TECHTRONIC INDUSTRIES COMPANY LIMITED
創科實業有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 669)

VOLUNTARY ANNOUNCEMENT

FURTHER CLARIFICATION ANNOUNCEMENT IN RELATION TO AN ONLINE RESEARCH REPORT

We refer to the clarification announcement of Techtronic Industries Company Limited (the "Company" or "TTI", and together with its subsidiaries, the "Group") in relation to a research report published on the internet on 22 February 2023, by Jehoshaphat Research ("Jehoshaphat" or the "Short Seller") on the Company, stating it has taken an unspecified short position in the securities of the Company (the "Report"). As is common with short sellers, Jehoshaphat aims to undermine shareholders' confidence in the Company and its management because it benefits from a fall in the Company's share price. As the Company has previously stated in our announcement on 23 February 2023, we consider the Report to be one-sided and misleading, and the conclusions drawn in the Report about the Company and its financial results are incorrect. Accordingly, the Company urges shareholders to treat the Report with caution.

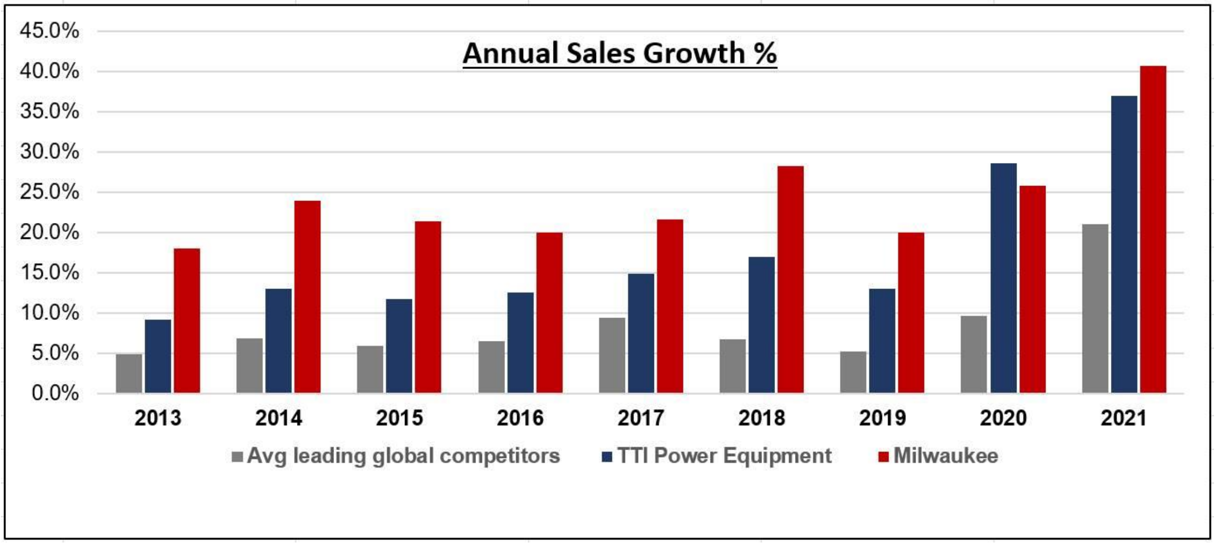
We take the allegations made against us very seriously, and we have concluded the accusations made are completely without merit. Notwithstanding this, out of an abundance of caution, our Audit Committee has reviewed the alleged claims. The results of their review have provided us with additional confidence that the allegations are without foundation.

In summary, the Company responds to the Report as follows:

The Company, with sales of over US$13 billion, is one of the fastest growing world leaders in Power Tools, Accessories, Hand Tools, Outdoor Power Equipment, and Floorcare & Cleaning products for the Do-It-Yourself (DIY), professional, and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries. The Company is committed to accelerating the transformation of these industries through superior and environmentally friendly cordless technology. The TTI Brands like Milwaukee, Ryobi and Hoover are recognized worldwide for their deep heritage and cordless product platforms of superior quality, outstanding performance, safety, productivity and compelling innovation.

