

The Scotts Miracle-Gro Company

NYSE:SMG

FQ1 2020 Earnings Call Transcripts

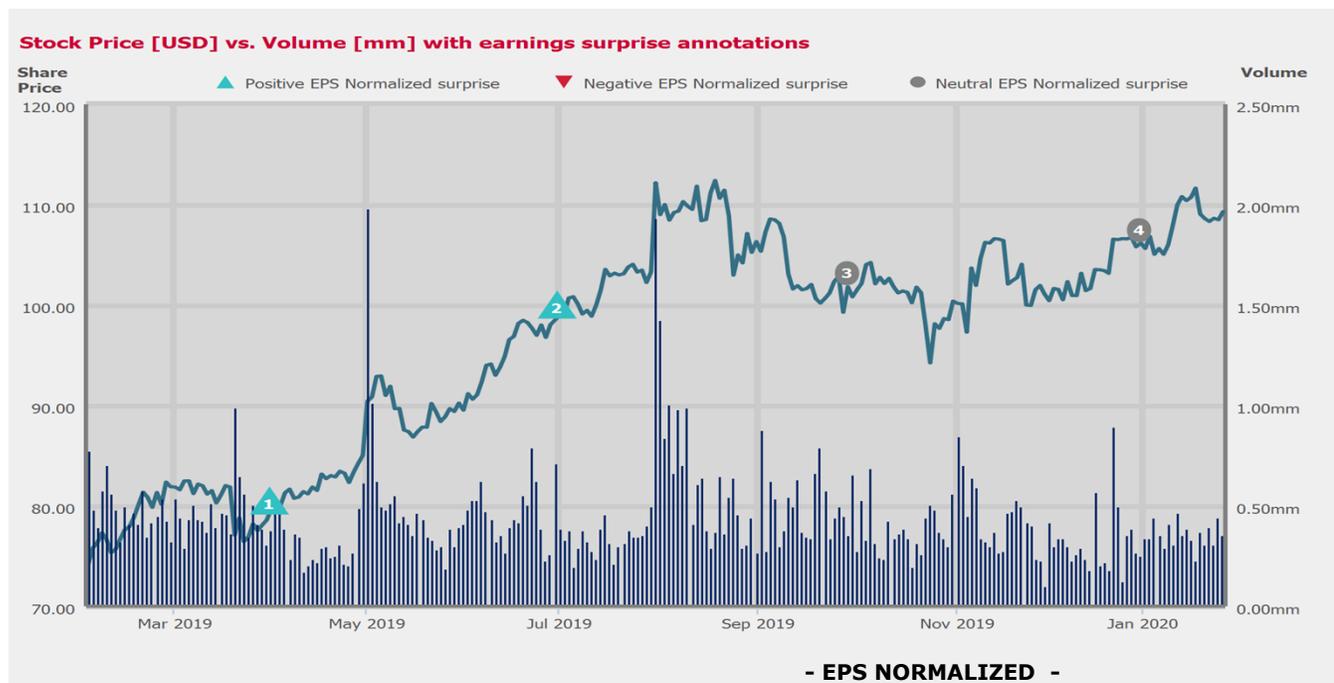
Wednesday, January 29, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.21)	(1.12)	NM	3.24	5.05	5.52
Revenue (mm)	345.32	365.80	▲5.93	1235.02	3295.48	3423.10

Currency: USD

Consensus as of Jan-29-2020 1:30 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	3.45	3.64	▲1 5.51 %
FQ3 2019	2.74	3.11	▲2 13.50 %
FQ4 2019	(0.85)	(0.91)	NM
FQ1 2020	(1.21)	(1.12)	NM

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Call Participants

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Presentation

Operator

Good day, and welcome to the 2020 Q1 earnings conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Jim King. Please go ahead.

James D. King

Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

Good day as well. Thank you, John. Good morning, everyone, and welcome to The Scotts Miracle-Gro first quarter conference call. With me this morning in Marysville, Ohio is our Chairman and CEO, Jim Hagedorn; and our CFO, Randy Coleman. Also present is Mike Lukemire, our President and Chief Operating Officer; Chris Hagedorn, the General Manager of our Hawthorne Gardening subsidiary and several other members of the management team.

In a moment, Jim and Randy will share some brief prepared remarks regarding our Q1 performance as well as other matters. Afterwards, we'll open the call up to your questions. [Operator Instructions] If you have any questions that we don't get to in the call, please call me directly at (937) 578-5622, and we'll set up some time to get together as quickly as possible.

Before we move on, I'd like to take care of a couple of pieces of housekeeping on the IR front. On March 2 and 3, Randy and I will be attending the Raymond James 41st Annual Institutional Investors Conference at the Grand Lakes Resort in Orlando. We'll conduct one-on-one meetings on both days and conduct a webcast presentation at 2:50 p.m. on Monday 2. We'll be issuing a press release closer to the event. Two weeks later, the week of March 16, we'll hold one-on-one and small group meetings in several European markets, including London. Those meetings will be coordinated by William Blair & Company. Investors interested in meeting with us at either of these occasions should contact the respective firms directly.

With that, let's move on to today's call. As always, we expect to make forward-looking statements this morning, so I want to caution that our actual results could differ materially from what we say. Investors should familiarize themselves with the full risk of range -- full range of risk factors that could impact our results, and those are filed with our Form 10-K with the SEC. I want to remind everyone that today's call is being recorded, and an archived version of the call will be available on our website.

So let's get started, and to do so, I'll turn things over to Jim Hagedorn.

James S. Hagedorn

CEO & Chairman of the Board

Thanks, Jim. Good morning, everyone. If you've had a chance to review the first quarter results we announced this morning, it's evident the momentum we enjoyed in fiscal 2019 carried into the early months of fiscal 2020 as well. Not only did we see strong performance in Q1, but the early weeks of Q2. Because of strong cash flow, we've reinitiated our share repurchase activity. So we're feeling good about the strong start to the year and have a high degree of confidence in our full year guidance. It's easy to look at the results, though, and get carried away. So I just want to remind everyone that Q1 constitutes less than 10% of the year. While the growth rates we reported in both the U.S. Consumer and Hawthorne units were well ahead of our full year guidance. It's important to remember, we expect to return to more normal growth rates in the months ahead.

I'll keep things brief this morning, but I want to start by focusing on Hawthorne, which grew 41% in the quarter. Obviously, the engine of Hawthorne business is the United States' hydroponics and indoor growing businesses, which was up 66%. Better yet, the growth in the quarter was completely driven by organic growth. Hawthorne continued to see strong growth in nearly all product categories. Lighting sales for the entire segment grew by 27% driven by sales in the United States, which increased more than 100% from 2019 levels. While lighting sales declined 30% in our European professional horticulture business, that

decline was baked into our full year expectations due to the timing of some lighting installations in 2019 that we knew would not repeat this year. We still expect this business to grow on a full year basis.

