwers include a line of models featuring our patented Anti-Clogging System and Quick Stick® chute control technology. The Toro SnowMaster® snow thrower combines the power of a two-stage snow thrower to handle deep snow with the handling and maneuverability of a lightweight, single-stage snow thrower in a design intended to increase efficiency by clearing more snow per minute. Our electric snow throwers are lightweight and ideal for clearing up to six inches of snow from decks, steps, sidewalks, and small driveways.

Financial Information about International Operations and Business Segments

We currently manufacture our products in the U.S., Mexico, Australia, the United Kingdom, Italy, Romania, Germany, Poland, and China for sale throughout the world. We maintain sales offices in the U.S., Belgium, the United Kingdom, Australia, Singapore, Japan, China, Italy, Poland, and Germany. New product development is pursued primarily in the U.S. Our net sales outside the U.S. were 24.4 percent, 24.2 percent, and 25.5 percent of total consolidated net sales for fiscal 2017, 2016, and 2015, respectively.

A portion of our cash flows is derived from sales and purchases denominated in foreign currencies. To reduce our exposure to foreign currency exchange rate movements on these sales and purchase commitments, we enter into various derivative instruments to hedge certain foreign currency transactions. For additional information regarding our derivative instruments, see Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" of this report. For additional financial information regarding our international operations and geographical areas, and each of our three reportable business segments, see Note 12 of the Notes to Consolidated Financial Statements, in the section entitled "Segment Data," included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

Engineering and Research

We are committed to an ongoing engineering program dedicated to developing innovative new products and improvements in the quality and performance of existing products. However, a focus on innovation also carries certain risks that new technology could be slow to be accepted or not accepted by the marketplace. We attempt to mitigate

these risks through our focus on and commitment to understanding our customers' needs and requirements. We invest time upfront with customers, using "Voice of the Customer" tools, to help us develop innovative products that are intended to meet or exceed customer expectations. We use Design for Manufacturing and Assembly ("DFM/A") tools to ensure early manufacturing involvement in new product designs intended to reduce production costs. DFM/A focuses on reducing the number of parts required to assemble new products, as well as designing products to move more efficiently through the manufacturing process. We strive to make improvements to our new product development system as part of our continuing focus on Lean methods to shorten development time, reduce costs, and improve quality.
Our engineering expenses are primarily incurred in connection with the development of new products that may have additional applications or represent extensions of existing product lines, improvements to existing products, and cost reduction efforts. Our expenditures for engineering and research were $80.4 million (3.2 percent of net sales) in fiscal 2017, $77.4 million (3.2 percent of net sales) in fiscal 2016, and $73.6 million (3.1 percent of net sales) in fiscal 2015.

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Manufacturing and Production

We have strategically identified specific core manufacturing competencies for vertical integration, such as injection molding, extrusion, welding, stamping, fabrication, laser cutting, painting, machining, and aluminum die casting, and have chosen outside vendors to provide other services. We design component parts in cooperation with our vendors, contract with them for the development of tooling, and then enter into agreements with these vendors to purchase component parts manufactured using the tooling. We also have some agreements with third party manufacturers to manufacture certain products on our behalf. In addition, our vendors regularly test new technologies to be applied in the design and production of component parts. Manufacturing operations include robotic and computer-automated equipment intended to speed production, reduce costs, and improve the quality, fit, and finish of our products. Operations are also designed to be flexible enough to accommodate product design changes that are necessary to respond to market conditions and changing customer requirements.

In order to utilize our manufacturing facilities and technology more effectively, we pursue continuous improvements in our manufacturing processes with the use of Lean methods that are intended to streamline work and eliminate waste. We spend considerable effort to reduce manufacturing costs through Lean methods and process improvement, product and platform design, application of advanced technologies, enhanced environmental management systems, safety improvements, and improved supply-chain management.

Our Professional segment products are manufactured throughout the year. Our Residential segment lawn and garden products are also generally manufactured throughout the year. However, our Residential segment snow thrower products are manufactured in the summer and fall months but may be extended into the winter months, depending upon demand. Our products are tested in conditions and locations similar to those in which they are used. We use computer-aided design and manufacturing systems to shorten the time between initial concept and final production. DFM/A principles are used throughout the product development process to optimize product quality and cost.

Our production levels and inventory management goals are based on estimates of retail demand for our products, taking into account production capacity, timing of shipments, and field inventory levels. Our production system utilizes Kanban, supplier pull, and build-to-order methodologies in our manufacturing facilities, as appropriate, for the business units they support in order to better align the production of our products to meet customer demand. We believe this has resulted in improved service levels for our participating suppliers, distributors, dealers, and other channels.

We periodically shut down production at our manufacturing facilities in order to allow for maintenance, rearrangement, capital equipment installation, and as needed, to adjust for market demand.

Raw Materials

We purchase raw materials such as steel, aluminum, petroleum and natural gas-based resins, linerboard, and other commodities, and components, such as engines, transmissions, transaxles, hydraulics, and electric motors, for use in our products. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. During fiscal 2017, we experienced higher commodity prices compared to the average prices paid for commodities in fiscal 2016. We anticipate commodity prices in fiscal 2018 to be higher than average prices paid for commodities during fiscal 2017. Historically, we have mitigated, and we currently expect that we would mitigate, any commodity cost increases, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, utilization of Lean methods, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate. Most of the raw materials and components used in our products are affected by commodity cost pressures, are commercially available from a number of sources, and are in adequate supply. However, certain components are sourced from single suppliers. In fiscal 2017, we experienced no significant work stoppages because of shortages of raw materials or commodities. The largest spend for raw materials and components are generally for steel, engines, hydraulic components, transmissions, resin, and electric motors, all of which we purchase from several suppliers around the world.

Service and Warranty

Our products are warranted to ensure customer confidence in design, workmanship, and overall quality. Warranty coverage is generally for specified periods of time and on select products' hours of usage, and generally covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse or improper use. An authorized company distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement and are credited for the cost of repairs, labor, and other expenses as long as the repairs meet our prescribed standards. Warranty expense is accrued at the time of sale based 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, the historical length of time between the sale and resulting warranty claim, and other minor factors. Special warranty reserves are also accrued for major rework campaigns. Service support outside of the warranty period is provided by authorized distributors and dealers at the customer's expense. We sell extended warranty coverage on select products for a prescribed period after the original warranty period expires.

Product Liability

We have rigorous product safety standards and continually work to improve the safety and reliability of our products. We monitor for accidents and possible claims and establish liability

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estimates based on internal evaluations of the merits of individual claims. We purchase insurance coverage for catastrophic product liability claims for incidents that exceed our self-insured retention levels.

Patents and Trademarks

We own patents, trademarks, and trade secrets related to our products in the U.S. and certain countries outside the U.S. in which we conduct business. We expect to apply for future patents and trademarks, as appropriate, in connection with the development of innovative new products, services, and enhancements. Although we believe that, in the aggregate, our patents are valuable, and patent protection is beneficial to our business and competitive positioning, our patent protection will not necessarily deter or prevent competitors from attempting to develop similar products. We are not materially dependent on any one or more of our patents; however, certain Toro trademarks that contribute to our identity and the recognition of our products and services, including the Toro® name and logo, are an integral part of our business.

We regularly review certain patents issued by the U.S. Patent and Trademark Office ("USPTO") and international patent offices to help avoid potential liability with respect to others' patents. Additionally, we periodically review competitors' products to prevent possible infringement of our patents by others. We believe these activities help us minimize our risk of being a defendant in patent infringement litigation. We are currently involved in patent litigation cases where we are asserting our patents against competitors and defending against patent infringement assertions by others. Such cases are at varying stages in the litigation process.

Similarly, we periodically monitor various trademark registers and the market to prevent infringement of and damage to our trademarks by others. From time to time, we are involved in trademark oppositions where we are asserting our trademarks against third parties who are attempting to establish rights in trademarks that are confusingly similar to ours. We believe these activities help minimize risk of harm to our trademarks, and help maintain distinct products and services that we believe are well regarded in the marketplace.

Seasonality

Shipments of our Residential segment products, which accounted for 27 percent of total consolidated net sales in fiscal 2017, are seasonal, with shipments of lawn and garden products occurring primarily between February and June, depending upon seasonal weather conditions and demand for our products. Shipments of snow thrower products occur primarily between July and January, depending upon pre-season demand, in-season snowfalls, and product availability. Opposite seasons in global markets in which we sell our products somewhat moderate this seasonality of our Residential segment product sales. Seasonality of Professional segment product sales also exists, but is tempered because the selling season in the Southern U.S. and our markets in the Southern hemisphere continue for a longer portion of the year than in Northern regions of the world. Our BOSS snow and ice management business offers a portfolio of counter-seasonal products in our Professional segment with our shipments of snowplows and salt and sand spreaders occurring primarily between April and December, which can result in variability of shipment volumes due to dependency on snowfalls for these products.

Overall, our worldwide shipment volumes are historically the highest in our fiscal second quarter and retail demand is generally highest in our fiscal third quarter. Typically, our accounts receivable balances increase between January and April because of higher shipment volumes and extended payment terms made available to our customers. Accounts receivable balances typically decrease between May and December when payments are received. Our financing requirements are subject to variations due to seasonal changes in working capital levels, which typically increase in the first half of our fiscal year and decrease in the second half of our fiscal year. Seasonal cash requirements of our business are financed from a combination of cash balances, cash flows from operations, and short-term borrowings under our credit facilities.

The following table shows total consolidated net sales and net earnings for each fiscal quarter as a percentage of the total fiscal year:

Fiscal Years	2017		2016	
Quarter	Net Sales	Net Earnings	Net Sales	Net Earnings
First	21%	17 %	20%	17 %

Second	35	45		35	46	
Third	25	25		25	24	
Fourth	19%	13	%	20%	13	%

Effects of Weather

From time to time, weather conditions in particular geographic regions or markets may adversely or positively affect sales of some of our products and field inventory levels and result in a negative or positive impact on our future net sales. If the percentage of our net sales from outside the U.S. increases, our dependency on weather in any one part of the world decreases. Nonetheless, weather conditions could materially affect our future net sales.

Working Capital

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production; replacement parts inventory; payroll and other administrative costs; capital expenditures; establishment of new facilities; expansion, renovation, and upgrading of existing facilities; as well as for financing receivables from customers that are not financed with Red Iron Acceptance, LLC ("Red Iron"), our joint venture with TCF Inventory Finance, Inc. ("TCFIF"). We fund our operations through a combination of cash and cash equivalents, cash flows from operations, short-term borrowings under our credit facilities, and long-term debt. Cash management is centralized, and intercompany financing is used, wherever possible, to provide working capital to wholly owned subsidiaries as needed. In addition, our credit facilities

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are available for additional working capital needs, acquisitions, or other investment opportunities.

Distribution and Marketing

We market the majority of our products through 36 domestic and 110 international equipment distributors, as well as a large number of equipment dealers, irrigation dealers and distributors, mass retailers, hardware retailers, home centers, and online (direct to end-users) in more than 125 countries worldwide. Our distribution systems are intended to assure quality of sales and market presence, as well as to provide effective after-purchase service and support.

Professional segment products are sold to distributors and dealers primarily for resale to golf courses, sports fields, industrial facilities, contractors, and government customers, and in some markets for resale to dealers. We sell some Professional segment products directly to government customers, rental companies, and agricultural irrigation dealers, as well as to end-users in certain international markets. Select residential/commercial irrigation and lighting products are sold to professional irrigation and lighting distributors and dealers, and certain retail irrigation products are sold to home centers. Products for the rental and specialty construction market are sold to dealers and rental companies. Toro and Exmark landscape contractor products are also sold to dealers in certain regions of North America. BOSS snow and ice management products are sold to distributors and dealers for resale to contractors.

Residential segment products, such as walk power mowers, zero-turn radius riding mowers, and snow throwers, are generally sold to home centers, mass retailers, dealers, hardware retailers, as well as online (direct to end-users). In certain markets, these same products are sold to distributors for resale to hardware retailers and dealers. Home solutions products are primarily sold to home centers, mass retailers, and hardware retailers. Internationally, Residential segment products are sold to dealers and mass merchandisers in Australia, Canada, and select countries in Europe. In most other countries, Residential segment products are mainly sold to distributors for resale to dealers and mass retailers.

On November 27, 2015, in our first quarter of fiscal 2016, we completed the sale of our Northwestern U.S. distribution company. During the remainder of fiscal 2016 and through fiscal 2017, we owned one domestic distribution company. Our primary purpose for continuing to own a domestic distributorship is to improve operations, as well as to test and deploy new strategies and business practices that could be replicated by our independent distributors.

Our current marketing strategy is to maintain distinct brands and brand identification for Toro®, Exmark®, BOSS®, Irritrol®, Hayter®, Pope®, PERROT®, Unique Lighting Systems®, and Lawn-Boy® products.

Across our brands, we market our Professional segment and Residential segment products during the appropriate season through multiple channels, including television, radio, print,

direct mail, email, digital and online media, and social media. Most of our advertising and marketing efforts emphasize our brands, products, features, and other valuable trademarks. Advertising is purchased by us, through our agency partners, as well as through cooperative programs with distributors, dealers, and retailers.

Customers

Overall, we believe that in the long-term we are not dependent on any single customer; however, the Residential segment of our business is dependent on The Home Depot as a customer, which accounted for approximately 10 percent of our total consolidated gross sales in fiscal 2017 and 11 percent of our total consolidated gross sales in fiscal 2016. While the loss of any substantial customer, including The Home Depot, could have a material adverse short-term impact on our business, we believe that our diverse distribution channels and customer base should reduce the long-term impact of any such loss.

Backlog of Orders

Our backlog of orders is dependent upon when customers place orders and is not necessarily an indicator of our expected results for our fiscal 2018 net sales. The approximate backlog of orders as of October 31, 2017 and 2016 was \$83.5 million and \$92.4 million, respectively, a decrease of 9.6 percent. Backlog orders were lower mainly due to the timing of finalizing pricing programs with many of our international Professional segment customers; this decrease was partially offset by increased orders of new products. We expect the existing backlog of orders will be filled in early fiscal 2018.

Competition

Our products are sold in highly competitive markets throughout the world. The principal competitive factors in our markets are product innovation, quality and reliability, pricing, product support and customer service, warranty, brand awareness, reputation, distribution, shelf space, and financing options. We believe we offer total solutions and full service packages with high quality products that have the latest technology and design innovations. In addition, by selling our products through a network of distributors, dealers, mass retailers, hardware retailers, home centers, as well as online (direct to end-users), users are offered comprehensive service support during and after the warranty period.
We compete in many product lines with numerous manufacturers, some of which have substantially larger operations and financial resources than us. We believe that we have a competitive advantage because we manufacture a broad range of product lines, we are committed to product innovation and customer service, we have a strong history in and focus on professional and residential landscapes, and our distribution channels position us well to compete in various markets.
Internationally, our Residential segment products face more competition because many foreign competitors design, manufacture, and market products in their respective countries. We experience this competition primarily in Europe. In addition, fluctuations in the value of the U.S. dollar affect the

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price of our products in foreign markets, thereby impacting their competitiveness. We provide pricing support, as needed, to foreign customers to remain competitive in international markets.

Environmental Matters and Other Governmental Regulation

We are subject to numerous international, federal, state, and other governmental laws, rules, and regulations relating to, among others, climate change; emissions to air, including Tier 4 or similar engine emission regulations; discharges to water; restrictions placed on water usage and water availability; product and associated packaging; use of certain chemicals; restricted substances, including "conflict minerals" disclosure rules; import and export compliance, including country of origin certification requirements; worker and product user health and safety; energy efficiency; product life-cycles; outdoor noise laws; and the generation, use, handling, labeling, collection, management, storage, transportation, treatment, and disposal of hazardous substances, wastes, and other regulated materials. For example:

- The U.S. EPA, the California Air Resources Board, and similar regulators in other U.S. states and foreign jurisdictions in which we sell our products have phased in, or are phasing in, emission regulations setting maximum emission standards for certain equipment. Specifically, these agencies from time to time adopt increasingly stringent engine emission regulations. Following the EPA implementation of Tier 4 emission requirements applicable to diesel engines several years ago, China and the European Union ("EU") also have adopted similar regulations, and similar emission regulations are also being considered in other markets in which we sell our products.
- The U.S. federal government, several U.S. states, and certain international jurisdictions in which we sell our products, including the EU and each of its member states, have implemented one or more of the following: (i) product life-cycle laws, rules, or regulations, which are intended to reduce waste and environmental and human health impact, and require manufacturers to label, collect, dispose, and recycle certain products, including some of our products, at the end of their useful life, including the Waste Electrical and Electronic Equipment directive, which mandates the labeling, collection, and disposal of specified waste electrical and electronic equipment; (ii) the Restriction on the use of Hazardous Substances directive or similar substance level laws, rules, or regulations, which restrict the use of several specified hazardous materials in the manufacture of specific types of electrical and electronic equipment; (iii) the Registration, Evaluation, Authorization and Restriction of Chemicals directive or similar substance level laws, rules, or regulations that require notification of use of certain chemicals, or ban or restrict the use of certain chemicals; (iv) country of origin laws, rules, or regulations, which require certification of the geographic origin of our finished goods products and/or components used in our products through documentation and/or physical markings, as applicable;

(v) energy efficiency laws, rules, or regulations, which are intended to reduce the use and inefficiencies associated with energy and natural resource consumption and require specified efficiency ratings and capabilities for certain products; (vi) outdoor noise laws, which are intended to reduce noise emissions in the environment from outdoor equipment; (vii) conflict minerals laws, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules promulgated by the U.S. Securities and Exchange Commission ("SEC"), which require specific procedures for the determination and disclosure of the use of certain minerals, known as "conflict minerals," which are mined from the Democratic Republic of the Congo and adjoining countries; and (viii) other product substance restriction laws, some of which require certain labeling of product, such as California Proposition 65.

