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SMG.N - Q2 2025 Scotts Miracle-Gro Co Earnings Call

EVENT DATE/TIME: APRIL 30, 2025 / 1:00PM GMT

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 second-quarter 2025 earnings webcast. I'm Brad Chelton, Head of Investor Relations. Speaking today are Chairman and CEO, Jim Hagedorn; and Chief Financial Officer and Chief Accounting Officer, Mark Scheiwer. Jim will provide a business update followed by Mark with a review of our financial results.

In conjunction with our commentary today, please review our earnings release 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.

Following the webcast, President and Chief Operating Officer Nate Baxter; and Executive Vice President and Chief of Staff Chris Hagedorn will join Jim and Mark for an audio-only Q&A session. (Event Instructions)

As always, today's session will be recorded. An archive version will be published on our website at investor.scotts.com.

For further discussion after the call, please email or call me directly.

Martha Stewart - *Scotts Miracle-Gro Co - Chief Gardening Officer*

Hello, and good morning. I'm Martha Stewart, and I would like to welcome all of you to the Scotts Miracle-Gro earnings call. Spring is probably one of my favorite times of the year. Everything is coming alive, and I personally can't wait to get my gardens fully planted. It's one of the many reasons

why I love my role as Chief Gardening Officer. I'm working with the team to bring gardeners, including a new generation products that they will love and make part of their everyday lives, and that is a very good thing.

Now I'll turn it over to Jim Hagedorn.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Good morning. First of all, it's a crazy and confusing macro environment for any company today, but I can simplify things. We're good. Our outlook is unchanged, and we're reaffirming our full year guidance of \$570 to \$590 million of EBITDA. As for tariffs were largely unaffected in fiscal '25.

We see no impact in our margins or pricing for this year. Historically, our equity has been a Safe Harbor in tough times. Everything you'll hear today is centered around getting back to that. Our results through the first half reflect important progress on financial metrics that are central to our fiscal '25 plan.

We delivered double digit increases in consumer takeaway. Gained market share and built momentum. We're happy with our consumer product sales to retailers. They're essentially flat when you exclude AeroGarden and other one-time sales from last year.

Despite volatility and uncertainty, the core consumer is relatively healthy and our business tends to be recession resistant. To consumers, our lawn and garden category and our brands are as important as ever that goes for retailers too.

Lawn and garden is among their top categories for the whole year. In my view, our equity price makes zero sense when you consider our accomplishments, our growth trajectory, and our superior position in this very important consumer space.

I can only think that our message isn't getting through to the investment community and I guess that's on me and Mark. Before I dive into our performance, it's important to look back on the past 18 months for context.

In fiscal '24, we drove nearly 9% increase in POS units and significant EBITDA growth and margin recovery. Over the past two years, we generated an excess of \$1 billion in free cash flow and reduced leverage to much more acceptable levels. We cut costs and invested in the business. So far this year, we achieved a nearly 500 basis-point recovery in gross margin and a \$36 million EBITDA increase.

Debt, interest expense, and leverage continue to decline as we improve the balance sheet and our financial flexibility. POS is a really great story.

We delivered a 12.1% increase in units. Our gardens business was plus 16% in POS units, and our mulch business plus 46%. Tomcat and Ortho outdoor insect each increased 14%. These gains reflect our ability to adapt to conditions.

In response to inconsistent weather in Q2, we worked with retailers to boost promotions and pivoted our early season advertising messages. Because favorable weather was a little late this spring, we showed up at Martha Stewart's New York house and made a commercial on the spot. Martha, our Chief Gardening Officer, passionately encouraged people to get their hands dirty, reminding everyone that spring is now.

This is the way we want to work. It speaks to speed and agility. Lawns is a special example. Our lawn business has been dealing with unit volume declines over time. I challenged the team to first, hold the line, and second, develop a long-term solution. Early results demonstrate initial progress with more to come. At the close of Q2, our total lawns business was plus 4% in POS units. To understand what we're doing differently, it's important to address the underlying issue.

Consumers want a nice lawn all season long without a lot of work. But they don't always know how to make it happen. The solution is regular feedings to create a thicker lawn that is less susceptible to weeds and disease and ultimately has less need for pesticides and fungicides. But we got away from marketing regular feedings and multi-bags in favor of one bag approach for specific problems such as weeds, bugs, or disease.

It was effective in selling one bag of fertilizer, but it was ineffective in giving the consumer the lawn they really want. This year we've returned to a multi-bag strategy. We're helping consumers understand the value and importance of multiple feedings. Our Scott for Scotts commercials feature real consumers talking about how to care for a lawn and the pride they have in their own lawns.

We're creating joint promotions with retailers focused on multi-step applications, and the results are solid. Turf Builder Halts, our first step in the multi-feeding program, was up 67% through the first half. In the hardware space, a third of all fertilizer sales come from multi-step programs. And in home centers, multi-bag bundles drove halt's POS unit gains as high as 100%.

And an online deal that we did that gave consumers a free spreader with the purchase of a full season long program, exceeded projections by 185%, where we're headed makes total sense for this legacy, high margin business.

We're reimagining our portfolio in terms of packaging, sizing, formulations, and actives to deliver more of what consumers want and need. We expect to roll out these changes in fiscal '26 and '27. This is an attitude shift. We're no longer working within the safety of the past. I'm really proud of our launch team, and I'll give you a status report at our next earnings call.

Innovation is a component of our progress too. The expanded Miracle-Gro Organics line and new O.M. Scott natural grass seed and lawn fertilizer are contributing positively to POS and we're gaining share across the total organics category.

Later this year we'll introduce flying insect traps and mosquito prevention in our Controls portfolio, a growth category with potential, especially in e-commerce. As for competition in the control space, we'll be more aggressive and hold them accountable. P&G is an example.

I have great respect for that company, but it was unprofessional to introduce its Spruce Weed Killer product with reckless claims and in packaging that mimics Miracle-Gro. That's why we've taken legal action against Proctor for false marketing claims and trade dress infringement.

No one knows more about natural herbicides and insect and weed control than we do. We know what works and we know what doesn't. Across our categories, we see little pressure from private label. On the contrary, our retail partners have been heavily promoting our products and will continue to do so for the rest of the season. This is the result of our significantly increased investments in retailer promotion programs to activate consumers at the shelf level.

Retailers in turn are putting more of their own money behind this effort. There is only one major rule to these activation investments. Retailers must use the dollars to support our products and not for their own margin support. When retailers commit to these promotions, it shows up in our numbers, and their numbers, our market share and their market share.

