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Market Intelligence

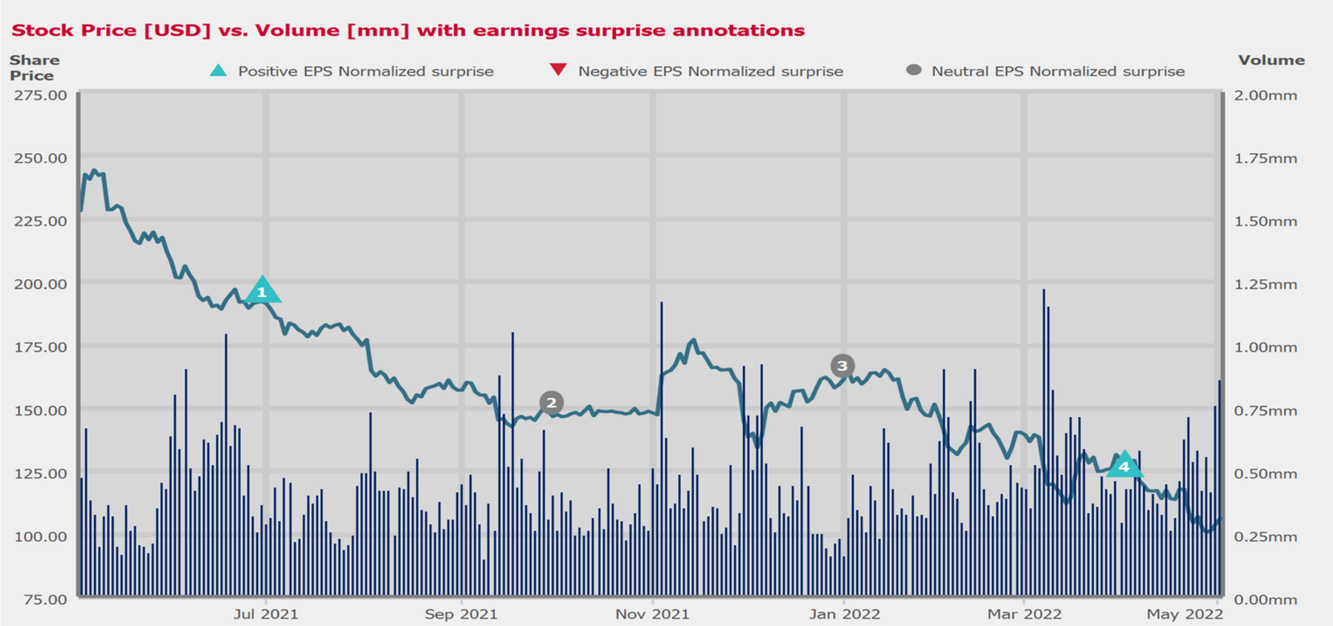
The Scotts Miracle-Gro Company
NYSE:SMG
FQ2 2022 Earnings Call Transcripts

Tuesday, May 03, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.80	5.03	▲4.79	4.50	7.97	8.95
Revenue (mm)	1679.14	1678.40	▼(0.04 %)	1621.65	4673.82	5002.51

Currency: USD
Consensus as of Apr-29-2022 12:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	3.52	3.98	▲13.07 %
FQ4 2021	(0.86)	(0.82)	NM
FQ1 2022	(0.73)	(0.88)	NM
FQ2 2022	4.80	5.03	▲4.79 %

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Presentation

Operator

Good day and welcome to The Scotts Miracle-Gro Company's second quarter earnings conference call. As a reminder, today's call is being recorded. At this time, I would like to turn the conference over to Jim King. Please go ahead, sir.

James D. King
Chief Communications Officer, Executive VP and Senior VP of Investor Relations & Corporate Affairs

Thank you, Madison. Good morning, everyone. I'm Jim King, and I'd like to welcome you to The Scotts Miracle-Gro second quarter earnings conference call. This morning, joining me is Chairman and CEO, Jim Hagedorn; Chief Financial Officer, Cory Miller; as well as our President and Chief Operating Officer, Mike Lukemire; Chris Hagedorn, Group President of Hawthorne; and several other members of the management team.

In a moment, Jim and Cory will share some prepared remarks, and then we'll open the call to your questions. I've already scheduled time with many of you after the call to fill in some of the gaps. Anyone else who wants time can call me directly at (937) 578-5622, and we'll work to get you on the calendar as quickly as we can.

One bit of IR housekeeping before we begin. Cory and I will be participating in the William Blair Conference in Chicago on June 9. As many of you know, historically, we've used this event as an opportunity to update the investment community on the state of the business coming out of the critical month of May, and our current intent is to do that again this year. We'll publish more details related to the date and time of the event a couple of weeks in advance. With that, let's move on to today's call.

As always, we want to make you aware that we will have -- we will be discussing forward-looking statements so I want to caution everyone that our actual results could differ materially from what we say. Investors should familiarize themselves with the full range of risk factors that could impact our results, and those are filed in our Form 10-K, which, of course, is filed with the Securities and Exchange Commission. I also want to remind you that today's call is being recorded, and an archived version of the call will be published on our website.

With that, let's get down to work, and I'll turn the call over to Jim Hagedorn. Jim?

James S. Hagedorn
CEO & Chairman of the Board

Thanks, Jim. Good morning, everyone. Our call this morning will be different than normal. Our prepared remarks will be shorter, and Cory's comments will be sandwiched between mine.

I'll start by sharing a few high-level thoughts about both businesses and the implications for our guidance. Specifically, I want to discuss how we navigated the first half, what we see coming in the second half and how it impacts our current outlook on the year. Then Cory will cover the numbers. Later in the call, I'll discuss the impact the external environment is having on how we run the business. More specifically, I'll outline the steps we're taking to get our margins back in line.

In addition to further pricing actions, we're implementing aggressive steps to improve productivity and maintain our financial flexibility as the U.S. economy heads towards some tough sledding. Let me start with the U.S. Consumer segment, which had a very strong second quarter and sales consistent with our guidance. In fact, we were tracking to do even better, but lousy weather resulted in fewer replenishment orders in the second half of March.

Our pricing strategy initially accomplished what we set out to do, which is cover higher input costs. However, resurgent commodity prices after the start of the war in Ukraine added further downward pressure we couldn't cover. Still though, it was a solid quarter. But because of our seasonality, I know the

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elapsed time between the end of Q2 and this call makes those results somewhat dated. So this morning, we'll share what we know in real time.

POS entering May is down 12% in dollars. The slowdown in consumer takeaway led to fewer orders in April from some of our retailers. As a result, we need shipments to improve double digits for the balance of the year to be flat against last year's levels. I want to be clear, that number is achievable. In the first 7 months of the year, we faced POS comps of plus 35%. From now through year-end, the comp is minus 9%. Still, finishing the year in positive territory is an admittedly aggressive goal. That's why we see the low end of our sales guidance plus or minus 2% from last year as a pretty good outcome.

As you remember from our last call, we were hopeful we'd have upside to our guidance. But you don't need to be a meteorologist to understand why the season is off to a rough start. In most parts of the country, I'd say spring was delayed by at least 3 weeks. The good news is the momentum now appears to be on our side. Not only have we seen explosive growth over the past 2 weeks. What's interesting and encouraging is that our earliest season products are what's going through the register right now. A year ago, those units would have moved 3 or 4 weeks ago. This is reinforcing our belief that the biggest challenge has been weather. POS in key Southern markets that was down double digits just 3 weeks ago is now just mid-single digits down in response to warmer weather and retailer promotions that had been delayed until after the Easter weekend.

Entering May, POS is down 13% and 20%, respectively, in the Northeast and Midwest. That's not far from where the Southern markets were a month ago. While the season has been compressed, it's important to remember that lawn and garden season typically stretches well into mid-June in these markets, sometimes later. So we're confident we'll see POS levels continue to gain ground in the weeks ahead.

