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EDITED TRANSCRIPT

SMG.N - Q4 2026 Scotts Miracle-Gro Co Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Brad Chelton - *Scotts Miracle-Gro Co - Vice President, Treasury, Tax and Investor Relations*

Good morning. Welcome to Scotts Miracle-Gro's fourth quarter 2026 earnings webcast. I'm Brad Chelton, Head of Investor Relations.

Speaking today are President and CEO, Nate Baxter; and Chief Financial Officer and Chief Accounting Officer, Mark Scheiwer. Nate will provide an update on our strategic initiatives, and Mark will follow with a review of our fiscal '26 results and outlook for fiscal '27. In conjunction with our commentary today, please review our earnings release, 8-K filing, and supplemental financial presentation slides, which were published on our website at investor.scotts.com prior to this webcast.

During our review, we will make forward-looking statements and discuss certain non-GAAP financial measures. Please be aware that our actual results could differ materially from what we share today. Please refer to our Form 10-K filed with the SEC for details of the full range of risk factors that could impact our results.

(Event Instructions) As always, today's session will be recorded. An archived version will be published on our website. For further discussion after the call, please email or call me directly.

With that, let's get started with Nate's update.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Good morning, everyone. I'll start with my deep appreciation for our associates. Their relentless execution delivered another year of operational and financial improvement. We're well positioned to accelerate profitability and shareholder returns in fiscal '27.

I want to leave you today with three things. First, we did what we said we would do. Second, beneath a modest top-line sales number, our business is changing shape in exactly the direction SMG 2.0 calls for. And third, we built a fiscal '27 plan designed to navigate a volatile macroeconomic environment. We've been deliberate about what we're going to stop doing so we can invest in what matters most.

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Reflecting on fiscal '26, I'm very pleased with our performance and financial discipline. We met or exceeded every imperative we established and significantly strengthened our balance sheet. We grew sales, drove gross margin expansion, increased profitability, and delivered a meaningful reduction in our debt and leverage ratios.

Fiscal '26 marked the second consecutive year of achieving what we set out to do. That consistency is what put Scotts Miracle-Gro on firm financial footing. While the headline is net sales grew 1%, it understates what is happening in our business.

You'll recall we walked away from low-margin mulch and commodity volume to drive more consistent, higher-quality, profitable growth. That strategy is working. The improved performance of our branded products across every category more than offset those planned declines. This is a testament to our portfolio optimization and innovation efforts, and it's a big reason gross margin expanded despite commodity and freight pressure.

Let me walk through fiscal '26 against the four SMG 2.0 building blocks because that's how we run the company and how we want you to measure us. Number one, portfolio optimization and innovation. We pivoted to premium branded products and kept innovating. Miracle-Gro organic sales grew nearly 18% and is the number one organic brand in the category. Other highlights include the expansion and modernization of the Miracle-Gro indoor gardening portfolio and launch of Ortho Mosquito Kill and Prevent, Ortho Ant, and Scotts Turf Builder liquid.

In Lawns, earlier first applications and stronger programs drove pre-emergent units up 16%. The recent Black Kow acquisition demonstrates the commitment to our tuck-in M&A strategy. In January, we reached an agreement to become Black Kow's exclusive distributor with an option to purchase.

Since that time, we leveraged our R&D to develop line extension innovations in the Black Kow portfolio and worked with retail partners to scale the brand nationally. This led to our exercising the purchase option on October 1 to fully bring it into our Gardens business. Black Kow extends our commitment to organic, regenerative gardening solutions and will help drive greater household penetration by bringing a new group of DIY gardeners into our portfolio.

Number two, omnichannel and retail expansion. This is where the shape of the business changed the most. E-commerce POS dollars grew 24% and now represent 13% of sales compared to around 10% a year ago. We gained share in every category through our largest e-commerce partners.

We also saw growth in traditional brick-and-mortar through new listings, expanded promotions, and tailored product assortments. Channels such as hardware, grocery, and rural outpaced the overall growth in brick-and-mortar, further balancing our retail channel mix.