- Our products, when used by residential users, may be subject to various federal, state, and international laws, rules, and regulations that are designed to protect consumers, including rules and regulations of the U.S. Consumer Product Safety Commission.

Although we believe that we are in substantial compliance with currently applicable laws, rules, and regulations, we are unable to predict the ultimate impact of adopted or future laws, rules, and regulations on our business, properties or products. Such laws, rules, or regulations may cause us to incur significant expenses to achieve or maintain compliance, may require us to modify our products, may adversely affect the price of or demand for some of our products, and may ultimately affect the way we conduct our operations. Failure to comply with these current or future laws, rules, or regulations could result in harm to our reputation and/or could lead to fines and other penalties, including restrictions on the importation of our products into, or the sale of our products in, one or more jurisdictions until compliance is achieved.

We are also involved in the evaluation and clean-up of a limited number of properties currently and previously owned. We do not expect that these matters will have a material adverse effect on our Consolidated Financial Position or Results of Operations.

Customer Financing

Wholesale Financing

We are party to a joint venture with TCFIF, a subsidiary of TCF National Bank, established as Red Iron. The primary purpose of Red Iron is to provide inventory financing to certain distributors and dealers of our products in the U.S. Under a separate arrangement, TCF Commercial Finance Canada, Inc. ("TCFCFC") provides inventory financing to dealers of our products in Canada. Under these financing arrangements, down payments are not required, and depending on the finance program for each product line, finance charges are incurred by us, shared between us and the distributor and/or the dealer, or paid by the distributor or dealer. Red Iron retains a security interest in the distributors' and dealers' financed inventories, and those inventories are monitored regularly. Floor plan terms

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to the distributors and dealers require payment as the equipment, which secures the indebtedness, is sold to customers or when payment terms become due, whichever occurs first. Rates are generally indexed to LIBOR 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.

We continue to provide financing in the form of open account terms directly to home centers and mass retailers; general line irrigation dealers; international distributors and dealers other than the Canadian distributors and dealers to whom Red Iron provides financing arrangements; micro-irrigation dealers and distributors; government customers; and rental companies. Some products sold to independent dealers in Australia are financed by a third-party finance company.

End-User Financing

We have agreements with third party financing companies to provide lease-financing options to golf course and sports fields and grounds equipment customers in the U.S, Australia, and select countries in Europe. The purpose of these agreements is to increase sales by giving buyers of our products alternative financing options when purchasing our products.

We also have agreements with third party financing companies to provide financing programs under both generic and private label programs in the U.S. and Canada. These programs, offered primarily to Toro and Exmark dealers, provide end-user customers revolving and installment lines of credit for Toro and Exmark products, parts, and services.

Distributor Financing

Occasionally, we enter into long-term loan agreements with some distributors. These transactions are used for expansion of the distributors' businesses, acquisitions, refinancing working capital agreements, or ownership transitions.

Employees

During fiscal 2017, we employed an average of 6,853 employees. The total number of employees as of October 31, 2017 was 6,779. We consider our employee relations to be good. As of October 31, 2017, we had four collective bargaining agreements that expire in March 2018, May 2018, October 2019 and October 2020, and cover approximately 16 percent of our total employees.

Available Information

We are a U.S. public reporting company under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and file reports, proxy statements, and other information with the SEC. Copies of these reports, proxy statements, and other information can be inspected and copied at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Because we make filings to the SEC electronically, you may

also access this information from the SEC's home page on the Internet at http://www.sec.gov.

We make available, free of charge on our web site www.thetorocompany.com (select the "Investor Information" link and then the "Financials" link), our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, Section 16 reports, amendments to those reports, and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our web site or connected to our web site is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

Forward-Looking Statements

This Annual Report on Form 10-K contains, or incorporates by reference, not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Exchange Act and that are subject to the safe harbor created by those sections. 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.

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," "looking ahead," "outlook," "guidance," "forecast," "goal," "optimistic," "anticipate," "continue," "plan," "estimate," "project," "believe," "should," "could," "will," "would," "possible," "may," "likely," "intend," "can," "seek," "potential," "pro forma," 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; our business strategies and goals; and the effect of laws, rules, regulations, new accounting pronouncements, and outstanding litigation on our business and future performance.

Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or implied. The most significant factors known to us that could materially adversely affect our business, reputation, operations, industry, financial position, or future financial performance are described below in Part I, Item 1A, "Risk Factors." 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 elsewhere in this report, including in Part I, Item 1A, "Risk Factors," as well as others that we may consider immaterial or do not anticipate at this time. The risks and uncertainties

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described in this report, including in Part I, Item 1A, "Risk Factors," are not exclusive and further information concerning our company and our businesses, including factors that potentially could materially affect our operating results or financial 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 Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file with or furnish to the SEC.

ITEM 1A. RISK FACTORS

The following are significant factors known to us that could materially adversely affect our business, reputation, operating results, industry, financial position, or future financial performance.

Our net sales and earnings could be adversely affected by economic conditions and outlook in the U.S. and in other countries in which we conduct business.

Adverse economic conditions and outlook in the U.S. and in other countries in which we conduct business can impact demand for our products and, ultimately, our net sales and earnings. These include, but are not limited to, recessionary conditions; slow or negative economic growth rates; the impact of U.S. federal debt, state debt, and sovereign debt defaults and austerity measures by certain European countries; slow down or reductions in levels of golf course development, renovation, and improvement; golf course closures; reduced levels of home ownership, construction, and sales; home foreclosures; negative consumer confidence; reduced consumer spending levels resulting from tax increases or other factors; increased unemployment rates; prolonged high unemployment rates; higher commodity and components costs and fuel prices; inflationary or deflationary pressures; reduced credit availability or unfavorable credit terms for our distributors, dealers, and end-user customers; higher short-term, mortgage, and other interest rates; and general economic and political conditions and expectations. In the past, some of these factors have caused our distributors, dealers, and end-user customers to reduce spending and delay or forego purchases of our products, which have had an adverse effect on our net sales and earnings.

Weather conditions may reduce demand for some of our products and adversely affect our net sales or otherwise adversely affect our operating results.

From time to time, weather conditions in a particular geographic region may adversely affect sales, demand, and field inventory levels of some of our products. For example, in the past, drought conditions have had an adverse effect on sales of certain mowing equipment products, unusually rainy weather or severe drought conditions that result in watering bans have had an adverse effect on sales of our irrigation products, and lower snowfall accumulations in key markets have had an adverse effect on sales of our snow thrower products and products of our BOSS professional snow and ice management business. Similarly, adverse weather conditions in one season may negatively impact customer purchasing patterns and net sales for some of our products in another season. For example, lower snowfall accumulations may result in lower winter season revenues for landscape contractor professionals, causing such customers to forego or postpone spring purchases of our mowing products. To the extent that unfavorable weather conditions are exacerbated by global climate change or otherwise, our sales and operating results may be affected to a greater degree than we have previously experienced.

Fluctuations in foreign currency exchange rates have affected our operating results and could continue to result in declines in our reported net sales and net earnings.

Because the functional currency of most of our foreign operations is the applicable local currency, and because our financial reporting currency is the U.S. dollar, preparation of our Consolidated Financial Statements requires that we translate the assets, liabilities, expenses, and revenues of our foreign operations into U.S. dollars at applicable exchange rates. Accordingly, we are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales and loans to wholly owned subsidiaries, sales to third party customers, purchases from suppliers, and bank lines of credit with creditors denominated in foreign currencies. Our reported net sales and net earnings are subject to fluctuations in foreign currency exchange rates that have affected our operating results and could continue to result in declines in our reported net sales and net earnings. 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 operating results, while a weaker U.S. dollar and Mexican peso generally have a positive effect. In addition, currency exchange rate fluctuations may affect the comparative prices between products we sell and products our foreign competitors sell in the same market, which may adversely affect demand for our products. Substantial exchange rate fluctuations as a result of the strengthening of the U.S. dollar or otherwise, may have an adverse effect on our operating results, financial condition, and cash flows, as well as the comparability of our Consolidated Financial Statements between reporting periods. Our primary foreign currency exchange rate exposure is 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 including exposure as a result of the volatility and uncertainty that may arise as a result of the United Kingdom's process for exiting the EU. While we actively manage the exposure of our foreign currency market risk in the normal course of business by entering into various foreign exchange contracts, these instruments involve risks and may not effectively limit our underlying exposure to foreign currency exchange rate fluctuations or minimize our net earnings and cash volatility associated with foreign currency exchange rate changes. Further, the failure of one or more counterparties to our foreign currency exchange rate contracts to fulfill their obligations to us could adversely affect our operating results.

Increases in the cost of raw materials, components, parts and accessories that we purchase and/or increases in our other costs of doing business, may adversely affect our profit margins and businesses.

We purchase raw materials such as steel, aluminum, petroleum and natural gas-based resins, linerboard, and other commodities, and components, such as engines, transmissions, transaxles, hydraulics, and electric motors, for use in our products. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. To the extent that commodity prices increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, increases in the cost of such raw materials, components, parts and accessories may adversely affect our profit margins. Furthermore, changes to international trade agreements could result in additional tariffs, duties or other charges on raw materials, components, parts or accessories we import into the U.S. In addition, increases in other costs of doing business may also adversely affect our profit margins and businesses. For example, an increase in fuel costs may result in an increase in our transportation costs, which also could adversely affect our operating results and businesses.

Historically, we have mitigated cost increases, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate. However, we may not be able to fully offset such increased costs in the future. Further, if our price increases are not accepted by our customers and the market, our net sales, profit margins, earnings, and market share could be adversely affected.

Disruption in the availability of raw materials, components, parts and accessories used in our products may adversely affect our business.

Although most of the raw materials, components, parts and accessories used in our products are generally commercially available from a number of sources and in adequate supply, certain items are sourced from single suppliers. Any disruption in the availability of raw materials, components, parts and accessories used in our products, our inability to timely or otherwise obtain substitutes for such items, or any deterioration in our relationships with, the financial viability or quality of, or the personnel relationships at, our suppliers, could adversely affect our business.

Our Professional segment net sales are dependent upon certain factors, including golf course revenues and the amount of investment in golf course renovations and improvements; the level of new golf course development and golf course closures; the extent to which property owners outsource their lawn care and snow and ice removal activities; residential and commercial construction activity; continued acceptance of, and demand for, micro-irrigation solutions for agricultural markets; the timing and occurrence of winter weather conditions; the demand for our products in the rental and specialty construction markets; the availability of cash or credit to Professional segment customers on acceptable terms to finance new product purchases; and the amount of government revenues, budget, and spending levels for grounds maintenance equipment.

Our Professional segment products are sold by distributors or dealers, or directly to government customers, rental companies, and professional users engaged in maintaining and creating properties and landscapes, such as golf courses, sports fields, residential and commercial properties and landscapes, and governmental and municipal properties. Accordingly, our professional segment net sales are impacted by golf course revenues and the amount of investment in golf course renovations and improvements; the level of new golf course development and golf course closures; the extent to which property owners outsource their lawn care and snow and ice removal activities; continued acceptance of, and demand, for micro-irrigation solutions for agricultural markets; the timing and occurrence of winter weather conditions; the demand for our products in the rental and specialty construction markets; residential and commercial construction activity; availability of cash or credit on acceptable terms to finance new product purchases; and the amount of government spending for new grounds maintenance equipment. Among other things, any one or a combination of the following factors could have an adverse effect on our Professional segment net sales:

- reduced levels of investment in golf course renovations and improvements and new golf course development; reduced revenue for golf courses resulting from a decrease in rounds played and/or memberships, as applicable; and increased number of golf course closures, any one of which or any combination of which could result in a decrease in spending and demand for our products;
- reduced consumer and business spending on property maintenance and/or unfavorable weather conditions, causing property owners and landscape contractor professionals to forego or postpone purchases of our products;
- low or reduced levels of commercial and residential construction, resulting in a decrease in demand for our products;
- a decline in acceptance of and demand for micro-irrigation solutions for agricultural markets and our products in the rental and specialty construction markets; and
- government budgetary constraints resulting in reduced government spending for grounds maintenance equipment.

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Our Residential segment net sales are dependent upon consumers buying our Residential segment products at dealers, mass retailers, and home centers, such as The Home Depot, Inc.; the amount of product placement at mass retailers and home centers; consumer confidence and spending levels; changing buying patterns of customers; and the impact of significant sales or promotional events.

The elimination or reduction of shelf space assigned to our residential products or other changes to the placement of our products by mass retailers and home centers, such as The Home Depot, could adversely affect our Residential segment net sales. Our Residential segment net sales also are dependent upon buying patterns of customers and changing buying patterns of our customers could result in reduced sales of one or more of our Residential segment products. For example, as consumers purchase products at home centers and mass retailers that offer broader and lower price points than dealers, we have experienced increased demand and sales of our Residential segment products purchased at mass retailers and home centers. The Home Depot is a substantial customer of ours, which accounted for approximately 10 percent of total consolidated gross sales in fiscal 2017 and 11 percent of total consolidated gross sales in fiscal 2016 and 2015. We believe that our diverse distribution channels and customer base should reduce the long-term impact on us if we were to lose The Home Depot or any other substantial customer. However, the loss of any substantial customer, a significant reduction in sales to The Home Depot or other customers, or our inability to maintain adequate product placement at retailers and home centers or our inability to respond to future changes in buying patterns of customers or new distribution channels could have a material adverse impact on our business and operating results. Furthermore, our quarterly or annual results can be impacted as a result of significant sales or promotional events for our Residential products.

Changes in our product mix impact our financial performance, including profit margins and net earnings.

Our Professional segment products generally have higher profit margins than our Residential segment products. Our financial performance, including our profit margins and net earnings, can be impacted depending on the mix of products we sell during a given period. For example, if we experience lower sales of our Professional segment products that generally carry higher profit margins than our Residential segment products, our financial performance, including profit margins and net earnings, could be negatively impacted. Similarly, within each segment, if we experience lower sales of products that generally carry higher profit margins, our financial performance, including profit margins and net earnings, could be negatively impacted.

We intend to grow our business in part through acquisitions and alliances, strong customer relations, and new joint ventures and partnerships, which could be risky and may harm our business, reputation, financial condition, and operating results.

One of our growth strategies is to drive growth in our businesses and accelerate opportunities to expand our global presence through targeted acquisitions and alliances, strong customer relations, and new joint ventures and partnerships that add value while supplementing our existing brands and product portfolio. Our ability to grow through acquisitions will depend, in part, on the availability of suitable candidates at acceptable prices, terms, and conditions, our ability to compete effectively for acquisition candidates, and the availability of capital and personnel to complete such acquisitions and run the acquired business effectively. Any acquisition, alliance, joint venture, or partnership could impair our business, financial condition, reputation, and operating results. The benefits of an acquisition, or new alliance, joint venture, or partnership may take more time than expected to develop or integrate into our operations, and we cannot guarantee that previous or future acquisitions, alliances, joint ventures, or partnerships will, in fact, produce any benefits. Acquisitions, alliances, joint ventures, and partnerships may involve a number of risks, the occurrence of which could adversely affect our business, reputation, financial condition, and operating results, including:

- diversion of management's attention;
- disruption to our existing operations and plans;
- inability to effectively manage our expanded operations;
- difficulties or delays in integrating and assimilating information and financial systems, operations, manufacturing processes and products of an acquired business or other business venture or in realizing projected efficiencies, growth

prospects, cost savings, and synergies;

- inability to successfully integrate or develop a distribution channel for acquired product lines;
- potential loss of key employees, customers, distributors, or dealers of the acquired businesses or adverse effects on existing business relationships with suppliers, customers, distributors, and dealers;
- delays or challenges in transitioning distributors and dealers of acquired businesses to using our Red Iron financing joint venture with TCFIF;
- violation of any non-compete agreement by any key employee of an acquired business;
- adverse impact on overall profitability if our expanded operations do not achieve the financial results projected in our valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in our leverage and debt service requirements to pay acquisition purchase prices or other business venture investment costs, which could in turn restrict our ability to access additional capital when needed or pursue other important elements of our business strategy;

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- failure by acquired businesses or other business ventures to comply with applicable international, federal, and state product safety or other regulatory standards;
- infringement by acquired businesses or other business ventures of intellectual property rights of others;
- inaccurate assessment of additional post-acquisition or business venture investments, undisclosed, contingent or other liabilities or problems, unanticipated costs associated with an acquisition or other business venture, and an inability to recover or manage such liabilities and costs;
- incorrect estimates made in the accounting for acquisitions and incurrence of non-recurring charges; and
- write-off of significant amounts of goodwill or other assets as a result of deterioration in the performance of an acquired business or product line, adverse market conditions, changes in the competitive landscape, changes in laws or regulations that restrict activities of an acquired business or product line, or as a result of a variety of other circumstances.