At Hawthorne, consumable products like nutrients and growing media continue to outperform durables. This is an indication that growers are still engaged, but not yet in expansion mode. And while we're seeing modest signs of improvement in the critical West Coast markets, the trends in this business have us tracking toward the low end of our guidance. That said, we're already seeing the benefit of our acquisition of Luxx Lighting, demonstrating this brand's value to experienced commercial growers. In fact, all of our recent acquisitions are showing strong growth. Rhizoflora, HydroLogic and True Liberty Bags are all up triple digits since we closed on them.

In addition, our European lighting business had a strong start to the year, and that business is on pace for a significant full year growth. LED lighting, an area we brought meaningful innovation to the market, is starting to become a critical category for the professional noncannabis horticulture market in Europe and Canada. We continue to explore opportunities to gain further ground going forward. So that's what we know on a real-time basis. But I also want to share what we don't know.

Because of the late start to the spring, we don't have an accurate assessment right now, for example, on the potential impact of product mix this season on gross margins. And while we always expected to see a negative impact this year from fixed cost leverage because of planned lower utilization rates, we can't get an accurate read just yet of whether that impact will be in line with what we had assumed. The delayed start to the season also has made it difficult to know if and to what extent inflation and other issues are impacting the consumer. Remember, an 8% decline in units was already baked into our guidance. While we know other CPG companies are seeing some price elasticity recently, we simply don't have enough data yet to have an informed view. But year-to-date, we're not seeing any trade down to private label, and most of our products appear to be holding or slightly gaining share.

When you combine those facts with a commodity outlook that seems to change by the week, it makes our earnings outlook harder to predict than usual at this point in the year. We have concluded, however, that adjusted earnings of $8 a share seems like a challenging target. And given the way the stock has been trading, I don't believe that comes as a surprise.

But what is an accurate target? Frankly, there are simply too many moving pieces right now to give you anything more than an educated guess, and I don't want to do that right now. To provide you with a more informed point of view, we need a few more weeks since 55% of our POS is still in front of us. I'll resume my comments in a few minutes, but let me pause for now and turn things over to Cory.

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Cory J. Miller
Executive VP & CFO

Thanks, Jim, and hello, everyone. Jim commented on several major issues already, and I will dig a little deeper on a few of them. I especially want to share a little more color on some of the margin issues we're seeing. Let's start on the top line. We were pleased to comp last year's sales number in the U.S. Consumer business as we posted sales of almost $1.4 billion. Frankly, we expected to do slightly better than that.

But as Jim said, weather interrupted the reordering patterns from some of our retailers. This was especially true in the Northeast and Midwestern markets, where the slow break to spring was most pronounced. The strong POS we've seen over the past few weeks is a welcome site, and reorders are keeping pace with consumer purchases out the door. However, because replenishment orders were impacted well into mid-April, we are facing a year-to-date deficit entering May. I share Jim's belief that we'll reduce that deficit in the weeks ahead, but probably not by enough to get us into positive territory for the year. Our sales team is working 24/7 to prove us wrong, and I hope they do.

While the Hawthorne sales decline of 42% was outside of our guidance, organic sales were still essentially in line with what we expected. Let me explain. We had expected to begin selling Luxx lights on day 1 of us owning that business, but the manufacturing issue Jim mentioned cause us to hold -- caused us to hold shipments of those products until after it was remedied. Once it was addressed, which happened after the end of the quarter, sales have been strong. If we had been able to ship Luxx product in Q2, we would have been roughly in range with guidance targets we provided.

While Hawthorne sales on the low end of the guidance is our best case right now, the good news is that we've seen a number of order days over the past month that indicate we're starting to see some improvement in the market. We would expect the frequency of those strong order days to steadily increase as the year progresses. If that does not happen, however, we risk coming in short of our revised outlook.

Let's move on to gross margin rate and the broader discussion of cost of goods. The adjusted rate in the quarter was 120 basis points below last year, leaving us 200 basis points lower through 6 months. The pricing actions we implemented have been largely successful in offsetting our higher costs. I say largely because we started to see a gap developing in March. You'll remember on our last call, I said our key commodities were starting to decline from their highs, and it felt like the worst was behind us. That changed with the war in Ukraine.

In my public comments in early March, shortly after the start of the war, I said we had about $10 million to $15 million of increased risk at that time. That risk was not included in our earnings guidance. Since then, the dollar amount has doubled and has moved from risk to reality. We are now likely to see a shortfall of $25 million to $30 million between our pricing actions in the unhedged commodities we still need by the end of the year. Right now, we have about 80% of our costs locked for the year, including about 90% of urea. Diesel and pallets remain the areas with the largest exposure.

Business segment mix is turning out to be a margin rate benefit to us due to the lower Hawthorne sales. However, U.S. Consumer volume over the next 2 months remains the largest unknown factor that could shape the final gross margin rate. There's not a lot to share related to SG&A. I will say though, it is likely to decline further than we expected this year. To offset some of the emerging gross margin issues, we've decided to pull back on some discretionary spending and hiring decisions for the balance of the year. We're also planning other actions that will benefit the P&L in Q4 and carry into next year, which Jim will explain in a minute.

Also, variable comp is in SG&A, and we would expect that number to be no more than 1/3 of what it was last year and possibly lower. While variable comp is an important reward and retention tool, it also has to align with performance.

Below the operating line, interest expense was $9 million higher in the quarter and $17 million higher year-to-date. The change was driven by higher borrowing levels. Our leverage ratio at the end of the quarter was 3.8x, in line with what I had suggested on our last call.

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On a related note, we recently completed a new $2.5 billion credit facility. Of that, $1.5 billion is our revolver with the balance being a term loan. Combined with our recent bond issuances, we now have about 2/3 of our debt locked at an average interest rate of 3.4%. As you noted in the press release, adjusted earnings per share was $5.03 in the quarter compared with $5.64, and the GAAP number was $4.94 compared with $5.44.

Taking a quick look at the balance sheet. The story remains the same as last quarter. Inventory is $575 million higher than this time last year. Again, the drivers are lower volume, particularly at Hawthorne, and higher costs within the U.S. Consumer business. As it relates to Hawthorne, we had initially planned the year assuming double-digit growth and had been building inventory to meet that demand. While we slowed and, in some cases, ceased production as we lowered our sales forecast, much of the inventory had already been built or purchased.

In the U.S. Consumer business, our goal is to be in a better competitive position to meet the needs of our retail partners. Indeed, while we are flush with inventory, we are seeing signs of stress with some of our competitors who are not able to build ahead of the season. While we accomplished what we set out to do, inventory levels are now higher than we expected as retailers adjusted their shipments in March and April due to the slow break of the season. Depending on what we see with volume in the weeks ahead, we may decide to slow down some of our manufacturing earlier in the year than normal. While this has a P&L impact on gross margin rate, it will help accelerate an inventory improvement.

As you can see, there are a lot of moving pieces in the story right now, and they leave us with a higher level of uncertainty than we would normally have at this time of the year. We'll have a great deal -- more visibility as we move through May. The goal is to provide an update when Jim King and I appear at the William Blair event next month. I'm sure there are other topics you want to discuss, and I'm glad to cover them in the Q&A session. But for now, I'll turn the call back over to Jim.

James S. Hagedorn
CEO & Chairman of the Board

Thanks, Cory. As I said at the outset, I'm pleased with our performance in the first half of the year. We'll know more about consumer behavior over the next few weeks. But so far, what we're seeing reinforces what we've known for years: weather matters. And as it relates to Hawthorne, the issue of industry oversupply is one we can't control, but we do remain bullish on the category long term and are encouraged by the progress we've been making in East Coast markets where growth has been strong. But in both businesses, I'll admit it's been a bit of a whipsaw over the past 3 seasons. If we sat together in 2019 and predicted the future, none of us would have gotten it right.