On the consumable side of the business, we reported 36% growth in nutrients and a 78% increase in growing media sales. The geography of our U.S. sales is also encouraging. California was up 58% and Colorado grew by 57%. When you move east, Michigan more than doubled, as did Illinois, Florida, New Jersey and Alabama.

On average, our top 11 markets grew by 64% in the quarter. It's worth adding that Hawthorne team also pulled off a successful launch of SAP during the quarter at what was Sunlight Supply. This is no small feat. In fact, it was probably the most complex SAP implementation we've ever undertaken. Sunlight has thousands more SKUs than our U.S. Consumer segment as they were both manufacturers of their own product lines as well as distributor of dozens of others. Now that we have everyone of the Hawthorne acquisitions using the same platform, we see opportunities to significantly improve our service levels, consolidate SKUs and take more cost out of the business.

Hawthorne also posted sharply higher profits in Q1, keeping us on track to achieve our goal of at least a 10% operating margin on a full year basis.

Before I move on, I think it's fair to provide some context around Hawthorne's first quarter. Remember that the business was still in recovery stages this time last year from the challenges we experienced in 2018. That means we had a pretty easy comp in Q1. Regardless, the momentum we've seen over the last year has been outstanding. While we expect the growth to moderate in the months ahead, Randy will discuss the details, we feel really good about the progress Hawthorne is making and the success it's had in positioning itself as the clear industry leader.

As we look longer term, we continue to be optimistic about the potential of the overall marketplace. We believe as many as 10 states could hold ballot initiatives this year to create new or expanded state-authorized cannabis markets. One of those markets is New Jersey, where Senate President, Steve Sweeney, perhaps the most thoughtful politician in America on this issue, is leading the effort. And in New York, Governor Cuomo is, once again, pushing for adult-use legalization of cannabis through the budget process that's being managed by the state legislature. It's impossible to know which states will be open and when, but what I do know is no one is better positioned than Hawthorne to take advantage of these opportunities when they present themselves.

Okay. Let's switch gears and focus on the U.S. Consumer segment. We reported 8% sales growth in the quarter. On a real-time basis entering February, Consumer purchases are up 5% from the same period last year driven primarily by lawn care and gardening products. However, controlled products, especially we control, while down slightly on a year-to-date basis, has been extremely strong in the past month in the early breaking markets, even against double-digit comps from last year. I'll let Randy take us through the details, but the same issues that drove our growth in fiscal 2019 were still playing through the business in Q1.

More importantly than our absolute performance in Q1 was the work being done to ready ourselves for the upcoming season. As it relates to our outlook for the U.S. Consumer business this year, I think it's important to understand why our initial guidance for this business is higher than it's been in several years. I want to start with the relationship with our key retailers. In a word, fantastic. The home centers continue to see this as a primary traffic driver in the spring, and they are positioning sales for another great season. They are leaning into this category and our brands with aggressive and creative program support that we believe will continue to drive the entire industry.

It may sound tripe to say our relationships in this channel have never been better, but it's true. In the mass retail channel, our major customers continue to return to a strategy of using our brands to drive their lawn and garden business. Over the past 2 years, we've taken big steps to be a better partner. I've personally been engaged in that effort.

Together, we continue to believe there is meaningful growth on the table, and we're working collaboratively for the benefit of both parties.

We also expect strong performance out of the hardware channel, again, in 2020. Merchants in this space have had tremendous success with our brands over the last several years. We've become one of the most important vendor partners for them, and the strength of the relationship should allow us to build upon our momentum, again, this season.

We don't often talk about our retail partners outside of the big 4, but this group will be critical in our plans for 2020. We expect at least a full point of our growth in the U.S. Consumer segment this year will come from increased listing support in both the club channel and farm and fleet. In every traditional retail channel, I believe our retail partners are increasingly seeing lawn and garden as a strategic opportunity to differentiate themselves from retailers who are operating exclusively online. That's made us more important and a more strategic partner in driving their success.

That's not to suggest we're ignoring our partners who operate online, the highest growth rates in the U.S. Consumer continue to come from those relationships. While some of our products don't play well on the online space, we have been able to modify our approach in recent years to capture those consumers who prefer to shop online. And we'll continue to evolve our direct-to-consumer efforts in 2020 to take advantage of what will clearly remain a strategic opportunity for years to come.

I want to pivot for a moment because we're also optimistic about future developments on the new product front. Product stewardship, especially in the pesticide category, is something we have always taken seriously here and have shown the flexibility when we believe it would help alleviate consumer confusion or concern. Lawn and garden consumers are not chemists. They are homeowners with kids and dogs who don't worry about the products that they use to create a beautiful and healthy lawn and garden outdoor space.

Over the last 20 years, we have reformulated our fertilizers, improved our application devices, tweaked some of our pesticide formulations and sometimes even walked away from certain active ingredients. We sometimes visit even when the scientific findings show the products were safe for use and not harmful to the environment when used as directed. It was our direct relationship with the consumer and understanding of our role as an industry leader that drove those decisions.

There is not a single one of those actions that I regret, even though some of them didn't fit well with others in our industry and didn't make good economic sense in the short term. But those kind of actions are exactly what's necessary to instill a deeper level of trust with all of our stakeholders, not just consumers and retailers, but NGO and government leaders as well. That approach to product stewardship is why we created a new formulation using our GroundClear brand last year. The product, which works fast and is listed for use around organic gardens, exceeded our sales expectations in 2019. We remain bullish on the opportunity around GroundClear, again, in 2020, which is why we're expanding the product offering and marketing support for this season.

We're also entering year 2 with Performance Organics, and the storyline here is very similar. This new technology, groundbreaking technology, gave consumers expanded choice when it was successfully launched last year. We see more opportunities for Performance Organics in 2020 as we continue to see this as one of the most important new products we've ever introduced.

With these products as well as much of the rest of the portfolio, we will continue to rapidly evolve our approach to marketing. Our investment in television advertising continues to decline and the percentage of dollars being spent on digital outreach continues to increase. But it's how we're evolving our digital efforts that matter the most. I expect us to have literally thousands of pieces of creative this spring to better leverage weather, retail promotions, even quirky news events to more narrowly target the right consumers at the right time. We made big strides in this area in 2019, mostly in support of GroundClear. This year, the effort will be more widespread. You'll likely see us ramp up the visibility of our company, too. Scotts Miracle-Gro is an organization driven by a set of values that we believe is shared by our consumers. We know our story goes beyond just our brands, and it's time we share that story with a wider audience.

I can go on all morning about our plans for the year, but what will matter the most is our execution.