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and to effectively prevent fraud. The integration of acquired businesses may result in our systems and controls becoming increasingly complex and more difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement, and maintain adequate control over our financial processes and reporting in the future, especially in the context of acquisitions of other businesses. Any difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause us to fail to meet our financial reporting obligations. Also, some acquisitions may require the consent of the lenders under our credit agreements. We cannot predict whether such approvals would be forthcoming or the terms on which the lenders would approve such acquisitions. These risks, among others, could be heightened if we complete a large acquisition or other business venture or multiple transactions within a relatively short period of time.

If we underestimate or overestimate demand for our products and do not maintain appropriate inventory levels, our net sales and/or working capital could be negatively impacted.

Our ability to manage our inventory levels to meet our customers' demand for our products is important for our business. For example, our residential lawn and garden products are generally manufactured throughout the year and our residential snow thrower products are manufactured in the summer and fall months but may be extended into the winter months, depending upon demand. However, our production levels and inventory management goals for our Residential segment products are based on estimates of retail demand for our products, taking into account production capacity, timing of shipments, and field inventory levels. If we overestimate or underestimate demand for any of our products during a given season, we may not maintain appropriate inventory levels, which could negatively impact our net sales or working capital,

hinder our ability to meet customer demand, or cause us to incur excess and obsolete inventory charges.

Our business and operating results are subject to the inventory management decisions of our distribution channel customers.

We are subject to risks relating to the inventory management decisions and operational and sourcing practices of our distribution network. Our distribution channel customers carry inventories of our products as part of their ongoing operations and adjust those inventories based on their assessments of future needs. Such adjustments may impact our inventory management and working capital goals as well as operating results. If the inventory levels of our distribution channel customers are higher than they desire, they may postpone product purchases from us, which could cause our sales to be lower than the end-user demand for our products and negatively impact our inventory management and working capital goals as well as our operating results. Similarly, our results could be negatively impacted through the loss of sales if our distribution channel customers do not maintain field inventory levels sufficient to meet end-user demand.

Changes in composition of, and the relationships with, our distribution channel customers could negatively impact our business and operating results.

If we fail to maintain an effective network of dealers and distributors for our products, we may not have adequate market coverage for the optimal level of sales of our products. Our distribution channel customers may not commit the necessary resources to market and sell our products to the level of our expectations, and, regardless of the resources they commit, they may not be successful. If we are not able to maintain effective distribution channels, if our distribution channel customers are not successful in the marketing and selling our products, or if we experience a significant reduction in, cancellation or change in the size and timing of orders from our distribution channel customers, our sales could decline and have an adverse effect on our business and operating results. Any weak demand for, or quality issues with, our products may cause our distribution channel customers to reduce or terminate their relationships with us or adversely affect our ability to engage new dealers and distributors. If adverse economic or business conditions or other events causes a decline in sales by our distribution channel customers or weakens their financial condition, our net sales and earnings could be adversely effected. In addition, this could adversely affect the ability of such customers to pay amounts owed, which could require us to repurchase financed product. Changes in the ownership or control of our distribution channel customers could also adversely affect our relationships with them.

We face intense competition in all of our product lines with numerous manufacturers, including some that have larger operations and financial resources than us. We may not be able to compete effectively against competitors' actions, which could harm our business and operating results.

Our products are sold in highly competitive markets throughout the world. Principal competitive factors in our markets include product innovation, quality and reliability, pricing, product support and customer service, warranty, brand awareness, reputation, distribution, product placement and shelf space, and financing options. We compete in many product lines with numerous manufacturers, some of which have substantially larger operations and financial resources than us. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer preferences, or devote greater resources to the development, promotion, and sale of their products than we can. In addition, competition could increase if new companies enter the market, existing competitors consolidate their operations or if existing competitors expand their product lines or intensify efforts within existing product lines. Our current products, products under development, and our ability to develop new and improved products may be insufficient to enable us to compete effectively with our competitors. Internationally, our Residential segment products typically face more competition because many foreign competitors design, manufacture, and market products in their respective countries. We experience this competition primarily in Europe. In addition, fluctuations in the value of the U.S. dollar may affect the price of our products in foreign markets, thereby impacting their competitiveness. We may not be able to compete effectively against competitors' actions, which may include the movement by competitors with manufacturing operations to low cost countries for significant cost and price reductions, and could harm our business and operating results.

A significant percentage of our consolidated net sales is generated outside of the U.S., a portion of which is financed by third parties, and we intend to continue to expand our international operations. Our international operations require significant management attention and financial resources, expose us to difficulties presented by international economic, political, legal, regulatory, accounting, and business factors, and may not be successful or produce desired levels of net sales.

We currently manufacture our products in the U.S., Mexico, Australia, the United Kingdom, Italy, Germany, Poland, Romania, and China for sale throughout the world. We maintain sales offices in the U.S., Belgium, the United Kingdom, Australia, Singapore, Japan, China, Italy, Poland, and Germany. Our net sales outside the U.S. were 24.4 percent, 24.2 percent, and 25.5 percent of our total consolidated net sales for fiscal 2017, 2016, and 2015, respectively. International markets have been, and will continue to be, a focus for us for revenue growth, both organically and through acquisitions. We believe many opportunities exist in the international markets, and over time, we intend for international net sales to comprise a larger percentage of our total consolidated net sales. Several factors, including the implications of the United Kingdom's process for exiting the EU, implications of withdrawal by the U.S. from, or revisions to, international trade agreements, foreign policy changes between the U.S. and other countries, weakened international economic conditions or the impact of sovereign debt defaults by certain European countries, could adversely affect our international net sales. Additionally, the expansion

of our existing international operations and entry into additional international markets require significant management attention and financial resources. Many of the countries in which we manufacture or sell our products, or otherwise have an international presence are, to some degree, subject to political, economic, and/or social instability. Our international operations expose us and our representatives, agents, and distribution channel customers to risks inherent in operating in foreign jurisdictions. These risks include:

- increased costs of customizing products for foreign countries;
- difficulties in managing and staffing international operations and increases in infrastructure costs including legal, tax, accounting, and information technology;
- the imposition of additional U.S. and foreign governmental controls or regulations;
- new or enhanced trade restrictions and restrictions on the activities of foreign agents, representatives, and distribution channel customers;
- withdrawal from or revisions to international trade agreements and the imposition or increases in import and export licensing and other compliance requirements, customs duties and tariffs, import and export quotas and other trade restrictions, license obligations, and other non-tariff barriers to trade;
- the imposition of U.S. and/or international sanctions against a country, company, person, or entity with whom we do business that would restrict or prohibit our business with the sanctioned country, company, person, or entity;
- international pricing pressures;

- laws and business practices favoring local companies;
- adverse currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- higher tax rates and potentially adverse tax consequences, including restrictions on repatriating cash and/or earnings to the U.S.;
- fluctuations in our operating performance based on our geographic mix of sales;
- transportation delays and interruptions;
- national and international conflicts, including foreign policy changes, acts of war or terrorist acts;
- difficulties in protecting, enforcing or defending intellectual property rights; and
- multiple, changing, and often inconsistent enforcement of laws, rules, regulations and standards, including rules relating to taxes, environmental, health and safety matters.

Our international operations may not produce desired levels of net sales or, among other things one or more of the factors listed above may harm our business and operating results. Any material decrease in our international sales or profitability could also adversely impact our operating results.

In addition, a portion of our international net sales is financed by third parties. The termination of our agreements with these third parties, any material change to the terms of our agreements with these third parties or in the availability or terms of credit

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offered to our international customers by these third parties, or any delay in securing replacement credit sources, could adversely affect our sales and operating results.

If we are unable to continue to enhance existing products, as well as develop and market new products, that respond to customer needs and preferences and achieve market acceptance, we may experience a decrease in demand for our products, and our net sales, which have historically benefited from the introduction of new products, may be adversely affected.

One of our growth strategies is to develop innovative, customer-valued products to generate revenue growth. In the past, our sales from new products, which we define as those introduced in the current and previous two fiscal years, have represented a significant component of our net sales and are expected to continue to represent a significant component of our future net sales. We may not be able to compete as effectively with our competitors, and ultimately satisfy the needs and preferences of our customers, unless we can continue to enhance existing products and develop new innovative products for the markets in which we compete, including by incorporating new or emerging technologies that may become preferred by our customers. Product development requires significant financial, technological, talent and other resources. Product improvements and new product introductions also require significant research, planning, design, development, engineering, and testing at the technological, product, and manufacturing process levels and we may not be able to timely develop and introduce product improvements or new products. Our competitors' new products may beat our products to market, be higher quality or more reliable, be more effective with more features and/or less expensive than our products, incorporate new or emerging technologies, obtain better market acceptance, or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

Any disruption at any of our facilities or in our manufacturing or other operations, or those of our distribution channel customers or suppliers, or our inability to cost-effectively expand existing, open and manage new, and/or move production between manufacturing facilities could adversely affect our business and operating results.

We currently manufacture most of our products at ten locations in the U.S., two locations in Mexico, and one location in each of Australia, Italy, the United Kingdom, Romania, Germany, Poland, and China. We have several locations that serve as distribution centers, warehouses, test labs, and corporate offices. In addition, we have agreements with other third-party manufacturers to manufacture products on our behalf. We also market our products through domestic and international distributors, as well as a large number of dealers, hardware retailers, home centers, mass retailers and online, and source

raw materials, components, parts and accessories from a variety of international and domestic suppliers.

Our facilities and our manufacturing and other operations and those of our distribution channel customers and suppliers may incur losses or experience disruptions as a result of natural disasters and/or climate change-related events, such as tornadoes, hurricanes, earthquakes, floods, tsunamis, typhoons, drought, fire, other extreme weather conditions, and other natural disasters and events that occur as a result of such events, such as water or other natural resource shortages, rising sea levels, power shortages, or telecommunications failures. In addition, losses or disruptions could occur as a result of man-made disasters and other external events, such as terrorist acts or acts of war, pandemics, boycotts and sanctions or widespread criminal activities such as drug cartel-related violence that may disrupt our production activities and maquiladora operations based in Juarez, Mexico. A work slowdown, strike, or similar action could occur at any one of our facilities (or the facilities of our distribution channel customers and suppliers) currently operating under a collective bargaining agreement, such facilities could fail to renew or enter into new collective bargaining agreements, or we may have to enter into a new collective bargaining agreement at a facility not currently covered by an agreement. Furthermore, we could decide, or be forced, to shift production to one of our other manufacturing facilities or we may decide to open new manufacturing or distribution facilities or move production between our facilities to align production capacity with production goals.

Such events and disruptions could make it difficult or impossible to manufacture or to deliver products to our distribution channel customers, produce or maintain sufficient inventory of our products, meet the demands of our customers, receive raw materials, components, parts or accessories from our suppliers, or perform critical functions, which could adversely affect our business globally or in certain regions. Such events also may result in shortages of raw materials, components, parts and accessories, higher fuel and commodity costs and delays in shipments to our distribution channel customers. Our business and operating results could be impacted to a greater degree than we previously experienced to the extent that unfavorable weather conditions are exacerbated by global climate change or otherwise. Our insurance coverage with respect to natural disasters and other disruptions is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate, or may not continue to be available at commercially reasonable rates and terms. The occurrence of any such events could negatively impact our business and operating results.

Our production labor needs fluctuate throughout the year. Any failure by us to hire and/or retain a production labor force to adequately staff our manufacturing operations or by our production labor force to adequately and safely perform their jobs could adversely affect our business, operating results, and reputation.

Our production labor needs fluctuate throughout the year. During periods of peak manufacturing activity it is necessary

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to sharply increase the number of production staff by utilizing new hires and temporary labor. Production staff that we hire during such periods of peak manufacturing activity may not have the same level of training, competency, experience, or commitment as our regular production employees. In addition, as a result of low unemployment rates, a limited workforce population available in areas around the locations where we manufacture our products, or other factors, we may not have available to us a sufficient pool of experienced and competent individuals to fulfill our production labor requirements on a cost-effective basis or otherwise. If we are unable to hire and/or retain a production labor force to adequately staff our manufacturing operations, particularly during periods of peak manufacturing activity, or if our production staff are not adequately trained or do not adhere to protocols we have established to create a safe workplace, our business, operating results, and reputation could suffer.

Management information systems are critical to our business. If our management information systems or those of our business partners or third party service providers fail to adequately perform, or if we, our business partners, or third party service providers experience an interruption in the operation of such systems, our business, reputation, financial condition, and operating results could be adversely affected.

We have many management information systems that are critical to our business, some of which are managed by third parties.

These management information systems are used to record, process, summarize, transmit, and store electronic information, and to manage or support a variety of business processes and activities, including, among other things, our accounting and financial functions, including maintaining our internal controls; our manufacturing and supply chain processes; and the data related to our research and development efforts. The failure of our management information systems or those of our business partners or third party service providers to perform properly, or difficulties encountered in the development of new systems or the upgrade of existing systems, could disrupt our business and harm our reputation, which may result in decreased sales, increased overhead costs, excess or obsolete inventory, and product shortages, causing our business, reputation, financial condition, and operating results to suffer.

We take steps to secure our management information systems and any access provided by our business partners or third party service providers, including our computer systems, intranet and internet sites, email and other telecommunications and data networks. However, the security measures we have implemented may not be effective and our systems may be vulnerable to theft, loss, damage, and interruption from a number of potential sources and events, including unauthorized access or security breaches, natural or man-made disasters, cyber attacks, computer viruses, malware, phishing, denial of service attacks, power loss, or other disruptive events. Information technology security threats are increasing in frequency and sophistication. Cyber attacks may be random, coordinated, or targeted, including sophisticated computer crime threats. These threats pose a risk to the security of our systems and networks, and those of our

business partners and third party service providers, and to the confidentiality, availability, and integrity of our data. Our business, reputation, operating results, and financial condition could be adversely affected if, as a result of a significant cyber event or otherwise, our operations are disrupted or shutdown; our confidential, proprietary information is stolen or disclosed; our intranet and internet sites are compromised; data is manipulated or destroyed; we incur costs, are required to pay fines, or our customers lose confidence in our ability to adequately protect their information in connection with stolen or disclosed customer, employee, or other confidential or sensitive information; we must dedicate significant resources to system repairs or increase cyber security protection; or we otherwise incur significant litigation or other costs.

Our reliance upon patents, trademark laws, and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products. In addition, our products may infringe the proprietary rights of others.

We hold patents relating to various aspects of our products and believe that proprietary technical know-how is important to our business and their loss could have a material adverse effect on our business and operating results. Proprietary rights relating to our products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or are maintained in confidence as trade secrets. We cannot be certain that we will be issued any patents from any pending or future patent applications owned by or licensed to us, or that the claims allowed under any issued patents will be sufficiently broad to protect our technology. In the absence of enforceable patent protection, we may be vulnerable to competitors who attempt to copy our products or gain access to our trade secrets and know-how. Others may initiate litigation to challenge the validity of our patents, allege that we infringe their patents, or use their resources to design comparable products that do not infringe our patents. We may incur substantial costs if our competitors or others initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or if we initiate any proceedings to protect our proprietary rights. If the outcome of any such litigation is unfavorable to us, our business, operating results, and financial condition could be adversely affected. We also cannot be certain that our products or technologies have not infringed or will not infringe the proprietary rights of others. Any such infringement could cause third parties, including our competitors, to bring claims against us, resulting in significant costs, possible damages and substantial uncertainty. We could also be forced to develop an alternative that could be costly and time-consuming, or acquire a license, which we might not be able to do on terms favorable to us, or at all.

We rely on trade secrets and proprietary know-how that we seek to protect, in part, by confidentiality agreements with our employees, suppliers, consultants, and others. These agreements may be breached, and we may not have adequate remedies for any such breach. Even if these confidentiality agreements are not breached, our trade secrets may otherwise become known or be independently developed by competitors.

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Our business, properties, and products are subject to governmental regulation with which compliance may require us to incur expenses, or modify our products or operations, and non-compliance may result in harm to our reputation and/or expose us to penalties. Governmental regulation may also adversely affect the demand for some of our products and our operating results.

Our business, properties, and products are subject to numerous international, federal, state, and other governmental laws, rules, and regulations relating to, among other things; climate change; emissions to air, including Tier 4 or similar engine emission requirements; discharges to water; restrictions placed on water usage and water availability; product and associated packaging; use of certain chemicals; restricted substances, including "conflict minerals" disclosure rules; import and export compliance, including country of origin certification requirements; worker and product user health and safety; energy efficiency; product life-cycles; outdoor noise laws; the generation, use, handling, labeling, collection, management, storage, transportation, treatment, and disposal of hazardous substances, wastes, and other regulated materials; and the registration of certain technologies with various government agencies throughout the world and operation of those technologies within the limits imposed by those agencies, including but not limited to radio frequency, broadband or other wireless technologies and technologies within the airspace of commercial airplanes, such as unmanned aerial systems. In addition, our business is subject to numerous international, federal, state, and other governmental laws, rules, and regulations that may adversely affect our operating results, including, (i) taxation and tax policy changes, tax rate changes, new tax laws, or revised tax law interpretations, which individually or in combination may cause our effective tax rate to increase, (ii) healthcare laws or regulations, which may cause us to incur higher employee healthcare costs or, (iii) changes to international trade agreements that could result in additional tariffs, duties or other charges on raw materials, components, parts or accessories that we import. Although we believe that we are in substantial compliance with currently applicable laws, rules, and regulations, we are unable to predict the ultimate impact of adopted or future laws, rules, and regulations on our business, properties, or products. Any of these laws, rules, or regulations may cause us to incur significant expenses to achieve or maintain compliance, require us to modify our products, adversely affect the price of or demand for some of our products, and ultimately affect the way we conduct our operations. Failure to comply with any of these laws, rules, or regulations could result in harm to our reputation and/or could lead to fines and other penalties, including restrictions on the importation of our products into, and the sale of our products in, one or more jurisdictions until compliance is achieved. In addition, our competitors may adopt strategies with respect to regulatory compliance that differ significantly from our strategies. This may have the effect of changing customer preferences and our markets in ways that we did not anticipate which may adversely affect market demand for our products and, ultimately, our net sales and financial results.