With all the momentum we saw in 2020 and '21, we leaned in hard. In our core business, the step change in consumer activity, especially in our growing media businesses, left us without enough future capacity, and we had to address that issue. The lack of capacity in the short term meant we also had to build and hold more inventory to ensure we could service the needs of our retail partners. Given the facts at the time, we'd make the same decisions again. And at Hawthorne, the business had doubled in a 2-year period, and there was tremendous enthusiasm in the cannabis and hydro space.

As markets were expanding on the East Coast, we believe we needed more expensive footprint there. Developing the physical footprint also meant we had to build inventory to serve those markets. Although we knew the growth long term was not sustainable, we never anticipated the level of rapid reversal that we've seen. Clearly, a lot has changed. In the U.S. Consumer business, our inventory challenge is not related just to physical units, it's the cost of building them. And at Hawthorne, we simply built more than we needed, and we own that, and we're going to deal with it.

Mike and his supply chain team are taking immediate steps to reduce the inventory and turn that inventory into a source of cash. But there is one more challenge none of us control, which is commodity prices. By the end of this year, we'll likely have given up roughly 400 basis points of gross margin in 2 years despite what we thought were aggressive double-digit price increases. And we're taking more pricing in the fourth quarter, and again, it will be aggressive. But the truth is we're still just chasing it, like other people. Even if commodities start to ease, it will take a few years to claw back the margin we've

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lost. That sucks. So we're taking other decisive actions effective today to realign the business, reduce our SG&A and get the company back an appropriate -- to an appropriate level of profitability.

We've set a target to reduce our overhead structure by roughly 10% before the start of fiscal '23. The effort will be in all areas of the business. At Hawthorne, we'll shrink the size of our supply chain network and reduce staffing levels. In our U.S. Consumer businesses and corporate cost centers, we'll also run skinnier and be more mindful of redundant roles, processes and other structural issues that can lead to inefficiencies. So you should anticipate restructuring charges in Q3 and Q4.

I want to make sure I'm clear here. I am committed to the 5 pillars of our strategy. Our core brands still offer real growth opportunity. We can do more with live goods and use the category to strengthen our relationship with consumers, and our e-commerce efforts will only provide more opportunity as we move ahead.

At Hawthorne, the potential of the hydro category remains strong. Growers will start growing again, and we will still be the provider of choice, thanks to our product offering and technical expertise. And finally, the opportunities in the emerging areas of cannabis are also very real. Our creation of The Hawthorne Collective and subsequent investment in RIV Capital provides substantial opportunity in the long run. In both Hawthorne and The Collective, we see the opportunity to create a leadership position throughout the entire value chain within cannabis from grower to consumer as the market expands.

Pursuing these pillars and driving long-term value requires us to have the financial firepower to execute. If we sit back and wait for the commodity market to give our margins back, we could be waiting for a while. So we're not going to wait. We're going to swiftly move to make changes and better position us for success.

In addition to commodities, the realities of the broader U.S. economy also require us to be proactive. We've worked closely over the past year with some of the most respected and well-known economists in the country. And they have been telling us for months what other economists started saying only a few weeks ago. A recession is looming. Given the economic headwinds surely coming our way, we have 2 choices: we can wait and see how windy it gets and then react or we can get in front of the storm. We choose the latter.

Scotts Miracle-Gro is a great company. We have a set of competitive advantages that no one else in our industry enjoys. And frankly, regardless of the category, few other CPG companies enjoy them either. One of those competitive advantages is our people. So I'd ask your patience as I want to deliver a message to our associates for a moment because I know many of them are listening.

Our decision to make the moves we are undertaking this week will have a human impact. They were also sudden and probably jolting. I know that. Every member of my team does, too. We regret the impact we'll have on some of our colleagues and friends. But I want you to know the fundamentals of our business remain strong, and we have no concern about our long-term financial health. What we're doing here is working to make this a better company, a stronger company. The changes we are making will start at the senior level, people I work with every day. But these changes will also result in an organizational structure that is better suited for how we see the business evolving in the years ahead. And to our shareholders, I said earlier, you deserve transparency and informed views of our guidance. But what you mostly deserve is our best effort to give you a strong return on your investment.
The steps we're announcing today are designed to strengthen our business, get us back on the right track and ensure we maintain the financial flexibility to drive value well into the future. I want to thank you for your time this morning. I know there will be a lot of questions, so let's turn things over to the operator for the Q&A session.

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Question and Answer

Operator

[Operator Instructions] We'll go ahead and take our first question from Chris Carey with Wells Fargo Securities.

Christopher Michael Carey
Wells Fargo Securities, LLC, Research Division

So I appreciate the challenges in guiding with so much POS ahead. Certainly, you have a practice of updating the market in June, but you're still calling out expectations for U.S. Consumer to track to the low end of the guidance range. So there's one thing I wanted to clarify, Jim, you said that you're taking pricing in fiscal Q4, and so do you expect U.S. Consumer pricing to be better than this kind of 8% range? And does that imply volumes are actually down maybe in the 10% to 11%, and that's the number that we should think about as far as POS ending for the full year?

And then the second related question on U.S. Consumer is just around profit. And if you're coming in within the range as you expect, then can you just expand a bit on the lack of visibility on profit? I know you mentioned unhedged commodities. It sounds like mix with some of these higher-margin early season categories still not catching up as a factor, but any additional commentary on that lack of visibility, which seems around the profit line, would also be helpful here. So thanks for those 2 on U.S. Consumer.

James S. Hagedorn
CEO & Chairman of the Board

You got it. I'll take, I think, what was the first part of it, which is pricing. Now I think you're probably not correct in the -- on the volume side in sort of units or dollars. So we're not counting on pricing to sort of give us a higher number. I think the guidance we gave sort of would be without pricing. But the pricing in the fourth quarter is, I don't know, near double digits, I think.

Christopher J. Hagedorn
Division President

It's double digits.

James S. Hagedorn
CEO & Chairman of the Board

And that's just what we got to get based on what we're seeing costs doing. In regard to sort of just overall profitability, Cory, you want to add?

Cory J. Miller
Executive VP & CFO

Yes, profitability, and we've had a lot of discussions about profitability publicly and internally here in the last couple of months as commodities have been all over the board. We just continue to see pressure on the commodity front on what we face on our unhedged commodities. Costs have been kind of all over the board. When I talked in March, the war in Ukraine had just started. We were trying to get an understanding of what that meant to our business.

We think now we've kind of defined what that means, and it is more of a hit to us than we expected in early March. So that's leading to the pricing. That's also leading to some of the uncertainty we have around our bottom line earnings at this point because we want to see the reaction that consumers have to our products. We want to see what the commodities do as we buy that remaining 20% that's not hedged at this point and see how all that nets out. And we'll just know a lot more here in 5, 6 weeks that will allow us to nail down that number a little more accurately.

James S. Hagedorn

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CEO & Chairman of the Board

Look, listen, we -- I was very much involved in sort of, I wouldn't say lack of guidance, but in trying not to be specific on it largely because I went into a room of our operating -- we had a Board meeting last Friday. And as people were preparing for the Board meeting, I asked our operators -- they're going to be pushing for like where are we ending. And they were all like, "Dude, don't do it." It's just -- there's just too much moving right now.

I don't view it as super critical. I just think that if I'm going to give you a range of like $1.5, it's like we've -- I think we changed the guidance twice already this year. And I really don't want to be on the wrong side of that again. When that conference happens in June, we'll have a lot more visibility. We'll understand mix. We're not seeing bad stuff happen with the consumer. This doesn't mean that I/we aren't concerned about cost, but not just this year, but next year as well. But we're not seeing where consumers are buying private label. In fact, I think virtually everywhere, we're like gaining share so -- relative to private label. So I think we're just asking for a little bit of flex here just because I don't want to give you a wrong number. And I think we're just trying to be safe.

