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OVERVIEW:

Company Summary

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PRESENTATION

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

Good morning. Welcome to Scotts Miracle-Gro's fourth quarter 2025 earnings webcast. I'm Brad Chelton, Head of Investor Relations.

Speaking today are Chairman and CEO, Jim Hagedorn; and Chief Financial Officer and Chief Accounting Officer, Mark Scheiwer. Jim will provide a business update, followed by Mark with a review of our financial results. In conjunction with our commentary today, please review our earnings release and supplemental financial presentation slides, which were published on our website at investor.scotts.com prior to this webcast.

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

Following the webcast, President and Chief Operating Officer, Nate Baxter; and Executive Vice President and Chief of Staff, Chris Hagedorn, will join Jim and Mark for an audio-only Q&A session. To listen to the Q&A, simply remain on this webcast. To participate, please join by 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 An archived version will be published on our website. For further discussion after the call, please e-mail or call me directly.

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

Thanks, Brad. Good morning. I'll start by reminding everyone of our mission. We're getting back to being the safe harbor, high-return equity that was our historic profile before we embarked on our financial recovery. That includes eliminating any drama around our business for investors to have to worry about.

When you look at our outstanding fiscal '25 results and what we expect for this year, it's clear we're executing upon the mission. We're generating strong sales growth in our US consumer business and substantial free cash flow. POS units at retailers are even higher, and we're improving gross margin and profitability while reducing our leverage ratio.

Our financials are stronger, and the balance sheet is healthier. Most importantly, we've deepened the moat around our business with our exceptional brands, R&D, supply chain, and sales teams. We're taking more share in a consumer goods category that shows no signs of slowing its growth.

Our partnerships with our retailers have never been better, and more retailers are recognizing lawn and garden as a high-growth consumer category in this challenging economy. As a result of all this work, we're gaining a greater level of predictability, stability, and financial flexibility.

Later this month, we'll close on our new credit facility on what we expect will be better terms, a recognition of our progress. I want to thank Mark and our treasury team and our banks for their hard work.

In addition, we're looking to take more friendly actions for our shareholders that go beyond our dependable and high dividend. This includes a multiyear share buyback program that I will put before our Board of Directors this quarter for implementation in fiscal '26. That's the only major M&A that I'm interested in right now, buying back our own company.

At the start of last year, I laid out our financial imperatives for '25 through '27. They are the foundation for consistent growth and our midterm strategic plans. They include US consumer net sales growth averaging at least 3% annually, gross margin rates of 35% or higher, EBITDA growth in the mid-single-digit range, and a leverage ratio of 3 to 3.5 times.

I'd like to measure our progress not just by what we achieved in fiscal '25, but by our multiyear performance against those imperatives. It's worth noting that our US Consumer net sales the past two years increased by a combined 7%, in line with that annual average.

Overall, fiscal '25 moved us closer to all of those targets. We delivered on every aspect of our guidance, and the list of positives is long. Gross margin was up nearly 500 basis points, exceeding our projections, allowing us to invest even more behind our brands and deliver EBITDA of $581 million, which was solidly within our guidance.

Free cash flow exceeded expectations, too, helping us drive leverage down to just over 4 times and reaching $1.3 billion of free cash flow over the last three years. Our guidance for fiscal '26 calls for more improvement. We expect to maintain low single-digit sales growth for US Consumer and deliver gross margin approaching 33%. Leverage is expected to get safely into the 3s.

My goal today is to demonstrate that Scotts Miracle-Gro is a best-in-class consumer goods company that deserves to be valued accordingly. Mark will cover our fiscal '25 performance in more detail and the guidance that will take us further down this path. I'll address the building blocks for fiscal '26.

Subject to our plan this year are sales growth through organic volume increases and modest pricing along with very positive gross margin improvements through continued cost savings and a strategic shift in mix. Let me explain the mix shift.

We will put greater resources behind our consumer activation programs for our branded products, while deemphasizing similar investments we've traditionally made in commodity products such as mulch. By stepping away from lower-priced, low-margin commodities and focusing on our higher-priced high-margin brands, we intend to drive a significant improvement in the quality of consumer sales at the retail level.

You may wonder why we invested in activation around mulch and other commodities. The primary reason was to partner with our retailers who use these products as an early season traffic driver, and it works for them.

But these commodities are barely profitable for us. They require a commitment to activation dollars. They pulled on our gross margin and max out our capacity, forcing us to contract with third parties to fill retailer commodity orders.

Our retail partners are accepting of this shift and are committed to ramping up joint activation programs to drive our branded products. They know the importance of our brands, and they see this as a bigger margin play for them, too.

There is unmatched power in our retailer programs combined with what we do from a broader advertising and marketing perspective. These activation investments approach $1 billion annually.

On top of this, retailers put a lot of their own money into these activities to drive our products in their store online and at shelf. These programs set us apart from competitors and would be a huge investment for any consumer goods company. Our ability to invest with our retailers behind our brands literally drives the entire lawn and garden category.

To ensure our associates are focused on our brand strategy this year, we'll present to our Board's comp and org committee, an incentive plan built on the metrics of branded sales growth, gross margin, and achievement of our strategic initiatives. This differs from incentive plans these past few years, which have been largely based on EBITDA and leverage metrics.

The positive fiscal '25 results that we're sharing with you today demonstrate how our incentives drive behavior. Another building block for fiscal '26 is our e-commerce expansion. Online is where brands are created out of nowhere, and it's where people learn about products and they shop.

