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OVERVIEW:

Company Summary

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PRESENTATION

Aimee DeLuca - *The Scotts Miracle-Gro Company - SVP of IR*

Good morning. Welcome to Scotts Miracle-Gro's Second Quarter 2024 Earnings Webcast. I'm Aimee DeLuca, Head of Investor Relations. With me this morning are Chairman, President and CEO, Jim Hagedorn; and Chief Financial and Administrative Officer, Matt Garth. Jim will provide an overall business update followed by Matt with a review of our financial results.

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

Following the webcast, Chief Operating Officer, Nate Baxter; and Hawthorne Division President, Chris Hagedorn, will join Jim and Matt for an audio-only Q&A session. To listen to the Q&A, simply remain on this webcast. If you wish to participate, please join via the audio link shared in our press release.

As always, today's session will be recorded. An archived version will be published on our website at investor.scotts.com. For further discussion after the call, you are invited to e-mail or call me directly.

With that, let's get started with Jim's business update.

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

Good morning, everyone. I'll start with my high altitude assessment. The state of the company is good. I can't believe we're already halfway through the fiscal year. Everything we've done to get to a better place is happening, just like we projected it would when we laid out our fiscal '24 guidance. We told you we would achieve high single-digit growth in the consumer business and $575 million in adjusted EBITDA this year. And we did so while generating $1 billion in free cash flow over 2 years by the close of fiscal '24, improving gross margin by at least 250 basis points and finding a long-term solution for Hawthorne.

We've made progress on all these fronts. In fact, through the first 6 months, we've exceeded planned targets on key financial metrics that support our ability to deliver on our guidance. Free cash flow is a fabulous story. It improved over $500 million from prior year, exceeding our first half target by $200 million. Our debt levels are down by more than $750 million year-over-year. The most telling sign we're in a better place is our leverage improvement. For Q2, we finished at 6.95x EBITDA, well within our covenant max of 7.7x and better than Q1.

When you consider our leverage limit, Q2 was our tightest quarter. Our banks challenged us to a tougher metric in Q2 to force us to make choices. Nate and Matt worked together to ensure the operating and finance teams navigated it comfortably. I want to thank the banks for their support in a very tough period for our company. Leverage maximums under our bank covenants will come down through '24, and we're highly confident we'll manage within them. We expect to be in the 4s by fiscal year-end with more improvement in fiscal '25.

We're also moving in the right direction on gross margin. It was 35.3% in the quarter, 60 basis points better than Q2 of last year. At the end of the year, we expect to be at least 250 basis points improved year-over-year with more gains in '25. Tight expense management remains a priority. Through the first half, SG&A was at 15.2% of net sales, in line with our guidance and below prior year. Overall, I'm pleased with our performance. It's a testament to the strength of our business, decisive actions and precise execution.

Looking at the consumer business, here are the positives. Net sales picked up in Q2 as we drove a 2% increase over prior year. Year-to-date, consumer sales were slightly lower than prior year. This reflects how we are returning to our traditional pre-COVID shipping cadence with retailers versus last year's heavy upfront load in. Retailer inventories are in good shape. POS units through the first half were nearly 15% above prior year and 5% over plan. These lifts were due to the new listings and expanded share of shelf in exchange for investments with retailers.

The DayLawn Savings promotion in March outperformed last year's campaign. We told you these would contribute to gains, and they did. Through March, we had POS lifts across nearly all categories. Gardens was up 18%; Controls was plus 12%; Roundup, plus 9%; Lawns was essentially flat. Price adjustments and promotions led to Q2 year-over-year lifts of 15% for Bonus S and 28% for Halts, both are early season fertilizers.

This year marked the first time in recent years we did awareness driving advertising around Halts. We've created room for the remainder of the year and accomplished it as a smaller, leaner, more cost-efficient company. Think about what we've done. We cut nearly $400 million in annual operating expenses and reinvested $100 million of those dollars back into growth drivers like media and innovation. We're a higher-functioning organization moving with speed. The management team has everyone moving in the same direction, and our associates have a spring in their step.

We're now focused on Q3. We've laid the groundwork for consumer takeaway in this critical quarter that represents 60% of our POS. April started slow, but steadily picked up throughout the month. The sluggishness was due to the late season start in the Northeast, and a deliberate move on our part and of our major retailers to push high-volume spring events and promotions later in the month. This enabled everyone to mitigate the risk of unpredictable early season weather. The shift played out as expected. By late April, promotions and retailer rents were contributing to POS unit growth. As we look ahead, we have many things going in our favor.

Despite inflation, consumer sentiment has improved. They are more confident about the economy and are engaging at higher rates in our category, demonstrating the resiliency of our consumer business in uncertain economic times. Consumers care about their lawns and gardens, and we offer a low-cost, do-it-yourself option to improve their yard and their home. Retailers know lawn and garden is critically important to driving their spring season. Despite tepid retailer foot traffic through the first half, we've outpaced their declines and helped bring people into their stores. We want to thank our retailers for their partnership and their awesome support.

