

Chairman's Statement

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“ I am proud to report that TTI had a strong year of financial performance with record profits and delivered a decade of consecutive annual revenue growth.”

I am pleased to announce our 2019 performance achieved record profits marking a decade of revenue growth. We built on our strong first half performance by delivering record second half results, driven by the development of new products and expansion across all categories, verticals and geographies.

Gross margin, EBIT, and net profit outpaced our impressive topline growth. TTI enters 2020 with a formidable record of industry leading performance, focused on our strategic drivers of powerful brands, innovative products, leading edge technology, exceptional people, and operational excellence.

Solid Corporate Performance

TTI reported sales of US\$7.7 billion, an increase of 9.2% over 2018 and 10.7% growth in local currency. The defining force behind our sustained success is our cordless leadership strategy. We continue to expand our cordless product families by further investing in our core lithium battery platforms, driving cutting-edge brushless motor technology and developing state-of-the-art electronics and power management systems. The result is a flow of new products with demonstrable end-user benefits. Our flagship Power Equipment business, representing 88.6% of total sales, grew 13.0% to US\$6.8 billion. Driving this stellar performance is our Milwaukee Tool business with another year of impressive performance of 21.7% growth in local currency while the RYOBI ONE+ business generated a high single digit sales increase. We continued to make progress in the Floor Care and Appliance business with the strategic cordless and carpet washing categories up 18.9% over 2018. The overall Floor Care business declined 13.5%, however EBIT improved 12.8% as we strengthened the division by exiting certain European markets and discontinuing non-strategic legacy categories. Despite the sales decline, we are very encouraged with the performance of our cordless and carpet washing categories, which have both been well received by the market and have delivered significant growth.

TTI continued to consolidate and strengthen its position in North America delivering industry leading growth of over 10.2% while EMEA grew an outstanding 13.5% in local currency. Our selective geographic expansion into targeted under-represented markets is progressing with successes in key markets in the Nordic and Eastern European arena. In rest of world, Australia and our Asia businesses again produced another excellent year with above market growth at 10.0% in local currency.

Continuing Operational Excellence

Our flow of high margin new products, mix management, productivity gains and volume leverage helped drive the gross margin up for the 11th successive year. Gross margin expanded from 37.2% in 2018 to 37.7% in 2019. We maintained a relentless focus on operational excellence through the TTI OPEX System, generating efficiencies throughout our operations and expanding the supply chain beyond the traditional base. To support our rapid growth, we have made investments to expand our global manufacturing footprint in Asia, Mexico and the USA. Our manufacturing operation in Vietnam which has expanded rapidly over the last year has now become a strategically important part of our global manufacturing operations. These initiatives are delivering world-class service levels, high quality products, while helping us mitigate headwinds, including tariffs, and positioning TTI for future growth.

Delivering Financial Performance

EBIT increased 10.9% to US\$673 million, with the EBIT margin improving by 10 basis points to 8.8%. Shareholders' profits rose 11.3% to US\$615 million, with earnings per share increasing 11.6% over 2018 to US33.67 cents. Through our disciplined working capital management, we delivered a gearing of 0.5% and working capital as 14.3% of sales.

The Board is recommending a final dividend of HK58.00 cents (approximately US7.46 cents) per share. Together, with the interim dividend of HK45.00 cents (approximately US5.79 cents) per share, this will result in a full-year dividend of HK103.00 cents (approximately US13.26 cents) per share, against HK88.00 cents (approximately US11.33 cents) per share in 2018, an increase of 17.0%.

High-Performance Strategy

A core foundation for our continued success has been an uninterrupted strategic focus on cordless technology over the years. We have remained dedicated to the four strategic pillars of Powerful Brands, Innovative Products, Exceptional People and Operational Excellence that have allowed us to concentrate on building an organization that delivers sustained performance, growth and profitability. TTI has followed its cordless leadership strategy in prioritizing the development of the cordless technologies necessary to bring revolutionary and ergonomic products to our end-users. We are leveraging our global product development resources and enhancing our well established power tool battery platforms for MILWAUKEE and RYOBI that are the most extensive in the industry as well as our newly launched battery platform for our floor care business. We see a bright future as we pursue the expansion of our cordless technology into new product categories.

We have identified new targets which are in line with our product development. An exciting and revolutionary development is the launch of the industrial MILWAUKEE MX FUEL Equipment system. The system is the result of extensive research and development into the industrial construction and maintenance equipment industries. This new groundbreaking cordless system is the platform that provides the technology and capability for Milwaukee Tool to step into the light equipment space.

Strong Outlook

TTI has an enviable track record of organically growing the top and bottom lines faster than our competitors. Looking forward, we have outlined strategic targets for expanding the product families around our leading MILWAUKEE and RYOBI battery platforms, entering new vertical markets and selective geographic expansion which create exciting opportunities for continued, above-market, sustained growth. These targets are aligned with our investments in R&D, strategic SG&A and new product development teams to continue delivering a flow of technically advanced innovative products that are fundamentally changing the way our users work at home and on the jobsite.

The Coronavirus is a global concern and with the situation as it currently stands today, we believe that we are well positioned given our diversified manufacturing base and supply chain to deal with the challenges that may present themselves and we are confident we will be able to deliver a solid 2020.

TTI remains committed to our strategic initiative of expanding our cordless leadership. One of the key factors is TTI OPEX which supports our world class product development system, drives deep management discipline and financial rigor. TTI is highly focused on further developing our world-class organization and has a pool of talent progressing through our Leadership Development Program. We are dedicated to stringent governance practices, sustainability and to increasing our positive impact on the environment.

I would like to thank our loyal customers, suppliers, shareholders, Board and entire TTI organization for another outstanding year. Our dedicated, skilled and passionate teams across the globe are enabling us to continuously achieve outstanding results. It is our unrelenting bold vision, customer focus and business momentum that will make 2020 another successful year and position TTI with exciting opportunities in the decade to come.

Horst Julius Pudwill
Chairman
March 4, 2020