We've made huge gains in this channel in fiscal '25. We're doing exciting work to play in this space in a much bigger way. The growth opportunity is huge. If we can capture market share in e-comm that we have in conventional retail, it's well over $0.5 billion opportunity.

A lot of the e-comm gains last year resulted from our driving our brands through retailer digital channels. In fiscal '25, we achieved over a 50% increase in e-commerce POS units. At our largest retailer, e-comm sales doubled. And across retailer sites, our online share has grown.

Nate has a dedicated team to expanding this channel. They're armed with more activation dollars and are developing new e-comm strategies that include loyalty programs, subscription services, and more. We'll expand not only what we're doing with retailers but through our own platforms as well.

Innovation plays into this space, too. We're augmenting our portfolio with products that are tailored to e-comm in terms of packaging and what they offer, such as the launch this year of liquid Turf Builder and liquid Miracle-Gro feeding products. Our supply chain is well positioned for online fulfillment.

From a broader product innovation perspective, we're putting greater emphasis on organics and natural solutions. For consumers who want a less chemical approach to lawn and garden care, we're there for them.

Much of this will be led by Gardens where we're driving record consumer engagement and leading the entire garden category with Miracle-Gro. In fact, our organic portfolio is our fastest-growing product line ever. The team is doing a fantastic job, and I've challenged them to double their growth rate. And they have a tremendous tailwind.

Our total branded gardens business has grown over 10% units in each of the past two years. We've been gaining over 1 to 2 points of market share in each of those years, too.

We have new things coming this year that will strengthen our ability to drive the entire category and bring in emerging consumers. It includes expansion of Miracle-Gro Organic, new packaging, and a bigger focus on year-round indoor gardening. Martha Stewart will again champion Miracle-Gro and the health and practical benefits of gardening.

In controls, we have exciting things planned to take our Ortho brand to a whole new level. Ortho has often taken a backseat to our other brands, including Roundup and Tomcat, but that's changing. The team is introducing over 10 new Ortho products that will strengthen and expand our position in the category, valued at $5 billion.

We're introducing ant, mosquito, tick, weed preventer, and light trap SKUs. We're also evolving the marketing approach, tapping into social platforms to reach a whole new demographic. Controls is underpenetrated in dot-com and Ortho is well suited for it.

Launch would be critical to our brand strategy. It's always been attractive because of its highly favorable margin profile. We're taking a very sophisticated approach, building off a great work in fiscal '25 where we reversed a long-term unit decline to deliver a combined 5.6% POS unit lift in branded fertilizer, grass seed, and spreaders.

We're changing how we market, advertise and promote fertilizers. We've moved away from consumer activations on single bag combination solutions like Triple Action in favor of activities that emphasize multiple feedings. And what's happened?

In the Midwest, our most important legacy market and where the weather was reasonable, POS unit gains exceeded 13% last year. Across all regions, Halts POS was up 20%. Weed and feed was up 9%. This is awesome and it demonstrates that we're on the right track.

At the end of the day, consumers just want a great lawn, and the simplest and easy way is to regular feedings for a healthier lawn. In fiscal '26, will launch a new Turf Builder line focused on feeding your lawn four times a year. It features brand-new formulations that bring significant results within days.

And if consumers are countering weeds, they can spot treat with our control products. We'll still carry combo solutions for consumers who prefer this approach, but we expect the new line to drive even more multi-bag purchases.

The partnership between the launch team and supply chain has led to significant improvements to reduce our production costs. This will enable us to create lower price points for consumers, setting the stage for higher sales while preserving margins.

We all know the price of our fertilizer bags was getting high. And with the new Turf Builder line, a consumer with an average size lawn could feed it all season for about $100.

Let's talk about the overall lawn and garden category. It's gigantic. It's growing, and it's recession resistant. And we have the most powerful brands across the entire category.

We're not concerned about private label. Its share is less than 10%. And according to our industry-leading sources of data intelligence, it continues to decline.

People are not trading down from our branded products. This is in stark contrast to what's happening with many other CPG companies. They're not only dealing with private label share gains; they're challenged by an uneasy consumer sentiment, on and off tariffs, and macroeconomic noise.

We are not in that place. We are relatively unaffected by tariffs given our domestic sourcing. The demographics of our consumer are in our favor. They're homeowners who are not at the lower end of the market. and they're showing up.

That's evident in our point of sale. Units increased 8.5% in fiscal '25 on top of last year's gains of nearly 9%. A 17.5% POS unit increase over two years far outdistances our peer group. It's an outstanding number for any consumer company. Let's address our cost structure.

We're being very deliberate but measured to balance out cost savings for margin improvement with necessary investments that fuel growth. We've done an outstanding job on our commitment to pull costs out.

We're also undertaking a SKU rationalization to streamline the portfolio for incremental savings and supply chain efficiencies. Nate is looking to substantially invest even more this year in technology, robotics, AI, innovation, and marketing, all of which I have approved.

I've spent most of my time on our consumer business. So I'll pivot to Hawthorne Gardening, which was cash flow positive and contributed positive EBITDA for the full year. This improvement will aid our ultimate plan to divest Hawthorne and focus on our lawn and garden powerhouse.

We are fully committed to being a pure lawn and garden company and moving Hawthorne to a place where they can be successful on their own and in their own category. If they deliver, it could create an opportunity for Scotts Miracle-Gro shareholders to participate in Hawthorne's value creation down the road.

Progress is being made here. Earlier in fiscal '25, we divested The Hawthorne Collective, the vehicle by which we invested in cannabis plant touching operations. In Q4, we sold the international professional horticulture arm of Hawthorne Gardening.