Let me talk about what you'll see in Q3. We'll invest 25% more in our brand-focused advertising. It has to be nearly impossible for people not to have seen our ads this year. We're blanketing television and radio nationally during peak news and high-profile sporting events. We're not chasing the fringe consumer. We're laser targeted in our core consumer, the 30-plus-year-old homeowner.

The Q3 blitz started with the April launch of Miracle-Gro Organics with Martha Stewart. In the new Dirt Nerd spots, Martha shares how she relies on our products in her own gardens. The PR outreach alone surpassed 1 billion impressions. We're also expanding our Scott for Scotts campaign with actor Kristofer Hivju, who has fully embraced the role and established credibility with consumers. The creative is strong, and Kristofer will lead the launch of a new Healthy Lawn product, the innovative summer lawn fertilizer and fungicide to combat disease.

Without any advertising support, we're already seeing good POS traction with Healthy Lawn. At the store level, we've expanded fuel sales manager positions by 10% to support in-store activations and collaborate with Bonnie Plants on driving attachment with soils and vegetables. Bonnie sales are up 12% year-over-year through the first half. Spring is in full bloom across the country. Retailer programs that are advertising are hitting hard. Weather models look good in May, and we're managing what's within our control.

Shifting to Hawthorne, there's progress. We continue to remake the business and strengthen its ability to be a profit contributor. I've challenged the team to achieve a $10 million profit run rate. In the past 2 years, Hawthorne has gone from 15 distribution centers to 2 and cut over 1,000 jobs operating today with less than 300 people. In our latest move to improve its economics, we're completing the full transition to manufacturing and marketing our own brands. To make this happen and enhance our ability to invest in our brands, we've exited third-party distribution business where margins were challenged or nonexistent.

This was less of a concern when the business was bigger, but we can no longer deploy capital for low-volume, low-margin products, and I doubt competitors, such as Hydrofarm, can either. We're now focusing on Hawthorne's more profitable, exclusive and own brands like Gavita, Botanicare, General Hydroponics, Cyco, Mother Earth and HydroLogic. These are industry leaders, and they stand at 80% of our sales and will increase to 100%, carrying margins on par with our consumer portfolio.

As part of the strategic change, we have partnered with BFG Supply to service our smaller retail customers. We believe BFG can deliver a higher service level. The partnership will lower Hawthorne's cost structure throughout the year. We continue to work on the long-term solution for Hawthorne, a valuable, completely legal asset in the cannabis space with tax advantages, the best brands, industry-leading research and development. At our facilities in Kelowna, British Columbia; Marysville, Ohio; Gervais, Oregon were researching genetics, competitive products, cultivation practices, lighting, yield and more. And we share this with our customers.

As this industry consolidates, which is going to happen, Hawthorne will be an important piece of a much larger puzzle. Let me give you a sense of the potential. The cannabis market is estimated at $105 billion annually in the United States. And the overwhelming majority of it is run by illegal operators, less than $30 billion comes from the legal sector. This is an outrage. What has happened to this industry falls on the politicians in Washington. Their continued inaction on legalization and measures to support a major legal industry is a disservice to Americans.

The cannabis industry is as large as the auto industry, the dairy industry or the beer industry in the United States. It's 5x bigger than the U.S. energy drink market and 9x the size of the U.S. egg industry. It's an economic engine. On top of this, Americans, Democrats, Republicans and independents favor legalization. In red states like our Ohio, nearly 60% of voters approved to have recreational cannabis last November.

Today, 38 of the 50 states have legalized cannabis covering 3/4 of the United States population, yet cultivators and retailers who take the legal route struggle to make money or raise capital. And they face taxes as high as 80% and a lack of access to financial services. And consumers who shop at legal stores can be hit with product markers of 50% to 100% due to some state taxes. In what world does this make sense? The legal market cannot compete against illicit operators who don't honor or follow the same rules. And consumers across the country are the victims.

It's time to level the playing field. I'm calling on federal officials to take immediate action on 2 proposals. The first is the bipartisan backed SAFER Banking Act in the United States Senate. Senator Schumer needs to bring it to a vote, and Democrats and Republicans who are holding up passage need to vote with the people.

The second is cannabis rescheduling. Where does it make sense to have marijuana a Schedule I narcotic? The Drug Enforcement Agency is considering this. This would lessen some penalties for cannabis and ease the tax burden. I call on President Biden to push forth rescheduling. And I call on former President Trump to stand with the majority of Americans supporting cannabis reform. I call on state officials, including New York Governor Hochul to strictly enforce laws against illegal cannabis operators circumventing safety, preying on kids and evading taxes.

Until progress is made on these multiple fronts, legally licensed cannabis companies will continue to scrap by or go under. Take California, which has owed more than $700 million in state-backed cannabis taxes. Most of that will never be collected because 72% of the companies are out of business. As you can see, I -- like many Americans, I'm tired of waiting on Washington to do the right thing, we need action now.