Changes in accounting standards or assumptions in applying accounting policies could adversely affect our financial statements, including our operating results and financial condition.

Our accounting policies and methods are fundamental to how we account for our operating results and financial condition and prepare our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). We must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances, historical experience and actuarial valuations, as appropriate. As a result, actual amounts could differ from those estimated at the time the Consolidated Financial Statements are prepared. In addition, various authoritative accounting or regulatory entities, including the Financial Accounting Standards Board ("FASB"), Public Company Accounting Oversight Board and the SEC, may change the financial accounting or reporting standards that govern the preparation of our Consolidated Financial Statements or could reverse their previous interpretations or positions on how various financial accounting or reporting standards should be applied. These changes may be difficult to predict and implement and could materially or otherwise impact how we prepare and report our Consolidated Financial Statements, operating results and financial condition. For example, in March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-09, Stock-based Compensation ("ASU 2016-09") and in May 2014, the FASB issued ASU No. 2014-09, Revenue from

Contracts with Customers (“ASU 2014-09”). We adopted ASU 2016-09 in the first quarter of fiscal 2017 and we expect to adopt ASU 2014-09 on November 1, 2018. The adoption of ASU 2016-09 has added, and we expect that it will continue to add, variability to our provision for income taxes, mainly due to the timing of stock option exercises, vesting of restricted stock units, and the trading price of our common stock. For additional information on some of our critical accounting policies and recent accounting changes, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report in the section entitled "Critical Accounting Policies and Estimates” and Note 1 of the Notes to the Consolidated Financial Statements, in the section entitled "Summary of Significant Accounting Policies and Related Data," included in Part II, Item 8, “Financial Statements and Supplementary Data” of this report.

Climate change legislation, regulations, or accords may adversely impact our operations.

We are currently subject to rules limiting emissions and other climate related rules and regulations in certain jurisdictions where we operate. In addition, we may become subject to additional legislation, regulations, or accords regarding climate change, and compliance with any new rules could be difficult and costly as a result of increased energy, environmental, and other costs and capital expenditures to comply with any such legislation, regulation, or accord. Due to uncertainty in the regulatory and legislative processes and the negotiation and adoption of international climate change accords, as well as the scope of such requirements and initiatives, we cannot currently determine the effect any such legislation, regulation, or accord may have on our products and operations.

The costs of complying with the various environmental laws related to our ownership and/or lease of real property, such as clean-up costs and liabilities that may be associated with certain hazardous waste disposal activities, could adversely affect our financial condition and operating results.

Because we own and lease real property, various environmental laws may impose liability on us for the costs of cleaning up and responding to hazardous substances that may have been released on our property, including releases unknown to us. These environmental laws and regulations could also require us to pay for environmental remediation and response costs at third-party locations where we disposed of or recycled hazardous substances. We are currently involved in the evaluation and clean-up of a limited number of properties we either currently or previously owned. Although we do not expect that these current matters will have a material adverse effect on our financial position or operating results, our future costs of complying with the various environmental requirements, as they now exist or may be altered in the future, could adversely affect our financial condition and operating results.

Legislative enactments could impact the competitive landscape within our markets and affect demand for our products.

Various legislative proposals, if enacted, could put us in a competitively advantaged or disadvantaged position and affect customer demand for our products relative to the product offerings of our competitors. For example, any fiscal-stimulus or other legislative enactment that inordinately impacts the lawn and garden, outdoor power equipment, or irrigation industries generally by promoting the purchase, such as through customer rebate or other incentive programs, of certain types of mowing, snow and ice management or irrigation equipment or other products that we sell, could impact us positively or negatively, depending on whether we manufacture products that meet the specified legislative criteria, including in areas such as fuel efficiency, alternative energy or water usage, or if, as a result of such legislation, customers perceive our product offerings to be relatively more or less attractive than our competitors' product offerings. We cannot currently predict whether any such legislation will be enacted, what any such legislation's specific terms and conditions would encompass, how any such legislation would impact the competitive landscape within our markets, or how, if at all, any such legislation might ultimately affect customer demand for our products or our operating results.

We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-corruption laws.

The U.S. FCPA and similar worldwide anti-corruption laws generally prohibit companies and their intermediaries from making certain improper payments for the purpose of obtaining or retaining business. The continued expansion of our international operations could increase the risk of violations of these laws in the future. Significant violations of these laws, or allegations of such violations, could harm our reputation, disrupt our business, and result in significant fines and penalties that could have a material adverse effect on our results of operations or financial condition.

We are subject to product quality issues, product liability claims, and other litigation from time to time that could adversely affect our business, reputation, operating results or financial condition.

The manufacture, sale, and use of our products expose us to significant risks associated with product quality issues and product liability claims. If a product liability claim or series of claims is brought against us for uninsured liabilities or in excess of our insurance coverage, and it is ultimately determined that we are liable, our business could suffer. While we believe that we appropriately instruct our customers on the proper usage of our products, we cannot ensure that they will implement our instructions accurately or completely. If our products are defective or used incorrectly by our customers, injury may result and this could give rise to product quality issues and/or product liability claims against us or adversely affect our brand image or reputation. Any losses that we may suffer from product quality issues and/or product liability claims, and the effect that any product quality and/or product liability litigation may have upon the reputation and marketability of our products, may have a negative impact on our business, reputation, and operating results. Product defects can occur through our own product development, design, and manufacturing processes or through our reliance on third parties for certain component design and manufacturing activities. Some of our products or product improvements were developed relatively recently and defects or risks that we have not yet identified, such as unanticipated use of our products, may give rise to product quality issues and/or product liability claims. Additionally, we could experience a material design, testing, or manufacturing failure in our products, a quality system failure, failures in our products and other challenges that are associated with our inability to properly manage changes in the suppliers and components that we use in our products, insufficient testing procedures, other safety issues, or heightened regulatory scrutiny that could warrant a recall of some of our products. A recall of some of our products could also result in increased product liability claims. Unforeseen product quality and/or product liability problems in the development and production of new and existing products could also result in loss of market share, decreased demand, reduced sales, rework costs, and higher warranty expense.

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We are also subject to other litigation from time to time that could adversely affect our business, reputation, operating results or financial condition.

If we are unable to retain our executive officers or other key employees, attract and retain other qualified personnel, or successfully implement executive officer, key employee or other personnel transitions, we may not be able to meet strategic objectives and our business could suffer.

Our ability to meet our strategic objectives and otherwise grow our business will depend to a significant extent on the continued contributions of our leadership team. Our future success will also depend in large part on our ability to identify, attract, and retain other highly qualified managerial, technical, sales and marketing, operations, and customer service personnel. Competition for these individuals is intense, and we may not succeed in identifying, attracting, or retaining qualified personnel. The loss or interruption of the services of any of our executive officers or other key employees, the inability to identify, attract, or retain qualified personnel in the future, the inability to successfully implement executive officer, key employee or other personnel transitions, delays in hiring qualified personnel, or any employee work slowdowns, strikes, or similar actions could make it difficult for us to conduct and manage our business and meet key objectives, which could harm our business, financial condition, and operating results.

As a result of our Red Iron financing joint venture with TCFIF, we are dependent upon the joint venture to provide competitive inventory financing programs to certain distributors and dealers of our products. Any material change in the availability or terms of credit offered to our customers by the joint venture, challenges or delays in transferring new distributors and dealers from any business we might acquire or otherwise to this financing platform, any termination or disruption of our joint venture relationship or any delay in securing replacement credit sources could adversely affect our net sales and operating results.

We are a party to a financing joint venture with TCFIF for the primary purpose of providing reliable, competitive financing to certain of our distributors and dealers in the U.S. to support their businesses and increase our net sales, as well as to free up our working capital for our other strategic purposes. As a result, we are dependent upon the joint venture for our inventory financing programs. Additionally, we are dependent upon TCFCFC to provide inventory financing to dealers of our products in Canada.

The availability of financing from our joint venture or otherwise will be affected by many factors, including, among others, the overall credit markets, the credit worthiness of our dealers and distributors, and regulations that may affect TCFIF, as the majority owner of the joint venture and a subsidiary of TCF National Bank, a national banking association. Any material change in the availability or terms of credit offered to our customers by the joint venture, challenges or delays in transferring new distributors and dealers from any business we might acquire or otherwise to this financing platform, any termination or disruption of our joint venture relationship or any delay in securing replacement credit sources could adversely affect our sales and operating results.

The terms of our credit arrangements and the indentures governing our senior notes and debentures could limit our ability to conduct our business, take advantage of business opportunities and respond to changing business, market, and economic conditions. Additionally, we are subject to counterparty risk in our credit arrangements.

Our credit arrangements and the indentures governing our 6.625 percent senior notes and 7.8 percent debentures include a number of financial and operating restrictions. For example, our credit arrangements contain financial covenants that, among other things, require us to maintain a minimum interest coverage ratio and a maximum debt to earnings ratio. Our credit arrangements and/or indentures also contain provisions that restrict our ability, subject to specified exceptions, to, among other things:

- make loans and investments, including acquisitions and transactions with affiliates;
- create liens or other encumbrances on our assets;
- dispose of assets;
- enter into contingent obligations;
- engage in mergers or consolidations; and
- pay dividends that are significantly higher than those currently being paid, make other distributions to our shareholders, or redeem shares of our common stock.

These provisions may limit our ability to conduct our business, take advantage of business opportunities, and respond to changing business, market, and economic conditions. In addition, they may place us at a competitive disadvantage relative to other companies that may be subject to fewer, if any, restrictions or may otherwise adversely affect our business. Transactions that we may view as important opportunities, such as significant acquisitions, may be subject to the consent of the lenders under our credit arrangements, which consent may be withheld or granted subject to conditions specified at the time that may affect the attractiveness or viability of the transaction.

Although we have in place a $150 million revolving credit facility that does not expire until October 2019, market deterioration or other factors could jeopardize the counterparty obligations of one or more of the banks participating in our revolving credit facility, which could have an adverse effect on our business if we are not able to replace such revolving credit facility or find other sources of liquidity on acceptable terms.

If we are unable to comply with the terms of our credit arrangements and indentures, especially the financial covenants, our credit arrangements could be terminated and our senior notes, debentures, term loan, and any amounts outstanding under our revolving credit facility could become due and payable.

We cannot assure you that we will be able to comply with all of the terms of our credit arrangements and indentures, especially the financial covenants. Our ability to comply with

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such terms depends on the success of our business and our operating results. Various risks, uncertainties, and events beyond our control could affect our ability to comply with the terms of our credit arrangements and/or indentures. If we were out of compliance with any covenant required by our credit arrangements following any applicable cure periods, the banks could terminate their commitments unless we could negotiate a covenant waiver. The banks could condition such waiver on amendments to the terms of our credit arrangements that may be unfavorable to us. In addition, our 6.625 percent senior notes and 7.8 percent debentures, term loan, and any amounts outstanding under our revolving credit facility could become due and payable if we were unable to obtain a covenant waiver or refinance our medium-term debt under our credit arrangements. If our credit rating falls below investment grade and/or our debt to earnings before interest, tax, depreciation, and amortization ("EBITDA") ratio rises above 1.50, the interest rate we currently pay on outstanding debt under our credit arrangements would increase, which could adversely affect our operating results.

We are expanding and renovating our corporate and other facilities and could experience disruptions to our operations in connection with such efforts.

We are expanding and renovating our corporate and other facilities, primarily driven by our need to expand the space available for our product development and test capacities, manufacturing operations, and our need for additional information technology and office space. These expansion efforts included the construction of a new corporate facility that was completed in fiscal 2014, and we are renovating our corporate facilities located in Bloomington, Minnesota and expanding certain of our other manufacturing facilities to accommodate such expansion needs. We financed, and expect to continue to finance, such efforts with cash on hand and cash from operating activities. The expansion and renovation of our corporate and other facilities entail risks that could cause disruption in the operations of our business. Such risks include potential interruption in data flow; unforeseen construction, scheduling, engineering, environmental, or geological problems; and unanticipated cost increases.

We may not achieve our projected financial information or other business initiatives in the time periods that we anticipate, or at all, which could have an adverse effect on our business, operating results, and financial condition.

We generally provide projected financial information, such as our expected revenue growth and net earnings per share. These financial projections are based on management’s current assumptions and expectations. The failure to achieve our financial projections could have an adverse effect on our business, operating results and financial condition.

We also set goals and objectives for the timing of certain accomplishments, initiatives and milestones regarding our business or operating results, including for example the organic revenue growth and operating earnings goals of our recently announced employee initiative, Vision 2020. Whether we achieve our goals and objectives of such initiatives can vary due to a number of factors, including the risk factors described in this report. As a result, there can be no assurance that we will succeed in achieving the goals and objectives of our initiatives in the time periods that we anticipate, or ever. The failure to achieve such goals and objectives in the time periods that we anticipate, or at all, could have an adverse effect on our business, operating results and financial condition.

ITEM 1B.   UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

As of October 31, 2017, we utilized manufacturing, distribution, warehouse, and office facilities totaling approximately 6.4 million square feet of space worldwide. We had approximately 72 acres of excess land in Wisconsin adjacent to a distribution center, 70 acres of land in Minnesota utilized as a testing and storage facility, and 21 acres of land in California used as a testing site. Plant utilization varies during the year depending on the production cycle. We consider each of our current facilities to be in good operating condition. Management believes we have sufficient manufacturing capacity for production. We are renovating and expanding our corporate facilities located in Bloomington, Minnesota, which includes renovation of a portion of our original corporate facility to accommodate additional expansion needs of the company. Our significant facilities are listed below by location, ownership, and function as of October 31, 2017:

Location	Ownership	Products Manufactured / Use
Bloomington, MN	Owned/Leased	Corporate headquarters, warehouse, and test facility
El Paso, TX	Owned/Leased	Components for professional and residential products, warehouse and distribution center
Ankeny, IA	Leased	Residential and professional distribution center
Juarez, Mexico	Leased	Professional and residential products
Plymouth, WI	Owned	Professional and residential parts distribution center
Tomah, WI	Owned/Leased	Professional products and distribution center
Windom, MN	Owned/Leased	Residential and professional products and warehouse
Beatrice, NE	Owned/Leased	Professional products, test facility, and office
Iron Mountain, MI	Owned/Leased	Professional products, distribution facility, and office
Riverside, CA	Owned/Leased	Professional products, test facility, distribution center, and office
Althengstett, Germany	Owned	Professional products, distribution facility, and office
Ustron, Poland	Owned	Professional products, distribution facility, and office
Xiamen City, China	Leased	Professional products, distribution center, and office
Braeside, Australia	Leased	Distribution center, service area, and office
Hertfordshire, United Kingdom	Owned	Professional and residential products, distribution center, test lab, and office
Ploiesti, Romania	Owned	Professional products, distribution center, test facility, and office
Shakopee, MN	Owned	Components for professional and residential products
Beverley, Australia	Owned	Professional products, distribution center, service area, and office
Baraboo, WI	Leased	Professional and residential distribution center
El Cajon, CA	Owned/Leased	Professional and residential products, distribution center, test site, and office
Brooklyn Center, MN	Leased	Distribution facility, service area, and office
Capena, Italy	Leased	Distribution center
Fresno, CA	Leased	Professional products warehouse
Sanford, FL	Leased	Professional products and distribution center
Fiano Romano, Italy	Owned/Leased	Professional products, distribution center, and office
St. Louis, MO	Leased	Distribution facility, service area, and office
Oevel, Belgium	Owned	Distribution center, service area, and office
Abilene, TX	Leased	Office, professional products, and service center

ITEM 3. LEGAL PROCEEDINGS

We are a party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive, as well as compensatory, damages arising out of the use of our products. Although we are self-insured to some extent, we maintain insurance against certain product liability losses. We are also subject to litigation, 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. We are also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business. To prevent possible infringement of our patents by others, we periodically review competitors' products. To avoid potential liability with respect to others' patents, we regularly review certain patents issued by the USPTO and foreign patent offices. We believe these activities help us minimize our risk of being a defendant in patent infringement litigation. We are currently involved in patent litigation cases, including cases by or against competitors, where we are asserting and defending against claims of patent infringement. Such cases are at varying stages in the litigation process. For a description of our material legal proceedings, see Note 13 of the Notes to Consolidated Financial Statements, in the section entitled "Commitments and Contingent Liabilities – Litigation" included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report, which is incorporated into this Item 3 by reference.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

The list below identifies those persons designated by our Board of Directors as executive officers of the company. The list sets forth each such person's age and position with the company as of December 15, 2017, as well as other positions held by him or her for at least the last five years. There are no family relationships between any director, executive officer, or person nominated to become a director or executive officer of the company. There are no arrangements or understandings between any executive officer and any other person pursuant to which he or she was selected as an officer of the company.