Assuming unforeseen issues and extended weathers doesn't get in the way, I feel extremely confident in the plans we have in place, not just for 2020, but in the years to follow. But it's not just the plans that matter, but the people driving them. And I just want to take a moment to acknowledge that the work Mike Lukemire and Chris Hagedorn have done, not just in delivering near-term results in the U.S. Consumer segment and Hawthorne, but for positioning both businesses for long-term success. It's not just the operating staff that are driving our results, it's the corporate team as well.

Randy has done an outstanding job driving our capital strategy, but he is more than just my finance partner. He's done a tremendous job navigating our relationship with Monsanto as well as directing our strategic planning efforts, which have taken a big leap forward under his leadership.

Denise Stump, who leads global human resources, has been leading a major effort focused on identifying and preparing future leaders of this company. All of you typically hear just from those of us on the call today, but let me assure you we have tremendous bench of young and diverse future leaders.

Ivan Smith, our General Counsel, has also been critical to positioning us for future success. He, too, has played an important role in reshaping our buyer relationship and helping us maintain our freedom to operate. He has been critical in helping us navigate a path forward for Hawthorne given the complications of state and federal law. All of us here rely on his counsel.

And Jim King, who most of you know because of his role overseeing Investor Relations, has been a critical voice in making our corporate reputation a strategic imperative. He's also led our efforts to establish our leadership voice on legislative issues in Washington and in state capitals around the country that will affect our business for years to come.

It's important that our shareholders understand just how strong this group is. The focus is almost always on the CEO, I get that. However, this leadership team is the strongest I've had around me in my 20 years on the job. They are raising their game year after year, and they are the ones driving this business, and I'm grateful for their efforts, you should be, too. They've put us in a great position as we enter the most critical months of the year, and I'm bullish on our ability to deliver a great result in fiscal 2020 and maintain our momentum to drive enhanced shareholder value.

For now, let me turn the call over to Randy to discuss the numbers.

Thomas Randal Coleman

Executive VP & CFO

Thank you, Jim, and good morning, everyone. It's a straightforward quarter in terms of covering the numbers, so my comments this morning will be brief. Clearly, it was a good quarter, but I want to reiterate Jim's comments that Q1 results should be viewed in the proper context.

Most of the U.S. Consumer purchase activity in the quarter occurred in October and is really a reflection of how we completed last season. And the shipments in our U.S. Consumer business reflect a very small portion of the year, usually 5% or 6%, so it's difficult to extrapolate anything for the balance of the year. But as I said, it was a good quarter.

Company-wide sales increased 23% to \$356 million. As Jim said, that number was driven by a 41% increase at Hawthorne, which reported sales of \$199 million. As you know, these results are often easy comp given the declines in 2018. However, Hawthorne sales, on a rolling 12-month basis, are essentially back to where we were in 2017, and that leaves us encouraged by the momentum we're seeing in this business. Based on the current run rate, we believe Hawthorne sales will likely increase approximately 20% in Q2.

In the second half, we expect the growth rate to slow considerably as we're comping 49% growth in Q3 and 38% growth in Q4. However, there's no reason at this time to believe that the business will significantly decelerate in the second half. So I'm reinforcing Jim's comments about the conservative nature of our full year guidance for Hawthorne.

There's really no additional color to add right now, but I think it's fair to expect a more robust conversation on this topic when we announce our Q2 results.

Moving on to U.S. Consumer, sales increased 8% to \$147 million. Remember, Q1 results included last year's pricing model, which drove about half of the growth in the quarter. The balance was due to a combination of new product launches and higher retail inventory levels, which are the same storylines that were prevalent throughout last year.

As we look ahead into the upcoming season, we believe retail inventory levels have stabilized and are in a good place. So the growth we expect in 2020 will be from a combination of new pricing, which will be about 75 basis points as well as the new listing support and continued modest increases in consumer engagement.

Let's move down the P&L, where the adjusted non-GAAP gross margin rate improved 250 basis points to 14.9%. Again, the main factor here was the rollover effect of 2019 price increases, further complemented by better fixed cost leverage in the quarter. Commodities are trending favorable to our plans, but we still see the aggregate impact of commodities to be a headwind. Remember, we are somewhat insulated from market movements within the fiscal year due to our hedging program.

As of today, about 75% of our commodity costs are locked in for the year. Also, many of you have been asking about the impact on tariffs after the signing of the recent trade deal with China. Yes, there is a slight benefit for us, but not really enough to move the numbers, so the net effect of tariffs remains a headwind, too. The one area within gross margin that may continue to improve with distribution, but we need more time for better visibility.

There's really not much to talk about regarding SG&A, which is up 3% to just under \$120 million. We've been very disciplined in managing our expenses here for quite a while and believe you'll see that again throughout fiscal 2020, although we will be investing in media, marketing, selling and R&D in both of our major business segments.

Our GAAP operating loss in the quarter improved 26% from last year to \$62.6 million. The biggest driver was the \$13.9 million segment profit at Hawthorne, which is more than triple the \$4.4 million from a year ago. The operating margin for Hawthorne was 7% compared with just 3% last year.

Jim mentioned earlier that we remain committed to a full year operating margin of at least 10% in 2020, and we remain on pace to deliver against that goal. Moving below the operating line, interest expense of \$20 million was \$5.2 million lower than a year ago and slightly better than we originally expected.

GAAP net loss from continuing operations was \$71.3 million or \$1.28 per share compared with \$82.6 million or \$1.49 per share last year. On an adjusted non-GAAP basis, which is what we used for our guidance, the loss in the quarter was \$62.4 million or \$1.12 per share compared with \$77 million or \$1.39 per share a year earlier. The results in the quarter were slightly ahead of our internal plans, and I know they were also better than what was expected by those of you who published publicly available models.

I'd rather be ahead of the game than behind after the first quarter, but I'll come full circle for my opening remarks, we have a long way to go. More than 90% of consumer POS is still ahead of us in the U.S. Consumer business. And we're still waiting to see how much momentum we're carrying in the second half of the year with Hawthorne. I'm not trying to tamp down expectations either. I feel very good about our prospects this year, and I believe everyone sitting around me today shares that optimistic. I'm simply saying that it's too early in the season to get carried away, and we'll have much better visibility in 90 days.

There's one more item I want to discuss before I close, and that is to elaborate on the point Jim made at the opening of his remarks. Earlier this month, we received our \$112 million payment from Bayer for the sale of our Roundup brand extension. That money was immediately applied to our debt. Even before considering this payment, we achieved our target leverage of 3.5x on a rolling 12-month basis at the end of Q1, much earlier than we expected several months ago.

