



Scotts Miracle-Gro

Q2 2024 Quarterly Earnings Report

Second quarter ended March 30, 2024

Supplemental Financial Presentation

May 1, 2024

Please view this presentation in conjunction with our Q2 2024 earnings release, which is filed on Form 8-K, our related pre-recorded remarks and additional information regarding our non-GAAP financial measures, including GAAP to non-GAAP reconciliations, available on our website at <https://investor.scotts.com>.

Safe Harbor Disclosure

Statements contained in this presentation, which address activities, events and developments that the Company expects or anticipates will or may occur in the future, including, but not limited to, information regarding the future economic performance and financial condition of the Company, the plans and objectives of the Company's management, and the Company's assumptions regarding such performance and plans are "forward-looking statements" within the meaning of the U.S. federal securities laws that are subject to risks and uncertainties.

Additional detailed information concerning a number of the important factors that could cause actual results to differ materially from the forward-looking information contained in this presentation is readily available in the Company's publicly filed annual, quarterly and other reports. The Company disclaims any obligation to update developments of these factors or to announce publicly any revision to any of the forward-looking statements contained in this presentation, or to make updates to reflect future events or developments.

This presentation contains certain non-GAAP financial measures. For a reconciliation of GAAP to non-GAAP financial measures, please see the Appendix of this presentation.



Today's speakers



Jim Hagedorn
Chairman,
Chief Executive Officer
and President



Matt Garth
EVP, Chief Financial Officer
and Chief Administrative Officer

Q&A

A Q&A session will follow the earnings webcast at approximately 9:30 a.m. ET.



Jim Hagedorn

Chairman,
CEO & President



Nate Baxter

EVP & COO



Matt Garth

EVP, CFO & CAO



Chris Hagedorn

President, Hawthorne
Division

Review the press release for registration details.

- To listen to the Q&A, please remain on the [webcast link](#) following our video.
- To ask a question, please pre-register via the [audio link](#) for call-in details and a unique PIN.

Second Quarter Performance Summary

Total Company non-GAAP Results vs. Q2 2023

Net sales	\$1.53 billion	Flat
Adjusted Gross Margin Rate	35.3%	+60 bps
SG&A	\$178.7 million	-4%
Adjusted Net Income	\$211.9 million	vs. \$213.8M
Interest Expense	\$44.1 million	-9%
Adjusted Effective Tax Rate	28.6%	+220 bps
Adjusted Diluted EPS	\$3.69	vs. \$3.78
Adjusted EBITDA	\$396.3 million	vs. \$404.8M
Leverage	6.95x	vs. 7.75x maximum



Q2 2024 Business Update

PRESENTED BY

Jim Hagedorn

Chairman, Chief Executive Officer and President

Three Key Objectives for Fiscal 2024 - all on pace

Drive \$575M Adjusted EBITDA

- Near record U.S. Consumer Q2 Sales and Total Company gross margin improvement exceed operating plan
- High single-digit growth in Lawn & Garden is on track and achievable for the full year
- Minimum 250 bps gross margin rate improvement in FY24
- ~60% of POS in Q3
- Activating consumers with new innovation and aggressive marketing plans - 25% more planned media in Q3 vs. prior year

\$560M Free Cash Flow / \$350M Debt Paydown

- Strengthening balance sheet is key to improving financial flexibility for growth-driving investments
- Q2 Leverage of 6.95x adjusted EBITDA comfortably below 7.75x max and targeting ~4.50x by year-end
- YTD free cash flow through March improved >\$500M vs. prior year - on track to \$560M for full fiscal year
- Debt paydown of at least \$350M by fiscal year-end
- Committed to retaining quarterly dividend

Advance Strategic Path for Hawthorne

- Optimizing for future growth and optionality; on track to breakeven or better contribution to adjusted EBITDA
- Focusing on our best-in-class Signature brands and discontinuing distribution of non-proprietary brands advances margin recovery
- New national distribution partnership with BFG Supply is important step in achieving profitability goals
- Continued efforts to support an eventual separation of the business when the timing is appropriate

US Consumer Launches Exciting Innovations & Marketing

New Innovations



Associated Marketing



An open floor kitchen is nice. But what about the garden?