I also want to provide an update on our 2021 investment in RIV Capital, the New York cultivator and retail operator is unlocking value in the cannabis space. RIV recently opened a flagship adult-use dispensary in White Plains that is far exceeding our expectations. It's also expanded its Chestertown growing operation and is building a new cultivation facility in Buffalo that will double its footprint.

What's even more exciting is RIV's potential combination with another cannabis company. While I cannot discuss the details, a deal is in the works. When completed, this business combination would be a transformative moment in our long-term investment strategy in this space. It would reflect movement toward what we intended with RIV to invest in and help build a multistate cultivation and retail powerhouse, providing the best cannabis brands.

The combined entity would have cultivation and dispensary operations in the most popular states with limited licenses for a legalized medical, adult-use or both. As part of this transaction, we anticipate the Convertible Note that we now have with RIV to convert to exchangeable shares in the combined business.

I'll wrap up with this. We've stabilized and improved the financial flexibility of Scotts Miracle-Gro. Our difficult work over the last 18 months will benefit this company for the next 10 years. We're no longer managing through crisis. We are looking at the future again. Chris is leading a very exciting effort to recover our investments in the cannabis space and create long-term value. Nate and Matt have been here for a year or more now, and they have a much better handle on where the business should be headed for growth.

Matt is developing a long-range financial and strategic plan, and Nate is building a multiyear consumer plan that includes investments in technology, disruptive innovation and other value drivers. The Board of Directors has received an early preview of their plans, which will be fully baked by late summer. We should be ready to share them with you in the fall. I'm excited for their work and their contributions. I want to thank their teams for supporting these efforts.

Finally, we're holding an Analyst Day in July at our Marysville headquarters, where you can get an up-close view of how we're positioning Scotts Miracle-Gro for the future. I look forward to seeing you then. Thanks.

I'll turn the call over to Matt for financials.

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Thanks, Jim, and hello, everyone. For those joining us on video, you can see spring has arrived at Scotts Miracle-Gro headquarters. Hopefully, you are enjoying the early season with great deals on SMG products and the associated mental and physical health benefits of returning to the yard and creating a fantastic lawn and garden.

I'm going to begin by reiterating a few points Jim made. First, we are pleased with the first half performance. Second, our guidance for the full year is unchanged. And third, we continue to manage what is in our control to drive consumer engagement and deliver our planned results. From a net leverage perspective, we ended the quarter at 6.95x versus the covenant maximum of 7.75x, and we remain on track to achieve net leverage in the 4s by fiscal year-end, giving us much improved financial flexibility heading into '25 and beyond.

U.S. consumer results were strong with overall unit share through Q2 increasing in line with our plan. We experienced particular strength in growing media on early market home center promotions. At Hawthorne, we continue to optimize the business to focus on our signature proprietary brands. Our recently announced distribution partnership with BFG is a major milestone along Hawthorne's strategic path.

Now, let's walk through the second quarter in more detail. Listing gains and strong early season engagement and growing media drove U.S. consumer second quarter net sales up 2% over last year to $1.38 billion, tying our second quarter record with 2022. With outstanding retail partnerships and execution by our teams, U.S. consumer net sales for the first half were stronger than planned ending just 2% lower than prior year at $1.69 billion. The first half net sales decline largely reflects our planned shipments phasing, which has returned to a more traditional pre-COVID cadence in alignment with our retailers.

Seasonal readiness in stores is excellent. With strong first half shipments and new listings and growing media, drove retailer inventory units 3% higher than last year as of the end of March. And as Jim discussed, we exited March with unit POS up mid-teens percentages along with gaining 4 points of unit share led by mulch and rodenticides. Through April, POS units were up high single digits percentages with dollar POS up low single digits, reflective of price reductions and early season mix favoring growing media.

Jim stated that Q3 is a critical quarter, as it represents 60% of our season. With the heart of lawn season in front of us and the majority of our new promos yet to run, our high single digits net sales guidance for the U.S. consumer businesses remains in sight.

At Hawthorne, we are meeting the continued industry challenges head-on by taking aggressive action to modify our go-to-market approach. While moving away from distributed products will lower Hawthorne's topline, margins will improve with our focus on our proprietary and industry-leading brands as well as the cost savings from shrinking our distribution network. Hawthorne Q2 net sales of $66 million were 28% lower than prior year. Year-to-date net sales were $147 million, a decrease of $78 million or 35% versus prior year. The declines were driven by lower volumes and price reductions.

For the full year, we now expect Hawthorne's net sales to decline 25% to 30% year-over-year based on the discontinuation of the distributed brands and the challenging near-term industry outlook. Hawthorne's segment loss for the quarter was $3 million compared to a $17 million loss a year ago. Year-to-date segment loss through March was $13 million compared to $33 million for the first half last year. The improvement was driven by favorable product mix and reductions to warehousing costs, headcount and project spend, partially offset by lower sales volume and pricing reductions.