The strength of our retail relationships has never been better reflected in our being named Supplier Partner of the Year by three key retailers. All of our partners are important to us, and we strive to put programs with meaningful differentiation in place with each of them. I feel really good about what we have planned with our retailers for fiscal '27.

Number three, category growth and market expansion. The Lawn and Garden category is remarkably resilient. It grew more than 5% in fiscal '26. Even as consumer sentiment fell to near record lows, spending per household actually increased. Consumers treat this category as a habit and necessity, not a discretionary splurge, and they are not trading down to private label.

I'll be candid about one thing; we did not capture our full share of that growth. We have opportunities to engage more fully not only in the categories where we play, but also in those where we are underpenetrated or do not currently participate. Innovation and M&A partnerships will help us further capitalize on these opportunities for category growth.

To reach more households overall, we're aligning with our retail partners on plans to drive consumer sell-through during the peak season with our entire portfolio of solutions, as well as outside the core season with a focus on Controls and indoor gardening.

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We're also shifting our media mix to over 80% digital and social for maximum seasonal flexibility. This approach optimizes our marketing spend and enables us to pivot dynamically, which drives significantly higher ROI and directly reaches younger consumers on content platforms they consume daily.

Number four, tech-driven operational excellence. Automation and supply chain efficiencies delivered $35 million in savings in fiscal '26, helping offset commodity and freight inflation and supporting our gross margin expansion. At the same time, we continue to invest in technology, automation, and other initiatives to improve efficiencies and productivity. Our S/4HANA implementation, the technology foundation for SMG 2.0, remains on schedule.

Our enterprise IT will be led by Chief Information Officer Prathima Hegde, who joined us last month with a remit that includes accelerating our technology transformation, AI integration, and digital capabilities. Her experience and leadership are directly relevant to where we are headed with SMG 2.0.

Now to fiscal '27. We expect net sales growth of 2% to 4%, consistent with our midterm growth algorithm with continued gross margin expansion and adjusted EPS of $4.70 to $4.90 per share. We didn't build this plan by predicting where commodities, the consumer, or the housing market are headed. We built it so it holds up across a range of outcomes.

Let me explain. First, our growth drivers are largely within our control. It will come from Black Kow, a strong innovation slate, new net retail listings, and targeted pricing. We gained more distribution, too, led by Miracle-Gro, Black Kow, and Ortho. None of this assumes the consumer or housing market gets better.

Second, we're prepared for the headwinds we can see. Our outlook is fully risk-adjusted for higher retail inventories entering the year. It includes consideration for price elasticity, and it accounts for projected commodity and freight inflation.

Third, we're locking in costs early and taking costs out. We don't try to call the market, we manage the variability. About 55% of our cost of goods are locked, well ahead of where we would typically start the fiscal year. Urea is more than 80% locked, an opportunistic move we made when prices dipped over the summer.

We're also accelerating diesel hedges and adjusting how we source and import key inputs to blunt the higher cost of goods. On top of that, we expect at least another $35 million in supply chain savings for fiscal '27 or about 1% of net sales coming from product cost-outs, sourcing savings, network optimization, and manufacturing efficiencies. We remain committed to investing capital into the business.

Fourth, our pricing is targeted, not blanketed. Price increases average about 4% across the portfolio, and they're concentrated where our brand's value and efficacy support them. In the most price sensitive categories, such as core weed control, we are not taking pricing and will employ targeted promotional strategies as necessary to help drive sell-through.

And fifth, we've built in flexibility. If the top line softens, we have levers across variable compensation, media, SG&A, and working capital that we can pull quickly to protect our earnings and free cash flow commitments. In fiscal '27, it's all about fewer, bigger bets.