In addition to promotion investments, we've injected significantly more into our own consumer advertising, brand support, and e-commerce activities. With this kind of firepower and most of our marketing still in front of us, we and our retail partners remain bullish on the season. Let me further explain why we're well positioned in this economy.

Our current exposure to increased tariffs is minimal. We are a stable 157 year old American company that manufactures and assembles products in the United States. 90% of our cost of goods sold are domestically sourced. Of the 10% sourced outside of the US, at least half are exempt from tariffs. Of the rest of our goods, we have plenty of pre-tariff inventory.

For these reasons, we do not anticipate pricing actions in fiscal '25 due to tariffs, nor do we expect margin pressure. If things change in '26 and we do feel more tariff and or margin pressure, we will mitigate the impact and if necessary, take pricing.

During economic uncertainty, consumers gravitate to established and trusted brands. They prioritize value and reliability. That's why promotions and our iconic brands matter. In fact, consumers consider lawn and garden care essential. Our research shows that nearly 75% of all consumers surveyed perceive lawn and garden as a necessity.

25% plan to shift to do it themselves this year. From a historic perspective during the Great Recession of 2008 and 2009, we drove POS unit increases of 16% and we all remember our record sales and POS during COVID.

While numerous reports paint a dim consumer picture, our consumer is in a better place. They are homeowners with more disposable income. And when you add all this up, our franchise is resilient and has opportunities that many other CPG companies do not. I'll now update two major initiatives.

The first is our transformation for cost outs and productivity improvements. Transformation supports our strategy of incrementally investing more in our brands and retailer promotions. This requires significant financial resources, and we intend to redeploy savings to grow the business and return shareholder value.

The second is to divest our Hawthorne businesses to improve gross margin and reduce the cannabis sector's volatility on our share price. For Hawthorne, this can lead to value creation opportunities. Our transformation is being driven by a new and powerful team that is getting their sea legs, this includes my team and new talent we've added in leadership positions. Their task is not simple or easy.

We're building a different company. We're strengthening our financials and balance sheet while improving the health and power of our franchise, that makes transformation a necessity, and the teams are delivering.

We're on track for more than \$75 million in supply chain cost outs this year, and our larger goal of \$150 million out by fiscal '27. We're committed to being the lowest cost manufacturer, and that involves bringing more automation and technology to our plants and distribution centers. This will ensure that our supply chain is nimble and responsive to market changes. Credit here goes to Nate, who's been a relentless advocate for technology throughout our supply chain.

This effort has extended to other parts of our company. In Q2, we eliminated a number of corporate and overhead positions. We expect these actions to contribute \$22 million in annualized savings, with \$10 million being realized this year. We're looking at everything to become a more lethal and enduring consumer goods company. We'll take our culture to the next level and it'll open up new channels for growth.

As for Hawthorne, in Q2, we moved The Hawthorne Collective to Bad Dog Holdings, a privately held unrelated third party. The collective was established in 2021 to invest in areas of the cannabis industry, not under Hawthorne gardening. Among its holdings is an investment in a vertically integrated cannabis operator called fluent.

Our next step is to sell Hawthorne Gardening to a dedicated cannabis company by fiscal year-end. Hawthorne Gardening has delivered two consecutive EBITDA positive quarters and can offer value creating benefits to a cannabis company. These include a debt free balance sheet, leading brands, unique innovation, a great management team, and 280E tax benefits, and it would maintain a strategic relationship with Scotts for R&D and supply chain support.

For Scotts Miracle-Gro, exiting Hawthorne Gardening will allow us to accelerate tax benefits of up to \$100 million over the next few years and it will help us with our banks by eliminating the de-banking risks stemming from federal regulator confusion on how to bank with companies adjacent to the cannabis industry.

Divestiture will enable our consumer business and Hawthorne to do what they each do best, creating a catalyst for growth that makes both companies better. Because the Hawthorne companies were meant to capitalize on legal cannabis, we will retain an option to recapture any of the future value should the federal government adopt pro-cannabis reforms.

The health of the cannabis industry will be accelerated by tax relief and access to capital for investors, which could happen through cannabis rescheduling and Safer Banking Act. President Trump has supported both. Here's my final comment on Hawthorne, Mr. President. This industry needs your help.

You always say promises made are promises kept. So let's reschedule cannabis and pass safer banking now, please. You're the only person who could help. I'll close with this. I'm pleased with our progress. Our path is right for our franchise and our shareholders. We will give consumers more of what they want and need.

Everything I talked about today is part of our singular mission to grow our business and drive value. As we continue to build success each quarter, we move closer to achieving these four financial goals by the end of fiscal '27. One sustained sales growth of at least 3%. Two, gross margin rate north of 35%. Three, \$700 million EBITDA. And four strong free cash flow for shared or friendly actions.

Before turning things over to Mark, I want to make an announcement. A lot of you know Mark from his long relationships with our banks, auditors, and other stakeholders. He's a steady and measured financial executive with a fighter pilot attitude.

As interim CFO, he's been a true partner and forged important relationships with investors and analysts. He's making an impact in our transformation for these and many other reasons, he's been named EVP and CFO. Please join me in congratulating Mark. As always, I appreciate our shareholders, banking partners, and retailers. Your support is critical to our success, and I thank you.

Here's Mark.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

Thank you, Jim, and hello everyone. Jim provided an overview of our progress on the key financial metrics in our fiscal '25 plan, our significant POS gains, and our limited exposure to tariffs. Our year-to-day performance combined with our unique position in the current macroeconomy has solidified our confidence in our full year guidance for EBITDA, US consumer sales, gross margin, and leverage.

With that, I'll review the details of our second quarter and first half, starting with the top line. For the quarter, total company net sales were \$1.42 billion compared to \$1.53 billion a year ago, down 7%. In US Consumer net sales for the current quarter were \$1.31 billion versus \$1.38 billion last year, down 5%, reflecting the impact of a colder, slower start to the lawn and garden season along with non-repeating fiscal '24 sales of AeroGarden and bulk raw materials.

This slower seasonal start has pushed some shipments from our second to our third quarter. But we've seen similar weather patterns in the past and know how to adapt to them. I'll remind everyone that we expect retailer replenishment to be strong in Q3 as weather conditions continue to improve and we shift to the peak of the season as the third quarter represents approximately 60% of the total POS for the year.

Hawthorne net's sales in the quarter declined 51% from \$66 million to \$33 million, including the continued hydroponic market softness combined with the expected impact of its exit from third party distribution last year. Year-to-date total net sales on a company-wide basis were \$1.84 billion down 5% from \$1.94 billion a year ago.