The Martha Stewart of Soil
Learn More



THIS STUFF WORKS FOR UP TO 4 MONTHS OF WORKOUTS.
NEW DUAL ACTION. THIS STUFF WORKS.



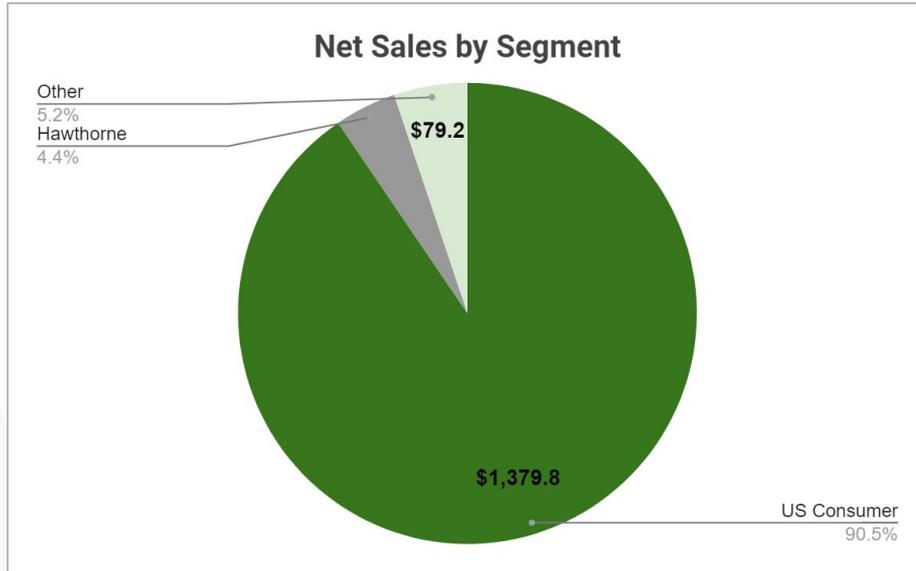
Q2 2024 Financial Update

PRESENTED BY

Matt Garth

EVP, Chief Financial Officer and Chief Administrative Officer

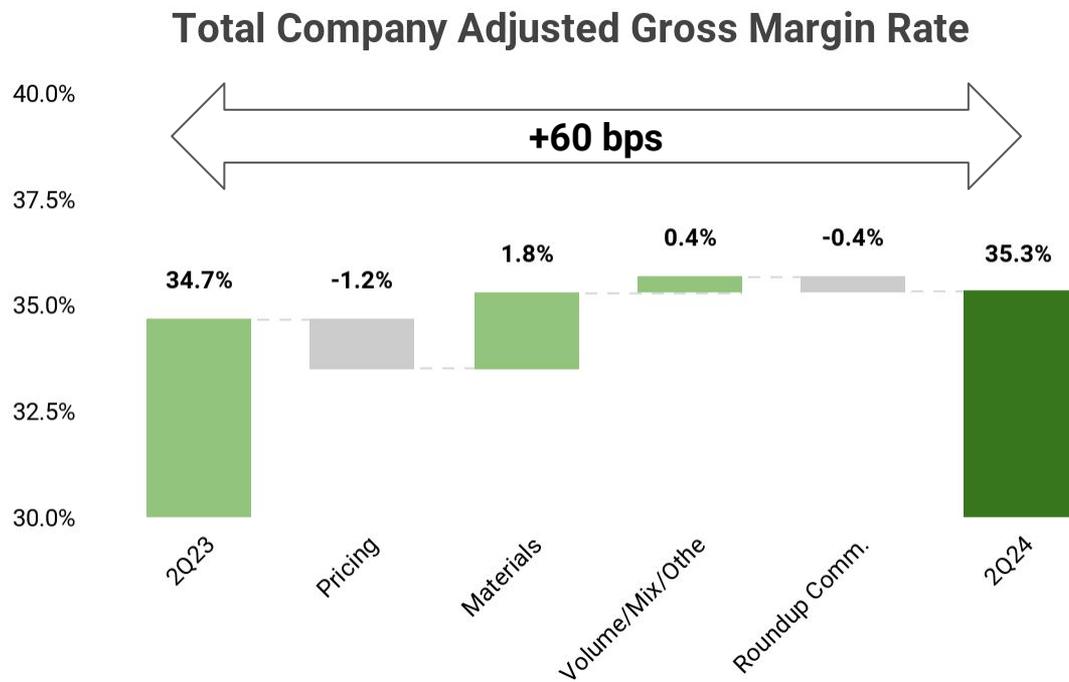
Total Company Net Sales



- **U.S. Consumer**
 - In line with record set in 2Q 2022
 - 1.7% increase versus 2Q last year
 - High single digit percentage growth in unit POS through April
- **Hawthorne**
 - Decline driven by industry headwinds and discontinuing third-party distributed brands