Cory J. Miller
Executive VP & CFO

Yes. And I'd just add to that. If you think about the season breaking 3 weeks later, the changes we're seeing in our year-to-date POS are pretty dramatic over the last 2 weekends and dramatic improvements. So things look really good. It's getting back to the point of a season that's breaking 3 weeks later, and we just want to see how that plays out for a few more weeks.

James S. Hagedorn
CEO & Chairman of the Board

Yes. I mean we were talking about, Chris, before the call started, which is of the sales deficit, like 1/3 of it like disappeared in like 10 days. So the business is on a pretty good track right now. We just need to sort of keep that weather. Our comps are pretty easy for the rest of the year, and that will really help.

Christopher Michael Carey
Wells Fargo Securities, LLC, Research Division

That's very helpful. Cory, can -- just with the move in commodities, is there any way to frame your exposure now to urea, resin, diesel as a percentage of your overall COGS? And then maybe, Jim, just big picture, you talked about inventory levels in Hawthorne being elevated. Would you expect to perhaps do elevated promotions to clear that inventory and maybe improve your profit potential going into the back half of the year. That's it for me.

Cory J. Miller
Executive VP & CFO

Yes. Chris, I'll answer the first question. If you look at commodities, which would include urea, diesel and resins, as a percentage of our total COGS, we're about 32% is what we're forecasting this year to be. And I want to compare that to fiscal '20 when commodities were 19% of our COGS. So the increase in commodities is definitely driving an increase in that percentage of our total COGS. That's pretty dramatic when you look at the 3-year period.

Two, I think, was on the...

James S. Hagedorn
CEO & Chairman of the Board

Yes. I remember, I remember. Chris looks like he's all excited about taking this one.

Christopher J. Hagedorn
Division President

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I'm not that excited. Chris, this is other Chris. Yes. So look, we're long in a number of categories at Hawthorne. We are exploring a bunch of different promotions. But what we're seeing is we've got retailers that are still holding inventory from kind of the end of last fiscal year. So there's only so much work that promotions can do for us in the category right now. So we're experimenting with some different programs with retailers to try to move some inventory around. We're also looking at some pretty nontraditional channels to move some long inventory. So we recently announced a deal with Cyco. That business has a strong sort of separated Australian distribution networks. We're seeing if we can move some product into Australia and other places. So we're exploring a lot of different things to bleed that inventory level down. Promotions will be part of it, they won't be the only part.

James S. Hagedorn
CEO & Chairman of the Board

It's the -- there are good stories. I think that some of our partner companies, customers are starting to see, I think, good things happen on the West Coast. Some of the high-end guys that we work with, I think, are seeing some really good results. The East Coast business is seeing good results, and our qualified reseller, which is kind of a different way of saying a near direct path, that's also seeing good results. I think a lot of this is driven by sort of California. But again, we're hearing from customers that they actually have had a pretty decent last 4 weeks, and you're starting to see wholesale prices drift up, which I think we're kind of looking at is saying, it's a decent leading indicator.

So the question is how long does it take to work inventory through the trade, which is also -- which is pretty high right now. So -- but there are glimmers of goodness within the story that you don't have to kick the rocks too hard to see. So I don't think it's misleading. It's just that when you're looking at sort of Michigan and California that are pretty seriously down, it just takes a while to work through that.

Operator

[Operator Instructions] We'll go ahead and take our next question from Joe Altobello with Raymond James.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Can you hear me okay?

James S. Hagedorn
CEO & Chairman of the Board

Yes.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. Great. So I guess first question, if my math is right, the Q4 price increase that you guys talked about today, that's number 4 this year? And I guess, secondly, how much do you expect pricing overall to contribute to U.S. Consumer sales this year?

Cory J. Miller
Executive VP & CFO

Yes. Joe, the first part of that, this is the fourth price increase in 12 months. It will be the third one we've taken this fiscal year. So we took -- last August was our first of the 12 months.

And what's the second part of your question again?

James S. Hagedorn
CEO & Chairman of the Board

How much will that contribute -- how much will pricing have contributed throughout the year? I think we're seeing, Joe, about 8% up to now. So it depends on kind of the phasing on Q4. But I don't know, I

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would say maybe 1 point or 2 would be -- for the fiscal year we're in. People are nodding on my couch. Thank you.

I think -- so I'd probably add another point or 2, something like that, Joe. So, call it, around 10%.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

That's helpful. And I guess, secondly, and maybe more importantly, big picture question on Hawthorne. Does the current environment make you question at all the long-term opportunity or attractiveness of this business? And does it impact your thinking on the likelihood or timing of a potential separation of that business?

James S. Hagedorn
CEO & Chairman of the Board

Well, since I'm related to the boss, I would say -- he's younger, he's a nicer guy than I am. He's been through less drama. And so I can see that he's not enjoying sort of this journey. The idea of when everything is great and you feel like a genius. He seemed pretty happy then. I think -- I warn people, don't look at the stock price too much because when it's bad, you'll think you're the dumbest dude on the earth. So I would say the -- no.

I think what happened is COVID. To be honest, and that's not me looking to make excuses. I own -- I have a sign in my bath that my father gave me, I think, when I was promoted to President of the company back a long time ago. And it says, "Horace to Jimmy, someday this will all be your fault." And so I'll take the credit for if people are angry. I'm the CEO. I'm responsible, not anybody else. I have partners who work for me and do a great job, and I'm doing a great job dealing with a very bumpy ride.

But if you look at just what happened, we had 10 years of growth in consumer in 2 years. We thought we'd give some of that back last year. We didn't. We gained 10%, I think, roughly in unit volume last year. And we had 100% growth in 2 years at Hawthorne. And we expanded our footprint, we probably beat our chest a little bit. But it's one of those things that it didn't feel crazy at the time. I think we basically were looking to enable the business. But we've now had sort of this year and '18. And I think it's just -- it's a lot more volatile, I would say, than sort of our consumer business, which ultimately still gets me to the point where I think the -- and I think I know the opportunity is there. My team is not sort of looking to pull back on our 5 pillars.

I do think separating the business probably is helpful. You have a much more steady-Eddie business, high cash flow that people understand real well. And then I think the cannabis side of the business that people -- I assume the investment community can sort of understand that at least until federal law and sort of more maturity creeps into that business, that it could be a little more volatile. So I think -- I don't know, what do I think? I think we're working -- we continue to work toward that separation. I don't see it as being farther off.

I do think that I did something unusual. I went, like, 3 weeks ago down to D.C. and yelled at senators and said, "Do your goddamn job, please." There's billions of dollars being invested in the space by us and others. And with 280E and banking being -- it's all a real drag on what's already a volatile business, particularly in the time of COVID. And in addition to that -- and Joe, this is all -- this is just mind dump a little bit. The supply chain is a little bit longer.

We like the durable side of the business. We've done what I'm really proud of in the LED market. I think we're the -- I'm pretty sure we're the global leader in LED horticultural lighting in the world. Very proud of what everybody has done here to create that business. But the lead times are longer and the vulnerability to people saying, "I can't make money temporarily." Now again, as I said, I think we're starting to see wholesale prices creep up, and a lot of the people who we are very friendly with at the high end of the market have done well through this period. But it does make us a little more vulnerable to a market downturn when we have chosen to be powerful in the sort of technical side of the business.

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So regret it? No. I think it's -- before the call started, I said, "God, damn it. It's been a bit of a ride here." So I don't know, Joe, if that was helpful. Chris is raising a finger.

Christopher J. Hagedorn
Division President

Yes. No, I'd like to add something. So just, I guess, elaborating on -- a little bit on what Jim said, look, obviously running the business when you're -- when the business is going through the kind of disruption it is right now is a lot less fun than when you're kind of posting consecutive 70% growth quarters over and over. That, I think, goes without saying.

That being said, look, the opportunity that we see here is still in front of us. Everybody at Hawthorne, I think, is still pretty optimistic despite the current market conditions. And as Jim said, I spent a long time on the phone with the guy from California who is really one of the preeminent kind of players in the California cannabis industry and has been for a long time. He is beginning to see positive results. Again, there's a long tail from when cultivators start to see their businesses turn around, they start to become kind of enthusiastic about reinvesting in their businesses that sell through retail and then it finally reaches us.