The next and final phase is to combine Hawthorne Gardening with a cannabis-dedicated entity to create a unique, integrated company like no other. It would be diversified between input supplies, cultivation, and strong brands with a geographic footprint in industry-leading consumer markets. We're close, and we hope to provide details soon.

So we're clear. Everything we're doing with Hawthorne reflects our commitment to our Board of Directors who have charged us with finding a solution that preserves and accelerates our tax benefit of about $100 million, meets the expectations and requirements of our banks, ensures no more cash goes into Hawthorne, and finally, positions Hawthorne for a long-term independent success.

To sum everything up for my comments this morning, I'll emphasize two major points. First and foremost, we're executing every day on our mission to make Scotts Miracle-Gro the safe harbor, high-return equity it should be. We're accelerating growth, and we're intent on taking more shareholder-friendly actions. We've brought stability to our company.

Second, we're a best-in-class consumer goods company. No one has the brands, innovation, supply chain, and in-store merchandising force that we do. We drive our business and the entire lawn and garden category. And we're investing even more heavily in the most powerful franchise in the space.

As I look to fiscal '26, we're very bullish on the year. And we have exciting things happening strategically to further support our mission. To put it simply, we got this. Here's Mark.

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

Thank you, Jim, and hello, everyone. Fiscal '25 marked another year of momentum, highlighted by substantial progress and furthering investments in our brands, innovation and channels; continuing gross margin improvements; strengthening of our balance sheet; and lowering of our leverage ratio.

We met or exceeded all financial metrics in our guidance. Gross margin expansion, EPS, and strong free cash flow surpassed projections. At the same time, we made important strategic investments to fuel our continued growth. We are set up well for fiscal '26 to drive greater shareholder value, and I'll talk about that after I review our financials.

Starting with the top line. For the quarter, US consumer net sales were $311.2 million, an increase of 3% from volume gains when you exclude the nonrecurring AeroGarden and bulk raw material sales from fiscal '24. The volume gains were driven by strong consumer demand for our lawn products and roundup.

For the year, US consumer sales increased 1% to $2.99 billion when excluding the impact of nonrecurring fiscal '24 sales. Annual sales gains were driven by consumer demand across our categories, maintaining listing gains from fiscal '24, and the expansion of e-commerce.

We also saw a strong performance of new products, such as the expanded Miracle-Gro organic line, the OM Scott and Sons natural grass seed and grass food lines, and the recently launched Ortho Mosquito Kill and Prevent product. The year-over-year increase in sales was partially offset by anticipated slight reductions in retailer inventories as many retailers have modified their replenishment activities to align more closely with the POS sales curve.

As a result, in fiscal '26 we expect US consumer to experience a 1% to 2% shift in sales from the first half of the fiscal year to the second half relative to fiscal '25. This shift, while not impacting our full-year results, reflects our retail partners ordering closer to the spring and summer POS sales curve. And the impact of this shift will be felt more in our first quarter.

This shifting trend is an advantage for us in the long term. And given our superior supply chain capabilities, we expect to capitalize on this in the future.

Stacked with fiscal '24, our two-year US consumer cumulative sales growth of 7% demonstrates the power and strength of our brands and our long-term commitment to delivering at least 3% annualized net sales growth. Our POS trends are a testament to the health of our brands and have helped the power of US Consumer's net sales growth for the past two years.

Consumer engagement remains high. And for the quarter, our POS dollar growth was 3.6% and unit growth was 11%. Over the full year, we drove unit growth of 8.5% across our categories, POS dollar gains of 1.4%. The unit and dollar growth difference reflects strong POS for our soils and mulch products with lower unit dollar values, combined with our planned increase in consumer activation activities for our higher-margin branded SKUs.

As we look to fiscal '26, I expect POS dollars and units to be more in line with each other as we increase our focus on the power of our branded products, as part of the mix shift strategy that Jim discussed.

The full year POS bright spots for fiscal '25 included lawns at plus 4.2% in units, led by strong growth in grass seed and spreaders. Gardens delivered plus 10% unit growth, excluding mulch on the strength of soils, which increased 11.4%. And our overall controls category, which includes Roundup and Ortho, was relatively flat after gaining strong momentum to close the year, which helped offset a slow start to the season.

Moving to market share. Our retail programs, coupled with incremental advertising investments contributed to increased consumer engagement as our overall category market share in units grew by 1%. We continue to see minimal competitive pressure from private label as recent movements at our major retailers have been insignificant.

Overall, excluding mulch, this represents less than 10% of the total category we operate in. Jim and Nate have talked about how channel expansion is a component of our growth strategy. And to that end, we drove substantial e-commerce gains primarily through our retailer e-commerce sites.

For the year, e-commerce POS units were up 51%, while e-commerce POS dollars increased 23%, driving e-commerce up 170 basis points to represent 10% of our overall POS. As you can see, our US Consumer business is delivering on its sales goals and has strong momentum as we move into fiscal '26.

Looking at Hawthorne. Full year net sales of $165.8 million were down 44% in the fiscal '25 as we focused on profitability improvements, exited third-party distribution, and evaluated alternatives for divestiture. In September, as part of our broader strategic divestiture initiative for the Hawthorne segment, we completed the sale of Hawthorne's professional horticulture business based in the Netherlands, which generated $35 million of net sales in fiscal '25.

Total company sales for the quarter were $387.4 million and, for the full year were $3.41 billion. When excluding the impact of the Hawthorne segment and the nonrecurring sales within the US consumer, our total company sales increased 3.4% for the quarter and 1% for the full year.