 - 28.4% decline versus 2Q last year
- **Other**
 - Primarily Canada L&G Business
 - 2.7% decline versus 2Q last year



Total Company Adjusted Gross Margin Rate

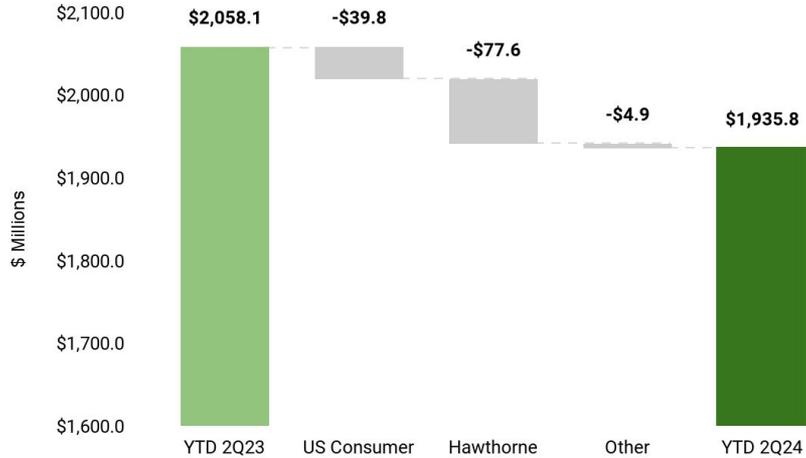


Full Year Expectations

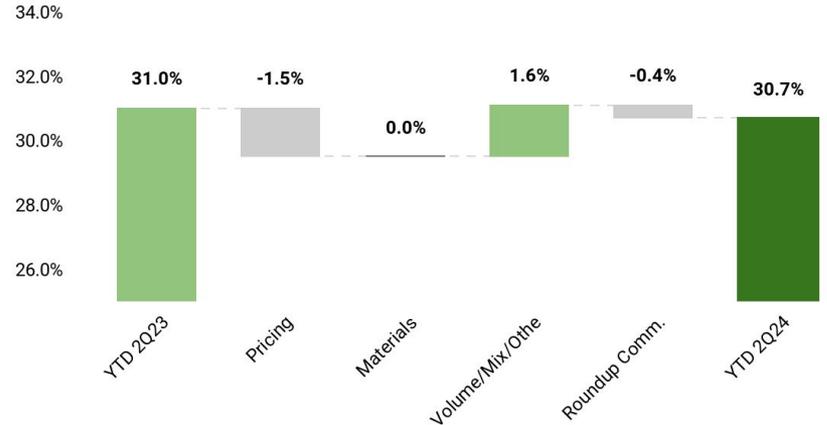
- +250 bps or more vs. FY23
- Favorable mix more than offsetting low single digit pricing decreases
- Project Springboard distribution and other cost savings benefits
- Avoid prior year one-time excess inventory write-off
- Material cost and fixed cost leverage benefits to be realized late FY24 and into FY25