But when we look at the emerging markets here, I mean, we've got New Mexico, and these are all small bases, New Mexico, up over 250%, Pennsylvania, up over 120%. So there's still a lot of runway here as the market kind of rebalances, I think, a little bit away from more traditional markets like California and Michigan, Oregon.

So we're optimistic. It's tough managing through this, and it forces us to make some decisions I wish we didn't have to make just to run the business more efficiently, but the long-term outlook for -- I think, for us is still super positive, and we're really excited about the business. And I think that's reinforced by the fact that we continue to invest because we can get businesses we love at much more advantageous prices.

Operator

We'll go ahead and take our next question from Joe Andersen (sic) [Jon Andersen] with William Blair.

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

I wanted to ask about POS trends that you kind of talked about in the trend so far. You've mentioned weather a number of times. And clearly, that has been a major factor. I'm wondering how you're thinking about kind of the consumer behavior and this year being a year where there's more kind of ability to spend time away from home, returning to travel and experiences versus kind of locked up in and around your home and buying products that support that. Is there a -- is that a dynamic that you think could be affecting consumer engagement as well? And how do you discern that?

Michael C. Lukemire
President & COO

I would say that -- we're seeing more return to the weekend. During COVID, we saw people buying during the week. We're seeing it during the weekend. But we're not -- and the weather is hot, they're not necessarily going away yet. And so we're still having people engage on some of the early market like the crabgrass preventer. Usually, that's done in March. It's the highest index fertilizer product as of last week. So that tells you that the season is really [good,] Jon.

James S. Hagedorn
CEO & Chairman of the Board

Jon, it's a very fair question, I think, we ask ourselves, especially in the absence of data, because it just seems like -- this feels like if we're -- instead of May 1, it's like April 1, and we're trying to call the year. And clearly, consumers -- they had a little bit more choices last year. Remember, like basically, people who stopped wearing masks started doing stuff, and it went up. Our research says that homeowners are not

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looking to spend sort of less time in maintaining their yard and garden. So I think that we just don't know, and it's pretty early.

Michael C. Lukemire
President & COO

Yes. But we are seeing a tendency to buy more on weekends like it was before COVID. That's for sure. So -- but we haven't seen -- the research says that consumers haven't walked and they still love [indiscernible].

James S. Hagedorn
CEO & Chairman of the Board

Jon, part of it is promotions. We worked really hard with retailers to get them to agree to push -- I mean, you guys will remember that part of our -- these big -- we were spending back before COVID probably 75% of our promotional dollars on like 3 or 4 Black Friday events. And when you looked at the hit rate on them, a lot of them were sort of late March, early April, and there were just lots of weather issues. And I -- we've spent years telling retailers, your hit rate on these -- if it's cold and wet, people just aren't in the stores, no matter what price on the products. So the first big Black Friday event was, I think, Depot last week. And...

Michael C. Lukemire
President & COO

2 weeks -- right after Easter.

James S. Hagedorn
CEO & Chairman of the Board

And I mean, what I was told, I think, was like maybe their biggest single day with lawn and garden was -- go ahead.

Cory J. Miller
Executive VP & CFO

A week.

James S. Hagedorn
CEO & Chairman of the Board

The biggest week they've had in our history with them. So it's -- there's a lot of variables out there that just make it very hard to say, well, what is it? You could say -- I was standing in line at a hardware store, a guy's got a bag of STEP1, it was like $78.50 out the register, Massachusetts, last weekend. And he was super nice. I had a bunch of stuff, and he only had this bag of STEP1. So he looked at me and said, "You want to go first?" And I said, "No, you're ahead of me, you go." But I was watching his face, and I even want to say, "Dude, I'm the CEO of Scotts when it was like $80 for like a single bag of STEP1."

But he didn't seem bothered. He was pleasant on the way out the door. I was expecting to say what the hell has happened to pricing. But I think if you look at -- we're not seeing a shift down to private label, I mean, not. And so it's -- there's a lot of things you could worry about. I think the biggest thing is if you believe us that we're sort of 3 weeks behind, it's like trying to be in April and call the year. And I think Mike, just before we started, said, because we were saying they were going to push hard on, I call it, the year. And Mike said, "Dude, it's May 1."

Michael C. Lukemire
President & COO

Yes. Well, I've been doing this for 26 years. Finance always wants to call the year. I wouldn't call it until June 15 to reforecast. In fact, I wouldn't reforecast because there's so much volatility. And this year, it's later than ever. And yet I look at what's selling right now, and it's the early season stuff, and we're overindexing on our higher-priced items so that gives me a different sign. And...

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James S. Hagedorn
CEO & Chairman of the Board

Yes. Look, I want to sort of -- there's been a -- I am acting aggressively right now to sort of cut expenses, make orders to get inventory down. That's coming from me. Not that Mike wouldn't have done the same thing, ultimately. But I live in this world, in this role between kind of Cory and Mike. And Mike was on the road last week. He was doing very important stuff that if it gets done, you guys are all going to appreciate it. And I think Cory just was looking pretty serious. And so I think Mike's view is -- and it has been my view as an operator, is I'm not doing these in the middle of the early half of the season, continual reforecasting, especially when things are behind. It's a lot of work to do it. And I think half the time, the operators are much more relaxed about the year. We had a Board meeting. And so again, this is sort of inputs that I was getting from Cory. And what I've done is basically said, if you think that could happen, then we're acting on it right now.

And so on Friday, we have a Board meeting. We're briefing the Board up on it. And the head of North America sales came up, and he just said, "Oh, bulls***." And so that's kind of where we're at right now, is I'm just trying to be safe and make the right decisions for the company. I'm not sure there's complete buy-in at the operating level, but these are the right numbers, but it's -- I'm taking the safe and aggressive action. And I have to say, it's hard because we started dealing with people changes this morning. And that comes out of Cory looking at me pretty seriously sort of the middle of last week. That's how fast we've acted aggressively.

I hope we've got it right, that we haven't overreacted. But I think if you look and say who are -- Larry Lindsey and Larry Summers are the economists that we use. And they're both pretty grim. And we hired them for exactly this reason over a year ago to sort of help us predict the future a little bit. And as you guys know, both of them are sort of -- think there's going to be a car wreck with the American economy.

And so Cory gets all serious in the middle of last week. Mike's on the road. Season is starting to catch up, but we're behind. And you have our economists saying, "Careful." And we're acting. And that's what you're hearing. And that's part of why we're not willing to call the bottom line number. Just give us -- again, imagine this is April 1, not May 1. And you've got to see the issue at that point, okay?

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

Yes. That makes sense. One quick one -- follow-up. If I made the simplification that the early season product is more in the lawn care area, mid-season to late season more in gardening, do you -- is there a correlation -- if you have a late start to the spring and maybe a little bit softer lawn care season, do you typically see that kind of carry through to gardening? Or are they really bifurcated and kind of separate -- driven separately?

James S. Hagedorn
CEO & Chairman of the Board

I would say very much separate. I think that if I had a concern, it would be commitment of the retailers to stay in with a bumpy start of the season. But what they're telling us is extremely positive.

Now back to this issue of garden, we're seeing -- I think it's at least the same weakness in live goods that we're seeing in our business. And remember, these are not like super expensive things, when you buy a plant.

I think that for those people -- King was telling me that they put some plants out and already had frost damage, and he's -- his main domicile at this point is the Carolinas. You can't put anything in -- we had snow in Vermont like last week. So I think that it's just the season is pushed back, but I think gardening very much is separate.

You're not seeing a lot -- like for those of you who -- there are people, I'm sure, on this call that do live in the suburbs. Dandelions are not -- I mean, I love dandelions because what it means for our business. You're not seeing even out here just dandelions really popping yet. So it's not like maybe we're behind.