The Company has delivered unparalleled organic topline growth of 13% at a compounded annual growth rate ("CAGR") over the past 13 years. Our strong financial results validate our bold strategy of focusing our investments in cordless, driving the conversion from legacy power technologies to the technologies of the future. The Company believes that this is beyond comparison in our industry and a testament to the high quality of our management team. Below, we show how TTI Power Equipment and the Milwaukee business have outgrown our two largest global competitors by approximately two to three times on an organic basis dating back to 2013.

Figure 1: Annual Sales Growth % of TTI Power Equipment and Milwaukee vs Peers



The Company maintains the highest confidence in our performance, integrity, and control environment and have prepared the following response to provide further clarity on our position and demonstrate the baselessness of the conclusions and claims made against us.

Background

The Report claims that the Company's valuation is higher than what Jehoshaphat believes it should be. To try to support that claim, the Short Seller makes various allegations against the Company.

Before the Company responds to these Allegations, the Company believes it is important for shareholders to consider the following important points of background and context.

The Company wants to emphasize at the outset that the Company and its Directors are committed to full compliance with the principles of good corporate governance and transparency. The Allegations are an attack on those principles, and it is important for shareholders to understand the underlying motives of the Report's author, so shareholders can make an informed assessment about the Allegations.

The Report, by its own admission, contains Jehoshaphat's opinions. Jehoshaphat is a short seller whose interests may not be aligned with those of the Company's shareholders. As a short seller, Jehoshaphat stands to profit from any fall in the Company's share price. The Report confirms that Jehoshaphat intends to gain from a decline in the Company's stock price stating on page 52 of the report, "You should assume that as of the publication date of any short-biased report or letter, Jehoshaphat Research has a short position in all stocks covered herein, and therefore stands to realize significant gains in the event that the price of any stock covered herein declines".

It is in Jehoshaphat's interests to undermine shareholders' confidence in the Company and its management, and to harm the Company's reputation. The Company believes that this is precisely what the Report was intended to do without any regard for the risk of misleading shareholders and the market.

The Company considers the Allegations in the Report to be biased and misleading. The Company's consolidated financial statements are prepared in accordance with applicable laws and Hong Kong Financial Reporting Standards ("HKFRS"), and they are audited by Deloitte Touche Tohmatsu.

Notwithstanding the above, in view of the serious nature of the Allegations, the Company's Audit Committee conducted an internal review of the Allegations as a matter of prudence. The Audit Committee was assisted in its review by the Internal Audit Department of the Company and presented the conclusion to the Board.

Company's Responses to the Allegations

1 - Gross Margin Increases

Jehoshaphat's Allegation

The Short Seller claims it is impossible for TTI to have increased its gross margin every half-year, sequentially, for ten years straight, without using "manipulative accounting" and "accounting games".

Company's Response

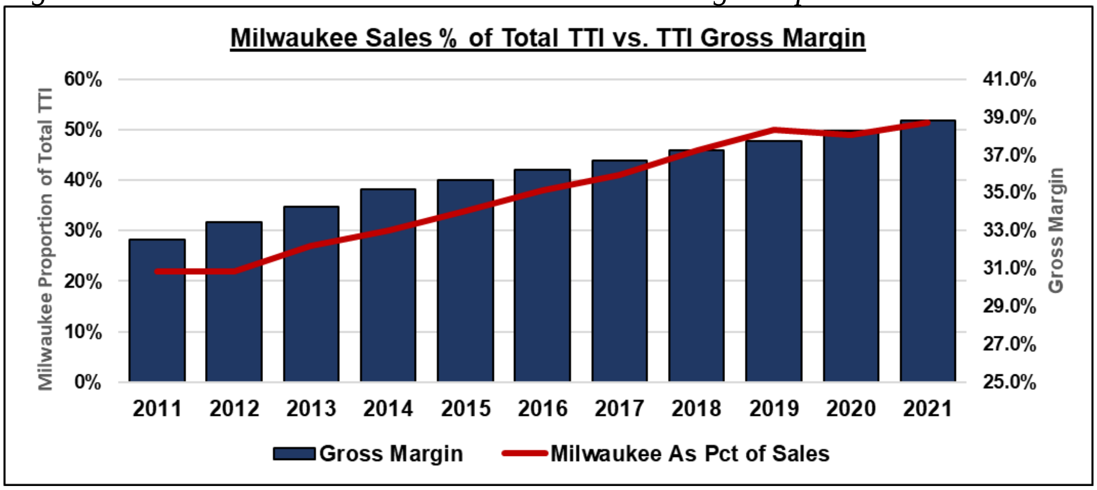
In making this claim it is obvious to the Company that the author of the Report made no effort to understand TTI's business model or strategy. TTI made a bold strategic decision to focus our strategy on investing in cordless, driving the conversion from legacy power technologies to the technologies of the future, which has allowed us to gain an advantage over our competitors who continue to invest in these outdated technologies.