As a result of our improved leverage position, we have filed a 10b5-1 and have been repurchasing shares in the second quarter. We still have almost \$300 million available on our existing share repurchase

authorization, and we expect to discuss with our Board the potential for a new authorization later this week.

Consistent with our historic approach, if something materializes in the M&A pipeline that meets our strategic and financial requirements, and that we determine to be a better use of cash, then we may slow down or pause our repurchases and instead invest in those opportunities. Jim and I agreed that 3.5x leverage is a good place for us to be. While we're willing to edge above that level for a short period of time, our preference is to be at or below that level going forward. Based on what I know today, I'm confident we'll be able to maintain a balance of investing in both profitable growth and returning cash to shareholders for the foreseeable future.

So with that, let's open the call to your questions, and I'll turn things back to the operator. Thank you.

Question and Answer

Operator

[Operator Instructions] We will take our first question from Chris Carey of Bank of America.

Christopher Michael Carey

BofA Merrill Lynch, Research Division

Just a quick question. Jim, you noted that trends had remained strong into the opening weeks of 2020. And I wonder if you could just separate those comments between the U.S. Consumer segment and perhaps what you're seeing in Hawthorne on a year-to-date basis?

James S. Hagedorn

CEO & Chairman of the Board

Well, the Hawthorne numbers are pretty amazing. So I think we're super happy with that. If you say this U.S. high-growth space, I think plus 60 something, so I think when I look at it, if you look at the sort of the periods, whether it's monthly or quarterly, I think we were -- back in '18, we were all modestly suicidal, largely based on what happened politically I think in regulatory point of view from California. But the trend of positiveness that's really started over a year ago, I think continues to accelerate, and that's I think what feels really good about it.

At the same time, what I like about Hawthorne is they got SAP done, and with a much more complicated one than we did here when we did one face to the customer. They are continuing to get their technical sales force in. And while I stayed home and sort of ran the show from Ohio, well, they all went out to the big show in Vegas. My understanding from that was that the industry is starting to look at us, not as like newcomer, big company, Monsanto, they're starting to look at us as a real partner in the space who have been there, working to make the space better for like 5 years. So I think the trends just continue to be good and in a way that is I think makes us all feel good about this. And then if you say, what's happening on the voter initiative side is like at least a half a dozen states that are going to have voter initiatives, 10, and still at least half a dozen. So -- and some of those are big ones. We're -- we've been talking about Jersey and New York and Connecticut for quite a while, let's hope that they all get across the -- I mean the pulling down, it looks good. So well, I feel really good about that.

The Consumer business, we don't have a ton of detail. The Southwest is kind of an important market to begin, largely herbicide market, and that business is booming. And that was against a very challenging good result last year at the same time, where the weather comes together. And so I'm going to say very positive, small market, but big indicator of sort of how people were feeling about the brands. I'm going to say, active ingredients. So I feel pretty good about that.

And then largely, on the consumer side, it's kind of the promise of the year. And I don't know. I don't want this to sound like a bunch of bulls***, but the -- Mike and I have sort of started saying, kind of this is our time. Our retail relationships are like really good friends. It's like that. And they trust us, they appreciate what we do, we understand what they do. I think this battle of the Internet and direct sales and home centers and hardware and the clubs and farm and fleet really sort of trying to hold their space, they need partners like us, and I think they appreciate us when we are on their side, too.

And so we have just great programs right now, where -- at this point, we just have to wait for the weather to happen and our marketing programs. In addition, we're -- a lot of people talk about digital. And I have to admit, I sort of couldn't stand sort of this whole discussion of this movement toward digital marketing, reduction in our spend on sort of cable and broadcast, but we've really changed how we do that. We're working with this guy, Gary Vaynerchuk and his company, VaynerMedia, on basically very precision marketing on YouTube and Facebook and Instagram and all of the stuff. And I actually feel really good about it for the first time. It worked for us last year. We did it in a very focused way on this GroundClear launch, and it really worked for us. So it's a -- I'm sorry, I went so long on this, but bottom line is, the trend data on Hawthorne just keeps getting better and better. And I think we're just trying to say, it's

got to probably slow down, but right now, it feels pretty good and everything is kind of coming together. And I think the same is true on the consumer side. Everything is kind of coming together so that I -- it's hard to imagine it being much better than it is right now. And so the weather could screw us up, I think politicians could probably screw this up. But I think right now, we are just -- all we need is the weather to start cranking and starting to see POS. And where we are seeing it in the Southwest, the numbers look really encouraging. So -- and I don't know if that answered the question, but it's...

Thomas Randal Coleman

Executive VP & CFO

Chris, this is Randy. Let me jump in with a few numbers to be specific about. So on January, like Jim said, continued momentum for Hawthorne that we saw October, November, December and January. We expect to see February as well, but March last year is where the comps or it's where the business really took off last year, when the comps started to become challenging. So I think that will be a key month for us, for Hawthorne.

When you look at the U.S. Consumer business, our POS was up 3% through December. We sit here today, and it's up about 5%. So good momentum, but again, I want to take a lot away from that January has been one of our smallest months and just to remind everybody, April, May, June are our biggest months followed by March. So a lot of POS ahead of ourselves. And on retail inventory, it continued to be really strong through the quarter. It's a little bit lower now at the end of January, like you'd expect, because our major retailers are closing out their year. But as we look at February and the orders in the book right now to be shipped, things look really positive. So I think it's all good.

Christopher Michael Carey

BofA Merrill Lynch, Research Division

That was very comprehensive. And then just one quick follow-up on the Hawthorne margins. I understand that you took some pricing in the business in early January. Would you expect that to start flowing through in this fiscal Q2 and just how do you see the cadence rolling out over the next few quarters? That's it for me.

Thomas Randal Coleman

Executive VP & CFO

Yes. For the quarter, Chris, Hawthorne, our promotions and our aggressive plan, very much carried forward from last year. So we did not reduce anything in the first quarter. We are taking a little bit of pricing here starting in Q2, we don't expect that to have any kind of a dampening effect on our top line. And when you look at our bottom line, we grew 400 basis points in Q1. We expect to grow -- our guidance, it's a couple of hundred for the full year versus last year, but I'd say the watchouts are perhaps on a mix basis, so that's true whether you're talking about our consumer business or Hawthorne, but pricing should be a positive. There's a lot of synergies that we feel confident in delivering at least \$10 million for Hawthorne and the pricing for our U.S. business as well will more than offset the commodity impacts and some of the tariffs that we're seeing. So I'd say slightly more confident in our margin rate than I would have been 3 months ago, but there's still a long way ahead of us.

Operator

We will now take our next question from Jon Andersen of William Blair.