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We are behind, the weather is behind, and gardening is kind of a short-sleeved business. We're seeing like pretty wicked pickup in the Southeast markets, which I think means people are getting in T-shirts and that's working. But dude, what I don't want to do is sort of promise you guys a bunch of hooey, and then you basically say, "Hagedorn is just so full of c***." And that's -- I just don't want to get under -- just give us a couple of weeks, you all.

Christopher J. Hagedorn
Division President

Yes.

Operator

We can go ahead and move on to our next question from Peter Grom with UBS.

Peter K. Grom
UBS Investment Bank, Research Division

I hope you're doing well. So I appreciate the lack of visibility, but can you just help frame what POS needs to kind of be exiting May to hit the low end of their U.S. Consumer target. And then second, this is -- I know you said it's probably the latest start of spring you've seen, but it's probably not the first time you've seen a late start. So can you maybe help us frame what you've seen historically? If weather improves in May, are you able to more than offset some of the weakness you've seen in April to kind of be even for the year versus the original plan? And I guess just what is kind of the key point in May from a weather perspective where you kind of lose those sales permanently for the season?

James S. Hagedorn
CEO & Chairman of the Board

There's a lot there. Listen, what we want is the kind of warm weather. I mean what's happening here right now in Ohio is the flowers are in bloom. The leaves are coming out, the lawns starting to sort of really get green out here. That's what we want, okay, kind of everywhere. If we saw -- and honestly, right now, I'm just -- I would be happy for it to be fairly cool and not too rainy, especially on the weekends.

We have made up these kind of deficits and more. Remember, we have super easy comps ahead of us. We -- comps are like 9% our friend right now, like minus 9% is what we're comping against compared to up to May 1, like plus 35%, I think, is what we had to comp against. So we have easy numbers. I think what you probably need is like kind of double-digit numbers between now and the sort of season end. At least in the big weeks between now and kind of, call it, the middle of June, something like that. That's kind of what we'd see. But again, we're dealing with minus 9% comps. So it's not crazy hard to do. And we've seen it before. Like I said, we took a global deficit and in just a little over a week, cut it into 1/3. So that's -- people were looking pretty shell-shocked here. And just 2 good weekends was very, very helpful.

Michael C. Lukemire
President & COO

Yes. I've tried to put a number on it. Because you guys, we look at the big 3, I'd say, around plus 10%. And -- but we have a lot of other accounts that are leaning in as well. And I couldn't give you a POS number, but that's where we'll make...

James S. Hagedorn
CEO & Chairman of the Board

That's another dynamic that, I think, is affecting the season and will affect the season go forward. If you say all promotions have really pushed until after Easter, which is a good thing, not a bad thing. And it was not by accident. It was advice that we have been working with the merchant teams on for a couple of years now. You are seeing, since COVID, a lot more retailers playing in lawn and garden pretty hard and looking to win. And so I think there's a lot more internal competition for share within the retail footprints where they're going to be promoting on their own for getting the lawn and garden business into their

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footprint versus somebody else's. And so there's -- it's a pretty competitive place out there right now, which I think is actually helpful for the business.

Michael C. Lukemire
President & COO

There's more people in lawn and garden now than just traditionally. So I'm always cautious to use our big 3 traditional numbers when you look at our total season. And so there's some that are actually approaching to be in the top 3 that are not what you think of. So...

Operator

We'll go ahead and get our next question from Andrew Carter with Stifel.

William Andrew Carter
Stifel, Nicolaus & Company, Incorporated, Research Division

I wanted to understand just to frame where EPS will go, and I understand you're not giving guidance, but you said pressure in the second half. Does that mean pressure to your original guidance or pressure on a year-over-year basis, suggesting the trailing 12 number, I believe, $7.40-ish could be the right number for this year? That's my first question.

Cory J. Miller
Executive VP & CFO

Andrew, it's Cory. I'd say there's pressure on our most recent guidance that we've put out there. And the pressures coming -- as we've talked about, commodities been a huge cost pressure, late start to the season. We're clawing that back now. Still got a lot of runway ahead of us. But the pressure that we're seeing is against that last round of guidance that we gave beginning of March.

William Andrew Carter
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. Second question, just speaking higher level, and I appreciate all the uncertainty and the quick action you're making. But just backing up on the investment behind RIV Capital, I think it's going to be just over $200 million year's commitment. They just bought Etain in New York last month. Just help us better understand that as a use of capital right now, and you did mention the separation, no doubt, pushed off but something you want -- but something you still want to do. Am I wrong to think that the Etain business would require further capital commitments, therefore, subsidation (sic) [subsidization] that might be difficult for a standalone Hawthorne to do?

James S. Hagedorn
CEO & Chairman of the Board

Okay. I'm just going to go sort of right to RIV/Etain. And one of the things I want to try to do without freaking out bankers and lawyers is talk about what I believe RIV's strategy is and why we found it attractive. And let's just go back to saying -- remember, they had about $200 million in capital there. We've contributed, I think all in, it will be around $215 million or something like that, I think, is the number. So I think they have the capital they need to not only make the acquisition or made the acquisition but also develop the footprint for New York. And that's what we're interested in and what we, I think, see eye to eye with Mark Sims, who's the CEO at RIV, who's my head of -- was my Head of Strategy.

We believe that -- as this industry matures, that the money will be earned with branded consumer products just like what we're in today and that we believe that eventually, I don't want to use bad language with the Congress of the United States, but they'll get off their ass. And I think we made it pretty clear to them, I did, to sort of leadership folks on the Senate side that -- the Republicans taken the house and maybe the Senate, they will have missed a wicked opportunity to sort of deal with SAFE Banking and 280E, which are major issues for this space.

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But regardless, our intent is to build with RIV the finest branded consumer pot company the world has ever seen. And our -- I mean, I'm not exaggerating that. And the part of people look at Etain, they say, "Oh, my God, what is that? And it's a lot of money," which it is. But when we do the math, we can make money at it, okay? Let's start with that.

I mean RIV can make money at it and we want to invest in that space. We believe that when banking happens. And I'm actually modestly confident banking will happen in -- before, hopefully, democrats lose a bunch of seats in D.C. But I do think that SAFE Banking will happen, possibly even 280E, dealing with sort of the tax implications of it. So we really like the space. We believe that once banking happens and the U.S. exchanges are open to pot companies being listed, that's the time we'd convert. We intend to fully -- to convert once those things happen.

And our strategy, which you're not seeing yet, and that's part of the problem, is the people we want to participate with to build the finest branded pot company at the consumer level that the world has ever seen. And we intend to do that. And that's why we're pretty serious about this. And that's why we view our investment in the space as being long term worth it. And it's -- as you see that develop, and you'll start seeing things happen, I hope soon, coming out of RIV, I think you'll start to understand more and more what it is we're trying to build. And you'll see that -- and we're not all defocused and stuff. This is one of the things that, I think, we have to do for you guys, and my family is not in a different place than I think the investment community in general, which is to say, "All right, so fine, you put $215 million in it. You're not going to keep chasing that space, right, until you prove it out."

And my advice to RIV is that I think that's a really good -- we got the state we wanted. We got New York. We have 1 of the 10 legacy permits. This is vertical all the way from cultivation through processing, distribution all the way up to retail. We won in New York. Prove we can make it work. We will give you all the tools, and they have the tools to get this done. You'll see more coming.

But I -- what do I think? If we screw it up, it's because it's either way harder than we think or we just screwed it up because we're a bunch of lamebrains. But I don't think those things are going to happen. I think a year from now, 1.5 years from now, you'll see what we've done, and you'll see that this is extendable to other parts of the United States. But we are limited on what we're doing to this Etain New York deal. They are fully capitalized to get that done. You'll see more stuff in the future. I intend for this whole thing to be sort of combined. We need the Congress of the United States to do what the American people want, which is to fix the legal issues for this category. So there you go.

Operator

We'll go ahead and take our next question from William Reuter with Bank of America.