Total Company Net Sales and Adjusted Gross Margin Rate

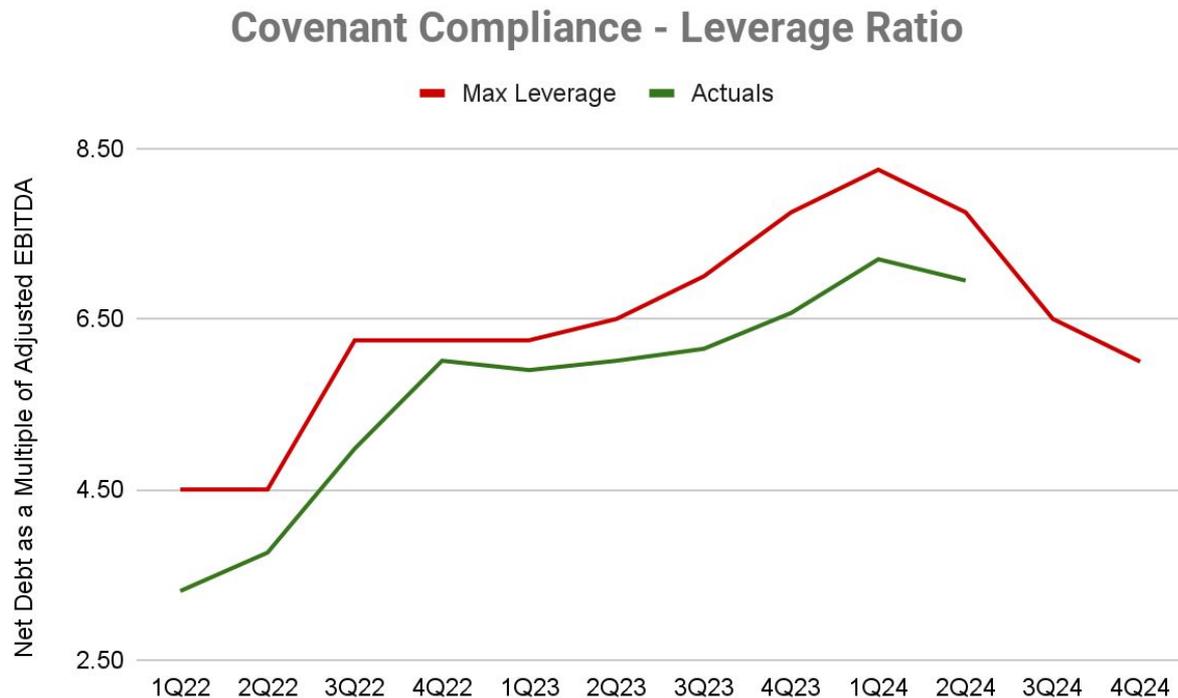
Total Company Net Sales



Total Company Adjusted Gross Margin Rate

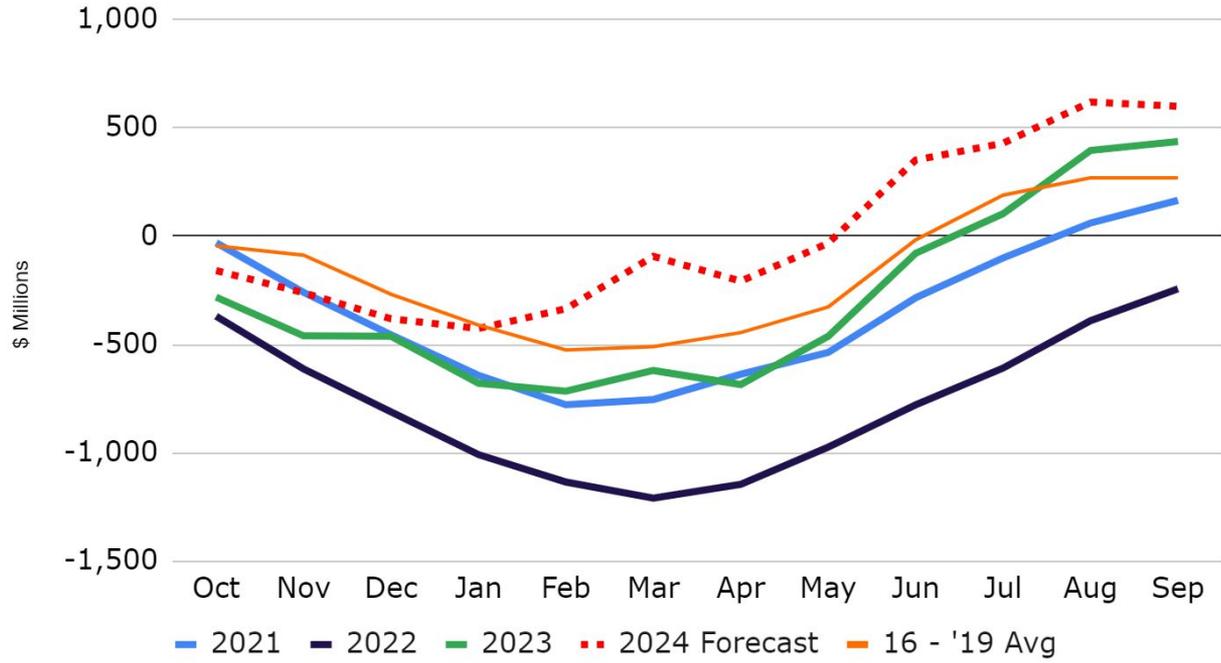


Fiscal 2024 Leverage Glidepath



Company on track to exceed \$1 Billion in FCF over 2 years

Cumulative Free Cash Flow



Appendix

Second quarter ended March 30, 2024



Our Fiscal 2024 Guidance

Net Sales	<ul style="list-style-type: none"> • US Consumer: High Single-Digit increase • Hawthorne: 25% - 30% decline
Adjusted Gross Margin Rate	<ul style="list-style-type: none"> • 250 bps of improvement
SG&A	<ul style="list-style-type: none"> • 15% - 16% of net sales • Media investments +12% y/y
Adjusted Operating Margin Rate	<ul style="list-style-type: none"> • 10.5% - 11.0% of net sales
Interest Expense	<ul style="list-style-type: none"> • Flat • \$20 million A/R discount cost in other income/expense
Adjusted Effective Tax Rate	<ul style="list-style-type: none"> • 29% - 30%
Adjusted EBITDA	<ul style="list-style-type: none"> • \$575 million • Depreciation, Amortization, and Share-Based Compensation Adjustments flat to prior year in total
Diluted Share Count	<ul style="list-style-type: none"> • Increase of 1.5 million shares
Free Cash Flow	<ul style="list-style-type: none"> • \$560 million (balance of \$1B over 2 years)



Reconciliation of Non-GAAP Financial Measures

Use of Non-GAAP Measures

To supplement the financial measures prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), the Company uses non-GAAP financial measures. The reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for or superior to, financial measures reported in accordance with GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of the business as determined in accordance with GAAP. Other companies may calculate similarly titled non-GAAP financial measures differently than the Company, limiting the usefulness of those measures for comparative purposes.

In addition to GAAP measures, management uses these non-GAAP financial measures to evaluate the Company’s performance, engage in financial and operational planning, determine incentive compensation and monitor compliance with the financial covenants contained in the Company’s borrowing agreements because it believes that these non-GAAP financial measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of the Company’s underlying, ongoing business.

Management believes that these non-GAAP financial measures are useful to investors in their assessment of operating performance and the valuation of the Company. In addition, these non-GAAP financial measures address questions routinely received from analysts and investors and, in order to ensure that all investors have access to the same data, management has determined that it is appropriate to make this data available to all investors. Non-GAAP financial measures exclude the impact of certain items and provide supplemental information regarding operating performance. By disclosing these non-GAAP financial measures, management intends to provide investors with a supplemental comparison of operating results and trends for the periods presented. Management believes these non-GAAP financial measures are also useful to investors as such measures allow investors to evaluate performance using the same metrics that management uses to evaluate past performance and prospects for future performance. Management views free cash flow as an important measure because it is one factor used in determining the amount of cash available for dividends and discretionary investment.

