US$663 million
The business delivered operating profit of US$663 million, a 10.8% increase over the previous year.

Flagship Milwaukee Tool business continues to grow 20%+ in local currency

RYOBI cordless sales delivered double-digit sales growth

13.0%
Revenue growth of Power Equipment business

US$6.8 billion
Sales in Power Equipment, Accessories, Storage and Hand Tools

Review of Operations
Power Equipment, Accessories, Storage and Hand Tools

TTI’s Power Equipment business, featuring MILWAUKEE industrial tools, RYOBI DIY power tools and RYOBI outdoor products delivered outstanding organic growth in all key markets with revenue increasing 13.0% to US$6.8 billion.

The relentless development of new innovative products, targeted sales and marketing investments and strategic geographic expansion all drive the stellar 2019 performance. Operating profit was up 10.8% to US$663 million. The Power Equipment business represented 88.6% of total sales.

MILWAUKEE remains focused on introducing new technology to support existing system users in addition to attracting new users to the extensive MILWAUKEE M12 and M18 cordless systems. The introduction of the M18 REDLITHIUM HIGH OUTPUT CP 3.0 and XC 8.0 battery packs offer 50% more power while running 50% cooler and delivering up to 60% more runtime. In addition, Milwaukee Tool continues investing and expanding the solutions in the FUEL brushless system enabling the conversion of alternate power sources while increasing safety and productivity on the jobsite. As an example, the M18 FUEL 5" Cut-off Saw eliminates the inconveniences in dealing with gas-powered cutoff saws while the M18 FUEL 7-1/4" Rear Handle Circular Saw delivers more power and faster cuts than an AC corded saw. The M18 FUEL 1" High Torque Impact Wrench is the world’s first and most powerful impact wrench on the market enabling users to eliminate pneumatic hoses and cords on the worksite. The relentless dedication to the professional trades is evident throughout Milwaukee Tool’s targeted industry verticals.

We recently announced the revolutionary cordless MX FUEL Equipment System. The MX FUEL cordless platform will redefine the professional light equipment sector with breakthrough levels of power delivery and one completely compatible battery system. Set to replace legacy powered technologies of corded electric, pneumatic, hydraulic and gas powered equipment, this system transforms the light equipment market by delivering the performance, run-time and durability demanded by the trades without the hazards associated with emissions, noise, vibration and the frustrations of gas maintenance.

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MILWAUKEE MX FUEL Handheld Core Drill

MILWAUKEE M18 FUEL 9" Cut-off Saw
Management's Discussion and Analysis

Launching with 10 products, the new MX FUEL Equipment System is the platform that provides the technology and capability for MILWAUKEE to take a giant step into the light equipment space.

Double-digit growth in the accessories business was fueled by the launch of the third generation of SHOCKWAVE driving accessories which are engineered to be the most durable, best fitting driver bits on the market. Investments in the Imperial Blades operations coupled with the introduction of product innovations drove the expansion of the high-growth oscillating category. The MILWAUKEE Carbide Cutting technology advancements are delivering user demand and resulting in exciting category growth.

Hand Tools
In 2019, the MILWAUKEE Hand Tools delivered exceptional growth propelled by innovative new products. A range of innovative mechanics hand tools with best in class features rolled out in 2019. In addition, we have launched a breakthrough range of tape measures that feature industry-leading performance.

Personal Protective Equipment
Milwaukee Tool’s commitment to productivity and safety inspired the expansion into the personal protective equipment market with the introduction of over 180 new solutions thoughtfully designed to keep users safe, while improving productivity on the jobsite. These include new hard hats, safety glasses, high-visibility safety vests, respirators, hearing protection and impact resistant gloves that offer breakthrough versatility, flexibility, and durability in a market space that has seen stagnant innovation for years.

Consumer Power Tools & Outdoor Products
The RYOBI cordless business delivered double digit sales growth in 2019. After years of focused investment, RYOBI is now the global leader in DIY cordless power tools and outdoor cordless products with the 18V ONE+ and 40V Systems. The RYOBI brand is at the forefront of the cordless revolution disrupting the DIY industry with an impressive flow of new products targeting the remodeler, hobbyist, automotive and value oriented professional users to name a few. The RYOBI commitment to platform compatibility has inspired a loyal following of users and has driven significant household penetration.