William Michael Reuter
BofA Securities, Research Division

First is there were some comments that were made about continuing to want to be active in Hawthorne's business segments. I think they may have referred to M&A. But then there was also the commentary about how your economists have a pretty grim view on the outlook in terms of recession. So I guess how does that leave you in terms of your interest in M&A in the near term?

James S. Hagedorn
CEO & Chairman of the Board

Well, I don't think we're interested in a ton of money going out the door. So I'll start with that. No, I think we have actually a pretty limited appetite for M&A. Would have to be highly strategic. I've already told my team that sort of normal returns in sort of wartime don't do it for me. So the Cyco deal, I think we -- I told them 15% returns just don't do it for me. And we inputted a minimum requirement on IRR of 30%. And that deal was completed with that as our planning.

And our deals have been, I'm going to say, all the small deals that we've done have been very successful. But I would say we've got a very limited appetite at this point on M&A. I don't think we're looking for cash

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out the door on pretty much anything at this point. Right now, we're just looking to get through where we are. Anything would be highly strategic and probably noncash.

William Michael Reuter
BofA Securities, Research Division

Perfect. And then just secondly for me. When you were discussing earlier, Jim, the separation of Hawthorne, you acknowledged that it still continues to make sense in your view. Then there was a comment from another analyst earlier referring to the timing of it having been pushed off. I guess what is that -- where does that leave you in terms of, I guess, the interest with regard to timing and how we should think about that?

James S. Hagedorn
CEO & Chairman of the Board

Look, what I would say is stand by for words. That's what I would say, which is we're working on it. I think everybody is engaged in this and sees the advantages to doing it. But I would just say stand by for words.

Operator

We'll move on to our next question from Eric Bosshard with Cleveland Research.

Eric Bosshard
Cleveland Research Company LLC

Two things. In terms of consumer, I'm just trying to get perspective on the restructuring you're talking about. You've built a lot of inventory. A year ago, you talked about adding capacity. Today, you're talking about restructuring to some degree. So trying to understand the context of that and also trying to understand if this is just related to a slow start in commodity costs. Or is this related to a different view of demand and the consumer's willingness to continue to pay higher prices?

James S. Hagedorn
CEO & Chairman of the Board

All right. I think it's the former, to be honest. The -- it does seem a bit abrupt, but I think we're sitting on like plus $600 million in inventory. North America is behind. Hawthorne is behind, and I think that's driving us to say, "Yo, careful, dude."

And so Mike and I started looking at the business, I mean, really just about a week ago and saying, look, I want some expenses out the door. I think -- remember, Eric, if you look at sort of what's happened in the last like 2.5 years, the business is plus 30%, a business that we were saying like was 0% to 2%.

To some extent, we had to build out our footprint. And I think that the -- our experience through COVID was it sucks being tight on inventory. So I think the choices we made to expand our manufacturing footprint, read that capital, expand our sort of distribution footprint and add more inventory to it, I think, are pretty natural. I think what we're looking at now is saying, "Yo, pull it back." And some of it is not wise. I mean we're not going to shrink our manufacturing, but we do have a lot of inventory. And if you look at the inventory, a lot of that is way more expensive than it was, call it, 1.5 years ago. And so I'm asking Mike to sort of aggressively attack the inventory and get that down in part because I think it's in excess of what we need.

And I think our go-forward view -- I don't -- listen, to be fair, I don't know that we have really developed a point of view of whether we're going back to a low single-digit growth rate. I think you look at housing, and I don't know what interest rates are going to do to that. But Jim King's kids are trying to -- or at least one of them is trying to buy a house in Atlanta and just keeps making bids and not getting it. There's a lot of places in the United States where housing is just -- and there were some really interesting articles last week in the journal about it. And these are young people who want homes. It says one thing about our space that we've talked about a lot, which is, "Are people going to live in condos inside the beltways? Or are they going to -- do they want homes?" And if anything, that market is still hot.

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Now is it harder to get a mortgage? Is it more expensive? But housing is still a big positive, and that's young people who want homes and have voted that they want a garden and a dog and kids. And we've talked about the demographics there. I feel actually good about it, but I don't think we've really glommed on to with the ride we've been on right now to say, is the future 1% or 2% growth or is it sort of 3% or 4%? And how do we come off of this plus 30%? We thought we'd be down last year. So I don't know that I have as good an answer as you'd probably like to say it's developed, but that's where we are.

Eric Bosshard
Cleveland Research Company LLC

Just a point of clarity, and then my Hawthorne question. The excess inventory -- if you have too much inventory, did you make too much? Or do you now expect to sell less than you had originally planned?

James S. Hagedorn
CEO & Chairman of the Board

I'd say both. That's what I would say.

Michael C. Lukemire
President & COO

You have longer lead time items out in China. So you're making a bet. So -- and part of our supply chain improvement is we're actually going to more assembly in the U.S. And we'll be able to flex that.

Eric Bosshard
Cleveland Research Company LLC

But you're talking Hawthorne now?

Michael C. Lukemire
President & COO

I'm talking Hawthorne. Same for the U.S. Quite frankly, it was -- availability of materials is part of the reason we build because we have left sales on the table. We've been adding some capacity, but that capacity become flex capacity to be more nimble.

James S. Hagedorn
CEO & Chairman of the Board

Yes. Eric, I think it's -- we look back on it, we're trying to like blame ourselves a little bit for this. But the thing is, if you look back a year ago and said -- we don't want to live in the world we don't have product. Year 1 of COVID, we didn't even get yelled at by retailers, although they were missing a lot of stuff. And I think we put a number of like -- we missed $100 million of Hawthorne sales and like $200 million of retail in consumer.

Last year, we were tighter than hell. I think we just said we should run fatter on inventory, and that was a decision that Mike made, and I supported it. You look now that we're behind and you say, "F***, I wish I had a little bit less product out there." But I want to tighten the screws down, and we're willing to be pretty hardcore to get there without trying to screw next year up. And that's, I know, what Mike is...

Michael C. Lukemire
President & COO

Well, that -- we just got to get it right back in balance. So I look at inventory as a time frame where we're trying to look at it yearly to hit numbers, but we can rightsize the supply chain. We get the capacity right. We're getting better and more reliable supply chain, again, from our raw material suppliers. Remember, we couldn't get materials. We were, in some cases, 4 or 5 weeks behind on just getting raw materials to convert. So...

James S. Hagedorn
CEO & Chairman of the Board

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Eric, another thing that's really interesting from my point of view is how fast the changeover has happened to LEDs on the Hawthorne side. And it's not just there, it's in horticultural lighting too, both in Europe and Canada, on the sort of noncannabis side. But everybody is going LEDs.

And this is something -- we're the leader in the world in this. But even the people we bought those businesses from said, oh, it's going to be a lot longer. This changeover is going to -- and so these are pretty long lead items and expensive. So I think we're pretty fat on these long lead items. And that -- part of that is this changeover to LEDs. Part of it is just the length of the supply chain.

Michael C. Lukemire
President & COO

Yes. I mean when the 1700 came out, our first LED light, we made a bet about $30 million to make an investment, and that wasn't enough. So we said we'd be more aggressive when we brought out the next generation of innovation and a little heavy. So...

Christopher J. Hagedorn
Division President

Well, I mean in our ProHort business right now, we're seeing really phenomenal results. We deliver them some LED innovation as well. It's a different type of light. The way that those growers use their fixtures is different than the cannabis growers. We gave them some innovation. They've run with it. And now the kind of the governor on that business is just how much can we make and get delivered before the end of the year. So when we get the innovation out there, it tends to hit.

Michael C. Lukemire
President & COO

So then you have to make a bet and we -- sometimes we bet right, sometimes we bet wrong. And so the more that you can be flexed on your capacity and do it where you can convert, you better your inventory control gets. So...

James S. Hagedorn
CEO & Chairman of the Board

All right. You were headed to Hawthorne, sir?