Moving on to our total company gross margin. We saw strong improvements. For the quarter, the GAAP gross margin rate was 6.1% versus negative 7.1% in prior year. And the non-GAAP adjusted gross margin rate increased to 7.2% from negative 3.1% in prior year.

The quarterly improvement was primarily driven from the non-repeat of one-time inventory write-offs of $29 million recognized in Q4 of last year, along with favorable product mix, and lower material, manufacturing, and distribution costs from our transformation cost savings and efficiency initiatives.

For the year, we ended with GAAP gross margin rate of 30.6% versus 23.9% in prior year and with the non-GAAP adjusted gross margin rate of 31.2% compared to 26.3% in prior year. The full year gross margin improvement was consistent with our Q4 drivers.

This strong increase of 490 basis points in our full year non-GAAP rate to 31.2% exceeded our 30% target, and advanced our midterm plan to return gross margin rates to the mid-30% range by fiscal '27.

As you might recall, at the start of the year, we targeted $150 million in supply chain savings over a three-year period and another $30 million in savings and corporate functions. We've already achieved over $100 million in cost outs in fiscal '25 and have strong line of sight to the remaining savings over the next two fiscal years.

It is important to note that we continue to reinvest in a portion of these savings back into growth areas, including advertising, R&D, and technology.

Moving down the P&L. SG&A for the quarter increased $19 million to $137 million due to higher short-term incentive compensation and increased investments in our brands and technology. For the fiscal year, SG&A increased $44 million to $603 million for similar reasons and closely aligns to our original guidance of 17% of net sales.

As for adjusted EBITDA, we continue to drive significant improvements. In Q4, EBITDA was a loss of $81.6 million versus a loss of $97.2 million in the prior year. We typically report a loss in our fourth quarter each year. The full year fiscal '25 EBITDA finished at $581 million, a $71 million increase over fiscal '24.

Below the line, interest expense continued to fall from lower debt balances and favorable interest rates. Interest expense declined by $30 million from $158.8 million in prior year to $128.8 million. We also significantly reduced leverage ending the year at 4.1 times net debt to adjusted EBITDA compared with 4.86 times in fiscal '24, the result of continued deployment of free cash flow to debt reduction along with strong improvements in adjusted EBITDA.

Our free cash flow of $274 million, which exceeded our target by $24 million, was deployed to pay our quarterly dividend and reduce debt resulting in total borrowings at year-end declining by $120 million.

Just this week, we kicked off our credit facility renewal process with our bank partners and look forward to completing this process later in November. Based on feedback from our bank partners, we are experiencing strong support for our credit facility renewal as a direct result of our recent financial performance, strength of our brands and consumer position, and our long-term growth plans. As always, we appreciate our bank partner support.

Looking at the bottom line, for the quarter, GAAP net loss was $151.8 million or $2.63 per share versus $244 million or $4.29 per share in the prior year. For the fiscal year, GAAP net income was $145.2 million or $2.47 per diluted share compared with a GAAP net loss of $34.9 million or $0.61 per share in the prior year.

Non-GAAP adjusted earnings for the quarter were a loss of $113.1 million or $1.96 per share versus a loss of $131.5 million or $2.31 per share in the prior year. For the fiscal year, non-GAAP adjusted earnings were $219.6 million or $3.74 per diluted share compared with $132 million or $2.29 per diluted share last year.

As a reminder, non-GAAP adjusted earnings exclude impairment, restructuring, and other nonrecurring items. For the quarter, we recognized $41.8 million in charges, which includes the previously mentioned $18 million loss on the sale of Hawthorne's professional horticulture business.

Overall, we're very pleased with our fiscal '25 performance and expect to make further progress against our financial objectives and plans for fiscal '26. This includes driving net sales growth, additional gross margin improvements, strong free cash flow, and reduced debt leverage. This leads me to our financial guidance for fiscal '26. Jim laid the foundation, and I want to provide our outlook here.

We expect to deliver low single-digit growth in US consumer net sales built off the volume growth in our branded product lines and pricing actions. Non-GAAP adjusted gross margin rate of at least 32%, driven by our continued automation and cost savings activities.

Non-GAAP adjusted earnings per share of $4.15 to $4.35 per share, inclusive of lower interest expense as we continue to pay down debt. Mid-single-digit growth in non-GAAP adjusted EBITDA as we reduce the use of equity in lieu of cash compensation.

Free cash flow of $275 million and leverage ratio of high 3 times. We are confident in our plans and guidance. We are doing the right things to execute upon all of them. And just as importantly, we hold a powerful position in a very unique consumer space.

Thank you, and I will now turn it over to the operator.

Operator

(technical difficulty) additional remarks.

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

Good morning, everybody. This is Nate Baxter, President and Chief Operating Officer. Before we get into Q&A, I really just wanted to build a little bit on what Jim and Mark said and share some of my observations.

I think the headline here is the strategy and formula that we put in place in fiscal year '25 is paying off. It's obviously reflected in our results. But when I look at what happened at the retail environment, there was a very, very big indicator of just how important the branded business is for us.

For example, retailers that leaned in and really started with brands first grew tremendously, they grew double digits. Retailers who, I'll say, lagged or didn't start with that strategy did not. But later in the season, when they adjusted and focused on branded growth, there was some recovery there. So for us, this is really a proof point that our focus on branded goods is extremely important.

When I look at the SKU rationalization that Jim talked about, this is extremely valuable from a margin standpoint. And we've been able to prove that, I think, this year because some of the margin gains are not only on the backs of what we did in supply chain, but also mix.