Further improvements are expected in the back half of the year, and we are projecting Hawthorne's contribution to total company adjusted EBITDA to be breakeven or better for the full year inclusive of investments in sales, marketing and innovation to drive profitable growth in fiscal 2025 and beyond. Total company impairment, restructuring and other charges for Q2 were $77 million. The charges are mostly from noncash inventory-related write-downs of $67 million related to the incremental contraction of the Hawthorne warehouse footprint. On a year-to-date basis, IRO charges were $64 million. Note that these charges are excluded from non-GAAP income.

Now let's move to gross margin and cost of goods sold for the total company. The adjusted gross margin rate improved 60 basis points in the quarter to 35.3% versus 2Q a year ago, driven mainly by Project Springboard-related distribution cost savings. Material cost favorability in the second quarter was more than offset by unfavorable net pricing and higher manufacturing labor costs. Through the first half, the adjusted gross margin rate declined approximately 30 basis points with distribution cost savings and favorable segment mix more than offset by negative net pricing and fixed cost deleverage from lower volumes.

Material costs were essentially flat year-to-date. With nearly 85% of our commodity inputs now locked, as is typical at this point in the year, we have reasonable line of sight to our full year costs. Other than rising resin and labor costs, we're seeing favorable trends across our commodity basket heading into the back half of the year. Headwinds from resin prices are expected to continue into fiscal 2025.

SG&A ended the first half nearly $22 million favorable to the first half last year. As a percentage of net sales, SG&A improved to 15.2% from 15.3% last year and 16% 2 years ago. The savings are inclusive of more than $11 million of reinvestments in media year-to-date and reflect the durability of our Project Springboard savings from headcount reduction. Amortization expense declined by $3 million or 39% in Q2 '24 compared to Q2 '23 and by $6 million or 44% on a year-to-date basis due to the impairment of Hawthorne intangible assets recorded in fiscal year '23.

We maintain our goal of annual SG&A between 15% and 16% of net sales going forward and note that fiscal '24 will be at the lower end of the range. Non-GAAP adjusted EBITDA for Q2 was $396 million compared to the prior year's $405 million. On a year-to-date basis, non-GAAP adjusted EBITDA was $371 million versus prior year of $426 million. The year-to-date decline in non-GAAP adjusted EBITDA was driven by the decline in non-GAAP gross margin dollars, primarily due to declines in volume and price.

Below operating income, our first half results include a $19 million adjusted loss from the Bonnie JV, equivalent to the adjusted loss from the JV for the same period a year ago. Through March this year, Bonnie sales improved 12% versus last year, primarily attributable to increased consumer engagement and improvement in store execution. Year-to-date sales through March represent just 20% of Bonnie's projected full year sales. Also note that Bonnie's fiscal year ends July 31.

Year-to-date interest expense through March was $4 million lower than through the first half last year, a 5% reduction driven by significantly lower debt levels, which were partially offset by higher average borrowing rates. As of the end of March, total debt balances were $2.8 billion versus $3.6 billion last year. Utilization of the accounts receivable program contributed $587 million net of discount to the debt paydown. Strong second quarter free cash flow generation delivered the balance of the improvement. Year-to-date usage of free cash flow improved by over $500 million year-over-year driven by working capital reductions from further inventory improvements, leveraging the AR sale facility and AP timing.

For the full year, interest expense is expected to remain flat as the benefit of lower net debt is offset by higher interest rates. Interest rates are approximately 80% fixed as of the end of the second quarter under a combination of long-term fixed rate notes and interest rate swap agreements. Discount costs associated with the AR sale facility is included in other income and expense and was $13 million through Q2.

Our adjusted tax rate through the second quarter was 28.6% versus 26.4% for the same period last year. The primary driver of the increase relates to less benefit from stock-based compensation that vested during Q2 and the unfavorable impact of higher nondeductible executive compensation expense. Share count at the end of the quarter was up by 1.2 million shares versus 2023 due to higher share-based payments. Share count is tracking to our guidance of an additional 1.5 million shares issued by fiscal year-end.

With the first half complete, we are focused on delivering a strong second half performance. This year, we are returning to William Blair's 44th Annual Growth Stock Conference in Chicago, where we will share our thoughts on the prospects of SMG and provide an update to our 2024 guidance and outlook that is informed by POS performance in May.

Lastly, as Jim stated, we will host an Analyst Day on July 16 at our Marysville, Ohio, Headquarters and Research Center. Our agenda for the day will include opportunities to meet the new management team and experience our new product innovation firsthand. We look forward to sharing more on our longer-term outlook and strategic objectives as we strengthen financial flexibility and our ability to drive shareholder returns. Details will be provided in an upcoming press release and invitation.

We can now move on to the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jon Andersen from William Blair.

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

My question is on kind of consumer engagement and point of sale. It sounds like April started perhaps slower than you had hoped, but it came on as the month progressed. But kind of in aggregate, it was dilutive to the point of sale year-to-date. What kind of gives you conviction at this point in time to kind of hold your view for upper single-digit sales growth across the U.S. consumer business?

Again, I'm thinking, your first half year, U.S. consumer is kind of down low single digit, which will require a nice pickup in the second half of the fiscal. So kind of if you could talk a little bit about that, whether it's promotional plans or shipment timing, weather forecast, just your level of visibility and kind of conviction at this point in time.