In US Consumer net sales through the first half were \$1.65 billion, down 2% from \$1.69 billion a year ago. This is largely due to non-repeating fiscal '24 sales for AeroGarden and bulk raw materials. As Jim stated, when you exclude these non-repeating items, US Consumer sales are essentially flat to prior year. POS continues to be healthy as evidenced by the strong consumer takeaway in the early season. Through the second quarter, POS units exceeded prior year by 12.1%, driven by mulch, soils, fertilizer, grass seed, and controls.

Excluding mulch, POS units were plus 4.4% through the first six months. POS dollars through the second quarter were 1.5% higher than prior year. The difference between our unit and dollar growth is due to strong early season performance of soils and mulch products, along with increased joint promotional activity with our retail customers.

Looking at the month of April, we are pleased that POS trends have remained consistent with our March year-to-date results of double digit unit growth. With over 50% of the POS remaining from May through the end of the fiscal year, it gives us confidence in reaffirming our full year US consumer net sales guidance of low single digit growth.

Excluding the impact of the non-repeating fiscal '24 sales mentioned earlier. At Hawthorne, net sales for the first half were \$85 million down from \$147 million in the first half of fiscal '24. The decline is a result of Hawthorne's strategic exit from low margin third party distribution to focus on more profitable proprietary brands as well as the impact of the oversupply of cannabis, lack of federal action on cannabis reforms, and the rapid consolidation among cultivators in the cannabis sector.

Given this environment, we are no longer providing revenue guidance on Hawthorne. Before I move to the rest of the P&L, I do want to call out that Hawthorne has been at positive EBITDA levels for the past two quarters and year-to-date it has earned around \$4 million in adjusted EBITDA.

The Hawthorne management team will continue to adjust their business model and operations to deliver a similar result in the future. Now, moving to gross margin, we delivered meaningful improvement of nearly 500 basis points through the first half and continue to track to our target of 30% gross margin rate by the fiscal year end.

Primary drivers of our gross margin improvement to date include lower material costs, improved product and segment mix, and reduced manufacturing and distribution costs.

We have strong visibility here to the balance of the year, and as of the second quarter, more than 80% of our commodities are locked. Approximately two-thirds of our planned \$75 million supply chain savings for fiscal '25 were realized in the first half, with the remainder expected over the course of the third and fourth quarters.

In addition, in our fourth quarter, we will lap one-time inventory write-offs of \$29 million taken in last year's fiscal fourth quarter. For the second quarter, the GAAP gross margin rate was 38.6% versus 30.4% in the prior year, and the non-GAAP adjusted gross margin rate was 39.1% versus 35.3%. Year-to-date, the GAAP gross margin rate was 35% versus 27.2% in prior year.

And the non-GAAP adjusted gross margin rate was 35.6% versus 30.7%. Looking down the P&L, SG&A for the quarter increased 5% from \$179 million to \$188 million. Year-to-date, SG&A increased 7% from \$294 million to \$313 million.

This increase was planned and is attributable to higher performance-based incentive accruals as well as additional investments in our brands and transformation related investments in technology and e-commerce. We continue to expect current year SG&A to be approximately 17% of net sales versus 16% last year.

Moving to EBITDA in the second quarter, adjusted EBITDA improved from \$396 million to \$403 million through the first half of the fiscal year, adjusted EBITDA increased \$36 million from \$371 million in fiscal '24 to \$407 million this year. This year-over-year improvement in EBITDA reflects our strong gross margin recovery driven by our planned supply chain savings, lower material costs, and improved segment mix, partially offset by higher SG&A.

As Jim mentioned earlier, we are reaffirming our adjusted EBITDA guidance of \$570 million to \$590 million. Below the line, year-to-date interest expense continued on its downward trajectory as we lowered debt balances and benefited from more favorable interest rates.

Through our first half of the fiscal year, interest expense was down \$17 million to \$70 million and our total debt was \$270 million lower versus prior year. Leverage ended the second quarter at 4.41 times net debt to adjusted EBITDA.

This is comfortably below our covenant maximum of 5.25 and we remain on a path to the low fours by fiscal year end. The non-GAAP adjusted tax rate was 26% for the first six months. For the full year, the tax rate is still expected to be in a range of 27% to 29%. The second quarter GAAP net income was \$217.5 million or \$3.72 per share compared with the prior year of \$157.5 million or \$2.74 per share.

Non-GAAP adjusted income for the quarter, which excludes impairment, restructuring, and other non-reoccurring items, was \$232.2 million or \$3.98 per share versus prior year of \$211.9 million or \$3.69 per share a year ago.

On a year-to-date basis, GAAP net income was \$148 million or \$2.53 per share compared with the prior year of \$77 million or \$1.34 per share. Non-GAAP adjusted income year-to-date was \$181.2 million or \$3.09 per share versus \$129.7 million or \$2.26 per share a year ago. Impairment, restructuring, and other non-recurring charges totaled \$18 million for the quarter and primarily consisted of employee severance, facility closure costs, and costs tied to our Hawthorne Collective transaction.

As we reported earlier, we have transferred our Hawthorne Collective subsidiary out of Scotts Miracle-Gro to a privately held third party in exchange for an interest-bearing promissory note. As a result of retaining an option to benefit from these assets in the future, the Hawthorne Collective investments will continue to be reflected on our balance sheet, and we will record our proportionate share of flu net profit or loss within the equity earnings line in our P&L beginning in our third quarter of this fiscal year.

Now moving on to the second half of the year. On June 5, we will attend and provide our customary seasonal update to our fiscal year at William Blair's Annual Growth Stock Conference in Chicago.

At the conference, we will share US Consumer POS and shipment performance through May, as well as insight on our fiscal '25 guidance. Overall, we continue to make substantial progress and are focused on our top three financial objectives for fiscal '25, which are investing in our brands to build upon sustainable net sales growth, driving margin recovery through sales growth and cost savings, and strengthening our balance sheet through generation of strong free cash flow and continued debt pay down.

As we deliver on each of these, we will further strengthen our core consumer business and continue to build greater value. I'll close with this. I want to thank Jim and our board of directors for their confidence in me as CFO. I've enjoyed working with our banks, investors, analysts, and other stakeholders both in my current and previous roles. You can expect me to further advance these important relationships as I work collaboratively with Jim and the team to deliver future growth and shareholder returns.

Thank you, and I'll turn it over to the operator to start the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jon Andersen, William Blair.

Jon Andersen - William Blair & Company - Analyst

Good morning. Thank you for the questions. I'll ask both my questions off the top here and let you respond. I wanted to ask about point of sale and gross margin beginning with point of sale, could you help us understand a little bit more of the delta between the 12% growth in units and the low single digit growth in dollars.