As Jim said, we're going to do more of that next year. The commodities that we play in, while important to our retailers, and we will still play in them, we are making intentional decisions to redirect not only our manufacturing capacity, but also our investment dollars into those categories. And it's paying off.

If we look at what we did in lawns, for example, it was an amazing turnaround stemming the bleeding from almost a decade of just declines in units. What John Sass and his team did by focusing on frequency, it moved the needle.

We're looking for tremendous improvement in that over the next couple of years. We've got innovation coming in '26. John is going to launch the new Turf Builder line that Jim talked about. And in '27, we're going to follow with the combo bags.

I want to be clear. I see this not only as a play to increase frequency. But we see it as a way to engage new consumers, bringing new innovation like this to the market, and doing it in a way at a price point that we can engage folks who have sat on the sidelines. I think that's going to be key.

We're doing the same thing in Gardens. It was another record year. The category grew and as Jim said, there's a lot of runway.

When I look at the MGO line, that was our fastest launch ever, more than $200 million in business over the last two years. Now we're going to shift our focus to plant food and more importantly, into our gardening. What Sadie is going to focus on there is broadening the season for gardens and making us a 365-day a year business.

I'm actually most excited about what's happening in Controls. We're focusing on bug specific applications. As Jim said, we've probably got 10 or so new pieces of innovation coming into the market. It's going to be exciting. We're going to attack indoor. We're going to attack ant, mosquito, tick, and all the challenges that consumers face out there.

To build on that, we're going to continue with our channel expansion in '26. This is really what gives me the confidence that we're going to see above-average branded growth. Not only are we bringing new products from an innovation standpoint, but we're going to expand in channels.

E-commerce is something that both Mark and Jim talked about. We expect to see double-digit gains again this year. Our retailer partners, in particular, have leaned in and seen tremendous growth more than 100% at some accounts.

So in addition to being excited about the innovation and the channel expansion, on the back end, we're going to continue to invest in robotics and AI. I think the results that were delivered this year are just the beginning.

Supply chain has a long road map of opportunities. We're actually going to start to bring consumer-facing in with new digital assets like websites and apps that lean into AI and give the customer a new experience.

So when I add all these up, I'm really bullish on '26. And then when I look at the 5- to 10-year road map, R&D is now focused on naturals, biologicals, organics, as well as new packaging and form factor solutions. I think the combination of this is going to be powerful. And what we see in '26 is just going to be a continued build of what we've done in '25.

So with that said, I'm going to turn it back over to questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jon Andersen, William Blair.

Jon Andersen - *William Blair Capital Partners - Analyst*

Nate, following on your comments around the focus on the branded business, branded sales, and the mix shift associated with that, wondering if you could talk a little bit more about how the lawns work that you're doing, the long strategy, which you've talked about to some extent, fits into that and how that branded focus and some of the changes you're making in the lawns business can work synergistically?

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

Let me kick it off, and I'm going to shove it over to John Sass, who runs that business unit. Look, I think the thing that we realized as we looked at that unit decline algorithm over the last decade is that not that consumers were trading down to lower-priced products, it's that they were just stepping aside and staying out of the category.

So there's a couple of things here that's part of this. We talk about frequency. So I would say John primed the pump in '25 on frequency. While we didn't bring any new innovation to market, we talked about our products differently.

We leaned in on two for ones, trying to build that consumer habit. That was a big part of the trade dollars that we spent last year. And I think those were well spent. And we'll continue to spend dollars on those this year because it will take a couple of years to get consumers recalibrate it to the benefits of feeding monthly.

On the household penetration side, that's a little bit more challenging. You're talking about bringing in new consumers. So I think what John is doing with this new straight food, which is a totally new formula, low cost, easy to apply, going to deliver great results in a quick period of time.

I honestly think we're going to see growth both in frequency from existing consumers who will supplement their two-step process -- whether they're using a halts early season or a weed and feed or hopefully both, we think they'll start to supplement that with just straight feeding. But also, we're going to make it simple and low cost for new consumers to come in.

So I'm really excited about it. John, I'll let you make a few comments on where you're headed with that business.

John Sass - *Scotts Miracle-Gro Co - Senior Vice President, Chief Creative Officer, General Manager*

I would just add a little bit more color by classifying what we're doing on a lawn's business as an aggressive category reinvention. It's been said a couple of times here that we've been experiencing category unit decline. And the only way to really reverse that trend was to reinvent this entire portfolio in this business.

And we're doing that with the consumer at the center of everything we're doing. They just alluded to having a great lawn is not that hard. It just requires regular feeding. And so we're doing that with the products that are effective.

They're going to be affordable, and they're going to lead with claims like safety use around kids and pets. That's the crux of the issue. And that's what we're going to be doing starting in '26.

Changing consumer behavior is a challenge, and that's what we're going to do. Our entire marketing approach is shifted to -- in order to do that. New advertising campaign, our promotional plans are different. And over the next two years, as Nate just alluded to, we have an entirely new revamped product lineup that's going to solve those consumer pain points.

So when you look at what we saw from results in 2025, we're super bullish on the start of this reinvention. We're still early in the process. But I believe over the next two years, we're really excited on what we're going to do with the lawn's business.

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

And John, maybe -- John, just to add, this is Mark Scheiwer. To me, on the finance side, to me, this translates to higher incremental unit sales, higher shipments, higher POS units. And then from a gross margin profile, this also means very strong gross margin improvement mix as we continue this journey.