TTI's operating cycle relies on the high-speed development of margin accretive new products, which funds additional strategic investments in R&D, new product development, in-field marketing specialists, store coverage and geographic expansion. This virtuous cycle of gross margin improvement and related SGA investment has contributed to our remarkable gross margin accretion trend. This virtuous cycle of reinvestment, coupled with the consistently strong growth of the Professional Milwaukee Tool business and our aftermarket battery business has created a favorable mix tailwind that we carry into every year.

The Milwaukee Tool business has grown from US$965 million in 2012 to over US$6.8 billion in 2021. Over this time, Milwaukee averaged an accretive margin of +719bps in gross margin over the rest of the business, while growing approximately +20% per year in local currency. To further illustrate, total TTI Gross Margin increased +54bps from 38.3% in 2020 to 38.8% in 2021. Of the +54bps increase, approximately +57bps was attributable to the growth of the Milwaukee business, while the consumer side of the business contributed to a 3bp decline.

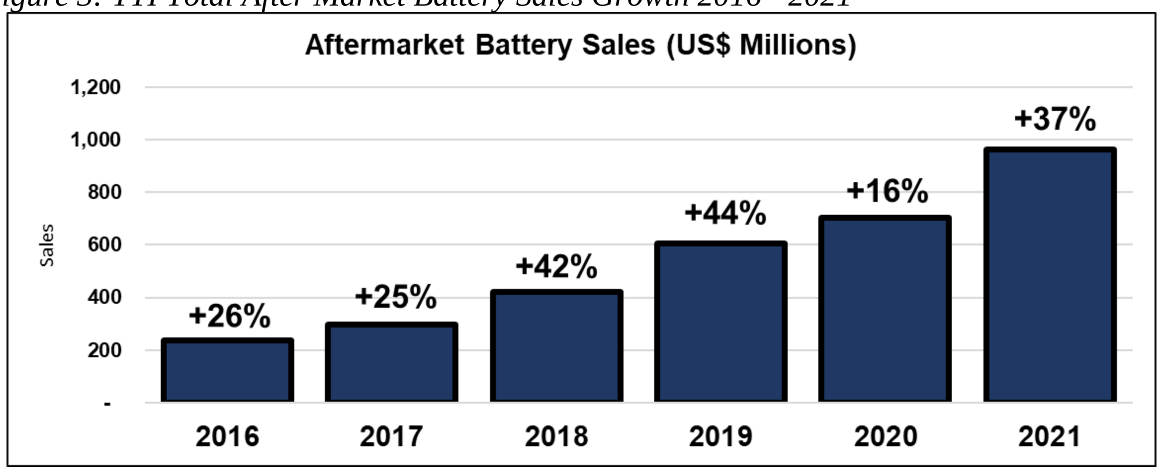
This rapid growth of the Milwaukee business has coincided with the consistent gross margin improvement of TTI. Gross margin improved from 32.2% in 2010 to 38.8% in 2021. During that time, Milwaukee has grown from 19% of sales to over 50% of sales in 2021.

Figure 2: Favorable Milwaukee Mix Drives Gross Margin Improvement



The second factor consistently driving favorable mix for us, is the growth of our highly gross margin accretive aftermarket battery business. The gross margins on batteries are even higher than the Milwaukee business and has been growing at an average rate of over 30% the past 6 years.