Trying to understand how much of that is mix, how much of that may be retailer, investments and promotions and how you gain confidence from that, those numbers in kind of the mid-single digit growth for you as a consumer on a full year basis. And then on gross margin, I may have overread this, but I think I heard you say, Jim, that expects gross margin greater than 35% over your medium term time frame. Has anything changed there, greater visibility, greater confidence in getting to that objective. Thank you.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Out of Hawthorne which we're committed to by fiscal year end that probably has -- I don't know if I was going to piss people off here, they it would be north of 100 basis points but let's say at least 100 basis points of positive gross margin impact. Our mission and it's up as a mandate on my board I'm looking at it right now is 35% gross margin and I use the word you did in in the sort of near term.

Hawthorne should help that the team is not volunteered to take the goal up to sort of 36% to 37% so I think they've got a little bit of room. But I would say we're committed to it. I think we have line of sight to it, and I think the Hawthorne move probably makes it a little bit easier which you can take however you want.

On POS, I think it's a fabulous story, but it tells you a little bit about sort of what's happening out there. I was on Kramer show on -- I don't know what that was Friday and talked about that which is that, coming out of COVID, I wanted the promotion of ours we did to incent sales I wanted that back and what we've heard from a lot of retailers is, customer accounts down at the stores are big.

Durable business is off. It's just we're suffering. It's not a great time to be sort of taking pricing, and I think we also had an issue that, our belief, not an issue, but a belief that some of our product lines, whether it was grass seed or lawn fertilizer, was getting pretty pricey.

And I ended up with Nate, and the sales team agreeing that, instead of saying we want the money back, put it to and listen this this was kind of what -- I think for me it was a big deal. I don't, maybe not for everybody else. But in sort of interrogation with sales as we talked about this issue.

It's that the retailers are promoting very heavily and they are really trying to build market share and get customer count in the store and that for all this money they're spending at least that much behind it. And so that was one of those things where I sort of got in my head and I think Nate and the sales team agreed Which is okay, use that money to promote our products and I think we're seeing that happening.

And I think it's an -- it's a very competitive place out there from sort of pricing point of view. So I know there's people here who would say mix is a part of that. I heard this kind of last week as we were prepping for this and certainly that's true. But I think what's really happening is you're seeing a very competitive consumer landscape where if you look at sort of everyday pricing.

You're not seeing the velocity as what you see on promotion, and so retailers are promoting very hard when they promote hard and we're seeing that across the board that this money is being put to work by retailers the way they committed to and the way we had hoped they would.

And that on promotion, product is selling really well and I think that, it you can view it as a positive or negative which is that I think consumers are looking for good deals right now. And that if the deals aren't there they're a little more careful but basically all retailers are promoting very heavily now, and I think that's the lion's share of what you're seeing in regard to difference between POS dollars and POS units. I think it's a fabulous story myself, which is that retailers are really pushing on a garden and they're using the money we gave, and it's working really well.

And so, when we talked about it here, there's always a bias as we prep for this call like are we talking dollars or units and I think the dollar story is just not a very interesting story. I think the unit story is what's really happening out there.

So I think mix a little bit, a lot of it is just very steep promotion happening right now retailers using the money we gave them and I going to say, I super appreciative and but the consumer very much alive and well, but they appear to like promotion too.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

Yeah, John, if I could just jump in and provide some context on both for some of the numbers on the mix and the dollars for POS and then the long term view on gross margin. So as Jim said, the two big drivers, mix, that's a big part of our sales growth strategy too this year, so it lines up very well, with how we plan to grow sales, this year.

But I think of it as 60%, 40%. We're getting a little feedback there 60%, 40% as far as the mix between those two key drivers, so 60% being kind of a heavy mix with the soils and the mulch, those growing media products, and rodenticide products. And then 40% being the heavy customer promotion activity, but both very positive stories driving traffic both online and in store on the gross margin story to 35, Jim alluded to the Hawthorne, providing us the 1% or 100 bps improvement.

The rest of the story there is a lot of what you're seeing in the first half of this year, which is really an outstanding gross margin story. I mean, our supply chain team is doing an outstanding job delivering on cost savings initiatives, and Jim, towards the end of last year talked about \$150 million of cost savings over a three year period.

We're through about half of that for this fiscal year, so \$75 million of cost savings this fiscal year. And we have another \$75 million to go over the over '26 and '27, and that should provide you well north of 200 basis points of improvement there in our gross margin, and we feel we can outperform that and we're working hard based on as Jim alluded to the whole transformation discussion so the team is looking at the business very intently.

And we feel very confident in that part of the story. The only thing I'll wrap up is around pricing. We do, believe it's a long term part of the build along with volume growth as well, and that comes with innovation and our product portfolio differentiation, so we were able to take list pricing, this fiscal year. We've, reinvested it back into promotional activity which is obviously doing what we thought it was going to do which is drive a good strong unit growth. So those are just some of the numbers, to kind of follow up from Jim's comments.

Jon Andersen - *William Blair & Company - Analyst*

Thanks. Thanks so much appreciate it.

Operator

Thank you.

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies - Analyst*

Great, good morning, and thanks for taking my question. The first question was on, trade down to DIY. Jim, I think you said it's some survey work around 25% of consumer surveyed or are planning to trade down this year. Maybe if you could elaborate on that, clarify if there is any benefit associated with trade down in your current sales guidance, and any kind of framework to think about, any upside for any point or 5 points or whatever of trade down activity away from DIFM? That's my first question. Thank you.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Alright, I'll let probably Nate take that one, but I'll start with, I don't see it as trade down, I see it as trade up, because a lot of what and I think we're running commercials like this now where we're talking to homeowners that have a huge amount of pride.

The whole Martha Stewart, side of wanting to garden and pride in your home and, your garden. For sure lawn people have that as well, and so I think what a lot of our thoughts are and some research behind this is that there's a lot of pride and the people who are very prideful and we want to help people do that. Can get a better result being on a multi-step program that they do themselves versus having somebody show up.

I'm not going to say a minimum wage -- but damn near and remember we were in that business the service side so we know it pretty well but I think our view is that consumers can get a better lawn doing it themselves for less money, and I think that's what the sort of data is showing us at least that there are a significant number of people who are moving into do it yourself versus do it for me.

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

Yeah, just to build on what Jim said, Jonathan, he mentioned in his script 25%, of folks that we surveyed indicate that lawn and gardening is so important that if they have to they'll trade down I guess as you say to DIY. In terms of baking into our numbers, no, I would say that when we look at the historical data there's probably 2020, 20% to 25% of consumers that fluctuate between doing it themselves and do it for me.