The RYOBI Outdoor business generated strong mid-teen sales growth in key markets in 2019. Our RYOBI ONE+ and 40V cordless platforms are flourishing as consumers convert from gas to our environmentally friendly high-performing cordless solutions. Our cordless technology is driving a once in a generation revolution. RYOBI is now the number one cordless DIY outdoor product brand globally.

We are aggressively investing in a myriad of new ONE+ and 40V outdoor products. The new product pipeline in the 40V platform is the growth engine driving the expansion of the system. The entire 40V hand-held product range was updated for 2019, with the most significant launches including the attachment capable string trimmer, jet fan blower, hedge trimmer and a brushless chainsaw. Additionally, we launched two powerful new brushless self-propelled mowers on the 40V platform in 2019.

Storage
The number of tools owned by users continues to grow, creating a massive opportunity for modular and portable jobsite storage solutions. Milwaukee Tool’s versatile PACKOUT system exceeds all expectations. With an astonishing growth rate in 2019, PACKOUT is now the largest assortment of professional modular storage in North America with over 20 unique products across the system. Exciting additions to the system include the PACKOUT crates, dolly, and mounting plates and most notably, the M18 PACKOUT Radio + Charger. This radio combines the powerful M18 technology with the innovative PACKOUT system resulting in the ultimate jobsite sound system. Built from the ground-up to be fully compatible with all PACKOUT modular storage products and the ability to charge all M18 Batteries, it is the ultimate connected charging solution for the jobsite.

The RYOBI brushless range is gaining traction worldwide. The RYOBI power tool product development focus on the DIY user is set to expand the ONE+ System beyond today’s 130 tools with continued innovation breakthroughs.

Accessories
Our MILWAUKEE high-performance cordless tools are increasingly powerful and technologically advanced. The MILWAUKEE Accessory business is focused on developing accessories engineered to optimize the performance on cordless tools.

The RYOBI ONE+ 18V Multi-Purpose Fogger

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Management’s Discussion and Analysis

Floor Care and Appliances

In 2019, the Floor Care and Appliances business made outstanding progress developing the categories of Cordless cleaning and Carpet Washers.

The transition has resulted in 18.9% growth in these categories year-over-year making a significant contribution to the overall business. We have been disciplined in transitioning our floor care business from dated legacy corded floor care products to high-performance cordless and newly engineered state-of-the-art carpet washers. The floor care and appliance sales decline of 13.5% from prior year was a result of our successful strategic exit of the German floor care business while improving our profitability in the segment. The disciplined expansion of in-house manufacturing for our strategic categories in cordless cleaning and carpet washing products to the US and Vietnam has been a great success.

The HOOVER and VAX cordless ONEPWR floor care family has great potential. We launched with seven ONEPWR products including the JET Multi-floor Cleaner and the BLADE Stick Vac. Our HOOVER and VAX Carpet Washers impressively delivered strong double-digit growth, fueled by the expansion of our SMARTWASH, POWERDASH and PLATINUM platforms, the leading carpet washers in North America and the UK.

We are excited about the potential of our Floor Care business with our key strategic focus on cordless, carpet washing and solutions. We made significant progress in 2019 in our product and manufacturing strategy, positioning the business to deliver consistently improving financial results in the years ahead.

HOVER ONEPWR FLOORMATE JET Cordless Hard Floor Cleaner

HOVER POWERDASH Pet Compact Carpet Cleaner

VAX ONEPWR BLADE+ Cordless Vacuum

The Floor Care and Appliances business accounted for 11.4% of TTI total sales and generated US$10 million of operating profit, up 12.8% from 2018.

Expansion of in-house manufacturing in the US and Vietnam

HOOVER and VAX cordless ONEPWR products have great potential

US$10 million
The Floor Care and Appliance business generated US$10 million of operating profit, up 12.8% from 2018.