Name, Age, and Position	Business Experience during the Last Five or More Years
Richard M. Olson 53, Chairman of the Board, President and Chief Executive Officer	Chairman of the Board since November 2017 and President and Chief Executive Officer since November 2016. From September 2015 through October 2016, he served as President and Chief Operating Officer. From June 2014 through August 2015, he served as Group Vice President, International Business, Global Micro-Irrigation Business, and Distributor Development. From March 2013 through May 2014, he served as Vice President, International Business. From March 2012 to March 2013, he served as Vice President, Exmark.
David H. Alkire 55, Vice President, Residential and Landscape Contractor Businesses	Vice President, Residential and Landscape Contractor Businesses since November 2014. From June 2012 through October 2014, he served as General Manager, Residential and Landscape Contractor Businesses.
Judy L. Altmaier 56, Vice President, Exmark	Vice President, Exmark since June 2013. From October 2011 to June 2013, she served as Vice President, Operations and Quality Management.
William E. Brown, Jr. 56, Group Vice President, Residential and Contractor Businesses	Group Vice President, Residential and Contractor Businesses since February 2016. From March 2013 through January 2016, he served as Group Vice President, Commercial and Irrigation Businesses. From March 2012 to March 2013, he served as Group Vice President, International and Commercial Businesses.
Philip A. Burkart 55, Vice President, Irrigation and Lighting Businesses	Vice President, Irrigation and Lighting Businesses since January 2011.
Amy E. Dahl 43, Vice President, Human Resources and Distributor Development	Vice President, Human Resources since April 2015, and in December 2016 she assumed responsibility for our distributor development activity. From June 2013 through March 2015, she served as Managing Director, Corporate Communications and Investor Relations. From July 2012 to June 2013, she served as Assistant General Counsel and Assistant Secretary.
Timothy P. Dordell 55, Vice President, Secretary and General Counsel	Vice President, Secretary and General Counsel since May 2007.
Blake M. Grams 50, Vice President, Global Operations	Vice President, Global Operations since June 2013. From December 2008 to June 2013, he served as Vice President, Corporate Controller.
Bradley A. Hamilton 53, Group Vice President,	Group Vice President, Commercial and International Businesses since November 2017. From October 2016 to November 2017, he served as Vice President, Commercial Business. From April 2015 to October 2016, he served as General Manager, Commercial Business. From June

Commercial and International Businesses	2014 through March 2015, he served as Managing Director, Distributor Development and Financial Services. From March 2012 through May 2014, he served as Director, Distributor Development.
Renee J. Peterson 56, Vice President, Treasurer and Chief Financial Officer	Vice President, Treasurer and Chief Financial Officer since July 2013. From August 2011 to July 2013, she served as Vice President, Finance and Chief Financial Officer.
Darren L. Redetzke 53, Vice President, International Business	Vice President, International Business since April 2015. From August 2010 to April 2015, he served as Vice President, Commercial Business.
Richard W. Rodier 57, Vice President, Commercial Business	Vice President, Commercial Business since November 2017. From October 2016 to November 2017, he served as Vice President, Sitework Systems. From February 2009 to October 2016, he served as General Manager, Sitework Systems.
Kurt D. Svendsen 51, Vice President, Information Services	Vice President, Information Services since June 2013. From September 2011 to June 2013, he served as Managing Director, Corporate Communications and Investor Relations.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed for trading on the New York Stock Exchange and trades under the symbol "TTC." The high, low, and last sales prices for our common stock and cash dividends paid for each of the quarterly periods for fiscal 2017 and 2016 were as follows:

Fiscal Years Ended	October 31, 2017				October 31, 2016			
Quarter	First	Second	Third	Fourth	First	Second	Third	Fourth
Market price per share of common stock								
High sales price	$59.91	$66.75	$73.00	$73.86	$39.24	$44.71	$46.50	$49.50
Low sales price	46.37	58.00	64.57	58.39	32.35	34.79	40.42	44.90
Last sales price	59.05	66.67	72.37	62.85	37.26	43.23	45.98	47.88
Cash dividends per share of common stock[1]	$0.175	$0.175	$0.175	$0.175	$0.15	$0.15	$0.15	$0.15

1 Future cash dividends will depend upon our financial condition, capital requirements, results of operations, and other factors deemed relevant by our Board of Directors. Restrictions on our ability to pay dividends are disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 of the Notes to Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data."

Common Stock – 175,000,000 shares authorized, $1.00 par value, as of October 31, 2017 and 2016. 106,882,972 and 108,427,393 shares outstanding as of October 31, 2017 and 2016, respectively.

Preferred Stock - 1,000,000 voting shares and 850,000 non-voting shares authorized, $1.00 par value, no shares outstanding.

Shareholders - As of December 15, 2017, we had approximately 3,095 shareholders of record.

Purchases of Equity Securities - The following table sets forth information with respect to shares of our common stock purchased by the company during each of the three fiscal months in our fourth quarter ended October 31, 2017.

Period	Total Number of Shares (or Units) Purchased[1,2]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[1]
August 5, 2017 through September 1, 2017	158,223	$ 64.80	158,223	5,867,929
September 2, 2017 through September 29, 2017	653,897	60.93	653,897	5,214,032
September 30, 2017 through October, 31 2017	233,502	62.39	232,154	4,981,878
Total	1,045,622	$ 61.84	1,044,274	

1 On December 3, 2015, the company's Board of Directors authorized the repurchase of 8,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by the company's Board of Directors at any time. The company repurchased 1,044,274 shares during the period indicated above under this program and 4,981,878 shares remain available to repurchase under this program.

2 Includes 1,348 units (shares) of the company's common stock purchased in open-market transactions at an average price of $62.82 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in deferred compensation plans. These 1,348 shares were not repurchased under the company's repurchase program described in footnote 1 above.

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The Toro Company Common Stock Comparative Performance Graph
The information contained in The Toro Company Common Stock Comparative Performance Graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that it be treated as soliciting material or incorporate it by reference into a document filed under the Securities Act or the Exchange Act.
The following graph and table depict the cumulative total shareholder return (assuming reinvestment of dividends) on $100 invested in each of Toro common stock, the S&P 500 Index, and an industry peer group for the five-year period from October 31, 2012 through October 31, 2017.
COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among The Toro Company, the S&P 500 Index,
and Peer Group
*$100 invested on 10/31/12 in stock or index, including reinvestment of dividends. Fiscal years ending October 31.

Fiscal Years Ended October 31	2012	2013	2014	2015	2016	2017
The Toro Company	$100.00	$141.28	$149.87	$185.47	$239.34	$317.72
S&P 500	100.00	127.18	149.14	156.89	163.97	202.72
Peer Group	$100.00	$123.97	$138.46	$121.07	$141.79	$207.18

The industry peer group is based on companies previously included in the Fortune 500 Industrial and Farm Equipment Index, which was discontinued after 2002 and currently includes: AGCO Corporation, The Alpine Group, Briggs & Stratton Corporation, Caterpillar Inc., Crane Co., Cummins Inc., Deere & Company, Dover Corporation, Flowserve Corporation, General Cable Corporation, Harsco Corporation, Illinois Tool Works Inc., International Game Technology Plc, ITT Inc., Kennametal Inc., Lennox International Inc., NACCO Industries, Inc., Parker-Hannifin Corporation, Pentair Plc, Snap-On Inc., Teleflex Inc., Terex Corporation, and The Timken Company. Walter Energy Inc., which was previously included in the peer group, has been removed from the peer group due to a bankruptcy proceeding.

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected financial data for each of the fiscal years in the five-year period ended October 31, 2017. The table should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

(Dollars in thousands, except per share data) Fiscal Years Ended October 31	2017 [1]		2016 [1]		2015 [1,2]		2014 [2]		2013 [2]	
OPERATING RESULTS:										
Net sales	$2,505,176		$2,392,175		$2,390,875		$2,172,691		$2,041,431	
Net sales growth from prior year	4.7	%	0.1	%	10.0	%	6.4	%	4.2	%
Gross profit as a percentage of net sales	36.8	%	36.6	%	35.0	%	35.6	%	35.5	%
Selling, general, and administrative expense as a percentage of net sales	22.6	%	22.6	%	22.5	%	23.5	%	24.2	%
Operating earnings	$355,110		$334,396		$299,114		$263,157		$230,662	
As a percentage of net sales	14.2	%	14.0	%	12.5	%	12.1	%	11.3	%
Net earnings	$267,717		$230,994		$201,591		$173,870		$154,845	
As a percentage of net sales	10.7	%	9.7	%	8.4	%	8.0	%	7.6	%
Basic net earnings per share	$2.47		$2.10		$1.81		$1.54		$1.34	
Diluted net earnings per share	$2.41		$2.06		$1.78		$1.51		$1.31	
Return on average stockholders' equity	44.7	%	43.0	%	44.7	%	45.3	%	46.1	%
SUMMARY OF FINANCIAL POSITION:										
Total assets[3]	$1,493,787		$1,384,572		$1,300,429		$1,188,904		$993,432	
Average net working capital as a percentage of net sales[4]	13.8	%	15.9	%	16.0	%	15.1	%	16.6	%
Long-term debt, including current portion[3]	$331,887		$350,961		$374,723		$350,445		$220,197	
Stockholders' equity	$617,092		$550,035		$462,165		$408,727		$358,738	
Debt-to-capitalization ratio	35.0	%	39.0	%	44.8	%	47.6	%	38.0	%
CASH FLOW DATA:										
Cash provided by operating activities[5]	$360,748		$384,285		$249,592		$196,894		$234,352	
Purchases of Toro common stock	$159,354		$109,986		$105,964		$101,674		$98,842	
Cash dividends per share of Toro common stock	$0.70		$0.60		$0.50		$0.40		$0.28	
OTHER STATISTICAL DATA:										
Market price range:										
High sales price	$73.86		$49.50		$37.91		$33.68		$29.75	
Low sales price	$46.37		$32.35		$30.10		$27.88		$20.12	
Average number of employees	6,853		6,834		6,682		5,979		5,002	

1 The company's Consolidated Financial Statements include results of the BOSS business from November 14, 2014, the date of acquisition.

2 Per share data and sales prices have been adjusted for prior periods presented to reflect the impact of the company's two-for-one stock split effective September 16, 2016.

3 Amounts have been retrospectively adjusted due to the adoption of FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. For additional information regarding the adoption of ASU No. 2015-03, see Note 1 of the Notes to Consolidated Financial Statements, in the section entitled "New Accounting Pronouncements Adopted" included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

4 Average net working capital is defined as average net accounts receivable plus net inventory, less accounts payable.

5 Amounts have been retrospectively adjusted due to the adoption of FASB issued ASU No. 2016-09, Stock-based Compensation: Improvements to Employee Share-based Payment Accounting and ASU No. 2016-15, Statement of

Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. For additional information regarding the adoptions of ASU No. 2016-09 and ASU No. 2016-15, see Note 1 of the Notes to Consolidated Financial Statements, in the section entitled "New Accounting Pronouncements Adopted" included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

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ITEM 7. 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 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 expressly stated otherwise, the comparisons presented in this MD&A refer to the prior fiscal year. Our MD&A is presented in five sections:

- Company Overview
- Results of Operations
- Business Segments
- Financial Position
- Critical Accounting Policies and Estimates

Statements that are not historical are forward-looking and involve risks and uncertainties, including those discussed in Part I, Item 1A, "Risk Factors" and elsewhere in this report. These risks could cause our actual results to differ materially from any future performance suggested below.

COMPANY OVERVIEW

The Toro Company is in the business of designing, manufacturing, and marketing professional turf maintenance equipment and services, turf irrigation systems, landscaping equipment and lighting products, snow and ice management products, agricultural micro-irrigation systems, rental and specialty construction equipment, and residential yard and snow thrower products. We sell our products worldwide through a network of distributors, dealers, mass retailers, hardware retailers, home centers, as well as online (direct to end-users). We classify our operations into three reportable business segments: Professional, Residential, and Distribution. Our Distribution segment, which consists of our wholly owned domestic distributorship, has been combined with our corporate activities and elimination of intersegment revenues and expenses and is presented as “Other."

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.

Shares and per share data have been adjusted for prior periods presented to reflect the impact of our two-for-one stock split effective September 16, 2016.

Summary of Fiscal 2017 Results

In fiscal 2017, we achieved net sales of $2,505.2 million and net earnings growth of 15.9 percent. Our fiscal 2017 results included the following items of significance:

- Net sales for fiscal 2017 increased by 4.7 percent to $2,505.2 million when compared to fiscal 2016. The sales increase was primarily attributable to strong demand for our Professional segment products, as well as the successful introduction of new innovative products in the Professional and Residential segments.
- Professional segment net sales grew 6.2 percent in fiscal 2017 compared to fiscal 2016.
- Residential segment net sales increased 0.6 percent in fiscal 2017 compared to fiscal 2016.
- International net sales for fiscal 2017 increased by 5.6 percent compared to fiscal 2016 despite unfavorable foreign currency exchange rate fluctuations. International net sales comprised 24.4 percent of our total consolidated net sales in fiscal 2017 compared to 24.2 percent in fiscal 2016 and 25.5 percent in fiscal 2015.
- Fiscal 2017 net earnings of $267.7 million increased 15.9 percent compared to fiscal 2016, and diluted net earnings per share increased 17.0 percent to $2.41 in fiscal 2017 compared to $2.06 in fiscal 2016.
- Gross margin was 36.8 percent in fiscal 2017, an increase of 20 basis points from 36.6 percent in fiscal 2016.
- Selling, general, and administrative ("SG&A") expense was up 4.7 percent in fiscal 2017 compared to fiscal 2016, or consistent at 22.6 percent as a percentage of net sales.
- Receivables increased by 12.1 percent as of the end of fiscal 2017 compared to the end of fiscal 2016. Our inventory levels were up by 7.2 percent as of the end of fiscal 2017 compared to the end of fiscal 2016.
-

- Our field inventory levels were up as of the end of fiscal 2017 compared to the end of fiscal 2016, mainly due to higher Professional segment field inventory levels primarily due to anticipated strong retail demand for early fiscal 2018.
- We continued our history of paying quarterly cash dividends in fiscal 2017. We increased our fiscal 2017 quarterly cash dividend by 16.7 percent to $0.175 per share compared to our quarterly cash dividend in fiscal 2016 of $0.15 per share.

Please refer to the sections entitled “Results of Operations", "Business Segments", and "Financial Position" included in Part II, Item 7 of this report for additional details concerning our financial results for 2017.

Destination PRIME

Our multi-year employee initiative, "Destination PRIME," which began with our 2015 fiscal year, continued our journey into our second century. Fiscal 2017 was our final year of this three-year initiative, which was intended to help us drive revenue and earnings growth and further improve productivity, while also continuing our century-long commitment to innovation, relationships, and excellence. Through our Destination PRIME initiative, we strove to achieve organic revenue growth, operating earnings, and working capital goals.

Organic Revenue Growth

Our organic revenue growth goal was to achieve five percent or more organic revenue growth each fiscal year during this initiative. For purposes of this goal, we defined organic revenue

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growth as the increase in net sales, less net sales from acquisitions that occurred in the current fiscal year.
In fiscal years 2017, 2016, and 2015, we fell short of this goal by achieving 4.2 percent, 0.1 percent, and 4.1 percent organic revenue growth, respectively.

Operating Earnings

Our operating earnings goal was to raise operating earnings as a percentage of net sales to more than 13 percent by the end of fiscal 2017. We achieved this goal as we realized 14.2 percent of operating earnings as a percentage of net sales by the end of fiscal 2017.

Working Capital

Our working capital goal was to drive down average net working capital as a percentage of net sales to 13 percent or less by the end of fiscal 2017. We define average net working capital as net accounts receivable plus net inventory, less accounts payable as a percentage of net sales for a twelve month period. Our average net working capital as a percentage of net sales was 13.8 percent at the end of fiscal 2017.

New Three-Year Initiative

Our new multi-year initiative, "Vision 2020", will focus on driving profitable growth with an emphasis on innovation and serving our customers, which we believe will generate further momentum for the organization. We have set specific goals intended to help us drive organic revenue and operating earnings growth. While there is not a specific goal for working capital in our new Vision 2020 initiative, it is our intent to maintain the progress we made through our previous initiatives and to not lose sight of this important metric.

Organic Revenue Growth

We intend to pursue strategic growth of our existing businesses and product categories with an organic revenue goal. One of our goals of our new Vision 2020 initiative is to achieve at least five percent or more organic revenue growth each of the three fiscal years of this initiative. For purposes of this goal, we define organic revenue growth as the increase in net sales, less net sales from acquisitions that occurred in the current fiscal year.

Operating Earnings

Additionally, as part of our new Vision 2020 initiative growth goals, we have set an operating earnings goal to increase operating earnings as a percentage of net sales to 15.5 percent or higher by the end of fiscal 2020.