So I think given that noise we're not building it into the numbers, but look, there could be a tailwind there for sure and I know we've talked about the pressures on the small and medium sized landscapers in terms of finding you know manpower to do that work. So maybe but as I said when we talked earlier, I don't see anything changing in our numbers. We're pretty confident where we're at and I think that consumers are responding accordingly.

Jonathan Matuszewski - *Jefferies - Analyst*

That's helpful. And then just a quick follow up on private label. Jim, I think you mentioned you're seeing little pressure from private label this past quarter. Maybe if you could give us a sense of the pricing GAAP that's trending in the market today, maybe your products versus private label, is it around that kind of historical 30% norm and how you expect maybe that GAAP to fluctuate as the fiscal year continues as store brand pricing changes. Thanks so much.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

So I'll start then hold on (multiple speakers) come on, dude, don't want to let talk. We're going to let everybody talk. I think it's so competitive out there.

That the price gaps are less than normal because the programs that we put together with the retailers are resulting in a very significant focus on our products and pretty steep pricing action to get consumers in the store and I think that's not only healthy but I think that very much reduces pressure on private label. So I don't know Josh, if you feel any different about that.

Joshua Meihls - *Chief Growth Officer, Senior Vice President*

No, I would agree. I would say everyday price points, you look at that still in the normal range of what we would see that call it 20% to 30% GAAP overall, but the promotional plans have closed that GAAP, especially when you look at fertilizer, grass seed, those categories where we've driven frequency, deeper, sharper discounts on drive items, that's really where we've seen progress against private label.

Jonathan Matuszewski - *Jefferies - Analyst*

Thank you.

Operator

Thank you.

Andrew Carter, Stifel.

Andrew Carter - *Stifel Nicolaus and Company, Incorporated - Analyst*

Hey, thank you very much. Just wanted to ask some potentially dumb question, but I can't answer it. In terms of where do you see risk ever like of a garage load or pantry load, whatever you want to call it, like consumers pushing their purchases to the part of the season? I mean, you've had two really good POS unit numbers, well above what the category should be doing, but just give us any context around the category like the categories doing, just your individual categories what you see when people coming back just that risk that's out there? Thanks.

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

Well, I'll take this one. Listen, Andrew --

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

I think, right? No, I definitely take it. I'm not sure I know the answer either.

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

So, I'll just give you some stats on what we're seeing in first half, and I'll sort of pick on lawns on fertilizer, our attachment rate is 2x historical obviously driven by a lot of the promotions, but what's really interesting is roughly 60% or 40% of those consumers are new consumers coming into the category or at least ones that haven't participated in the last couple of years. So my view is that it's a non-issue on pantry loading.

Well certainly there may be some of that. You also see it early season with private label as that stuff tends to go on discount. We're very confident, especially as we start to beat the drum on frequency of feeding, and we are seeing an improvement there. Our frequency is up about 3% in the first half, and remember, 60% of our POS is ahead of us in lawn. So again, I just, I don't see it and I'm not terribly concerned and I'm feeling good about the fact that we're bringing new consumers in and that's not just our data it's also some of our retailer data. So I feel pretty comfortable that that's not going to be an issue for us.

Andrew Carter - *Stifel Nicolaus and Company, Incorporated - Analyst*

The second question is, I think you withdrew Hawthorne revenue guidance for the year and apologize if I missed it. I don't didn't hear if you reiterated the EBITDA. Is it the same EBITDA guidance, I would guess no for the year, but you've reiterated the full year, so I guess where's the incremental strength coming from relative to the old guidance. Thanks.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

Sure. So I think in past calls we've talked about trying to achieve a target for Hawthorne, of an EBITDA of \$20 million. In my prepared remarks I mentioned first half of the year Hawthorne is around, adjusted EBITDA \$4 million so they definitely will fall short of that target. We did not adjust our full year total company, EBITDA guidance of \$570 million to \$590 million. If I just go down through the P&L and what gives us confidence and continuing to manage through that I would say gross margin wise we're doing some outstanding work there and continue to perform well versus the target of 30%.

So we've got great line of sight there. On the SG&A front, our SG&A in our guidance, we've mentioned that we guide to 17%. And that's important to note that it just allows us to flex, along our P&L as we deal with Hawthorne activities. So we do have some variability to our SG&A that allows us, the balance of the year flexibility.

And then in addition to that, Jim mentioned transformation in his prepared remarks. We did make some people cuts and we also took some variable non-essential spend out as we managed the year and really it's more of a long term view, and we feel like we can get further savings. If you might

remember on the last call Jim challenged us to achieve around \$30 million of incremental, overhead cuts, and we're well on our way on those activities to deliver that for '26.

And part of that gives us confidence for the balance of the year. So that's why we didn't adjust our total company adjusted EBITDA for Hawthorne, as I mentioned, we continue to expect them to be profitable over the balance of the next two quarters. The company continues to adjust its business model and do all the right things, as noted, the first two quarters of this fiscal year.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Yeah, I just want to throw out, we had a two day board meeting that was Thursday Friday of last week and I've been very complimentary of Mark and his finance team and I think it's not probably fair to give it credit to the finance team alone, but I think the entire operating group, the healthier our business becomes.

The more room we can build in for disappointments in any one little piece of the business and I think what was clear is that. There's a pretty I think the budgeting process was pretty conservative. I think the business is performing at least as well is kind of what we need and therefore when they inventoried areas like Mark was just doing of areas where we have protection room built in.

If anything happens that we aren't anticipating. But there's room and on the opposite side potential upside as well. So I think we're sticking with the guidance and I think it's pretty unlikely we fall out of that and if things go well, which is we're in sort of peak POS period right now. And so everything sort of depends on what sells out and then one last thing which I view is a pretty significant positive and I know that some of the analyst community is pretty tight with retail.

But based on tariffs, I think retailers are working really hard to manage their inventory dollars in sort of the fall and so we're hearing from multiple retailers and openness to sort of extending the season where you would see back to school and Halloween sort of taking space out of lawn and garden.

And I think that's a lot of Asian sourced product, and so I think there's a reasonable probability that the season gets extended longer which is not in our numbers, and so that I think would be healthy too. So I would say that, whether it was Mark and his team presenting the financials to the board, Nate and the operators talking about their plans, I think there's a lot of confidence that we sort of have this, and that's kind of where we're at.

Andrew Carter - *Stifel Nicolaus and Company, Incorporated - Analyst*

Thanks, I'll pass it on.