Figure 3: TTI Total After Market Battery Sales Growth 2016 - 2021



2 - Treatment of Deferred Development Costs

Jehoshaphat's Allegation

TTI's "excessive" capitalization has enabled it to push an astonishing number of costs many years into the future, in effect creating a snowball of costs that will catch up with it later... so past earnings look better but its future earnings will look worse.

Company's Response

At TTI, we have an organic growth strategy and take great pride in our internal, highly innovative product development capabilities, which is a fundamental element to our core business strategy. Unlike some of our competition, we have not made major acquisitions, taken restructuring charges, or issued proforma earnings. Our financial statements reflect true operating activity.

As a publicly listed company in Hong Kong, TTI follows HKFRS. Under this guidance, we have aligned our accounting policies to capitalize the deferred development costs and amortize these costs in alignment with the expected economic benefits of the asset. It is worth noting that this accounting treatment, which is allowed under HKFRS, as well as IFRS, contrasts with US GAAP, which requires both Research and Development costs to be expensed as a period cost. For reference, as a matter of fact, our competitor Stanley Black and Decker follows the rules of US GAAP, while Makita reported results under the rules of US GAAP until 2018, at which point they switched to IFRS.

Research, which is exploratory in nature, is always expensed to the P&L as a period cost, while costs related to the development of commercially viable products are capitalized and then amortized according to the expected life cycle of the product, which is typically over 3 to 5 years. Our success as a company is reliant on the introduction of high quality, margin accretive new products, and we have consistently invested in developing an internal world-class core competency in this area over the past 15 years. We choose to invest in ourselves and develop products mainly using in-house generated assets as compared to acquisition of external intellectual property or assets and therefore, feel that our 13% revenue CAGR over the past 13 years validates our organic strategy of product development.

New-to-world, breakthrough products like the MX FUEL Light Equipment system would not have been possible without significant investments in both research and development. Below is a chart that shows how both our development and research costs have grown over time. In past earnings releases, we have described our operating cycle that allows us to introduce margin accretive new products, which we then reinvest into strategic R&D.

Figure 4: TTI Deferred Development Costs Capitalized vs. Research Expensed

YEAR	DEVELOPMENT CAPITALIZED (MM)	*% to sales*	RESEARCH EXPENSED (MM)	*% to sales*	*Revenue (MM)*	*Growth*
2010	52	*1.5%*	27	0.8%	3,383	
2011	62	*1.7%*	25	0.7%	3,667	8.4%
2012	70	*1.8%*	30	0.8%	3,852	5.1%
2013	84	*1.9%*	49	1.1%	4,300	11.6%
2014	90	*1.9%*	57	1.2%	4,753	10.5%
2015	103	*2.0%*	55	1.1%	5,038	6.0%
2016	112	*2.0%*	64	1.2%	5,480	8.8%
2017	109	*1.8%*	74	1.2%	6,064	10.6%
2018	124	*1.8%*	100	1.4%	7,021	15.8%
2019	152	*2.0%*	128	1.7%	7,667	9.2%
2020	146	*1.5%*	177	1.8%	9,812	28.0%
2021	296	*2.2%*	308	2.3%	13,203	34.6%

As of 31 December 2021 the net book value balance of Deferred Development Costs was $572.4m. It is reasonable and logical to identify that the total amount capitalized from 2019 through the end of 2021 was $593.8m. While the individual amortization schedules of the Deferred Development Costs are set based on the specific estimated product life cycles (typically 3 to 5 years), the amount on the balance sheet represents approximately the last three years of activity, which is in line with the amortization schedules we have published.

3 - Inventory

Jehoshaphat's Allegation

TTI is overproducing to "boost" gross margins which is consistently increasing inventory levels.

Company's Response

Although the Company has grown dramatically over the past decade, we have remained consistently focused on enhancing the value of our various battery platforms and networks. As the systems grow and new products are added, this makes the battery platform even more valuable to users already in the system and more attractive to new users considering entering the system. For example, our RYOBI ONE+ battery platform was created in 1996 and now contains 287 products that run off the RYOBI ONE+ battery alone. Additionally, our Flagship MILWAUKEE M18 system launched in 2008 now contains 262 products, with many more on our product road ahead.

