

# CHIEF EXECUTIVE OFFICER'S STRATEGIC REVIEW



## A Bold Vision Driven by a Powerful Strategic Roadmap

TTI has a powerful strategy and a disciplined process to ensure we deliver outstanding performance in any economic environment and across all geographic regions. Our vision is to become the global leader in each of our strategic businesses through the deployment of Powerful Brands, Innovative Products, Operational Excellence and Exceptional People. Over the past few years we have raised the level of performance at TTI by focusing on executing our Strategic Roadmap. The record results in 2012 and our accomplishments over the last three years demonstrate that we are on the right path. We have achieved our record performance by consistently delivering strong organic growth. We have also increased free cash flow while strengthening our balance sheet with efficient use of working capital.

Our Strategic Roadmap focuses on five key initiatives. We are pleased to report significant progress in each of them.

### Drive Sales Growth

*Based on a combination of our powerful brands and a commitment to product innovation.*

Group sales have powered to a 3 year compounded annual growth rate (CAGR) of 7.8% through the successful introduction of new products and geographic expansion across our brand portfolio.

### Gross Margin Enhancement

*By launching margin enhancing new products and driving lower costs through comprehensive productivity improvement programs.*

Our continuous improvement programs in manufacturing productivity, product re-engineering and global purchasing are the foundation for our 3 year CAGR of 10.3% in gross margin dollars that translates into an impressive 130 basis point improvement in gross margin.

### Organizational Development

*Creating the strongest management team in the industry by combining leading industry talents and actively developing our own human capital.*

Our Leadership Development Program (LDP) has proven a highly successful method of developing the next generation of leaders for our globally expanding businesses. Our LDP program has hired over 800 high-potential graduates from more than 50 top universities, with over one third being promoted at least twice.

### Operating Cycle Development

*Deploying a disciplined and robust review cycle to guide everything from new product innovation and manufacturing productivity to monthly financial reporting across our global organization.*

For example, we use a Performance Scorecard process which measures and drives improvements in the supply chain. This has a strong positive impact on our key suppliers by reducing costs, improving quality, and strengthening the mutually beneficial relationships that underpin long-term success.

## Generate Free Cash Flow

*By improving our working capital management and ensuring the most efficient use of CAPEX in our businesses.*

We have driven free cash flow to a record high in 2012 and reduced working capital as a percentage of sales to a very efficient 16.2%, a tremendous improvement from the 2009 level of 20.9%.

What is really exciting here at TTI is that we are just getting started. The next three years will require even more aggressive initiatives to deliver further sales growth, market share gains and better financial performance. With our brands, product platforms, organizational structure and processes already in place, we have a solid foundation from which to unleash the next level of expansion. The industries in which we compete offer opportunities to drive deeper and broader in all product categories, enter closely aligned businesses and continue to expand geographically with our key brands.

At TTI we believe that we still have vast potential for growth. An outstanding team is in place and our vision is clear. I am pleased with the results we have achieved over the past three years. We are poised to achieve even higher levels of success in the years ahead. Our visionary Chairman, Mr Horst Pudwill, has challenged us to be Number One in our markets. This bold vision is driven by a powerful strategic roadmap and a track record of exceeding expectations.

I would like to express my sincere appreciation to all our shareholders, customers, suppliers and the dedicated TTI team for making 2012 another record year.



**Joseph Galli Jr**  
Chief Executive Officer  
March 21, 2013



# WE HAVE A BOLD VISION OF GROWTH FOR THE NEXT THREE YEARS.

Growth initiatives that will capture opportunities generated by our business units across the globe.

# 1

## DELIVER BREAK-THROUGH, DISRUPTIVE TECHNOLOGY

Maximize our investment in R&D to develop break-through technology and bring disruptive new products to the market. We will continue investing in R&D to develop leading edge technologies and innovative new products that perform better and are embraced by end-users. We work closely with targeted end-users to bring to life these innovations and assure their commercial success. For MILWAUKEE® this means continuing the flow of new products that improve the productivity of the skilled trades and disrupt the competition through value-added technology advancements like FUEL®.

# 2

## LITHIUM ION CORDLESS LEADERSHIP

Lithium ion cordless products as the centerpiece of our product strategy. The global market for cordless products in our industries is expanding rapidly and TTI has led the way with game-changing successes like RYOBI® lithium ion cordless outdoor products. We have built industry leading product development and manufacturing competencies to exploit the expansion of lithium ion cordless products. We have established the broadest and most successful lithium ion cordless system platforms in the world and are committed to expanding these franchises with innovative products and services.

# 3

## BROAD-BASED INNOVATIVE PRODUCTS

Broad-based innovative new products and new business development around our key business units and powerful brands. Our high-speed new product teams will launch user-focused innovations that create new business platforms and deliver incremental growth. We are looking at broad categories with vast potential, like the hand tool business under the MILWAUKEE® and HART® brands, the steam cleaning products from HOOVER®, VAX® and DIRT DEVIL®, or the extensive accessories in almost all our product categories.

# 4

## AGGRESSIVE MARKETING, DEMAND CREATION

Aggressive marketing, demand creation for key brands and targeted products. We launch new products with superior innovations, or enter new markets with compelling marketing to generate user demand. We will continue expanding our communications and user conversion programs to deliver brand and product messages that attract new and loyal end-users. We are significantly increasing our store merchandising, marketing, promotions, and other downstream demand generating activities.

# 5

## TARGET GEOGRAPHIC EXPANSION

Continued expansion into under-represented geographies and markets. We are focused on continuing the considerable success in expanding our share of markets like Canada, Western Europe, Australia and New Zealand, as well as the US. Additionally, we are establishing marketing companies and building distribution footholds across Eastern Europe, Middle East and Africa, Latin America and Asia, merging local knowledge and TTI culture to ensure sustainable growth.

# 6

## FLOOR CARE TRANSFORMATION

Floor Care transformation to lead the industry and to be a key contributor to our growth. Our powerful floor care brands; the iconic HOOVER®, VAX® and DIRT DEVIL® are unrivaled. We have initiated a plan to unlock their value through a pipeline of innovative and well designed products, great demand generating marketing, and streamlining operations to boost productivity and lower costs. All these initiatives will be internally funded through cost savings and growth.

# 7

## DRIVE OPERATIONAL PRODUCTIVITY

Operational Excellence will remain at the center of our operating culture and of the commitment we make to our customers. At our core is a relentless search to constantly deliver improvement in everything we do. We have a robust process for delivering productivity and quality in our manufacturing based on lean initiatives, supplier performance enhancement programs, and rigorous project management. We are investing in automation to drive efficiency improvements and better quality in our manufacturing. Our supply chain management will remain highly focused on improving service levels to our customers, one of TTI's key competitive advantages.

# 8

## GLOBAL ORGANIZATIONAL DEVELOPMENT

Organizational development will be enhanced to ensure we have the best teams in the industry, both locally and globally. We have an outstanding management team, but are acquiring externally and developing internally the high-caliber talent required to build scale in our core markets and expand geographically. Our flourishing LDP program will be expanded to help serve our growth, extending its reach further outside of North America. We already have LDPs in a number of international markets and our engineering LDP program in China is off to a successful start.