Reconciliation of Non-GAAP Financial Measures

Definitions of Non-GAAP Financial Measures

The reconciliations of non-GAAP disclosure items include the following financial measures that are not calculated in accordance with GAAP:

- Adjusted gross margin: Gross margin excluding impairment, restructuring and other charges / recoveries.
- Adjusted equity in income (loss) of unconsolidated affiliates: Equity in income (loss) of unconsolidated affiliates excluding impairment charges.
- Adjusted income tax expense (benefit): Income tax expense (benefit) excluding the tax effect of impairment, restructuring and other charges / recoveries, costs related to refinancing and certain other non-operating income / expense items.
- Adjusted diluted net income (loss) per common share: Diluted net income (loss) per common share excluding impairment, restructuring and other charges / recoveries, costs related to refinancing and certain other non-operating income / expense items, each net of tax.
- Adjusted EBITDA: Net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income (loss). A form of Adjusted EBITDA is used in agreements governing the Company's outstanding indebtedness for debt covenant compliance purposes. Adjusted EBITDA as used in those agreements includes additional adjustments to the Adjusted EBITDA presented in the reconciliations above which may decrease or increase Adjusted EBITDA for purposes of the Company's financial covenants.
- Free cash flow: Net cash provided by (used in) operating activities reduced by investments in property, plant and equipment.

Forward Looking Non-GAAP Measures

In this presentation, the Company presents certain forward-looking non-GAAP measures. The Company does not provide outlook on a GAAP basis because changes in the items that the Company excludes from GAAP to calculate the comparable non-GAAP measure, described above, can be dependent on future events that are less capable of being controlled or reliably predicted by management and are not part of the Company's routine operating activities. Additionally, due to their unpredictability, management does not forecast many of the excluded items for internal use and therefore cannot create or rely on a GAAP outlook without unreasonable efforts. The occurrence, timing and amount of any of the items excluded from GAAP to calculate non-GAAP could significantly impact the Company's GAAP results. As a result, the Company does not provide a reconciliation of forward-looking non-GAAP measures to GAAP measures, in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K.

Reconciliation of Non-GAAP Financial Measures

Reconciliation of Non-GAAP Measures (In millions, except per share data) (Unaudited)

	Three Months Ended March 30, 2024			Three Months Ended April 1, 2023		
	As Reported (GAAP)	Impairment, Restructuring and Other	Adjusted (Non- GAAP)	As Reported (GAAP)	Impairment, Restructuring and Other	Adjusted (Non- GAAP)
Gross margin	\$ 463.7	\$ (74.9)	\$ 538.6	\$ 412.7	\$ (118.7)	\$ 531.5
Gross margin as a % of sales	30.4%		35.3%	26.9%		34.7%
Income tax expense	62.3	(22.6)	84.9	40.4	(36.1)	76.5
Effective tax rate	28.3%		28.6%	27.0%		26.4%
Net income	157.5	(54.4)	211.9	109.4	(104.4)	213.8
Diluted net income per common share	2.74	(0.95)	3.69	1.94	(1.85)	3.78

Calculation of Adjusted EBITDA:

	Three Months Ended March 30, 2024	Three Months Ended April 1, 2023
Net income (GAAP)	\$157.5	\$109.4
Income tax expense	62.3	40.4
Interest expense	44.1	48.3
Depreciation	16.2	16.0
Amortization	3.9	6.4
Impairment, restructuring and other charges	77.0	140.5
Equity in loss of unconsolidated affiliates	7.0	7.3
Interest income	(0.2)	(1.0)
Share-based compensation	28.5	37.5
Adjusted EBITDA (Non-GAAP)	\$396.3	\$404.8

Reconciliation of Non-GAAP Financial Measures

Reconciliation of Non-GAAP Measures

(In millions, except per share data)

(Unaudited)