A fundamental element to our strategy is to keep reinvesting in our systems to enhance the overall value of the network using a "long tail" approach. As we add more niche products to the system, the gross margin of the product is higher, while the sales volume is lower. This strategy inherently increases the inventory days outstanding as lower volume, high margin SKUs have lower inventory turns than high volume SKUs with lower gross margins. This long-tail approach, coupled with our philosophy of maintaining service levels to our customers at above 98%, has resulted in the gradual increase in our Finished Goods on hand days.

While all our significant competitors in the power tool and battery-powered outdoor markets have invested in an interchangeable battery platform, there are different strategic approaches to how companies invest in the platform. We have chosen a more inventory intensive “long-tail approach”, but one alternative approach is to focus on adding high-volume mass-market SKUs. This strategy drives gross margin through operational efficiencies and leverage, while optimizing inventory turns.

In addition to propagating our cordless battery systems with innovative new products, we have also expanded into other SKU intensive new categories over time, such as Mechanics Hand Tools, PACKOUT Storage Solutions, and Personal Protective Equipment (PPE). Our launch of PPE can illustrate the effects of these programs on inventory, which started off with 6 SKUs, adding US$2.0 million of inventory that resulted in US$2.5 million of sales for the year. This equated to 291 days of inventory, well above the group average of 88 days in 2017. Today, the PPE program is flourishing with over 939 SKUs in the program.

A similar example occurred on a larger scale with our 2019 launch of the Hart Consumer business with 350 SKUs, adding US$108 million of inventory with only US$81 million of sales for the first year. This resulted in 274 days of inventory for the new Hart program in 2019 and added an additional 3 days to the group consolidated inventory days calculation.

Figure 5: TTI Inventory by Classification

In US (MM)	2013	2014	2015	2016	2017	2018	2019	2020	2021
Raw Materials	$95	$112	$105	$121	$87	$112	$209	$402	$602
Days	*8*	*9*	*8*	*8*	*5*	*6*	*10*	*15*	*17*
WIP	$12	$11	$13	$10	$37	$42	$44	$54	$61
Days	*1*	*1*	*1*	*1*	*2*	*2*	*2*	*2*	*2*
Finished Goods	$778	$933	$1,072	$1,166	$1,343	$1,613	$1,860	$2,768	$4,186
Days	*66*	*72*	*78*	*78*	*81*	*84*	*89*	*103*	*116*
Inventory Days Forward	*60*	*68*	*71*	*70*	*70*	*77*	*69*	*77*	
INVENTORY	**$884**	**$1,056**	**$1,190**	**$1,296**	**$1,467**	**$1,767**	**$2,113**	**$3,224**	**$4,850**
Days	*75*	*81*	*86*	*86*	*88*	*92*	*101*	*120*	*134*
Inventory Days Forward	*68*	*77*	*79*	*78*	*76*	*84*	*79*	*89*	

Inventory Days calculation: *Ending Year End Inventory divided by Annual Sales multiplied by 365*
Forward Inventory Days calculation*: Ending Year End Inventory divided by Following Year’s Annual Sales multiplied by 365*

The Company cannot sustain the sales growth levels we have experienced over the past decade without having the finished goods inventory in place ahead of the sale. While more mature companies analyze inventory days on a trailing basis, we find it’s more appropriate to look at inventory on a forward-looking basis. The finished goods inventory days on a forward-looking basis in the chart above shows that we have maintained Finished Goods Days on hand within the range of 68 – 77 from 2014 to 2020.

From 2019 to 2021, we have experienced massive, above-market sales growth of 28% in 2020 and 35% in 2021. To ensure we were able to serve our customers and meet this dramatic surge in demand we took the following steps:

1. Added Critical Components/Raw Materials such as Battery Cells and Electronics, resulting in an increase in raw materials.
2. Increased Inventory to cover extended lead times and port delays, resulting in increases to both raw materials and finished goods.
3. Added Safety Stock at our Warehouses, increasing finished goods.