On the innovation front, we're revitalizing our Lawns business by relaunching the Scotts Turf Builder lineup built around year-round feeding and kid- and pet-safe formulations, which we will align with marketing aimed at new homeowners. We are also scaling e-commerce through paid media across retail media networks and with products that win the digital shelf, including a new Ortho organic line

And we're continuing to diversify the channel through a new SMG professional business unit. This team will build upon the regional tests we ran in fiscal year '26 with expanded and dedicated SKUs for the do-it-for-me market. Supply chain and IT capital expenditures will be around $130 million in fiscal '27, focused on automation, plant capacity, logistics, and our S/4HANA in digital transformation. These investments will keep paying back for years.

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Our capital allocation will be disciplined. We will fund the dividend, keep paying down debt, pursue strategic tuck-in. And if it makes sense, repurchase shares to offset dilution, all while staying on track to our target leverage range of 3 times to 3.5 times by the end of fiscal '29.

To sum up, we're delivering on our commitments, and we've built a fiscal '27 plan that relies on what we can control and holds up in a world we can't predict. At the same time, we're continuing to transform our business into a modern lifestyle company with a house of iconic brands that have never been healthier in a category that's growing.

We have a five-year vision. Our midterm growth algorithm, grounded in consistent growth, margin improvement, and disciplined capital allocation is how we'll get there. We're executing with clarity, speed, and conviction, and we expect fiscal '27 to bring us another step closer. Thank you again to our associates for all you do, to our shareholders for your support, and to our retail partners, suppliers, and banks for your partnership. I consider it a privilege to lead this organization.

Here's Mark with the financial details.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Thank you, and hello, everyone. Nate provided a great update on our SMG 2.0 initiatives, along with an overview of our fiscal '26 performance and the underlying factors that form the foundation of our fiscal '27 outlook and midterm growth algorithm. Our fiscal '26 results demonstrate the progress we have made in strengthening the business and delivering our financial commitments.

Our fiscal '27 outlook reflects the next phase of SMG 2.0 as we drive consistent and profitable growth. Importantly, we delivered these results despite a challenging macroeconomic environment. We met or exceeded our full-year financial goals, including gross margin expansion, positive sales growth in line with guidance, EPS growth of 18% that exceeded our guidance, free cash flow of $278 million, and continued delevering of our balance sheet with a reduced leverage ratio in the high 3s.

We are operating the business efficiently. And as Nate said, we are controlling what we can control. We are focused on disciplined execution, a balanced and consistent capital allocation strategy, and investing in our growth drivers. As we look to fiscal '27, we expect to deliver improvement in our sales, gross margin, profitability, and other financial metrics.

Before I get into those details, I will ground everyone on fiscal '26, starting with the top line. In the fourth quarter, total company net sales decreased 11% to $303 million. This was in line with our projections as retailers slowed their purchasing activities as a result of their earlier season load-in plans. Retailer inventories ended the year up low single digits for our largest retailers, and we have factored this headwind into our fiscal '27 guidance.

For the full-year, total company net sales increased 1% to $3.29 billion from $3.26 billion a year ago, led by 1% growth in US consumer, in line with our net sales guidance and continued strength in our Canadian consumer business within other. Annual sales gains were driven by consumer demand of our branded products across categories, expanded listings among select retailers, and robust e-commerce growth.

We are driving results with our strategy to put greater focus on our higher-margin branded products as sales of branded products contributed 4% to the growth, partially offset by expected declines in mulch and other commodity products. This mix shift plays a key role in our strategy to deliver high-quality, more profitable growth.

Branded POS dollars closely mirrored sales at about 1% for the full-year with the strongest performance in Controls and Gardens. Branded POS dollars in outdoor insect and indoor insect increased 15% and 4%, respectively, with growth coming from innovation in our Ortho ant and mosquito control products. Branded POS in soils was up 2% on the strength of the modernized Miracle-Gro portfolio, including our indoor gardening product line.

Looking to fiscal '27, the soil category will benefit from our $55 million acquisition of Black Kow, which will contribute to net sales growth, be financially accretive to operating margin and EPS, and drive further improvement of our leverage ratio.