Nathan E. Baxter - *The Scotts Miracle-Gro Company - Executive VP & COO*

Sure. This is Nate. I'll start with this. You're right, April was a little bit of a story of in like a lamb, out like a lion, but I will note that at the end of April, we had both our biggest POS as well as shipment week on record. Heading into May, that continues to be strong. You're not wrong, we have to look at significant growth. But when we look at our models, we've got most of our promos ahead of us. We've got strong consumer sentiment, and we've got weather in our favor. So that's pretty much in a nutshell why we're maintaining our cautious optimism there.

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

This is Jim here. For those of us who live in sort of Northeast, I'll just back up to Ohio, Ohio, I would say the spring is kind of full on right now. Everything is blooming, it's sort of pretty perfect out here. As someone who lives on the East Coast, I'd say we're probably 2 weeks behind there. And that minimum is, call it, 1/4 of the market. The reason, Jon, that I feel comfortable about it is if you look at the regions besides the Northeast, and remember, you have an Easter change that kind of affected the early part of April and promotions with retailers.

I think, as I said in the scripted part, we pushed those later to sort of avoid the risk because the concern, and I've talked about this for a couple of years, is that when we try to get out there in real early in the month, it gets the risk of bad weather. And I think I've said the number is like 80% of the time we were just cold weather. And when it's cold and wet or snowy, you could have the greatest promotion in the world, but the stores are empty. You have programs that are pushed back. But I think if you look at the events that were occurring, the rest of the country besides the Northeast, I think basically, that's all you saw is the Northeast behind by about 2 weeks. But, Josh, what are you seeing? Josh runs sales for us.

Josh Meihls - *The Scotts Miracle-Gro Company - VP of Sales Strategy & Operations*

Yes, I think the commentary is spot on, and I would just reiterate a couple of things. The all-time record week of POS units that we had in the last week of April was really driven by the Northeast coming online the last few days of that event, and we're seeing early this week that continues, so we're seeing that business come to life. That gives us momentum into May. When we look at May, we always plan for May to be our biggest gain overall, it's where we've got the most incremental promotions. And when you look at the innovation and new listings that we're relying on, Scott's Healthy Lawn, Miracle-Gro Organics Raised Bed, this is when those start to peak in the month of May.

And the last thing I'd say is our retailers remained all in with us. They've been great partners here, as they're driving the business. We're making adjustments with them. And I want to thank our field sales team as well, who's in stores every day making adjustments on a local level. We are very bullish when we look at the months of May and June.

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

Jon, just one other final point here, which is if you look at the mid-teens performance year-to-date at the end of Q2, that was essentially plus 8%, everything except mulch, so ex-mulch plus 8%. We ended April plus 8% ex-mulch. So good underlying performance on product lines and then what Josh, Nate spoke to is the momentum we're carrying forward, the plans and the activities we have in place around garden season that will hit soils, fertilizers. It's going to be what drives the delta to our full year target of lifting volumes by 8% to 10% with POS also moving higher than that to adjust for the retailer inventory drawdown that we've been pointing to.

Operator

Our next question comes from Andrew Carter at Stifel.

William Andrew Carter - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

I guess I'll go ahead with one question and ask about kind of Hawthorne and just kind of an update. You did the agreement with BFG. Are you done considering strategic options with Hawthorne? And I noticed you kept 2 of the distribution facilities. So I assume you're staying there. Again, are you done?

And then the second, just to give you an opportunity to talk a little bit about RIV Capital and what you just mentioned there about being in late stages to merge with another partner. Does yesterday's announcement kind of change your calculus? I would imagine the bids out there would be higher now.

And the other thing you said, you expected to convert the convertible debt. Are you going to do that at the original strike price or market? And do you have the comfort that you can be in an exchangeable share position -- equity position versus this debt structure, remaining on the exchanges as well as kind of with your debt partners?

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

That was one question? It's true. I got to remember the stuff. Look, I want to start before Chris and Matt do some of the talking here. But we recorded that video last week. I felt very strongly. I think people were calling up my rent at the end of that presentation. I want to thank President Biden for doing what was right. My wife who is a Democrat, reminds me frequently of who is your friends. And while I have a hard time sort of being able to pull a lever that says, raise my taxes, I do think that the -- this current President has done what he said he was going to do. And I want to thank him. This is, in my opinion, huge for the industry.

What this will do is normalize taxes. If it happens the way, it probably will, we think, this will normalize taxes and is just a big step forward. We will have put a lot of capital to work because, as you know, most of the EBITDA of plant-touching people was going to the federal government. Now that money can be invested in growth. It can be invested in capital improvement, which I think you would agree with.

We believe there's a lot of pent-up capital improvement and that if we were to estimate the amount of older non-LED lights, we'd say it's probably 50%. We think there's a lot of opportunity on the "hydroponic" side to benefit us. But I think this is really good for everybody. And a lot of credit, I think, here goes to the President for doing what he said.

Chris?