18.9% growth in cordless cleaning and carpet washer categories

Sales by Business

11.4% Floor Care and Appliances

88.6% Power Equipment, Accessories, Storage, and Hand Tools

US$875 million
Sales in Floor Care and Appliances

Sales by Business

11.4% Floor Care and Appliances

88.6% Power Equipment, Accessories, Storage, and Hand Tools

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Financial Review

Revenue

US$7.7 billion

EBIT

US$673 million

Book Value per Share

US$1.85

(2018: US$1.67)

Gross Profit Margin

37.7% (+50 bps)

3.0% of Turnover

(2018: 2.9% of turnover)

Investments in Product Design and Development

US$230 million, representing 3.0% of turnover (2018: 2.9%) reflecting our continuous drive for innovation. We will continue to invest in breakthrough technology and deliver broad base end-user products and categories as these are most critical not only to maintain sales growth momentum but also margin expansions.

Net interest expenses for the year amounted to US$12 million as compared to US$2,014 million in 2018, representing 0.2% as compared to 28.7%. The increase was mainly due to the strategic decision to carry a higher level of inventory to support our service level, considering our high growth momentum and to mitigate tariffs impact. The Group will continue to focus in managing the inventory level and improve inventory turns.

Trade receivable turnover days were at 55 days as compared to 57 days last year. Excluding the gross up of the receivables factored which is without recourse in nature, receivable turnover days were at 52 days as compared to 53 days last year. The Group is comfortable with the quality of the receivables and will continue to exercise due care in managing the credit exposure.

Trade payable turnover days were at 70 days as compared to 71 days last year. Excluding the gross up of the payables factored, payables turnover days were at 53 days as compared to 54 days last year. The Group manages the credit exposure.

The Group will continue to leverage its global operations and align its strategy to cope with various tax policies change globally to further improve overall tax efficiencies.

Shareholders’ Funds

Total shareholders’ funds amounted to US$3.4 billion as compared to US$3.1 billion in 2018, an increase of 10.9% as compared to US$2.9 billion in 2017.

Gross Margin

Gross margin improved to 37.7% as compared to 37.2% last year. The margin improvement was the result of new product introduction, mix management, category expansion, highly disciplined and efficient operation systems and volume leverage together with very effective action plans mitigating tariffs impact.

Liquidity and Financial Resources

The Group maintained a strong financial position. As at December 31, 2019, the Group’s cash and cash equivalents amounted to US$1,425 million (2018: US$1,147 million), of which 44.6%, 28.6%, 9.4% and 17.4% were denominated in US$, RMB, EUR and other currencies respectively.

Financial Position

Total capital expenditures for the year amounted to US$375 million and an additional US$582 million for the headquarters located in the USA (2018: US$259 million).

Bank Borrowings

Total capital expenditures for the year amounted to US$2,113 million as compared to US$1,767 million in 2018. Days inventory increased by 9 days from 92 days to 101 days. The higher inventory days as compared to past years was mainly due to the strategic decision to carry a higher level of inventory to support our service level, considering our high growth momentum and to mitigate tariffs impact. The Group will continue to focus in managing the inventory level and improve inventory turns.

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Management’s Discussion and Analysis

Charge
None of the Group’s assets are charged or subject to encumbrance.

Major Customers and Suppliers
For the year ended December 31, 2019
(i) the Group’s largest customer and five largest customers accounted for approximately 46.8% and 55.7% respectively of the Group’s total revenue; and
(ii) the Group’s largest supplier and five largest suppliers accounted for approximately 7.0% and 19.1% respectively of the Group’s total purchases (not including purchases of items which are of a capital nature).

As far as the Directors are aware, none of the Directors, their associates or any shareholders who owned more than 5% of TTI’s share capital had any interest in the five largest customers or suppliers of the Group.

Human Resources
The Group employed a total of 33,177 employees as at December 31, 2019 (2018: 28,972) in Hong Kong and overseas. Total staff cost for the year under review amounted to US$1,337 million (2018: US$1,117 million).

The Group regards human capital as vital for the Group’s continuous growth and profitability and remains committed to improving the quality, competence and skills of all employees. It provides job-related training and leadership development programs throughout the organization. The Group continues to offer competitive remuneration packages, discretionary share options and bennus to eligible staff, based on the performance of the Group and the individual employee.