Jon Robert Andersen

William Blair & Company L.L.C., Research Division

I wanted to ask maybe, Jim, you talked quite a bit in the prepared comments about corporate values and how the organization is perceived by customers and consumers and regulators, et cetera. And then also kind of talked about it in the context of some of your new product launches, specifically Ortho GroundClear. How should we be thinking about the commitment to round up any decisions that may need to be made around Roundup? And are you thinking about that at this point in time?

James S. Hagedorn

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CEO & Chairman of the Board

I'll put it as a good question. I have a note from the lawyers. Here's what I would say. What do I think? I think that Bayer is at a real sensitive point right now. And I know mostly this by reading the paper, but we're very tight with them and communicating. So I think the theme of what you're saying is, does this matter? And will this pull through to the Roundup business? I think the answer is yes. But the bottom line is that I'm electing not to sort of spend a lot of time talking about Roundup. We didn't talk about it really in the script at all, except thematically in this view of how we view stewardship in our relationship with our consumers. It's really important. I think Bayer shares that view, I do. But I think that I don't -- the choices of what happens on a go-forward basis with that business of theirs. We've given them our point of view, which is private. So I think you'll -- there'll be a lot more to talk about probably next quarter or the quarter after. And -- but I'm really trying to be respectful of the fact that I think this is not a lot of time where my view is weird noise comes out of Marysville, Ohio when they're trying to do something important. So -- but I think the answer is yes, okay?

Jon Robert Andersen*William Blair & Company L.L.C., Research Division*

Okay. No, that's fair. I appreciate it, understand the sensitivity. As a follow-up on Hawthorne, can you talk -- has there been any -- have you seen any impact? Or how are you thinking about any potential impact some of the noise around what are the methods of consuming cannabis vaping? And then if I could tag on something in addition to that, what is your updated thought on the long-term margins for Hawthorne? I understand 10% is where you're headed this year, but if you look out 2 or 3 years, what will think a sustainable margin rate is for that business?

James S. Hagedorn*CEO & Chairman of the Board*

All right. I'll -- Randy, when I'm done, will deal with sort of margin issues. We've put a lot of effort into this issue, largely because we see vaping and any sort of disease issues as a result -- injury issues as a result of that as kind of an overhang. It is a very popular way of people consuming whether it's CBD or THC. So we've put quite a bit of our science staff. I think there's probably no one in this industry who has a bigger sort of PhD group than we do, including toxicologists. We've also gone to our outside toxicologists.

So I have to admit -- so our view is that this -- I think it's -- vitamin E acetate is the issue. There is science that I think will be published soon. I'm surprised, and I got to say disappointed that this has not been widely published. We've been trying to communicate with governments, including the Feds on -- we think that there's science out there that shows it, for sure, is vitamin E acetate. And that if you burn vitamin E acetate, you create a gas called Ketene, and Ketene is a extremely toxic gas that is a near-warfare like gas from back in the day, like World War I kind of gas. And so I think it's -- when you talk to government people, maybe they think Scotts is like some little company and can't figure this stuff out, but the -- in our discussions with the federal government about it, saying we think we figured it out and with some sciences not quite published yet, with our professional team of scientists and outside scientists, I think we know what's happening here.

But I think the bottom line is, this vitamin E acetate is a dilutant that is extremely dangerous. Especially a temperature control in a vape pen is not correct, and I think this is mostly black market product. This is not regulated product. So for all the people saying this is dangerous and shouldn't be out there, this is generally not regulated product. And so it's weird that this call is kind of becoming the call where it's Ketene and, hopefully, somebody who actually gives a s*** is listening because it is vitamin E acetate, we think we figured it out. It's basically by discovering science out of Ireland, that is I think in sort of republishing stage and scientific review, but I think it's correct.

So what does it mean? Don't use that product. The regulated market I think is the safer market. Chris I think wants to say something.

Christopher J. Hagedorn*GM & Senior VP*

Yes, I'm just jumping a bit here. Chris Hagedorn. So what I'd say is, we feel pretty confident that we've, along with a lot of other people, worked really hard on this because it's important to have gotten to the bottom of what is the cause of most of these injuries. The important thing as it relates to our business, and I'd say the sort of legal cannabis entry as a whole is it's an extremely easily avoided ingredient.

As Jim said, it's a cutting agent that's added into this product to stretch out their supply of actual cannabis extract. So I'd say as far as consumers go, this is not something that they should be afraid of in the regulated market. As far as investors go, this is not a sort of systemic component in vaping. It's an additive that can be easily avoided. So I think this -- to me, the big thing here is this is a call for regulation. This is something that the government needs to look at. This is something -- we can save people's lives by engaging with this industry and regulating it properly.

James S. Hagedorn

CEO & Chairman of the Board

I mean and the Feds, it's not that they don't care, but in my discussions with them, and you know I was on the CDC Board for quite a while, their CDC Foundation Board. I think they just want to get it right, and they have to do a lot of research that their sensitivity to being wrong is a lot higher than mine is. I don't think we're wrong. But I think that -- I feel -- we led into the thing, can we try to help figure this out? It's an overhang to our equity, we think. You hear noise about vaping injury, and I think we see as our equity pricing. So therefore, I think we got a dog in the fight, and we have scientists, and we're -- I think the market leader, at least in the supply side. And so could we at least participate in trying to figure it out. And I think what's the surprising part is, I think we did figure it out. That hasn't been published yet, but I think our thesis and other people, who've been involved directly in the science side, probably gets published soon I think.

But -- so vitamin E acetate, I think I agree with what Chris said. And I think what this shows is that like we're a leader on the consumer lawn and garden space, I think we take pretty seriously leadership on the cannabis side of the market, especially when you're dealing with consumer safety. And I feel really good that we were at least I think involved in trying to figure out what happened here. And I think we're right. It's Ketene gas. That's a byproduct of burning vitamin E acetate. And the question on other products, including tobacco is, are there any other acetates? Because I think it's the acetates burning that can create this Ketene. So there's a lot of work that has to happen with other products that get vaped to see if there's an effect there as well. But I feel really good about actually our participation in this space.

Thomas Randal Coleman

Executive VP & CFO

John, picking up on the second part of your question about margin rates. Last year, we were about 8% operating margin rate for Hawthorne. This year, we've guided to at least 10%. And our outlook is that we should be in the mid-teens in 2022. And a lot of drivers behind that, so I mean -- we've talked about synergies and integration of Hawthorne into Scotts and a lot of the benefits from that. Volume benefits are obviously well, we have a lot of innovation that will come down the road as we develop our R&D function more so in Canada. So that will help our mix. And then there's a lot of opportunity with pricing and trade programs as well that helped create a more rational environment and showed some leadership there. So we can continue to take market share, grow our top line aggressively and fully expect to do that, but I think we can take our profitability up as well. So I think we can have our cake and eat it, too. And that's what I expect.