RESULTS OF OPERATIONS

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

Fiscal Years Ended October 31	2017	2016	2015
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	(63.2)	(63.4)	(65.0)
Gross margin	36.8	36.6	35.0
SG&A expense	(22.6)	(22.6)	(22.5)
Operating earnings	14.2	14.0	12.5
Interest expense	(0.8)	(0.8)	(0.8)
Other income, net	0.7	0.6	0.4
Provision for income taxes	(3.4)	(4.1)	(3.7)
Net earnings	10.7 %	9.7 %	8.4 %

Fiscal 2017 Compared with Fiscal 2016

Net Sales

Worldwide net sales in fiscal 2017 were $2,505.2 million compared to $2,392.2 million in fiscal 2016, an increase of 4.7 percent. This net sales increase was primarily attributable to the following factors:

- Increased sales of Professional segment products were primarily driven from the successful introduction of new products and strong demand for our golf and grounds equipment, successful introduction of new landscape contractor equipment, continued growth in our rental and specialty construction businesses, increased shipments of our snow and ice management products, and our acquisition of the Perrot irrigation business in the first quarter of fiscal 2017.
-

Increased sales of Residential segment products were primarily due to increased demand for our Pope-branded irrigation products and increased shipments of snow products, partially offset by decreased shipments of zero-turn radius riding mowers.

- Net sales in international markets increased by 5.6 percent in fiscal 2017 compared to fiscal 2016, mainly due to strong demand for our golf and grounds equipment, our acquisition of the Perrot irrigation business, and increased demand for our Pope-branded irrigation products, partially offset by fluctuations in foreign currency exchange rates that reduced our total net sales by approximately $3.3 million in fiscal 2017.

Gross Margin

Gross margin represents gross profit (net sales less cost of sales) as a percentage of net sales. See Note 1 of the Notes to Consolidated Financial Statements, in the section entitled "Cost of Sales," included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report for a description of expenses included in cost of sales. Gross margin increased by 20 basis points to 36.8 percent in fiscal 2017 from 36.6 percent in fiscal 2016. This increase was mainly the result of the following factors:

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- Favorable operational productivity due to production efficiencies and Lean method initiatives.
- Favorable segment mix from a higher mix of Professional segment product sales.

Somewhat offsetting those favorable factors were:

- Higher costs of commodities, primarily steel and resin.
- Higher freight costs.

Selling, General, and Administrative Expense

SG&A expense increased $25.5 million, or 4.7 percent, in fiscal 2017 compared to fiscal 2016. See Note 1 of the Notes to Consolidated Financial Statements, in the section entitled "Selling, General, and Administrative Expense," included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report for a description of expenses included in SG&A expense. SG&A expense rate represents SG&A expense as a percentage of net sales. The SG&A expense rate in fiscal 2017 stayed consistent with the SG&A expense rate in fiscal 2016 at 22.6 percent. As a percentage of net sales, our SG&A expense rate was mainly impacted by decreased administrative expense primarily due to favorable health care claims experience in fiscal 2017, offset, in large part, by higher incentive expense due to improved company performance in fiscal 2017.

Interest Expense

Interest expense for fiscal 2017 decreased $0.2 million compared to fiscal 2016.

Other Income, Net

Other income, net consists mainly of our proportionate share of income or losses from equity investments (from Red Iron), currency exchange rate gains and losses, litigation settlements and recoveries, interest income, dividend income, other income, and retail financing revenue. Other income for fiscal 2017 was $17.2 million compared to $15.4 million in fiscal 2016, an increase of $1.8 million. The increase in other income, net was primarily due to higher income from our equity investment in Red Iron of $2.0 million, foreign currency contract exchange gains of $0.6 million, and higher interest income of $0.5 million, partially offset by a fiscal 2016 litigation recovery that was not repeated in fiscal 2017 of $1.3 million.

Provision for Income Taxes

The effective tax rate for fiscal 2017 was 24.2 percent compared to 30.1 percent in fiscal 2016. The decrease was primarily the result of the adoption of ASU 2016-09 in fiscal 2017, which resulted in a tax benefit of $19.7 million.

Net Earnings

Fiscal 2017 net earnings were $267.7 million compared to $231.0 million in fiscal 2016, an increase of 15.9 percent. Fiscal 2017 diluted net earnings per share were $2.41, an increase of 17.0 percent from $2.06 per share in fiscal 2016. The primary factors contributing to the net earnings increase was a lower effective tax rate, mainly driven by the adoption of ASU

2016-09 in fiscal 2017, along with net sales and gross margin improvement.

Fiscal 2016 Compared with Fiscal 2015

Net Sales

Worldwide net sales in fiscal 2016 were $2,392.2 million compared to $2,390.9 million in fiscal 2015, an increase of 0.1 percent. This net sales increase was primarily attributable to the following factors:

- Increased sales of Professional segment products were driven by (i) higher shipments and demand for golf, landscape contractor, and rental and specialty equipment products primarily due to continued market growth and increased demand for our innovative product offerings and the successful introduction of new products, and (ii) our micro-irrigation and irrigation product sales increased mainly due to improved product placement and higher project sales, partially offset by lower sales of snow and ice management products primarily due to decreased pre-season demand.
- Decreased sales of Residential segment products were mainly driven by lower sales and pre-season retail demand for snow thrower products, decreased shipments of zero-turn radius riding mowers, and unfavorable weather conditions in many of our markets, partially offset by increased sales of our walk power mowers mainly due to strong shipments driven by our innovative product offerings and favorable growing season weather in key markets.
-

Net sales in international markets decreased by 5.1 percent in fiscal 2016 compared to fiscal 2015 due to unfavorable foreign currency exchange rate fluctuations that reduced our total net sales by approximately $30.6 million in fiscal 2016.

Gross Margin

Gross margin increased by 160 basis points to 36.6 percent in fiscal 2016 from 35.0 percent in fiscal 2015. This increase was mainly the result of the following factors:

- Lower costs of commodities, primarily steel and resin, and favorable operational productivity.
- Favorable segment mix from a higher mix of Professional segment product sales, which generally carry higher gross margins.

Somewhat offsetting those positive factors were unfavorable foreign currency exchange rate fluctuations.

Selling, General, and Administrative Expense

SG&A expense increased $3.4 million, or 0.6 percent, in fiscal 2016 compared to fiscal 2015. SG&A expense rate in fiscal 2016 increased 10 basis points to 22.6 percent compared to 22.5 percent in fiscal 2015. Our SG&A expense rate was primarily impacted by the following factors as a percentage of net sales:

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- Continued investments in engineering and new product development.
- Increased warranty expense driven by higher claims experience for fiscal 2016.

Somewhat offsetting those increases were:

- Decreased incentive expense due to actual performance against specified goals.
- Decreased administrative expense.

Interest Expense

Interest expense for fiscal 2016 increased $0.6 million compared to fiscal 2015.

Other Income, Net

Other income for fiscal 2016 was $15.4 million compared to $10.7 million in fiscal 2015, an increase of $4.7 million. The increase in other income, net was primarily due to foreign currency contract exchange gains of $1.8 million, a fiscal 2016 litigation recovery of $1.3 million, and higher earnings from our equity investment in Red Iron of $1.2 million.

Provision for Income Taxes

The effective tax rate for fiscal 2016 was 30.1 percent compared to 30.7 percent in fiscal 2015. The decrease was primarily the result of more favorable one-time adjustments related to prior years, and the permanent extension of the federal research credit.

Net Earnings

Fiscal 2016 net earnings were $231.0 million compared to $201.6 million in fiscal 2015, an increase of 14.6 percent. Fiscal 2016 diluted net earnings per share were $2.06, an increase of 15.7 percent from $1.78 per share in fiscal 2015. The primary factors contributing to the net earnings increase were gross margin improvement and a decrease in our effective tax rate. However, these improvements were partially offset by an increase in our SG&A expense.

BUSINESS SEGMENTS

As more fully described in Note 12 of the Notes to Consolidated Financial Statements, we operate in three reportable business segments: Professional, Residential, and Distribution. Our Distribution segment, which consists of our wholly owned domestic distributorship, has been combined with our corporate activities and is shown as "Other." Operating earnings for our Professional and Residential segments are defined as earnings from operations plus other income, net. Operating loss for the Other segment includes earnings (loss) from our wholly owned domestic distribution company, corporate activities, other income, and interest expense. The following information provides perspective on our business segments' net sales and operating results.

Professional Segment

Professional segment net sales represented approximately 72 percent of consolidated net sales for fiscal 2017, 71 percent for fiscal 2016, and 69 percent for fiscal 2015. The following table shows the Professional segment net sales, operating earnings, and operating earnings as a percent of net sales:

(Dollars in millions)

Fiscal Years Ended October 31	2017	2016	2015
Net sales	$1,811.7	$1,705.3	$1,639.7
% change from prior year	6.2 %	4.0 %	11.0 %
Operating earnings	$379.5	$352.1	$308.0
As a percent of net sales	20.9 %	20.6 %	18.8 %

Net Sales

Worldwide net sales for the Professional segment in fiscal 2017 were up by 6.2 percent compared to fiscal 2016 primarily as a result of the following factors:

- Higher shipments of golf and grounds equipment, primarily due to strong demand for our innovative product offerings.
- Higher shipments of landscape contractor equipment, primarily driven by strong demand for new products.
- Increased shipments of rental and specialty construction equipment, mainly driven by strong demand, and positive customer response for new products.
-

- Increased sales of snow and ice management products, mainly driven by new product offerings and favorable snowfalls in the first quarter of fiscal 2017.
- Increased sales of irrigation products mainly driven by the acquisition of the Perrot business.

Somewhat offsetting those increases were unfavorable foreign currency exchange rate fluctuations.

Worldwide net sales for the Professional segment in fiscal 2016 were up by 4.0 percent compared to fiscal 2015 primarily as a result of the following factors:

- Higher shipments of golf equipment and irrigation products, mainly due to demand for our innovative product offerings, the successful introduction of new products, increased golf irrigation projects, and favorable weather conditions.
- Increased sales of landscape contractor equipment driven by strong demand for our riding and stand-on mower product lines.
- Higher sales of micro-irrigation products mainly driven by improved product placement.
- Increased sales driven by strong demand and market growth for rental and specialty construction equipment, as well as positive customer response for new products.

Somewhat offsetting those positive factors were:

- Unfavorable foreign currency exchange rate fluctuations.

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- A decline in sales of snow and ice management products which was driven mainly from decreased pre-season demand.

Operating Earnings

Operating earnings for the Professional segment in fiscal 2017 increased 7.8 percent compared to fiscal 2016. Expressed as a percentage of net sales, Professional segment operating margins increased by 30 basis points to 20.9 percent in fiscal 2017 compared to 20.6 percent in fiscal 2016. The following factors impacted Professional segment operating earnings as a percentage of net sales for fiscal 2017:

- Higher gross margin in fiscal 2017 compared to fiscal 2016 mainly due to favorable operational productivity from production efficiencies and Lean method initiatives, partially offset by higher commodity costs and unfavorable product mix.
- A decline in SG&A expense rate in fiscal 2017 compared to fiscal 2016 primarily due to lower administration and engineering expense as a percentage of net sales.

Operating earnings for the Professional segment in fiscal 2016 increased 14.3 percent compared to fiscal 2015. Expressed as a percentage of net sales, Professional segment operating margins increased by 180 basis points to 20.6 percent in fiscal 2016 compared to 18.8 percent in fiscal 2015. The following factors impacted Professional segment operating earnings as a percentage of net sales for fiscal 2016:

- Higher gross margin in fiscal 2016 compared to fiscal 2015 mainly due to lower commodity costs and productivity improvements, as well as favorable product mix, partially offset by unfavorable foreign currency exchange rate fluctuations.
- A decline in SG&A expense rate in fiscal 2016 compared to fiscal 2015 due to a lower administration expense rate.

The domestic field inventory levels of our Professional segment products were higher as of the end of fiscal 2017 compared to the end of fiscal 2016, primarily due to anticipated strong retail demand in early fiscal 2018.

Residential Segment

Residential segment net sales represented approximately 27 percent of consolidated net sales for fiscal 2017, 28 percent for fiscal 2016, and 30 percent for fiscal 2015. The following table shows the Residential segment net sales, operating earnings, and operating earnings as a percent of net sales:

(Dollars in millions)

Fiscal Years Ended October 31	2017	2016	2015
Net sales	$673.2	$669.1	$725.7
% change from prior year	0.6 %	(7.8)%	7.9 %
Operating earnings	$74.7	$73.7	$85.0
As a percent of net sales	11.1 %	11.0 %	11.7 %

Net Sales

Worldwide net sales for the Residential segment in fiscal 2017 were up by 0.6 percent compared to fiscal 2016 primarily as a result of the following factors:

- Higher sales of Pope-branded irrigation products in Australia mainly due to strong demand and favorable weather conditions.
- Increased shipments of snow products mainly driven by favorable snowfalls in the first quarter of fiscal 2017.

Somewhat offsetting those increases were:

- Lower shipments of our zero-turn radius riding mowers due to lower demand for our steering wheel zero-turn radius mower models and higher demand for our new lines of Professional segment contractor grade zero-turn radius mowers.
- Unfavorable foreign currency exchange rate fluctuations.

Worldwide net sales for the Residential segment in fiscal 2016 were down by 7.8 percent compared to fiscal 2015 primarily as a result of the following factors:

- Decreased shipments and lower retail demand for snow products due to low snowfall totals in the 2015/2016 season.
- Lower sales of zero-turn radius riding mowers primarily driven by variable weather conditions throughout the year and a slight reduction in retail placement.

- Unfavorable weather conditions in many of our markets.

Somewhat offsetting the decrease in Residential segment net sales in fiscal 2016 when compared to fiscal 2015, were higher sales of walk power mowers driven by increased demand for our product offerings and strong customer response for our innovative models, including our SMARTSTOW® and all-wheel drive models.

Operating Earnings

Operating earnings for the Residential segment in fiscal 2017 increased 1.4 percent compared to fiscal 2016. Expressed as a percentage of net sales, Residential segment operating margins increased 10 basis points to 11.1 percent in fiscal 2017 compared to 11.0 percent in fiscal 2016. The following factors impacted Residential segment operating earnings as a percentage of net sales for fiscal 2017:

- Higher gross margin in fiscal 2017 compared to fiscal 2016 mainly due to favorable product mix and favorable operational productivity from production efficiencies, partially offset by higher commodity costs and freight expense.
- An increased SG&A expense rate attributable to higher incentive and engineering expense as a percentage of net sales.

Operating earnings for the Residential segment in fiscal 2016 decreased 13.3 percent compared to fiscal 2015. Expressed as a percentage of net sales, Residential segment operating

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margins decreased 70 basis points to 11.0 percent in fiscal 2016 compared to 11.7 percent in fiscal 2015. The following factors impacted Residential segment operating earnings as a percentage of net sales for fiscal 2016:

- Higher gross margin in fiscal 2016 compared to fiscal 2015 mainly due to lower commodity costs and freight expense, partially offset by unfavorable foreign currency exchange rate fluctuations.
- Increased SG&A expense rate attributable to lower sales as well as increased engineering, marketing and warehousing expenses as a percentage of net sales.

The domestic field inventory levels of our Residential segment products as of the end of fiscal 2017 were consistent with the levels of fiscal 2016.

Other Segment

Other segment net sales, which includes our wholly owned domestic distributor, represented approximately 1 percent of consolidated net sales for each of fiscal 2017, 2016, and 2015. During the first quarter of fiscal 2016, we sold our Northwestern U.S. distribution company. The following table shows the other segment net sales and operating losses:

(Dollars in millions)

Fiscal Years Ended October 31	2017	2016	2015
Net sales	$20.2	$17.7	$25.5
% change from prior year	14.1 %	(30.6)%	12.6 %
Operating losses	$(101.0)	$(95.3)	$(101.9)

Net Sales

Net sales for the Other segment includes sales from our wholly owned domestic distribution company less sales from the Professional and Residential segments to that distribution company. The Other segment net sales in fiscal 2017 were up $2.5 million compared to fiscal 2016, primarily due to strong demand for our golf and grounds equipment that was sold through our wholly owned domestic distribution company.

The Other segment net sales in fiscal 2016 were down $7.8 million compared to fiscal 2015, primarily due to the sale of our Northwestern U.S. distribution company in the first quarter of fiscal 2016.

Operating Loss

Operating loss for the Other segment in fiscal 2017 increased by 6.0 percent compared to fiscal 2016. This loss increase was primarily attributable to higher incentive expense due to improved company performance.

Operating loss for the Other segment in fiscal 2016 decreased by 6.5 percent compared to fiscal 2015. This loss decrease was primarily attributable to increased income from our investment in Red Iron and a fiscal 2016 litigation settlement recovery.

FINANCIAL POSITION

Working Capital

We define average net working capital as average net accounts receivable plus net inventory, less accounts payable as a percentage of net sales for a twelve month period. As of the end of fiscal 2017, our average net working capital decreased to 13.8 percent compared to 15.9 percent as of the end of fiscal 2016 mainly due to higher average accounts payable and higher net sales.

The following table highlights several key measures of our working capital performance:

(Dollars in millions)

Fiscal Years Ended October 31	2017	2016
Average cash and cash equivalents	$266.3	$194.3
Average receivables, net	$208.4	$205.7
Average inventories, net	$367.0	$375.0
Average accounts payable	$228.7	$199.4
Average days outstanding for receivables	30.4	31.4
Average inventory turnover (times)	4.3	4.1

The following factors impacted our working capital:

- Average net receivables increased by 1.3 percent in fiscal 2017 compared to fiscal 2016 due to increased sales in fiscal 2017. Our average days outstanding for receivables decreased to 30.4 days in fiscal 2017 compared to 31.4 days in fiscal 2016.
- Average inventories decreased by 2.1 percent in fiscal 2017 compared to fiscal 2016. Inventory levels as of the end of fiscal 2017 compared to the end of fiscal 2016 were up by $22.0 million, or 7.2 percent, primarily due to higher Professional segment forecasted retail demand.
- Average accounts payable increased by 14.7 percent in fiscal 2017 compared to fiscal 2016, mainly due to initiatives to manage our payables, which included extending payment terms with suppliers.