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In Lawns, we continue to maintain and grow market share. However, branded POS dollars declined 3%, largely due to less promotion and unfavorable year-over-year weather conditions. Another bright spot was our strong e-commerce growth. Branded e-commerce POS dollar gains were 24% with growth across every category.

Gardens was up 32%. Controls was plus 29%, and Lawns increased 19%. The favorable mix from our higher-margin branded products combined with $35 million in supply chain savings and targeted pricing actions is showing up in our profitability. We delivered improvements in GAAP gross margin rate of 100 basis points and non-GAAP adjusted gross margin rate of 80 basis points. This was in line with our adjusted gross margin guidance of at least 32% despite unplanned commodity and freight headwinds from the Iran conflict.

For the full-year, the GAAP gross margin rate was 32.3% versus 31.3% in the prior year, and the non-GAAP adjusted gross margin rate was 32.4% compared to 31.6% in the prior year.

Looking down the P&L, the full-year GAAP and non-GAAP adjusted SG&A spend was $595 million and $581 million, respectively, as compared to $564 million for each in the prior year. The non-GAAP adjusted SG&A increased 3% and landed within our full-year target of 17% to 18% of sales. This increase was expected and is attributable to increased spending on media and marketing activities to drive brand awareness and consumer takeaway.

We have also started to make investments tied to our SMG 2.0 multiyear technology transformation that includes replacing our enterprise resource planning system and implementing complementary software across critical business functions. This technology transformation will be the platform for our enhanced AI efforts, drive further costs out of the business, and further enable our SMG 2.0 strategy. In the fourth quarter, we incurred costs of $14 million within our SG&A related to these efforts that were excluded from our non-GAAP results.

Over the course of the project, we plan to invest over $100 million through CapEx and SG&A associated with these IT implementations, which is expected to be substantially complete by the end of fiscal '28. Full year adjusted EBITDA grew 2% to $580 million versus $570 million a year ago. The fiscal '26 adjusted EBITDA included a $20 million planned conversion of certain share-based compensation to cash as we further reduce the use of our equity within our operations.

Below the line, interest expense declined from lower debt balances and favorable interest rates. Interest expense declined by $16 million from $129 million in the prior year to $113 million in fiscal '26. We continue to drive down leverage, ending the year at 3.89 times net debt to adjusted EBITDA, a 0.21 turn reduction from the prior year. This is a reflection of our disciplined capital allocation strategy that includes ongoing and balanced allocation of free cash flow to debt reduction.

Our free cash flow for the full year was $278 million, in line with our guidance of $275 million. In addition to debt reduction, we deployed $25 million of free cash flow in our fourth quarter to the first round of share repurchases under the $500 million share repurchase program.

Future share repurchases will be undertaken in alignment with our commitment to debt reduction, market conditions, and other financial priorities in our midterm growth algorithm for fiscal years '27 through '29.

Looking at the bottom line, GAAP net income from continuing operations of $3.30 per diluted share and non-GAAP adjusted earnings from continuing operations of $4.48 per diluted share, improved by 6% and 18% over prior year, respectively, exceeding our guidance. In addition to the factors previously noted, the gains were aided by our lower tax rate and continued growth in equity earnings from our Bonnie Plants joint venture.

We are very pleased with our fiscal '26 performance and expect to make further progress on the building blocks of SMG 2.0 while maintaining our balanced capital allocation strategy. This leads me to our financial guidance for fiscal '27.

We expect to deliver net sales growth of 2% to 4% with 1% to 2% of that growth coming from Black Kow, along with pricing, initiatives, and innovation, continued expansion of non-GAAP adjusted gross margin rate, including supply chain cost savings of at least $35 million, non-GAAP adjusted earnings per share from continuing operations of $4.70 to $4.90, free cash flow of approximately $275 million as we

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continue to invest in CapEx with expected spend of $130 million on supply chain and IT initiatives, lower year-over-year leverage ratio to remain on track to our target range of 3 times to 3.5 times by the end of fiscal '29.