Operator

We will take our next question from William Reuter of Bank of America.

Unknown Analyst

It's [Mike] on actually for Bill. Just a quick one here. On the last call, you guys noted that you do not have an active pipeline for M&A despite always looking. Has this changed? And how should we think about your commitment to that leverage target you talked about and future M&A opportunities?

James S. Hagedorn*CEO & Chairman of the Board*

I'll start and hand to Randy. This is one where -- I don't know, in some ways, the most important part of my job is sort of allocation of capital and resources to the businesses. We have a Board meeting really starts today, and it will run through Friday. And so we're going to have this conversation. So I don't really want to get way ahead of the Board. But one of the things that Randy and I are trying to do is we look at kind of when we first started this concept of kind of project excellence, I think it's what we call it, which is basically who do we want to be. But before we got sort of heavily into sort of deciding we wanted to participate in hydro, it was kind of sell noncore, buy back a bunch of shares and it hasn't worked exactly that way. We have a lot of shares out, but we also spent over \$1 billion on the Hawthorne acquisitions.

And if you look at the returns, I think, actually, it's been great for shareholders. And so as Randy and I are looking to the future, which is sort of beyond what this long-term incentive plan we have, it's called big bet. As we look beyond that, we're trying to say, what's the proper balance of continuing to sort of steward the business and a very deep commitment to what we call shareholder-friendly here. And I don't know that we have an answer yet on that. I think it would be fair to say we're absolutely committed to our leverage targets, and so that may be the answer that you're looking for or not. And we don't have a massive pipe of acquisition targets at the moment. But we are trying to balance the sort of health of the business on a go-forward basis with the sort of idea of shareholder-friendly, which is, if we don't need the money, we send that home. So I don't know, Randy, how you pick that up.

Thomas Randal Coleman*Executive VP & CFO*

Sure. So when we look at our numbers internally, sometimes we just beat the heck out ourselves because we've tracked a lot of business cases in the past, kind of depending on the deal. But when you look at everything holistically, we've created value through M&A over the last 5 years. So we feel good about that. Every -- being an industry leader, companies come to us with technology ideas or acquisition ideas. So we're the natural place for companies to start if they want to enter lawn and garden or commercialize their ideas. So pipeline is always robust. But unless something really has the right strategic fit and either fits in our capabilities or adds to our capabilities and the price is right, we're very happy, generating a lot of cash and executing well and returning cash to shareholders. So -- but you have to keep that in balance, and we'll see. But right now, there's nothing active in the pipeline that I would say is something that we're planning to do.

James S. Hagedorn*CEO & Chairman of the Board*

I would just add that...

Thomas Randal Coleman*Executive VP & CFO*

Never say never.

James S. Hagedorn*CEO & Chairman of the Board*

Our January Board meeting has a very much of a strategic [element]. So I don't know if you all care, but we tend to have a telephonic Board meeting that go through committee reports and all that, sort of the standard, I'm not going to say BS, but a lot of the meat and potatoes that the Board has to do, we deal with the telephonic, in this case, it was on Monday. When we get together, Thursday and Friday, we are only talking about the business. And because the January meeting has very much a strategic element that leads to the next big strategic meeting for us, which is August. We're going to be sort of highlighting this issue of stewardship of the business and what's the right balance to keep the business healthy and the commitment on capital structure that we have made promises to guys like [you all]. And so we're just in the middle of that discussion. I wouldn't expect anything -- any big change out of that. But I think that we're sort of -- we're -- it's the -- I think in some weird way, the most important thing that kind of

Randy and I do is sort of try to sort of make sure that the business has the money it needs to run, but be committed to this idea of shareholder-friendly.

Operator

We will take our next question from Bill Chappell of SunTrust Robinson Humphrey.

William Bates Chappell

SunTrust Robinson Humphrey, Inc., Research Division

A couple of questions for Randy to start. Just on 2 metrics, kind of tying into the last call. 3.5x target for leverage. That was pulled up I think 3, 4 years ago from 3x, just with the thought that there were going to be acquisitions and more aggressive share repurchase. Now it seems like, as you said, most of the acquisitions are done and your -- the share repurchase is going to be, I assume, fairly normalized pace, do you think about bringing that back down to 3x? Or on the share repurchase front, is it going to be back to a more aggressive over the next year or 2?

Thomas Randal Coleman

Executive VP & CFO

Well, Bill, you're right. We formally said 3x, but we've been saying also, we were trying to get our leverage up to 3.5x, and -- right? And we divested our international business that brought our leverage down, and we divested our lawn service business to TruGreen and that brought our leverage down. So we're really where we had been targeting for quite a few years, and we're comfortable given the interest rate environment and the flexibility we have with our credit agreement that 3.5x is a comfortable place to be.

James S. Hagedorn

CEO & Chairman of the Board

And then, Bill, the only thing that I would -- Bill, just the only thing I would add to that is, again, we are sort of walking out of here into a Board meeting. We've got a couple of committees that still meet today and then full Board tomorrow and Friday. So this is a question that -- so I think we're very comfortable at 3.5x. Again, it's a matter of taking a look at our cash flows and saying, how -- I mean if we don't do something, leverage is going to decline. So we're happy at 3.5. It puts questions to the Board that, in due course, we'll be able to fill you guys in on.

Thomas Randal Coleman

Executive VP & CFO

And on the cash flow point that Jim made, we've delivered about \$300 million of free cash flow 3 years in a row and expect it to do the same this year. So if you go back and look over the 6, 8, 10 years before that, it was very much seesaw up and down, and I'm proud of the progress we've made in being very consistent cash flow deliverer and gives us more confidence about our leverage as well.

William Bates Chappell

SunTrust Robinson Humphrey, Inc., Research Division

I appreciate the color. And on that theme, just my nitpicky, but I feel like in years past, you were a little more hedged on commodities, more than 75% by this time in the season. Is that by design? Or am I just got that wrong?

Thomas Randal Coleman

Executive VP & CFO

I don't want to tell you're wrong, Bill, but we're...

James S. Hagedorn

CEO & Chairman of the Board

Yes, you can do it, you can do it.

Thomas Randal Coleman

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Executive VP & CFO

[indiscernible] always been. So there's no real big change, whether you look at urea, resin or fuel, we're on that 70%, 75%, even a little bit higher. So we're exploring the...

James S. Hagedorn

CEO & Chairman of the Board

I think Randy is saying, if there was a year we could have been less hedged then we would have made more money.

Thomas Randal Coleman

Executive VP & CFO

Come on, Jim, we're doing some predictability, we fought pricing, it's all consistent. So Bill...

James S. Hagedorn

CEO & Chairman of the Board

That's what you told me a couple of days ago when I said, dude, we're like mark-to-market and these hedge is negative.