Capital Expenditures and Other Long-Term Assets

Fiscal 2017 capital expenditures of $58.3 million were higher by $7.6 million compared to fiscal 2016. This increase was mainly attributable to fiscal 2017 facilities renovations, replacement of production process equipment, investments in new technology, and expanded capacity. Capital expenditures for fiscal 2018 are expected to be approximately $75 million as we plan to invest in our facilities, new product tooling, new technology in production processes and equipment, replacement of production equipment, and expanded capacity.

Long-term assets as of October 31, 2017 were $633.9 million compared to $605.6 million as of October 31, 2016, an increase of $28.3 million. This increase was driven mainly by the acquisition of the Perrot business in the first quarter of fiscal 2017 and an increase in deferred tax assets. Included in long-term assets as of October 31, 2017 was goodwill in the amount of $205.0 million. Based on our annual impairment analysis, we determined there was no goodwill impairment for any of

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our reporting units as their related fair values were substantially in excess of their carrying values.

Cash Flow

Cash flows provided by/(used in) operating, investing, and financing activities during the past three fiscal years are shown in the following table:

(Dollars in millions)	Cash Provided by/(Used in)		
Fiscal Years Ended October 31	2017	2016	2015
Operating activities	$360.7	$384.3	$249.6
Investing activities	(83.8)	(48.9)	(254.5)
Financing activities	(245.3)	(182.9)	(181.8)
Effect of exchange rates on cash	5.0	(5.2)	(1.8)
Net increase/(decrease) in cash and cash equivalents	36.7	147.3	(188.6)
Cash and cash equivalents as of fiscal year end	$310.3	$273.6	$126.3

Cash Flows from Operating Activities

Our primary source of funds is cash generated from operations. In fiscal 2017, cash provided by operating activities decreased by $23.5 million, or 6.1 percent, from fiscal 2016. This decrease was mainly due to higher net receivables as a result of higher sales, as well as increased net inventories due to higher amounts of inventory purchased to support higher Professional segment forecasted retail demand. This decrease was partially offset by higher net earnings, higher payables due to continued working capital initiatives, and a Red Iron exclusivity incentive payment.
In fiscal 2016, cash provided by operating activities increased $134.7 million, or 54.0 percent, from fiscal 2015. This increase was mainly due to lower net receivables as more net receivables were financed through Red Iron and favorable movement in net inventories from focused production planning in the latter half of fiscal 2016.

Cash Flows from Investing Activities

Capital expenditures and acquisitions are a significant use of our capital resources. These investments are intended to enable sales growth in new and expanding markets, help us to meet product demand, and increase our manufacturing efficiencies and capacity. Cash used in investing activities in fiscal 2017 increased by $34.8 million from fiscal 2016 mainly due to cash utilized for the acquisition of the Perrot business in the first quarter of fiscal 2017 and higher purchases of property, plant, and equipment.
Cash used in investing activities in fiscal 2016 decreased $205.6 million from fiscal 2015 due to cash utilized in fiscal 2015 for the acquisition of the BOSS business and lower purchases of property, plant, and equipment, partially offset by proceeds from the sale of our Northwestern distribution company in fiscal 2016.

Cash Flows from Financing Activities

Cash used in financing activities in fiscal 2017 was $245.3 million compared to $182.9 million in fiscal 2016. The increase in cash used in financing activities was mainly due to more cash used for common stock repurchases, lower proceeds from stock-based compensation, and increased cash dividends paid on our common stock in fiscal 2017 compared to fiscal 2016.
Cash used in financing activities in fiscal 2016 was $182.9 million compared to $181.8 million in fiscal 2015. The increase in cash used in financing activities was mainly due to an increase in cash dividends paid on our common stock and higher amounts of cash utilized for common stock repurchases, partially offset by favorable benefits from stock-based compensation and less cash utilized for repayments of debt in fiscal 2016 compared fiscal 2015.

Cash and Cash Equivalents

Cash and cash equivalents as of the end of fiscal 2017 increased by $36.7 million compared to the end of fiscal 2016.

Liquidity and Capital Resources

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, payroll and other administrative costs, capital expenditures, establishment of new facilities, expansion and renovation of existing facilities, as well as for financing receivables from customers that are not financed with Red Iron. Our accounts receivable balances historically increase between January and April as a result of typically higher sales volumes and extended payment terms made available to our customers, and typically decrease between May and December when payments are received. We believe that the funds available through existing financing arrangements and forecasted cash flows will be sufficient to provide the necessary capital resources for our anticipated working capital needs, capital expenditures, investments, debt repayments, quarterly cash dividend payments, and common stock repurchases for at least the next twelve months. As of October 31, 2017, cash and short-term investments held by our foreign subsidiaries that are not available to fund domestic operations unless repatriated were $133.5 million. We currently do not intend to repatriate this cash held by our foreign subsidiaries; however, if circumstances changed and these funds were needed for our U.S. operations, we would be required to accrue and pay U.S. taxes to repatriate these funds. Determination of the unrecognized deferred tax liability related to these earnings is not practicable because of the complexities with its hypothetical calculation.

Seasonal cash requirements are financed from operations, cash on hand, and with short-term financing arrangements, including our $150.0 million unsecured senior five-year revolving credit facility that expires in October 2019. Included in our $150.0 million revolving credit facility is a $20.0 million sublimit for standby letters of credit and a $20.0 million sublimit for swingline loans. At our election, and with the approval of the named borrowers on the revolving credit facility and the election of the lenders to fund such increase, the aggregate maximum principal amount available under the facility may be increased by an amount up to $100.0 million. Funds are available under the revolving credit facility for working capital, capital expenditures, and other lawful purposes, including, but not limited to, acquisitions and stock repurchases. Interest expense on this credit line is determined based on a LIBOR rate (or other rates quoted by the Administrative Agent, Bank of America, N.A.) plus a basis point spread defined in the credit agreement. In addition, our non-U.S. operations maintain unsecured short-term lines of credit in the aggregate amount of $9.2 million. These facilities bear interest at various rates depending on the rates in their respective countries of operation. As of October 31, 2017 and October 31, 2016 we had no outstanding short-term debt under these lines of credit. As of October 31, 2017, we had $10.2 million of outstanding letters of credit and $149.0 million of unutilized availability under our credit agreements.

Additionally, as of October 31, 2017, we had $331.9 million outstanding in long-term debt that includes $100.0 million of 7.8 percent debentures due June 15, 2027, $123.8 million of 6.625 percent senior notes due May 1, 2037, a $100.8 million term loan, a $10.0 million note due November 14, 2017 to the former owners of the BOSS business, and partially offsetting debt issuance costs and deferred charges of $2.7 million related to our outstanding long-term debt. The term loan bears interest based on a LIBOR rate (or other rates quoted by the Administrative Agent, Bank of America, N.A.) plus a basis point spread defined in the credit agreement. The term loan can be repaid in part or in full at any time without penalty, but in any event must be paid in full by October 2019.

Our revolving and term loan credit facility contains standard covenants, including, without limitation, financial covenants, such as the maintenance of minimum interest coverage and maximum debt to EBITDA ratios; and negative covenants, which among other things, limit loans and investments, disposition of assets, consolidations and mergers, transactions with affiliates, restricted payments, contingent obligations, liens, and other matters customarily restricted in such agreements. Most of these restrictions are subject to certain minimum thresholds and exceptions. Under the revolving credit facility, we are not limited in the amount for payments of cash dividends and common stock repurchases as long as our debt to EBITDA ratio from the previous quarter compliance certificate is less than or equal to 3.25, provided that immediately after giving effect of any such proposed action, no default or event of default would exist. As of October 31, 2017, we were not limited in the amount for payments of cash dividends and stock repurchases. We were in compliance with all covenants related to our credit agreement for our revolving credit facility as of October 31, 2017, and we expect to be in compliance with all covenants during fiscal 2018. If we were out of compliance with any covenant required by this credit agreement following the applicable cure period, the banks could terminate their commitments unless we could negotiate a covenant waiver from the banks. In addition, our long-term senior notes, debentures, term loan, and any amounts

outstanding under the revolving credit facility could become due and payable if we were unable to obtain a covenant waiver or refinance our short-term debt under our credit agreement. If our credit rating falls below investment grade and/or our average debt to EBITDA ratio rises above 1.50, the basis point spread over LIBOR (or other rates quoted by the Administrative Agent, Bank of America, N.A.) we currently pay on outstanding debt under the credit agreement would increase. However, the credit commitment could not be canceled by the banks based solely on a ratings downgrade. Our debt rating for long-term unsecured senior, non-credit enhanced debt was unchanged during fiscal 2017 by Standard and Poor's Ratings Group at BBB and by Moody's Investors Service at Baa3.

Capital Structure

The following table details the components of our total capitalization and debt-to-capitalization ratio:

(Dollars in millions)

October 31	2017	2016
Short-term debt	$—	$—
Long-term debt, including current portion	$331.9	$351.0
Stockholders' equity	$617.1	$550.0
Debt-to-capitalization ratio	35.0 %	39.0 %

Our debt-to-capitalization ratio decreased in fiscal 2017 compared to fiscal 2016 primarily due to an increase in stockholders' equity from higher net earnings, as well as repayments of our long-term debt, partially offset by an increase in dividends paid and repurchases of our common stock in fiscal 2017 as compared to fiscal 2016.

Cash Dividends

In each quarter of fiscal 2017, our Board of Directors declared a cash dividend of $0.175 per share, which was a 16.7 percent increase over our cash dividend of $0.15 per share paid each quarter in fiscal 2016. As announced on December 7, 2017, our Board of Directors increased our fiscal 2018 first quarter cash dividend by 14.3 percent to $0.20 per share from the quarterly cash dividend paid in the first quarter of fiscal 2017.

Share Repurchases

During fiscal 2017, we continued to repurchase shares of our common stock in the open market, thereby reducing our total shares outstanding. As of October 31, 2017, 4,981,878 shares remained available for repurchase under our Board authorization. Our repurchase program also provides shares for use in connection with our equity compensation plans. We expect to continue repurchasing shares of our common stock in fiscal 2018, depending upon market conditions.

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The following table provides information with respect to repurchases of our common stock during the past three fiscal years:

(Dollars in millions, except share and per share data)			
Fiscal Years Ended October 31	2017	2016	2015 [1]
Shares of Board authorized common stock purchased	2,710,837	2,625,913	3,122,358
Cost to repurchase common stock	$ 159.4	$ 110.0	$ 106.0
Average price paid per share	$ 58.78	$ 41.88	$ 33.94

1 Share and per share data have been adjusted for prior year periods presented to reflect the impact of our two-for-one stock split effective September 16, 2016.

Customer Financing Arrangements

Wholesale Financing

We are party to a joint venture with TCFIF, established as Red Iron, the primary purpose of which is to provide inventory financing to certain distributors and dealers of our products in the U.S. that enables them to carry representative inventories of our products. Under a separate arrangement, TCFCFC provides inventory financing to dealers of our products in Canada. Under these financing arrangements, down payments are not required and, depending on the finance program for each product line, finance charges are incurred by us, shared between us and the distributor and/or the dealer, or paid by the distributor or dealer. Red Iron retains a security interest in the distributors' and dealers' financed inventories, and those inventories are monitored regularly. Financing terms to the distributors and dealers require payment as the equipment, which secures the indebtedness, is sold to customers or when payment terms become due, whichever occurs first. Rates are generally indexed to LIBOR 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. Red Iron financed $1,847.7 million of new receivables for dealers and distributors during fiscal 2017, of which $407.5 million of net receivables were outstanding as of October 31, 2017.

Some independent international dealers continue to finance their products with a third-party financing company. This third-party financing company purchased $32.1 million of receivables from us during fiscal 2017, of which $13.1 million was outstanding as of October 31, 2017.

We enter into limited inventory repurchase agreements with third party financing companies and Red Iron for receivables financed by them. As of October 31, 2017, we were contingently liable to repurchase up to a maximum amount of $10.7 million of inventory related to receivables under these financing arrangements. We have repurchased immaterial amounts of inventory from third party financing companies and Red Iron over the past three fiscal years. 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 up to but not exceeding our limited obligation, which could have an adverse effect on our operating results.

We continue to provide financing in the form of open account terms to home centers and mass retailers; general line irrigation dealers; international distributors and dealers other than the Canadian distributors and dealers to whom Red Iron provides financing arrangements; micro-irrigation dealers and distributors; government customers; and rental companies.

End-User Financing

We have agreements with third party financing companies to provide lease-financing options to golf course and sports fields and grounds equipment customers in the U.S., Australia, and select countries in Europe. The purpose of these agreements is to increase sales by giving buyers of our products alternative financing options when purchasing our products. We have no contingent liabilities for residual value or credit collection risk under these agreements with third party financing companies.

From time to time, we enter into agreements where we provide recourse to third-party finance companies in the event of default by the customer for lease payments to the third-party finance company. Our maximum exposure for credit collection under those arrangements as of October 31, 2017 was $6.6 million.

Termination or any material change to the terms of our end-user financing arrangements, availability of credit for our customers, including any delay in securing replacement credit sources, or significant financed product repurchase requirements could have a material adverse impact on our future operating results.

Distributor Financing

Occasionally, we enter into long-term loan agreements with some distributors. These transactions are used for expansion of the distributors' businesses, acquisitions, refinancing working capital agreements, or facilitation of ownership transitions. As of October 31, 2017, we had outstanding notes receivable in the amount of $1.6 million, which is included in other current and long-term assets on our Consolidated Balance Sheets.

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Off-Balance Sheet Arrangements and Contractual Obligations

The following table summarizes our contractual obligations as of October 31, 2017:

(Dollars in thousands)	Payments Due by Period				
Contractual Obligations	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Long-term debt[1]	$26,258	$84,500	$—	$223,792	$334,550
Interest payments[2]	18,697	34,822	32,163	156,129	241,811
Deferred compensation arrangements[3]	541	89	—	—	630
Purchase obligations[4]	11,057	1,740	—	—	12,797
Operating leases[5]	16,789	27,454	21,337	28,511	94,091
Other[6]	8,486	523	—	—	9,009
Total	$81,828	$149,128	$53,500	$408,432	$692,888

1 Principal payments in accordance with our credit facilities and long-term debt agreements.

2 Interest payments for outstanding long-term debt obligations. Interest on variable rate debt was calculated using the interest rate as of October 31, 2017.

3 The unfunded deferred compensation arrangements, covering certain current and retired management employees, consist primarily of salary and bonus deferrals under our deferred compensation plans. Our estimated distributions in the contractual obligations table are based upon a number of assumptions including termination dates and participant elections.

4 Purchase obligations represent contracts or commitments for the purchase of raw materials.

5 Operating lease obligations do not include payments to property owners covering real estate taxes and common area maintenance.

6 Payment obligations in connection with renovations of our corporate facilities located at Bloomington, Minnesota and corporate information technology payment obligations.

As of October 31, 2017, we also had $10.2 million in outstanding letters of credit issued, including standby letters of credit and import letters of credit, during the normal course of business, as required by some vendor contracts, as well as $5.4 million in surety bonds, which include workers compensation self-insured bonds. In addition to the contractual obligations described in the preceding table, we may be obligated for additional net cash outflows related to $2.2 million of unrecognized tax benefits, including interest and penalties. The payment and timing of any such payments is affected by the ultimate resolution of the tax years that are under audit or remain subject to examination by the relevant taxing authorities.

We have off-balance sheet arrangements with Red Iron, our joint venture with TCFIF, and TCFCFC in which inventory receivables for certain dealers and distributors are financed by Red Iron or TCFCFC. More information regarding the terms and our arrangements with Red Iron and TCFCFC are disclosed herein under Item 7, "Management's Discussion and Analysis

of Financial Condition and Results of Operations" and Note 3 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data."

Market Risk

Due to the nature and scope of our operations, we are subject to exposures that arise from fluctuations in interest rates, foreign currency exchange rates, and commodity prices. We are also exposed to equity market risk pertaining to the trading price of our common stock. Additional information is presented in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," and Note 14 of the Notes to Consolidated Financial Statements.

Inflation

We are subject to the effects of inflation, deflation, and changing prices. During fiscal 2017, average prices paid for commodities and components we purchased were higher compared to the average prices paid for commodities and components in fiscal 2016. We intend to continue to closely follow prices of commodities and components that affect our product lines, and we anticipate average prices paid for some commodities and components to be higher in fiscal

2018 as compared to fiscal 2017. Historically, we have mitigated, and we currently expect that we would mitigate, any commodity cost increases, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, utilization of Lean methods, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our Consolidated Financial Statements in conformity with U.S. GAAP, we must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the Consolidated Financial Statements are prepared.