So I think those are all positive things built off the back of what they said. And we continue to put investment dollars at work as we make transformation savings, activities and adjust our SG&A to fuel this growth.

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

And sorry, John, I'll add one more thing, which is just broadly not specific to lawns. But I want to be really clear. When we -- the guidelines I put in place on anything we're doing from a SKU rationalization standpoint must be margin accretive and must replace any top line we lose.

And those are the golden rules, and the team is doing a really good job on it. And look, this is going to be a couple of year process. But I think we're starting to see the fruit of that in terms of our margin profile.

Operator

Andrew Carter, Stifel.

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

I wanted to come back to the private label point you made. I know that there was a bifurcation in approaches this year, and you reiterated the branded solution.

In totality, did that focus, that unique focus, hurt you or your numbers? Or was it ultimately a trade-off that you just -- it was a zero-sum game and you were indifferent to it and really, the biggest challenge view would be a universal approach of private label that would impact you?

Hagedorn here. I mean, a couple of ways I would approach that. Number one, I don't feel like we're under private label pressure at all. I've been running this business for a long time, and I've seen it where there's been much more significant pressure.

I think the last time we talked, we calculated we were up 2%. I think we ended the year about 1% up in share, which given the amount of share we have in our categories, I think is fabulous.

So I think where we got pressure and at least where I heard about it mostly on like these calls with one analysts who wrote about that. I think we looked at it and said it's -- remember, we don't make hardly any margin on our commodity business. A lot of it we do for retailers. It's important in the category.

But the biggest thing was when people told me we were like out of capacity on mulch and we're like on third party, it was -- so on a business we made nothing on, we're like paying other people to make it for us. Plus there was a lot of activation dollars going behind it.

Nate and I just made the decision like, we're just -- we're going to pull away from this. And take -- the biggest thing is take the activation dollars and put the activation dollars against the branded business. We know that works, and we're not talking insignificant money here.

So I think refocusing that money on away from commodities. And by the way, I've been involved in a lot of these discussions with our largest retailers. There is a very, very significant commitment to our programs next year, less private label pressures than we had before.

And so we aren't that interested in the commodity. There are other people who are happy working with no margin. That's good for me.

We're willing to play. We're not willing to play to lose money. And the activation dollars are going to go where we make money. And what we're seeing is a really good reaction to that shift change for us.

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

Yeah. Maybe let me just comment on the state of our relationship with the retailers. I mean, it's as strong as I've seen it in the few years I've been here. Again, just referencing what we saw in '25, those that led with branded products won big. And I think everybody recognizes that.

So we're almost done with our program negotiations. We're totally aligned with our retailers. We're focusing on branded products.

Look, we'll still serve some of the commodity in private label. It's not like we're going to zero. But when I look at the empty calories associated with those and when we jointly the retailers and us, look at the margin opportunity on the branded product, it's a no-brainer. And we've built all of our programs in '26 really around that thesis.

So I'm feeling very good about that. And I think it's on us to show the consumer that we've got efficacy and value. And I think our products speak for themselves. And just to put a punctuation point on the lawns business, I think with the new products coming out in '26 and '27, it's going to just throw accelerate on that fire.

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

I guess to speak to activation, I wanted to back up on a number you gave a while ago, $200 million advertising support. And there's some puts and takes in that number. I know that's not an apples-to-apples and need some update.

But what are your expectations for total commitment to advertising at this point? Did you achieve it in '25? How much increased investment or not is in the FY26 level?

Of course, you're talking a lot about what you consider commoditized bulk business. You're walking away from a US consumer or whatever. Do you have a targeted spend as a percentage of either US consumer or your true branded business to put out there as a target?

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

Yeah, sure, Andrew. Let me comment. So my longer-term target is I think we need to be around 8%. If I look at CPG companies with an average of 8% to 10% -- our model is a little different being seasonal, so I adjust it accordingly.

But for us, advertising works. The ROI, just -- I'll talk about the Miracle-Gro Organics. The work we did with Martha, we saw a tremendous ROAS with that this year. So I believe in advertising. I'd like to get to 8%. We're below 5% across the average of all our categories, so there's more we can do.

There's a nuance though. It's not just the raw dollars. One of the big pivots we're making this year as we lean into digital and all that's available from a personalization and targeting standpoint, we're going to spend those existing dollars with much more efficiency.

So yeah, I think in the midterm, I'd like to be north of $200 million. In the long term, I'd like to be closer to 8% of revenue. We did make incremental investments last year. I intend to make additional incremental investments this year.

And again, we're really revamping -- we're shifting away from the linear streaming. We'll still be there for the biggest sports events. But we're really starting to get our sea legs when it comes to understanding digital and working both with internal and external partners to figure out how to execute on that.

So I think it's exciting times. But advertising works. And as long as it fits with Mark's growth algorithm, we're going to invest as much as we can in that space.

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

And Andrew, just tactically, I think for the year, we'll land around $152 million of advertising expense you'll see in the K. It's about $11 million increase over prior year. And then within our roundup commission line, we also -- that's a business that also does advertising.

The full P&L of that business is not in our P&L. We just get a commission off of it. They did have around $10 million of incremental spend in advertising as well. So you're talking a $20 million-plus stack increase.

Our advertising ratio, I think, will come in about 50 to 60 bps higher than prior year as a percentage of sales on a two-year basis. Over the past two years, we've grown that 100 basis points. Our margin expansion at the gross margin line helps fuel that growth.