William Bates Chappell

SunTrust Robinson Humphrey, Inc., Research Division

Last question for me. So this time last year was when we started to really see the retailers step up their inventory levels, probably higher than we expected and maybe you expected, and they maintained that throughout all of 2019. Are you seeing any real changes? Is there a further step-up? Are they comfortable at these levels? And in particular, Walmart, it seems like there's an improved in-stock inventory level going into the season. Is that fair?

James S. Hagedorn

CEO & Chairman of the Board

That's fair. I would say they're stepping up. Some are even leading into [indiscernible] markets. Everybody wants to be early. They don't want to miss anything. And with the good weather in January, that actually has accelerated a little bit.

Operator

We will now take our next question from Carla Casella of JPMorgan.

Carla Casella

JP Morgan Chase & Co, Research Division

On Hawthorne, impressive growth this quarter. Can you give us a sense for when you look at that market, the mature markets, are they stabilizing out at a more mature growth rate yet? Are they still above trend? And then are the newer markets that you mentioned, emerging markets following the same growth trajectory that you saw with Colorado and California?

Christopher J. Hagedorn

GM & Senior VP

Carla, it's Chris Hagedorn. So what we're seeing in places like Colorado and California is still pretty significant growth. California is still getting back I think just now kind of getting back to where it was before the kind of 2018 downturn that was caused by the 2016 election. So we're still seeing, I'd say, higher than kind of maturity level growth rates there. The same is true in Colorado.

In newer states, there we're looking at Florida, Michigan, Oklahoma, we're seeing triple-digit growth in those states or quadruple-digit growth in the case of Oklahoma, which is great, that's off a small base, but the growth rates are pretty significant there. So we're seeing growth from really kind of a 0 basis in those

states, which we haven't seen in Colorado and certainly California, which has had a strong hydroponics and cannabis market for over 20 years. Does that answer your question?

Carla Casella

JP Morgan Chase & Co, Research Division

Yes, that's great.

James S. Hagedorn

CEO & Chairman of the Board

Thinking about the future, do you see it stabilizing?

Christopher J. Hagedorn

GM & Senior VP

Yes. I mean as far as stabilizing the future, I -- look, at some point, I think logic dictates the market will stabilize or reach a state of maturity for this industry. I think that's probably at least minimum 5, more likely closer to 10 years out, considering just the sort of speed of legalization. And look, the 2020 election could change things depending on how that shakes out and that's anyone's guess. I think we've given guidance on these calls in the past that we expect a sort of stabilized growth rate for Hawthorne to be kind of high single digits. I think that's probably still a reasonable place to expect. But I think we've got some years before we reach that place. And until then, we'll be significantly higher.

Carla Casella

JP Morgan Chase & Co, Research Division

Okay, great. And then on the margin front, you're kind of guiding to, ultimately, that business to be a mid-teen type margin. Are you seeing that yet in those mature markets or more mature markets like Colorado and California?

Thomas Randal Coleman

Executive VP & CFO

We have a lot more visibility today, state by state, customers, product lines than we had before SAP. So we spent a lot of time working through analytics in the last few months. It's interesting, when you look at state-by-state curve, you don't really see a lot of variation. So I expected we would, and we thought maybe there's opportunities from a distribution or supply chain point of view. But really, I haven't seen a lot of variability. So I think now, we've confirmed that we're running business as well as we thought. And there's still opportunities, but there haven't been any huge ahas on a state-by-state level.

James S. Hagedorn

CEO & Chairman of the Board

I think one of the ahas is we liberated the sales force and the management team to get the job done, to take market share, to be extremely competitive out there. And I think what we recognize is that, as our position becomes more entrenched that we don't have to promote as heavily as we have, plus, there's a lot of ability to synergize this business. I think it's just the more and more we go forward, the more comfortable. It's obvious that the Hawthorne management team is relying on some of the stuff here that allows them to focus on driving the business and coming up with new products and lots of good things happening. But I think we -- when we talk margin, we do have to remember of where we've been, which is just banging this market like hell. And that -- unwinding that slowly over time is hard on the sales force. People get used to operating that, and we also don't want to like lose gains we've made from a market share point of view, which I think have been pretty substantial.

So we're trying to sort of become less addicted to promotional. And I think that's part of the reason you're seeing sort of across the country is, we didn't really say you've been fight hard here, but don't fight hard here. I think we've been -- I don't know. We sort of said, go out and kill people, I mean that like in a military sense, and they've been out doing their job. And now we're saying, "Hey, like, you don't have to use that many bullets. Can you like do the job with a little more precision." And that's kind of where we

are right now. So I just think when you look at margin, you have to understand the journey we've been on from like suicidal, a lot of competition to a much more rational, I think, market position, which allows us to then say, "Okay, let's start promoting, but be precise about it, do it for a reason and sort of back out of that." And I think there's a lot of opportunity there in that regard, but it's -- if anybody on the call has ever run a sales business, that's hard to do. It's hard to convince salespeople who are getting great results and they have a lot of promotional tools to say, "Can we back out of that a little bit?" And we're just going to have to sort of let that happen in time, but it will happen in time. Chris, I think, he wants to talk.

Christopher J. Hagedorn

GM & Senior VP

Yes, just one thing to add, and I agree with everything that Jim and Randy said. Just for a little bit more context, we've already talked about the insight that the SAP integration has given us into the business. It's something that I personally hadn't fully appreciated how little visibility we really had into how all of these businesses operated at a pretty detailed level. Getting SAP online, it's been online since October 1, we've really started to realize how complex some of our pricing was, how many different unique deals we had with different retailers and different vendors. So collapsing a lot of that complexity, getting a much more streamlined approach, it's allowing the sales guys, to Jim's point, to be a lot more precise, move a lot more quickly and just have a better visibility to what our margin is by product line and category and by retailer. And those are benefits that we're going to start to see a lot more of the balance of the year and in the years moving forward. So we feel pretty good about where we're at, but certainly, getting some more -- just some more sort of detail on how the business is actually operating down at the lower levels has been really important for us.

Operator

We'll take our next question from Eric Bosshard of Cleveland Research Company.

Eric Bosshard

Cleveland Research Company

On the Hawthorne profitability, the commitment or what you spoke to this morning is basically doubling that margin over the next 3 years. You ran through a bit of a list of things you're doing to improve profitability. What was the margin improvement of that degree? What are the 1 or, at max, 2 things that you have the most conviction in that you allow -- that allow you to make that magnitude of improvement?