Operator

Joe Altobello, Raymond James.

Joseph Altobello - *Raymond James - Analyst*

Thanks. Hey guys, good morning. I guess first question maybe -- Mark, by the way, congratulations on removing the interim moniker. Could you quantify the amount of sales that might have shifted from Q2 into Q3?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

Sure, I'll give it a go.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Do you have any idea what the answer is?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

He's going to come out. I'll come up with it and these guys to correct me. I think when we've been out on the road, I mean, when we talk to people, the month of March is obviously a big shipment month. April is as well you're looking at daily shipment activity of \$30 million to \$35 million for the US consumer business, on an invoice that's not a net sales.

And so that, some of those days can shift quarter to quarter, based on the slower start, and colder weekends the past few in the month of March or into February and stuff. So I contextualize what may have moved, I would just say that that's how I kind of like see it, I don't know if you guys have a different point of view a couple days. No, I'm just saying a couple days can shift easily from Q2 to Q3.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

From you that's true, yeah, and I think the real story is POS.

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

Yeah. On that front I would say the momentum that we saw coming out of Q2 in first half. We obviously all saw all with the weather in early April that's picked right back up as the weather has proceeded and we're on the same trajectory we were on exiting the house. So mix, just back to the mix thing, that's a good thing I think, the early season mulching soils bringing consumers to retailers, LGOR (Lawns, Gardens, Ortho, Roundup) got a little bit of a slow start with that weather in April, but it's on fire now, so I can't quantify it, but I'm feeling pretty good about Q3.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Joe, this is just my comments on. Everybody wants to exclude, kind of mulch and soils. We spent a lot of time on this discussion at the board meeting and I think Sadie who runs that part of our business reminded us pretty hard that people who are buying mulch and people who are buying soils -- and by the way, the soils business is an improving premium business, meaning more of a shifting to branded products than before that all these people are engaged in gardening.

And so that, this is not a bad sign that the -- I'm not even want to call it commodity because the mulch business is certainly a high value, a high dollar low margin business, but it is absolutely critical to Lawn and Garden and the fact that it's doing well is a good thing. And Sadie's soil business or Miracle-Gro soils is doing really, really well.

So I do think that there's a tendency in here for everybody to say ex mulch, or ex soils, and I think it's a lame thing. It's just the mulch business is not going anywhere. It's powerful. It brings consumers in, it builds market share of retail. It's clearly competitive and low value from a profit point of view. But from a customer point of view and an intent point of view it's really high. And I end up lecturing my folks here on stop poo-pooing mulch. It's a big important business and the people who do it are all people who are going to engage in gardening activities throughout the season.

Joseph Altobello - *Raymond James - Analyst*

Got it. Helpful just to just to follow up on that. I want to go back to your comments about promotions and the delta between POS units, POS dollars. I've covered you guys for a long time and I think -- correct me if I'm wrong, but I generally view your category as relatively inelastic and driven more by weather really than anything else. So has that changed recently?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Look, here's what I want to say, which is yes, I think that the relatively -- I don't know, we grew the business what 30%, 35% during COVID. We did not give a lot of that away. We grew nearly 10% last year we grew, I don't know what like the numbers that we reported, the numbers haven't gotten worse, put it that way, since the end of the half they've gotten, marginally better.

I think it's we're doing better. I think what we're doing better is we're driving the category. The new marketing team and Nate and his crew, I think, is what's happening in our business is really, really good. I think the challenging part to be honest, is that by embracing the promotional side of the dollars, which would have been it would have made our task of getting 35 so much easier.

We're really betting on a model which is cut a lot of expenses out of the business, reinvest a large part of that back in sort of activation and brand support, and give a reasonable improvement, and I mean that in a big way because my family cares about it, to improve the financial return of this business but I think what you're really seeing.

Is the company is doing more and more of the right thing and I think we're, I don't want to say just getting started. But I think we're believers, what I've said to people is having been through. The shit of living in the latrine, I think is what I said in the Wall Street Journal.

We've become a little bit radicalized on driving the business and part of when I say I think our evaluation is completely unfair. I get it. We're in the penalty box. We going to prove ourselves we're going to do that. But I think what you see is a very vibrant consumer business. I think the Wall Street Journal article about Home Depot and their \$20 billion secret garden.

Is the truth it's one of the biggest categories they have were absolutely buy that, and I think that, what you see is an incredible consumer category that is what you said, pretty much immune from this, these are people who own homes, they're not, they're not hobos.

And that if we do our job better, they will buy more product, and I think we that's the radicalized part and so I think we're well on our way to it, and I think that this is a very unique consumer franchise that is not being properly valued.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

The only other thing, I had Joe is when he talks about radicalizing on advertising as an example, we are on more times than maybe we have been in the past. We've put that incremental investment to work, so I feel like that is as long as you stay with it and continue that investment year over year which goes back to, for example, even the fall campaign. Where we've continued to invest that drives sales, we know it works it's one of our core convictions --

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Look, Mark and me and on sort of this end of the corporate building, have looked at the value of various consumer franchises, as a sort of multiple, and I think our view is we sell at a discount and I think part of what's happened is what Mark just said is we have to believe in our sort of business model we cannot be fair weather brand slash marketeers. We've got a -- and we know when we invest there is a return, and I think we also know the other side when we don't, we don't see.

So listings become harder, the challenges that, when we're negotiating deals become harder that the brand, the power of our brands matters and it is only by consistent high spend and what we're doing what we call transformation is converting this company where we can spend that kind of money, we refer to.

I think back in 2008, 2009, I think it was more like 2010, I made this bet that we could increase sales in a really terrible external environment and we could take share and grow sales. We did, we just couldn't afford it. That's why we bailed on it. What's different here is we're reconfiguring the company so we can afford it. That's really what's happening here. That's transformation.

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

Yeah, not to drag this on. Joe, but just to get to the point, yes, 100% the post-pandemic world and how consumers see that value is different than the pre-pandemic world and our promo dollars, if I look at what we spent in the first half versus historical, it's up and it's a new business model and it's working.

Joseph Altobello - *Raymond James - Analyst*

Appreciate the call guys. Thank you.

Operator

Eric Bosshard, Cleveland Research Company.

Eric Bosshard - *Cleveland Research Company - Analyst*

Thanks. Good morning. Two follow ups, and then a question. First of all, the promotional spend, just trying to get a sense, are you spending more than you planned more than a year ago? I'm trying to figure out if this is your money or the retailer's money that's being spent on what sounds like heightened promotional spending?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Well, for sure high promotional spend I would say on budget.