Overall, our teams have competently managed inventory to support our growing business. The global supply chain is an ever-evolving environment that requires skillful management to adapt to changing conditions. In early 2020, we moved boldly to scale up, capture market share, and then reinvest in the business. Then, as supply chain lead times began to mitigate in 2022, we began to reduce our Finished Goods inventory levels to adapt to the new environment, as shown in our 2022 interim results.

4 - Property, Plant and Equipment

Jehoshaphat's Allegation

TTI's past earnings have been inflated by shifting expenses to later periods by overcapitalizing or taking inadequate depreciation, which has become evident by the increase since 2016 in the useful life of tangible assets.

In addition, Property, Plant, and Equipment ("PP&E") assets are being inflated, leading to the write-off of assets that are not fully depreciated.

Company's Response

We experienced a significant amount of revenue growth over the past 9 years, growing an average CAGR of 15%, from sales of US$3.9 billion in 2012 to US$13.2 billion in 2021. Steep growth trajectories like this require considerable investments to sustain the momentum across many areas of the organization, but especially PP&E.

The major categories of PP&E we have listed on our balance sheet include the following:

- **Land & Buildings**: Inclusive of Head Quarter offices in Hong Kong and Florida, regional HQ offices in Greenville, Milwaukee, Australia and London, manufacturing sites in China, Vietnam, Mexico, Europe, and the US, as well distribution and office sites across all our global markets. In 2021, this category accounted for 26.4% of the total PP&E net book value, as compared to 21.3% in 2018.
- **Plant & Machinery**: Includes equipment and machinery to support our manufacturing and distribution processes.
- **Moulds & Tooling**: Includes proprietary injection moulds and tooling used in the manufacturing of products.
- **Construction in Progress (CIP)**: Includes PP&E projects under construction, the majority of which are Building and Plant & Machinery projects.

Since 2019, we have added over US$450 million of long-term investments in tangible assets with a useful life greater than 10 years. As of the end of 2021, these four categories accounted for 86.5% of our total Property, Plant and Equipment Net Book Value.

Below is a chart that summarizes our PP&E Balance and related turnover ratio over time. In addition to the longer-term investments we have made since 2019, we have several more projects underway which we will complete over the next two years. Once these investments are online, we expect our PP&E turns to begin to increase again in 2025.

Figure 6: PP&E Turns declining with the addition of large long term assets starting in 2019

In US $ Millions	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue $	3,852	4,230	4,753	5,038	5,480	6,064	7,021	7,667	9,812	13,203
PP&E $	384	384	425	538	601	689	791	1,087	1,333	1,853
PP&E Turnover Ratio	10.0	11.0	11.2	9.4	9.1	8.8	8.9	7.1	7.4	7.1

We have strict accounting practices around asset capitalization, setting depreciable lives, and subsequent annual review of assets for possible impairment and underutilization. At TTI, our high-speed product development process results in the continuous creation of innovative new products. The vast majority of these new products are commercially successful, but on occasion, we have instances where we determine the carrying value of the asset is impaired or underutilized. In this scenario, we try to recover as much of the carrying value of the asset on the open market as possible. However, in the case of proprietary assets, like the Moulds & Tooling category, we are not comfortable reselling on the open market, and therefore we would not expect proceeds to net against the write offs.

In 2021, US$23 million of the US$34 million of PP&E write offs were related Tooling and Moulds and Tooling and Moulds within CIP. In the case of these TTI specific product tooling assets, we sold these assets for scrap metal to protect our proprietary intellectual property. Another US$4 million of the US$34 million total was related to office furniture and fixtures related to the reorganization of our manufacturing footprint in the PRC and Vietnam.

5 - Prepaids

Jehoshaphat's Allegation

TTI is allocating current costs into Prepayments to defer expense recognition to future periods.