Thomas Randal Coleman

Executive VP & CFO

So in the short term, Eric, the most immediate things are integration with supply chain, Hawthorne into Scotts, whether we're talking about DCs or manufacturing and so on. So we delivered a lot of synergies last year. We'll be at least \$10 million more this year and then volume benefits. As the volume bounces back, we'll get absorption from that. We're seeing that and we expect more. So those are the 2 most immediate. A little bit further out would be what Chris was just talking about as far as pricing programs that are a little bit easier for us and probably a lot easier for our customers, and then innovative new products and the improved mix we'll get from that. So we'll see some of that this year, but to me, that's more of a 2021 and beyond, that's the benefit.

Eric Bosshard

Cleveland Research Company

I guess to ask the question better, when it is 15% versus the 7% or 8%, I understand there's \$10 million of integration, but this is a lot of money that you're talking about improving margin. Is pricing the biggest thing that is different that gets you from here to there?

Thomas Randal Coleman

Executive VP & CFO

I'd say going forward, pricing, trade programs, just how we go to business, I think it's more broad than just taking invoice sales prices up. It's how we develop programs, make things more coherent for both

sides, both for us and for our retailers. And I think potentially, there's a lot of confusion out there that I think we can simplify, let's say, a leadership role and make it a lot easier. And I think as we do that, it will help our service rates as well. We've become a much better supplier and it just becomes a virtuous circle, and we've become an even more obvious leader in the industry. So there's a lot that goes along with that, but Eric, I think pricing and trade programs is definitely a big piece of that. But I also want to discount innovation as we roll out new products with higher margins and mix will help as well. So I don't know. I think it's all good as we look forward.

Eric Bosshard

Cleveland Research Company

And then just a follow-up for Chris. You commented greater visibility with SAP, especially around pricing. In the last 3 or 4 months, how much of what make a sense to do? Or you're having your sales guys implement in terms of pricing and trade programs? In other words, how much of the higher price, less promotion have you done relative to what you want to do? And what have you observed in terms of the customer response and market share impact of making those changes?

Christopher J. Hagedorn

GM & Senior VP

Yes. I'd say we're still pretty early on in actually applying in the marketplace kind of what we've learned and what we believe is possible. We did take pricing, as Chris Carey mentioned at the beginning of the Q&A, we did take pricing at the beginning of this calendar year, beginning of the month. And week after we took pricing, we set a record for our highest order day ever. So I think the market has been receptive to the pricing changes. This rising tide that we're experiencing is also rising up, bringing up our customers, the retailers and the growers. So I think everybody has a tolerance for where this is going and the moves that we've made there. That being said, going back to my earlier point, I think we're pretty early on in our journey of applying the learnings and how we plan to take action on that. So I'd expect to see continued sort of upward pressure as we move forward from the pricing and some of the other programs.

James D. King

Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

John, if I can jump in on for a second, it's Jim King. Just we're running up against the clock a little bit, so in the interest of time, let's just have one more question, and I'll follow-up with others offline later.

Operator

We could take our next question from Maroccia -- Alex Maroccia from Berenberg.

Alexander Rocco Maroccia

Joh. Berenberg, Gossler & Co. KG, Research Division

You noted earlier on the call that some of these larger cannabis players are starting to believe in the Hawthorne products and start to take you guys seriously. Can you just talk a bit about what your market share is looking like right now? And what the opportunity is there versus competitors?

Christopher J. Hagedorn

GM & Senior VP

Yes. And it's an interesting question and a little bit of a challenging one, just because we see old competitors fall off and new competitors enter. We talked last time about how some of our kind of historical adversaries of the hydro distribution side have gone away, we're starting to see some new entrants from the sort of more traditional ag and horticulture side. We feel pretty confident in our market share. If you look at the blended across all of our categories, it's well over 50%. We think our offering, both from a product perspective and a service perspective, is unmatched. I mean that's something I'm extremely confident saying. So we continue to modify our approach as we deal with competitors who are approaching the marketplace and our customers in different ways.

So the specialty ag guys are going to come at it with I think sort of their attack on us will be from a pricing perspective, we're going to counter that with service, and we'll continue to be as agile as we need to be to work against new competition in the ways however they attack us. So again, I feel pretty confident. It's hard for us to really pin accurate market share the way we're used to in the core business in Hawthorne just because it's just such a volatile emerging industry.

Alexander Rocco Maroccia

Joh. Berenberg, Gossler & Co. KG, Research Division

But again, can you just sort of talk about -- because you and I have talked about it, Chris, which is, how did you feel the industry looked at you guys this year in Vegas?

Christopher J. Hagedorn

GM & Senior VP

Yes. Look, this is something we've always, I think, ever since we entered been accused of kind of being carpetbagger and we've bought our way into the space. We don't have any historical legitimacy here and look, I've always rejected that idea because we're a company that's been helped people grow plants for over 150 years. I don't think there's anyone who's got more of a reason to be in this space than we do. That being said, the industry saw it differently. They saw us as newcomers who didn't have any authority or legitimacy.

Now we've been doing it for 5 years, longer than 5 years since our acquisition of GH. I think the industry started to turn a bit. And I think they see us as we've -- to an extent, we've paid our dues. And look, we've got customers and growers who have -- who pay their dues in a way that we never will. Guys who are pushing this industry ahead when it was fully illegal in every state and dealt with all of the risk that came along with that. And we're never going to have that degree of authenticity. But we've been here, we've been committed, we put a lot of money into this entry more than anyone else, and we're starting to see the benefits of that.

And Jim said, when we were out at the MJBiz Convention in Las Vegas, which is the biggest industry trade show that there is. What we are starting to see is a lot more of these customers who have been critics of ours, who come to the booth, start to give us a little bit more credit for remaining committed, we thought through along with the rest of the industry, a really hard time over the past 18 months. And everyone started to come out the other side and feel a lot better about it. And I think our continued commitment throughout that period gave us -- I think it earns us a lot of credit with growers and with retailers. So I think we've kind of turned the corner on being the new guy. And at this point, look, we -- the challenge is still there. We got to keep on proving that we belong here, that we can be a contributor to the space and not a detractor of it. And that is the commitment I've got, that's the committed my management team here has. We have a support of all the SMG management team and the Board, and I believe our investor base. So we've got a lot of plans over the next couple of years to bring new products into the space, to bring new services. I think that will all help strengthen our position, both just in the marketplace and in the eyes of our customers, but that's been a big change over the past, I'd say, 2 years, kind of 18 months.

James D. King

Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

Thank you, John, and everybody listening today. As I said, we're running up against the clock here a little bit. So I know there are a few people who were still in the queue. I've got your contact information, and I'll be reaching out to you proactively later in the day. For those of you who want to follow up further with me, again, you can call me directly at (937) 578-5622. And just as a reminder, on March 2 and 3, Randy and I will be at the Ray J. Conference in Orlando that will be a webcast event, so you can get an update then if you'd like. Thanks for listening in today, and have a great day.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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