Eric Bosshard
Cleveland Research Company LLC

Yes. And then on the Hawthorne side, your commitment and conviction is pretty obvious. You've made 5 acquisitions in the last year. You talked about the RIV deal, your comment about return expectations of 30% for acquisitions. I understand all of that. But it's a business this year that is -- from a profit standpoint, is going to be maybe marginally profitable. The spin is interesting. But from an investor standpoint, what is the margin expectation for this business that investors should be holding on to? I think you talked about leaving this year at 8% or 10% margins. I mean is this business on a path or do you have conviction of getting us to a 10% margin business next year? Or should investors look beyond [indiscernible]

James S. Hagedorn
CEO & Chairman of the Board

Look, I'm not going to -- I don't want to get into next year because there's a lot -- Eric, I don't want to get into next year at this point because there's a lot of planning happening for that. But I would say if you said to my folks, what kind of margins do we want on that business? And I'm going to say, in the relatively short term, which means I'm not so much looking at next year at this point, but saying maybe beyond next year. But it's not today -- it's impossible for next year. I just haven't seen the work yet on it. But I would say north of 15%, not south of 15%.

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And I want to be careful on that because with what we're going through now, people are -- have like laser beam eyes. And I want to make sure that what people are building to is the business -- as we go through -- change is the result of a significant emotional event -- I would say, significant emotional event time. And I want to make sure that people are building a business that is the partnership we want with the cultivation community. And we don't just decide we're going to be a distributor. So I think, Eric, that the numbers are north of 15%, but a lot of that depends on who are we and what's it going to take to get there. So yes, I would say 15 plus percent, sir.

Operator

And we'll go ahead and take our next question from Gaurav Jain with Barclays.

Gaurav Jain
Barclays Bank PLC, Research Division

Most of my questions have been answered. I had just a quick question on share repurchases. So given the comments that the economy could be a car crash and you're preparing for the worst, should we assume that there won't be any share repurchases now for quite a considerable period of time?

James S. Hagedorn
CEO & Chairman of the Board

I think that's probably a reasonable assumption. I would say the only exception to that would possibly be just trying to keep up with dilution from share options. But I think generally, the answer would be low to 0. The only thing I think that we'd look at is saying, do we just -- what do we got to do to keep our share count pretty constant?

Cory J. Miller
Executive VP & CFO

Yes. Through the end of Q2, we've done $175 million this year. Nothing planned for Q3 and Q4 on the line of Jim's comments.

Gaurav Jain
Barclays Bank PLC, Research Division

And Jim, just a follow-up question to that, like, look, Larry Summers, as you pointed out, he's probably the most bearish economist out there. And you sort of -- have sort of acknowledged that another company got too bullish last year. And is there a risk that you might now get too bearish on how things unfold here?

James S. Hagedorn
CEO & Chairman of the Board

Yes, yes.

Gaurav Jain
Barclays Bank PLC, Research Division

And how do you ensure that -- I mean, it's a difficult thing for you to -- what I'm trying to understand is that for you also to plan your workforce and what could happen 2, 3 years down the line? So how do you judge that and plan and construct the company for something like this?

James S. Hagedorn
CEO & Chairman of the Board

Here's how I justify it. I don't know if this is real, but it's -- in my head, it's real. I think Mike and I and the rest of the leadership team can look at the corrections we're going to take the business through right now and say, will it help decision-making? Will it help make us a better company going forward? What do we need to do to get that inventory out and sort of clean up our balance sheet and get us more in fighting trim?

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I think that if the world is less grim, at least in the lawn and garden world, and remember, we've got a lot of experience coming through recessions. They're not terrible for us. I think if you looked at sort of 2010, there were 2 things, 2 groups of products that were selling at home centers: paint and lawn and garden, projects that were less than $100. So I wouldn't say we're recession-proof, but I do believe we're recession-resistant.

Now if we're overcorrecting, I think that what Mike and I will feel better about is that we've created some opportunities for some younger people to have more stuff to do that will have a more snappy decision-making culture that I think is very important in parts of our business and that we'll be looking at a really impressive young group of people who've got a lot more responsibility in the company. So I don't know, Mike, if you say -- is this all worth it, especially if the sales aren't as bad as like Cory thinks?

Michael C. Lukemire
President & COO

Well, I think it just -- we were operating unconstrained up until the commodity -- [willing as] much growth, and we were doing a lot of investing. I think it's time to recalibrate, reset and go back. When I first took over as COO and Jim gave me the job, we flatlined the organization and we built -- we had a great run. We're kind of going back basics, flatline, rebuild. That's...

James S. Hagedorn
CEO & Chairman of the Board

Yes. I mean I think -- what do I think? And I would view this as a positive, even though it involves of some sadness within the business, is we're looking to take, I would say, at least a layer out of the decision-making tree. And I think that when -- it creeps in when you're getting all this growth. I think getting rid of it, while it's hard and involves people, I think we do see a lot of decision-making advantages coming out of that. And so we can take advantage of things. And we're trying to build flexibility here. And the resources to get -- to chase the things we want to be chasing and not be on the wrong side of everything is just a gauntlet.

Operator

We'll go ahead and take our next question from Carla Casella with JPMorgan.

Carla Casella
JPMorgan Chase & Co, Research Division

You answered a lot of questions about inventory. But just -- I'm wondering if you could give us -- help us to get our arms around how much of the increase in inventory was pricing versus volume and Hawthorne versus consumer. And then also, my second question is somewhat related. I mean your short-term borrowings are up considerably. How much of that is revolver versus accounts receivable facility?

Cory J. Miller
Executive VP & CFO

Carla, this is Cory. If you look at inventory, we're up, we'll call it, $600 million to make the math easy. It's about half and half, Hawthorne and U.S. Consumer. And in each of those businesses, it's about 2/3 up in units, 1/3 up in cost. So the commodity cost is driving the cost of our inventory up about 1/3 of the increase in total in each of the businesses.

Second part of your question is on short-term borrowings. Short-term borrowings are up -- inventory is part of the reason why the short-term borrowings are up. So the short-term aspect of our debt is mainly the revolver. We're utilizing the revolver. The banks love that we're utilizing the revolver, and that's why we wanted to make sure we had a facility that we just closed on that was sized appropriately for the business. So when you look at the short term, it's mainly revolver usage.

Carla Casella
JPMorgan Chase & Co, Research Division

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Okay. And then should that start coming -- I mean, are we -- are you at the peak? Or are we past peak season?

Cory J. Miller
Executive VP & CFO

We're kind of right about the peak as peak sell-in is happening now. Inventory is high. As we start collecting on the sales that are happening now, we'll start paying down that revolver balance to get down to where we normally are at the end of the year.

James S. Hagedorn
CEO & Chairman of the Board

And drive inventory out the system.

Cory J. Miller
Executive VP & CFO

And drive inventory out.

James S. Hagedorn
CEO & Chairman of the Board

Yes.

Carla Casella
JPMorgan Chase & Co, Research Division

And so did you get rid of the accounts receivable facility? Or is some of that drawn as well?

Cory J. Miller
Executive VP & CFO

No, we haven't got rid of it. It is being drawn. I don't have the amount right here compared to last year, but it is still being used very consistently with how we've used it in the past.

Operator

All right. It appears there are no further questions at this time. Mr. King, I would like to turn the conference back to you for any additional or closing remarks.

James D. King
Chief Communications Officer, Executive VP and Senior VP of Investor Relations & Corporate Affairs

All right. Thank you, Madison. Thank you, everybody, for joining us this morning. Again, as a reminder, on June 9, Cory and I will be in Chicago at the William Blair event. More likely than not, we will have a public communication in advance of that event, probably the day before. And in the meantime, if you have any questions that I can help you with, please call me directly at (937) 578-5622. Thanks again for joining us. Have a great day. Go garden. Bye.

Operator
And this concludes today's call. Thank you all for your participation. You may now disconnect.

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