I want to emphasize that we believe our full year financial targets are achievable despite two primary headwinds, the higher retail inventories to start the fiscal year and higher commodity and cost of goods. As Nate explained, we have built a plan to offset these impacts through our branded product strategy, targeted pricing actions with retailers, supply chain cost-outs of at least $35 million, and disciplined expense management. We currently have 15% more of our cost of goods locked than we have traditionally locked at the start of the fiscal year.

We are confident in our plan and guidance. We are laser-focused on executing with precision. We have many things in our favor, including market-leading brands in a growing category where consumer engagement remains high. I want to thank our associates for their hard work as their commitment runs deep.

I also appreciate the support of our shareholders, lenders, and other partners. As you can see, we are excited for the year ahead.

Thank you, and here's the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jon Andersen, William Blair.

Jon Andersen - *William Blair Capital Partners - Analyst*

Congratulations on the year. I wanted to ask about the two headwinds that Mark, I think you mentioned at the end of your prepared comments, retail inventories and kind of commodity costs and COGS inflation. On the first, can you give us a little bit more color around where retail inventories sit at present and how you're thinking about the impact of maybe some drawdown during the course of fiscal '27? In other words, how you've worked that into your guidance or outlook for 2% to 4% top-line growth?

And on the commodity side, again, a little bit more color there around kind of what are the key kind of swing factors you're monitoring? Sounds like you have more of your COGS locked than normal at this time of year, but does that give you a high degree of visibility or are there some things that we should be looking for as kind of watch outs as we move forward?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Sure. Thanks, Jon, and good morning. I'll start off, and then I'll let Josh Meihls, our Head of Sales, add in some color as well on the retailer front. So first question around retailer inventory headwinds. They landed, call it, low single digits ahead of prior year or above prior year. So I would just assume that as we look into this coming year, we're factoring in low single-digit headwinds to our sales.

We won't know exactly what that number is as we sell through our inventory or as we sell through the season and drive POS gains, but we're planning for, I'll call it, low single-digit headwind across some of our key retailers.

Everyone is a little different on their inventory strategy, so I do want to highlight that out. And there is growth in e-commerce, and so that has also adjusted some of the market dynamics as it relates to retail inventories as many retail stores become more warehouse nodes for folks to deliver on the e-comm platform. But we are planning for it. We have flexibility to navigate the year with that low single-digit on a full year sales, low single-digit impact headwind for us.

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And before I shift and let Josh cover off, on commodities, we are expecting upwards of, call it, $100 million of commodity headwinds into the business for next year. We have locked -- as Nate has mentioned, urea is around 80% locked, so we do have some flexibility there, I think our blended cost average is in the low to mid-400s there, and we have ability as the market changes to benefit from that a little bit. And as a reminder, we do -- our supply is domestically sourced and very reliable and on good contracts.

On the other commodity front, the other key areas would be on diesel and fuel related. We have accelerated our hedging activities around that to be over 50% locked there, and we'll continue to be opportunistic. I would say, we're probably slightly below what you see at market right now on the diesel front. And we're watching that closely as we get to the season.

A couple of levers we always pull-on supply chain front or that we can have at our disposal is cost saving. So we do set a target of 1% of cost out. We actually go above that internally, and we build in cushion so that we can deliver on our 1% target of cost out. So we'll continue to go through those activities throughout the course of the next two quarters to provide us flexibility on the margin front. So that's a little bit on the commodities.

I'll let Josh speak a little more about retailer inventories and some of the conversations he's had with retailers.

Josh Meihls - *Scotts Miracle-Gro Co - Senior Vice President, Chief Growth Officer*

Yeah, thanks, Mark. Jon, I would say we've been working with our key retail partners since the peak of the summer here on retail inventories overall, and it's combination of a couple of things. One, totally natural. We've seen some tremendous growth in categories where inventory was needed to support that. We also saw some slow sell-through in May that created some lag through the season. So we've been working with our retail partners since then to bring those inventory levels down, right-size.