	Six Months Ended March 30, 2024			Six Months Ended April 1, 2023		
	As Reported (GAAP)	Impairment, Restructuring and Other	Adjusted (Non- GAAP)	As Reported (GAAP)	Impairment, Restructuring and Other	Adjusted (Non- GAAP)
Gross margin	\$ 525.9	\$ (69.1)	\$ 595.0	\$ 508.4	\$ (128.9)	\$ 637.3
Gross margin as a % of sales	27.2%		30.7%	24.7%		31.0%
Equity in loss of unconsolidated affiliates	29.5	10.4	19.1	18.7	-	18.7
Income tax expense	28.6	(21.9)	50.5	10.8	(46.5)	57.2
Effective tax rate	27.1%		28.0%	19.5%		26.6%
Net income	77.0	(52.7)	129.7	44.7	(112.7)	157.4
Diluted net income per common share	1.34	(0.92)	2.26	0.80	(2.01)	2.81

Calculation of Adjusted EBITDA:

	Six Months Ended March 30, 2024	Six Months Ended April 1, 2023
Net income (GAAP)	\$77.0	\$44.7
Income tax expense	28.6	10.8
Interest expense	86.8	91.0
Depreciation	32.3	33.6
Amortization	7.9	14.1
Impairment, restructuring and other charges	64.1	159.2
Equity in loss of unconsolidated affiliates	29.5	18.7
Interest income	(0.3)	(4.4)
Share-based compensation	44.6	58.3
Adjusted EBITDA (Non-GAAP)	\$370.5	\$426.0

Reconciliation of Non-GAAP Financial Measures

	Year Ended September 30,						
	2023	2022	2021	2019	2018	2017	2016
Net cash provided by (used in) operating activities (GAAP)	\$ 531.0	\$ (129.0)	\$ 271.5	\$ 226.8	\$ 342.5	\$ 363.2	\$ 244.0
Investments in property, plant and equipment	(92.8)	(113.5)	(106.9)	(42.4)	(68.2)	(69.6)	(58.3)
Free cash flow (Non-GAAP)	\$ 438.2	\$ (242.5)	\$ 164.6	\$ 184.4	\$ 274.3	\$ 293.6	\$ 185.7

Reconciliation of Non-GAAP Financial Measures

For the three and six months ended March 30, 2024, the following items were adjusted, in accordance with the definitions above, to arrive at the non-GAAP financial measures:

- During fiscal 2022, the Company began implementing a series of Company-wide organizational changes and initiatives intended to create operational and management-level efficiencies. As part of this restructuring program, the Company is reducing the size of its supply chain network, reducing staffing levels and implementing other cost-reduction initiatives. During the second quarter of fiscal 2024, the Company commenced plans to close additional Hawthorne distribution centers. The Company has also accelerated the reduction of certain Hawthorne inventory, primarily lighting, growing environments and hardware products, to reduce its on hand inventory to align with the reduced network capacity. During the three and six months ended March 30, 2024, the Company incurred costs of \$74.9 million and \$69.1 million, respectively, in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations and \$2.0 million and \$4.1 million, respectively, in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations associated with this restructuring initiative primarily related to inventory write-down charges, employee termination benefits, facility closure costs and impairment of right-of-use assets and property, plant and equipment.
- During the three and six months ended March 30, 2024, the Company recorded a gain of \$0.0 million and \$12.1 million, respectively, in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations associated with a payment received in resolution of a dispute with the former ownership group of a business that was acquired in fiscal 2022.
- During the three and six months ended March 30, 2024, the Company recorded a pre-tax impairment charge of \$0.0 million and \$10.4 million, respectively, associated with its investment in Bonnie Plants, LLC in the “Equity in loss of unconsolidated affiliates” line in the Condensed Consolidated Statements of Operations.

For the three and six months ended April 1, 2023, the following items were adjusted, in accordance with the definitions above, to arrive at the non-GAAP financial measures:

- During fiscal 2022, the Company began implementing a series of Company-wide organizational changes and initiatives intended to create operational and management-level efficiencies. During the three and six months ended April 1, 2023, the Company incurred costs of \$118.7 million and \$128.2 million, respectively, in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations and \$18.1 million and \$23.2 million, respectively, in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations associated with this restructuring initiative primarily related to inventory write-down charges, employee termination benefits, facility closure costs and impairment of right-of-use assets and property, plant and equipment.

The tax effect for each of the items listed above is determined using the tax rate and other tax attributes applicable to the item and the jurisdiction(s) in which the item is recorded.