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

We're on budget, we haven't spent more than we planned on spending, but we are spending

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

But it's a lot.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

If you remember that we did take list pricing this year, and we reinvested that into promotional activity for this fiscal year as well so we were planning for that higher spend.

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

Yeah. But all within the budget of what we had started the year.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

But Eric, it's a lot more money. But within budget and it again this is part of a -- I don't know that we knew what the answer would be. But I think we knew one thing, getting pricing, and sort of recovering our margin because this is core to what we've been up to, at the retail level there was more resistance, so the sort of compromise will spend the money.

What that did is it probably made our mission a little bit harder here, but I think the assurances from sales and I think from retail partners is we're spending at least that much money and they're very active in bringing you listen. There's probably not an analyst that knows retail better than you. I mean it and I think there's so much effort for building share that they're using these dollars to push it.

And I think our view is it's working, and I think we'll probably look to build this into a model, but when I say in the call it requires a very significant financial resources. To leave that money and I'm calling it activation money with the retailers to significantly increase our brand spend. Makes our job a lot harder and that it means Mark and Nate's job is a lot harder to figure out and again this goes back to this issue what exactly is transformation.

It's completely remodeling this company so we can afford to do these things because our view is as a competitive franchise matter if we can do that year after year that we ultimately we will get paid for the value of this franchise.

Eric Bosshard - *Cleveland Research Company - Analyst*

Secondly, Jim, you talked about, the importance of narrowing the price gap relative to private label, and I guess I just want to dig on that question a little bit because, even what you just talked about, you're spending to build a great brand franchise. Why do you need to narrow the gap versus private label? It seems like it suggests that the value of the brand is not as significant. Can you explain that?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Like, I don't, Eric, all due respect, I don't think that's what I said. I think the gap based on the level of promotion that's occurring in retail has reduced. I also said that I think our grass seed business and our lawn fertilizer business has become pretty pricey. We've been doing really good work in our lawns business. So that the words you hear, I think sometimes it's hard to read what we're meaning. But the lawns team is doing a really fabulous job of saying what do we have to do to build a multi-step program, and I don't know John.

I had the brand people show up here like they normally would not be in the room. But you know if people have the time and John you can go pretty quick it's where are you headed with lawns?

John Sass - *Chief Creative Officer, Lawns General Manager, Senior Vice President*

Well, I think you mentioned it earlier, Jim. We're changing a lot. The media and marketing campaign is going to continue to emphasize pride of taking care of your own lawn, that coupled with regular feeding messaging is super important. And when we drive people to retail, we have great programs at retail to make sure that we're incentivizing that behavior.

So multiple bags purchasing really gets consumers taking home two bags at a time and putting them down their lawn. That's what they're aiming to get is a great.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Okay, but I'm going to talk about the uncomfortable part then, which is that the result of this is going to be lawn fertilizer pricing based on basically the products that we're going to be recommending coming down, okay, and this was the uncomfortable part during the board meeting which is, this is going to require instead of buying one bag that people buy multi-step. So I think this will help vis-a-vis private label, but I think over time call it two or three years.

You're going to see us very in a very measured way bringing prices down for long fertilizer, part of what John is doing with the supply chain is in a way that I have never seen before in this company because Marysville is like a fixture. The Marysville plant is a fixture, and John just said I can't afford to do business with you guys and I encouraged him, and I think so did Nate to say if you can't do it.

We'll manufacture someplace besides Marysville, and I don't care what that means. I think the result with the supply chain is going to be very beneficial for John's cost of goods. It's going to involve a little bit of capital to reconfigure that plan, but not crazy. And so I think we're not afraid of this, but what we are going to need is multi-bag purchases as opposed to one bag purchases. But so I don't know if that really answers the question. But I think the areas where we were concerned with grass seed and lawn fertilizer. I think we've got plans on both of those, and I think we're seeing good results so far.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

And Eric, from a gross margin perspective long term, I mean, our business well enough, having that multi bag, the incremental volume from a like a lawns category, that is incremental to the margin story. So even as Jim talks about, price decreases are making it, a little different dynamic there. It is margin accretive to the longer trajectory of the company, in our goal to get to 35.

Eric Bosshard - *Cleveland Research Company - Analyst*

Okay, and then the last question, Jim, you're over the last couple years you clearly become more focused on units in a lot of the communication, the messaging, again, not to quote you, but a common or units more important than dollars.

The concern would be, units aligning also with the gross margin goal. How are you managing a greater focus on units and also the clear commitment you have written on your wall of getting a gross margin? How do you manage that?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

First of all, Nate's the one hat's responsible for it, but I don't think they conflict.

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

No, they don't, and I think, look, Eric, the reason we really started shifting our focus to units was really the lawns issue because of the pricing we had taken on fertilizer, and focusing on US dollars it really masked the unit decline. And from our perspective, units is the sweet spot and as Jim said we've got to manage the supply chain around that, to make sure we're delivering gross margins.

So I think they're totally simpatico in terms of looking at units, it's a better metric for my GMs to run their business by and gross margin is like a number two metric and I think what we did in lawns or what we're doing, we're not quite there yet we're going to do across the board and take cost out and drive efficiency. So I'm not terribly worried about it. It's just becomes sort of an irrelevant indicator for us, and it's like the prior.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

I think it's we're in sweet spot right now in regard to retailers looking to bring consumers in, and that's kind of working and driving a little bit of this unit volume. I think if you look at last year. And in this year I think there's a lot of sort of share combat occurring at the retail level and that's on our side.

I don't know if that when that goes away if we we'll start to see more units hooking up with, but at this point promo I think it's fair to say the promotional level is so high out there that it is definitely driving units to our benefit, how long that lasts, I don't know, but again if you look and say plus 30% during COVID didn't give hardly any of that back.

And then picking up call I think we say 9%, but 10% last year and double digits this year it certainly feels good.

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

And Eric, let me just add with units. So if I look at my asset utilization across our base it's not ideal volume is good volume helps gross margin. It deals with unabsorbed overhead so it's absolutely one of the biggest levers we have and that's why units are important.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

And from a finance perspective, Eric, just the way I reconcile it, I mean our soils business is an outstanding, margin profile that lines up well, to our longer term trajectory and then, as Nate alluded to getting that unit volume growth, the reason we're able to deliver a lot of the supply chain savings longer term, we're utilizing our assets more.

We're doing things differently to get those better cost savings so that all kind of goes hand in hand, with each other and the only thing I'll close on mulch is, it is a product that drives foot traffic and volume across all of our customer base and that helps us deliver in our selling of all of our products, many higher margin products. So it's very much an important part of the overall portfolio. So I think they can work hand in hand to the overall story.