Christopher J. Hagedorn - *The Hawthorne Gardening Company - Division President*

Andrew, it's Chris. Yes. I would echo everything Jim said about the regulatory news. Obviously, until it's more than a leak, I think it's a little early to get too excited. I think we need to see more concrete movement from the government, but it's obviously a great indicator, and you saw the way that pure-play cannabis equities reacted yesterday and I'm sure will continue to today. So we're excited about that.

Look, I'm not going to get into too much detail on the RIV stuff because that is its own independent public company, and I don't want to sort of be in an uncontrolled setting, saying more than I ought to aside from saying it's something that we're really excited about and we look forward to being in a position to share more.

Going back to the beginning of your questions, as far as looking at strategic options for Hawthorne, I know Matt has got something he wants to say on this as well. I would say, no, we are not done looking at strategic options there, maintaining some distribution network for us. It's a couple of things. Number one, the relationship we have with BFG, it's early days. We are super excited about it. They've been great partners to this point. We expect they will continue to be. And we're doing everything we can to be good partners to them. But we're not handing our entire business over to BFG. We're still maintaining a significant amount of customers that we'll be servicing directly. So we're going to need our own DCs for that.

And also if you understand what this is, there's a little bit of a period here where we just need to make sure that BFG can continue to onboard our customers and service them, not just at the level that we've been servicing, but frankly, at a higher service level and BFG's only been taking orders for 3 business days as of today.

After that, it was onboarding them, getting their DCs stopped. We're going to go through this. We're going to maintain some DCs here. Just so if there's any hiccups, we can step in and make sure our customers are taken care of. But that's something that we anticipate assuming the onboarding goes as well as believe it will, that we'll wind that DC network down further.

Matt?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Yes. I would just add on Hawthorne itself, what Chris has been leading, we've been partnering with him, is a total refit of what the Hawthorne business is and what it means to our customers and their consumers. And that is a reenergizing of the scientific proposition in how we create value, highest quality, lowest cost for our customers. And that has been reminded back to us, it has been proven back to us in how we've been managing our relationships over this very difficult time period where we've reduced the base of Hawthorne, but we have not reduced the capability.

We've kept manufacturing in place. We have kept our top-tier relationships in place. We will be able to manage when demand comes. And as Jim said, the environment looks better for that demand on hydroponics. That is what the work that we've achieved over the last 2 years has delivered. And it's also delivered a place where we feel profitability is in sight for this year. And I'm not going to -- what's that?

Christopher J. Hagedorn - *The Hawthorne Gardening Company - Division President*

This month.

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

This month, right, exactly.

Christopher J. Hagedorn - *The Hawthorne Gardening Company - Division President*

The month that we just closed out here in April, I mean it was the first month that we've over-delivered our internal forecast. The mix was more favorable. The profitability was profitable.

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Excellent. Thank you. Great data point there.

Christopher J. Hagedorn - *The Hawthorne Gardening Company - Division President*

Yes. So we are set for an exciting place for us.

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Yes. I mean, there's a great proof point, right? The path forward for Hawthorne leads through profitability, through profit comes power, that provides optionality. As we said to you, we have 3 things to focus on this year at Scotts Miracle-Gro, which is $575 million of EBITDA, the balance of $1 billion in free cash flow and finding a strategic solution for Hawthorne.

Again, having that profit path gives us optionality on that strategic path forward. The only other piece of your 1 question in 17 parts, Andrew, is how we feel about different vehicles for investment on leaf-touching side that are consistent with all of the regulations and environments that we exist in. We do have convertible debt that sits out there. Exchangeable shares, by and large, are viewed and treated the same way. We are comfortable with the position in either convertible debt or in exchangeable shares.

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

And maybe, Andrew, I'll just throw in. It was a little awkward in that the 2 companies that we're talking about are public. We will be the biggest investor, and there was a question of, because this deal is just about ready, but not there yet, should I have communicated. And I got to say, I -- if I was talking to both Boards now, I'd say get off your behinds and get moving. I am tired of waiting here. We are really excited about what this can be. I think this rescheduling announcement yesterday is really good news for plant-touching people. We want to participate. We have a large investment here.

We never looked at that as debt. We always looked at that as shares. We've been trying to tell that to the RIV shareholders who I think are just constantly looking at the sort of consequences of what could happen with the debt. We're trying to stay right here. One of the things we can say today is that we are happy going to exchangeable shares. We're not looking for this debt to be an overhang on the equity of the future company. But please get this thing closed.

Operator

Our next question comes from Joe Altobello at Raymond James.

Joseph Nicholas Altobello - *Raymond James & Associates, Inc., Research Division - MD & Senior Analyst*

I have 1 question, only 3 parts, if that's okay. So I guess, so first, how much of the single -- the high single-digit unit POS improvement that you guys have seen through April is from the base business versus additional shelf space promotions? How do compares look in the second half? And is the expectation that the base POS and units will still be flat this year?