And as we look forward to '27, this is not a de-load. We expect those inventory levels to remain strong. It's just a comping of the higher end that we were left with in '26.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Sorry, I just wanted to add a punctuation point. I think, hopefully, we've demonstrated over the last couple of years the capability of the supply chain organization. And so while I said in my prepared remarks, we just cannot predict the future, and I think we would be foolish to try to do so. But I have a lot of confidence in our team to continue to look for every single penny they can. And hopefully, history has shown that we've been able to do that.

So I feel really good. There's certainly uncertainty. And as we said in the prepared remarks, we'll remain agile during the season and pull levers as we need to.

Operator

Andrew Carter, Stifel.

W. Andrew Carter - *Stifel Nicolaus & Company Inc - Analyst*

I wanted to kind of return to that inventory question and just think about the risk of any dislocation. I mean, you said inventories are up low single digits. Your branded POS was up 1. That actually doesn't sound like a massive disconnect, unless we have to kind of factor in the non-branded piece in there as a delta. But I guess as you're going into kind of a pricing environment here with kind of the retailers drawing down, is there any elevated risk here of just working to kind of go to lower levels of inventory just to kind of for the retailers to absorb the lower cost, take your pricing later, therefore kind of see some gross margin headwinds at first, et cetera?

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Just is there any amplified risk here? Or is this the category different to where that's it would just wash out like any other normal year where you were just not taking as much pricing?

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Yeah. Hey, good morning, Andrew. It's Nate. I'll start, and I'll let Josh comment. I don't see any risk. I think, as Josh said, we work very closely with our retail partners, and it's a different story at each one on the inventory piece. But we're very, very comfortable where they want to be. I think we've got a great relationship. And so we know their glide path, and we factored all of that into our sort of net sales guidance there.

I don't know, Josh, you want to add any other color, I think?

Josh Meihls - *Scotts Miracle-Gro Co - Senior Vice President, Chief Growth Officer*

Yeah, Andrew. I'd just reiterate, this is not a drawdown of inventory that we're looking at in '27. We expect inventory levels to remain relatively flat to this year. As Mark mentioned, e-commerce is important. In-stocks are very important, and none of this was getting ahead of pricing or any of that. In fact, we've been working to draw down, so we don't see a risk on that front.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Yeah, and I'll try to add color. I think about half of the inventory, quote-unquote, headwind is actually a net positive because of growth in those channels, and then the other half was because, as Josh remarked, in some channels, there was slower takeaway this year that led to a little bit higher inventory levels, so about 50-50.

W. Andrew Carter - *Stifel Nicolaus & Company Inc - Analyst*

Thank you. Second thing is I wanted to drill down and you said it in the release, kind of lean on SG&A initiatives. I think you said on the script the ability to kind of flex earnings. I think, at the Investor Day, you did guide to a pretty firm kind of SG&A percentage of sales target. So I just wanted to ask, is that something new? Is that a comment contained within the year about how to kind of manage expenses?

I know the commitment here is to do an upward march on advertising to be on all the time, but just want to clarify those comments and square away the SG&A piece. Thanks.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Yeah, yeah. Sure, Andrew. I'll start, and I'll let Mark finish. So we're going to hold SG&A relatively flat. And what we've done, and I alluded to it in my prepared remarks, is made some decisions on what we weren't going to do in '27.

So we've essentially reallocated dollars. So with a flat overall SG&A budget or close to flat, we're increasing our spending and marketing a little bit. And it's just as a result of us being able to prioritize the spend.

I don't know, Mark, do you want to --?

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Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. So on the rate, the 17% to 18%, Andrew, it probably just means we're at the bottom end of that range as we flex. If the plan, let's just say there's some headwinds on either the sales or margin front, we have ability to flex down our SG&A probably closer to, call it, 17% as opposed to we've been living the past couple of years in, I'll call it, the 17.5%, almost 18%, range, and we can just flex that down.

W. Andrew Carter - *Stifel Nicolaus & Company Inc - Analyst*

Just to be clear, when you said kind of flat SG&A, did you mean flat as a percentage of sales is the base case?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Correct, yes. Correct. Yes, that would be flat as a percent of sales.