Corporate Strategy and Business Model

The Group is a world-class leader in design, manufacturing and marketing of power tools, outdoor power equipment and floor care for consumers, professional and industrial users in the home improvement, infrastructure and construction industries. We are committed to implementing our long term strategic plan that focuses on “Powerful brands, Innovative Products, Operational Excellence and Exceptional People”.

We continue to strengthen our portfolio of powerful brands with a focused marketing approach. Brands extension into new product categories and under-represented markets enables us to generate outstanding growth. Geographic expansion will be a highlight of TTI’s future, our long-term strategy is to aggressively build our business both inside and outside North America and we have spent relentless efforts to expand and establish presence in high potential markets around the world.

Introducing innovative new products is the centerpiece of our long term strategy. We continue to invest in building a high-speed product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a vigorous competitive advantage.

Our strategy in operational excellence will continue, we will drive further gains in efficiency across our manufacturing operations, supporting further margin improvement.

We continue to deploy our Leadership Development Program (LDP) to develop our pool of talent for the future. The LDP initiative is successfully feeding talent into key positions throughout the company.

Our Commitment to ESG

TTI is committed to operating its business in line with environmental, social and governance (ESG) best practices, and to do so in compliance with all applicable laws and regulations. We understand that a large measure of our ability to grow, innovate and prosper depends on our ESG performance. We have a robust risk management system in place which allows us to identify and address issues in an appropriate and timely manner as well as mitigate risk to our business. We have identified legal and regulatory requirements related to ESG practices that have the potential to have a significant impact to our operations and performance. We had no reports of ESG-related non-compliance in 2019.

In 2019, we continued to develop our Sustainability Strategy and Implementation Plan to align our actions and goals globally with the United Nations Sustainable Development Goals. In terms of governance, the ESG Working Committee with the guidance of the ESG Executive Committee and the Board of directors has continued to implement our Sustainability strategy and monitored activities and ESG performance against our goals and targets.

TTI understands the importance of continuous engagement with our stakeholders to monitor and address their expectations and evolving legal and industry requirements. We have various communication channels with our key stakeholders including employees, customers, investors, shareholders and suppliers. Communication occurs via regular meetings, focus group discussions and training sessions.

Details on our ESG commitments, relevant policies and standards is provided throughout this report. Specific ESG key performance results and initiatives of 2019 are shared on pages 74 to 121.

Purchase, Sale or Redemption of Securities
A total of 2,350,000 ordinary shares were cancelled by the Company during the year, among which (i) 850,000 shares were bought back and settled during the year at prices ranging from HK$40.45 to HK$41.50; and (ii) 1,500,000 shares were bought back in December 2018 and cancelled in January 2019 at prices ranging from HK$41.25 to HK$43.00. The aggregate amount paid by the Company for such buy-backs cancelled during the year amounting to US$12,644,000 was charged to the retained earnings.

The shares bought back were cancelled immediately and accordingly the issued share capital of the Company was reduced correspondingly. The buy-backs of the Company’s shares during the year were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting of the Company, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

Review of Financial Information

The Audit Committee has reviewed with senior management of the Group and Messrs Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters, including the review of Group’s consolidated financial statements for the year ended December 31, 2019. The Board acknowledges its responsibility for the preparation of the accounts of the Group.

Dividend

The Directors have recommended a final dividend of HK$8.00 cents (approximately US$0.10 cents) per share with a total of approximately US$136,603,000 for the year ended December 31, 2019 (2018: HK$50.00 cents (approximately US$6.44 cents)) payable to the Company’s shareholders whose names appear on the register of members of the Company on May 22, 2020. Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about June 19, 2020. This payment, together with the interim dividend of HK$4.00 cents (approximately US$0.05 cents) per share (2018: HK$8.00 cents (approximately US$0.10 cents)) paid on September 20, 2019, makes a total payment of HK$103.00 cents (approximately US$13.26 cents) per share for 2019 (2018: HK$88.00 cents (approximately US$11.33 cents)).