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

Okay. I'm going to probably take a little bit of that one because I'm not sure how we really know. I think that if you look at what we said was the gain from the programs that we put together, I think we said that was a large part of the gain we're going to have. And I think that's what we're seeing. But I think we're seeing really good performance of basically each category that we're in, even the lawn category. Remember, that was an area where we really felt like we needed to reset pricing. Lawn's pricing came down really last fall, and we saw POS improvements.

Nate and I were with a top-to-top with one of our major retailers. And we needed sales in sort of various periods just as we looked in the rearview mirror, and we're looking at the sort of JPMorgan lights in our back mirror. And what was really surprising is when we -- and this was chief merchant of one of our top retailers who said, there was a lot of concern over the level of inventory in our Q4. And what was really surprising was this came from them. So this is chief merchant and chief executive, said, what was amazing is how much of that stuff we sold, it sort of turned into a really great promotion, and we ended with pretty good inventory levels. I'm going to say excellent inventory levels coming out of last year's fall season.

So I'm not sure how to sort of balance what the difference is. I think these programs were really important. I think these commitments by both companies or either parties, the buyer and the sellers is really important to commitment to the category. I think, to me, I would not get freaky over kind of April when -- for those people who live in the Northeast, you'll know what I'm talking about, it was just not great weekends. The rest of the country was kicking butts.

I think when you look at the season where the season was happening, the business was great. I think that shows just that the consumer is highly engaged. Remember, we said we're going to advertise the advertising. I don't know about you guys. And I'm wondering if maybe people are buying when they know I watch TV because I am just seeing a lot of advertising. I saw the first of the Healthy, that was yesterday on CNN of sort of prime time evening news. I don't know how to tell the difference,

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Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Joe, let's go this way. If you recall, we said we were going to do high single digits, right, and underneath that high single digits was 2% price down and then essentially a 10% volume lift, which we can have some price elasticity, call it, 1% to 2%. The rest was split between listings and promos. Through the first half of the year, it is the listings power that Nate and the team have driven. We are still yet to see in what we are expecting in the second half of the year. As we get into garden season, you will see a lot more of that new promo activity reach our POS numbers, and that's what we're looking forward to in the month of May.

Joseph Nicholas Altobello - *Raymond James & Associates, Inc., Research Division - MD & Senior Analyst*

And are these tougher or easier in the first half -- in the second half, sorry?

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

They are easier. We have good comps in the second half. Yes. We're in a good place with retailer inventories. We've got all the pieces we need.

Operator

Our next question comes from Peter Grom at UBS.

Peter K. Grom - *UBS Investment Bank, Research Division - Director of Equity Research & Analyst*

Jim, I just wanted to get -- to follow up on your commentary on kind of the weather. And I just wanted to get your thoughts on how it's kind of playing out versus your expectations. You touched on the Northeast or the East Coast being a couple of weeks behind, but other markets very strong. But can you maybe in aggregate across what you're seeing in total compare weather versus what we've seen over the last couple of years, maybe compare it versus what you would typically see in a normal year?

And I may be wrong on this, but I think the guidance was contemplated on no major shifts in weather versus last year, which I don't think was necessarily great. So just trying to understand what we're seeing today and then expect in May, given your weather models, could point to actually some favorability just from a weather perspective.

Nathan E. Baxter - *The Scotts Miracle-Gro Company - Executive VP & COO*

Yes, Peter, this is Nate. I'll take that. The weather has played out exactly like we predicted. We've put a lot of effort into working with our partners and our internal modeling team. We had the benefit of El Nino, which helped us early season. And now, as everybody knows, we're in the midst of a conversion to La Nina.

On average, relative to last year, it's been warmer, and it's been a little bit more wet in certain parts of the country. That suppressed us in the South, but it's teeing up for a really nice spring. The weather now for the next month, 1.5 months, looks extremely positive. I would say, from our perspective, no surprises. It's been a friend of ours, just like our models predicted, and we still see that as a lift in second half.

Operator

Our next question comes from William Reuter at Bank of America.

William Michael Reuter - *BofA Securities, Research Division - MD & Research Analyst*

I just wanted to follow up on the Project Springboard savings. How much have you achieved this far? I think that we have another $100 million we're achieving this year or 80% of the $100 million this year, which would mean that there's still another $20 million that should benefit EBITDA next year. Is that the case?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Yes. I think what we laid out for you was that we were achieving $65 million in '24. We had taken $15 million of that final $100 million in '23. And so that leaves you with about $20 million to get in '25. So you're right. But you're seeing it in SG&A, you're seeing it at the gross margin line, our ability to lock in those savings as we move forward.

And by the way, and I said it in the prepared remarks, I was very happy with SG&A performance on a dollars basis. On a rate basis, it's great too. But on a dollars basis, you have to remember we are down $20 million, plus we have $10 million higher marketing spend, so we're really down $30 million. That's the durability of what we've done. That was just with these latest round of cuts on a year-over-year comp. It's hitting the bottom line is what I would tell you. But where else do you want to go with that, Will?