Operator

Peter Grom, UBS.

Peter Grom - *UBS AG - Analyst*

So I wanted to maybe get some more color on the gross margin outlook. You touched on the commodity outlook in response to Jon's question as well as kind of the cost savings and productivity you expect to deliver. But just as we think about expansion, is there a way to frame the degree of expansion you would expect this year, at least relative to the kind of the medium-term targets?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Sure. So I think our midterm growth algorithm we've laid out at the Investor Day was 50 basis points of improvement to 100 basis points of improvement. Given the commodity environment we're operating right now, the uncertainty around it, I would not expect us to be on the high end of that, unless we really saw commodities start to ease over the course of the fiscal year.

So I would not look to the higher end of that range. I'd probably look closer to the lower end of that range of improvement as we still grow our gross margin in a very challenging environment.

Peter Grom - *UBS AG - Analyst*

That's super helpful, and then just a bigger picture on the guidance and the building blocks. I mean, you mentioned how you would expect it to hold up across the range of outcomes. Can you maybe just unpack that a bit more. And specifically, just given how volatile the external environment has been, did you embed maybe a greater level of flexibility or cushion in this guidance relative to what you normally would in other years?

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Yeah, Peter, I'll start, and I'll let Mark finish. But the headline there is, yes, we built the plan so we could be flat to slightly down in top line and still deliver on our guidance quite simply. And I would say, we did put a little bit of extra focus to how we built the plan this year just because of the level of uncertainty that we have no control over.

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Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. And the other things I would add, Peter, is I just sit here and look at headwinds, tailwinds. On the tailwind front, we do have the Black Kow acquisition, which is great for our top line. We have innovation that's going to market that's helping with our top line as well.

So there is a lot of good things happening at our top line that what I would say provide us some risk mitigation even for our sales guidance that at least give me comfort where I sit as we navigate the rest of the year. And then we've already kind of hit home a lot of what I'll call cost of goods and SG&A levers that we've been able to address and provide flexibility.

But I do want to highlight, on the sales front, we do have good momentum there within our guide to deliver on the year.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Well, let me just I'll break that down a little bit for you, Peter. So we've already talked about the targeted pricing with a very thoughtful analysis on elasticity that we're very comfortable with. We have listing gains, which are contributing, both Black Kow as well as our core brands.

We're bringing innovation to market, and we put some effort into promo and trade optimization. So those are the tailwinds that Mark referred to, and we're very comfortable. We understand sort of how each of those are going to play out in our algorithm for '27.

Operator

Joe Altobello, Raymond James.

Joseph Altobello - *Raymond James - Analyst*

I guess first question, I think, Mark, you mentioned you're looking at about $100 million of incremental commodity headwinds this year. I kind of wanted to bridge that number. I guess supply chain savings, you talked about at least $35 million. Cost-outs are another $30 million, $35 million. So I'm curious, how much is coming from pricing? And how much from other factors?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

I'll go ahead and expand on that, and then Nate, you can feel free. But on the pricing front, we typically try to price for our commodity inflation. So we are trying to offset those and then also margin up to some degree as part of that process.

So a big part of covering $100 million of commodity inflation, it starts with pricing activities. And as Nate spoke about, targeted pricing activities across our product portfolio. So I would just tell you that broadly, that's probably the biggest lever. And then the supply chain savings, fixed cost overhead, things like that would provide us the additional incremental benefit.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

And just to sort of reiterate what we said in the prepared remarks, we're about 15% ahead of where we typically are in locking commodities. So we're at about 55% locked, and we're typically at about 40% this time of year. So as we talked about earlier, the focus from the supply chain team on our hedging strategies, on alternate sourcing, obviously, in this sort of crazy macroeconomic environment has been job one for the team.

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So we just have a higher level of confidence of understanding what we are facing. Now there's still uncertainty, and that goes back to our earlier comments on why we built levers into the plan this year that are maybe a little bit more thoughtful than we've done in past years.