And as I look to next year, we talked about transformation activities and cuts in both the second and third quarter. A lot of those activities and cuts that we did, some of those hard decisions in various areas of our SG&A, will help reallocate and put towards advertising. So I very much expect to see our advertising to continue to increase at a level commensurate with what you saw this fiscal year in our results.

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

I just -- look, I hear this conversation and you're not going to find a bigger supporter for increased ad spend. And it is one of our core convictions advertised because it works.

That said, the words we're using, activation -- I think because of the uniqueness of lawn and garden and the relatively few retailers, the amount of money that we can put behind our business -- and remember, retailers are putting more of their own money into it.

Listen, maybe there's another retail category that gets the support that we put behind it. But I think it's very challenging to say, what is advertising? What is activation?

And I think looking back, the old ways where it was like rebates or incentives, it's not like that anymore. This is very much joint marketing between us and our retailers that is so powerful that it's -- I wouldn't want to be somebody else but us.

Operator

Joe Altobello, Raymond James.

Joe Altobello - *Raymond James - Analyst*

I just want to go back to the outlook for sales for this year and I guess, even further back than that. When we were together in mid-2024, given -- at the Investor Day, you talked about 3% US consumer sales growth. We're obviously very low single digits this year, and it sounds like low single digits next year.

So I guess my question is, how do we get back to 3%? Because if I do the math, that would imply 27% would be up, call it, mid-singles. So is that the mix shift toward branded? Is there a very robust innovation pipeline in '27? But how do we get comfortable with that ramp in '27, I guess, is what I'm asking.

I back up to this year. I don't really want to share our incentive targets on this call. But put it this way. The incentive doesn't even pay target if branded both doesn't hit 5%, okay?

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

And you're speaking about '26.

You're talking about the fiscal year we're in. So I think -- I hate these discussions about like low single digits because what we're seeing in the field is a lot better than that. I think we've got Hawthorne mixed in there. I think it makes us look like a low growth company.

I think we have some mix issues of commodity, which appears to slow the rate down of dollar growth. I think it's the unit growth that really matters, but branded growth next year has to exceed 5%. And if you look at branded growth the last two years, it's not a scarce number for people because we're already doing it.

We're going to start talking and breaking out for you guys branded growth so you can track it alongside of us. But yeah, no, I would be embarrassed to say it's low single digits. I think the future is really good for us because I think there's a lot of really good stuff happening here, but I think you'll see it next year.

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

Yeah, for sure. I mean, Joe, look, my algorithm is pretty simple. I expect a few percent from innovation, 1% to 2% from pricing, and a few percent from volume growth through channel expansion and potentially small tuck-in M&A if we find the right deal.

So look, I think you're right to ask the question. But when we lay out '26 and we look at the retailer plans that we have and we look at the growth, especially in e-comm, in the Hispanic channels, I'm pretty comfortable that by '27, we'll really have the flywheel turning to your point.

There is actually a fair amount of innovation coming in '26. And we're going to do what we did last year with our mosquito kill and prevent product, which is we're not going to necessarily wait if something is available. That's a little bit out of cycle with a brick-and-mortar retailer.

We're going to launch it online with them and with others. So my intention is that we're putting new innovation out into the market as soon as it's ready versus waiting. And then I would say on the channel expansion side, we've dedicated teams to e-com nontraditional channels and as I said, Hispanic and large format, so whether it's large yard or small pros.

So we've got irons in the fire that should drive that channel expansion. And I feel pretty comfortable we'll get that a couple of percent out of that.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

My first one was on AI. Nate, you mentioned it a couple of times. There's been a lot of press about you guys seeking to digitize your library of lawn and garden knowledge.

So maybe just update us on how you're bringing your retail partners into the conversation here. And do you see a scenario where maybe their e-commerce website search bars or the handheld devices their associates use increasingly lean on SMG's data to recommend your SKUs over competitors when the consumer is seeking expertise?

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

Yeah. Great question. Thank you. So yeah, we've been on a multiyear journey here. And I think a lot of the press really focuses on the back end and obviously has driven a lot of our efficiencies.

'26 is going to be the year when we're ready to engage with the consumer. Look, our view is this, and it's aligned with retailers.

We've talked to almost all of them because I do think there is an opportunity to get our technology in their hands. So we'll have our own proprietary libraries and large language models. We are looking for ways to give them access. The e-comm is the easiest.

And our view is that as we maintain our digital assets, which will include not only all new PDPs that are modernized, more clear; but will include, if you remember, the old Ortho problem solver book. We're going to digitize all of that. And not only will it be available to consumers on our websites and apps, but we'll make sure that our retail partners have access to those as well.

As for in-store, our associates already have access to that in store. I'm not sure we can actually get that aligned with their handheld systems, but it is a topic of discussion. And we've always been open with our retailers not only on giving them that but also -- we talked, I guess, probably a year ago, less about AI and more about how we've leveraged machine learning to have better predictability for retail inventories. That's data we share constantly with our retailers.

So it's a good push and a good point. We intend to do it, but we need to control that data because it is our data. And that's the challenge, and we expect to see that launch to the consumer in Q2 of this year -- our fiscal Q2.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

Okay. And then just a quick follow-up. Mark, with the commentary about retailers ordering closer to the POS curve and the revenue shift between the half, just curious if there's any thoughts on the impact to gross margin cadence this year relative to last year, absent the effect of any Hawthorn divestiture.

And I guess, similarly on SG&A, it sounds like there's more of a regular pulsing of advertising going forward versus in the past. So just curious how that impacts the cadence for maybe SG&A dollars this year versus last?