William Michael Reuter - *BofA Securities, Research Division - MD & Research Analyst*

No, I guess my real question was, what were the savings that are going to be in 2024, which I think the answer is $65 million. And then what's the remainder of next year, which I think the answer is $20 million. And then of the $65 million that will be achieved, is that going to be evenly achieved throughout the year? Or how much was -- I think maybe you mentioned that you're down $30 million year-to-date when you talked about the $20 million and the $10 million?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Yes. You have a lot of those savings that are coming early in the year. They will benefit you in the second half of the year. You are seeing some of that in the first half numbers as well.

William Michael Reuter - *BofA Securities, Research Division - MD & Research Analyst*

Okay. But it sounds like there's another $35 million to come in the second half of the year. Is that the way to think about it?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

It's fine. I just said, frankly, we probably got more than half of it in the first half, you're going to get run rate, some of it in the second half. But yes, I'm good.

James S. Hagedorn - *The Scotts Miracle-Gro Company - President, CEO & Chairman of the Board*

Well, listen, I also think that we're not done. I know that the supply chain reconfiguration within the North American business is hugely important to us. And if Matt and I were passing out sort of kind of our view and Nate is well aware of this on kind of what we expect at corporate, we want to spend more money in marketing by a big percent, same in innovation activities. To fund that, we're going to continue to pull money out of the business in areas that can fund the things that make us different and drive the business.

I think that you'll see pretty significant share gains this year. My advice to the team is that we have reasonable share, efficient share, whatever you want to call it today. We're going to have more share by the time the year is over, and we have to actually be a vendor that is a great partner to our retailers and to our consumers that we are acting as good as the share opportunity that we have and we can hang on to that. That's important.

I think as we go through this and some of the investments we made behind this year and possibly next with our retailers that have resulted in the kind of program and share gains that we're seeing, as those end, we've got to be a partner that doesn't lose those when those programs end. I think this is one of the things I want the business to prove to Matt, is that we can get our margins up as a result of what we've done and that the investments we make in the business will keep that share and not lose it. And this is really important to where we're going.

Operator

Our last question comes from Thomas Mahoney at Cleveland Research.

Eric Bosshard - *Cleveland Research Company LLC - Co-Founder, CEO, Co-Director of Research & Senior Research Analyst*

It's actually Eric from Cleveland Research. A lot of numbers, I just want to make sure that I understand the -- what I heard you say is that April units are up 7% to 9% and dollars are up 1% to 3%. Before I ask my question, am I saying that right?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

No. What I said was let's go back and build this, right? You have an 8% lift because that's kind of the high single digits with price down. I think actually, Eric, if you go through the documentation that Aimee put on the website, there's a nice little margin bridge in there. There's a nice little walk on revenue that also shows you a little bit of this breakdown. U.S. consumer, and what we were trying to detail was POS, no surprises. Yes, first half in the teens, great. Mulch really did well, but the underlying core business right where we want it to be, plus 8%. And that's in line with what we were driving to. That's why Jim talked about references the plan.

We talked about versus our forecast. We are not surprised. And as we look forward, we know that there's going to be additional gains coming from promotional activity. Getting back to where we need to be on POS from April is in sight, so a very pedantic approach towards how we are moderating the year and what our message is, which extends from revenue to cost, to margin, to free cash flow and to net leverage.

Net leverage, while we're on it, I don't really see an issue for the remainder of the year nor for the remaining periods under our credit facility, which runs through 2027. I think there's good distance. There's flexibility. You heard Jim talk about it. We're not managing in a pressured way. So even if POS has some variance, we have levers that we will pull, and we will maintain compliance. So feeling really good about how the overall perspective of how the new management team is operating to ensure that we have commitments that are met today, retailers and ours with our constituents, including shareholders, and then the path forward for what we're laying out for the next decade.

Eric Bosshard - *Cleveland Research Company LLC - Co-Founder, CEO, Co-Director of Research & Senior Research Analyst*

Okay. Great. So through April, are your POS dollars up 1% to 3%? Is that what you said?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

POS dollars, no. Sorry, POS dollars, through April, 1% to 3%, yes.

Eric Bosshard - *Cleveland Research Company LLC - Co-Founder, CEO, Co-Director of Research & Senior Research Analyst*

Okay. And so this is what I guess I'm trying to figure out. So that number is what you've targeted up high single digits for the year. It's meaningfully behind your units through April. And so what explains the difference between those 2? And then what eliminates that deficit in May and in June, basically?

Matthew E. Garth - *The Scotts Miracle-Gro Company - Executive VP, CFO & Chief Administrative Officer*

Let me get your math. What you're basically saying is, pricing is up through April, you expected it to be down, we expected it to be down, which I don't think that's the case. And then on the remainder of the year, we have room to make up on units. So pricing is down year-to-date. That's in line with what we expected. Units are up year-to-date. That's what we expected. The net dollars are up less, and that's what we expected.

As we move forward, there are big lifts coming in May. Between April and May, you have 50% of the year. And so in May, the promotional activity that comes around soils, which by the way, have very attractive margins, almost bond like margins. You will see that benefit in the POS numbers. And those are new promotional volumes that we didn't have last year.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.