Joseph Altobello - *Raymond James - Analyst*

Yeah, helpful. And just to kind of think about the cadence for the year, you mentioned retail inventories are a little bit elevated here and obviously, the commodity cost pressures that you're seeing. Is it fair to say that both sales, and I would assume, profitability would be stronger in the second half versus the first half?

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

Yes, absolutely. We're looking at first half. If you look at phasing, it's probably flat to last year with the growth in second half.

Operator

Michael Ruch, Wells Fargo.

Michael Ruch - *Wells Fargo - Analyst*

I just wanted to double-click on pricing plans. Nate, you mentioned a thoughtful analysis on elasticities. Can you expand at all on what you expect on that front? I know you said you're taking a targeted approach to pricing, but just curious what you're embedding on the volume side.

I think you guys have also pointed to a headwind from bulk raw material exits again in FY27. I was hoping you could just maybe size that for us.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

I'm going to let Josh take the pricing one because he's the one that's been on the front lines and touch on sort of how we approach that and our elasticity assumptions.

Josh Meihls - *Scotts Miracle-Gro Co - Senior Vice President, Chief Growth Officer*

Yeah, Michael, I'd say a couple of things to the team that I give a lot of credit to. Number one, the targeted approach that the team has reiterated multiple times here, looking at categories where our brands, our innovation stand apart from the competition overall. But we've taken more of, I'd say, a scientific look at elasticity overall number of years that we put into that model, and we have built elasticity into that. So you've heard overall pricing around 4% that we achieved, we cut that basically in half with the elasticity that we had overall.

So when you look at growth from pricing, it's about 2% that we net out of that. And again, a very scientific approach, partnering with retailers, and we'll see how the market comes to life overall in '27, but we're confident in that analysis.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

And I'll just add, Michael. We don't obviously know what the market is going to look like in the spring. I mean, we obviously operate in a highly seasonal business. So we've got dry powder that we can bring to bear if we see price gaps start to exceed what we're comfortable with. So it's something we haven't touched on yet, but we've built flexibility into that part of the sales plan as well.

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Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

And then, Michael, just your second part was around the bulk or commodity sales and what our expectations are for this fiscal year. Every year, we evaluate some of those sales. This year, we are walking away from some of it, but not meaningful -- not as meaningful as what you saw in '26, so much smaller number.

And in fact, with a lot of our great innovation and listings of branded products, we more than replenished that. So I would imagine as part of that, it should help with our mix.

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

I would say the number is the same as what we talked about at Investor Day, right? It's roughly a third of what we walked away from last year.

Operator

William Reuter, Bank of America.

William Reuter - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

My first, I believe that last year, your shelf space was up pretty significantly. You have mentioned that it is up this year. Is there any way to quantify how much of an increase in shelf space you got this year?

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

It's tough. Obviously, it just varies widely by channel and retailer. And obviously, with e-comm, that's a whole different category.

I would probably look back to just listing gains, which I think, call it, 1% to 2% increase from a top line perspective that represent listing gains. And so hopefully, that's a good indicator of the increased shelf space that we've gotten.

William Reuter - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Got it. And then just my follow-up, you began the share repurchase activity, the program $500 million in its size. How should we think about the pacing of that this year? And what will be the factors that determine how that plays out over this year and next year?

Nathan Baxter - *Scotts Miracle-Gro Co - President, Chief Executive Officer, Director*

So let me start by just repeating what I said in my prepared remarks, which is we're focused on investing in the business and paying down debt. I would characterize it if we do it this year, and it's an if, it would be opportunistic, and it would have to be in a scenario where we thought the equity was severely undervalued. So I think from our point of view, opportunistic, not planned, and the focus is on leverage and debt pay down.

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Operator

Thank you. Ladies and gentlemen, this will conclude today's question-and-answer session. This will also conclude today's conference call. Thank you for participating, and you may now disconnect. Everyone, have a great day.

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