Company's Response

The Company's prepaid balance increased by US$235 million from a December 2021 balance of US$151 million to US $386 million as of June 2022. There were two key drivers to this increase:

1.) Deposits to secure critical components over the next 3-5 years that amounted to US$151.5 million.
2.) Deposits to support our expansion in Vietnam for building and equipment of US$49 million.

These two items account for 90% of the increase in prepaids. These amounts have been reclassified as non-current given the nature of the contractual arrangements.

6 - Healthy Accounts Receivable

Jehoshaphat's Allegation

TTI is ignoring its own accounting policy on bad debt provisions to delay recognizing expenses.

Company's Response

TTI conservatively reports on Accounts Receivable Aging ("AR Aging") in the published financial statements by invoice transaction date. Although the total amount of Accounts Receivable aged over 121 days from transaction day increased from 2018 to 2021, the % to total Accounts Receivable outstanding reduced from 5.8% in 2018 to 4.3% in 2021 as we have consistently collected the balances in the over 121 day category. In addition, we have written off an immaterial amount of doubtful debt over the past 2 years. We are very fortunate to work with high quality, blue-chip customers who honor their payment commitments.

Figure 7: TTI AR by Transaction Date and related proportion of the total outstanding trade AR balance

	AR Aging based on Transaction Date			
(US $ Millions)	**2018**	**2019**	**2020**	**2021**
0-60	680	966	1,017	1,795
61-120	346	137	233	23
Over 121	63	57	58	82
Trade	1,089	1,161	1,307	1,900
AR Days	*57*	*55*	*49*	*53*

	Proportion of AR based on Transaction Date			
	2018	**2019**	**2020**	**2021**
0-60	62.5%	83.2%	77.8%	94.5%
61-120	31.8%	11.8%	17.8%	1.2%
Over 121	5.8%	4.9%	4.4%	4.3%

Accounts Receivable Days calculation: *Ending Year End Trade Accounts Receivable divided by Annual Sales multiplied by 365*

7 - Payables

Jehoshaphat's Allegation

Late (or missed) payments to suppliers have exploded, signaling stress.

Company's Response

TTI's tremendous sales growth has allowed us to attract the best suppliers, who want to partner with us to reap the benefits of increasing scale. While our actual payment terms to suppliers range from 30 days to 120 days, the average over the past 6 reporting periods has been 112 days, with a low water mark of 104 days in December 2019, and a high of 125 days in June of 2021, as shown in the chart below. Days Payable Outstanding is a point in time calculation, so may fluctuate based on the timing of sales and payment cutoff. The chart below indicates that our business is running as usual and there is no sign of late or missed payments or otherwise.

Figure 8: TTI Outstanding Payables and related Accounts Payable Days Calculation

(In US $ Millions)	Year End 2019	Interim 2020	Year End 2020	Interim 2021	Year End 2021	Interim 2022
Payables $	2,177	2,501	3,137	4,108	3,992	4,006
Payables Days	104	109	117	125	110	107

Accounts Payable Days calculation: *Ending Year End Accounts Payable divided by Annual Sales multiplied by 365*

CONCLUSION

To reiterate, the Company vigorously denies all the Allegations as it contains multiple defamatory, biased, selective, inaccurate, and incomplete statements. The Company reserves the right to take legal action against Jehoshaphat and or those responsible for the Allegations and the publication of the Report.

By order of the Board
Techtronic Industries Company Limited
Veronica Ka Po Ng
Company Secretary

Hong Kong, 1 March 2023

As at the date of this announcement, the Board comprises five Group Executive Directors, namely Mr. Horst Julius Pudwill (Chairman), Mr. Stephan Horst Pudwill (Vice Chairman), Mr. Joseph Galli Jr. (Chief Executive Officer), Mr. Patrick Kin Wah Chan and Mr. Frank Chi Chung Chan, two Non-executive Directors, namely, Prof. Roy Chi Ping Chung GBS BBS JP and Mr. Camille Jojo and five Independent Non-executive Directors, namely, Mr. Peter David Sullivan, Mr. Johannes-Gerhard Hesse, Mr. Robert Hinman Getz, Ms. Virginia Davis Wilmerding and Ms. Caroline Christina Kracht.