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

Sure. So I'll -- this is Mark Scheiwer. Appreciate it, Jonathan. On the sales shift, it's going to be predominantly -- as you heard in my prepared remarks, Q1 is probably where it's going to get impacted the most. I call out 1% to 2% I'd say we have good line of sight to the next few months here.

So as I look at that 1% to 2% shift, first half, second half, it's probably going to be amplified in Q1. We still expect gross margin to improve in all the -- in the subsequent quarters. Obviously, Q1 will be impacted by that shift probably the most and will be more volume-related given our fixed cost structure on lower sales.

As I think of SG&A, the pulsing, you are on point on that. The thing I would highlight on SG&A both this year and as we look to next year is we continue to have flex in our SG&A. So I would expect our SG&A rate for the full year to be similarly around that 17% metric.

We've done a lot of transformation activities to reallocate dollars to those growth engine areas like advertising. And then at the end of the day, we have other flex within our SG&A spend from an incentive perspective, both when you compare it to this year and into next year. So I think if -- from a modeling SG&A, I would say, we should be pretty close in line to what you saw this year.

Operator

Peter Grom, UBS.

Peter Grom - *UBS AG - Analyst*

So maybe a similar question just on profit trajectory and maybe just the gross margin guidance of at least 32%. And Jim, I think you mentioned in your prepared remarks approaching 33%. So can you maybe just walk through the building blocks.

And then I guess I'm curious, just considering the outperformance this year relative to your initial guidance, are you embedding similar levels of flexibility this year?

Well, I'll just take the beginning. I was under pressure from Scheiwer on what I put in my script. My expectation is higher than that, okay? And the incentive is based on higher number than that as well. So I think we're trying to under promise here, but I think we have line of sight to -- and again, to the incentive targets, which are higher than, call it, 33% or whatever it is I said.

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

Yeah. So maybe -- Peter, this is Mark Scheiwer. Just the building blocks of growing at least 100 basis points, -- and then I can maybe turn it over to Nate also to talk about some of the projects. But the building blocks include pricing. So we have taken pricing with our customer base.

And I would expect to net out at least a point of pricing on the net sales line. So that should help with the gross margin activity. We've called out in any one year, we typically also get cost savings from a supply chain perspective. This is execution of projects to reduce costs.

They historically run about 1% of sales. And I would -- as we've modeled for this year conservatively, we've put in a point. You've seen what we've done this past year in '25 where we initially guided to 30% gross margin rate. We're able to over deliver.

The team's got a lot of outstanding projects they're working on from a supply chain savings perspective and execution. Our CapEx plan that we've laid out both last year and heading into this year, our focus on areas that provide us some really great returns and provide us strong automation.

So I'm hopeful we can outperform that conservative plan of 1% cost savings. And then offsetting that will be some level of commodities and tariff pressure that in round numbers is about 1%. So that's how the guide worked from a financial metric. Obviously, there's opportunity to overperform there, and I'll let Nate speak to some of those initiatives.

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

Yeah. I'll just keep it simple, Peter. I think when I look at the internal plan that I'm building with the team, it's obviously more aggressive. And I've got levers between mix, supply chain who continues to overproduce pricing.

So I'm pretty comfortable that I've got levers and room to operate. And I think to Jim's point, we're going to be aggressive in how we attack that. But early in the season, so still putting those plans together.

Peter Grom - *UBS AG - Analyst*

Okay. Awesome. And then I guess, Jim, you touched on putting a multiyear buyback program in front of the Board for implementation this year. Any details you can share in terms of the size of the buyback, maybe what the impact might look like this year? And I'm assuming the answer to this is no, but the earnings guidance, that does not include any benefit from any potential buyback, right?

Yeah, that's correct. Look, we have a Board meeting Friday. We've got an hour dedicated to this. I think I've talked to most of the Board members. So I think there's a high degree of support.

I know Mark is supportive. And we've been working closely with our largest -- the investment banks of our largest banks to make sure they're comfortable and help us with the math. I think everybody feels like we can make a significant impact over time.

So I don't know. If I was throwing a number out, I would just say -- what would I be looking for the Board over a multiyear? So this is not with a definition of how many years. But I'd say, $500 million to $1 billion would be what I'm going to be looking for. And I think Mark is not freaking out when I say it.

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

No. I think, Peter, if you look at our history, we've traditionally had around a $500 million to $1 billion program, as Jim alluded to. At this point, no definite time period as to what that would be purchased.

We'd obviously govern that activity based on our leverage as we get below 4 times, and we've got good line of sight as we head into '26 to get below 4 times. So that's that is really great. So I think the next part will be just the phasing and the execution. And as Jim said, it's currently not in our EPS.

I mean, look, if we look at our -- what we're trading at today -- and I don't we put a ton of work into it, and I know Wells and JPMorgan have as well. I think the entire consumer goods business are trading off their normal historic multiples. But it's a lot for us, even though we're probably not different than the other companies.

But I do think that if you look at our historic multiple, we're trading at a pretty relative deep discount at this point. So we feel like it's an opportunity. The one thing we don't want to do is get ahead of it to the point -- I'm talking within '26, but get ahead of it where we get aggressive upfront, something happens.

Because I think if you look at what does affect our multiples, bad news. And so I think where we are is we'll get approval this calendar year, we'll step into it in '26 I think just as long as we have this ability to our performance and where we're going to be on a leverage point of view.

So I think leverage is probably the guidepost for us, which is definitely below 4 times. And I think then my view is we will execute.

Operator

This concludes the question-and-answer session. Thank you all for your participation on today's call. This does conclude the conference. You may now disconnect.