Eric Bosshard - *Cleveland Research Company - Analyst*

Thank you.

Operator

William Reuter, Bank of America.

Rob Briggs - *BofA Global Research - Analyst*

Hi guys, good morning. Thank you for taking our question. This is Rob Briggs on for Bill. So I appreciate all of the color on private label. I guess just one last one on that, how much, would you say you're taking in terms of share and then, regarding shelf space, are you taking any shelf space from the private label?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Look, it sort of depends. I think if you look at like the organic business, I think our percent of the promotion right now is higher and therefore, I think I think you're seeing that, but I don't know you're looking at me like weird -- come on.

Josh Meihls

I would just say, share of shelf, if we were to break that down, I would say it's this is. Share of shelf absolutely up and that's driven by the promotions and the bulk out that you need for that.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

But so I think that's the one that matters. It's not that on shelf doesn't matter. I think off shelf is such a big part of what happens this time of year.

Josh Meihls

Private label still plays an important role for our retail partners, and heck, we supply a fair amount of that. So I think I like narrative here like this is a war against private label that's really not the case. This is a war to drive foot traffic to retail and retailers leveraging our brands to do so, and private label still plays a key role for our retail partners and we're still key partners on that side of the business. So I think it's more of a war on foot traffic and leveraging.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

We just back it up and maybe I'm going to sound a little defensive, but we tend to hear this issue of are you guys all worried about private label. I don't think we're seeing a big shift and I don't think I know we're not seeing a big shift to private label. No, and you can see it and you break it down by category, right? You look at the las category as units have declined within the category. It's just consumers leaving it. They aren't trading down to private label.

It's more they want the experience, they want the brand, so as we've reinvested back into that and the promotional strategies that we have, we believe we are growing the category for our retail partners as well as growing our and share within that. So you look at gardening and what we're doing with the Miracle-Gro brand there, that's really driving share to our retail partners and share within the box to Miracle-Gro overall.

So I think it plays different roles and different categories for each of our retailers, and you know we really remain key partners with our retailers there to drive that foot traffic in different ways by category.

Rob Briggs - *BofA Global Research - Analyst*

Great. That, that's super helpful color. I appreciate that. And the last one from me, regarding that 3.5 times leverage target by the end of '27, is that where you want to keep leveraged long term and then, would you consider, increasing leverage for M&A or share repurchases?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

I don't know, let's start with -- I think our view if Mark and I were alone right now. We probably operated like 3.5 to 3.7. I would say somewhere in there, and I think we felt like we get really good pricing on our debt in at that level. I think where we've been, to be fair. The journey through the cesspool that we've been on like since after COVID, probably makes us somewhat more conservative, so I think probably I would say 3.5 max.

Maybe 3.25. I don't know. I'm sort of looking at Mark. I don't know where he is, but I, we have had informally this this conversation that wherever we have been historically it's probably a lower number that would make the street my family happier with. In regard to M&A, I don't want to sound like I've gotten old and I think I criticize Chris and the team at Hawthorne back in the day of what was it?

I don't want to sound gun shy. I think we believe we have a lot of value with what we're doing. There are probably some. Close in adjacency deals that if they were priced attractively we could get interested in. But I think the bias right now is to drive our business without M&A and I think that that's again, I don't want to sound like I'm just repeating everybody who would criticize us.

But as the CEO of the company, having looked at whether it's Smith and Hawken, maybe our European businesses, Hawthorne. I think that probably like a lot of other businesses, the M&A activity was expensive, and I'm not sure. If we had taken all that money and giving it back to the shareholders that we wouldn't have a bunch of super happy shareholders and a much higher stock price. So I don't want to sound like I'm getting old and I'm sort of taking that line.

But I do think that what you all should expect from me as the leader of the company is to take a for considering where we've been to take a pretty conservative point of view which is whether it's leverage or sort of M&A.

if you look at the board in front of me here, we do not have a requirement for excessive growth. I think what we're saying is looking for 2% unit volume, about 1% pricing per year total about 3%. That's what's built into my sort of expectation for Nate and the crew. I think if we start -- I think we're just going to have to look at where we get to and whether we think that another point or two, but I think the business is doing really well and I think trying to get aggressed.

I think complete our recovery. I think that's the big thing is just let's finish the job and let's not immediately and it's me I think mostly hypnotizing myself into thinking we need M&A to get this done. I think we have a very valuable franchise. And I think let's try not to screw it up.

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

Yeah, I would just add this is Nate, Rob, if I look at our three to five year midterm plan, it's really based on organic growth. When we look at household penetration, we have a lot of opportunity to grow the category, we know e-commerce is growing at double digits. So we're working both with retailers and with our own, D2C plays there. So I'm really satisfied as I look at our road map that three to five years it doesn't, it would be opportunistic.

I would put it that way, small tuck-ins. Beyond five years, sure, maybe it's maybe it's part of our road map there, but that's a long ways away and you know our commitment is to get into a really comfortable leverage range and not swing for the fences and just deliver steady growth.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

Well, and I had one other thing which I know any members of my family who are on the call. There's an expectation that we get our share count down, that we've used share count to sort of fund stuff and when we needed to and I think we'd like to get our share account reduced and that's going to require shareholder friendly actions and a focus of our cash flow on not only earnings. But anything that we have extra once we get a leverage where we want it to reduce share count.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

Yeah, and I concur. I mean 3 times to 3.5 times is a real nice sweet spot for us on a leverage, it's where we've traditionally issued debt and gotten favorable rates, and it allows us to navigate, any one year and investments we want to do. And then to Jim's last point there on shareholder friendly actions in the future, it allows you, given the free cash flow we deliver based on those earnings, we should be able to buy back, shares annually at a consistent level, similar to what we used to do pre-COVID, above and beyond our quarterly dividend.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

And I want to just throw one last thing out because it credit goes to everybody in this room and folks who work for us. Getting leverage now I don't know, is 4.47?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer and Chief Accounting Officer*

4.41 this quarter.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, Chief Executive Officer*

That. I think for the journey we've been on we never saw us getting to a point where we were north of 4.5. Obviously we screwed that up but for getting down below 4.5, which I would say while it's still in the modest leverage it is back within relatively normal for us and a huge amount of progress. I think the whole this team deserves credit for, like, I told this to the board, getting down below 4.5 times was a ton of work and everybody has done really fabulous work and it's been a lot of, a lot of blood, sweat, and tears.

Rob Briggs - *BofA Global Research - Analyst*

Great thank you so much.

Operator

Thank you. That does conclude today's conference call. Thank you for participating. You may now disconnect.

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