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements. Some of those significant accounting policies require us to make difficult subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period may have a material impact on the presentation of our financial condition, changes in financial condition, or results of operations. Our critical accounting estimates include the following:

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Warranty Reserve

Warranty coverage on our products is generally for specified periods of time and on select products' hours of usage, and generally covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse or improper use. At the time of sale, we accrue a warranty reserve by product line for estimated costs in connection with future warranty claims. We also establish reserves for major rework campaigns. The amount of our warranty reserves 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. We periodically assess the adequacy of our warranty reserves based on changes in these factors and record any necessary adjustments if actual claim experience indicates that adjustments are necessary. Actual claims could be higher or lower than amounts estimated, as the number and value of warranty claims can vary due to such factors as performance of new products, significant manufacturing or design defects not discovered until after the product is delivered to customers, product failure rates, and higher or lower than expected service costs for a repair. We believe that analysis of historical trends and knowledge of potential manufacturing or design problems provide sufficient information to establish a reasonable estimate for warranty claims at the time of sale. However, since we cannot predict with certainty future warranty claims or costs associated with servicing those claims, our actual warranty costs may differ from our estimates. An unexpected increase in warranty claims or in the costs associated with servicing those claims would result in an increase in our warranty accrual and a decrease in our net earnings.

Sales Promotions and Incentives

At the time of sale to a customer, we record an estimate for sales promotion and incentive costs that are classified as a reduction from gross sales or as a component of SG&A expense.

Examples of significant sales promotions and incentive programs in which the related expense is classified as a reduction from gross sales are as follows:

- Off-Invoice Discounts: Our costs for off-invoice discounts represent a reduction in the selling price of our products given at the time of sale.
- Rebate Programs: Our rebate programs are generally based on claims submitted from either our direct customers or end-users of our products, depending upon the program. The amount of the rebate varies based on the specific program and is either a dollar amount or a percentage of the purchase price and can also be based on actual retail price as compared to our selling price.
- Incentive Discounts: Our costs for incentive discount programs are based on our customers’ purchases of certain quantities or mixes of product during a specified time period which are tracked on an annual basis.
- Financing Programs: Our costs for financing programs, namely floor planning and retail financing, represent financing costs associated with programs under which we pay a portion of the interest cost to finance distributor and dealer inventories through third party financing arrangements for a specific period of time. Retail financing is similar to floor planning with the difference being that retail financing programs are offered to end-user customers under which we pay a portion of interest costs on behalf of end-users for financing purchases of our equipment.
- Commissions Paid to Home Center Customers: We pay commissions to home center customers as an off-invoice discount. These commissions do not represent any selling effort by the home center customer but rather is a discount from the selling price of the product.

Examples of significant sales promotions and incentive programs in which the related expense is classified as a component of selling, general, and administrative expense are as follows:

- Commissions Paid to Distributors and Dealers: For certain products, we use a distribution network of dealers and distributors that purchase and take possession of products for sale to the end customer. In addition, we have dealers and distributors that act as sales agents for us on certain products using a direct-selling type model. Under this direct-selling type model, our network of distributors and dealers facilitates a sale directly to the dealer or end-user customer on our behalf. Commissions to distributors and dealers in these instances represent commission payments to sales agents that are also our customers.
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Cooperative Advertising: Cooperative advertising programs are based on advertising costs incurred by distributors and dealers for promoting our products. We support a portion of those advertising costs in which claims are submitted by the distributor or dealer along with evidence of the advertising material procured/produced and evidence of the cost incurred in the form of third party invoices or receipts.

The estimates for sales promotion and incentive costs are based on the terms of the arrangements with customers, historical payment experience, field inventory levels, volume purchases, and expectations for changes in relevant trends in the future. Actual results may differ from these estimates if competitive factors dictate the need to enhance or reduce sales promotion and incentive accruals or if customer usage and field inventory levels vary from historical trends. Adjustments to sales promotions and incentive accruals are made from time to time as actual usage becomes known in order to properly estimate the amounts necessary to generate consumer demand based on market conditions as of the balance sheet date.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill and indefinite-lived intangible assets are not amortized, but are tested at least annually for impairment and whenever events or changes in circumstances indicate that impairment may have occurred. We test goodwill and

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indefinite-lived intangible assets for impairment at the reporting unit level and individual indefinite-lived intangible asset level, respectively. Our impairment testing for goodwill is performed separately from our impairment testing of indefinite-lived intangible assets, but the income approach is utilized for both to determine fair value when a quantitative analysis is required. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets using the present value of future cash flows. Assumptions utilized in determining fair value under the income approach, such as forecasted growth rates and weighted-average cost of capital ("WACC"), are consistent with internal projections and operating plans. Materially different assumptions regarding future performance of our businesses or a different WACC rate could result in impairment losses.

Individual indefinite-lived intangible assets are tested for impairment by comparing the carrying amounts of the respective asset to its estimated fair value. Our estimate of the fair value for indefinite-lived intangible assets uses projected revenues from our forecasting process, assumed royalty rates, and a discount rate. If the fair value of the indefinite-lived intangible asset is less than its carrying value, an impairment loss is recognized in an amount equal to the excess.

In conducting our goodwill impairment test, we first perform a qualitative assessment to determine whether changes in events or circumstances since our most recent quantitative test for goodwill impairment indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In conducting the initial qualitative assessment, we analyze actual and projected growth trends for net sales, gross margin, and earnings for each reporting unit, as well as historical versus planned performance. Additionally, each reporting unit is assessed for critical areas that may impact its business, including macroeconomic conditions, market-related exposures, competitive changes, new or discontinued products, changes in key personnel, or any other potential risks to projected financial results. All assumptions used in the qualitative assessment require significant judgment. If, after evaluating the weight of the changes in events and circumstances, both positive and negative, we conclude that an impairment may exist, a two-step quantitative test for goodwill impairment is performed.

If performed due to identified impairment indicators or the duration of time since the most recent quantitative goodwill impairment test, the quantitative goodwill impairment test is a two-step process. First, we compare the carrying value of a reporting unit, including goodwill, to its fair value. Our estimate of the fair value of our reporting units utilizes various inputs and assumptions, including projected operating results and growth rates from our forecasting process, applicable tax rates and a WACC rate. Where available, and as appropriate, comparable market multiples and our company's market capitalization are also used to corroborate the results of the discounted cash flow models. If the first step indicates the carrying value exceeds the fair value of a reporting unit, then a second step must be completed in order to determine the

amount of goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill. The implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

Inventory Valuation

We value our inventories at the lower of the cost of inventory or net realizable value, with cost determined by either the last-in, first-out method for most U.S. inventories or the first-in, first-out method for all other inventories. We establish reserves for excess, slow moving, and obsolete inventory based on inventory levels, expected product life, and forecasted sales demand. Valuation of inventory can also be affected by significant redesign of existing products or replacement of an existing product by an entirely new generation product. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with inventory levels. Reserve requirements are developed according to our projected demand requirements based on historical demand, competitive factors, and technological and product life cycle changes. It is possible that an increase in our reserve may be required in the future if there is a significant decline in demand for our products and we do not adjust our production schedule accordingly.

We record a reserve for inventory shrinkage. Our inventory shrinkage reserve represents anticipated physical inventory losses that are recorded based on historical loss trends, ongoing cycle-count and periodic testing adjustments, and inventory levels.

Though management considers reserve balances adequate and proper, changes in economic conditions in specific markets in which we operate could have an effect on the reserve balances required for excess, slow moving and obsolete inventory.

New Accounting Pronouncements to be Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date of this standard by one year. The guidance permits the use of either a retrospective or cumulative effect transition method. We have elected to use a cumulative effect transition

method for adoption of the amended guidance. We expect to adopt this guidance on November 1, 2018, as required, based on the new effective date. We are currently assessing our contracts with customers and developing related financial disclosures in order to evaluate the impact of the amended guidance on our existing revenue recognition policies, procedures, and internal controls. The majority of our revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. While we have not identified any material differences in the amount and timing of revenue recognition related to ASU 2014-09, our evaluation is not complete and, accordingly, we have not yet reached a conclusion on the overall impacts of adopting ASU 2014-09.
In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This amended guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The amended guidance will become effective for us commencing in the first quarter of fiscal 2018. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which, among other things, requires lessees to recognize most leases on-balance sheet. The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The amended guidance will become effective for us commencing in the first quarter of fiscal 2020. Entities are required to use a modified retrospective approach, with early adoption permitted. We are currently reviewing the revised guidance, assessing our leases, and related impact on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. The amended guidance will become effective for us commencing in the first quarter of fiscal 2021. We are currently evaluating the impact of this new standard on our Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. The amended guidance will become effective for us commencing in the first quarter of fiscal 2019. Early adoption is permitted. We are currently evaluating the impact of this new standard on our Consolidated Financial Statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amends the hedge accounting recognition and presentation requirements in ASC 815. The amended guidance will become effective for us commencing in the first quarter of fiscal 2020. Early adoption is permitted. We are currently evaluating the impact of this new standard on our Consolidated Financial Statements.
No other new accounting pronouncement that has been issued but not yet effective for us during fiscal 2017 has had, or is expected to have, a material impact on our Consolidated Financial Statements.

ITEM 7A. 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 prices. 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. See further discussion on these market risks below.

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, 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, the Romanian New Leu against the U.S. dollar, and the Romanian New Leu against the Euro, including exposure as a result of the volatility and uncertainty that may arise as a result of the United Kingdom's process for exiting the EU. 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 actively manage the exposure of our foreign currency exchange rate risk by entering into various derivative instruments to hedge against such risk, authorized under company policies that place controls on these hedging activities, with counterparties that are highly rated financial institutions. Our policy does not allow the use of derivative instruments for trading or speculative purposes. We use 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.

Our hedging activities primarily involve the use of forward currency contracts to hedge most foreign currency transactions, including existing foreign currency assets, liabilities and probable commitments and forecasted sales and purchases denominated in foreign currencies. We may also utilize forward

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currency contracts or cross currency swaps to offset intercompany loan exposures. 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 changes in values of the related 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 gains and losses on our derivative instruments, refer to Note 14 in our Notes to Consolidated Financial Statements, in the section entitled "Derivative Instruments and Hedging Activities", included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

The foreign currency exchange contracts in the table below have maturity dates in fiscal 2018 through fiscal 2019. All items are non-trading and stated in U.S. dollars. Certain derivative instruments we hold do not meet the cash flow hedge accounting criteria; therefore, changes in their fair value are recorded in other income, net.

The average contracted rate, notional amount, pre-tax value of derivative instruments in accumulated other comprehensive loss, and fair value impact of derivative instruments in other income, net, as of, and for the fiscal year ended, October 31, 2017 were as follows:

(Dollars in thousands, except average contracted rate)	Average Contracted Rate	Notional Amount	Pre-Tax Gain (Loss) in AOCL	Fair Value Impact Gain (Loss)
Buy U.S. dollar/Sell Australian dollar	0.7613	$44,205.2	$(293.8)	$(1,019.1)
Buy U.S. dollar/Sell Canadian dollar	1.2939	10,008.4	(73.6)	99.0
Buy U.S. dollar/Sell Euro	1.1415	48,994.6	(1,745.9)	1,560.3
Buy U.S. dollar/Sell British pound	1.3270	37,342.1	(50.0)	104.7
Buy Mexican peso/Sell U.S. dollar	21.3747	11,686.2	681.6	(525.2)
Buy Japanese yen/Sell U.S. dollar	113.6620	$24.6	$—	$—

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 Consolidated Balance Sheets, and would not impact net earnings.

Interest Rate Risk

Our market risk on interest rates relates primarily to LIBOR-based short-term debt and a term loan from commercial banks, as well as the potential increase in 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. Included in long-term debt is $223.8 million of fixed-rate debt that is not subject to variable interest rate fluctuations, a fixed-rate promissory note for the principal amount of $10.0 million issued to the former owners of the BOSS business, and a $100.8 million LIBOR-based term loan, which is subject to market risk based on changes in LIBOR rates. We have no earnings or cash flow exposure due to market risks on our fixed-rate long-term debt obligations. As of October 31, 2017, the estimated fair value of long-term debt with fixed interest rates was $282.4 million compared to its carrying amount of $231.1 million. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately $13.3 million. The fair value is estimated by discounting the projected cash flows using the rate that similar amounts and terms of debt could currently be borrowed.

Commodity Risk

We are subject to market risk from fluctuating market prices of certain purchased commodity raw materials including steel, aluminum, petroleum and natural gas-based resins, and linerboard. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We generally buy these commodities and components based upon market prices that are established with the vendor as part of the purchase process. We generally attempt to obtain firm pricing from most of our suppliers for volumes consistent with planned production. To the extent that commodity prices increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, we may experience a decline in our gross margins to the extent we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset increases in commodity costs. Further information regarding rising prices for commodities is presented in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report in the section entitled "Inflation." We enter into fixed-price contracts for future purchases of natural gas in the normal course of operations as a means to manage natural gas price risks. In fiscal 2017, our manufacturing facilities entered into these fixed-price contracts for approximately 50 percent of their monthly-anticipated usage.

Equity Price Risk

The trading price volatility of our common stock impacts compensation expense related to our stock-based compensation plans. Refer to Note 10 in our Notes to Consolidated Financial Statements, in the section entitled "Derivative Instruments and Hedging Activities", included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report for additional information regarding our stock-based compensation plans.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, for The Toro Company and its subsidiaries. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. In addition, projection of any evaluation of the effectiveness of internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management, with the participation of the company's Chairman of the Board, President and Chief Executive Officer and Vice President, Treasurer and Chief Financial Officer, evaluated the effectiveness of the company's internal control over financial reporting as of October 31, 2017. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on this assessment, management concluded that the company's internal control over financial reporting was effective as of October 31, 2017. Our internal control over financial reporting as of October 31, 2017, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

/s/ Richard M. Olson
Chairman of the Board, President and Chief Executive Officer
/s/ Renee J. Peterson
Vice President, Treasurer and Chief Financial Officer

December 22, 2017

Further discussion of the company's internal controls and procedures is included in Part II, Item 9A, "Controls and Procedures" of this report.

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
The Toro Company:

We have audited the accompanying consolidated balance sheets of The Toro Company and subsidiaries (the Company) as of October 31, 2017 and 2016 and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended October 31, 2017. In connection with our audits of the consolidated financial statements, we have audited the financial statement schedule listed in Item 15(a) 2. We have also audited The Toro Company's internal control over financial reporting as of October 31, 2017 based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Toro Company's management is responsible for these consolidated financial statements and the identified financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements and financial statement schedule included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toro Company and subsidiaries as of October 31, 2017 and 2016 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended October 31, 2017, in conformity with U.S. generally accepted accounting principles. In our opinion, the identified financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information therein. Also in our opinion, The Toro Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2017 based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP
Minneapolis, Minnesota
December 22, 2017

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

Fiscal Years Ended October 31	2017	2016	2015
Net sales	$2,505,176	$2,392,175	$2,390,875
Cost of sales	1,584,339	1,517,580	1,554,940
Gross profit	920,837	874,595	835,935
Selling, general and administrative expense	565,727	540,199	536,821
Operating earnings	355,110	334,396	299,114
Interest expense	(19,113)	(19,336)	(18,757)
Other income, net	17,187	15,400	10,674
Earnings before income taxes	353,184	330,460	291,031
Provision for income taxes	85,467	99,466	89,440
Net earnings	$267,717	$230,994	$201,591
Basic net earnings per share of common stock	$2.47	$2.10	$1.81
Diluted net earnings per share of common stock	$2.41	$2.06	$1.78
Weighted-average number of shares of common stock outstanding – Basic	108,312	109,834	111,130
Weighted-average number of shares of common stock outstanding – Diluted	111,252	111,987	113,514

Shares and per share data have been adjusted for prior periods presented to reflect a two-for-one stock split effective September 16, 2016.
The financial statements should be read in conjunction with the Notes to Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Dollars in thousands)

Fiscal Years Ended October 31	2017	2016	2015
Net earnings	$267,717	$230,994	$201,591
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments, net of tax of $0, $(161), and $(51), respectively	10,127	(7,102)	(11,792)
Pension and retiree medical benefits, net of tax of $2,536, $(1,294), and $299, respectively	4,347	(973)	(120)
Derivative instruments, net of tax of $(1,123), $(605), and $(933), respectively	(158)	(518)	(2,226)
Other comprehensive income (loss), net of tax	14,316	(8,593)	(14,138)
Comprehensive income	$282,033	$222,401	$187,453

The financial statements should be read in conjunction with the Notes to Consolidated Financial Statements.

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

October 31	2017	2016
ASSETS		
Cash and cash equivalents	$310,256	$273,555
Receivables, net:		
Customers, net of allowances (2017 - $2,147; 2016 - $1,609)	176,008	157,908
Other	7,065	5,357
Total receivables, net	183,073	163,265
Inventories, net	328,992	307,034
Prepaid expenses and other current assets	37,565	35,155
Total current assets	859,886	779,009
Property, plant and equipment, net	235,230	222,038
Deferred income taxes	64,083	57,228
Goodwill	205,029	194,782
Other intangible assets, net	103,743	108,093
Other assets	25,816	23,422
Total assets	$1,493,787	$1,384,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$26,258	$22,484
Accounts payable	211,752	174,668
Accrued liabilities:		
Warranty	74,155	72,158
Advertising and marketing programs	85,934	81,315
Compensation and benefit costs	58,576	52,139
Insurance	6,887	7,502
Interest	7,542	7,931
Other	50,692	45,642